

Financial Statements of

ALBERTA LAW FOUNDATION

And Independent Auditors' Report thereon

Year ended March 31, 2019



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Alberta Law Foundation

Opinion

We have audited the financial statements of Alberta Law Foundation (the Entity), which comprise:

- the statement of financial position as at March 31, 2019
- the statement of operations for the year then ended
- the statement of changes in net assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements, present fairly, in all material respects, the financial position of the Entity as at March 31, 2019, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada

June 9, 2019

ALBERTA LAW FOUNDATION

Statement of Financial Position

March 31, 2019, with comparative information for 2018

	2019	2018
Assets		
Current assets:		
Cash	\$ 3,961,468	\$ 4,357,590
Accrued interest - bank accounts	7,455	5,042
Interest receivable:		
Lawyers' pooled trust accounts (note 1(b))	2,747,771	2,476,478
Undisbursable trust balances receivable	167,611	—
Prepaid expenses	7,713	8,160
	<u>\$6,892,018</u>	<u>6,847,270</u>
Investments (note 2)	100,744,330	82,623,989
	<u>\$107,636,348</u>	<u>\$ 89,471,259</u>
Liabilities and Net Assets		
Accounts payable and accrued liabilities	79,140	81,166
Grants payable (note 6)	12,656,630	11,245,298
Payable to Legal Aid Alberta (note 7)	7,774,818	4,822,898
	<u>20,510,588</u>	<u>16,149,362</u>
Net Assets:		
Strategic reserve fund (note 4)	37,500,000	32,622,048
Grant stabilization fund (note 4)	45,000,000	39,699,849
Designated for Future Year Grants (note 5)	2,776,012	—
Unrestricted	1,849,748	1,000,000
	<u>87,125,760</u>	<u>73,321,897</u>
Commitments (note 8)		
	<u>\$107,636,348</u>	<u>\$ 89,471,259</u>

See accompanying notes to financial statements

Approved by the Board:



Director



Director

ALBERTA LAW FOUNDATION

Statement of Operations

Year ended March 31, 2019, with comparative information for 2018

	2019	2018
Revenues:		
Interest earned on lawyers' pooled trust accounts	\$ 31,099,272	\$ 19,291,591
Investment Income (note 2)	3,506,374	4,255,149
Undisbursable trust balances from Law Society of Alberta	167,610	170,134
	<u>34,773,256</u>	<u>23,716,874</u>
Expenses:		
Salaries	571,449	535,790
Investment advisory fee	218,503	207,828
Rent and parking	80,286	85,702
Travel and meetings	47,247	54,722
Computing and web services	29,844	28,206
General administration	23,253	15,531
Professional fees	20,223	20,223
Contract fees	16,920	20,179
Insurance	10,761	3,580
	<u>1,018,486</u>	<u>971,761</u>
Allocation to Legal Aid Alberta (note 7)	7,774,818	4,822,898
Excess of revenues over expenses before grant allocations	<u>25,979,952</u>	<u>17,922,215</u>
Deduct:		
Project grant allocations (note 6)	1,207,678	1,442,522
Program grant allocations (note 6)	13,295,948	11,745,995
Total grant allocations	<u>14,503,626</u>	<u>13,188,517</u>
Add:		
Grant refunds (note 3)	484,742	446,459
Allocations withdrawn (notes 3 and 6)	159,235	54,776
	<u>643,977</u>	<u>501,235</u>
Net grant allocations:	<u>13,859,649</u>	<u>12,687,282</u>
Excess of revenues over expenses before unrealized (loss) gain on investments	12,120,303	5,234,933
Change in unrealized gain (loss) on investments	1,683,560	(2,610,250)
Excess of revenues over expenses	<u>\$ 13,803,863</u>	<u>\$ 2,624,683</u>

See accompanying notes to financial statements.

ALBERTA LAW FOUNDATION

Statement of Changes in Net Assets

Year ended March 31, 2019, with comparative information for 2018

	Unrestricted	Designated for Future Year Grants	Grant Stabilization Fund	Strategic Reserve Fund	2019 Total	2018 Total
Balance, beginning of year	\$1,000,000	\$ —	\$39,699,849	\$32,622,048	\$73,321,897	\$70,697,214
Excess of revenue over expenses	13,803,863	—	—	—	13,803,863	2,642,683
Internally designated transfer (Note 4)	567,400	—	—	(567,400)	—	—
Internally designated transfer (Note 4,5)	(13,521,515)	2,776,012	5,300,151	5,445,352	—	—
Balance, end of year	\$1,849,748	\$2,776,012	\$45,000,000	\$37,500,000	\$87,125,760	\$73,321,897

See accompanying notes to financial statements.

ALBERTA LAW FOUNDATION

Statement of Cash Flows

Year ended March 31, 2019, with comparative information for 2018

	2019	2018
Cash provided by (used in):		
Operations:		
Excess (deficiency) of revenue over expenses	\$ 13,803,863	\$ 2,624,683
Items not involving cash:		
Change in unrealized gain/loss on investments	(1,683,560)	2,610,250
Net realized loss (gain) on sale of investments (note 2)	177,600	(24,361)
Changes in non-cash working capital:		
Accounts payable and accrued liabilities	(2,027)	31,490
Grants payable	1,411,332	(841,518)
Payable to Legal Aid Alberta	2,951,920	1,917,761
Interest receivable - lawyers' pooled trust accounts	(271,293)	(1,422,392)
Accrued interest - bank accounts	(2,413)	(3,291)
Undisbursable trust balances receivable	(167,610)	—
Prepaid expenses	447	(8,160)
	16,218,259	4,884,462
Investments:		
Purchase of investments	(37,901,546)	(18,409,296)
Proceeds from disposal of investments	21,287,165	14,965,438
	(16,614,381)	(3,443,858)
(Decrease) increase in cash	(396,122)	1,440,604
Cash, beginning of year	4,357,590	2,916,986
Cash, end of year	\$ 3,961,468	\$ 4,357,590

See accompanying notes to financial statements.

ALBERTA LAW FOUNDATION

Notes to Financial Statements

Year ended March 31, 2019, with comparative information for 2018

Nature of operations:

The Alberta Law Foundation (the “Foundation”) was established by amendments to the Legal Profession Act, which became effective on April 1, 1973. The Foundation is the recipient of the interest which banks, credit unions, trust companies, and treasury branches must pay on clients’ funds held in lawyers’ pooled trust accounts, and also earns investment income and receives undisbursable trust funds from the Law Society of Alberta. The interest earned on lawyers’ pooled trust accounts is calculated and remitted to the Foundation based on agreements made with individual financial institutions. This does not include interest paid on a specific trust investment held for an individual client. The interest and other net income are made available by the Foundation to organizations engaged in activities which are considered to be in keeping with the Foundation’s objects pursuant to the Legal Profession Act. The Foundation is a not-for-profit organization as defined in the Income Tax Act (Canada) and is exempt from income taxes.

1. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the Chartered Professional Accountant Handbook.

a) Financial instruments:

The Foundation records financial instruments at fair value when acquired or issued. In subsequent periods, financial assets with actively traded markets are reported at fair value, with any unrealized gains and losses reported in income. All other financial instruments are reported at amortized cost and tested for impairment at each reporting date. Transaction costs on the acquisition, sale or issue of financial instruments are expensed when incurred.

b) Interest received on lawyers’ pooled trust accounts:

The Foundation reports interest earned on lawyers’ pooled trust accounts as received or receivable. The lawyers’ pooled trust accounts are not the property of, nor administered by, the Foundation. The Foundation records the amount of interest receivable at the time the amounts are determinable from the individual financial institutions. As at March 31, 2019, the Foundation recognized interest receivable of \$2,747,771 (2018 - \$2,476,678) from lawyers’ pooled trust accounts.

c) Investments:

Investments are recorded at fair value based upon closing prices for publicly traded securities and quoted prices for fixed rate investments. Realized investment gains (losses) are recorded on a settlement date basis. Any unrealized gains (losses) are reflected as a change in unrealized gain (loss) on investments in the statement of operations. Interest earned on investments is recorded on an accrual basis.

ALBERTA LAW FOUNDATION

Notes to Financial Statements

Year ended March 31, 2019, with comparative information for 2018

1. Significant accounting policies (continued):

d) Revenue recognition:

The Foundation follows the deferral method of accounting for contributions. Unrestricted contributions are recognized when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Restricted contributions are recorded as deferred revenue, and are recognized as revenue in the year in which the related expenses are incurred.

e) Grant Stabilization Fund:

The Grant Stabilization Fund represents amounts which are reserved for future funding of programs, at the Board's discretion, in those years when net revenues and other reserves are deemed inadequate, and require the approval of the Board of Directors prior to allocation.

f) Strategic Reserve Fund:

The Directors of the Foundation established the Strategic Reserve Fund in 2007. The Strategic Reserve Fund represents amounts which are reserved for long term strategic purposes and require the approval of the Board of Directors prior to allocation.

g) Designated for Future Year Grants

The amount Designated for Future Year Grants represents the amount of grants committed to be funded in future years if certain conditions are met.

h) Unrestricted net assets:

Unrestricted net assets represent amounts which have not been committed to projects, programs or otherwise restricted.

i) Measurement uncertainty:

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

ALBERTA LAW FOUNDATION

Notes to Financial Statements

Year ended March 31, 2019, with comparative information for 2018

2. Investments:

As at March 31, 2019, market values reflect unrealized gains or losses on certain investments. Included in investment income are realized losses from the sale of investments of \$201,421 (2018 - \$197,030) and realized gains from the sale of investments of \$23,821 (2018 - \$221,391).

Investments maturing within one year are classified as current assets.

It is not the intention of the Foundation to actively engage in the purchase and sale of securities on a short term basis, but primarily to meet liquidity needs if and when they may arise.

The Foundation's investment policy specifies the maximum levels of direct equity market exposure, in addition to fixed and variable rate investments. The policy addresses issues of diversification, asset allocation, investment concentration and minimum credit ratings. Investment decisions are made by an experienced professional investment manager in accordance with the Foundation's Statement of Investment Policy and Procedures.

	2019		2018	
	Cost	Fair value	Cost	Fair value
Short Term Bond	\$ 36,794,525	\$ 35,999,672	\$ 30,042,012	\$ 28,755,503
Bond Fund A	37,022,636	36,735,178	29,881,704	28,720,280
High Yield Bond Fund	8,980,546	8,621,901	6,330,935	5,778,320
Equity Income & Growth I	9,642,341	9,866,539	8,116,126	7,927,890
Q Group Global Equity	9,735,952	9,521,040	11,368,442	11,441,996
	\$ 102,176,000	\$ 100,744,330	\$ 85,739,219	\$ 82,623,989

Investment income of \$3,506,374 (2018 - \$4,255,149) was earned during the year.

All securities present a risk of potential loss of capital. Management manages this risk through working closely with a professional investment manager within the parameters established by the Foundation's Statement of Investment Policy and Procedures.

ALBERTA LAW FOUNDATION

Notes to Financial Statements

Year ended March 31, 2019, with comparative information for 2018

3. Grant refunds and allocations withdrawn:

Grant refunds represent funds returned to the Foundation from projects or programs which did not require all the funds originally advanced to them by the Foundation.

Approved grants contain restrictions on the use of funds that may result in a portion of the grants payable being withheld. Grants payable allocations are withdrawn (reversed) when the Foundation becomes aware that the funds are no longer required or when grant conditions have not been met.

4. Internally Restricted Net Assets - Grant Stabilization Fund and Strategic Reserve Fund:

The Grant Stabilization Fund and the Strategic Reserve Fund are subject to internally imposed restrictions and require the approval of the Board of Directors for all transactions related to those funds.

In the fiscal year ended March 31, 2019, the Directors approved the transfer of \$567,400 (2018 - \$nil) from the Strategic Reserve Fund to Unrestricted Net Assets in order to fund the project grant approved to the University of Alberta, Faculty of Law for the Wahkohtowin Law & Governance Lodge Project. In the fiscal year ended March 31, 2019, the Directors approved the transfer of \$5,300,151 (2018 - \$3,078,489) from Unrestricted Net Assets to the Grant Stabilization Fund in accordance with the internal reserve policy established by the Directors. In the fiscal year ended March 31, 2019, the Directors approved the transfer of \$5,445,352 (2018 - \$nil) from Unrestricted Net Assets to the Strategic Reserve Fund, in accordance with the internal reserve policy established by the Directors.

5. Designated for Future Year Grants:

In the fiscal year ended March 31, 2019, the Directors approved the creation of an internally designated account to segregate the amount of grants approved for future year funding, subject to certain conditions being met. In the fiscal year ended March 31, 2019, the Directors designated the following amounts for grants to be allocated in future years if certain conditions are met:

2020	\$2,620,928
2021	\$155,084

ALBERTA LAW FOUNDATION

Notes to Financial Statements

Year ended March 31, 2019, with comparative information for 2018

6. Grants payable:

	2019	2018
Balance, beginning of year	\$ 11,245,298	\$ 12,086,816
Add:		
Program grant allocations:		
Research and reform	2,108,956	2,502,096
Law libraries	1,259,628	1,200,000
Public legal education	1,490,055	1,278,154
Community, student and native legal programs	8,437,309	6,765,745
	13,295,948	11,745,995
Project grant allocations:		
Research and reform	247,694	355,972
Law libraries	83,725	—
Public legal education	77,015	75,470
Community, student and native legal programs	799,244	1,011,080
	1,207,678	1,442,522
Deduct:		
Allocations withdrawn from projects and programs:		
Research and reform	136,500	—
Public Legal Education	22,735	54,776
	159,235	54,776
Allocations Paid:		
Research and reform	2,597,074	2,842,852
Law libraries	1,200,000	1,400,000
Public legal education	1,428,727	2,153,559
Community, student and native legal programs	7,707,258	7,578,848
	12,933,059	13,975,259
Balance end of year	\$12,656,630	\$ 11,245,298

7. Payable to Legal Aid Alberta:

The Legal Profession Act requires the Foundation to pay 25% of the interest it receives on lawyers' pooled trust accounts to Legal Aid Alberta not more than six months after each fiscal year-end. As at March 31, 2019, the Foundation recognized a total contribution to Legal Aid Alberta of \$7,774,818 (2018 - \$4,822,898) equal to the 25% required by the Legal Profession Act.

ALBERTA LAW FOUNDATION

Notes to Financial Statements

Year ended March 31, 2019, with comparative information for 2018

8. Commitments:

On March 31, 2016, the Foundation entered into a lease agreement commencing June 1, 2016 for new office premises expiring May 21, 2021. Future operating lease payments for office premises related to this lease agreement are as follows:

2020	58,896
2021	58,896
2022	14,724

9. Financial instruments:

The Foundation's financial instruments recognized in the statement of financial position consist of cash, investments, accrued interest receivable, interest receivable on lawyers' pooled trust accounts, undisbursable trust balances receivable, accounts payable and accrued liabilities, grants payable and payable to Legal Aid Alberta. The carrying values approximate fair values given their short-term nature. The fair value of investments is disclosed in note 2.

The Foundation's investment activities expose it to a variety of financial risks:

(a) Credit risk:

The Foundation's maximum exposure to credit risk is on cash, investments, and interest receivable and undisbursable trust balances receivable.

Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Cash is placed with reputable commercial financial institutions. Credit risk for interest receivable, accounts receivable, undisbursable trust balances receivable and the investments is the risk that the obligation will fail to be discharged causing the Foundation to incur a financial loss. Credit risk is minimized by ensuring that credit is only extended to those entities that management believes has the financial capacity to pay obligations due to the Foundation, and the investments are diversified across different classes of assets and such investments are managed by a professional investment manager in accordance with the Foundation's Statement of Investment Policy and Procedures.

Management and the Board of Directors of the Foundation periodically review its investments to ensure that the credit risk assumed is appropriate.

ALBERTA LAW FOUNDATION

Notes to Financial Statements

Year ended March 31, 2019, with comparative information for 2018

9. Financial instruments (continued):

(b) Liquidity risk:

Liquidity risk is the risk that the Foundation will encounter difficulty in liquidating investments on a timely basis to meet commitments or protect its assets. Management controls liquidity risk through cash flow projections used to forecast funding requirements for its financial instruments.

(c) Market risk:

Current and future investments are subject to market risk due to changes in the value of investments in the fund. Fluctuations in general market interest rates have an impact on investment returns in fixed income investments.

(d) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates. The Foundation is exposed to interest rate risk on its investments in fixed income (bond) funds and equity funds.

(e) Foreign currency:

The Foundation is exposed to foreign currency fluctuations on the underlying investments denominated in foreign currency.

There is no change in risk exposures from 2018.