



Financial Statements and Other Financial Information of

ALBERTA LAW FOUNDATION

Year ended March 31, 2009

AUDITORS' REPORT TO THE BOARD OF DIRECTORS

We have audited the statement of financial position of the Alberta Law Foundation as at March 31, 2009 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Foundation as at March 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with the Canadian generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Foundation taken as a whole. The supplementary information included in the Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Chartered Accountants

Calgary, Canada
June 5, 2009

ALBERTA LAW FOUNDATION

Statement of Financial Position

March 31, 2009, with comparative figures for 2008

	2009	2008
Assets		
Current assets:		
Cash	\$ 210,437	\$ 932,407
Investments (note 3)	25,184,901	17,044,335
Accrued interest:		
Investments	419,111	994,712
Lawyers' general trust accounts (note 1(c))	1,089,561	4,473,688
	26,904,010	23,445,142
Investments (note 3)	84,595,010	96,008,236
	\$ 111,499,020	\$ 119,453,378
Liabilities and Net Assets		
Current liabilities:		
Accrued liabilities	\$ 18,000	\$ -
Grants payable (schedule):		
General (note 5)	13,646,095	13,231,699
Special project fund (note 5)	70,000	235,850
	13,716,095	13,467,549
Payable to Legal Aid Society of Alberta (note 7)	5,918,137	14,857,541
	19,652,232	28,325,090
Net assets:		
Grant stabilization fund (note 1(h))	37,250,000	36,339,594
Strategic reserve fund (note 1(i))	54,000,000	54,000,000
Unrestricted (note 1(j))	596,788	788,694
	91,846,788	91,128,288
Commitment (note 8)		
	\$ 111,499,020	\$ 119,453,378

See accompanying notes to financial statements.

Approved by the Board:

_____ Director

_____ Director

ALBERTA LAW FOUNDATION

Statement of Operations

Year ended March 31, 2009, with comparative figures for 2008

	2009	2008
Revenue:		
Interest received on lawyers' general trust accounts	\$ 23,672,550	\$ 59,430,161
Income earned from investments	4,131,814	3,716,989
Unclaimed trust balances from Law Society of Alberta	44,849	92,159
	<u>27,849,213</u>	<u>63,239,309</u>
Expenses:		
Salaries	229,544	190,483
Investment advisory fee	187,995	174,026
Professional fees	62,334	20,652
Rent and parking	50,147	64,699
General administration	40,298	26,247
Board travel and meetings	40,084	30,612
Insurance	26,566	25,502
	<u>636,968</u>	<u>532,221</u>
Allocation to Legal Aid Society of Alberta (note 7)	5,918,137	14,857,541
	<u>21,294,108</u>	<u>47,849,547</u>
Excess of revenue over expenses before grant allocations		
	21,294,108	47,849,547
Deduct:		
Project allocations from unrestricted net assets (note 5):		
Research and reform	322,855	1,226,945
Law Libraries	674,955	-
Public legal education	624,186	390,708
Native and student assistance	109,234	110,157
	<u>1,731,230</u>	<u>1,727,810</u>
Core program allocations from unrestricted net assets (note 5):		
Research and reform	4,148,089	4,275,762
Law libraries	1,023,952	975,000
Public legal education	5,228,519	4,729,383
Native and student assistance	2,161,161	2,143,015
	<u>12,561,721</u>	<u>12,123,160</u>
Add:		
Grant refunds (note 4)	698,453	133,746
Allocations withdrawn	114,580	4,630
	<u>813,033</u>	<u>138,376</u>
Excess of revenue over expenses before unrealized gains (losses)	7,814,190	34,136,953
Change in unrealized gain (loss) on investments (note 3)	(7,095,690)	573,693
Excess of revenue over expenses	<u>\$ 718,500</u>	<u>\$ 34,710,646</u>

See accompanying notes to financial statements.

ALBERTA LAW FOUNDATION

Statement of Changes in Net Assets

Year ended March 31, 2009, with comparative figures for 2008

	Grant Stabilization Fund	Unrestricted	Strategic Reserve Fund	2009 Total	2008 Total
Balance, beginning of year	\$ 36,339,594	\$ 788,694	\$ 54,000,000	\$ 91,128,288	\$ 56,366,554
Adjustment due to change in accounting policy	–	–	–	–	51,088
Excess of revenue over expenses	–	718,500	–	718,500	34,710,646
Internally designated transfers	910,406	(910,406)	–	–	–
Balance, end of year	\$ 37,250,000	\$ 596,788	\$ 54,000,000	\$ 91,846,788	\$ 91,128,288

See accompanying notes to financial statements.

ALBERTA LAW FOUNDATION

Statement of Cash Flows

Year ended March 31, 2009, with comparative figures for 2008

	2009	2008
Cash provided by (used in):		
Operations:		
Excess of revenue over expenses	\$ 718,500	\$ 34,710,646
Items not involving cash:		
Change in unrealized (gain) loss on investments	7,095,690	(573,693)
Changes in non-cash working capital:		
Accrued liabilities	18,000	—
Grants payable	248,546	(594,314)
Payable to Legal Aid Society of Alberta	(8,939,404)	1,483,110
Accrued interest - Lawyer's general trust accounts	3,384,127	1,919,029
	2,525,459	36,944,778
Investments:		
Amortization of premiums and discounts	(50,338)	(78,968)
Purchase of investments	(142,880,564)	(66,897,855)
Maturities of investments	140,813,314	31,007,647
Accrued interest on investments	575,601	(174,387)
	(1,541,987)	(36,143,563)
Increase in cash	983,472	801,215
Cash, beginning of year	932,407	131,192
Cash, end of year	\$ 1,915,879	\$ 932,407
Cash consists of:		
- Bank accounts	210,437	932,407
- Investment accounts (note 3)	1,705,442	—
Total Cash	\$ 1,915,879	\$ 932,407
Supplemental cash flow information:		
Cash received - interest and dividends	\$ 4,588,007	\$ 3,674,214

See accompanying notes to financial statements.

ALBERTA LAW FOUNDATION

Notes to Financial Statements

Year ended March 31, 2009

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' general trust accounts. The interest earned 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 is 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:

(a) Financial instruments

All financial instruments are initially recognized at fair value on the balance sheet date. The Foundation has classified each financial instrument into the following categories: held for trading financial assets and liabilities; available for sale financial assets; loans and receivables and other financial liabilities. Subsequent measurement of the financial instruments is based on their classification. Unrealized gains and losses on held for trading financial instruments are recognized in the statement of operations. Upon adoption and with any new financial instrument, an irrevocable election is available that allows entities to classify any financial asset or financial liability as held for trading, even if the financial instrument does not meet the criteria to designate it as held for trading. The Foundation has elected to classify its cash and investments as held for trading, which are measured at fair value.

Accrued interest is classified as loans and receivables and are measured at amortized cost. Accrued liabilities, grants payable and payable to Legal Aid Society of Alberta are classified as other financial liabilities which are also measured at amortized cost.

The Foundation has adopted Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3861 for the fiscal year ended March 31, 2008. Effective for the new fiscal year commencing April 1, 2009 the Foundation will be subject to Section 3862 and Section 3863. The Foundation is currently determining the impact of these additional disclosure requirements.

(b) Capital management:

Effective April 1, 2008 the Foundation adopted the "Capital Disclosures" accounting standard issued by the CICA. This new standard requires the Foundation to provide additional disclosures in order to evaluate the Foundation's objectives, policies and process for managing its capital.

1. Significant accounting policies (continued):

(c) Interest received on lawyers' general trust accounts:

The Foundation reports interest received on lawyers' general trust accounts as received or determinable. The lawyers' general trust accounts are not the property of, nor administered by, the Foundation. The Foundation accrues the amount of interest at the time the amounts are determinable from the individual financial institutions. For the fiscal year ended March 31, 2009 the Foundation recognized interest earnings of approximately \$1.1 million (2008 - \$4.5 million) from lawyers' general trust accounts that were received subsequent to year-end.

(d) Investments:

Investments are recorded at fair value based upon bid 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 or losses are reflected as changes or unrealized gains (losses) on investments in the statement of operations. The purchase premium or discount, if any, is charged to revenue and expenses over the life of the investment. Interest earned on investments is recorded on the accrual basis.

Investments maturing within one year are classified as current assets.

(e) Property and equipment:

Purchases of property and equipment are recorded at cost. Depreciation is provided on a straight-line basis over the estimated life of the asset. All individual items under \$5,000 are expensed in the year purchased.

(f) Revenue recognition:

The Foundation follows the deferral method of accounting for contributions.

Revenue is recognized when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

(g) Special project fund:

The Special Project Fund was a temporary reserve fund set up by the Directors of the Foundation to meet a variety of specific objectives in 2006, and which has since been fully completed. Grants in the amount of \$nil (2008 - \$nil) were approved from this fund during 2009.

(h) Grant stabilization fund:

Grant stabilization funds represent amounts which are reserved for future funding of committed programs and require the approval of the Board of Directors prior to allocation.

(i) Strategic reserve fund:

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

1. Significant accounting policies (continued):

(j) Unrestricted net assets:

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

(k) Comparative figures:

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.

2. Capital management:

The Foundation's capital consists of its accumulated surplus of revenues over expenses. Management manages the capital through investment policies that seek to achieve a conservative balance of capital preservation and long-term capital appreciation. The objective is to ensure adequate capital is on hand to meet current and future grant commitments within the provincially legislated objectives of the Foundation. The Foundation is not subject to any externally imposed capital requirements.

3. Investments:

As at March 31, 2009, market values reflect increases or decreases from cost due to current interest rates differing from contractual rates, and unrealized gains or losses on certain investments. The net unrealized loss of \$7,095,690 (2008 - gain of \$573,693) was recognized in the statement of operations at year end.

Notwithstanding the designation of the investments as Held for Trading 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. Effective April 1, 2008, the Investment Policy specifies 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 in close consultation with an experienced professional portfolio advisor.

3. Investments (continued)

	2009		2008	
	Cost	Market value	Cost	Market value
Operations Account				
Cash	\$ 532,268	\$ 532,269	\$ -	\$ -
Short-term Investments	12,062,928	12,319,334	16,911,514	17,044,335
Long-term Investments	10,189,246	10,527,774	95,516,275	96,008,236
	22,784,442	23,379,377	112,427,789	113,052,571
Grant Stabilization Account				
Cash	96,975	96,975	-	-
Short-term Investments	2,383,226	2,397,988	-	-
Long-term Investments	19,542,723	20,401,947	-	-
Equities	15,471,501	11,622,714	-	-
	37,494,425	34,519,624	-	-
Strategic Reserve Account				
Cash	1,076,199	1,076,199	-	-
Short-term Investments	8,762,575	8,762,136	-	-
Long-term Investments	33,637,325	33,506,183	-	-
Equities	12,495,853	8,536,392	-	-
	55,971,952	51,880,910	-	-
	\$116,250,819	\$109,779,911	\$112,427,789	\$113,052,571

Investments yield to maturity is 0.4% to 6.15% per annum (2008 - 3.14% to 5.16%). Investment income of \$4,131,814 (2008 - \$3,716,989) was earned during the year.

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

(a) Interest rate risk:

Interest rate risk arises from holding fixed interest rate investments, where the value of interest-bearing financial instruments will fluctuate due to changes in the prevailing levels of market interest rates.

(b) Credit risk:

Credit risk arises from the potential for an investee to fail. Credit risk is managed by the Foundation's Board of Directors in accordance with their investment policy.

(c) Currency risk:

Currency risk arises from financial instruments that are denominated in a currency other than the Canadian dollar. Certain investments have exposure to US and international currency fluctuations but the Foundation has mitigated that exposure by having a full capital guarantee in Canadian dollars to the extent of the initial investment.

Other market risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or market segment. All securities present a risk of loss of capital. Management moderates this risk through a careful selection of securities or other financial instruments within the parameters established by the investment policy.

4. Grant refunds:

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.

5. Grants payable:

	2009	2008
General:		
Balance, beginning of year	\$13,231,699	\$13,465,975
Add:		
Core program allocations from unrestricted net assets:		
Research and reform	4,148,089	4,275,762
Law libraries	1,023,952	975,000
Public legal education	5,228,519	4,729,383
Native and student assistance	2,161,161	2,143,015
	12,561,721	12,123,160
Project allocations from unrestricted net assets:		
Research and reform	322,855	1,226,945
Law Libraries	674,955	–
Public legal education	624,186	390,708
Native and student assistance	109,234	110,157
	1,731,230	1,727,810
Deduct:		
Allocations withdrawn from projects and programs:		
Research and reform	14,808	–
Public legal education	49,772	4,309
Native and student assistance	–	–
	64,580	4,309
Allocations paid:		
Research and reform	5,142,087	4,855,078
Law libraries	1,055,250	1,042,000
Public legal education	5,435,500	6,130,561
Native and student assistance	2,181,138	2,053,298
	13,813,975	14,080,937
Balance, end of year	\$ 13,646,095	\$ 13,231,699

During the year the Special Project funding withdrawn was \$50,000 and grants paid was \$115,850 leaving a remaining balance at year end of \$70,000.

6. Financial instruments:

The Foundation's financial instruments recognized in the balance sheet consist of cash, investments, accrued interest, accrued liabilities, grants payable and a payable to Legal Aid Society of Alberta. The carrying values approximate fair values given their short-term nature. The fair value of long-term investments is disclosed in note 3.

7. Payable to Legal Aid Society of Alberta:

The Legal Profession Act requires the Foundation to pay 25% of the interest it receives on lawyers' general trust accounts to the Legal Aid Society of Alberta not more than six months after each fiscal year end.

8. Commitment:

At March 31, 2009, the Foundation was committed to future operating lease payments for office premises in the following amounts:

2010	\$	32,832
2011		34,200
2012		14,250
	\$	81,282

9. Pending accounting pronouncements:

In 2008, the Accounting Standards Board (AcSB) released changes to certain Not-for-Profit Organizations (NPO's) accounting standards. The new standards are effective for fiscal periods beginning April 1, 2009. The changes impacting the Foundation are noted as follows:

Handbook Section 4400, financial statement presentation:

- Cash flows from investing and financing activities are required to be reported separately on the Statement of Cash Flows; and
 - Disclosure required regarding the Foundation's classification of expenses by function, policies adopted for the allocation of expenses among functions, basis for the allocations, the nature and amount of the expenses being allocated. The Foundation does not anticipate any significant impact regarding these additional requirements.
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