



Financial Statements and Other Financial Information of

ALBERTA LAW FOUNDATION

Year ended March 31, 2010

AUDITORS' REPORT TO THE BOARD OF DIRECTORS

We have audited the statement of financial position of the Alberta Law Foundation as at March 31, 2010 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, 2010 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
May 31, 2010

ALBERTA LAW FOUNDATION

Statement of Financial Position

March 31, 2010, with comparative figures for 2009

	2010	2009
Assets		
Current assets:		
Cash	\$ 141,676	\$ 210,437
Investments (note 3)	47,333,670	25,184,901
Accrued interest:		
Investments	586,059	419,111
Lawyers' general trust accounts (note 1(b))	439,547	1,089,561
	48,500,952	26,904,010
Investments (note 3)	57,966,269	84,595,010
	\$ 106,467,221	\$ 111,499,020
Liabilities and Net Assets		
Current liabilities:		
Accrued liabilities	\$ 18,000	\$ 18,000
Grants payable (schedule):		
General (note 6)	12,471,666	13,646,095
Special project fund (note 6)	14,000	70,000
	12,485,666	13,716,095
Payable to Legal Aid Society of Alberta (note 8)	1,138,028	5,918,137
	13,641,694	19,652,232
Net assets:		
Grant stabilization fund	39,750,000	37,250,000
Strategic reserve fund	45,500,000	54,000,000
Unrestricted	7,575,527	596,788
	92,825,527	91,846,788
Commitments (note 9)		
	\$ 106,467,221	\$ 111,499,020

See accompanying notes to financial statements.

Approved by the Board:

_____ Director

_____ Director

ALBERTA LAW FOUNDATION

Statement of Operations

Year ended March 31, 2010, with comparative figures for 2009

	2010	2009
Revenue:		
Interest received on lawyers' general trust accounts	\$ 4,552,112	\$ 23,672,550
Income earned from investments	3,198,387	4,131,814
Unclaimed trust balances from Law Society of Alberta	101,037	44,849
	<u>7,851,536</u>	<u>27,849,213</u>
Expenses:		
Salaries	335,667	229,544
Investment advisory fee	188,967	187,995
Rent and parking	61,899	50,147
Board travel and meetings	38,620	40,084
Professional fees	37,691	62,334
Insurance	26,477	26,566
General administration	23,175	40,298
	<u>712,496</u>	<u>636,968</u>
Allocation to Legal Aid Society of Alberta (note 8)	1,138,028	5,918,137
	<u>6,001,012</u>	<u>21,294,108</u>
Excess of revenue over expenses before grant allocations		
	6,001,012	21,294,108
Deduct:		
Project allocations from unrestricted net assets (note 6):		
Research and reform	327,733	322,855
Law Libraries	-	674,955
Public legal education	299,023	624,186
Native and student assistance	118,590	109,234
	<u>745,346</u>	<u>1,731,230</u>
Core program allocations from unrestricted net assets (note 6):		
Research and reform	4,053,777	4,148,089
Law libraries	1,100,734	1,023,952
Public legal education	5,801,230	5,228,519
Native and student assistance	2,245,615	2,161,161
	<u>13,201,356</u>	<u>12,561,721</u>
Add:		
Grant refunds (note 4)	923,278	698,453
Allocations withdrawn	106,011	114,580
	<u>1,029,289</u>	<u>813,033</u>
Excess (deficiency) of revenue over expenses before unrealized gains (losses)		
	(6,916,401)	7,814,190
Change in unrealized gain (loss) on investments (note 3)	7,895,140	(7,095,690)
Excess of revenue over expenses	<u>\$ 978,739</u>	<u>\$ 718,500</u>

See accompanying notes to financial statements.

ALBERTA LAW FOUNDATION

Statement of Changes in Net Assets

Year ended March 31, 2010, with comparative figures for 2009

	Unrestricted	Grant Stabilization Fund	Strategic Reserve Fund	2010 Total	2009 Total
Balance, beginning of year	\$ 596,788	\$ 37,250,000	\$ 54,000,000	\$ 91,846,788	\$ 91,128,288
Excess of revenue over expenses	978,739	–	–	978,739	718,500
Internally designated transfers (note5)	–	8,500,000	(8,500,000)	–	–
Internally designated transfers (note5)	6,000,000	(6,000,000)	–	–	–
Balance, end of year	\$ 7,575,527	\$ 39,750,000	\$ 45,500,000	\$ 92,825,527	\$ 91,846,788

See accompanying notes to financial statements.

ALBERTA LAW FOUNDATION

Statement of Cash Flows

Year ended March 31, 2010, with comparative figures for 2009

	2010	2009
Cash provided by (used in):		
Operations:		
Excess of revenue over expenses	\$ 978,739	\$ 718,500
Items not involving cash:		
Change in unrealized (gain) loss on investments	(7,895,140)	7,095,690
Changes in non-cash working capital:		
Accrued liabilities	—	18,000
Grants payable	(1,230,429)	248,546
Payable to Legal Aid Society of Alberta	(4,780,109)	(8,939,404)
Accrued interest - Lawyer's general trust accounts	650,014	3,384,127
	(12,276,925)	2,525,459
Investments:		
Amortization of premiums and discounts	303,076	(50,338)
Purchase of investments	(121,148,585)	(142,880,564)
Maturities of investments	132,098,377	140,813,314
Change in accrued interest on investments	(166,948)	575,601
	11,085,920	(1,541,987)
Increase (decrease) in cash	(1,191,005)	983,472
Cash, beginning of year	1,915,879	932,407
Cash, end of year	\$ 724,874	\$ 1,915,879
Cash consists of:		
- Bank accounts	\$ 141,676	\$ 210,437
- Investment accounts (note 3)	583,198	1,705,442
Total Cash	\$ 724,874	\$ 1,915,879
Supplemental cash flow information:		
Cash received - interest and dividends	\$ 3,261,556	\$ 4,588,007

See accompanying notes to financial statements.

ALBERTA LAW FOUNDATION

Notes to Financial Statements

Year ended March 31, 2010

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 is 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.

(b) 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, 2010 the Foundation recognized interest earnings of approximately \$440,000 (2009 - \$1.1 million) from lawyers' general trust accounts that were received subsequent to year-end.

1. Significant accounting policies (continued):

(c) 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 expensed over the life of the investment. Interest earned on investments is recorded on an accrual basis.

(d) Property and equipment:

Purchases of property and equipment are recorded at cost. Amortization 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.

(e) 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.

(f) 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. No grants were approved from this fund during 2010 and 2009.

(g) Grant Stabilization Fund:

The Grant Stabilization Fund represents amounts which are reserved for future funding of committed programs and require the approval of the Board of Directors prior to allocation.

(h) Strategic Reserve Fund:

The Directors of the Foundation established the Strategic Reserve Fund 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.

(i) Unrestricted net assets:

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

1. Significant accounting policies (continued):

(j) Change in accounting policies:

(i) Effective April 1, 2009, the Foundation adopted the Canadian Institute of Chartered Accountants (CICA) amendment to the 4400 Sections of the CICA Handbook. The changes impacting the Foundation are noted as follows:

- 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 as among functions, basis for the allocations, and the nature and amount of the expenses being allocated.

Adoption of these amendments had no impact on the financial statements for the year ended March 31, 2010.

(ii) Effective April 1, 2009, the Foundation adopted the CICA amendments to Section 1000 of the CICA Handbook. These amendments clarified the criteria for recognition of an asset or liability, removing the ability to recognize assets or liabilities solely on the basis of matching revenue and expense items. Adoption of these amendments had no impact on the financial statements for the year ended March 31, 2010.

2. Capital management:

The Foundation's capital consists of its accumulated surplus of revenues over expenses. The Foundation 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, 2010, 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 change in unrealized gain of \$7,895,140 (2009 - loss of \$7,095,690) was recognized in the statement of operations at year end.

Investments maturing within one year are classified as current assets. However, cash and short-term investments held in each of the grant stabilization and strategic reserve investment accounts are not available to meet current liabilities without the express approval of the Directors.

3. Investments (continued):

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.

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 in close consultation with an experienced professional portfolio advisor.

	2010		2009	
	Cost	Fair value	Cost	Fair value
Operations Account				
Cash	\$ 26,112	\$ 26,112	\$ 532,268	\$ 532,268
Short-term Investments	8,325,310	8,452,396	12,062,928	12,319,335
Long-term Investments	—	—	10,189,246	10,527,774
	8,351,422	8,478,508	22,784,442	23,379,377
Grant Stabilization Account				
Cash	333,356	333,356	96,975	96,975
Short-term Investments	15,521,989	16,039,218	2,383,226	2,397,988
Long-term Investments	22,084,505	22,878,906	19,542,723	20,401,947
Equities	—	—	15,471,501	11,622,714
	37,939,850	39,251,480	37,494,425	34,519,624
Strategic Reserve Account				
Cash	223,730	223,730	1,076,199	1,076,199
Short-term Investments	22,006,276	22,258,858	8,762,575	8,762,136
Long-term Investments	22,035,496	22,411,256	33,637,325	33,506,183
Equities	13,318,933	12,676,107	12,495,853	8,536,392
	57,584,435	57,569,951	55,971,952	51,880,910
	\$ 103,875,707	\$ 105,299,939	\$ 116,250,819	\$ 109,779,911

Investments yield to maturity is 0.23% to 5.14% per annum (2009 - 3.14% to 6.15%). Investment income of \$3,198,387 (2009 - \$4,131,814) was earned during the year.

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. Grant Stabilization Fund and Strategic Reserve Fund:

In the fiscal year ended March 31, 2010 the Directors elected to transfer \$6,000,000 from the Grant Stabilization Fund to Unrestricted Assets in order to ensure adequate liquid working capital to meet all current liabilities and grants payable in the new fiscal year. The transfer of related cash and short-term investments from the grant stabilization investment account was undertaken subsequent to the fiscal year end.

Effective March 31, 2010, the Directors elected to transfer \$8,500,000 from the Strategic Reserve Fund to the Grant Stabilization Fund in accordance with the internal reserve policy established by the Directors. The transfer of related cash and investments from and to the relative investment accounts was undertaken subsequent to the fiscal year end.

6. Grants payable - General:

	2010	2009
Balance, beginning of year	\$13,646,095	\$13,231,699
Add:		
Core program allocations from unrestricted net assets:		
Research and reform	4,053,777	4,148,089
Law libraries	1,100,734	1,023,952
Public legal education	5,801,230	5,228,519
Native and student assistance	2,245,615	2,161,161
	13,201,356	12,561,721
Project allocations from unrestricted net assets:		
Research and reform	327,733	322,855
Law Libraries	–	674,955
Public legal education	299,023	624,186
Native and student assistance	118,590	109,234
	745,346	1,731,230
Deduct:		
Allocations withdrawn from projects and programs:		
Research and reform	10,396	14,808
Public legal education	38,920	49,772
Native and student assistance	56,695	–
	106,011	64,580
Allocations paid:		
Research and reform	5,019,811	5,142,087
Law libraries	1,474,407	1,055,250
Public legal education	6,240,127	5,435,500
Native and student assistance	2,280,775	2,181,138
	15,015,120	13,813,975
Balance, end of year	\$ 12,471,666	\$ 13,646,095

During the year, the Special Project Fund paid a grant of \$56,000 leaving a remaining balance at year end of \$14,000 as at March 31, 2010.

7. 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 short-term and long-term investments is disclosed in note 3.

The Foundation's 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 by investing in higher rated investment grade securities.

(c) Foreign currency risk:

Foreign 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.

(d) Market risk:

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.

8. 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.

9. Commitments:

At March 31, 2010, the Foundation, in accordance with a lease agreement expiring on August 31, 2011 was committed to future operating lease payments for office premises in the following amounts:

2011	\$ 34,200
2012	14,250
	<hr/>
	\$ 48,450

10. Future accounting pronouncements:

The Accounting Standards Board (“AcSB”) has recently issued an Exposure Draft for Not-for-Profit Organizations. The AcSB proposes that Not-for-Profit Organizations select one of the two following alternatives for financial reporting:

- The current Section 4400 - “Financial Statement Presentation by Not-for-Profit Organizations” issued by CICA in conjunction with generally accepted accounting principles for private enterprises, or
- International Financial Reporting Standards.

These available standards are applicable to fiscal years beginning on or after January 1, 2012. Current standards will continue to apply until the new standards are issued. Adoption of these new standards is being evaluated and the impact on future financial statements is not known or reasonably estimated at this time.