

FINANCIAL STATEMENTS

**THE LAW FOUNDATION
OF BRITISH COLUMBIA**

December 31, 2020



INDEPENDENT AUDITOR'S REPORT

To the Governors of The Law Foundation of British Columbia

Opinion

We have audited the financial statements of The Law Foundation of British Columbia (the Foundation), which comprise the statement of financial position as at December 31, 2020, and the statements of changes in net assets, operations, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as at December 31, 2020, and the results of its 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 *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Foundation 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 audit opinion.

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

Management is responsible for the preparation and fair presentation of the 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 Foundation'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 Foundation or to cease operations, or has no realistic alternative but to do so.

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

Auditor's 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 auditor's 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 these 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:

INDEPENDENT AUDITOR'S REPORT (CONT'D)

- 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 Foundation'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 Foundation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Foundation 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.

We 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.

Tompkins Wozny LLP

Vancouver, Canada
June 19, 2021

Chartered Professional Accountants

STATEMENT OF FINANCIAL POSITION

As at December 31

	2020 \$	2019 \$
ASSETS		
Current assets		
Cash	9,690,092	6,296,952
Short-term investments [note 4]	118,811,728	116,254,489
Accounts receivable and other	14,827	268,335
	128,516,647	122,819,776
Long-term investments [note 4]	14,732,234	10,109,381
Capital assets [note 5]	76,310	58,693
	143,325,191	132,987,850
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities [note 6]	737,641	509,777
Research Fund [notes 2a and 7a]	1,760,768	1,940,584
Cultural Competence Fund [notes 2a and 7b]	400,000	400,000
Access to Justice Fund [notes 2b and 8]	—	—
Grants payable [note 9]	24,379,209	21,592,443
	27,277,618	24,442,804
Long-term grants payable [note 9]	10,321,732	14,567,048
	37,599,350	39,009,852
NET ASSETS		
Invested in capital assets	76,310	58,693
Grant Stabilization Fund [note 10]	105,649,531	93,919,305
	105,725,841	93,977,998
	143,325,191	132,987,850

Commitment [note 14]

See accompanying notes to the financial statements

Approved by:

Governor

Governor

STATEMENT OF CHANGES IN NET ASSETS

Year ended December 31

	Invested in Capital Assets \$	Grant Stabilization Fund \$	Net Assets \$
2020			
Balance, beginning of year	58,693	93,919,305	93,977,998
Excess of revenue (expenses) for the year	(23,544)	11,771,387	11,747,843
Acquisition of capital assets	41,161	(41,161)	—
	76,310	105,649,531	105,725,841
2019			
Balance, beginning of year	60,505	58,663,484	58,723,989
Excess of revenue (expenses) for the year	(19,602)	35,273,611	35,254,009
Acquisition of capital assets	17,790	(17,790)	—
	58,693	93,919,305	93,977,998

See accompanying notes to the financial statements

STATEMENT OF OPERATIONS

Year ended December 31

	2020	2019
	\$	\$
REVENUE		
Interest received on lawyers' trust accounts	27,580,201	57,842,014
Investment income <i>[note 11]</i>	12,235,259	10,146,303
Unclaimed trust funds and other income <i>[note 12]</i>	1,251,440	1,337,441
	41,066,900	69,325,758
Access to Justice Fund <i>[note 8]</i>	1,155,000	2,199,218
	42,221,900	71,524,976
EXPENSES		
Amortization of capital assets	23,544	19,602
Audit and annual report	96,386	60,638
Consulting and legal	241,783	124,465
Meetings and travel	44,147	210,399
Office and other	130,802	240,629
Rent and occupancy costs	259,756	257,323
Salaries and employee benefits	1,778,043	1,626,905
	2,574,461	2,539,961
Access to Justice Fund <i>[note 8]</i>	1,155,000	2,199,218
	3,729,461	4,739,179
Excess of revenue before net grants approved	38,492,439	66,785,797
Net grants approved <i>[note 13]</i>	26,744,596	31,531,788
Excess of revenue for the year	11,747,843	35,254,009

See accompanying notes to the financial statements

STATEMENT OF CASH FLOWS

Year ended December 31

	2020	2019
	\$	\$
OPERATING ACTIVITIES		
Excess of revenue for the year	11,747,843	35,254,009
Items not affecting cash:		
Amortization	23,544	19,602
Increase in unrealized gain on investments	(3,387,505)	(5,441,670)
Changes in non-cash working capital items:		
Accounts receivable and other	253,509	(206,141)
Accounts payable and accrued liabilities	227,863	249,018
Research Fund	(179,816)	(128,053)
Access to Justice Fund	—	(547,218)
Grants payable	(1,458,550)	7,150,378
Cash provided by operating activities	7,226,888	36,349,925
INVESTING ACTIVITIES		
Acquisition of capital assets	(41,161)	(17,790)
Net purchase of investments	(3,792,587)	(32,849,559)
Cash used in investing activities	(3,833,748)	(32,867,349)
Increase in cash for the year	3,393,140	3,482,576
Cash, beginning of year	6,296,952	2,814,376
Cash, end of year	9,690,092	6,296,952

See accompanying notes to the financial statements

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

1. NATURE OF ACTIVITIES

The Law Foundation of British Columbia (the Foundation) was established in 1969 under the *Legal Profession Act* of British Columbia as a tax-exempt not-for-profit organization to receive and distribute interest on clients' trust funds held in lawyers' pooled trust accounts. The Foundation is administered by a board of governors who are responsible for distributing these funds, and related investment and other income, to provide legal aid, legal research, law reform, legal education, and law libraries for the benefit of the general public of British Columbia. The Foundation also periodically administers other funds and programs.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations and reflect the following significant accounting policies:

Revenue Recognition

The Foundation follows the deferral method of accounting for contributions.

Cash Basis — Interest on Lawyers' Pooled Trust Accounts

The Foundation uses the cash basis of reporting interest earned on lawyers' pooled trust accounts.

The Foundation assumes that solicitors who hold funds in trust for or on account of clients comply strictly with Section 62 of the *Legal Profession Act* and Part 3, Division 7, of the Rules of the Law Society of British Columbia. These rules require that interest earned on funds held in lawyers' pooled trust accounts be remitted to the Foundation.

Investments

Investments [note 4] consist of money market, bond and equity funds comprised of stocks and bonds that are traded on stock exchanges by the fund managers, and long-term real estate and infrastructure investments which are reviewed periodically to assess market values.

Investments are recorded at fair market value. Realized gains (losses) are reported based on their settlement date. Unrealized gains (losses) are reflected as an unrealized increase (decrease) within net investment income. Interest and dividends earned, but not received, are recorded on an accrual basis by the fund managers within the investments.

Program and Project Grants Approved

The Foundation expenses grants in the current year that provide annual operating funding to organizations covering 12-month periods beginning in the current and subsequent calendar years, plus grants for special projects that may be payable over several years. Grants are reflected as an expense that reduces the grant

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Program and Project Grants Approved (Cont'd)

stabilization fund as they are approved by the Foundation's board of governors. Grants that are not yet paid are reflected as grants payable. All approved grants contain restrictions on the use of the funds that may result in a portion of the grants payable being withheld, or grants that have been disbursed may be refunded. Grants payable are reversed when the Foundation becomes aware that the funds are no longer required or when grant conditions have not been met. Grants refunded to the Foundation are reported on a cash basis.

Grants made that are conditional on the receipt of matching funds by the grantee are included in program and project grants approved and grants payable. Unmatched grants may be reversed, transferred to other programs or projects, or the matching condition may be waived, as subsequently approved by the Foundation.

Expenditures on programs that are operated by the Foundation are included in program and project grants approved as they are disbursed.

Capital Assets

Capital assets are capitalized at cost and amortized on a straight-line basis as follows:

- | | |
|---------------------------|----------------------|
| ▪ Leasehold improvements | remaining lease term |
| ▪ Furniture and equipment | 5 years |
| ▪ Computers and software | 3 and 10 years |

Restricted and Administered Funds

- a) Legal Services Society/Law Foundation Research Fund (Research Fund) and the Legal Services Society/Law Foundation Cultural Competence Fund (Cultural Competence Fund).

The Legal Services Society and the Foundation established the Research Fund pursuant to a deed of trust. The purpose of the Research Fund is to support research on and evaluation of legal aid and other access to justice programs to enhance the quality of and access to justice for British Columbians. The Foundation administers the Research Fund, and an advisory committee consisting of one nominee from the Legal Services Society, the Foundation, and the Notary Foundation approves distribution of the funds.

As the Foundation administers, but does not exclusively control, the expenditures from the Research Fund and the Cultural Competence Fund, direct expenditures and grants approved are treated as a reduction of the fund. Grants not yet paid are grouped with the Foundation's grants payable.

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Restricted and Administered Funds (Cont'd)

b) Access to Justice Fund

The purpose of the Foundation's Access to Justice Fund is to receive and distribute *cy-pres* settlement funds arising from class actions, or other funds received by the Foundation for access to justice purposes. Direct expenditures and grants approved are reported as both income and expense as qualifying expenses are incurred, or grants are awarded, in accordance with the deferral method of accounting. Grants not yet paid are grouped with the Foundation's grants payable.

Use of Estimates

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reported period. Significant areas requiring the use of management estimates relate to the determination of the useful lives of capital assets, the determination of certain accrued liabilities, and the dollar value of grants to be paid out within one year. Actual results could differ from the estimates.

Cash

Cash is defined as cash on hand and cash on deposit net of cheques issued and outstanding at the year-end.

3. FINANCIAL INSTRUMENTS

The Foundation's financial instruments consist of cash, short and long-term investments, accounts payable and accrued liabilities and grants payable.

Measurement of Financial Instruments

The Foundation initially measures its financial assets and financial liabilities at fair value. The Foundation subsequently measures all its financial assets and liabilities at amortized cost, except for the investments that are quoted in an active market or have market value data available, which are measured at fair market value. Financial instruments measured at amortized cost consist of cash, accounts payable and accrued liabilities and grants payable.

Risk of Financial Instruments

The Foundation is exposed to various risks through its financial instruments. The following analysis provides a measure of the Foundation's risk exposure at the year-end date.

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

3. FINANCIAL INSTRUMENTS (CONT'D)

Risk of Financial Instruments (Cont'd)

Credit risk

Credit risk is the risk that one party to the financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Foundation's main credit risk relates to bond fund investments and bank deposits.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Foundation is exposed to this risk mainly in respect to the timing of its grants payable and long-term investment maturities. Most of the Foundation's investments consist of pooled funds, and it is the opinion of management that the Foundation is not exposed to liquidity or cash flow risk with respect to its investments, nor is it subject to significant concentrations of credit risk. The Foundation also sets investment policies and monitors its investments to minimize liquidity risk.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Foundation's exposure to currency risk is with its ownership of international bonds and debentures within its investment funds. The Foundation does not engage in hedge transactions.

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 market interest rates. The Foundation is exposed to interest rate risk on its investments in bond funds and real estate/infrastructure securities. The Foundation's interest income received on lawyers' trust accounts is also subject to interest rate risk.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Foundation is exposed to other price risk through its investment in equity-based fund and real estate/infrastructure investments.

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

4. INVESTMENTS

	Cost \$	Fair Market Value \$
2020		
Short-term		
CC&L Group Money Market Fund A	264,539	264,539
CC&L High Yield Bond Fund I [2,953,024 units]	28,090,696	29,309,645
CC&L Equity Income & Growth I Fund [751,811 units]	8,652,966	9,083,981
CC&L Bond Fund A [5,060,318 units]	52,878,497	54,884,713
CC&L Q Group Global Equity Fund [2,348,886 units]	25,764,977	25,268,850
	<u>115,651,675</u>	<u>118,811,728</u>
Long-term		
Crestpoint Real Estate Investments Ltd. [329,188 units]	5,307,459	5,672,375
CC&L Infrastructure Fund [544,666 units]	8,721,455	9,059,859
	<u>14,028,914</u>	<u>14,732,234</u>
Total	<u>129,680,589</u>	<u>133,543,962</u>
2019		
Short-term		
CC&L Group Money Market Fund A	1,408	1,408
CC&L High Yield Bond Fund I [2,899,507 units]	27,577,417	28,007,210
CC&L Equity Income & Growth I Fund [679,684 units]	8,154,492	8,279,575
CC&L Bond Fund A [5,484,780 units]	56,980,050	57,311,011
CC&L Q Group Global Equity Fund [2,187,057 units]	23,264,408	22,655,285
	<u>115,977,775</u>	<u>116,254,489</u>
Long-term		
Crestpoint Real Estate Investments Ltd. [273,901 units]	4,509,181	4,509,181
CC&L Infrastructure Fund [352,480 units]	5,600,200	5,600,200
	<u>10,109,381</u>	<u>10,109,381</u>
Total	<u>126,087,156</u>	<u>126,363,870</u>

The Foundation's current investment policy has allocated up to 30% of the portfolio in illiquid real estate and infrastructure funds (long-term investments), and the balance to CC&L Investment Management for its balanced mandate of universal bonds, Canadian and global equities.

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

5. CAPITAL ASSETS

	Cost \$	Accumulated Amortization \$	Net Book Value \$
2020			
Leasehold improvements	4,686	—	4,686
Furniture and equipment	30,513	27,300	3,213
Computers and software	111,936	43,525	68,411
	147,135	70,825	76,310
2019			
Leasehold improvements	4,686	—	4,686
Furniture and equipment	30,513	23,745	6,768
Computers and software	70,775	23,536	47,239
	105,974	47,281	58,693

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2020 \$	2019 \$
Operating	416,161	154,578
Funds administered for others	319,259	323,396
Government remittances – payroll taxes	—	30,212
Government remittances – WorkSafeBC	2,221	1,591
	737,641	509,777

7. LEGAL SERVICES SOCIETY/LAW FOUNDATION RESEARCH FUNDS

a) Legal Services Society/Law Foundation Research Fund (Research Fund)

Activity in the Research Fund during the year was as follows:

	2020 \$	2019 \$
Research Fund, beginning of year	1,940,584	2,068,637
Grants – approved	(452,800)	(387,000)
Grants – returned to fund	104,259	74,306
Investment income allocated <i>[note 11]</i>	168,725	184,641
Research Fund, end of year	1,760,768	1,940,584

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

7. LEGAL SERVICES SOCIETY/LAW FOUNDATION RESEARCH FUNDS (CONT'D)

b) Legal Services Society/Law Foundation Cultural Competence Fund (Cultural Competence Fund)

There was no activity in the Cultural Competence Fund during the year. In 2018, the Foundation received a \$400,000 grant from the Law Society of BC which it continues to hold.

8. ACCESS TO JUSTICE FUND

Activity in the Access to Justice Fund during the year was as follows:

	2020 \$	2019 \$
Opening Funds	—	547,218
Funds Received		
– Klein Lawyers Cy Pres	—	25,400
– Province of BC – Legal Clinics	1,155,000	1,750,000
– Province of BC - Gladue	—	250,000
Total Funds Received	1,155,000	2,025,400
Grants approved		
– Access Pro Bono Society	—	(189,218)
– Gladue Initiatives	—	(250,000)
– Legal Clinics	(1,155,000)	(1,750,000)
– Thompson Rivers University	—	(10,000)
Total Grants Issued	(1,155,000)	(2,199,218)
Transferred to Revenue		
– Province of BC 2018	—	(358,000)
– Balance of Klein Lawyers Cy-Pres	—	(15,400)
Total Funds Transfer	—	(373,400)
Closing Funds	—	—

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

9. GRANTS PAYABLE

The Foundation has approved grants with multi-year payment schedules that are estimated to be payable as follows:

	2020	2019
	\$	\$
Opening grants payable	36,159,491	29,009,113
Grants approved		
– Law Foundation of BC <i>[note 13]</i>	29,127,532	32,162,000
– Access to Justice <i>[note 8]</i>	1,155,000	2,199,218
– LSS/LF Research Fund <i>[note 7]</i>	452,800	387,000
Payments		
– Law Foundation of BC	(29,071,597)	(26,026,250)
– Access to Justice	(874,166)	(1,032,000)
– LSS/LF Research Fund	(397,036)	(280,541)
Grants refunded		
– Law Foundation of BC	(1,746,824)	(184,743)
– LSS/LF Research Fund	(104,259)	(74,306)
Ending grants payable	34,700,941	36,159,491
Current	24,379,209	21,592,443
Long-term	10,321,732	14,567,048
	34,700,941	36,159,491

10. GRANT STABILIZATION FUND

The Foundation has a goal of insulating continuing programs from fluctuations in the Foundation’s income that result from changes in the prime rate and the balances in lawyers’ pooled trust accounts that generate income to the Foundation. To accomplish this goal, the Foundation has built up a stabilization fund that declines in years in which the Foundation’s net income before grants approved is less than the grants approved and increases when net income before grants approved is greater than the grants approved.

11. INVESTMENT INCOME (NET)

Net investment income comprises:

	2020	2019
	\$	\$
Interest and dividends earned	4,034,255	5,301,693
Increase in unrealized gain on investments	3,387,505	5,441,670
Gain (loss) on sale of investments	5,414,048	(124,189)
Investment advisory fees	(431,824)	(288,230)
	12,403,984	10,330,944
Less investment income allocated to the Research Fund <i>[note 7]</i>	(168,725)	(184,641)
	12,235,259	10,146,303

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

12. UNCLAIMED TRUST FUNDS AND OTHER INCOME

Under the Law Society of British Columbia's (the Society) unclaimed trust fund procedures, lawyers submit unclaimed trust funds to the Society. The Society holds the funds for five years before remitting the money to the Foundation. The total received for 2020 was \$404,209 [2019 – \$267,445].

	2020	2019
	\$	\$
Unclaimed Trust Funds	404,209	267,445
Other Income		
Law Society	305,536	298,420
BC Provincial Government – New Clinics	358,000	716,000
BC Provincial Government – Bargaining Incentive Bonus	—	40,176
Undesignated cy-pres awards	—	15,400
Notary Society	30,000	—
Miscellaneous other income	153,695	—
Total Other Income	847,231	1,069,996
	1,251,440	1,337,441

13. NET GRANTS APPROVED

	2020	2019
	\$	\$
Major continuing program and project grants more than \$1,000,000 were made to:		
BC Courthouse Library	2,470,000	2,470,000
Community Legal Assistance	—	1,000,000
Legal Services Society	3,250,000	3,250,000
Other continuing program grants	11,748,000	19,945,000
Other project grants	11,659,532	5,497,000
	29,127,532	32,162,000
Less: Program and project grants refunded	(2,382,936)	(630,212)
	26,744,596	31,531,788

14. COMMITMENT

Premises Lease

The Foundation is committed to annual lease payments of \$136,992, which is exclusive of shared operating costs and GST, until April 30, 2023, for its office premises for a total commitment of \$456,640.