
Financial statements of
The Law Foundation of Ontario

December 31, 2017

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Independent Auditor's Report

To The Trustees of
The Law Foundation of Ontario

We have audited the accompanying financial statements of The Law Foundation of Ontario, which comprise the statement of financial position as at December 31, 2017, the statements of revenue, expenses and grants, changes in fund balances and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility 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.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Law Foundation of Ontario as at December 31, 2017 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.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
March 29, 2018

The Law Foundation of Ontario
Statement of financial position
As at December 31, 2017

	Notes	2017	2016
		\$	\$
Assets			
Current assets			
Cash		1,412,041	964,667
Externally restricted cash and investments for			
Class Proceedings Fund	3	21,121,696	24,845,079
Short-term investments	5	28,112,103	23,094,662
Prepaid expenses		37,582	35,110
Other receivables		1,392,932	21,244
Interest receivable		726,340	3,699,514
		52,802,694	52,660,276
Long-term investments	5	20,000,645	20,372,257
Externally restricted cash and investments for			
Roy & Ria McMurtry Endowment Fund	4	104,915	105,198
Capital assets	6	83,793	106,510
		72,992,047	73,244,241
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	15	343,152	237,823
Due to Legal Aid Ontario	7	1,795,115	2,515,091
Grants payable	8	14,976,905	13,371,255
		17,115,172	16,124,169
Long-term grants payable	8	1,283,205	1,387,878
		18,398,377	17,512,047
Commitments			
Fund balances			
Internally restricted			
Grant Stabilization Fund	9	15,000,000	15,000,000
Access to Justice Fund	10	5,005,297	8,633,795
Rejuvenation Fund	11	163,221	221,563
		20,168,518	23,855,358
Externally restricted			
Class Proceedings Fund	12	16,650,003	19,861,537
Roy and Ria McMurtry Endowment Fund	13	104,915	100,198
		16,754,918	19,961,735
Unrestricted - General Fund		17,670,234	11,915,101
		54,593,670	55,732,194
		72,992,047	73,244,241

The accompanying notes are an integral part of the financial statements.

Approved by the Board

_____ Trustee

_____ Trustee

The Law Foundation of Ontario

Statement of revenue, expenses and grants

Year ended December 31, 2017

		Internally Restricted Funds			Externally Restricted Funds		
		Unrestricted General	Access to Justice (Note 10)	Rejuvenation (Note 11)	Class Proceedings (Note 12)	Roy and Ria McMurtry Endowment (Note 13)	Total
		\$	\$	\$	\$	\$	\$
Revenue							
	Interest on legal professions' mixed trust accounts, net of service charges of \$420,000	53,045,844	—	—	—	—	53,045,844
7 and 14	Other investment income	820,285	139,021	—	348,269	3,261	1,310,836
	Other Income	225	282,556	—	—	—	282,781
12	Levy on awards	—	—	—	3,242,185	—	3,242,185
		53,866,354	421,577	—	3,590,454	3,261	57,881,646
Expenses							
	Salaries and benefits	1,194,399	123,172	—	165,342	—	1,482,913
	Rent and occupancy	227,502	—	—	11,350	—	238,852
	Other administrative	141,476	13,474	—	32,313	—	187,263
	Professional fees	286,668	12,819	—	277,560	—	577,047
	Printing and office supplies	33,940	9,446	—	815	—	44,201
12	Cost awards	—	—	—	3,506,975	—	3,506,975
	Amortization	37,145	—	—	—	—	37,145
		1,921,130	158,911	—	3,994,355	—	6,074,396
	Excess (deficiency) of revenue over expenses before the undernoted	51,945,224	262,666	—	(403,901)	3,261	51,807,250
7	Allocation to Legal Aid Ontario	38,343,536	—	—	—	—	38,343,536
8	Grants authorized, net of reversal of grants authorized in prior years	8,129,521	3,891,164	58,342	2,807,633	—	14,886,660
		46,473,057	3,891,164	58,342	2,807,633	—	53,230,196
	Excess (deficiency) of revenue over expenses and grants for the year before the undernoted	5,472,167	(3,628,498)	(58,342)	(3,211,534)	3,261	(1,422,946)
	Change in unrealized gain on investments	282,966	—	—	—	1,456	284,422
	Excess (deficiency) of revenue over expenses and grants for the year	5,755,133	(3,628,498)	(58,342)	(3,211,534)	4,717	(1,138,524)

The accompanying notes are an integral part of the financial statements.

The Law Foundation of Ontario

Statement of revenue, expenses and grants (continued)

Year ended December 31, 2016

	Notes	Internally Restricted Funds			Externally Restricted Funds		Total
		Unrestricted General	Access to Justice (Note 10)	Rejuvenation (Note 11)	Class Proceedings (Note 12)	Roy and Ria McMurry Endowment (Note 13)	
		\$	\$	\$	\$	\$	\$
Revenue							
Interest on legal professions' mixed trust accounts, net of service charges of \$555,000	7 and 14	38,959,794	—	—	—	—	38,959,794
Other investment income		1,066,703	185,199	—	363,194	8,042	1,623,138
Other Income		25	112,946	—	—	—	112,971
Levy on awards	12	—	—	—	5,961,678	—	5,961,678
		<u>40,026,522</u>	<u>298,145</u>	<u>—</u>	<u>6,324,872</u>	<u>8,042</u>	<u>46,657,581</u>
Expenses							
Salaries and benefits		1,174,774	145,387	—	237,326	—	1,557,487
Rent and occupancy		219,324	—	—	11,024	—	230,348
Other administrative		137,524	30,416	—	28,499	—	196,439
Professional fees		127,016	6,526	—	226,929	—	360,471
Printing and office supplies		30,902	30	—	530	—	31,462
Cost awards	12	—	—	—	528,767	—	528,767
Amortization		56,692	—	—	—	—	56,692
		<u>1,746,232</u>	<u>182,359</u>	<u>—</u>	<u>1,033,075</u>	<u>—</u>	<u>2,961,666</u>
Excess of revenue over expenses before the undernoted		<u>38,280,290</u>	<u>115,786</u>	<u>—</u>	<u>5,291,797</u>	<u>8,042</u>	<u>43,695,915</u>
Allocation to Legal Aid Ontario	7	27,910,171	—	—	—	—	27,910,171
Grants authorized, net of reversal of grants authorized in prior years	8	8,157,552	2,748,447	16,740	2,180,365	5,000	13,108,104
		<u>36,067,723</u>	<u>2,748,447</u>	<u>16,740</u>	<u>2,180,365</u>	<u>5,000</u>	<u>41,018,275</u>
Excess (deficiency) of revenue over expenses and grants for the year before the undernoted		2,212,567	(2,632,661)	(16,740)	3,111,432	3,042	2,677,640
Change in unrealized gain on investments		173,903	—	—	—	3,216	177,119
Excess (deficiency) of revenue over expenses and grants for the year		<u>2,386,470</u>	<u>(2,632,661)</u>	<u>(16,740)</u>	<u>3,111,432</u>	<u>6,258</u>	<u>2,854,759</u>

The accompanying notes are an integral part of the financial statements.

The Law Foundation of Ontario

Statement of changes in fund balances

Year ended December 31, 2017

	Internally Restricted Funds				Externally Restricted Funds		Total
	Unrestricted General	Grant Stabilization (Note 9)	Access to Justice (Note 10)	Rejuvenation (Note 11)	Class Proceedings (Note 12)	Roy and Ria McMurry Endowment (Note 13)	
	\$	\$	\$	\$	\$	\$	\$
Fund balances, beginning of year	11,915,101	15,000,000	8,633,795	221,563	19,861,537	100,198	55,732,194
Excess (deficiency) of revenue over expense and grants for the year	5,755,133	—	(3,628,498)	(58,342)	(3,211,534)	4,717	(1,138,524)
Fund balances, end of year	17,670,234	15,000,000	5,005,297	163,221	16,650,003	104,915	54,593,670

The Unrestricted General Fund balance includes \$83,793 that is Invested in Capital Assets.

The accompanying notes are an integral part of the financial statements.

The Law Foundation of Ontario

Statement of changes in fund balances (continued)

Year ended December 31, 2016

	Internally Restricted Funds				Externally Restricted Funds		Total
	Unrestricted General	Grant Stabilization (Note 9)	Access to Justice (Note 10)	Rejuvenation (Note 11)	Class Proceedings (Note 12)	Roy and Ria McMurtry Endowment (Note 13)	
	\$	\$	\$	\$	\$	\$	\$
Fund balances, beginning of year	9,528,631	15,000,000	11,266,456	238,303	16,750,105	93,940	52,877,435
Excess (deficiency) of revenue over expense and grants for the year	2,386,470	—	(2,632,661)	(16,740)	3,111,432	6,258	2,854,759
Fund balances, end of year	11,915,101	15,000,000	8,633,795	221,563	19,861,537	100,198	55,732,194

The Unrestricted General Fund balance includes \$106,510 that is Invested in Capital Assets.

The accompanying notes are an integral part of the financial statements.

The Law Foundation of Ontario

Statement of cash flows

Year ended December 31, 2017

	2017	2016
	\$	\$
		(Note 19)
Operating activities		
(Deficiency) excess of revenue over expenses and grants for the year	(1,138,524)	2,854,759
Items not affecting cash		
Amortization	37,145	56,692
Change in unrealized gain on investments	(284,422)	(177,119)
	(1,385,801)	2,734,332
Changes in non-cash operating items		
Prepaid expenses	(2,472)	(1,306)
Other receivables	(1,371,688)	1,793,657
Interest receivable	2,973,174	(2,624,277)
Due to Legal Aid Ontario	(719,976)	2,409,744
Accounts payable and accrued liabilities	105,329	(191,236)
Grants payable	1,500,977	2,063,112
	1,099,543	6,184,026
Investing activities		
Net (increase) decrease in investments	(4,362,863)	651,344
Net decrease (increase) in externally restricted cash and short-term investments for Class Proceedings Fund	3,723,383	(6,577,300)
Net decrease in externally restricted cash and investment for Roy & Ria McMurtry Endowment Fund	1,739	8,093
Purchase of capital assets	(14,428)	(76,309)
	(652,169)	(5,994,172)
Net increase in cash	447,374	189,854
Cash, beginning of year	964,667	774,813
Cash, end of year	1,412,041	964,667

The accompanying notes are an integral part of the financial statements.

1. Purpose of the organization

The Law Foundation of Ontario (the "Foundation") was established in 1974, under an amendment to the Law Society Act, as a corporation without share capital. The Foundation was created to receive interest accruing on monies held in legal professions' mixed trust accounts and to establish and maintain a fund to be used for the purposes of legal education and legal research, legal aid and the establishment, maintenance and operation of law libraries. The Foundation is a not-for-profit organization under subsection 149(1) (1) of the Income Tax Act (Canada) and, as such, is exempt from income taxes.

2. Significant accounting policies

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations. The significant accounting policies are summarized below:

Revenue recognition

The Foundation follows the restricted fund method of accounting for revenue. Revenue is recognized when received or receivable in the respective fund if the amount to be received can be reasonably estimated.

Fund balances

The Grant Stabilization Fund, Access to Justice Fund and Rejuvenation Fund are internally restricted funds (Notes 9–11). The Class Proceedings Fund and the Roy & Ria McMurtry Endowment Fund are externally restricted funds (Notes 12 and 13).

Interest earned on legal professions' mixed trust accounts

The interest earned on legal professions' mixed trust accounts is calculated and remitted to the Foundation based on agreements made with individual financial institutions. The legal professions' mixed trust accounts are not the property of, nor administered by, the Foundation. The Foundation is, therefore, unable to determine the amount of interest that is accruing until such time as it is advised by each individual financial institution and statutory filings are received from the legal professions. Such interest is therefore recorded when determinable by the Foundation, in the Unrestricted General Fund.

Grants

Grants for legal education, legal aid, legal research and law libraries are recorded in the period in which they are authorized by the Board of Trustees.

Levy on awards

The Class Proceedings Fund is entitled to a 10% levy on any award or settlement to the plaintiff in a funded action. The levy on awards is recorded when determinable by the Foundation.

Capital assets

Capital assets are carried at cost less accumulated amortization. Furniture and fixtures are amortized on the declining balance basis at 20% per annum. Computer hardware and software are amortized on the straight-line basis over their estimated useful lives of three years. Leasehold improvements are amortized on the straight-line basis over the term of the lease.

2. Significant accounting policies (continued)

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 the disclosure of contingent assets and liabilities at the statement of financial position date and the reported amounts of revenues and expenses during the year (the Foundation relies on bank statements to record the interest revenue earned on legal professions' mixed trust accounts). Actual results could differ from those estimates. Accounts requiring significant estimates and assumptions include investments, interest earned on legal professions' mixed trust accounts, and accrued liabilities.

Financial instruments

Financial assets and financial liabilities are initially recognized at fair value when the Foundation becomes a party to the contractual provisions of the financial instrument. Subsequently, all financial instruments are measured at amortized cost, except for equities quoted in active markets, Canadian equities not quoted in active markets, restricted cash and fixed income for the Roy & Ria McMurtry Endowment Fund, which are carried at fair value. Any subsequent changes in fair value are recorded in the Statement of revenue, expenses and grants.

	Measurement
Cash and restricted cash	Fair value
Interest receivable	Amortized cost
Short-term investments	Amortized cost
Fixed income	Amortized cost
Canadian equities	Fair value
Investments Fund for class proceedings	Amortized cost
Investments for Roy & Ria McMurtry Endowment Fund	Fair value
Accounts payable and accrued liabilities	Amortized cost
Due to Legal Aid Ontario	Amortized cost
Grants payable	Amortized cost

Financial assets measured at amortized cost are assessed at each reporting date for indications of impairment. If such impairment exists, the asset is written down and the resulting impairment loss is recognized in the Statement of revenue, expenses and grants.

Transaction costs

Transaction costs for investments are expensed as they are incurred.

Fair value

The fair value of Canadian equities is determined based on bid prices.

The fair value of the investments of the Roy & Ria McMurtry Endowment Fund approximates their cost due to the immediate or short-term maturity of these instruments, except for the Canadian equities, the fair value of which is determined based on bid prices.

2. Significant accounting policies (continued)

Foreign exchange

Transactions denominated in foreign currencies are translated into Canadian dollars at the rate of exchange in effect on the dates of the transactions. The market value of foreign currency denominated assets and liabilities is translated using the year-end rates of exchange. The resulting gains and losses from changes in these rates are included in the realized gain (loss) for investments sold and in the unrealized gain (loss) on investments held at year-end.

3. Externally restricted cash and short-term investments for Class Proceedings Fund

	2017	2016
	\$	\$
Cash	1,107,466	672,089
Guaranteed Investment Certificates	20,014,230	24,172,990
	21,121,696	24,845,079

The effective yields on the Guaranteed Investment Certificates ("GIC's") are between 1.45% and 2.0% (Between 1.0% and 1.81% in 2016).

\$5,231,474 (\$4,479,767 in 2016) of the above-noted balance will be used to pay grants obligations (see Note 8).

4. Externally restricted cash and investments for Roy & Ria McMurtry Endowment Fund

Restricted cash and investments consist of cash, fixed income securities and equities. The fixed income securities are comprised of bonds and deposit notes which mature between December 15, 2018 and June 1, 2026 (March 8, 2017 and June 2, 2025 in 2016) and the coupon rates range from 2.2% to 4.1% (from 2.6% to 4.3% in 2016).

	2017	2016
	\$	\$
Restricted cash	1,029	2,455
Fixed income	82,479	58,175
Canadian equities	21,407	44,568
	104,915	105,198

5. Investments

	2017	2016
	\$	\$
Short-term, at cost	28,112,103	23,094,662
Long-term		
Fixed income, at cost (fair value - \$16,342,247; \$17,301,543 in 2016)	16,297,430	17,009,903
Canadian equities, at fair value (cost - \$2,171,364; \$2,113,469 in 2016)	3,703,215	3,362,354
	20,000,645	20,372,257

The Foundation's short-term investments of \$28,112,103 (\$23,094,662 in 2016) comprise of cash, GICs and short-term bonds. The effective yields on the GICs of \$26,583,671 (\$19,933,782 in 2016) range from 1.40% to 2.05% (from 1.00% to 2.00% in 2016). Short-term bonds of \$1,527,135 (\$3,159,595 in 2016) mature between March 8, 2018 and November 15, 2018 (February 27, 2017 and December 15, 2017 in 2016) and have a coupon rate from 2.05% to 4.20% (1.70% to 4.55% in 2016).

The Foundation's fixed income long-term investments include bonds of \$10,519,408 (\$8,915,211 in 2016), which mature between May 7, 2019 and December 2, 2026 (March 8, 2018 and December 15, 2025 in 2016). The coupon rates range from 1.25% to 4.10% (1.25% to 4.20% in 2016).

6. Capital assets

	2017			2016
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Furniture and fixtures	255,342	231,504	23,838	28,107
Computer hardware	170,343	154,306	16,037	22,282
Computer software	265,626	233,428	32,198	56,121
Leasehold improvements	417,700	405,980	11,720	—
	1,109,011	1,025,218	83,793	106,510

7. Due to Legal Aid Ontario

Pursuant to Section 55(3) of the Law Society Act (R.S.O. 1990, Chapter L.8), 75% of the net revenue received during the year from interest received on legal professions' mixed trust accounts, less operating expenses of the Unrestricted General Fund and Rejuvenation Fund, is to be paid to Legal Aid Ontario. The provision for the share of net revenue payable to Legal Aid Ontario is recorded annually in the Foundation's accounts.

	2017	2016
	\$	\$
Interest on legal professions' mixed trust accounts (net of service charges of \$420,000 (\$555,000 in 2016))	53,045,844	38,959,794
Unrestricted General Fund and Rejuvenation Fund expenses	(1,921,130)	(1,746,232)
Interest after expenses	51,124,714	37,213,562
Due to Legal Aid Ontario, beginning of year	2,515,091	105,347
75% allocation to Legal Aid Ontario	38,343,536	27,910,171
Paid to Legal Aid Ontario, during the year	(39,063,512)	(25,500,427)
Due to Legal Aid Ontario, end of year	1,795,115	2,515,091

8. Grants payable

Grants payable consist of the following:

						2017	2016
	Unrestricted	Access to Justice	Rejuvenation	Class Proceedings	Roy & Ria McMurtry	Total	Total
	\$	\$	\$	\$	\$	\$	\$
Opening	8,219,470	2,035,156	19,740	4,479,767	5,000	14,759,133	12,696,021
Grants authorized	8,493,580	3,919,619	60,842	4,048,853	5,000	16,527,894	14,444,375
Payments (Note 12)	(8,854,081)	(2,414,176)	(56,500)	(2,055,926)	(5,000)	(13,385,683)	(11,044,992)
Grants reversed	(364,059)	(28,455)	(2,500)	(1,241,220)	(5,000)	(1,641,234)	(1,336,271)
Ending grants payable	7,494,910	3,512,144	21,582	5,231,474	—	16,260,110	14,759,133
Less: Long-term grants payable	(842,702)	(440,503)	—	—	—	(1,283,205)	(1,387,878)
Current grants payable	6,652,208	3,071,641	21,582	5,231,474	—	14,976,905	13,371,255

Details of long-term grants payable are as follows:

				2017	2016
	Unrestricted	Access to Justice	Total	Total	
	\$	\$	\$	\$	
2018			—	1,383,878	
2019	597,452	371,131	968,583	2,000	
2020	123,625	49,372	172,997	2,000	
2021	121,625	10,000	131,625	—	
2022		10,000	10,000	—	
	842,702	440,503	1,283,205	1,387,878	

9. Grant Stabilization Fund

In 1981, the Trustees of the Foundation established an internally restricted Reserve Fund to provide for future contingencies and future beneficiaries of its statutory objects that relate to legal education, legal research and law libraries. This fund was created and has been maintained from the 25% of net revenue intended to be made available for those beneficiaries. In 2009, the Trustees of the Foundation changed the name of the fund to the "Grant Stabilization Fund". In 2012, the Trustees of the Foundation authorized the transfer of \$1 million to the General Fund. The balance of the Fund is maintained at \$15 million (\$15 million in 2016).

10. Access to Justice Fund

In 2009, the Trustees of the Foundation established The Access to Justice Fund (an internally restricted fund) to receive cy-près settlements that are directed to the Foundation and to provide grants that promote access to justice. The initial source of this fund in 2009 came from a one-time cy-près settlement in the amount of \$14,530,395 (together with interest earned thereon of \$63,735) that the Foundation received as a result of a ruling on a class action lawsuit, although the Foundation was not a party to the action. The amount was transferred from the Unrestricted General Fund to the new Access to Justice Fund.

11. Rejuvenation Fund

In 2007, the Rejuvenation Fund was established for the purpose of providing both human and organizational infrastructure support to eligible grantees for optimum performance and efficiency, and includes such activities as professional development, consulting services, technology upgrades and capital acquisitions and improvements. The initial source of this fund came from the Unrestricted General Fund.

12. Class Proceedings Fund

The Class Proceedings Fund (the "Fund") came into being in 1993 under an amendment to The Law Society Act to provide financial support to plaintiffs in class proceedings in respect of disbursements incurred and payments made to defendants regarding cost awards made against the funded plaintiffs. In the event a funded action settles or wins an award, disbursement award grants already paid are recoverable, and outstanding disbursement award grants payable are cancelled. As well, the Fund is entitled to a 10% levy on any award or settlement to the plaintiff in a funded action.

In 2017, the Fund recovered a previous year's disbursement award grant payment of \$806,962 (\$524,168 in 2016). This amount is included in the payments amount in Note 8. The Fund paid cost awards of \$3,506,975 (\$528,767 in 2016) as a result of cost awards made against funded plaintiffs. The Fund received a levy on awards of \$3,242,185 (\$5,961,678 in 2016) as a result of settlements to funded plaintiffs.

13. The Roy & Ria McMurtry Endowment Fund

In 2005, the Foundation established the Roy & Ria McMurtry Endowment Fund in honour of Chief Justice and Mrs. McMurtry, upon his receipt of the 2005 Law Foundation of Ontario Guthrie Award. From the interest earned on the Fund, awards will be made in support of work within the Foundation's objects, of an organization chosen by the former Chief Justice and Mrs. McMurtry. In June 2007, the Board decided that an additional annual \$5,000 scholarship will be available to a student selected from the Law School on a rotating basis until 2016.

14. Interest on Legal Professions' Mixed Trust Accounts

The Foundation negotiates with each financial institution for interest rates of return and service charges in order to achieve a net competitive rate of return.

15. Accounts payable and accrued liabilities

There are no outstanding government remittances as at December 2017 and 2016.

16. Lease commitments

The Foundation has obligations under a non-cancellable operating lease. The future minimum annual lease payments for premises (excluding occupancy costs) are as follows:

	\$
2018	105,108
2019	110,849
2020	110,849
2021	73,900

There are no lease commitment obligations after 2021.

17. Contingencies

Once funding has been granted by the Class Proceedings Committee to a plaintiff in a class action, the Class Proceedings Fund (the "Fund") becomes potentially liable for adverse cost awards against the plaintiff in the action. As at December 31, 2017 the Fund remained exposed to potential adverse cost awards in funded actions. In all actions, the likelihood of loss is indeterminable. Any loss will be recorded in the year it is determined.

Indemnity has been provided to all trustees and/or officers of the Foundation for various items including, but not limited to, all costs to settle suits due to their association with the Foundation, subject to certain restrictions. The Foundation has purchased trustees' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The maximum amount of any potential future payment cannot be reasonably estimated.

18. Risk management

The Foundation follows a Statement of Investment Policies, which provides the investment objectives, performance expectations and guidelines for the management of these investments. The Statement of Investment Policies requires that all investments must fall within the Trustee Act of Ontario and requires that certain additional restrictions must be met.

Market risk

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices (other than those arising from interest rate or foreign exchange risk) whether those changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market. To mitigate this specific risk, the Foundation invests in a diversified portfolio of investments in accordance with the Foundation's investment policy.

18. Risk management (continued)

Interest rate risk

The Foundation is exposed to interest rate risk with respect to its long-term investments. Changes in the prime interest rate will have a positive or negative impact on the Foundation's interest income. Such exposure will increase accordingly should the Foundation maintain higher levels of long-term investments in the future.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Foundation's investment policy defines permitted investments and provides guidelines and restrictions on acceptable investments which minimizes credit risk. The Foundation limits credit risk by investing in the debt of corporations that have a minimum credit rating of A or equivalent as rated by at least two of the three recognized bond rating agencies operating in Canada at the time of purchase.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Foundation invests in non-Canadian equities and is therefore directly exposed to currency risk as the value of the equities denominated in other currencies will fluctuate due to changes in exchange rates.

19. Comparative amounts

The following comparative amounts have been re-classified to conform to the current year's financial statement presentation:

	2016	
	As amended	As previously stated
	\$	\$
Statement of cash flows		
Investing activities		
Net decrease in investments	651,344	654,560
Net decrease in externally restricted cash and investment for Roy & Ria McMurtry Endowment Fund	8,093	4,877
	<u>659,437</u>	<u>659,437</u>