

Financial statements of

The Law Foundation of Ontario

December 31, 2012 and 2011

The Law Foundation of Ontario

December 31, 2012 and 2011

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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 statements of financial position as at December 31, 2012, December 31, 2011, and January 1, 2011, and the statements of revenue, expenses and grants, changes in fund balances, and of cash flows for the years ended December 31, 2012 and December 31, 2011, 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 audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits 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 statement, 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, 2012, December 31, 2011, and January 1, 2011, and the results of its operations and its cash flows for the years ended December 31, 2012 and December 31, 2011, in accordance with Canadian accounting standards for not-for-profit organizations.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
March 28, 2013

The Law Foundation of Ontario

Statements of financial position as at December 31, 2012

	December 31, 2012	December 31, 2011 (Note 2)	January 1, 2011 (Note 2)
	\$	\$	\$
Assets			
Current assets			
Cash	719,067	490,171	1,387,021
Externally restricted cash and short-term investments for Class proceedings fund (Note 4)	10,485,095	10,807,365	12,861,931
Short-term investments (Note 6)	23,721,430	32,082,341	36,145,726
Prepaid expenses	17,814	17,334	34,738
Other receivables	1,911,424	3,027,030	2,392,794
Interest receivable	458,895	546,640	785,837
	37,313,725	46,970,881	53,608,047
Long-term investments (Note 6)	12,677,971	11,250,121	11,686,167
Externally restricted cash and investments for Roy & Ria McMurtry Endowment Fund (Note 5)	110,448	113,926	124,706
Capital assets (Note 7)	257,116	320,578	435,989
	50,359,260	58,655,506	65,854,909
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities (Note 16)	595,046	775,627	1,037,151
Due to Legal Aid Ontario (Note 8)	240,513	212,480	854,420
Grants payable (Note 9)	13,861,028	13,939,377	15,946,296
	14,696,587	14,927,484	17,837,867
Long-term grants payable (Note 9)	3,443,295	7,116,485	4,239,684
	18,139,882	22,043,969	22,077,551
Fund balances			
Internally restricted			
Grant Stabilization Fund (Note 10)	15,000,000	16,000,000	16,000,000
Access to Justice Fund (Note 11)	3,794,804	6,794,120	10,906,040
Others (Note 12)	529,152	757,450	2,533,149
	19,323,956	23,551,570	29,439,189
Externally restricted			
Class Proceedings Fund (Note 13)	7,820,241	9,769,291	10,239,631
Roy and Ria McMurtry Endowment Fund (Note 14)	104,314	107,792	108,573
	7,924,555	9,877,083	10,348,204
Unrestricted - General Fund	4,970,867	3,182,884	3,989,965
	32,219,378	36,611,537	43,777,358
	50,359,260	58,655,506	65,854,909

Approved by the Board

_____ Director

_____ Director

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

The Law Foundation of Ontario

Statement of revenue, expenses and grants year ended December 31, 2012

	Internally Restricted Funds			Externally Restricted Funds			Total
	Unrestricted General	Others (Note 12)	Grant Stabilization (Note 10)	Access to Justice (Note 11)	Class Proceedings (Note 13)	Roy and Ria McMurtry Endowment (Note 14)	
	\$	\$	\$	\$	\$	\$	\$
Revenue							
Interest on lawyers' mixed trust accounts, net of service charges of \$1,288,000 (Notes 8 and 15)	29,628,063	-	-	-	-	-	29,628,063
Other investment income	872,882	-	-	191,036	186,852	6,440	1,257,210
Other Income	650	-	-	563,829	-	-	564,479
Levy on awards (Note 13)	-	-	-	-	1,911,337	-	1,911,337
	30,501,595	-	-	754,865	2,098,189	6,440	33,361,089
Expenses							
Salaries and benefits	1,054,174	-	-	160,722	219,576	-	1,434,472
Rent and occupancy	219,382	-	-	-	11,022	-	230,404
Other administrative	186,651	-	-	7,329	32,192	-	226,172
Professional fees	214,771	-	-	31,499	304,797	-	551,067
Printing and office supplies	42,033	-	-	-	-	-	42,033
Cost awards (Note 13)	-	-	-	-	2,916,515	-	2,916,515
Amortization	80,636	-	-	-	-	-	80,636
	1,797,647	-	-	199,550	3,484,102	-	5,481,299
Excess (deficiency) of revenue over expenses before the undernoted	28,703,948	-	-	555,315	(1,385,913)	6,440	27,879,790
Allocation to Legal Aid Ontario (Note 8)	20,872,812	-	-	-	-	-	20,872,812
Grants authorized, net of reversal of grants authorized in prior years and transfer to unrestricted General Funds (Note 9)	7,568,965	37,621	-	3,554,631	563,137	10,000	11,734,354
	28,441,777	37,621	-	3,554,631	563,137	10,000	32,607,166
Excess (deficiency) of revenue over expenses and grants for the year before the undernoted	262,171	(37,621)	-	(2,999,316)	(1,949,050)	(3,560)	(4,727,376)
Change in unrealized gain on investments (Note 2)	335,135	-	-	-	-	82	335,217
Excess (deficiency) of revenue over expenses and grants for the year	597,306	(37,621)	-	(2,999,316)	(1,949,050)	(3,478)	(4,392,159)

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

The Law Foundation of Ontario

Statement of revenue, expenses and grants year ended December 31, 2011

	Internally Restricted Funds			Externally Restricted Funds			Total
	Unrestricted General	Others (Note 12)	Grant Stabilization (Note 10)	Access to Justice (Note 11)	Class Proceedings (Note 13)	Roy and Ria McMurtry Endowment (Note 14)	
	\$	\$	\$	\$	\$	\$	\$
Revenue							
Interest on lawyers' mixed trust accounts, net of service charges of \$2,238,030 (Notes 8 and 15)	26,461,078	-	-	-	-	-	26,461,078
Other investment income	856,820	-	-	222,392	204,218	2,002	1,285,432
Other income	-	-	-	1,601,610	-	-	1,601,610
Levy on awards (Note 13)	-	-	-	-	3,108,646	-	3,108,646
	27,317,898	-	-	1,824,002	3,312,864	2,002	32,456,766
Expenses							
Salaries and benefits	1,061,163	-	-	191,427	205,639	-	1,458,229
Rent and occupancy	221,447	-	-	-	10,821	-	232,268
Other administrative	195,592	674	-	15,382	35,164	-	246,812
Professional fees	238,750	-	-	9,910	148,736	-	397,396
Printing and office supplies	63,876	-	-	-	-	-	63,876
Cost awards (Note 13)	-	-	-	-	2,202,060	-	2,202,060
Amortization	118,329	-	-	-	-	-	118,329
	1,899,157	674	-	216,719	2,602,420	-	4,718,970
Excess (deficiency) of revenue over expenses before the undernoted	25,418,741	(674)	-	1,607,283	710,444	2,002	27,737,796
Allocation to Legal Aid Ontario (Note 8)	18,420,935	-	-	-	-	-	18,420,935
Grants authorized, net of reversal of grants authorized in prior years and transfer to unrestricted General Funds (Note 9)	9,099,282	122,077	-	5,719,203	1,180,784	10,000	16,131,346
	27,520,217	122,077	-	5,719,203	1,180,784	10,000	34,552,281
(Deficiency) excess of revenue over expenses and grants for the year before the undernoted	(2,101,476)	(122,751)	-	(4,111,920)	(470,340)	(7,998)	(6,814,485)
Change in unrealized (loss) gain on investments (Note 2)	(358,553)	-	-	-	-	7,217	(351,336)
(Deficiency) excess of revenue over expenses and grants for the year	(2,460,029)	(122,751)	-	(4,111,920)	(470,340)	(781)	(7,165,821)

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

The Law Foundation of Ontario

Statement of changes in fund balances year ended December 31, 2012

	Internally Restricted Funds				Externally Restricted Funds		Total
	Unrestricted General	Others (Note 12)	Grant Stabilization (Note 10)	Access to Justice (Note 11)	Class Proceedings (Note 13)	Roy and Ria McMurtry Endowment (Note 14)	
	\$	\$	\$	\$	\$	\$	\$
Fund balances,							
beginning of year - as							
previously reported	3,182,884	757,450	16,000,000	6,794,120	9,769,291	107,792	36,611,537
Impact of the adoption of the new financial reporting framework:							
Increase in excess (deficiency) of revenue over expense, and grants (Note 2)	(358,553)	-	-	-	-	7,217	(351,336)
Decrease in unrealized gain on investments (Note 2)	358,553	-	-	-	-	(7,217)	351,336
As restated	3,182,884	757,450	16,000,000	6,794,120	9,769,291	107,792	36,611,537
Excess (deficiency) of revenue over expense, and grants for the year	597,306	(37,621)	-	(2,999,316)	(1,949,050)	(3,478)	(4,392,159)
Transfers (Notes 10 and 12)	1,190,677	(190,677)	(1,000,000)	-	-	-	-
Fund balances,							
end of year	4,970,867	529,152	15,000,000	3,794,804	7,820,241	104,314	32,219,378

The Unrestricted General Fund balance includes \$257,116 (December 31, 2011 - \$320,578; January 1, 2011 - \$435,989) that is Invested in Capital Assets.

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

The Law Foundation of Ontario

Statement of changes in fund balances year ended December 31, 2011

	Internally Restricted Funds				Externally Restricted Funds		Total
	Unrestricted General	Others (Note 12)	Grant Stabilization (Note 10)	Access to Justice (Note 11)	Class Proceedings (Note 13)	Roy and Ria McMurtry Endowment (Note 14)	
	\$	\$	\$	\$	\$	\$	\$
Fund balances, beginning of year - as previously reported	3,989,965	2,533,149	16,000,000	10,906,040	10,239,631	108,573	43,777,358
Impact of the adoption of the new financial reporting framework:							
Increase in deficiency of revenue over expense, and grants (Note 2)	182,302	-	-	-	-	5,525	187,827
Decrease in unrealized gain on investments (Note 2)	(182,302)	-	-	-	-	(5,525)	(187,827)
As restated	3,989,965	2,533,149	16,000,000	10,906,040	10,239,631	108,573	43,777,358
Excess (deficiency) of revenue over expense, and grants for the year	(2,460,029)	(122,751)	-	(4,111,920)	(470,340)	(781)	(7,165,821)
Transfer (Note 12)	1,652,948	(1,652,948)	-	-	-	-	-
Fund balances, end of year	3,182,884	757,450	16,000,000	6,794,120	9,769,291	107,792	36,611,537

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

The Law Foundation of Ontario

Statements of cash flows

years ended December 31, 2012 and 2011

	2012	2011
	\$	(Note 2) \$
Operating activities		
Deficiency of revenue over expenses and grants for the year	(4,392,159)	(7,165,821)
Items not affecting cash		
Amortization	80,636	118,329
Realized gain on sale of investments	(102,058)	(35,834)
	(4,413,581)	(7,083,326)
Changes in non-cash operating items		
Prepaid expenses	(480)	17,404
Other receivables	1,115,606	(634,236)
Interest receivable	87,745	239,197
Due to Legal Aid Ontario	28,033	(641,940)
Accounts payable and accrued liabilities	(180,581)	(261,524)
Grants payable	(3,751,539)	869,882
	(7,114,797)	(7,494,543)
Investing activities		
Decrease in investments	7,035,119	4,535,265
Decrease in externally restricted cash and short-term investments for Class Proceedings Fund	322,270	2,054,566
Decrease in externally restricted cash and investment for Roy & Ria McMurtry Endowment Fund	3,478	10,780
Purchase of capital assets	(17,174)	(2,918)
	7,343,693	6,597,693
Net increase (decrease) in cash	228,896	(896,850)
Cash, beginning of year	490,171	1,387,021
Cash, end of year	719,067	490,171

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

The Law Foundation of Ontario

Notes to the financial statements

December 31, 2012 and 2011

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 lawyers' 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. Adoption of new accounting standards

During the year ended December 31, 2012, the Foundation adopted the new Accounting Standards for Not-for profit Organizations ("ASNPOs") issued by the Canadian Institute of Chartered Accountants ("CICA"). In accordance with Section 1501 of the CICA Handbook, "First-time adoption", ("Section 1501"), the date of transition to ASNPOs is January 1, 2011 and the Organization has presented an opening statement of financial position as at that date. This opening statement of financial position is the starting point for the Foundation's accounting under ASNPOs. In its opening statement of financial position, under the recommendations of Section 1501, the Foundation:

- recognized all assets and liabilities the recognition of which is required by ASNPOs;
- did not recognize items as assets or liabilities if ASNPOs do not permit such recognition; and,
- applied ASNPOs in measuring all recognized assets and liabilities.

In accordance with the requirements of Section 1501, the accounting policies set out in Note 3 have been consistently applied to all years presented and adjustments resulting from the adoption of ASNPOs have been applied retrospectively. As described in Note 3 (financial instruments), the Foundation has elected to adopt the fair value option with respect to the measurement of certain investments.

(a) The following is the impact on the components of the Fund balances as at January 1, 2011 (there is no impact on the total Fund balances):

	Balance as previously reported - December 31, 2010	Adjustments	Reference	Balance as adjusted as at January 1, 2011
	\$	\$		\$
Unrealized gain on investments	187,827	(187,827)	2(i)	-
Deficiency of revenue over expense, and grants	(12,893,408)	187,827	2(i)	(12,705,581)
	<u>(12,705,581)</u>	<u>-</u>		<u>(12,705,581)</u>

The Law Foundation of Ontario

Notes to the financial statements

December 31, 2012 and 2011

2. Adoption of the new accounting standards (continued)

- (b) The impact of the adoption of ASNPOs on the statement of revenue, expenses and grants for the year ended December 31, 2011 is as follows:

	Balance as previously reported - December 31, 2011	Adjustments	Reference	Balance as adjusted - December 31, 2011
	\$	\$		\$
Change in unrealized gain on investments	-	(351,336)	2(ii)	(351,336)
Deficiency of revenue over expenses and grants for the year	(6,814,485)	(351,336)	2(ii)	(7,165,821)

Explanation of adjustments

Previously, in accordance with Section 3855 of the CICA Handbook under Part V (Pre-changeover accounting standards), the Foundation classified certain of its investments as Available for Sale, with changes in fair value recorded in the Statement of changes in fund balances. Under ASNPOs, the Foundation has elected to use the fair value option to measure investments as of January 1, 2011, with any subsequent changes in fair value recorded in the Statement of revenue, expenses and grants.

- (i) The amount of \$187,827 as at December 31, 2011 represents the unrealized gains on investments, which was previously presented as a separate component of the Statement of changes in fund balances. Under ASNPOs, such amounts are required to be recorded in the Statement of revenue, expenses and grants, and hence the amount has been transferred.
- (ii) The \$351,336 in the Statement of revenue, expenses and grants represents the change in unrealized gain on investments recognized for the year ended December 31, 2011.

3. 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 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 (formerly, The Reserve) Fund, Future Commitment Fund, Access to Justice Fund and Rejuvenation Fund are internally restricted funds (Notes 10-12). The Class Proceedings Fund and the Roy & Ria McMurtry Endowment Fund are externally restricted funds (Notes 13 and 14).

Interest earned on lawyers' mixed trust accounts

The interest earned on lawyers' mixed trust accounts is calculated and remitted to the Foundation based on agreements made with individual financial institutions. The lawyers' 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 lawyers. Such interest is therefore recorded when determinable by the Foundation, in the Unrestricted General Fund.

The Law Foundation of Ontario

Notes to the financial statements

December 31, 2012 and 2011

3. Significant accounting policies (continued)

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.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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 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 lawyers' mixed trust accounts). Actual results could differ from those estimates. Accounts requiring significant estimates and assumptions include investments, interest earned on lawyers' 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, which are carried at fair value. The Foundation has elected to use the fair value option to measure Canadian equities not quoted in active markets and restricted cash and fixed income for the Roy & Ria McMurtry Endowment Fund. 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.

The Law Foundation of Ontario

Notes to the financial statements

December 31, 2012 and 2011

3. Significant accounting policies (continued)

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.

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.

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

	December 31, 2012	December 31, 2011	January 1, 2011
	\$	\$	\$
Cash	241,622	231,365	742,119
Guaranteed Investment Certificates	10,243,473	10,576,000	12,119,812
	10,485,095	10,807,365	12,861,931

The effective yields on the Guaranteed Investment Certificates are between 1.1% and 1.97% (December 31, 2011 – between 1.30% and 2.14%; January 1, 2011 – between 1.07% and 1.90%).

\$2,205,199 (December 31, 2011 - \$2,046,658; January 1, 2011 - \$2,780,248) of the above-noted balance will be used to pay grants obligations (see Note 9).

5. 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 June 3, 2013 and December 18, 2021 and the coupon rates range from 3.25% to 4.50% (December 31, 2011 – from 3.25% to 4.50%; January 1, 2011 – from 3.70% to 4.69%).

	December 31, 2012	December 31, 2011	January 1, 2011
	\$	\$	\$
Restricted cash	1,762	3,739	4,991
Fixed income	64,306	64,887	68,002
Canadian equities	44,380	45,300	51,713
	110,448	113,926	124,706

The Law Foundation of Ontario

Notes to the financial statements

December 31, 2012 and 2011

6. Investments

	December 31, 2012	December 31, 2011	January 1, 2011
	\$	\$	\$
Short-term, at cost	23,721,430	32,082,341	36,145,726
Long-term:			
Fixed income, at cost (fair value - \$9,140,524; December 31, 2011 - \$8,399,005; January 1, 2011 - \$8,649,304)	8,878,689	7,934,482	8,330,056
Canadian equities, at fair value (cost - \$3,591,828; December 31, 2011 - \$3,491,890; January 1, 2011 - \$3,173,809)	3,799,282	3,315,639	3,356,111
	12,677,971	11,250,121	11,686,167

The Foundation's short-term investments of \$23,721,430 (December 31, 2011 - \$32,082,341; January 1, 2011 - \$36,145,726) comprise cash, GICs and short-term bonds. The effective yields on the GICs of \$21,020,195 (December 31, 2011 - \$31,381,119; January 1, 2011 - \$35,044,517) range from 1.3% to 2% (December 31, 2011 - from 1.30% to 2.32%; January 1, 2011 - from 1.30% to 1.90%). Short-term bonds of \$2,700,000 (December 31, 2011 - \$700,000; January 1, 2011 - \$1,100,000) mature between February 13, 2013 and December 15, 2013 (December 31, 2011 - between June 15, 2012 and December 2, 2012; January 1, 2011 - between January 31 and December 1, 2011) and have a coupon rate from 2.7% to 5.05% (December 31, 2011 - from 4% to 4.50%; January 1, 2011 - from 4.69% to 6.40%).

The Foundation's fixed income long-term investments include bonds of \$8,878,689 (December 31, 2011 - \$7,889,931; January 1, 2011 - \$8,290,247), which mature between March 8, 2014 and June 2, 2022. The coupon rates range from 1.70% to 5.10% (December 31, 2011 - from 2.20% to 5.10%; January 1, 2011 - from 2.20% to 6.40%).

7. Capital assets

	December 31, 2012		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Furniture and fixtures	254,782	186,946	67,836
Computer hardware	165,643	139,323	26,320
Computer software	186,099	182,588	3,511
Leasehold improvements	402,897	243,448	159,449
	1,009,421	752,305	257,116

The Law Foundation of Ontario

Notes to the financial statements

December 31, 2012 and 2011

7. Capital assets (continued)

	December 31, 2011		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Furniture and fixtures	252,985	170,287	82,698
Computer hardware	150,266	134,418	15,848
Computer software	186,099	167,595	18,504
Leasehold improvements	402,897	199,369	203,528
	992,247	671,669	320,578

	January 1, 2011		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Furniture and fixtures	258,843	154,907	103,936
Computer hardware	151,477	127,387	24,090
Computer software	186,099	125,742	60,357
Leasehold improvements	402,897	155,291	247,606
	999,316	563,327	435,989

8. 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 lawyers' mixed trust accounts, less operating expenses, 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.

	December 31, 2012	December 31, 2011	January 1, 2011
	\$	\$	\$
Interest on lawyers' mixed trust accounts (net of service charges of \$1,288,000 (December 31, 2011 - \$2,238,030; January 1, 2011 - \$2,069,234)	29,628,063	26,461,078	13,774,629
Unrestricted General and Other Funds expenses	(1,797,647)	(1,899,831)	(2,246,439)
Interest after expenses	27,830,416	24,561,247	11,528,190
Due to Legal Aid Ontario, beginning of year	212,480	854,420	182,623
75% allocation to Legal Aid Ontario	20,872,812	18,420,935	8,646,143
Paid to Legal Aid Ontario, during the year	(20,844,779)	(19,062,875)	(7,974,346)
Due to Legal Aid Ontario, end of year	240,513	212,480	854,420

The Law Foundation of Ontario

Notes to the financial statements

December 31, 2012 and 2011

9. Grants payable

Grants payable consist of the following:

						December 31, 2012
	Unrestricted	Others	Access to Justice	Class proceeding	Roy & Ria McMurtry	Total
	\$	\$	\$	\$	\$	\$
Opening	12,424,965	54,888	6,524,351	2,046,658	5,000	21,055,862
Grants authorized	9,072,704	38,000	3,601,836	1,466,868	10,000	14,189,408
Payments	(10,729,546)	(32,053)	(4,309,698)	(404,596)	(10,000)	(15,485,893)
Grants reversed	(1,503,739)	(379)	(47,205)	(903,731)	-	(2,455,054)
Ending grants payable	9,264,384	60,456	5,769,284	2,205,199	5,000	17,304,323
Less: Long-term grants payable	(1,853,225)	-	(1,590,070)	-	-	(3,443,295)
Current grants payable	7,411,159	60,456	4,179,214	2,205,199	5,000	13,861,028

						December 31, 2011
	Unrestricted	Others	Access to Justice	Class proceeding	Roy & Ria McMurtry	Total
	\$	\$	\$	\$	\$	\$
Opening	14,446,470	41,777	2,907,485	2,780,248	10,000	20,185,980
Grants authorized	9,878,177	124,441	5,738,095	2,122,494	10,000	17,873,207
Payments	(11,120,787)	(108,966)	(2,102,337)	(1,914,374)	(15,000)	(15,261,464)
Grants reversed	(778,895)	(2,364)	(18,892)	(941,710)	-	(1,741,861)
Ending grants payable	12,424,965	54,888	6,524,351	2,046,658	5,000	21,055,862
Less: Long-term grants payable	(2,569,100)	-	(4,547,385)	-	-	(7,116,485)
Current grants payable	9,855,865	54,888	1,976,966	2,046,658	5,000	13,939,377

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Notes to the financial statements

December 31, 2012 and 2011

9. Grants payable (continued)

						January 1, 2011
	Unrestricted	Others	Access to Justice	Class proceeding	Roy & Ria McMurtry	Total
	\$	\$	\$	\$	\$	\$
Opening	17,933,926	122,683	-	1,920,307	5,000	19,981,916
Grants authorized	14,067,200	2,625,751	3,639,201	2,024,362	10,000	22,366,514
Payments	(16,822,144)	(2,701,866)	(731,716)	(1,136,599)	(5,000)	(21,397,325)
Grants reversed	(732,512)	(4,791)	-	(27,822)	-	(765,125)
Ending grants payable	14,446,470	41,777	2,907,485	2,780,248	10,000	20,185,980
Less: Long-term grants payable	(2,852,968)	-	(1,386,716)	-	-	(4,239,684)
Current grants payable	11,593,502	41,777	1,520,769	2,780,248	10,000	15,946,296

Details of December 31, 2012 long-term grants payable are as follows:

	Unrestricted	Access to Justice	Total
	\$	\$	\$
2014	1,853,225	1,214,628	3,067,853
2015	-	356,441	356,441
2016	-	19,000	19,000
	1,853,225	1,590,070	3,443,295

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December 31, 2012 and 2011

10. 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 (2011 - \$16 million).

11. Access to Justice Fund

In 2009, the Trustees of the Foundation established an internally restricted fund 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. The Access to Justice Fund was established to receive cy-près settlements that are directed to the Foundation.

12. Other Internally Restricted Funds

	December 31, 2012		
	Future Commitment Fund	Rejuvenation Fund	Total
	\$	\$	\$
Opening balances	363,557	393,893	757,450
Deficiency of revenue over expenses for the year	-	(37,621)	(37,621)
Transfer to Unrestricted General Fund	(190,677)	-	(190,677)
Closing balances	172,880	356,272	529,152

	December 31, 2011		
	Future Commitment Fund	Rejuvenation Fund	Total
	\$	\$	\$
Opening balances	2,016,505	516,644	2,533,149
Deficiency of revenue over expenses for the year	-	(122,751)	(122,751)
Transfer to Unrestricted General Fund	(1,652,948)	-	(1,652,948)
Closing balances	363,557	393,893	757,450

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December 31, 2012 and 2011

12. Other Internally Restricted Funds (continued)

			January 1, 2011
	Future Commitment Fund	Rejuvenation Fund	Total
	\$	\$	\$
Opening balances	4,574,136	2,687,022	7,261,158
Deficiency of revenue over expenses for the year	-	(64,752)	(64,752)
Transfer to Unrestricted General Fund	(2,557,631)	(2,105,626)	(4,663,257)
Closing balances	2,016,505	516,644	2,533,149

(a) Future Commitment Fund

In 2004, the Trustees of the Foundation established a fund to hold funds which have been allocated from the Unrestricted General Fund to budget for funding plans extending beyond one year. Multi-year funding plans will continue to be formally approved and booked on a year-by-year basis, but the funds will come out of the Future Commitment Fund, rather than the Unrestricted General Fund. In 2012, the Board of Trustees authorized \$190,677 (2011 - \$1,652,948) to be transferred to the Unrestricted General Fund.

(b) 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 comes from the Unrestricted General Fund. During the year, \$Nil (2011 - \$Nil) was transferred to the Unrestricted General Fund.

13. 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 2012, the Fund recovered a previous year's disbursement award grant payment of \$799,562 (2011 - \$41,768). The Fund paid cost awards of \$2,916,515 (2011 - \$2,202,060) as a result of cost awards made against funded plaintiffs. The Fund received a levy on awards of \$1,911,337 (2011 - \$3,108,646) as a result of settlements to funded plaintiffs.

14. 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.

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Notes to the financial statements

December 31, 2012 and 2011

15. Interest on Lawyers' 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.

16. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities include \$Nil (December 31, 2011 - \$Nil; January 1, 2011 - \$Nil) with respect to government remittances.

17. 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:

	\$
2013	81,700
2014	81,700
2015	81,700
2016	54,467

18. 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, 2012 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.

19. 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 specific 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.

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.

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December 31, 2012 and 2011

18. Financial instruments (continued)

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.