Financial Statements • Year ended March 31, 2010

Auditors' Report

To the Directors of
The Calgary Foundation

We have audited the statement of financial position of The Calgary Foundation as at March 31, 2010, the statements of operations and changes in Foundation funds and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Foundation as at March 31, 2010 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP
Chartered Accountants
Calgary, Canada • June 7, 2010

Statement of Financial Position

March 31, 2010, with comparative figures for 2009

Assets (note 2)	*2010*	*2009*
Current assets		
Cash and cash equivalents	$ 23,495,923	$ 27,996,844
Accrued investment income	339,422	471,196
Life insurance proceeds receivable	—	425,000
	23,835,345	28,893,040
Investments, at fair value (note 3)	309,838,173	244,333,608
Other assets (note 4)	854,338	835,158
	$334,527,856	$274,061,806
Liabilities and Funds		
Current liabilities		
Grants payable and accrued liabilities	$ 1,938,850	$ 2,879,475
Deferred flow-through grants (note 6)	16,119,104	14,638,540
	18,057,954	17,518,015
Managed funds (note 5)	10,564,008	11,821,173
Foundation funds		
Community and field of interest funds (note 6)	56,751,226	40,722,824
Donor advised and designated funds (note 6)	249,154,668	203,999,794
	305,905,894	244,722,618
Commitments (note 8)		
	$334,527,856	$274,061,806

See accompanying notes to financial statements.

Approved by the Board

S. Z. Fry Director

Director

Statement of Cash Flow

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

Cash provided from (used in):	*2010*	*2009*
Operating activities:		
Change in Foundation funds	$ 61,183,276	$ (45,912,230)
Change in Managed funds (note 5)	(1,257,165)	(2,411,034)
Change in deferred flow-through grants	1,480,564	(5,497,351)
Change in funds	61,406,675	(53,820,615)
Items not involving cash:		
Realized capital gain on sale of investments	(9,424,762)	(2,445,219)
Unrealized capital (gain) loss on investments	(47,424,789)	68,010,465
Contributions of non-cash gifts	(12,406,103)	(5,568,359)
Non-cash dividends	—	(30,750)
Managed fund fees (note 5)	(130,075)	(154,913)
Amortization of administration assets (note 7)	19,939	26,592
	(7,959,115)	6,017,201
Changes in non-cash working capital:		
Accrued investment income	131,774	212,988
Life insurance proceeds receivable	425,000	–
Grants payable and accrued liabilities	(940,626)	1,251,585
	(8,342,967)	7,481,774
Investing activities:		
Purchase of capital assets	(1,548)	(16,191)
Proceeds from sale of endowment investments	140,819,113	240,972,835
Purchase of endowment investments	(136,975,519)	(247,270,668)
	3,842,046	(6,314,024)
Net increase (decrease) in cash and cash equivalents	(4,500,921)	1,167,750
Cash and cash equivalents, beginning of year	27,996,844	26,829,094
Cash and cash equivalents, end of year	$ 23,495,923	$ 27,996,844

See accompanying notes to financial statements.

Statement of Operations & Changes in Foundation Funds

	Community & Field of Interest	*Donor Advised & Designated*	*Flow-through*	*Total 2010*	*Total 2009*
Revenue					
Contributions	$ 8,265,293	$ 12,591,820	$ 8,715,892	$ 29,573,005	$ 25,154,977
Interest and dividends	1,900,403	8,913,454	16,424	10,830,281	11,887,738
Flow-through funds interest	29,183	4,986	–	34,169	386,018
Managed funds fees	130,075	–	–	130,075	154,913
Realized capital gains, net	1,609,556	7,345,820	122,936	9,078,312	2,346,047
Unrealized capital gains (losses), net	7,533,067	37,979,542	(52,055)	45,460,554	(64,896,981)
Total revenue	19,467,577	66,835,622	8,803,197	95,106,396	(24,967,288)
Expenditures					
Grants	(2,231,885)	(19,253,656)	(7,296,478)	(28,782,019)	(22,369,257)
Service costs, net (note 7)	(1,067,027)	(2,574,782)	(18,728)	(3,660,537)	(4,073,036)
Total expenditures	(3,298,912)	(21,828,438)	(7,315,206)	(32,442,556)	(26,442,293)
Transfers	(140,263)	147,690	(7,427)	—	—
Decrease (increase) in deferred flow-through grants	—	—	(1,480,564)	(1,480,564)	5,497,351
Change during the year	16,028,402	45,154,874	—	61,183,276	(45,912,230)
Balance, beginning of year	40,722,824	203,999,794	—	244,722,618	290,634,848
Balance, end of year	$56,751,226	$249,154,668	$ —	$305,905,894	$244,722,618

See accompanying notes to financial statements.

Notes to Financial Statements

Description of the Foundation

The Calgary Foundation (the "Foundation") was incorporated in 1955 by The Calgary Foundation Act of the Legislative Assembly of Alberta. The Foundation is a registered charity classified as a public foundation under the Income Tax Act (Canada) and accordingly is exempt from income taxes and can issue donation receipts for income tax purposes.

Foundation funds

Community & Field of Interest • These are endowment funds from which grants are directed to new and emerging needs of the community at the discretion of the Foundation. Field of interest fund grants are restricted to a charitable area, population or region at the time the fund is established.

Donor Advised & Designated • Donor advised funds are endowment funds from which grants are directed to charitable organizations with the advice of donors. Designated funds are endowment funds from which grants are directed to charitable organizations designated at the time the fund is established.

Flow-through • These are funds from which grants are directed to charitable organizations with the advice of donors. These funds are not maintained in perpetuity.

Managed funds

These are funds owned by other charitable organizations and pooled with Foundation assets for investment purposes.

Preservation of purchasing power

To support the policy of preserving the purchasing power of the permanent endowment funds, the Foundation limits the amount of annual grants to a percentage of the market value of each fund.

1. Significant accounting policies

(a) *New accounting and reporting changes:* In 2008, the CICA issued three new accounting standards which became effective for the Foundation as of April 1, 2009:

Changes to Handbook Section 3862 – "Financial Instruments – Disclosures" establish a three-tier hierarchy as a framework for disclosing fair value based on inputs used to value the Foundation's investments. The hierarchy of inputs is summarized as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Changes in valuation methods may result in transfers into or out of an investment's assigned level.

Changes to Section 4400 – "Financial statement presentation by not-for-profit organizations" introduces the concept of reporting revenue gross as a principal vs. net as an agent, and no longer permits the grouping of cash flows from investing and financing activities on the statement of cash flows.

Handbook Section 4470 – "Disclosure of allocated expenses by not-for-profit organizations" requires that the policies for allocations of general support and fundraising costs to other functions be disclosed.

None of these required reporting changes made a material impact on the expenses or performance of the Foundation.

(b) *Financial instruments:* All financial instruments must be initially recognized at fair value on the balance sheet date as determined based on the Foundation's assessment of available market information. The Foundation has classified each financial instrument into the following categories: held for trading financial assets and liabilities, loans or receivables, held to maturity investments, available for sale financial assets, and other financial liabilities. Subsequent measurement of the financial instruments is based on their classification.

Unrealized gains and losses on held-for-trading financial instruments are recognized in earnings. Gains and losses on available for sale financial assets are recognized in net assets and transferred to earnings when the asset is derecognized. The other categories of financial instruments are recognized at amortized cost using the effective interest rate method.

There are no financial assets on the balance sheet designated as available-for-sale or held–to-maturity. Cash and cash equivalents and investments are classified as held-for-trading. All other financial assets are classified as loans or receivables and are accounted for on an amortized cost basis.

All financial liabilities are classified as other financial liabilities and are accounted for on an amortized cost basis.

Transaction costs are recorded in the statement of operations and changes in Foundation funds.

(c) *Foreign currency translation:* Investments denominated in foreign currencies are translated to Canadian dollars at the exchange rate in effect on the date of the statement of financial position. Investment income denominated in foreign currencies is translated to Canadian dollars at the exchange rate in effect when realized.

(d) *Revenue recognition:* Interest on bonds and short-term notes are recorded on an accrual basis. Dividends that have been declared are recorded as income on the date of record set for the dividend. Realized and unrealized capital gains and losses are recorded in the statement of operations when earned.

(e) *Contributions:* The Foundation follows the restricted fund method of accounting for endowment and flow-through contributions. Contributions are recognized when the amount can be reasonably estimated and collection is assured. Flow-through contributions, not distributed in the year of receipt, are recorded as a liability until the grants are made.

(f) *Administrative assets:* The Foundation capitalizes and amortizes administrative assets. The assets are amortized over their useful lives of 3 to 5 years using the straight-line method of amortization.

(g) *Cash and cash equivalents:* Cash and cash equivalents comprise cash on hand and temporary investments with a maturity date of three months or less.

(h) *Investments:* Investments are recognized in the statement of financial position at fair value as established by the closing bid price on a recognized public stock exchange and as determined based on the Foundation's assessment of available market information.

(i) *Controlled organizations:* The Foundation is the beneficial owner of all of the shares of certain other registered charities which were created as a result of bequests to the Foundation. The Foundation has the ability to appoint the majority of these organizations' boards of directors. The accounts of these controlled organizations have not been consolidated with the accounts of the Foundation. Instead, the Foundation discloses financial information about these controlled organizations as specified in the Canadian Institute of Chartered Accountants ("CICA") Handbook (note 9). The controlled organizations follow the deferral method of accounting for contributions.

(j) *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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. By their nature, these estimates are subject to measurement uncertainty. The effect of changes in such estimates on the financial statements in future periods could be significant. Accounts specifically affected by estimates in these financial statements are the valuation of investments and the recoverability and useful life of administrative assets.

(k) *Future accounting and reporting changes:* In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed that the changeover to International Financial Reporting Standards ("IFRS") from Canadian GAAP will be required for publicly accountable entities effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Non-publicly accountable enterprises will not be required to adopt IFRS. Instead, the CICA has developed a new GAAP framework for private enterprises. The accounting standards for private enterprises were issued December 15, 2009 and will be effective for years starting on or after January 1, 2011. In March 2010 the Accounting Standards Board issued an Exposure Draft – "*Accounting Standards for Not-for-Profit Organizations*". Not-for-profit organizations in the private sector can choose to apply IFRS or the proposed Part III of the CICA Handbook. Initially, Part III will comprise the existing 4400 series of standards for not-for-profit organizations, the additional standards and amendment proposal, and the standards included in Private Enterprise GAAP to the extent that they would apply to not-for-profit organizations.

The AcSB notes that the standards themselves are not substantially changing and the options proposed in the Exposure Draft are not likely to result in a significant change in many not-for-profit organizations. The AcSB expects that the final standards will be issued late in 2010 and would be applicable to fiscal years beginning on or after January 1, 2012 with earlier application permitted.

2. Assets by fund

	Community & Field of Interest	*Donor Advised & Designated*	*Flow-through*	*Managed*	*Total*
Cash and cash equivalents	$ 682,692	$ 6,105,678	$16,479,409	$ 228,144	$ 23,495,923
Accrued investment income	215,521	82,155	38,154	3,592	339,422
Investments, at fair value	56,697,428	242,808,448	25	10,332,272	309,838,173
Other assets	59,335	790,003	5,000	—	854,338
March 31, 2010	$57,654,976	$249,786,284	$16,522,588	$10,564,008	$334,527,856
March 31, 2009	$41,683,694	$205,054,695	$15,452,244	$11,871,173	$274,061,806

3. Investments

		2010	*2009*
Bonds and debentures:	Investment grade	$ 71,150,184	$ 79,223,209
	High yield	18,204,959	13,572,010
		89,355,143	92,795,219
Stocks:	Canada	118,985,046	72,614,919
	International	101,497,984	78,923,470
		220,483,030	151,538,389
		$309,838,173	$244,33,608

4. Other assets

	2010	*2009*
Cash surrender value of donated life insurance policies	$766,757	$729,171
Miscellaneous	53,968	53,968
Administrative assets, net of accumulated amortization of $357,081 (2009 - $337,611)	33,613	52,019
	$854,338	$835,158

The Foundation is the beneficiary named under whole life and term life insurance policies as follows:

	2010			*2009*
	Premiums paid	*Cash surrender value*	*Face value*	*Face value*
Whole life policies	$172,688	$766,757	$15,868,883	$13,595,252
Term life policies	10,898	—	448,000	784,104
	$183,586	$766,757	$16,316,883	$14,379,356

The cash surrender value is recorded as an asset. As the realizable amount in excess of the cash surrender value is not certain, the Foundation will record the benefits when the proceeds are cetain.

5. Managed funds

			2010	*2009*
Increases:	Deposits		$ 155,535	$ 489,574
	Interest and dividends		397,207	545,326
	Realized capital gains, net		346,450	99,172
	Unrealized capital gains, net		1,964,235	—
	Total increases		2,863,427	1,134,072
Decreases:	Withdrawals		(3,990,517)	(276,708)
	Service costs:	Fees	(130,075)	(154,913)
		Other	—	—
		Unrealized capital losses, net	—	(3,113,485)
	Total decreases		(4,120,592)	(3,545,106)
Change during the year			(1,257,165)	(2,411,034)
Balance, beginning of year			11,821,173	14,232,207
Balance, end of year			$10,564,008	$11,821,173

	2010	*2009*
Canadian Hockey Foundation Fund	$ 4,464,422	$ 3,835,833
CSPG Educational Trust Fund	1,171,900	934,080
Estelle J. Siebens Outreach Endowment Fund	1,061,523	886,212
Alberta Stockmen's Memorial Association Fund	669,935	528,960
Foothills Academy Society Bursary Trust Fund	550,094	459,262
Alberta Emerald Foundation Managed Fund	437,465	350,534
Calgary Highlanders Regimental Funds Foundation Fund	379,637	303,453
Foothills Academy Tuition Assistance Fund	355,898	297,132
Calgary Habitat for Humanity House Repurchase Fund	341,666	273,772
Vocational and Rehabilitational Research Institute Capital Fund	332,687	265,924
Rotary Club of Calgary Managed Fund	310,227	248,580
Girl Guides of Canada, Calgary Area Fund	218,509	174,659
St. Stephen's Anglican Church Managed Fund	177,655	186,672
Calgary Sexual Health Centre Fund	92,390	73,850
Heritage Park Foundation Fund	—	3,001,999
Other	—	251
	$10,564,008	$11,821,173

6. Foundation funds

The capital of the Foundation is comprised of funds for which the Board seeks varying degrees of donor input on grant distribution.

	2010	*2009*
Community	$ 26,116,116	$ 20,221,955
Field of Interest	30,635,110	20,500,869
	$ 56,751,226	$ 40,722,824
Donor advised	$153,575,371	$126,858,841
Designated	95,579,297	77,140,953
	$249,154,668	$203,999,794
Deferred flow-through	16,119,105	14,638,540
	$322,024,999	$259,361,158

Deferred flow-through grants represent flow-through contributions received prior to March 31, 2010 and not granted at fiscal year end, net of investment gains and losses and service costs, if applicable. This amount is deferred and is recorded as a liability until the grants are designate and paid.

7. Service Costs

	2010	*2009*
Salaries and benefits	$1,503,787	$1,627,212
Investment management and custodial fees	1,212,718	1,229,361
Occupancy and insurance	358,230	381,374
Professional fees	153,761	199,107
Development and communications	140,554	277,892
Office	107,458	165,509
Memberships	80,956	89,927
Computer application and website support	66,177	59,105
Amortization of administration assets	19,939	26,592
Premiums to maintain life insurance policies	183,586	149,954
Contributions to pay premiums to maintain life insurance policies	(166,629)	(132,997)
	$3,660,537	$4,073,036

The Foundation allocates service costs to Community & Field of Interest and Donor Advised & Designated funds by way of a cost allocation based on the market value of each fund. Service costs are allocated to Managed funds in accordance with the agreements. Expenses incurred for a specific fund are charged to that fund.

8. Commitments

The Foundation has entered into a five year office lease that commenced October 2007. Future annual payments under this lease are estimated to be:

2011	$300,000
2012	300,000
2013	150,000
	$750,000

9. Controlled organizations

(a) *Esther Honens Calgary International Piano Competition Foundation:* The Foundation is the beneficial owner of all the shares of the Esther Honens Calgary International Piano Competition Foundation ("Competition Foundation") which is responsible for a piano competition held every three years. The Competition Foundation was incorporated under the Companies Act and has been granted tax exempt status as a registered charity under paragraph 149(1)(f) of the Income Tax Act. The Foundation's Esther Honens International Piano Competition Foundation Fund, Honens Future Growth Fund and American Friends of Canada Fund are endowment funds that provide annual revenue to the Competition Foundation. At March 31, 2010 the market value of the three funds totalled $7.3 million (2009 - $6.1 million).

(b) *Eleanor Luxton Historical Foundation:* The Foundation is the beneficial owner of all the shares of the Eleanor Luxton Historical Foundation ("Luxton Foundation"). The Luxton Foundation was incorporated under the Companies Act and has been granted tax exempt status as a registered charity under paragraph 149(1)(f) of the Income Tax Act. The purpose of the Luxton Foundation is to preserve and promote the historical real estate and artifacts relating to the original settlements of the Banff area. The Foundation holds the Luxton Historical Foundation Fund, which provides annual revenue to support the Luxton Foundation. At March 31, 2010 the Luxton Historical Foundation Fund had a market value of $4.1 million (2009 - $3.4 million).

Esther Honens Calgary International Piano Competition Foundation

As at and for the period ended	*Dec 31, 2009*	*Dec 31, 2008*
Revenues	$2,473,186	$1,612,433
Revenues from the three endowment funds	322,878	395,811
Expenses	2,925,913	1,369,380
Assets	908,765	1,051,317
Liabilities	370,781	60,607
Accumulated surplus	537,984	990,710

10. Significantly influenced organization

Calgary Stampede Foundation: The Foundation is the beneficial owner of one of the two authorized, issued and outstanding shares of the Calgary Stampede Foundation ("Stampede Foundation"). The Stampede Foundation was incorporated under the Companies Act and has been granted tax exempt status as a registered charity under paragraph 149(1)(f) of the Income Tax Act. The Foundation has a right to appoint a minority of the Stampede Foundation's board of directors. The Stampede Foundation's objective is to establish programs for the benefit of young residents of Southern Alberta to advance their knowledge and understanding of the history, heritage, traditions and culture of Alberta.

Eleanor Luxton Historical Foundation

As at and for the period ended	*Dec 31, 2009*	*Dec 31, 2008*
Revenues	$ 201,388	$ 294,191
Revenues from the endowment fund	171,313	220,000
Expenses	224,844	429,984
Assets	1,006,464	1,028,288
Liabilities	8,194	6,562
Unrestricted net assets	52,409	75,865

11. Fund-raising expenses and other

As required under Section 7(2) of the Regulations of the Charitable Fund-raising Act of Alberta, the Foundation discloses that the service costs incurred for the purposes of soliciting contributions were $2,678 (2009 - $23,391). The total amount paid as remuneration to employees of the Foundation whose principal duties involve fundraising was $110,659 (2009 - $134,280).

A grant of $5,000,645 to one private foundation for its charitable work represents the single disposition of contributions that is equal to or exceeds 10% of the gross contributions received for the twelve month period ended March 31, 2010. (2009 - No single disposition of contributions equalled or exceeded 10% of the gross contributions).

12. Financial instruments

The following is a summary of the inputs used as of March 31, 2010 in valuing the Foundation's investments using the fair value hierarchy.

	Investments at fair value as at March 31, 2010			
	Level 1	*Level 2*	*Level 3*	*Total*
Bonds and debentures, Investment grade	$ —	$71,150,184	$ —	$ 71,150,184
Bonds and debentures, High yield grade	—	18,204,959	—	18,204,959
Stocks, Canada	118,985,046	—	—	118,985,046
Stocks, International	101,497,084	—	—	101,497,984
	$220,482,130	$89,355,143	$ —	$309,838,173

There have been no transfers between levels during the year.

13. Financial risk management

The Foundation has exposure to the following risks from its use of financial instruments: Credit risk, Liquidity risk, Market risk.

The Foundation adheres to a Statement of Investment Policy, approved by the Board of Directors, which outlines the objectives, policies and measures related to its investing activities. This policy prescribes qualitative and quantitative parameters around the investments held by the Foundation in its pooled funds in order to moderate the financial risks. The Board of Directors is accountable for the establishment and oversight of the Foundation's risk management framework.

(a) *Credit risk:* Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment resulting in a financial loss to the Foundation. The fair value of a financial instrument takes into account the credit rating of its issuer. The Foundation's investments in cash equivalents and bonds and debentures are subject to credit risk. The maximum exposure to credit risk on these instruments is their carrying value. The Foundation manages the risk by ensuring compliance with the limits to the credit exposure for both the Canadian universe bond and the high yield bond portfolios and engaging a professional investment manager to actively evaluate the creditworthiness of the issuers of the high yield debt. Cash and cash equivalents are substantially all Government of Canada Treasury Bills. As at fiscal year end, the Foundation's credit exposures in its fixed income portfolios were as follows:

	Percentage of the market value of the fixed income portfolios			
	2010		*2009*	
Credit rating	*Investment grade bond*	*High yield bond*	*Investment grade bond*	*High yield bond*
Bonds and debentures, at fair value	$71,150,184	$18,204,959	$79,223,209	$13,572,010
AAA	51.9%	–	19.5%	–
AA	22.0%	–	22.9%	–
A	20.1%	4.2 %	52.1 %	10.6%
BBB	6.0%	24.4%	5.5%	24.4%
BB	–	34.2%	–	29.5%
<BB	–	37.2%	–	35.5%

The management of credit risk has not changed materially from March 31, 2009.

(b) *Liquidity risk:* Liquidity risk is the risk that the Foundation will not be able to meet its liabilities as they fall due. Substantially all of the Foundation's assets are investments traded in active markets that can be readily liquidated and therefore the Foundation's liquidity risk is considered minimal. In addition, the Foundation aims to retain sufficient cash positions to manage liquidity. The Foundation's exposure to and management of liquidity risk has not changed materially since March 31, 2009.

(c) *Market risk:* Market risk is the risk that changes in market prices, as a result of changes in foreign exchange rates, interest rates and equity prices, will affect the Foundation's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while maximizing the return.

(i) *Currency risk:* Investments in securities denominated in foreign currencies are exposed to currency risk due to fluctuations in foreign exchange rates. The Foundation is exposed to currency risk on its foreign market common stock and its foreign market bonds and debentures, as the prices denominated in foreign currencies are converted to Canadian dollars in determining fair value. The objective of the Foundation's Statement of Investment Policy is to control currency risk by limiting the allocation to non-Canadian denominated securities and maintaining a geographically diversified portfolio.

Total hedged and unhedged investments held in foreign currencies as at March 31, 2010 was $102,161,499, 33% of investments (2009 - $81,896,864, 33.5% of investments). The most significant exposure to currency risk is $42,132,615, 13.6% of investments (2009 – $38,356,680, 16.1% of investments) denominated in US dollars and not hedged to the Canadian dollar. A hypothetical 10 percent weakening (strengthening) of the Canadian dollar against the US dollar at March 31, 2010 would have increased (decreased) net assets and investment income for the year by $4.2 million (2009 – $3.8 million). This analysis assumes that all other variables, in particular interest rates, remained constant.

	Percentage of the market value of investments	
Currency	*2010*	*2009*
Investments, at fair value	$309,838,173	$244,333,608
Canadian dollar	67.0%	66.5%
US dollar	16.8%	18.4%
Euro	4.8%	4.8%
British pound	4.0%	3.5%
Japanese yen	2.3%	1.8%
Other	5.1%	5.0%

(ii) *Interest rate risk:* Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of interest bearing financial instruments held by the Foundation. The Foundation is invested in two pooled bond funds with differing objectives. Duration is a common measure of the sensitivity of the price of a bond to a change in interest rates. At fiscal year end, the bond portfolios had an average duration as follows:

	2010		*2009*	
	Investment grade bond	*High yield bond*	*Investment grade bond*	*High yield bond*
Bonds and debentures, at fair value	$71,150,184	$18,204,959	$79,223,209	$13,572,010
Duration (years)	5.9	4.5	6.0	3.6
Assumed increase in interest rates	+1%	+1%	+1%	+1%
Approximate resulting decrease in value	$(4.2 million)	$(0.8 million)	$(4.7 million)	$(0.5 million)
Approximate resulting percentage decrease	(5.9%)	(4.5%)	(6.0%)	(3.6%)
Assumed decrease in interest rates	–1%	–1%	–1%	–1%
Approximate resulting increase in value	$4.2 million	$0.8 million	$4.7 million	$0.5 million
Approximate resulting percentage increase	5.9%	4.5%	6.0%	3.6%

(iii) *Equity price risk:* Equity price risk is the risk that the value of a financial instrument will fluctuate due to changes in equity markets. The Foundation is exposed to equity price risk on its equity portfolio. The Statement of Investment Policy applies to all investments held in the Foundation's pooled funds and it includes restrictions regarding the minimum and maximum amount of equities, bonds, and cash and cash equivalents. The diversification across various asset classes is expected to decrease the volatility of portfolio returns due to the lack of correlation between the returns of the various asset classes.

	2010		*2009*	
	Canada	*International*	*Canada*	*International*
Stocks, at fair value	$118,985,046	$101,497,984	$72,614,919	$78,923,470
Assumed increase in market prices	+8%	+8%	+8%	+8%
Approximate resulting increase in value	$9.5 million	$8.1 million	$5.8 million	$6.3 million
Assumed decrease in market prices	–8%	–8%	–8%	–8%
Approximate resulting decrease in value	$(9.5 million)	$(8.1 million)	$(5.8 million)	$(6.3 million)

14. Capital management

The Foundation views its capital as the Foundation funds' balances. The Foundation is not subject to externally imposed capital requirements and invests in accordance with The Calgary Foundation Act (the Act). The Act generally requires that, in the absence of any direction by the donor and subject to the disbursement quota requirements of the Income Tax Act (Canada) and the regulations thereunder, contributions are to be invested and devoted in perpetuity for charitable purposes.

Management Discussion & Analysis • Year ended March 31, 2010

Management's discussion and analysis ("MD&A") is provided to enable a reader to assess our financial condition and results of operations for the fiscal year ended March 31, 2010, compared to the preceding year. This MD&A should be read in conjunction with our audited financial statements and related notes dated June 7, 2010. All amounts are based on financial statements prepared in accordance with Canadian generally accepted accounting principles (GAAP) except portfolio returns which are based on performance reporting methodology. The Calgary Foundation ("the Foundation") operates in accordance with The Calgary Foundation Act (Alberta, 1955) and bylaws and within the regulatory framework of the Income Tax Act (Canada), the Canada Revenue Agency ("CRA") guidelines and the Charitable Fund-raising Act and Regulations (Alberta). The Foundation has adopted Volunteer Canada's Code for Volunteer Involvement and Community Foundations of Canada's ("CFC") criteria for membership.

The Foundation promotes philanthropy, acts as a catalyst for community involvement, receives and manages endowed gifts, and grants to charitable organizations.

Forward-looking statements
This report contains forward-looking statements about certain matters that are by their nature subject to many risks and uncertainties, which may cause actual results to differ materially from the statements made herein. Forward-looking statements include, but are not limited to, objectives, strategies, initiatives, and the outlook for the Foundation. Risks and uncertainties include, but are not limited to, changing markets, legislation, demographics and general economic factors or conditions, and other risks, known or unknown.

Business Environment

The Foundation's finances are impacted by the performance of both the economy and the capital markets.

The S&P/TSX Composite, S&P 500, DJIA and MSCI EAFE indices all experienced their lows of the last two years in March of 2009. During this two year period, the Foundation has had approximately 65% of its primary endowment portfolio invested in the equity markets represented by these indices. Since March 2009, global equity markets have rebounded significantly but are still short of the levels just prior to the September 2008.

The Foundation's long term perspective, discipline and rigour in establishing investment objectives, determining asset allocation and selecting investment managers has paid dividends. The return of the primary endowment portfolio over the last two years has been greater than both the benchmark weighted indices and the median return of a peer group of balanced funds. The market losses incurred in fiscal 2009 were more than fully recovered through capital gains and investment income in fiscal 2010.

The recession, although unevenly impacting Canadian regions, appears to have not been as deep and protracted as contemplated early in 2009.

As 84% of financial contributions to the Foundation over the last five years have been from citizens of Calgary and area, the economic environment in Calgary is critical to future gifts and demand for the services provided by the charitable sector supported by the Foundation. Thus the impact on the economy of the region of prices for commodities, cost of capital and demand for exports have particular bearing on the economic well being of current and future donors and the level of need in the community. It is anticipated that the not-for-profit sector will experience the brunt of the recession in 2010, as governments cut back on funding in their efforts to address the deficits resulting from the stimulus packages, and corporations keep tight hold of spending to ensure financial stability is returned. It is anticipated that these stimulus packages will result in inflationary pressures that will lead to increases in short term interest rates. The impact on households, which, on average, appear to have historically high debt levels, may further increase demands on charitable organizations to provide services or manage with lower revenues.

Over the long term, the amount of financial assistance that the Foundation provides to charitable organizations is greatly dependent on charitable contributions and the real growth of the endowment funds from investments in the capital markets. The performance of these markets impacts the financial support to charitable organizations.

A business environment that fosters entrepreneurs and supports their business success is critical to the continued growth of assets through contributions. Strong employment that fosters consumer confidence is crucial to the financial support provided to the Foundation. A community that is open and receptive to philanthropy is necessary for the successful implementation of our strategy.

The tax and regulatory environment also impacts the Foundation. The reduced (to zero) inclusion rate for capital gains arising from gifts of publicly-listed securities and the Alberta tax credit of 50% for charitable donations over $200 in a calendar year will continue to affect giving levels in a positive manner. The federal government's removal of the advantage of giving publicly-listed securities to public foundations versus private foundations may impact the Foundation negatively as the change levels the playing field between the two types of foundations.

The March 4, 2010 federal budget proposed, amongst other amendments to the charitable regulatory regime, the elimination of the 80% disbursement quota requirement on gifts to the Foundation that are not endowed gifts. While the implications of the changes are being evaluated, it is expected that an investment vehicle for gifts with a disbursement time horizon between the currently established "flow-through" gifts (approximately 2 years) and endowed gifts (greater than ten years) will be required to meet donor objectives.

Strategic Direction

Proactive Community Leadership

Knowledge of community needs and the work of charitable organizations across all sectors, derived from 55 years of experience, has positioned the Foundation to take a proactive leadership role in community building. Given the recent recession and the needs of the charitable sector for support, proactive initiatives of the Foundation to strengthen the sector are more important now than ever before. Donors and charitable organizations have come to expect this from the Foundation. Through partnerships with others, and citizen engagement, the Foundation will continue to address community issues and build a strong community for the benefit of all. This is the direct charitable activity of the Foundation. It includes:

Calgary's Vital Signs®
Calgary's Vital Signs® is an annual check-up that measures the vitality of Calgary, identifies significant trends, and assigns grades on areas critical to the quality of life in Calgary. Building on the work of the first three years of producing the Vital Signs® report, the Foundation launched Vital Conversations this year to further engage citizens at all levels in issues of concern in their communities.

Youth Vital Signs®
Presented in partnership with Youth Central (formerly Child and Youth Friendly Calgary), Youth Vital Signs® is a youth driven project that combines research and youth opinions in a report that will inform local government, youth funders and youth programs. This is the Foundation's opportunity to introduce the next generation to philanthropy and caring about their city.

Forever Funds Initiative
The Speaker Series is a key component of the Forever Funds initiative established to support emerging community needs in five areas identified as requiring increased funding and leadership (seniors, arts and heritage, diversity and inclusion, environment, mental health). Exploring and developing signature projects in the Forever Funds priority areas are a key element. Advancing an Arts Incubator is part of this work.

Social Enterprise Initiative
Work this year will be to follow-up on the plan presented in the report *Accelerating Calgary Social Enterprise Growth* completed last year to develop social enterprise initiatives for Calgary. Social enterprise combines the best of business and the charitable sector to create a better product than either sector can produce on their own. In a social enterprise, business practices and revenue generating products and services provide an income stream for the not-for-profit in the context of achieving the social mission of the organization, for example, the employment of marginalized groups. The Foundation is assuming a leadership role to accelerate social enterprise growth that will strengthen the not-for-profit sector in Calgary and provide a viable investment avenue for socially concerned investors.

Sector Capacity Building Initiatives
The capacity building initiatives involve convening the sector to explore new solutions to capacity issues. Research, facilitation, and training are all important elements. Work this year will follow-up on the Building a New Road forum held in December 2009, as well as continuing the Communications/Recognition project wherein the Foundation hires communications consultants for a modest sum to work directly with charities to improve their strategic communications, branding and positioning in the community. Our objective is to research and implement new, similar low-cost/high impact means to strengthen Calgary's charitable sector.

Strategic grant making for greater impact is a focus of the Foundation. The policy is to grant a percentage of the market value of the endowment. The Board reviews this disbursement percentage annually. It was determined to disburse 5% again in the coming year. This is possible because in years of higher returns, the Foundation maintained grants at 5%. It is the Foundation's intent to be an ongoing source of support in unstable times at a level consistent with its goals. Support to the sector has never been more critical.

Engaging Donors

Getting more intimate with causes they care about is an increasing interest among many donors. The Foundation is committed to engaging donors with community needs, to foster stronger relationships and add greater meaning to their philanthropy.

Increasingly donors are getting involved in the Foundation's granting advisory committees and agency site visits. More donors signed up on Donor Central® as a convenient way to interact electronically with the Foundation regarding the Funds that they have established. Many donor engagement surveys were completed. These one on one conversations determined that donors are largely very satisfied with the services of the Foundation.

Grow the Endowment

Growing the endowment for the benefit of the community continues to be the overarching purpose of the Foundation. How the Foundation grows the endowment differentiates it in the charitable sector. It does not mount fundraising campaigns or events. Rather it seeks to inspire giving through results of its work in the community and forging relationships between donors and the causes they care about.

Well known for its responsiveness to donors, the Foundation will continue to expand its capacity to accept complex gifts. A key focus is to customize donor service and focus on meeting the donor's philanthropic goals rather than servicing the transaction of a donation. Interest in family philanthropy is expected to increase as wealth transfers to the next generation. There is an opportunity for the Foundation to be of service in family philanthropy.

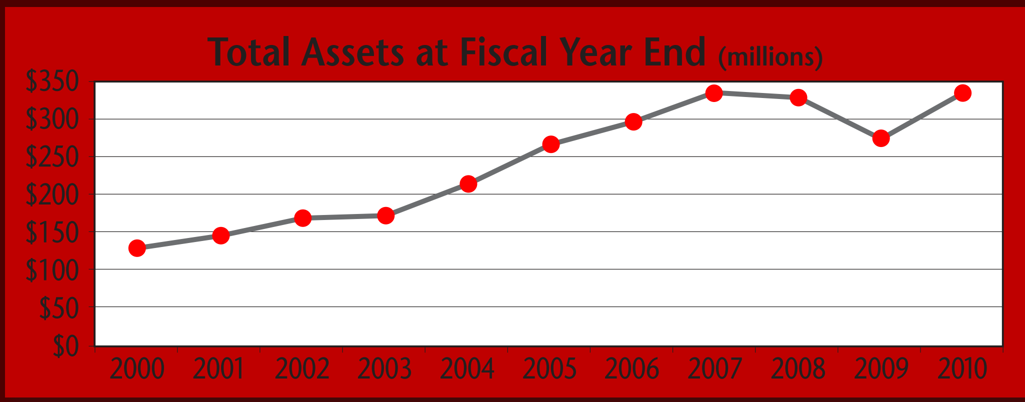
Building relationships with the Professional Advisor Community is a key strategy for the Foundation to reach new audiences and promote philanthropy. The Professional Advisor (PA) program has been transformed to take a more personalized 'relationship building' approach. It is estimated that currently the Foundation penetrates approximately 25% of the PA market. There is opportunity to do more. It is the Foundation's strategy to assist PAs to help their donors achieve their philanthropic goals.

The primary endowment fund is managed to achieve an average annual rate of return that is adequate to retain the purchasing power of a donation, provide grants to recognized charitable organizations and cover the costs of administering the Foundation. The current annual real rate of return objective (i.e. after inflation) is 5%. The endowment fund is invested for the long term and has low and predictable liquidity requirements. As a result, we can invest in multiple asset classes, do not have to sell assets at inopportune times and potentially can acquire assets at attractive valuations.

Investment of the endowment has been a major focus area as we strive to achieve the optimum investment return/risk balance, and achieve portfolio results that build donor confidence. The asset mix review has occupied substantial time at the Investment Committee meetings and at the Board table. Considerable progress was made in transitioning to the new asset mix this past year. The Foundation will stay the course with its investment strategy with confidence that it has been crafted to protect against inevitable market downturns. This is work that was done in advance of the recession, and has proven effective in the recovery of the past year.

Assets

The Foundation's assets under administration as at March 31, 2010 totalled $334.5 million ('m') as compared to $274.1 m at March 31, 2009. The March 31, 2010 figure represents a 22% increase from the prior year end. This increase is explained by the increase to the value of securities of $45.4 m (2009 – decrease of $64.9) for foundation funds and $2.0 m (2009 – decrease of $3.1 m) for managed funds. These gains were augmented by contributions of $29.6 m (2009 – $25.2 m) and realized investment income of $19.9 m (2009 – $14.6 m) for foundation funds and $0.7 m for managed funds (2009 – $0.6 m). Grants and service costs were $32.4 m (2009 – $26.4 m) for foundation funds, including $7.3 m (2009 – $8.5 m) of flow-through grants.



Withdrawals totalled $4.0 m (2009 – $0.3 m) from managed funds. (Managed funds are endowments owned by other charitable organizations. The managed funds liability is represented on the Statement of Financial Position as a claim on the Foundation's primary endowment portfolio by these other charitable organizations.)

The 22% increase in total assets to $334.5 million compares to a decrease of 16.1% in the twelve month period ended March 31, 2009.

Investments

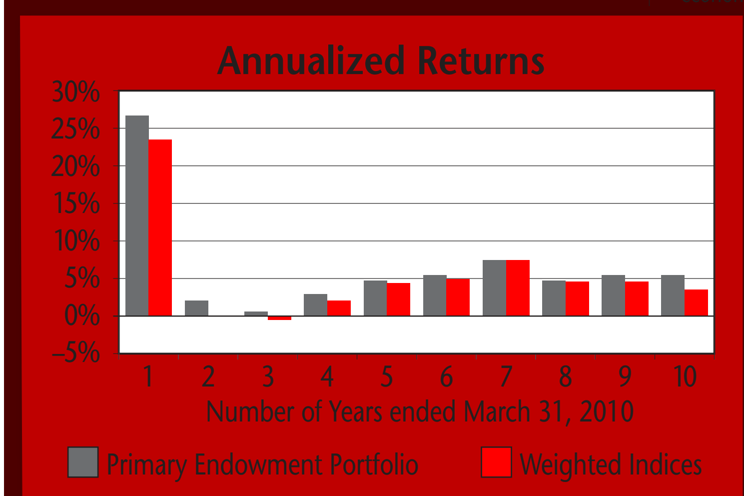
The total assets at March 31, 2010 included $309.8 m (2009 - $244.3 m) in investments representing $303.3 m (2009 - $239.7 m) of primary endowment portfolio investments, $6.2 m (2009 - $3.9 m) of securities retained at the direction of the donors and $0.3 m invested in a Donor Advised investment.

The primary endowment portfolio is managed by external investment managers in accordance with a statement of investment policy and procedures. The investment policy sets limits on the percentage of assets held in individual securities and classes and establishes quality, liquidity and performance criteria. The asset mix optimization exercise undertaken in fiscal 2008 resulted in changes to the portfolio structure. In September 2008, the new structure was partially implemented with the conversion of US and international equity mandates, which represented 30% of the primary endowment portfolio, to a global equity mandate. An allocation was also made to a new asset class, high yielding bonds. In November of 2009, an allocation was made to Canadian small capitalization equities to further decrease correlations between asset classes and increase the diversification of the portfolio. Investment managers were selected to manage a real estate mandate representing 5% of the portfolio but at year end no purchase of real property had been made.

At fiscal year-end, 22.8% (2009 - 32.1%) of the primary endowment portfolio was invested in Canadian bonds, 5.9% (2009 – 5.5%) in high yield bonds, 31.9% (2009 - 27.6%) in Canadian equities, 32.6% (2009 - 32.0%) in non-Canadian global equities, 5.1% (2009 – 0%) in Canadian small cap equities and 1.7% (2009 - 2.8%) in cash.

Before considering the relevant fees, the primary endowment portfolio gained 26.6% (2009 – lost 17.6%) during the fiscal year. By way of comparison, a weighting of the passive benchmark indices equal to that of the portfolio gained 23.4% (2009 – lost 19.0%) in the same year. The median return of a generally comparable group of endowment funds was 21.2% (2009 - negative 15.0%). The portfolio's strong relative performance was influenced by an overweight to equities vis-à-vis other balanced funds. The 5% portfolio allocation to real estate remained invested in Canadian equities as it awaited allocation thus weighting the fund 4.2 percentage points greater than the median fund on average for the year. Global equities likewise were overweight but to a greater extent; 7.2 percentage points.

The Canadian bond mandate is indexed to track the DEX Universe benchmark. After last fiscal year's performance variance from the benchmark of an approximate 0.2%, caused in part by the volatility and significant spread widening in the corporate bond market and the uncharacteristic skewing of returns in the Canadian bond market toward AAA Government of Canada treasuries, the manager reduced the tracking error in 2010 to within 4 basis points ("bps") in exceeding the index return of 5.13% for the twelve months ended March 31, 2010.



Markets rebounded globally over the year with the MSCI World index returning 22.2% in Canadian dollar terms. The mandate, blending a growth and value style offset, gained 24.4% in the year ended March 31, 2010 ranking it at the 48th percentile against the manager's peer group. This performance outpaced the benchmark and median (23.8%). This situation did not hold in the last quarter of the fiscal year as the mandate lost 65 bps versus the benchmark and median which lost 23 bps each but the quarter was far outweighed by the positive returns of the prior three quarters. The stronger Canadian dollar over the fiscal year muted the gains in Canadian dollar terms. Both the growth and value investments outperformed for the year. Security selection contributed the vast majority of the blended portfolios' premium for the year and was positive in most sectors.

The two current Canadian equity managers have been in place for just over 6 months and their returns for that period averaged 8.3%, outperforming the S&P/TSX Composite capped index by 120 bps and ranking the average return above the median for the period. At the end of the 2009 calendar year, one manager began to trim the weights in some of the more cyclically exposed (and strongly performing) companies in the portfolio. At the same time, they began adding to some of the out of favour, but less expensive, names. The second manager's performance was aided by underweights to the benchmark in financials, industrials and information technology and overweights to energy, consumer discretionary, consumer cyclicals and utilities. The most recent quarter saw an average return of 3.5% which surpassed the benchmark by 35 bps and was just behind the median.

The Canadian small capitalization ("cap") equity mandate had been in place for just over a quarter as at fiscal year end. The manager's 5.4% return was just 50 bps behind the median manager but was outpaced by the BMO Nesbitt Burns Small Cap benchmark index by 210 bps in the quarter. The lack of significant exposure to the materials sector and defensive energy positions was responsible for the relative difference. The concentrated nature of the benchmark in these cyclical sectors has contributed to its large gains.

After a brief pause in January, high yield assets continued to rally through to the end of the fiscal year, supported by mostly positive economic data, a steep yield curve, decreasing default rates, improving earnings and stronger corporate balance sheets. The manager's 34.6% return for the year ended March 31, 2010 was very good in absolute terms and relative to the median return of 29.0% but lagged the benchmark (50% DEX High Yield Bond Index and 50% Merrill Lynch High Yield Bond Canadian Issuers Index) by 73 bps. The quarterly performance was similarly positive at 4.0% with the manager ranking at the 25th percentile for the period and outpacing the benchmark by 20 bps as high yield spreads narrowed by about 100 bps in Canada. US spreads lagged during the period, tightening only about 60 bps as benchmark Treasury yields rose.

Donor Advised and Donor Restricted Investments

In support of success in our key result area of Donor Engagement, alternatives to investing endowment gifts in the primary endowment portfolio are available.

The Bank of Montreal ("BMO")/Community Foundations of Canada ("CFC") alliance 'Supporting Your Community', which is one Donor Advised investment alternative, received gifts during the period and has grown to $298 thousand ('k') (2009 - $43 k) at fiscal year end. The alliance between BMO and 38 of Canada's community foundations was created to facilitate charitable gifts by clients of BMO and to maintain the "full service" relationship between BMO's financial advisors and their clients. A statement of investment policies was agreed to by BMO and CFC on February 1, 2004 and adopted by the Foundation on March 21, 2005. The BMO Harris Private Banking "Balanced Growth" portfolio, in which a gift was invested in the year, that includes Canadian, US, international and emerging market equities with Canadian bonds and cash, gained 15.3% (2009 – negative 16.6%) for the year ended March 31, 2010. The BMO Nesbitt Burns "Balanced" Fund, which received the first investment through this program during the period, is invested in Canadian equities and fixed income with a small allocation to cash and non-Canadian bonds and returned 16.3% for the entire period.

The $6.2 m market value (2009 - $3.9 m) of gifts of securities retained at the direction of the donors – donor restricted investments – represents a second alternative for investing endowment gifts. The specific conditions of the gift agreements establish the manner in which these securities are administered.

A third alternative is to enable donors to have their endowment gift to the Foundation managed outside the primary endowment portfolio by another investment manager. Governance policies have been adopted to ensure appropriate oversight and due diligence processes are in place to administer these relationships and appropriately invest these assets.

The following statement is a non-GAAP presentation of the audited Statement of Operations and Changes in Foundation Funds. This statement describes the financial activity by the four types of investments.

Non-GAAP Statement of Operations & Changes in Foundation Funds

	Primary endowment portfolio	*Flowthrough investments*	*Donor Restricted investments*	*Donor Advised investments*	*Total 2010*
Revenue					
Contributions	$ 20,612,113	$ 8,715,892	$ —	$245,000	$ 29,573,005
Interest and dividends	10,234,727	16,424	576,843	2,287	10,830,281
Flow-through funds interest	34,169	—	—	—	34,169
Managed funds fees	130,075	—	—	—	130,075
Realized capital gains, net	8,955,085	122,936	—	291	9,078,312
Unrealized capital gains (losses), net	43,121,296	(52,055)	2,379,390	11,923	45,460,554
Total revenue	83,087,465	8,803,197	2,956,233	259,501	95,106,396
Expenditures					
Grants	(20,887,515)	(7,296,478)	(594,784)	(3,242)	(28,782,019)
Service costs, net (note 7)	(3,592,462)	(18,728)	(48,003)	(1,344)	(3,660,537)
Total expenditures	(24,479,977)	(7,315,206)	(642,787)	(4,586)	(32,442,556)
Transfers	17,427	(7,427)	(10,000)	—	—
Decrease (increase) in deferred flow-through grants	—	(1,480,564)	—	—	(1,480,564)
Change during the year	58,624,915	—	2,303,446	254,915	61,183,276
Balance, beginning of year	240,812,656	—	3,866,693	43,269	244,722,618
Balance, end of year	$299,437,571	$ —	$6,170,139	$298,184	$305,905,894

Cash and cash equivalents

Cash and cash equivalents decreased to $23.5 m from $28.0 m at the prior fiscal year end. The March 31, 2010 investment in cash and cash equivalents, representing capital contributions received that are to be granted to charitable organizations in the short term ("flow-through"), was $16.5 m ($14.8 m - March 31, 2009).

Of the remaining balance, $4.0 m was held for liquidity for grants and operational expenses, $2.4 m was managed by the primary endowment portfolio managers within their respective mandates and $0.7 m represents distributions and related interest income from securities retained at the direction of the donors.

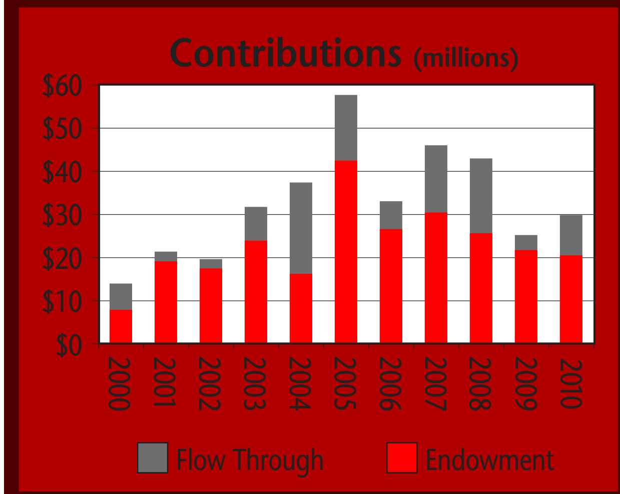
Operations

Revenue

During the twelve months ended March 31, 2010, contributions to the Foundation-owned endowment funds totalled $20.9 m compared to $21.8 m for the prior fiscal year. Contributions of $8.3 m for the fiscal year, compared to $2.3 m for the previous fiscal year, were directed to Community and Field-of-Interest funds (from which grants are directed to new and emerging needs of the community at the discretion of the Foundation). Donations of $12.6 m for the period compared to $19.5 m for the same prior year period were gifted to Donor Advised and Designated funds. Flow-through contributions added $8.7 m in the period ($3.4 m for the twelve months ended March 31, 2009).

Contributions of non-cash gifts of $12.4 m were received as compared to $5.6 m in the previous year. Substantially all of these non-cash gifts were gifts of publicly-listed securities which were converted to cash and reinvested. This marked increase in gifts of securities as compared to the previous year was a result of the significant capital market upswing that began in April 2009. Gifts of shares have made up nearly half of the gifts received in the past few years and are gifted primarily in November and December.

Bequests make up approximately 1/3 of the gifts to the Foundation. There is a trend towards an increase in bequests related to the life cycle of the Foundation and the changing demographics of the city. Over the past 55 years, the relationships that have been established between donors, their professional advisors and the Foundation continue to result in the inclusion of legacy gifts in estate planning.



Expenses incurred to operate the Foundation are allocated to the funds. The allocation process is described below:

(i) A percentage of the market value of the individual endowment funds is allocated to service costs on a monthly basis by way of a tiered schedule. The amount of this allocation totalled $3.1 m in 2010 and $3.0 m in 2009. The allocations were significantly higher in the last six months of the fiscal year than the first half as the endowment funds gained market value with the positive returns following the market lows of March 2009.

(ii) Interest earned on the money market instruments, representing flow-through contributions totalled $30 k (2009 – $0.3 m) and represented 1% of the revenue available to satisfy service costs in the year (9% in fiscal 2009). The interest revenue continued to be significantly reduced from prior years as interest rates continued at historic lows.

(iii) Managed funds fees of $130 k ($155 k in 2009) represented 4% of service costs for 2010, unchanged from 2009. The trend for the contribution of managed fund fees to fund service costs has been decreasing as the balance of funds owned by other charitable organizations and managed by the Foundation has decreased. As the managed funds are invested in the same way as the individual endowment funds, the market impacted this source of revenue in the same manner as i) above.

Expenditures

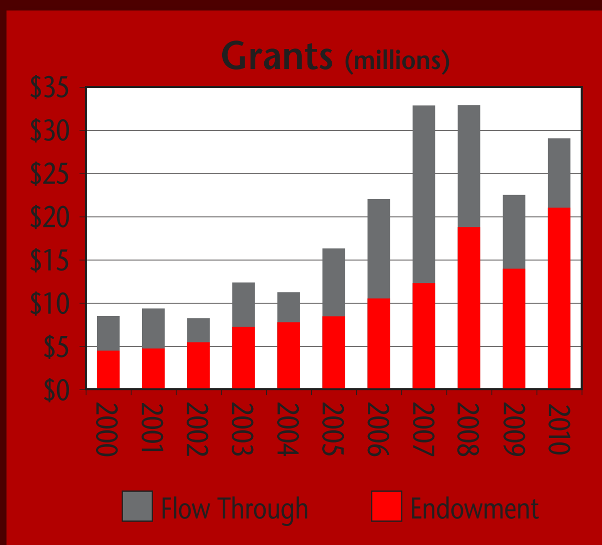
During the twelve month period, grants from endowment funds to charitable organizations totalled $21.5 m, compared with $13.9 m during the same period in 2008-09. Grants of $2.2 m ($2.1 m in the prior period) were made from Community and Field-of-Interest funds. Included in grants from these funds were grants to charitable organizations that applied for funding from the following programs at the Foundation:

- Community Grants support initiatives that respond to emerging community issues and evolving priorities – The program continued to increase the number of grants awarded to charities to explore or implement shared service and shared space options. A major proactive granting commitment to human resources development in Calgary's charitable sector continued through a partnership with three other funders.
- Neighbour Grants help create and strengthen the ordinary bonds of neighbourliness – This year 21 grants supported local music, multicultural and art projects that built a sense of belonging and sharing; community garden, naturalization and playground projects that enhanced people's enjoyment of their neighbourhoods; plus traffic safety, neighbourhood clean-up and community planning projects that allowed local residents to directly engage in the well-being of their communities.
- Small Grants support organizations in taking advantage of unique opportunities to advance their work – The grants stream supported the piloting of a six-week full time artist residency project for a social service agency's clients using a group of professional and emerging theatre artists.
- Organization Development & Transformation Grants support organizations in times of transition – A relatively new granting stream, the program awarded twelve grants in 2010, compared to ten grants in 2009. This granting stream is continuous intake with quick-turnaround decisions and focuses on helping registered charities to transform the ways in which their organizations operate with a focus on sustaining the long-term impact of their work, often through partnerships with other charities.
- Stepping Stones Grants encourage active citizenship by helping residents undertake small creative projects, neighbourly first steps, that benefit their local community – Youth in a Calgary community introduced their young neighbours to the new family activity centre through planning, interior design and gardening activities. The parents also got to know one another as neighbours.

Over 60 volunteers are actively engaged in reviewing proposals to the Community and Neighbour grants programs – a key strategy in our grantmaking.

Distributions to charitable organizations of $19.3 and $11.8 m were made in the twelve month periods ended March 31, 2010 and 2009 respectively from Donor Advised and Designated funds.

Flow-through grants were $7.3 m this year, as compared to $8.5 m for the fiscal year ended March 31, 2009. Flow-through grants are grants of capital arising from gifts that are not endowed. The timing of these flow-through grants is dependent on the timing of the donors' advice, the status of the recipient project, CRA's requirement to spend a minimum amount on charitable activities in a particular fiscal year ("disbursement quota") and the Foundation's disbursement quota accumulated from the five prior fiscal years.



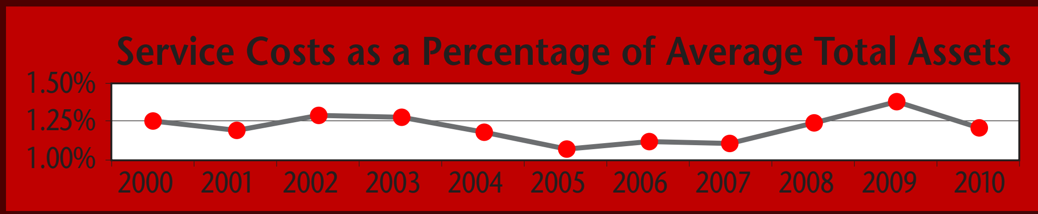
The service costs incurred to execute the strategy and obtain results in the key areas totalled $3.7 m ($4.0 m in 2009). Three quarters of these costs are human resource costs ($1.5 m - 2010, $1.6 m - 2009) and investment management costs ($1.2 m - 2010, $1.2 m - 2009)

Two specific items of interest included in service costs are:

The costs incurred to envision, plan, create, publish and evaluate the Foundation's third Vital Signs® report card – a report card where Calgarians have graded the city on our overall quality of life, providing a snapshot of their views on our city's wellness and liveability (2010 – $76 k, 2009 – $147 k).

Membership fees paid to CFC to support community foundations across Canada to uphold the Foundation's leadership in connecting donors to community needs and opportunities. The membership is needed to access regional and national networks to enable synergies from partnerships (2010 – $76 k, 2009 – $76 k).

Service costs as a percentage of average asset value has been commonly used by community foundations as a benchmark of efficiency. Service costs are impacted by the projects undertaken to support both operations and initiatives in the community. Strategic planning time horizons and longer term initiatives combined with uneven timing of contributions and short term vagaries of the capital markets result in wide dispersion of the ratio around the mean of 1.19% over the past decade.



Outlook

Although the near- to mid-term is expected to be difficult for government funded programs as governments grapple with deficits, thus increasing demand on many charitable organizations and reducing financial support for those same organizations, the Foundation assumes that its operations in the 2011 fiscal year will be materially consistent with those in 2010 except for the impact of those factors discussed in this outlook section.

Donors

The impact on donors' ability to financially support their favoured charitable causes will be dependent, in part, on the impact of increased interest rates on household finances. The performance of the stock markets will also impact the level of giving of securities, which have made up a significant percentage by dollar value of gifts over the past number of years. Growth of the asset size of the Foundation through bequests is anticipated due to the increase in the number of bequests received annually.

Contributions to the Foundation have averaged $35 m over the last decade and this trend is expected to continue. The Foundation has been named the residual beneficiary of a significant sized estate that would increase the assets of the Foundation by a material amount. We expect the distribution of this estate to occur over 3 – 5 years.

Grants

The Foundation will continue to grant 5% of the March 31, 2010 market value of the endowment funds. This rate, although consistent with the prior year, will result in greater funding dollars to charitable organizations in absolute terms over the next twelve months as compared to the last twelve because of the positive impact of the returns in the capital markets on the market values of the funds.

Primary Endowment Portfolio

The implementation of the final piece of the restructured asset mix – real estate – will see its first investment in Q2 of calendar 2010 but a full 5% weighting is expected to take 12 – 18 months. Additional investment managers with smaller-sized mandates, a reduction to indexed investments and increased oversight demands will add to the cost of the new structure. Although greater than normal volatility in the capital markets is anticipated, the Foundation expects that the changes to the asset mix will result in risk-adjusted returns that are better, after fees, than those that would have been produced by the previous portfolio.