CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2011

INDEPENDENT AUDITORS' REPORT TO THE DIRECTORS

KPMG

We have audited the accompanying financial statements of The Calgary Foundation which comprise the consolidated statement of financial position as at March 31, 2011, the consolidated statements of operations and changes in foundation funds and cash flows for the year then ended, and notes, comprising 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 generally accepted accounting principles, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments we consider 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, these consolidated financial statements present fairly, in all material respects, the consolidated financial position of The Calgary Foundation as at March 31, 2011, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
June 23, 2011 • Calgary, Canada

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

March 31, 2011, with comparative figures for 2010

Assets (note 3)	*2011*	*2010*
Current assets		
Cash and cash equivalents	$46,949,152	$23,495,923
Accrued investment income	396,980	339,422
Deposit for real estate acquisition (note 16)	500,000	—
	47,846,132	23,835,345
Investments, at fair value (note 4)	347,439,070	309,838,173
Other assets (note 5)	883,368	854,338
	$396,168,570	$334,527,856
Liabilities and Funds		
Current liabilities		
Grants payable and accrued liabilities	$2,191,074	$1,938,850
Deferred flow-through grants (note 7)	22,952,850	16,119,104
	25,143,924	18,057,954
Managed funds (note 6)	14,026,365	10,564,008
Foundation funds		
Community and field of interest funds (note 7)	86,516,807	56,751,226
Donor advised and designated funds (note 7)	270,481,474	249,154,668
	356,998,281	305,905,894
Commitments (note 9)		
	$396,168,570	$334,527,856

See accompanying notes to financial statements.

Approved by the Board

Alison J. Love, Director

S. Z. Ivey, Director

CONSOLIDATED STATEMENT OF CASH FLOW

Year ended March 31, 2011, with comparative figures for 2010

Cash provided from (used in):	*2011*	*2010*
Operating activities:		
Change in Foundation funds	$51,092,387	$61,183,276
Change in Managed funds (note 6)	3,462,357	(1,257,165)
Change in deferred flow-through grants	6,833,746	1,480,564
Change in funds	61,388,490	61,406,675
Items not involving cash:		
Realized capital (gain) loss on sale of investments	(3,362,290)	(9,424,762)
Unrealized capital (gain) loss on investments	(19,896,221)	(47,424,789)
Contributions of non-cash gifts	(25,368,463)	(12,406,103)
Managed fund fees (note 6)	(137,681)	(130,075)
Amortization of administration assets (note 8)	27,356	19,939
	12,651,191	(7,959,115)
Changes in non-cash working capital:		
Accrued investment income	(57,558)	131,774
Life insurance proceeds receivable	76,271	425,000
Grants payable and accrued liabilities	252,224	(940,626)
	12,922,128	(8,342,967)
Investing activities:		
Purchase of administrative assets	(32,862)	(1,548)
Deposit for real estate acquisition (note 16)	(500,000)	—
Proceeds from sale of endowment investments	44,770,652	140,819,113
Purchase of endowment investments	(33,706,689)	(136,975,519)
	10,531,101	3,842,046
Net increase (decrease) in cash and cash equivalents	23,453,229	(4,500,921)
Cash and cash equivalents, beginning of year	23,495,923	27,996,844
Cash and cash equivalents, end of year	$46,949,152	$23,495,923

See accompanying notes to financial statements.

CONSOLIDATED STATEMENT OF OPERATIONS AND CHANGES IN FOUNDATION FUNDS

Year ended March 31, 2011, with comparative figures for 2010

Revenue	*Community & Field of Interest*	*Donor Advised & Designated*	*Flow-through*	*Total 2011*	*Total 2010*
Contributions	$26,981,322	$ 10,264,922	$13,391,150	$ 50,637,394	$ 29,573,005
Interest and dividends	2,249,012	8,727,470	—	10,976,482	10,830,281
Flow-through funds interest	169,814	—	4,467	174,281	34,169
Managed funds fees (note 6)	137,681	—	—	137,681	130,075
Realized capital gains (losses), net	696,339	2,603,939	(57,515)	3,242,763	9,078,312
Unrealized capital gains, net	4,102,810	14,656,569	464,317	19,223,696	45,460,554
Total revenue	34,336,978	36,252,900	13,802,419	84,392,297	95,106,396
Expenditures					
Grants	(3,305,014)	(12,209,152)	(6,724,565)	(22,238,731)	(28,782,019)
Service costs, net (note 8)	(1,517,204)	(2,660,892)	(49,337)	(4,227,433)	(3,660,537)
Total expenditures	(4,822,218)	(14,870,044)	(6,773,902)	(26,466,164)	(32,442,556)
Transfers	250,821	(56,050)	(194,771)	—	—
Decrease (increase) in deferred flow-through grants	—	—	(6,833,746)	(6,833,746)	(1,480,564)
Change during the year	29,765,581	21,326,806	—	51,092,387	61,183,276
Balance, beginning of year	56,751,226	249,154,668	—	305,905,894	244,722,618
Balance, end of year	$86,516,807	$270,481,474	$ —	$356,998,281	$305,905,894

See accompanying notes to financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. The Foundation

(a) *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

(b) *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.

(c) *Managed funds:* These are funds owned by other charitable organizations and pooled with Foundation assets for investment purposes.

(d) *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.

2. Significant accounting policies

(a) *Principles of consolidation:* The consolidated financial statements include the financial statements of the Foundation and The Calgary Foundation Investment Trust. The Calgary Foundation Investment Trust is a trust established August 6, 2009 whose sole beneficiary is the Foundation. On consolidation, all transactions and balances between the Foundation and The Calgary Foundation Investment Trust have been eliminated.

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 10). These controlled organizations follow the deferral method of accounting for contributions.

(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) *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.

(j) *Future accounting and reporting changes:* In December 2010, the CICA Accounting Standards Board ("AcSB") issued a new accounting framework applicable to Canadian not-for-profit organizations. Effective for the annual reporting period that commences on or after January 1, 2012, not-for-profit organizations will have to choose between International Financial Reporting Standards ("IFRS") and Canadian accounting standards for not-for-profit organizations, whichever accounting framework best suits the organization. Early adoption of these standards is permitted. The Foundation is considering the adoption of the new Canadian accounting standards for not-for-profit organizations for its fiscal year beginning April 1, 2012.

3. Assets by fund

	Community & Field of Interest	*Donor Advised & Designated*	*Flow-through*	*Managed*	*Total*
Cash and cash equivalents	$ 2,617,176	$ 22,340,009	$21,586,253	$ 405,714	$ 46,949,152
Accrued investment income	140,865	207,234	43,064	5,817	$396,980
Due from (to) funds	(490,000)	—	490,000	—	—
Deposit for real estate acquisition	500,000	—	—	—	$500,000
Investments, at fair value	85,490,398	247,343,361	990,477	13,614,834	347,439,070
Other assets	64,841	813,527	5,000	—	$883,368
March 31, 2011	$88,323,280	$270,704,131	$23,114,794	$14,026,365	$396,168,570
March 31, 2010	$57,654,976	$249,786,284	$16,522,588	$10,564,008	$334,527,856

4. Investments

Bonds and debentures	*2011*	*2010*
Investment grade	$ 74,780,492	$ 71,150,184
High yield	19,999,485	18,204,959
	94,779,977	89,355,143
Stocks		
Canada	135,643,998	118,985,046
International	114,160,142	101,497,984
	249,804,140	220,483,030
Real estate	2,854,953	—
	$347,439,070	$309,838,173

5. Other assets

	2011	*2010*
Cash surrender value of donated life insurance policies	$790,281	$766,757
Miscellaneous	53,968	53,968
Administrative assets, net of accumulated amortization of $383,218 (2010 - $357,081)	39,119	33,613
	$883,368	$854,338

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

	2011			*2010*
	Premiums paid	*Cash surrender value*	*Face value*	*Face value*
Whole life policies	$167,283	$790,281	$15,606,905	$15,868,883
Term life policies	17,700	—	673,000	448,000
	$184,983	$790,281	$16,279,905	$16,316,883

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 certain.

6. Managed funds

	2011	*2010*
Increases: Deposits	$ 3,096,812	$ 155,535
Interest and dividends	421,278	397,207
Realized capital gains, net	119,527	346,450
Unrealized capital gains, net	672,525	1,964,235
Total increases	4,310,142	2,863,427
Decreases: Withdrawals	(710,104)	(3,990,517)
Service fees	(137,681)	(130,075)
Total decreases	(847,785)	(4,120,592)
Change during the year	3,462,357	(1,257,165)
Balance, beginning of year	10,564,008	11,821,173
Balance, end of year	$14,026,365	$10,564,008

	2011	*2010*
Canadian Hockey Foundation Fund	$ 4,594,682	$ 4,464,422
Ann & Sandy Cross Conservation Area Fund	2,446,580	—
CSPG Educational Trust Fund	1,249,258	1,171,900
Estelle J. Siebens Outreach Endowment Fund	1,099,674	1,061,523
Foothills Academy Society Bursary Trust Fund	860,830	550,094
Alberta Stockmen's Memorial Association Fund	696,876	669,935
Alberta Emerald Foundation Managed Fund	476,169	437,465
Calgary Highlanders Regimental Funds Foundation Fund	414,252	379,637
Calgary Habitat for Humanity House Repurchase Fund	371,894	341,666
Foothills Academy Tuition Assistance Fund	368,643	355,898
Vecova Centre for Disability Services and Research Fund (previously Vocational and Rehabilitational Research Institute Capital Fund)	363,022	332,687
Rotary Club of Calgary Managed Fund	337,674	310,227
Fig Tree Charitable Foundation Fund	257,887	—
Girl Guides of Canada, Calgary Area Fund	238,432	218,509
Christ Church Endowment Trust Managed Fund	149,677	—
Calgary Sexual Health Centre Fund	100,815	92,390
St. Stephen's Anglican Church Managed Fund	—	177,655
	$14,026,365	$10,564,008

7. Foundation funds

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

	2011	*2010*
Community	$ 49,156,538	$ 26,116,116
Field of Interest	37,360,269	30,635,110
	$ 86,516,807	$ 56,751,226
Donor advised	$167,492,595	$153,575,371
Designated	102,988,879	95,579,297
	$270,481,474	$249,154,668
Deferred flow-through	22,952,850	16,119,104
	$379,951,132	$322,024,998

Deferred flow-through grants represent flow-through contributions received prior to March 31, 2011 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 designated and paid.

8. Service Costs

	2011	2010
Salaries and benefits	$1,653,248	$1,503,787
Investment management and custodial fees	1,528,762	1,212,718
Occupancy and insurance	300,485	358,230
Professional fees	289,583	153,761
Office	139,757	107,458
Development and communications	137,214	140,554
Memberships	82,221	80,956
Computer application and website support	51,850	66,177
Amortization of administration assets	27,356	19,939
Premiums to maintain life insurance policies	184,983	183,586
Contributions to pay premiums to maintain life insurance policies	(168,026)	(166,629)
	$4,227,433	$3,660,537

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.

9. Commitments

The Calgary Foundation Investment Trust ("the Trust") entered into an agreement to invest up to $10 million in a real estate investment partnership. The terms of the partnership agreement generally state that if the partnership has not called for the full amount of the commitment by February 2012, the Trust is not obligated to invest the balance of the commitment. At fiscal year end, the Foundation had invested $3 million (market value $2.8 million. See Note 4).

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

2012	$300,000
2013	150,000
	$450,000

10. 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, 2011 the market value of the three funds totalled $7.6 million (2010 - $7.3 million).

Esther Honens Calgary International Piano Competition Foundation

As at and for the period ended	*December 31, 2010*	*December 31, 2009*
Revenues	$1,380,541	$2,473,186
Revenues from the three endowment funds	348,565	322,878
Expenses	1,353,705	2,925,913
Assets	676,701	908,765
Liabilities	104,632	370,781
Accumulated surplus	572,069	537,984

(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, 2011 the Luxton Historical Foundation Fund had a market value of $4.2 million (2010 - $4.1 million).

Eleanor Luxton Historical Foundation

As at and for the period ended	*December 31, 2010*	*December 31, 2009*
Revenues	$231,364	$201,388
Revenues from the endowment fund	204,743	171,313
Expenses	273,682	224,844
Assets	993,359	1,006,464
Liabilities	35,788	8,194
Unrestricted net assets	12,785	52,409

11. 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.

12. 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 $6,612 (2010 - $2,678). The total amount paid as remuneration to employees of the Foundation whose principal duties involve fundraising was $119,823 (2010 - $110,659).

No single disposition of contributions equalled or exceeded 10% of the gross contributions. (2010 - A grant of $5,000,645 to one private foundation for its charitable work represented the single disposition of contributions that equalled or exceeded 10% of the gross contributions received).

13. Financial instruments

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

	Investments at fair value as at March 31, 2011			
	Level 1	*Level 2*	*Level 3*	*Total*
Bonds and debentures, Investment grade	$ —	$74,780,492	$ —	$ 74,780,492
Bonds and debentures, High yield grade	—	19,999,485	—	19,999,485
Stocks, Canada	135,643,998	—	—	135,643,998
Stocks, International	114,160,142	—	—	114,160,142
Real estate			2,854,953	2,854,953
	$249,804,140	$94,779,977	$2,854,953	$347,439,070

	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	101,497,984	—	—	101,497,984
	$220,483,030	$89,355,143		$309,838,173

- 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).

There have been no transfers between levels during the year.

14. 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 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			
	2011		*2010*	
Credit rating	*Investment grade bond*	*High yield bond*	*Investment grade bond*	*High yield bond*
Bonds and debentures, at fair value	$74,780,492	$19,999,485	$71,150,184	$18,204,959
AAA	50.6%	7.7%	51.9%	—
AA	23.3%	—	22.0%	—
A	19.8%	2.3%	20.1%	4.2 %
BBB	6.3%	14.6%	6.0%	24.4%
BB	—	30.4%	—	34.2%
<BB	—	45.0%	—	37.2%

The management of credit risk has not changed materially during the year.

(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 during the year.

(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.

Currency	*Percentage of the market value of investments*	
	2011	*2010*
Investments, at fair value	$347,439,070	$309,838,173
Canadian dollar	64.6%	67.0%
US dollar	19.8%	16.8%
Euro	4.6%	4.8%
British pound	3.5%	4.0%
Japanese yen	2.6%	2.3%
Other	4.9%	5.1%

Total hedged and unhedged investments held in foreign currencies as at March 31, 2011 was $122,908,779, 35.4% of investments (2010 - $102,161,499, 33% of investments). The most significant exposure to currency risk is $63,198,821, 18.2% of investments (2010 – $42,132,615, 13.6% 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, 2011 would have increased (decreased) net assets and investment income for the year by $6.3 million (2010 – $4.2 million). This analysis assumes that all other variables, in particular interest rates, remained constant.

(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:

	2011	
	Investment grade bond	*High yield bond*
Bonds and debentures, at fair value	$74,780,492	$19,999,485
Duration (years)	6.0	3.6
Assumed increase in interest rates	+1%	+1%
Approximate resulting decrease in value	$(4.5 million)	$(0.7 million)
Approximate resulting percentage decrease	(6.0%)	(3.6%)
Assumed decrease in interest rates	–1%	–1%
Approximate resulting increase in value	$4.5 million	$0.7 million
Approximate resulting percentage increase	6.0%	3.6%

	2010	
	Investment grade bond	*High yield bond*
Bonds and debentures, at fair value	$71,150,184	$18,204,959
Duration (years)	5.9	4.5
Assumed increase in interest rates	+1%	+1%
Approximate resulting decrease in value	$(4.2 million)	$(0.8 million)
Approximate resulting percentage decrease	(5.9%)	(4.5%)
Assumed decrease in interest rates	–1%	–1%
Approximate resulting increase in value	$4.2 million	$0.8 million
Approximate resulting percentage increase	5.9%	4.5%

(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.

	2011	
	Canada	*International*
Stocks, at fair value	$135,643,998	$114,160,143
Assumed increase in market prices	+8%	+8%
Approximate resulting increase in value	$10.9 million	$9.1 million
Assumed decrease in market prices	–8%	–8%
Approximate resulting decrease in value	$(10.9 million)	$(9.1 million)

	2010	
	Canada	*International*
Stocks, at fair value	$118,985,046	$101,497,984
Assumed increase in market prices	+8%	+8%
Approximate resulting increase in value	$9.5 million	$8.1 million
Assumed decrease in market prices	–8%	–8%
Approximate resulting decrease in value	$(9.5 million)	$(8.1 million)

15. 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.

16. Deposit for real estate acquisition
The deposit for real estate acquisition consists of a deposit relating to a purchase and sale agreement dated September 14, 2010 for closing in the third quarter of 2011. The total purchase price is estimated at approximately $8 million subject to customary closing costs and adjustments.

The property purchase is collaboration between the Foundation and the Calgary Arts Development Authority (CADA), the City of Calgary's designated authority for the development of the arts in Calgary and the municipal granting agency for the not-for-profit arts sector. The eventual owner of the property will be CADA or a CADA affiliate.

The objective for the acquisition and development of the historic property is to create an integrated, mixed-use 'hub' that provides a dynamic and collaborative environment focused on the incubation and advancement of professional arts practice, social innovation and community development in South Calgary.

MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2011

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, 2011, compared to the preceding year. This MD&A should be read in conjunction with our audited financial statements and related notes dated June 23, 2011. 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, 2000) 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.

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.

VISION AND MISSION

The Foundation envisages a Calgary community that:

- is giving, caring and values sharing, collaborating and learning;
- has citizens engaged in building community at all levels;
- is healthy, vibrant, embraces diversity and supports all of its people;
- has a strong and sustainable charitable sector serving existing and emerging needs.

The Foundation's role in seeking to attain this vision is as a:

- community builder – identifying needs, addressing community issues and building a strong community;
- catalyst and convener, a meeting place fostering partnerships, engaging citizens and addressing needs;
- knowledgeable grant maker working to strengthen the charitable sector;
- promoter and facilitator of philanthropy for the long term benefit of Calgary and area.

STRATEGY AND KEY RESULT AREAS

i Proactive Community Leadership

Knowledge of community needs and the work of charitable organizations across all sectors, derived from 56 years of experience, has positioned the Foundation to take a proactive leadership role in community building. 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 in areas critical to the quality of life in Calgary. Momentum built from the work of the first four years of producing the Vital Signs® report, combined with the launch of Vital Conversations last year to further engage citizens at all levels in issues of concern in their communities, will cement the Foundation's role in identifying needs as well as aid in our grantmaking. Through Vital Conversations, the Foundation has convened citizens to address issues in discussions as varied as: "Fundamentals of Food", "Active Aging, Aging Well", "Calgary: A Hotbed for Voting and Volunteering?", and "Let's Talk about Sustainable City".

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 Signature Projects
Arts Incubator: Responding to a call for proposals in 2010 to purchase an historic building, a unique partnership between The Foundation and the Calgary Arts Development Authority has been formed to advance a vision for the building as an innovative arts incubator. Note 16 to the Consolidated Financial Statements further elaborates the Foundation's role in addressing needs, building a strong community and strengthening the charitable sector.

Harvie Passage (on the Bow River): A group of concerned Calgarians have established a process for improving the weir area to avoid the dangerous side-effect of a lethal hydraulic wave that has claimed the lives of several people. The process maintains the weir's important irrigation function and enables continuous river passage for fish, wildlife and people. This group of stakeholders began developing the plan in 2001 and it has since received widespread support from a number of groups representing users of the river as well as significant funding from the Foundation, the Province of Alberta, the City of Calgary and Parks Foundation Calgary.

Seniors Transportation: Over the next year, the Foundation will explore the third phase, with the Calgary Seniors Resource Society (CSRS), of a project initiated three years ago, to investigate opportunities for enhancement and expansion to meet the increasing need for accessible, affordable transportation for seniors. The program has already experienced a significant increase in the demand for service and CSRS is anticipating continued growth based on demographic projections.

Community Knowledge Centre
Building on technological work undertaken by the Toronto Community Foundation in partnership with IBM, the Community Knowledge Centre, a searchable web site, will share stories of impact to a wide audience and act as a virtual meeting place. The Community Knowledge Centre in Calgary is a companion piece to the Vital Signs® report. While the Vital Signs® report measures the vitality of city life, identifies trends, and grades quality of life, the Community Knowledge Centre is a gateway to the community organizations creating opportunities, addressing issues and adding texture to daily life.

Sector Capacity Building Initiatives
The capacity building initiatives involve convening the charitable sector to explore new solutions to capacity issues. Research, facilitation, and training are all important elements. Work will continue the follow-up on the Building a New Road forum held in December 2009, the 2010 Social Enterprise Initiative, as well as entrenching 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 ways to strengthen Calgary's charitable sector.

ii Engage Donors

The Foundation is committed to engaging donors by identifying community needs of interest to them, to fostering stronger relationships and adding greater meaning to their philanthropy. As part of this effort, the Foundation will actively profile the impact of endowment grants that provide funding to all sectors of the not-for-profit community as illustrative of the cross-sectoral thinking, due diligence work and focused support that stems from the Foundation's Community Grants program. To enable us to expand the group of donors with whom we work, the resources available to professional advisors (i.e. estate lawyers, accountants, financial advisors and insurance professionals) will be expanded as will the media used to relay our message to these and other audiences.

iii Grow the Endowment

Growing the endowment for the benefit of the community continues to be the overarching objective 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.

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 clients 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 (i.e. address inflation), provide grants to recognized charitable organizations and cover the costs of administering the Foundation. 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 continues to be a major focus area as we strive to achieve the optimum investment return/risk balance, and achieve portfolio results that build donor confidence. The grant distribution/preservation of purchasing power policy is to grant a percentage of the market value of the endowment. The Board reviews this disbursement percentage annually. It was determined that the Foundation would disburse 5% again in the year ending March 31, 2012 but due to reduced mid-term return expectations in the equity markets, current low interest rates on fixed income instruments and the lingering impact of the stock market correction in the fall of 2008 the distribution percentage will be reduced to 4.5% for the fiscal year ending March 31, 2013.

iv Build Confidence and Profile

In order to partner with other organizations in community leadership, engage donors in philanthropy and grow the assets of the Foundation, the building of confidence in, and the expanding of the profile of the Foundation is a prerequisite.

To that end, the annual Friends of the Foundation Annual Celebration will be repositioned to both enable more stakeholders to participate as well as focus to a greater extent on the role and initiatives of the Foundation itself. Vital Conversations will be broadened to attract a wider audience with an aim to making greater connections between groups and individuals. We will seek to expand formal partnerships with sponsors for the work of the Foundation.

Similar to profiling the impact of the Community Grants program to support our aim of engaging donors more fully, specific attention will be paid to raising the profile of the Community Fund as the permanent endowment supporting a wide, and growing, variety of needs in the community while at the same time needing financial contributions to keep pace with those needs.

CAPABILITY TO DELIVER RESULTS AND HISTORICAL ANALYSIS

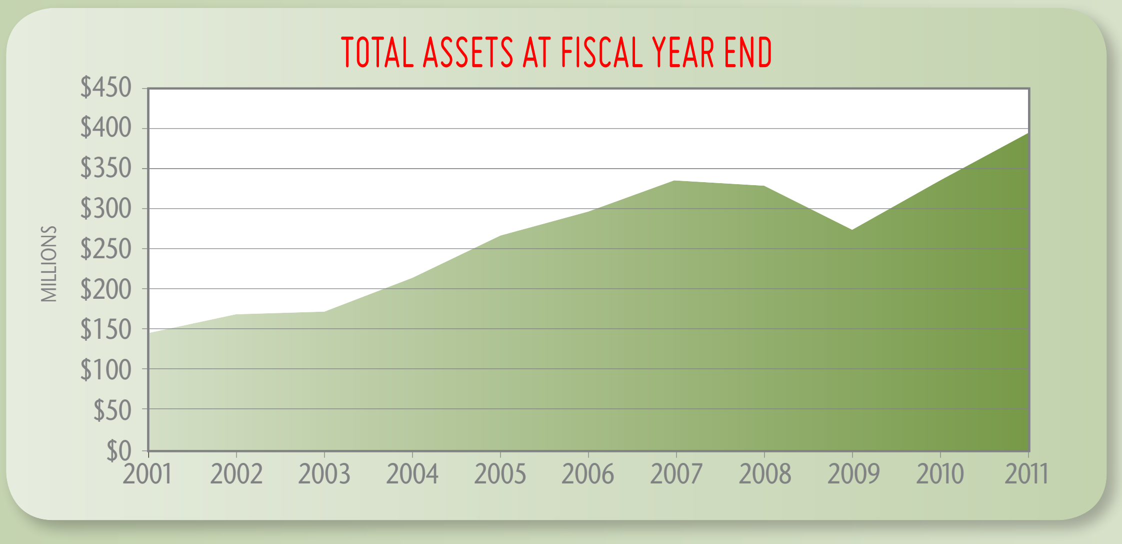
ASSETS

The Foundation's assets under administration as at March 31, 2011 totalled $396.2 million ('m') as compared to $334.5 m at March 31, 2010. The March 31, 2011 figure represents an 18% increase from the prior year end and compares to an increase of 22% in the twelve month period ended March 31, 2010.

Unrealized gains were $19.2 m (2010 – increase of $45.5 m) for foundation funds and $0.7 m (2010 – increase of $2.0 m) for managed funds. Realized investment income totalled $14.4 m (2010 – $19.9 m) for foundation funds and $0.5 m for managed funds (2010 – $0.7 m).

Contributions of $50.6 m (2010 – $29.6 m) were made to the Foundation.

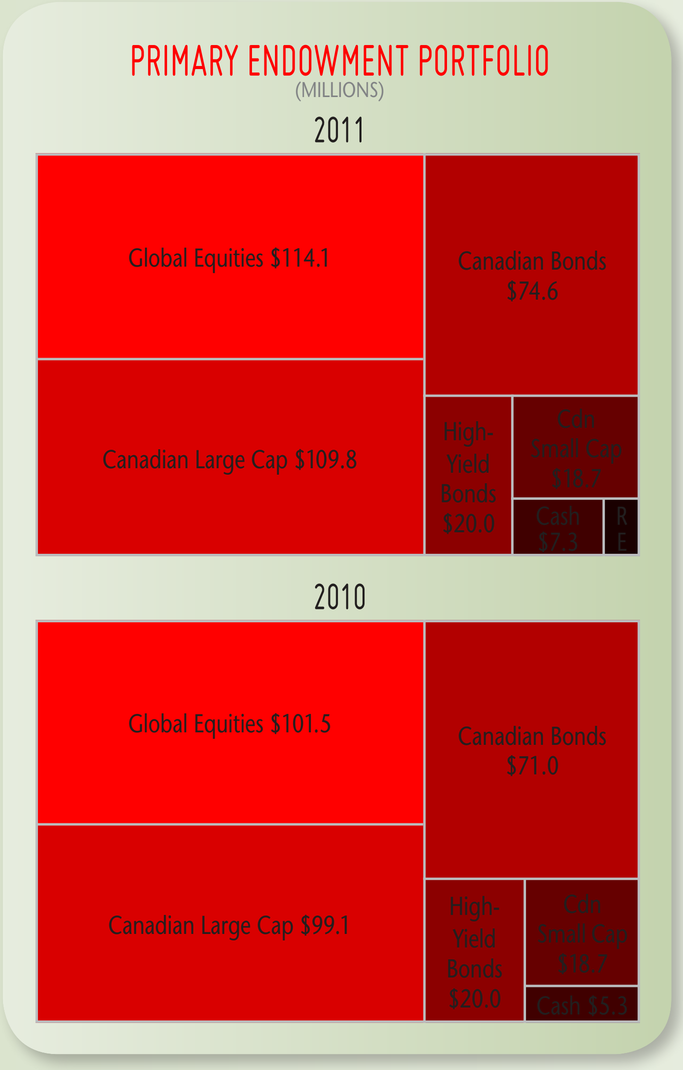
Grants and service costs were $26.5 m (2010 – $32.4 m) for foundation funds, including $6.7 m (2010 – $7.3 m) of flow-through grants. Withdrawals totalled $0.7 m (2010 – $4.0 m) from managed funds. (Managed funds are endowments owned by other charitable organizations. The managed funds liability is represented on the Consolidated Statement of Financial Position as a claim on the Foundation's primary endowment portfolio by these other charitable organizations.)



Investments

The total assets at March 31, 2011 included $347.4 m (2010 - $309.8 m) in investments representing $337.4 m (2010 - $303.3 m) of primary endowment portfolio investments, $8.7 m (2010 - $6.2 m) of securities retained at the direction of the donors, $1.0 m in gifted securities awaiting monetization (2010 – nil) 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 only $2.9 m or 0.8% (2010 – nil) had been invested in this mandate because the demand for commercial real estate investments across the country has driven up asking prices beyond the prices that would meet the investment managers' valuation criteria.

At fiscal year-end, 21.5% (2010 – 22.8%) of the primary endowment portfolio was invested in Canadian bonds, 5.8% (2010 – 5.9%) in high yield bonds, 31.6% (2010 – 31.9%) in Canadian equities, 32.8% (2010 – 32.6%) in non-Canadian global equities, 5.4% (2010 – 5.1%) in Canadian small cap equities, 0.8% (2010 – nil) in Canadian real estate and 2.1% (2010 – 1.7%) in cash.

Before considering the relevant fees, the primary endowment portfolio gained 10.6% (2010 – 26.6%) during the fiscal year. By way of comparison, a weighting of the passive benchmark indices equal to that of the portfolio gained 12.0% (2010 – 23.5%) in the same year. The median return of a generally comparable group of endowment funds was 10.0% (2010 - 20.8%). The portfolio's relative outperformance was influenced by an overweight to Canadian equities vis-à-vis other endowment and foundation funds. The overweight was due to all but 0.8% of the 5% portfolio allocation to real estate remaining invested in Canadian equities as it awaited deployment.

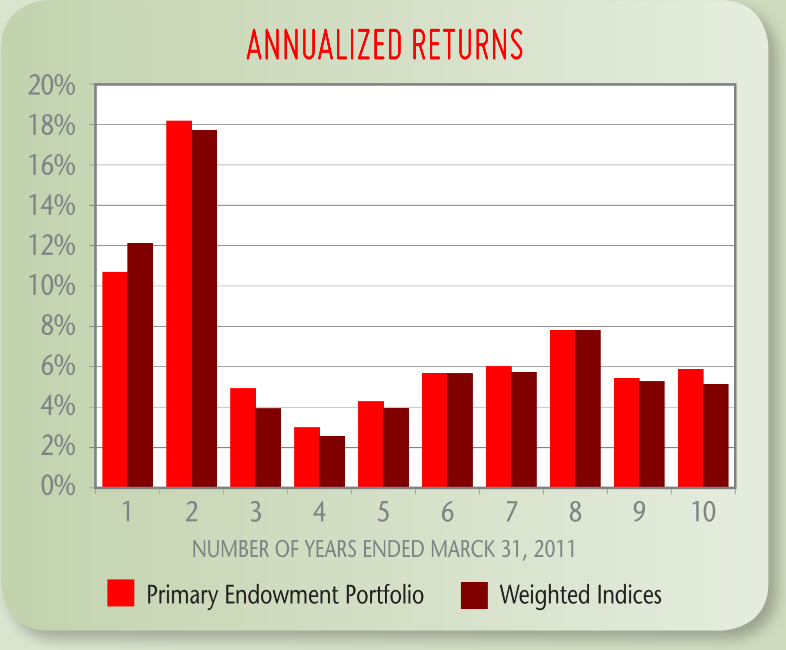
The Canadian bond mandate is indexed to track the DEX Universe benchmark. The manager's tracking error in 2011 rose slightly to 5 basis points (bps) from the prior period 4 bps. This tracking error, inherent in indexed products, was due to the mis-weightings of holdings within the mandate as the manager attempted to replicate the hypothetical portfolio that is the index. The mandate returned 5.18%, exceeding the index return of 5.13%, for the twelve months ended March 31, 2011.

Global equity markets provided positive returns over the year with the MSCI World index (excluding Canada) gaining 8.3% in Canadian dollar terms, about 1/3 of the prior year's positive returns. The actively managed mandate, blending a growth and value style offset, gained a disappointing 4.3% in the year ended March 31, 2011 ranking it at the 91st percentile against the manager's peer group. This performance lagged the benchmark and median (8.6%). The style offset thesis did not hold in the year as neither the growth nor value style added value above the benchmark. The strength of the Canadian dollar versus the US dollar over the fiscal year again muted the gains in Canadian dollar terms but less so as the Canadian dollar did not strengthen versus other currencies as it did in the previous period.

The two Canadian equity managers averaged 21.1% over the year, outperforming a strong S&P/TSX Composite capped index by 70 bps and ranking the average return significantly above the median by 230 bps. At the end of the 2011 fiscal year both managers had adopted significant (>5%) sector weight differences than the index. One manager was overweight energy and underweight materials and financials. The second manager was overweight industrials and financials and underweight energy and materials (one name in materials). As the managers were ranked at the 1st and 26th percentiles in their peer group for the quarter ended March 31, 2011, their differing sector allocations illustrated that their stock selection drove their returns.

The Canadian small capitalization (cap) equity mandate is also actively managed. The 17.7% return for the year significantly lagged both the median manager and the BMO Nesbitt Burns Small Cap benchmark index by more than 10%. The continued lack of significant exposure to the materials sector since the inception of the mandate in late 2009 and the adoption of defensive energy positions were responsible for the relative difference over the year but have also been the reason for the improved performance over the last quarter. The concentrated nature of the benchmark in these cyclical sectors has contributed to its large gains over the year and its more recent slowing.

The high-yield bond manager's 10.4% return for the year ended March 31, 2011 was good in absolute terms and relative to the median (37th percentile) and benchmark (50% DEX High Yield Bond Index and 50% Merrill Lynch High Yield Bond Canadian Issuers Index) return of 9.6%. Credit fundamentals explain, in part, why geopolitical events have not negatively impacted the credit markets. The improvement in balance sheets, brought about by the recovery of the financial system and return to corporate profitability has contributed to a steep drop in the default rate across the corporate sector. In addition, ratings agencies have been upgrading companies and sectors at a quickening pace since the end of the recession, contributing to investor confidence in corporate and high yield debt.



Donor Advised and Donor Restricted Investments

In support of our success in our key performance driver of Asset Growth, 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, has grown to $339 thousand (k) (2010 - $298 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. The BMO Harris Private Banking "Balanced Growth" portfolio, that includes Canadian, US, international and emerging market equities with Canadian bonds and cash, gained 12.8% (2010 –15.3%) for the year ended March 31, 2011. The BMO Nesbitt Burns "Balanced" Fund is invested in Canadian equities and fixed income with a small allocation to cash and non-Canadian bonds and returned 12.3% (2010 - 16.3%) for the entire period.

The $8.7 m market value (2010 – $6.2 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 an investment manager recommended by the donor. Governance policies have been adopted to ensure appropriate oversight and due diligence processes are in place to administer these relationships and appropriately invest and monitor these assets. Investment management agreements have been signed for the first investment of this type of $14.6 m to be made in fiscal 2012.

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.

	Primary endowment portfolio	*Flow-through investments*	*Donor Restricted investments*	*Donor Advised investments*	*Total 2011*
Revenue					
Contributions	$ 35,652,744	$13,391,150	$1,573,500	$ 20,000	$ 50,637,394
Interest and dividends	10,541,471	430,662	4,349	10,976,482	
Flow-through funds interest	169,814	4,467	—	—	174,281
Managed funds fees	137,681	—	—	137,681	
Realized capital gains (losses), net	3,299,211	(57,515)	—	1,067	3,242,763
Unrealized capital gains, net	17,793,669	464,317	934,344	31,366	19,223,696
Total revenue	67,594,590	13,802,418	2,938,506	56,782	84,392,297
Expenditures					
Grants	(15,138,881)	(6,724,565)	(362,395)	(12,890)	(22,238,731)
Service costs, net (note 7)	(4,105,325)	(49,337)	(69,975)	(2,797)	(4,227,433)
Total expenditures	(19,244,206)	(6,773,902)	(432,369)	(15,687)	(26,466,164)
Transfers	202,453	(194,771)	(7,682)	—	—
Decrease (increase) in deferred flow-through grants	—	(6,833,746)	—	—	(6,833,746)
Change during the year	48,552,837	—	2,498,455	41,096	51,092,387
Balance, beginning of year	299,437,571	—	6,170,139	298,184	305,905,894
Balance, end of year	$347,990,408	$ —	$8,668,594	$ 339,280	$356,998,281

Cash and cash equivalents

Cash and cash equivalents increased to $46.9 m from $23.5 m at the prior fiscal year end. The March 31, 2011 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 $21.6 m ($16.5 m - March 31, 2010).

The remaining balance is comprised of $7.5 m (2010 - $4.0 m) held for liquidity for grants and operational expenses, $2.6 m (2010 - $2.4 m) managed by the primary endowment portfolio managers within their respective mandates, $14.6 m (2010- nil) awaiting deployment into the donor advised investment described above and $0.6 m (2010 - $0.7 m) represents distributions and related interest income from securities retained at the direction of the donors.

OPERATIONS

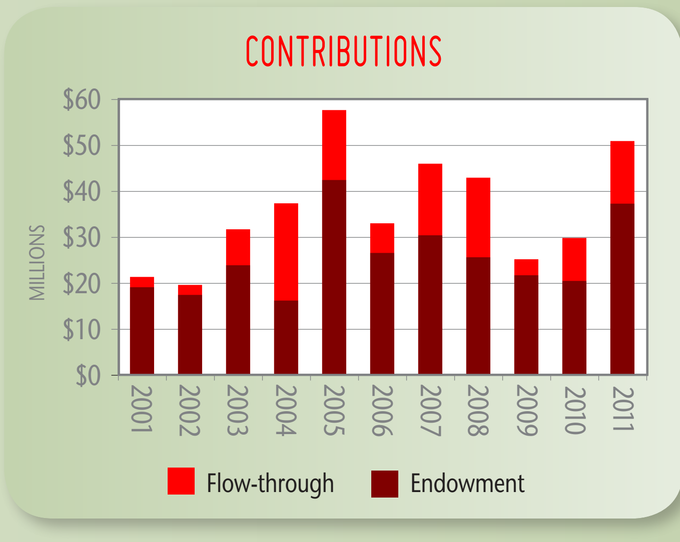
Revenue

During the twelve months ended March 31, 2011, contributions to the Foundation-owned endowment funds totalled $37.2 m compared to $20.9 m for the prior fiscal year. Contributions of $27.0 m for the fiscal year, compared to $8.3 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 $10.3 m for the period compared to $12.6 m for the same prior year period were gifted to Donor Advised and Designated funds. Flow-through contributions added $13.4 m in the period ($8.7 m for the twelve months ended March 31, 2010).

Contributions of non-cash gifts of $25.4 m, with one gift of private company shares from an estate valued at $19.0 m, were received as compared to $12.4 m in the previous year. Substantially all of these non-cash gifts were gifts of securities which were converted to cash and reinvested. 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.

On average, bequests make up approximately 1/3 of the gifts to the Foundation. As illustrated in this fiscal year, the trend towards an increase in bequests related to the life cycle of the Foundation and the changing demographics of the city continues. Over the past 56 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:



- 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 $3.4 m in 2011 and $3.1 m in 2010.
- Interest earned on the money market instruments, representing flow-through contributions, totalled $170 k (2010 – $29 k) and represented 4% of the revenue available to satisfy service costs in the year (1% in fiscal 2010). The interest revenue, still constrained by historically low rates, grew year over year due to a higher balance held in money market instruments.
- Managed funds fees of $138 k ($130 k in 2010) represented 3% of service costs for 2011, down from 4% in 2010. As the managed funds are invested in the same way as the individual endowment funds, the market impacts 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 $15.5 m, compared with $21.5 m during the same period in 2009-10. Grants of $3.3 m ($2.2 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:

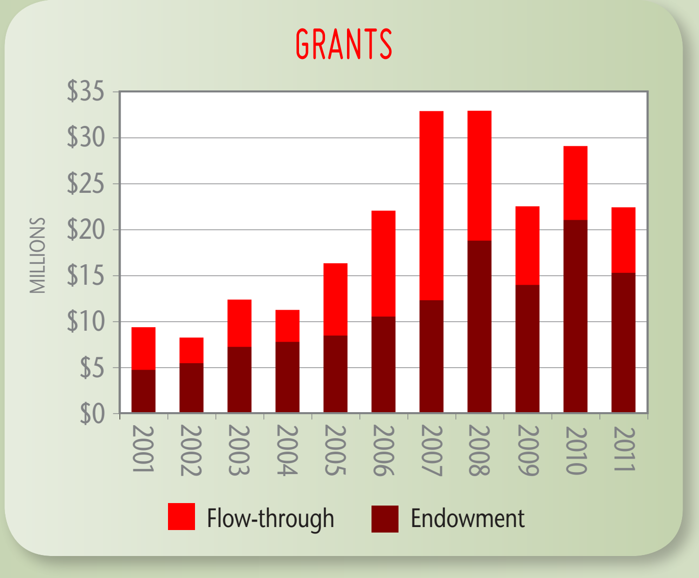
- Community Grants support initiatives that respond to emerging community issues and evolving priorities – The program continued to increase the number of grants awarded to charities to explore or implement shared service and shared space options. A major proactive granting commitment to human resources 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 28 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 ten grants in 2011, compared to twelve 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.

- Daryl K. Seaman Canadian Hockey Fund grants totalling $250 k were made for the first time. Nine grants included the Canadian Hockey Hall of Fame and Museum, Kidsport Canada and Greater Bragg Creek Trails Association.

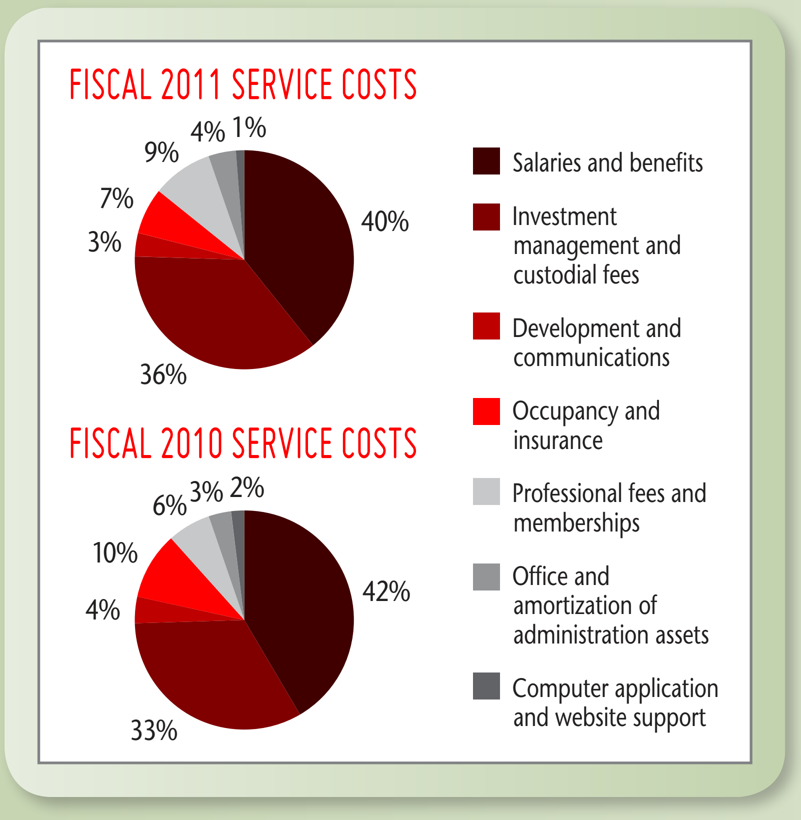
Over 60 volunteers are actively engaged in reviewing proposals to the Community and Neighbour grants programs – a key strategy in our grantmaking.

Distributions to charitable organizations of $12.2 m and $19.3 m were made in the twelve month periods ended March 31, 2011 and 2010 respectively from Donor Advised and Designated funds. Substantially all of the greater distribution in the 2010 fiscal year was due to two grants of term endowments (gifts endowed for a period of greater than 10 years but not in perpetuity) totalling $6.5 m.

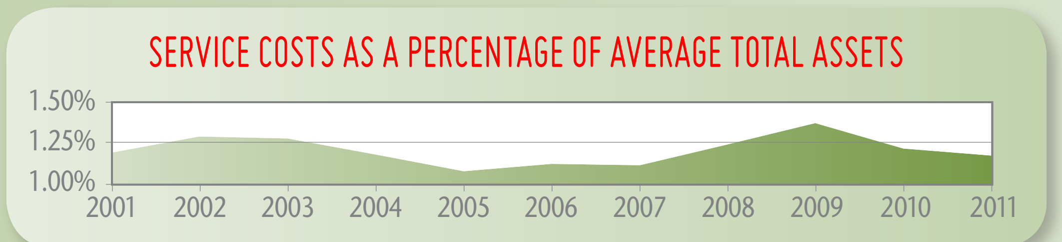
Flow-through grants were $6.7 m this year, as compared to $7.3 m for the fiscal year ended March 31, 2010. Flow-through grants are grants of capital arising from gifts that are not endowed. The timing of these flow-through grants is dependent on the timing of the donors' advice, the status of the recipient 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 drive performance are distinguished for management purposes between service costs, investment management costs and direct charitable activity. These costs totalled $4.2 m ($3.7 m in 2010). Three quarters of these costs, again this year, are human resource costs ($1.7 m – 2011, $1.5 m - 2010) and investment management costs ($1.5 m – 2011, $1.2 m - 2010).



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 operations, the asset classes and structure of the investment management program 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 dispersion of the ratio around the mean of 1.19% over the past decade.



PROSPECTIVE ANALYSIS AND RISKS

We continue to monitor the impact of government balance sheets on all three levels of government's ability to fund programs and organizations in the charitable sector in Calgary. Better than expected economic recovery in Canada has lessened, though not eliminated, our concern about increased demand on many charitable organizations and reduced financial support for those same organizations. The Foundation assumes that its operations in the 2012 fiscal year will be materially consistent with those in 2011 except for the impact of those factors discussed in this 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. Significant 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 $38 m over the last decade. Based on the recent levelling of the playing field between public and private foundations vis-à-vis the reduced inclusion rate for gifts of securities previously available only to public foundations, planned gifts of which we have been made aware, and our interpretation of demographic trends, we forecast that contributions of approximately $25 million annually will continue in the mid-term.

Risks to these expectations include regulatory, reputational and competitive challenges. The federal government's June 6, 2011 budget included provisions relating to charities that, amongst other things, levelled the playing field for qualified donees (i.e. organizations eligible to issue charitable donation receipts) in many respects and reduced the advantages of gifting flow-through shares. This attention paid to the charitable sector may presage additional regulations in the sector.

Reputational risks include risks due to actions of the Foundation itself as well as those of other charitable organizations. Greater than in the private sector, the improper actions of one charity reflect disproportionately on other charities. Governance structures, attention to internal controls and transparency and accountability initiatives mitigate the reputational risk to the Foundation. The support provided to other charitable organizations through the Organization Development & Transformation Grants helps support, to a small extent, these mitigating factors in smaller charitable organizations.

Competitive challenges in the growth of endowment building as part of educational, health and social services fundraising efforts could cause the expected and actual outlook for the Foundation's donors and fund development to diverge. Recent research in this area has better enabled the Foundation to understand our positioning in the charitable endowment-building landscape.

Grants:

Although the Foundation will continue to grant 5% of the March 31, 2011 market value of the endowment funds for the next twelve months, the percentage of the March 31, 2012 endowment that will be granted will be reduced to 4.5%. This rate, although lower than the prior year in percentage terms, is expected to result in greater funding dollars to charitable organizations in absolute terms because of the above average contributions this past fiscal year and the impact of the expected positive returns in the capital markets on the market values of the funds. In addition, we continue to grant well in excess of the Canada Revenue Agency requirement of 3.5%. Risks to this outlook include the impact on the capital markets of interest rate movements, the global economy and stock market volatility. This risk is two-fold as stock market losses and a return to sub-optimal economic growth will affect the absolute dollars that the Foundation has available to grant as well as reduce the dollars individuals and corporations give to the organizations we fund, thus increasing these organizations' demand for funding.

Primary Endowment Portfolio:

With 8 managers managing 7 mandates within a portfolio valued at $347.4 million, the complexity of the primary endowment portfolio has increased. This increase in complexity was driven by the asset mix optimization work undertaken to reduce correlations between asset classes and increase expected returns, the specialty investment manager structure seeking best in class performance and the increased scale of the institutional portfolio. Although greater than normal volatility in the capital markets is a continued risk, the Foundation expects that the changes to the asset mix initiated in 2008 and substantially completed in 2009 will result in risk-adjusted returns that are better, after fees, than those that would have been produced by the previous portfolio.