

Year Ended March 31, 2012

The Calgary Foundation

Annual Financial Report

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Management Discussion and Analysis

For the year ended March 31, 2012

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, 2012, compared to the preceding year. This MD&A should be read in conjunction with our audited financial statements and related notes dated June 28, 2012. 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 and 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 and addressing community issues;
- **catalyst and convener**, a meeting place fostering partnerships, engaging citizens;
- **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

Investing in the community

The Foundation invests in the community in two primary ways – through grants and proactive community leadership.

(i) Grants

Grants totaled \$31.9 million ('m') in the fiscal year (2011 – \$22.2 m). A range of granting programs supported large and small organizations in all parts of the charitable sector, as well as individuals and educational institutions through student awards (\$7.4 m, including a \$5 m grant of an endowment for scholarships, 2011 – \$2.5 m). 83% percent (2011 – 85%) of grants came from Donor advised and designated endowments and flow-through funds with the balance coming from Community and Field of Interest funds.

The Community and Field of Interest endowment funds supported the Community Grants program, Neighbour Grants, Stepping Stones, Organization Transformation Grants, "Small" and Proactive Grants. The Foundation also distributed \$9.1 m (2011 – \$9.1 m) in core operating grants.

Although all Foundation grants contribute to the capacity of an organization, there are specific granting streams with organizational capacity as their focus. This past year the Foundation granted \$86,750 to 12 charities from its Organization Transformation granting stream (2011 – \$58,660) to build capacity in board development and leadership, strategic planning, volunteer development, succession planning, information technology transformation, communications initiatives, feasibility studies, collaborations, space sharing, and mergers. Through the Community Grants program's "Strengthen Charities" category, 28 grants were awarded totalling almost \$940,000 (2011 – \$895,890). The Foundation provided \$100,000 (2011 – \$nil) in grants to support the program amalgamation of two of Calgary's major capacity-building charities (Volunteer Calgary and CentrePoint) to form one stronger organization serving the entire non-profit sector. While the Foundation continues to provide capacity building grants for specific charities, it is also working with other capacity builders to promote common terminology and approaches. Learning in the sector was encouraged through ten conferences supported with \$48,000 (2011 – \$102,350) in Foundation grants.

(ii) Proactive Community Leadership

Knowledge of community needs and the work of charitable organizations across all sectors, derived from 57 years of experience, have 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 continued to address community issues and build a strong community for the benefit of all. This is the direct charitable activity of the Foundation. Throughout the year it included:

- **Calgary's Vital Signs®**

Calgary's Vital Signs® is an annual check-up produced by the Foundation that measures the vitality of Calgary, identifies significant trends, and assigns grades in areas critical to the quality of life in Calgary. Engagement of Calgarians in producing this report is key, as the report promotes philanthropy and engages citizens by asking them to identify needs in the community and address these issues with their comments. The calendar 2011 report saw nearly 1,100 citizens participate and approximately 8,000 comments received (calendar 2010 – 1,200 participants and 22,000 comments). A need for public dialogue and discussion stemmed from the Vital Signs® Report, and in 2011/12 we continued with a series of Vital Conversations in partnership with the Calgary Public Library. The Foundation convened citizens to address issues as varied as: "Fundamentals of Food", "Arts & Culture", "Literacy" and "Calgary 2012: Canada's Cultural Capital". Vital Conversations continued to engage, convene and connect Calgarians and non-profit organizations by giving them the tools and knowledge to begin addressing the needs of each sector.

- **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. The King Edward School project will connect and enable non-profit cultural organizations, the next generation of artists, social entrepreneurs and the neighbourhood of South Calgary. The property was formally transferred from the Calgary Board of Education to cSPACE Projects on December 2, 2011, facilitated by a loan from the Foundation. Renovation is anticipated to begin in 2013.

Harvie Passage (on the Bow River)

Imagined 20 years ago, and initiated 10 years ago, this project saw near completion in the year. A group of concerned Calgarians established a process for improving the weir area to avoid the dangerous side-effect of a lethal hydraulic wave, which has claimed the lives of fourteen people, while maintaining its important irrigation function and enabling continuous river passage for fish, wildlife and people. This group of stakeholders began developing the plan in 2001 and it 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. For the first time in over 100 years, the Bow River flows freely. Opening celebrations are scheduled for August 2012.

- **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. This past year, progress was made in developing the technical, strategic and marketing plans and implementation will commence in 2012.

Engage Donors

The Foundation is committed to engaging donors by identifying community needs of interest to them, fostering stronger relationships and adding greater meaning to their philanthropy. One of our measures is an increasing number of new donors. From a record number of 488 donor meetings and conversations in the period (2011 – 357), we created 54 new funds (2011 – 55) this year, received \$56.4 m (2011 – \$50.6 m) in contributions and recorded an additional 5 new bequests (2011 – 4).

As well, stewarding our existing donors through a variety of intentional touches included the contact made by members of our Board Directors to 26% of the contacts for existing funds through the first full year of our face-to-face initiative. From those contacted, in excess of 95% of donors were very satisfied with the Foundation and about 50% affirmed their continued commitment to grow the funds through both living and testamentary gifts.

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 (lawyers, accountants, investment advisors, etc.) is a key strategy for the Foundation to reach new audiences and promote philanthropy. Growing our reach to advisors through a series of electronic newsletters (3) (2011 – 3), speaking engagements (8 events touching 100 attendees, 2011 – 3) and one-to-one peer conversations (25) (2011 – 18), we increased the number of Professional Advisors in our sphere by 18%. The referrals of new donors from the advisor community continue to dominate the referral source and this year, 35% of the new funds created were directly attributable to this source (2011 – 30%).

The investments of the primary endowment fund are 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 Foundation's appointment of a Vice-President, Investments in February 2012 – only the second community foundation in Canada to hire for this management position – to focus exclusively on the primary endowment portfolio and donor advised investments emphasizes this focus.

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. The Foundation disbursed 5% of the market value of the endowment in fiscal 2012 but due to reduced mid-term return expectations in the equity markets, current low interest rates on fixed income instruments and the ongoing uncertainty, the distribution percentage has been reduced to 4.5% for the fiscal year ending March 31, 2013.

Build Confidence and Profile

In order to partner with other organizations in granting and 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.

- **2012 Events:**

The Friends of the Foundation Annual Celebration (FOFAC)

FOFAC promotes philanthropy by gathering community leaders, local non-profit organizations, donors and engaged citizens for an overview of the charitable sector and a year in review at the Foundation. The 2012 FOFAC brought in over 600 attendees (a 33% increase from 2011) who heard about community issues such as arts, poverty and happiness.

Jane's Walk

Organized again by the Foundation in 2012, Jane's Walk, included 22 local walks (2011 – 20), engaged 600 citizens (a 33% increase over 2011) and was held in conjunction with the national Jane's Walk that celebrates the legacy of famed urbanist Jane Jacobs.

- **2012 Communications Vehicles:**

Social Media

Social media, including Twitter and Facebook, were used for event and publication promotion. As of March 2012, the Foundation had over 2,800 followers on Twitter and over 275 friends on Facebook (a 55% increase for both from 2011). Strong support from the Twitter community was exhibited, including Mayor Nenshi re-tweets and live-tweeting during both Jane's Walk and FOFAC, the latter of which caused the Foundation to "trend" across Canada during the event.

Website

From April 2011 to March 2012, the Foundation's website saw 31,070 unique visits, with the largest percentage of visitors viewing the 'Grants' section. The number of unique visits represented a 16% increase from the prior year.

Printed Publications

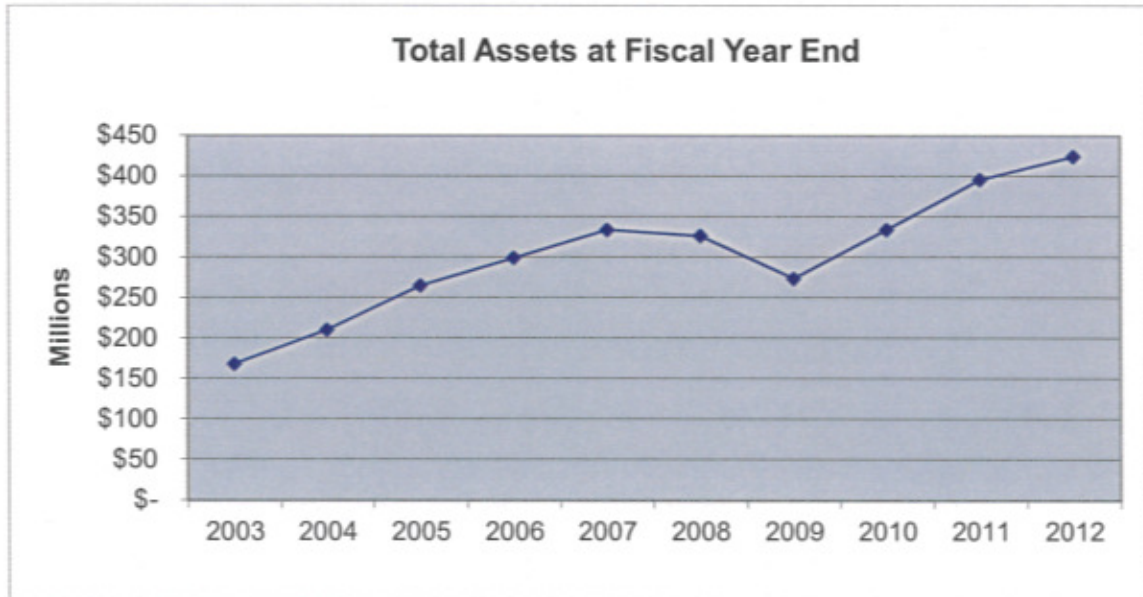
The 'Spring' and 'Fall' newsletters, Professional Advisor newsletters, and Annual Report were distributed to over 10,000 stakeholders.

Similar to profiling the impact of the Community Grants program to support our aim of engaging donors more fully, specific attention will be paid in 2013 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

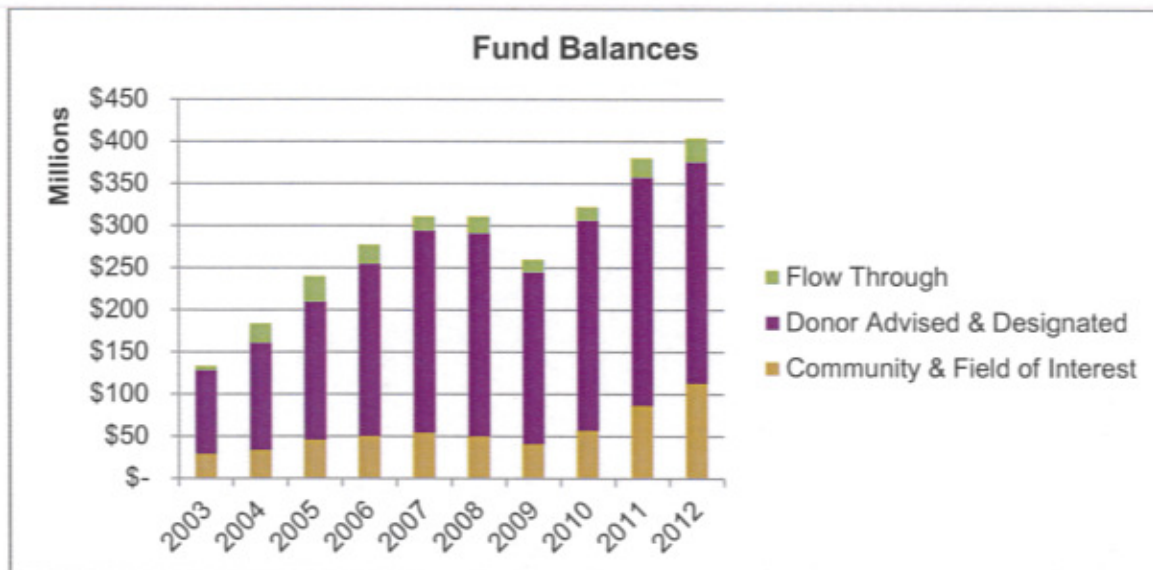
Assets

The Foundation's assets under administration as at March 31, 2012 totalled \$424.7 m as compared to \$396.2 m at March 31, 2011. The March 31, 2012 figure represents a 7% increase from the prior year end and compares to an increase of 18% in the year ended March 31, 2011.



Of the total assets under administration at fiscal year end, \$15.9 m (2011 – \$14.0 m) of assets represent 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.

The distribution of the Foundation-owned fund balances amongst Community and Field of Interest, Donor Advised and Designated and Flow-through are as follows:



Investments

The total assets of the Foundation's primary endowment fund ("Fund") at March 31, 2012 were \$368.1 m (2011 – \$347.4 m). The Fund is managed by external investment managers in accordance with the Statement of Investment Policy and Procedures ("SIP"). The principal purpose of the SIP is to formulate guidelines for the prudent investment of the Fund. The SIP establishes and communicates the Foundation's investment objectives and principal governance policies.

The Foundation's primary investment objective is to earn a rate of return over the long term that preserves the real purchasing power of the Fund's assets. The return objective consists of a spending rate, an assumed rate of inflation, and administrative cost of operating the Foundation. The long-term average real rate of return objective, as measured over moving 10-year periods, is expected to be 5.5%. In order to achieve this long term return objective, the Foundation employs a total return investment strategy that adds capital gains to the list of potential income sources. In implementing such a strategy, the Foundation recognizes and acknowledges some risk must be assumed in order to achieve the long-term investment objectives of the portfolio, and there are uncertainties and complexities associated with investing in capital markets. The Foundation accepts that the greatest risk is the probability of failing to preserve the real purchasing power for the Fund's assets over the time horizon. In establishing the risk tolerances for the Fund, the Foundation's ability to withstand short and intermediate term variability was considered. The Foundation's prospects for the future, investment time horizon, current financial condition and level of funding in the portfolio suggest short term fluctuations in market value and rates of return may be tolerated within the portfolio while still achieving the Fund's longer term investment objectives.

Asset Allocation

At fiscal year-end 2012 and 2011, TCF's asset allocations were as follows:

Asset Class	2012	2011
Cash and Equivalents	2.2%	2.1%
Fixed Income	28.9%	27.3%
Canadian Equity	33.3%	37.0%
Global Equity	34.3%	32.8%
Real Estate	1.3%	0.8%

Fund Performance

The Fund appreciated 1.0% (2011, 10.6%) during the fiscal year ending March 31, 2012. Strong absolute returns in the Fund's fixed income asset class which includes both universe and high yield bond mandates was largely offset by the negative Canadian and global equity returns.

Over the one year period ending March 31, 2012, the Canadian bond mandate, which is indexed to track the performance of the DEX Universe Index, returned 9.7% (2011, 5.2%). Accommodative monetary policy and economic uncertainty, largely driven by the events in Europe, continued to foster a supportive environment for bonds in 2011. The high-yield bond manager's 6.5% return (2011, 10.4%) for the year ended March 31, 2012, contributed positively in both absolute and relative terms outpacing the High Yield Bond benchmark return of 3.9%.

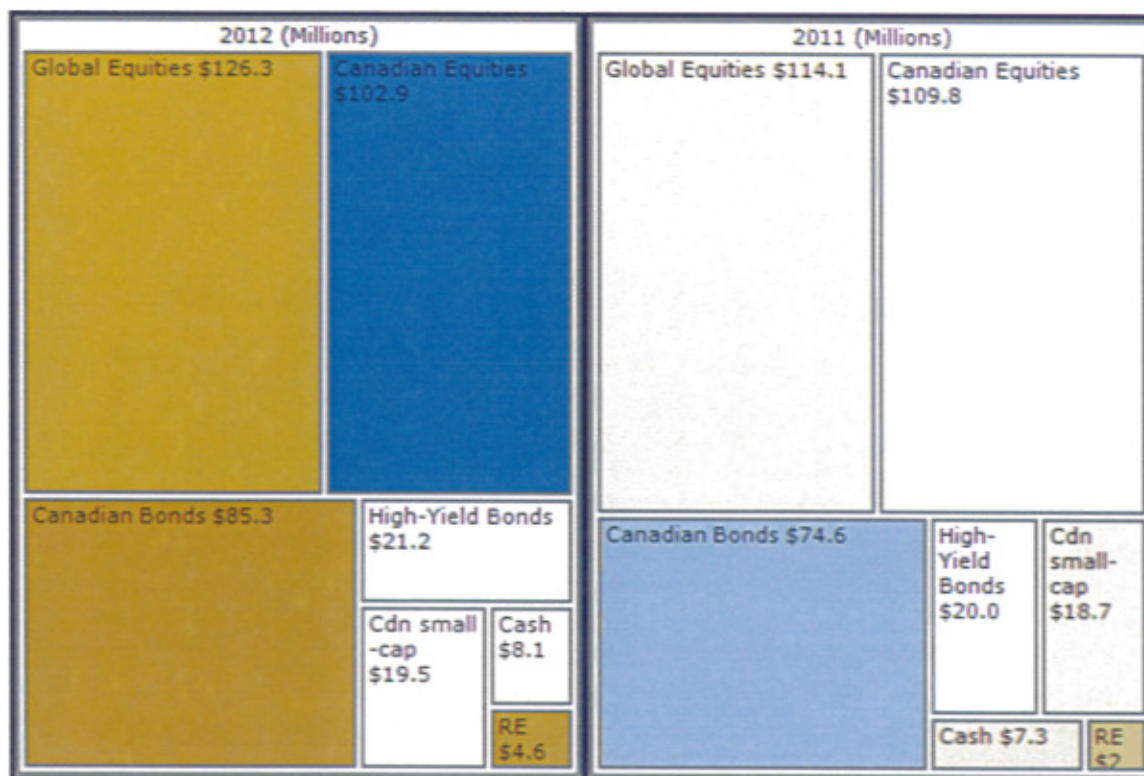
Global economic growth was relatively robust in 2011 despite the numerous macro-economic shocks the economy had to contend with throughout the year. During the fiscal year ending March 31, 2012, the MSCI World Index (excluding Canada) returned a positive 4.2%. In contrast, our global equity mandate under-performed over the same time period returning negative 2.7% (2011, positive 4.3%) in Canadian dollars. In 2011 we terminated our underperforming global equity manager. In addition to the deteriorating performance fundamentals there were a number of organizational and personnel changes that precipitated making the change. The assets were transitioned to a passively managed global mandate.

Our Canadian equity managers averaged a negative 1.8% (2011, positive 21.1%) return over the year. While this was a poor absolute result, on a relative basis our Canadian equity managers significantly outperformed the benchmark (S&P/TSX Composite capped index) return of negative 9.9%. Furthermore, the actively managed Canadian small capitalization equity mandate returned a strong 5.2% (2011, positive 17.7%) significantly ahead of the BMO Nesbitt Burns Small Cap benchmark index return of negative 10.9%.

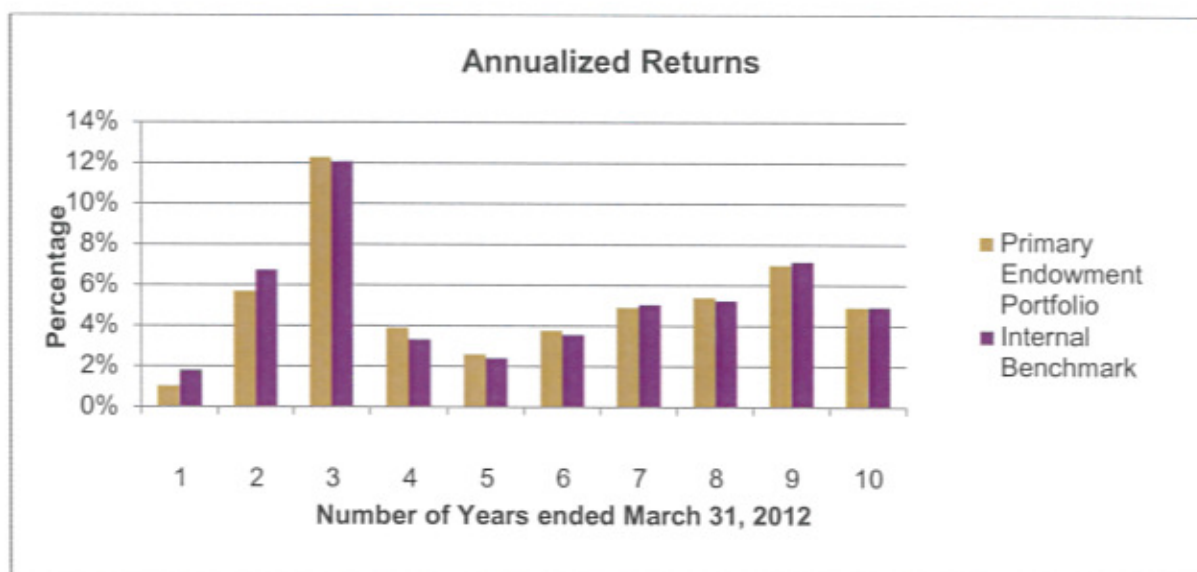
Our real estate mandate returned 4.1% for the one year period ending March 31, 2012. Our real estate investment was funded in November 2010 with the goal of achieving a 5% policy weight after the Fund's investment period. In early 2012, a one-year extension of the investment period was granted to February 2013 to facilitate the investment strategy for the real estate mandate.

The following table summarizes the Foundation's investment asset mix as at March 31, 2012 versus March 31, 2011.

Primary Endowment Portfolio



The following graph illustrates the comparative returns of the primary endowment portfolio versus our internal benchmark. The internal benchmark is a policy weighting of comparative passive indexes.



Donor Advised and Donor Restricted Investments

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

An 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. At fiscal year-end \$13.4 m (2011, \$0.3 m) was invested in Donor Advised investments.

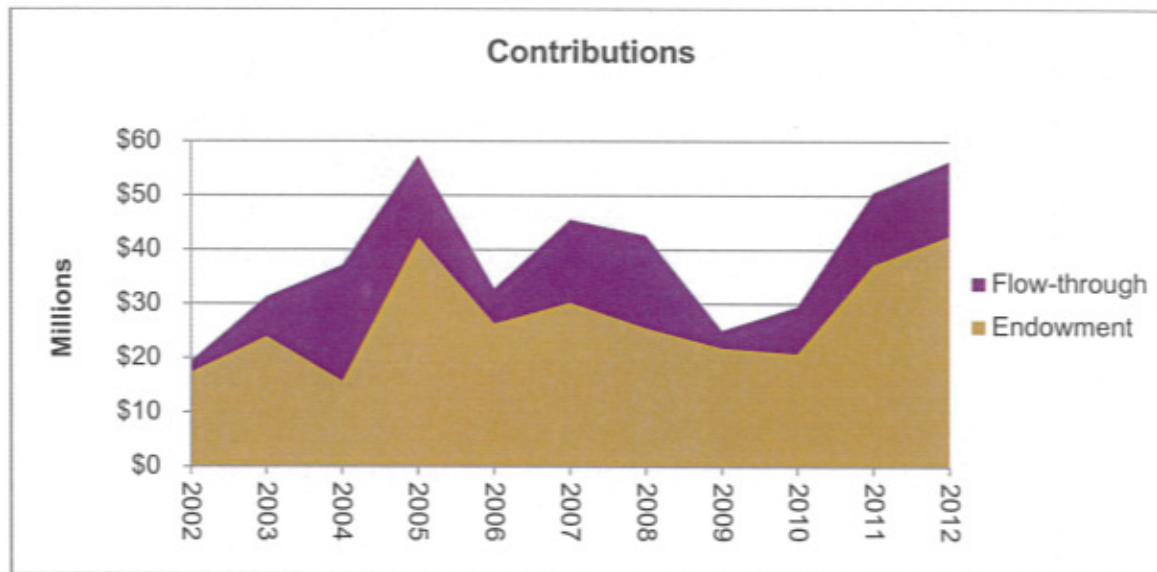
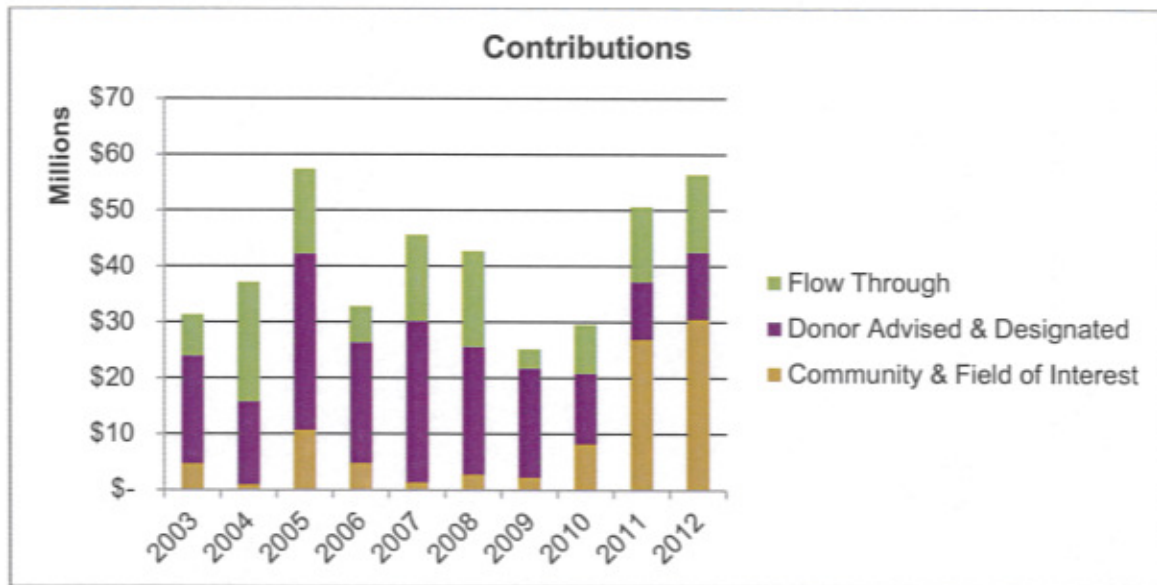
The \$9.2 m market value (2011, \$8.7 m) of gifts of securities retained at the direction of the donors – donor restricted securities – represents a second alternative for investing endowment gifts. The specific conditions of the gift agreements establish the manner in which these securities are administered. The agreements limit these types of endowments to a specified term.

The following statement is a non-GAAP presentation of the audited consolidated 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 securities	Donor Advised investments	Total 2012
Revenue					
Contributions	\$ 42,573,185	\$ 13,814,451	\$ –	\$ 25	\$ 56,387,661
Interest and dividends	13,829,280	–	405,189	7,728	14,242,197
Flow-through funds interest	225,444	29,236	–	–	254,680
Managed funds fees	179,597	–	–	–	179,597
Realized capital gains (losses), net	(18,415,776)	238,960	(243,170)	617	(18,419,369)
Unrealized capital gains, net	10,516,718	(174,311)	(1,885,699)	(957,175)	7,499,533
Total revenue	48,908,448	13,908,336	(1,723,680)	(948,805)	60,144,299
Expenditures					
Grants	(21,855,971)	(8,180,812)	(1,157,978)	(735,629)	(31,930,391)
Service costs, net (note 11)	(3,967,339)	(156,938)	(62,633)	(61,358)	(4,248,268)
Total expenditures	(25,823,311)	(8,337,750)	(1,220,611)	(796,987)	(36,178,659)
Transfers	(14,843,721)	9,225	11,122	14,823,374	–
Decrease (increase) in deferred flow-through grants	–	(5,579,810)	–	–	(5,579,810)
Change during the year	8,241,416	–	(2,933,169)	13,077,581	18,385,830
Balance, beginning of year	347,990,407	–	8,668,594	339,280	356,998,281
Balance, end of year	\$356,231,824	\$ –	\$ 5,735,425	\$ 13,416,861	\$ 375,384,111

OPERATIONS

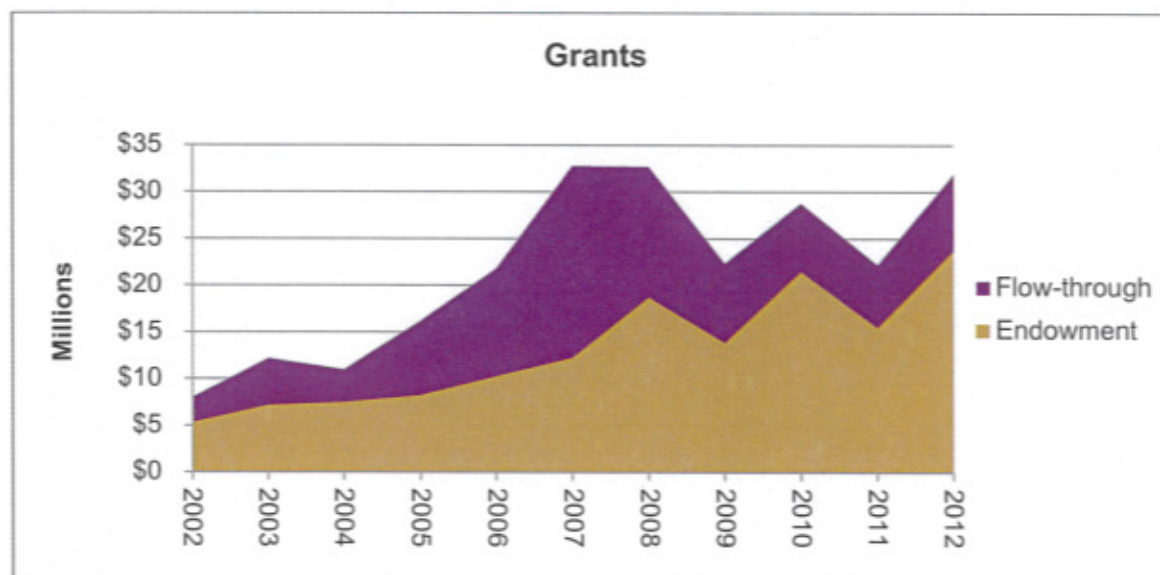
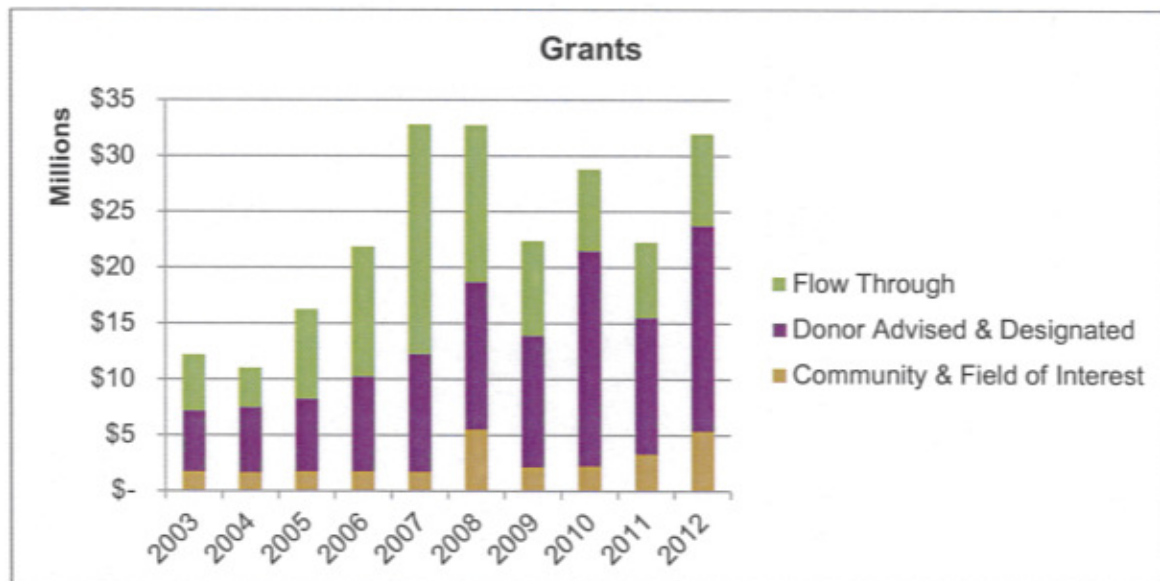
Revenue

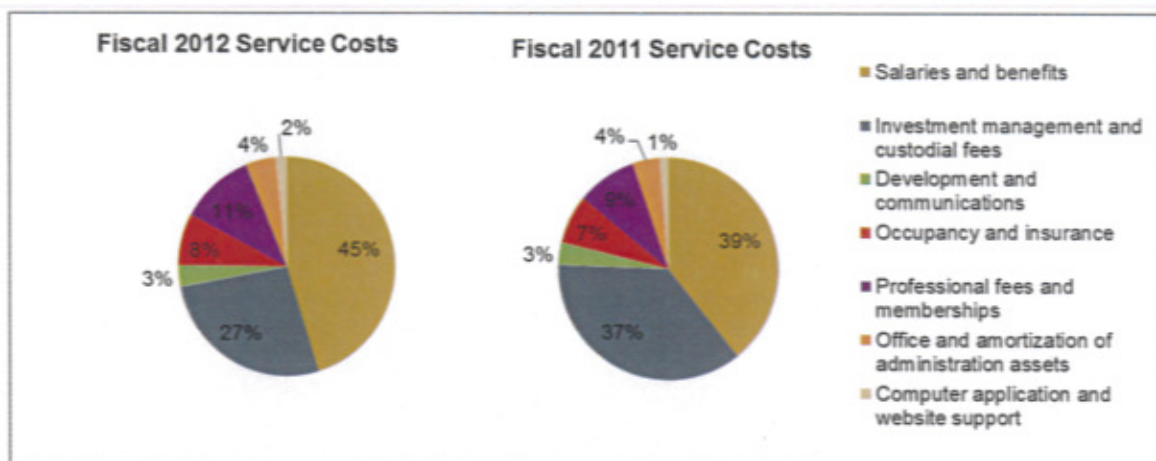


Contributions of non-cash gifts of \$28.9 m (2011 – \$25.4 m), with one gift of private company shares from an estate valued at \$12.2 m (2011 – \$19.0 m), were received. The majority of these non-cash gifts were gifts of securities which were converted to cash and reinvested. Gifts of shares have made 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 57 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.

Expenditures

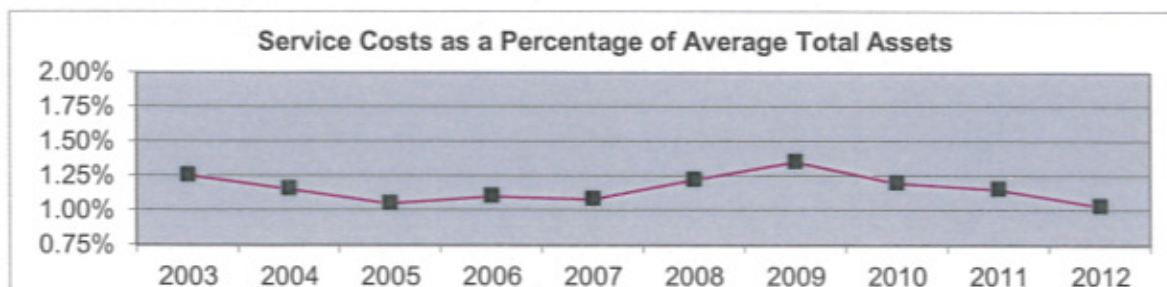




The service costs incurred to execute the strategy and drive performance are distinguished for management purposes between service costs, investment management costs and direct charitable activity. These costs totalled \$4.2 m (\$4.2 m in 2011). Over 70% of these costs (72% – 2012, 75% – 2011), again this year, are human resource costs (\$1.9 m – 2012, \$1.7 m – 2011) and investment management costs (\$1.1 m – 2012, \$1.5 m – 2011).

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, professional and technical costs directly attributable to gift acceptance and initiatives in the community. Strategic planning time horizons and longer term initiatives combined with uneven timing of contributions and short term swings in the capital markets result in dispersion of the ratio around the mean of 1.16% over the past decade.

The Foundation aims to manage to a range around 1% of service costs as a percentage of average asset value.



The service and investment management costs incurred to operate the Foundation that are not directly attributable to a particular gift are recovered from the funds. The recovery process is as follows:

- (i) A percentage of the market value of the individual endowment funds is recovered by way of a tiered schedule. The amount of this recovery totalled \$3.6 m in 2012 and \$3.4 m in 2011.

- (ii) Interest earned on the money market instruments, in which flow-through contributions are invested, totalled \$254 thousand ('k') (2011 – \$170 k) and represented 6% of the revenue available to satisfy service and investment management costs in the year (4% in fiscal 2011). The interest revenue, continuing to be constrained by historically low short term rates, grew year over year due to a 35% higher return and a larger daily average balance in money market instruments.
- (iii) Managed fund fees of \$180 k (\$138 k in 2011) represented 4% of service costs and investment management for 2012, up from 3% in 2011. Managed fund deposits, net of withdrawals, totalled \$1.8 m in the year (\$2.4 m in 2011). As the managed funds are invested in the same way as the Foundation-owned endowment funds, the market impacts this source of revenue in the same manner as i) above.

Direct charitable activity costs are funded from the grant amounts available to spend from Community and Field of Interest funds.

PROSPECTIVE ANALYSIS AND RISKS

In coming out of the 2009 recession, the 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. Federal government spending cuts and the shrinking of the number of federal government employees coupled with the deficit position of the provincial government directly limit the funding of programs and organizations in the charitable sector in Calgary.

The Foundation assumes that its operations in the 2013 fiscal year will be materially consistent with those in 2012 except for the possible impact of risk factors discussed in the following sections.

Donors:

The impact on donors' ability to financially support their favoured charitable causes through the Foundation will be dependent, in part, on the impact of US and European economic performance on local businesses and wealth creation. More directly, 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. Continued 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 almost \$41 m annually 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 the taxation of capital gains on gifts of securities previously available only to public foundations, planned gifts of which we have been made aware, our interpretation of demographic trends, and our perception of the continued philanthropic leadership of Calgary's citizenry, we foresee contributions of approximately \$25 million annually in the mid-term.

Our existing donor base and the community demographics support the opportunity to implement an intentional strategy for multi-generational engagement in the next several years. The Foundation is preparing a position paper that will advance its mission to promote and facilitate philanthropy. The paper will address the question "How to Make Philanthropy a Family Affair" and suggest strategies for donor and professional advisor engagement that are adaptable, deliberate and timely.

Risks to these expectations, as described last year, 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.

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 help support, to a small extent, these mitigating factors in smaller charitable organizations.

Grants:

As detailed in last year's report, the Foundation will grant 4.5% of the March 31, 2012 market value of the endowment funds for the next twelve months, down from 5% percent of the March 31, 2011 endowment. This rate reduction, coupled with the lacklustre returns from the equity markets, will result in lesser funding dollars to charitable organizations in fiscal 2013 from existing funds. In addition, we continue to grant 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 economies 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:

The primary endowment portfolio has grown to \$368.1 m for the fiscal year ended 2012. In 2011, we completed an asset mix study. The result of this work will lead to new asset class mandates being incorporated within our existing specialty investment manager structure. It is worth noting that the inclusion of any new asset class is always done to further our investment objective which is to preserve the real purchasing power of the Funds' assets over the longer term. In an economic environment characterized by slow growth and capital market volatility the Foundation expects that the changes to the asset mix initiated in 2012 will result in better risk-adjusted returns over the long term.



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INDEPENDENT AUDITORS' REPORT TO THE DIRECTORS

We have audited the accompanying financial statements of The Calgary Foundation which comprise the consolidated statement of financial position as at March 31, 2012, 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, 2012, 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 28, 2012
Calgary, Canada

THE CALGARY FOUNDATION

Consolidated Statement of Financial Position

March 31, 2012, with comparative figures for 2011

	2012	2011
Assets (note 3)		
Current assets		
Cash and cash equivalents	\$ 32,564,333	\$ 46,949,152
Accrued investment income	537,073	396,980
Deposit for real estate acquisition (note 4)	—	500,000
Current portion of loan receivable (note 5)	5,000,000	—
	38,101,406	47,846,132
Investments, at fair value (note 6)	382,717,180	347,439,070
Loan receivable (note 5)	2,940,576	—
Other assets (note 7)	958,500	883,368
	<u>\$ 424,717,662</u>	<u>\$ 396,168,570</u>
Liabilities and Funds		
Current liabilities		
Grants payable and accrued liabilities	\$ 1,402,437	\$ 921,930
Deferred flow-through grants (note 8)	28,532,660	22,952,850
	29,935,097	23,874,780
Non-current grants payable	3,530,440	1,269,144
Managed funds (note 9)	15,868,014	14,026,365
Foundation funds		
Community and field of interest funds (note 8)	113,114,073	86,516,807
Donor advised and designated funds (note 8)	262,270,038	270,481,474
	375,384,111	356,998,281
Commitments (note 10)		
	<u>\$ 424,717,662</u>	<u>\$ 396,168,570</u>

See accompanying notes to the consolidated financial statements.

Approved by the Board

Abhin J. Lowe Director

S. K. Jey Director

THE CALGARY FOUNDATION

Consolidated Statement of Operations and Changes in Foundation Funds

Year ended March 31, 2012, with comparative figures for 2011

	Community & Field of Interest	Donor Advised & Designated	Flow-through	Total 2012	Total 2011
Revenue					
Contributions	\$30,577,456	\$ 11,995,754	\$ 13,814,451	\$ 56,387,661	\$ 50,637,394
Interest and dividends	4,207,351	10,034,846	—	14,242,197	10,976,482
Flow-through funds interest	225,444	—	29,236	254,680	174,281
Managed funds fees (note 9)	179,597	—	—	179,597	137,681
Realized capital gains (losses), net	(5,477,621)	(13,180,708)	238,960	(18,419,369)	3,242,763
Unrealized capital gains (losses), net	3,364,591	4,309,253	(174,311)	7,499,533	19,223,696
Total revenue	33,076,818	13,159,145	13,908,336	60,144,299	84,392,297
Expenditures					
Grants	(5,373,971)	(18,375,607)	(8,180,813)	(31,930,391)	(22,238,731)
Service costs, net (note 11)	(1,362,925)	(2,728,405)	(156,938)	(4,248,268)	(4,227,433)
Total expenditures	(6,736,896)	(21,104,012)	(8,337,751)	(36,178,659)	(26,466,164)
Transfers	257,344	(266,569)	9,225	—	—
Increase in deferred flow-through grants	—	—	(5,579,810)	(5,579,810)	(6,833,746)
Change during the year	26,597,266	(8,211,436)	—	18,385,830	51,092,387
Balance, beginning of year	86,516,807	270,481,474	—	356,998,281	305,905,894
Balance, end of year	\$ 113,114,073	\$262,270,038	\$ —	\$ 375,384,111	\$ 356,998,281

See accompanying notes to the consolidated financial statements.

THE CALGARY FOUNDATION

Consolidated Statement of Cash Flow

Year ended March 31, 2012, with comparative figures for 2011

	2012	2011
Cash provided from (used in):		
Operating activities:		
Change in Foundation funds	\$ 18,385,830	\$ 51,092,387
Change in Managed funds (note 9)	1,841,649	3,462,357
Change in deferred flow-through grants	5,579,810	6,833,746
Change in funds	25,807,289	61,388,490
Change in non-current grants payable	2,261,296	754,178
Items not involving cash:		
Realized capital (gain) loss on sale of investments	19,259,745	(3,362,290)
Unrealized capital gain on investments	(7,968,273)	(19,896,221)
Contributions of non-cash gifts	(28,928,065)	(25,368,463)
Managed fund fees (note 9)	(179,597)	(137,681)
Amortization of administration assets (note 11)	18,890	27,356
	10,271,285	13,405,369
Changes in non-cash working capital:		
Accrued investment income	(140,093)	(57,558)
Deposit for real estate acquisition (note 4)	500,000	(500,000)
Life insurance proceeds receivable	—	76,271
Grants payable and accrued liabilities	480,507	(501,954)
	11,111,699	12,422,128
Investing activities:		
Purchase of administrative assets	(37,303)	(32,862)
Current portion of loan receivable (note 5)	(5,000,000)	—
Loan for real estate acquisition (note 5)	(2,940,576)	—
Proceeds from sale of endowment investments	150,717,315	44,770,652
Purchase of endowment investments	(168,235,954)	(33,706,689)
	(25,496,518)	11,031,101
Net increase (decrease) in cash and cash equivalents	(14,384,819)	23,453,229
Cash and cash equivalents, beginning of year	46,949,152	23,495,923
Cash and cash equivalents, end of year	\$ 32,564,333	\$ 46,949,152

See accompanying notes to the consolidated financial statements.

THE CALGARY FOUNDATION

Notes to the Consolidated Financial Statements

Year ended March 31, 2012, with comparative figures for 2011

1. The Calgary Foundation (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.

THE CALGARY FOUNDATION

Notes to the Consolidated Financial Statements, continued

Year ended March 31, 2012, with comparative figures for 2011

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 12). 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.

Held-for-trading financial instruments are measured at fair value with unrealized gains and losses recognized in the consolidated statement of operations. Available for sale financial assets are measured at fair value with gains and losses 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.

THE CALGARY FOUNDATION

Notes to the Consolidated Financial Statements, continued

Year ended March 31, 2012, with comparative figures for 2011

2. Significant accounting policies (continued)

(c) Foreign currency translation

Investments and accrued income receivable 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.

THE CALGARY FOUNDATION

Notes to the Consolidated Financial Statements, continued

Year ended March 31, 2012, with comparative figures for 2011

2. Significant accounting policies (continued)

(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 annual reporting periods that commence 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 has chosen to adopt the new Canadian accounting standards for not-for-profit organizations for its fiscal year beginning April 1, 2012. The impact of the adoption of these standards is currently being evaluated and finalized.

THE CALGARY FOUNDATION

Notes to the Consolidated Financial Statements, continued

Year ended March 31, 2012, with comparative figures for 2011

3. Assets by fund

	Community & Field of Interest	Donor Advised & Designated	Flow-through	Managed	Total
Cash and cash equivalents	\$ 1,730,417	\$ 5,207,990	\$ 25,394,583	\$ 231,343	\$ 32,564,333
Accrued investment income	380,668	127,813	21,340	7,252	537,073
Due (to) from funds	38,673	(38,673)	—	—	—
Current portion of loan receivable	5,000,000	—	—	—	5,000,000
Investments, at fair value	107,542,680	256,276,751	3,268,330	15,629,419	382,717,180
Loan receivable	2,940,576	—	—	—	2,940,576
Other assets	73,483	880,017	5,000	—	958,500
March 31, 2012	\$ 117,706,497	\$ 262,453,898	\$ 28,689,253	\$ 15,868,014	\$ 424,717,662
March 31, 2011	\$ 88,323,280	\$ 270,704,131	\$ 23,114,794	\$ 14,026,365	\$ 396,168,570

4. 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 that closed in the third quarter of 2011. The purchase of the historic property is the beginning of a project 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. The project is a 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.

During the year, the Foundation assigned the purchase and sale agreement to cSPACE Projects ("cSPACE"), a non-profit company established by CADA to promote, coordinate and facilitate real estate projects that establish affordable facilities, accommodations and education opportunities for artists and registered non-profit organizations operating in the arts or community sector. The Foundation granted the deposit for real estate acquisition to the City of Calgary, a municipality qualified to receive a grant from the Foundation, for use by cSPACE in the project.

In addition, the Foundation has agreed to grant \$3 million to the project over 6 years. This grant is recorded in the financial statements as a grant expense and a non-current grant payable.

THE CALGARY FOUNDATION

Notes to the Consolidated Financial Statements, continued

Year ended March 31, 2012, with comparative figures for 2011

5. Loan receivable

Loan to cSPACE repayable in full November 1, 2016 with interest at 4.75% per annum	\$	7,940,576
Current portion of loan receivable	\$	(5,000,000)
	\$	2,940,576

This loan is secured with a mortgage which is registered against the title to the property.

6. Investments

	2012	2011
Bonds and debentures		
Investment grade	\$ 85,404,359	\$ 74,780,492
High yield	21,187,252	19,999,485
	106,591,611	94,779,977
Stocks		
Canada	137,712,878	135,643,998
International	133,775,671	114,160,142
	271,488,549	249,804,140
Real estate	4,637,020	2,854,953
	\$ 382,717,180	\$ 347,439,070

THE CALGARY FOUNDATION

Notes to the Consolidated Financial Statements, continued

Year ended March 31, 2012, with comparative figures for 2011

7. Other assets

	2012	2011
Cash surrender value of donated life insurance policies	\$ 856,771	\$ 790,281
Miscellaneous	41,968	53,968
Administrative assets, net of accumulated amortization of \$402,109 (2011 - \$383,218)	59,761	39,119
	<u>\$ 958,500</u>	<u>\$ 883,368</u>

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

	2012			2011
	Premiums paid	Cash surrender value	Face value	Face value
Whole life policies	\$ 150,510	\$ 856,771	\$ 15,198,903	\$ 15,106,905
Term life policies	17,700	—	673,000	673,000
	<u>\$ 168,210</u>	<u>\$ 856,771</u>	<u>\$ 15,871,903</u>	<u>\$ 16,779,905</u>

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.

THE CALGARY FOUNDATION

Notes to the Consolidated Financial Statements, continued

Year ended March 31, 2012, with comparative figures for 2011

8. Foundation funds

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

	2012	2011
Community	\$ 76,538,654	\$ 49,156,538
Field of Interest	36,575,419	37,360,269
	<u>\$ 113,114,073</u>	<u>\$86,516,807</u>
Donor advised	\$ 160,095,674	\$ 167,492,595
Designated	102,174,364	102,988,879
	<u>\$ 262,270,038</u>	<u>\$ 270,481,474</u>
Deferred flow-through	28,532,660	22,952,850
	<u>\$ 403,916,771</u>	<u>\$ 379,951,132</u>

Deferred flow-through grants represent flow-through contributions received prior to March 31, 2012 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.

THE CALGARY FOUNDATION

Notes to the Consolidated Financial Statements, continued

Year ended March 31, 2012, with comparative figures for 2011

9. Managed funds

	2012	2011
Increases		
Deposits	\$ 2,108,802	\$ 3,096,812
Interest and dividends	616,986	421,278
Realized capital gains, net	—	119,527
Unrealized capital gains, net	468,740	672,525
Total increases	3,194,528	4,310,142
Decreases		
Withdrawals	(332,906)	(710,104)
Service fees	(179,597)	(137,681)
Realized capital losses, net	(840,376)	—
Total decreases	(1,352,879)	(847,785)
Change during the year	1,841,649	3,462,357
Balance, beginning of year	14,026,365	10,564,008
Balance, end of year	\$ 15,868,014	\$ 14,026,365

	2012	2011
Canadian Hockey Foundation Fund	\$ 6,290,583	\$ 4,594,682
Ann & Sandy Cross Conservation Area Fund	2,577,837	2,446,580
CSPG Educational Trust Fund	1,252,961	1,249,258
Estelle J. Siebens Outreach Endowment Fund	1,044,807	1,099,674
Foothills Academy Society Bursary Trust Fund	817,771	860,830
Alberta Stockmen's Memorial Association Fund	698,636	696,876
Alberta Emerald Foundation Managed Fund	476,179	476,169
Fig Tree Charitable Foundation Fund	459,396	257,887
Calgary Highlanders Regimental Funds Foundation Fund	415,299	414,252
Calgary Habitat for Humanity House Repurchase Fund	371,902	371,894
Vecova Centre for Disability Services and Research Fund	363,939	363,022
Foothills Academy Tuition Assistance Fund	350,204	368,643
Rotary Club of Calgary Managed Fund	337,681	337,674
Girl Guides of Canada, Calgary Area Fund	239,034	238,432
Christ Church Endowment Trust Managed Fund	171,785	149,677
Calgary Sexual Health Centre Fund	—	100,815
	\$ 15,868,014	\$ 14,026,365

THE CALGARY FOUNDATION

Notes to the Consolidated Financial Statements, continued

Year ended March 31, 2012, with comparative figures for 2011

10. 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 2013, the Trust is not obligated to invest the balance of the commitment. At fiscal year end, the Foundation had invested \$4.5 million, market value \$4.6 million (2011 - \$3.0 million, market value \$2.9 million.) (See Note 6.)

The Foundation has entered into a five year office lease that commences October 2012. Future annual fiscal year payments under the existing and new lease are estimated to be:

2013	\$ 315,000
2014	330,000
2015	330,000
2016	330,000
2017	330,000
2018 (to September 30, 2017)	170,000
	<u>\$ 1,805,000</u>

11. Service Costs

	2012	2011
Salaries and benefits	\$ 1,915,105	\$ 1,653,248
Investment management and custodial fees	1,130,141	1,528,762
Professional fees	395,081	289,583
Occupancy and insurance	322,878	300,485
Office	172,744	139,757
Development and communications	134,924	137,214
Memberships	74,430	82,221
Computer application and website support	67,118	51,850
Amortization of administration assets	18,890	27,356
Premiums to maintain life insurance policies	168,210	184,983
Contributions to pay premiums to maintain life insurance policies	(151,253)	(168,026)
	<u>\$ 4,248,268</u>	<u>\$ 4,227,433</u>

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

THE CALGARY FOUNDATION

Notes to the Consolidated Financial Statements, continued

Year ended March 31, 2012, with comparative figures for 2011

12. 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, 2012 the market value of the three funds totalled \$7.2 million (2011 - \$7.6 million).

Esther Honens Calgary International Piano Competition Foundation			
As at and for the year ended	December 31, 2011		December 31, 2010
Revenues	\$	1,909,969	\$ 1,371,359
Revenues from the three endowment funds		376,080	348,565
Expenses		1,510,967	1,353,705
Assets		1,123,264	676,701
Liabilities		189,754	142,193
Accumulated surplus		933,510	534,508

(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, 2012 the Luxton Historical Foundation Fund had a market value of \$4.1 million (2011 - \$4.2 million).

THE CALGARY FOUNDATION

Notes to the Consolidated Financial Statements, continued

Year ended March 31, 2012, with comparative figures for 2011

12. Controlled organizations (continued)

(b) Eleanor Luxton Historical Foundation (continued):

Eleanor Luxton Historical Foundation		
As at and for the year ended	December 31, 2011	December 31, 2010
Revenues	\$ 292,354	\$ 231,487
Revenues from the endowment fund	212,405	204,743
Expenses	307,897	274,085
Assets	973,900	1,031,941
Liabilities	32,150	74,648
Unrestricted net assets	(1,709)	12,507

(c) Kahanoff Centre for Charitable Activities

During the year, the Foundation entered into a gift agreement to accept the beneficial ownership of all of the shares of the Kahanoff Centre for Charitable Activities ("Kahanoff Centre"). The Kahanoff Centre 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 Kahanoff Centre is to provide office and conference space to Calgary not-for-profit organizations at discounted rates, to the benefit of the Calgary community. The gift transaction is expected to close on July 4, 2012. The change in ownership of the Kahanoff Centre is not expected to alter the activities of either the Foundation or the Kahanoff Centre in a material way.

THE CALGARY FOUNDATION

Notes to the Consolidated Financial Statements, continued

Year ended March 31, 2012, with comparative figures for 2011

13. 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.

Grants totalling \$35,000 were made by the Foundation from donor advised & designated and flow-through funds to the Stampede Foundation (2011 - \$nil).

14. 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 \$21,251 (2011 - \$6,612). The total amount paid as remuneration to employees of the Foundation whose principal duties involve fundraising was \$130,744 (2011 - \$119,823).

No single disposition of contributions equalled or exceeded 10% of the gross contributions received in either 2012 or 2011.

THE CALGARY FOUNDATION

Notes to the Consolidated Financial Statements, continued

Year ended March 31, 2012, with comparative figures for 2011

15. 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, 2012				
	Level 1	Level 2	Level 3	Total
Bonds and debentures, Investment grade	\$ —	\$ 85,404,359	\$ —	\$ 85,404,359
Bonds and debentures, High yield grade	—	21,187,252	—	21,187,252
Stocks, Canada	137,712,878	—	—	137,712,878
Stocks, International	133,775,671	—	—	133,775,671
Real estate	—	—	4,637,020	4,637,020
	\$ 271,488,549	\$ 106,591,611	\$ 4,637,020	\$ 382,717,180

THE CALGARY FOUNDATION

Notes to the Consolidated Financial Statements, continued

Year ended March 31, 2012, with comparative figures for 2011

15. Financial instruments (continued)

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

- 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.

16. 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.

THE CALGARY FOUNDATION

Notes to the Consolidated Financial Statements, continued

Year ended March 31, 2012, with comparative figures for 2011

16. Financial risk management (continued)

(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:

(a) Credit risk (continued):

Credit rating	Percentage of the market value of the fixed income portfolios			
	2012		2011	
	Investment grade bond	High yield bond	Investment grade bond	High yield bond
Bonds and debentures, at fair value	\$ 85,404,359	\$ 21,187,252	\$ 74,780,492	\$ 19,999,485
AAA	48.7%	—	50.6%	7.7%
AA	23.6%	—	23.3%	—
A	20.9%	—	19.8%	2.3%
BBB	6.8%	9.6%	6.3%	14.6%
BB	—	26.6%	—	30.4%
<BB	—	63.8%	—	45.0%

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

THE CALGARY FOUNDATION

Notes to the Consolidated Financial Statements, continued

Year ended March 31, 2012, with comparative figures for 2011

16. Financial risk management (continued)

(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	
		2012	2011
Investments, at fair value	\$	382,717,180	\$ 347,439,070
Canadian dollar		63.1%	64.6%
US dollar		22.4%	19.8%
Euro		4.5%	4.6%
Japanese yen		3.0%	2.6%
British pound		2.8%	3.5%
Other		4.2%	4.9%

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Notes to the Consolidated Financial Statements, continued

Year ended March 31, 2012, with comparative figures for 2011

16. Financial risk management (continued)

(i) Currency risk (continued):

Total hedged and unhedged investments held in foreign currencies as at March 31, 2012 was \$141,120,014, 36.9% of investments (2011 - \$122,908,779, 35.4% of investments). The most significant exposure to currency risk is \$85,706,939, 22.4% of investments (2011 - \$63,198,821, 18.2% 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, 2012 would have increased (decreased) net assets and investment income for the year by \$8.6 million (2011 - \$6.3 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:

	2012	
	Investment grade bond	High yield bond
Bonds and debentures, at fair value	\$ 85,404,359	\$ 21,187,252
Duration (years)	6.7	4.4
Assumed increase in interest rates	+1%	+1%
Approximate resulting decrease in value	\$ (5.7 million)	\$ (0.9 million)
Approximate resulting percentage decrease	(6.7%)	(4.4%)
Assumed decrease in interest rates	-1%	-1%
Approximate resulting increase in value	\$ 5.7 million	\$ 0.9 million
Approximate resulting percentage increase	6.7%	4.4%

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Notes to the Consolidated Financial Statements, continued

Year ended March 31, 2012, with comparative figures for 2011

16. Financial risk management (continued)

(ii) Interest rate risk (continued):

	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%

(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.

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Notes to the Consolidated Financial Statements, continued

Year ended March 31, 2012, with comparative figures for 2011

16. Financial risk management (continued)

(iii) Equity price risk (continued):

2012			
	Canada		International
Stocks, at fair value	\$	137,712,878	\$ 133,775,671
Assumed increase in market prices		+8%	+8%
Approximate resulting increase in value	\$	11.0 million	\$ 10.7million
Assumed decrease in market prices		-8%	-8%
Approximate resulting decrease in value	\$	(11.0 million)	\$ (10.7million)
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)

THE CALGARY FOUNDATION

Notes to the Consolidated Financial Statements, continued

Year ended March 31, 2012, with comparative figures for 2011

17. 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.

18. Comparative figures

Certain of the comparative figures have been restated to conform to the current year's presentation.