Year Ended March 31, 2013

The Calgary Foundation

Annual Financial Report

The Calgary Foundation
6/27/2013

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Management Discussion and Analysis
For the year ended March 31, 2013

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, 2013, compared to the preceding year. This MD&A should be read in conjunction with our audited financial statements and related notes dated June 28, 2013. All amounts are based on financial statements prepared in accordance with Canadian accounting standards for not-for-profit entities 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, Community Foundations of Canada's ("CFC") criteria for membership and has undertaken the application process to be accredited under Imagine Canada's Standards Program.

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 Calgary Foundation exists to nurture a healthy, vibrant, giving and caring community that values diversity and supports all people, a community where citizens are engaged, and where a strong and sustainable charitable sector serves the current and emerging needs of the community.

To achieve this vision, The Calgary Foundation:

- **inspires, promotes and facilitates philanthropy** to benefit the community broadly and specifically to build an endowment that remains in perpetuity for the benefit of the community.

- **builds a healthy community by identifying needs and addressing community issues.**

- **fosters partnerships and engages citizens** in its role as a **catalyst and a convener**, a **meeting place.**

- **supports and strengthens the charitable sector by providing grants** from an extensive base of knowledge of the entire charitable sector.

STRATEGY AND KEY RESULT AREAS

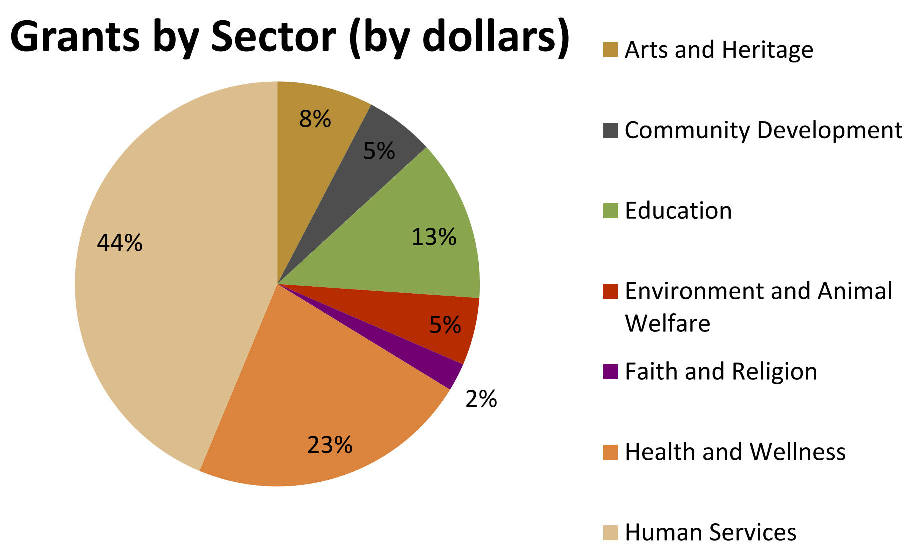
Investing in the community

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

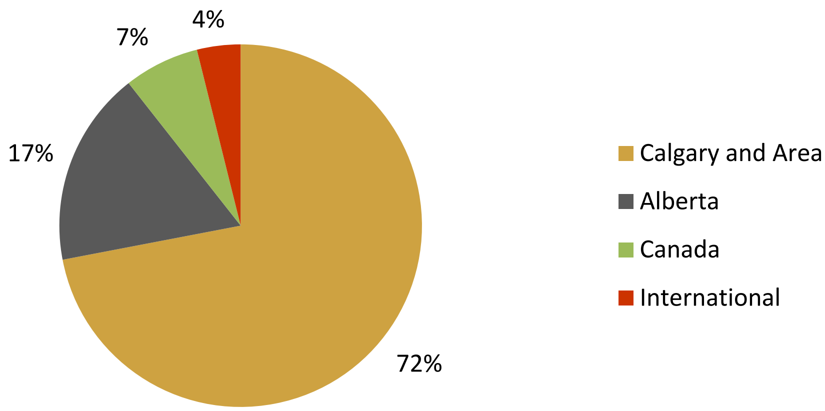
Grants

Through numerous granting streams, the Foundation supports the whole of the charitable sector to address both ongoing and emerging community needs. As needs change, so do the granting programs. Grants are both responsive to requests and proactive, based on ongoing research and hands-on engagement with the community. Grant recommendations and approvals include input from donors and over 70 community volunteers. Also influencing granting activities are the available financial resources. As these continue to grow, some existing programs will also grow. The Foundation will also continue to develop new ways to support the community, often through collaborations with other funders and philanthropists. The Foundation remains committed to ensuring that both large and small grants will be made to all parts of the charitable sector.

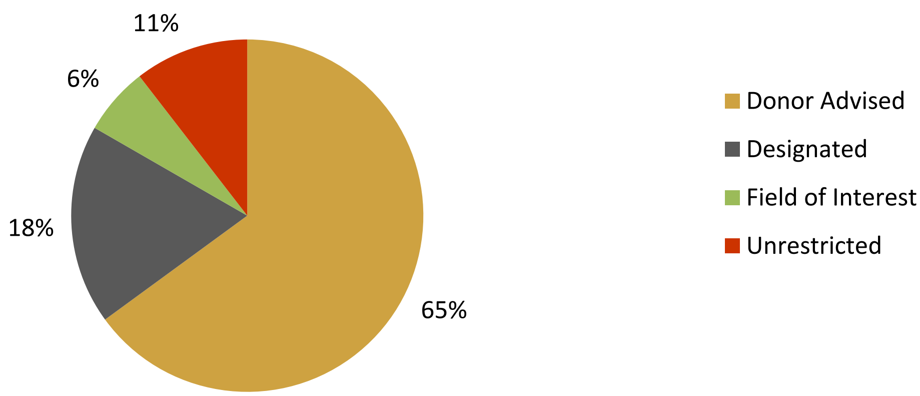
In fiscal 2013, the Foundation granted $34.6 m (2012, $31.9 m).



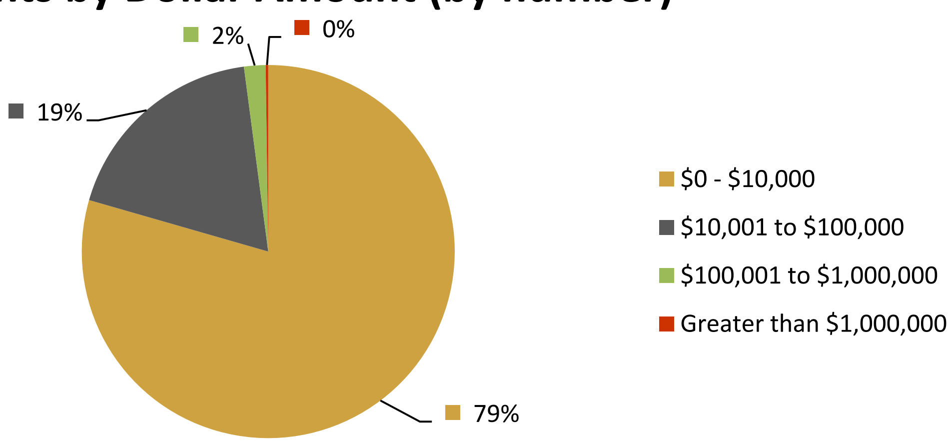
Grants by Geography (by dollars)

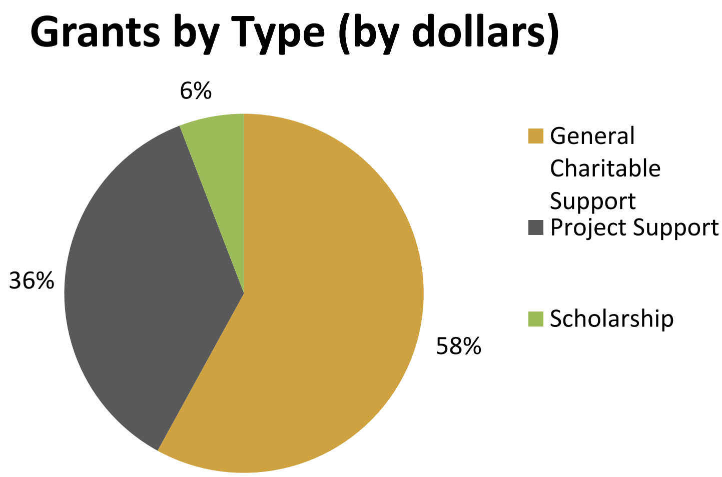


Grants by Fund Type (by number)



Grants by Dollar Amount (by number)





Proactive Community Leadership

Knowledge of community needs and the work of charitable organizations across all sectors, derived from 58 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 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 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 is key to producing the Report which promotes philanthropy and engages citizens by asking them to identify needs in the community and provide feedback on how to address these issues. Published annually since 2007, in 2012 over 1000 Calgarians provided comments in 14 key issue areas of need. The invitation to grade the 2013 Vital Signs survey has been distributed, and results will be published in the Fall of 2013.

Recognizing a need for public dialogue stemming from the Vital Signs® Report, two Vital Conversations events were presented in partnership with the Calgary Public Library including *The Future for Calgary Parks*, and *Evaluating Your Energy Footprint*.

In partnership with Youth Central, the Foundation launched the Youth Vital Signs Report which was published as an insert in a weekly magazine. The Report inspired Youth Vital Conversations, a new speaker series to engage young Calgarians. To date, one event has been successfully held, with two more planned in the next fiscal year.

Forever Funds Signature Projects

Through **the Forever Funds** Initiative the Foundation continued to profile five areas of emerging needs in our community, Arts and Heritage, Environment, Mental Health, Seniors, and Diversity and Inclusion. In addition, The Foundation joined a national partnership with Community Foundations of Canada and the Governor General to launch a 'Smart & Caring Communities' initiative. This past year much of the work was directed to forming collaborations to identify signature projects that would transform our community, and building partnerships around a common goal for the these priority areas. In two areas, Arts and Heritage and Environment signature projects are underway.

Arts Incubator

Following the development of a strategic partnership between the Foundation and Calgary Arts Development Authority, cSPACE Projects is currently transforming the historic King Edward School into an arts incubator. The facility will provide a collaborative gathering space for professional artists that inspires social innovation and encourages community development and will provide affordable studio space for individual artists and small collectives. The first ten anchor tenants have been selected. Design of the space is being developed and additional community investment opportunities will be presented to potential supporters.

Harvie Passage (on the Bow River)

The Bow River flowed freely for the first time in 100 years in 2012, thanks to the redevelopment of the weir, originally built in 1904 to divert water for irrigation. Though redeveloped in 1975, the weir was a hazard that claimed the lives of numerous victims.

Called Harvie Passage in honour of Calgary philanthropist Don Harvie, the multi-million dollar project now provides Calgarians with a series of pools and rapids that are safer for people and improve natural movement of fish along the river.

To improve safety, new signs have been posted at Harvie Passage that indicates the main channel presents significant challenges and should only be used by experienced users with proper equipment. On the south side of the river, a less demanding channel has been constructed and marked. The Province of Alberta continues to promote a safety education program to illustrate the dangers of the Bow River to ensure those venturing on to the river are observing all recommended precautions.

Community Knowledge Centre

Work continues in the development of a new online tool - the Community Knowledge Centre ("CKC") that will bring to life the work of non-profit organizations by creating a central site to showcase the innovative and effective solutions to community issues from a broad range of organizations. CKC positions The Foundation as a community leader and allows us to live up to our reputation as a valued resource for knowledge of immediate community needs. Workshops are being hosted to introduce charitable organizations to CKC, and communications assistance is being provided to organizations in the development of their CKC profile. Website testing will occur in early Fall, 2013.

Picture a Province

Following up on a 2006 event with the same name, the Foundation and four community partners presented Picture a Province 2012: Informed Philanthropy for a Sustainable Alberta. More than 85 environmental grantmakers and philanthropists gathered in Calgary for a one-day event designed to strengthen leadership and improve both the amount and effectiveness of philanthropic investment in the future of Alberta's environment. The program examined Alberta's environmental challenges and opportunities by featuring leading thinkers on land and water use, public attitudes, policy directions, and the characteristics of Alberta's environmental non-governmental organizations. The event concluded with a consensus that to effectively address the complex environmental issues in Alberta, significant collaborations are required among environmental non-governmental organizations and also among funders. Future gatherings are being considered to gain traction on the conclusions of the event.

Growing the Endowment

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

The Foundation has three primary "channels" that have engendered ongoing enduring contributions:

1) Professional Advisors
2) Existing Donors
3) Potential Donors

Building relationships with and enhancing their knowledge of the Foundation's services and structures has enabled professionals working in the financial planning, estate and tax law, accounting, insurance, wealth management and investment planning fields to partner with the Foundation in support of their clients' charitable work. By informing these conversations, professional advisors have been, and continue to be, a significant source for promoting philanthropy in the community. Demonstrating sound stewardship of the assets, knowledgeable grant-making and community leadership has built, and continues to build, the confidence of existing donors as evidenced by the significant percentage of repeat donations. By expanding our relationships from the founders to involving next generation family members, the potential to leverage the broad range of services and complex gifting knowledge in the Foundation can be enhanced. Satisfied donors and engaged professional advisors have been the largest source of referrals of new prospects that have sought out the Foundation's services in creating family legacies and ultimately satisfying societal need.

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 and attain performance objectives.

The primary endowment portfolio has struggled to meet this long term investment objective consistently. Management, in collaboration with our investment consultant and the Investment Committee, have undertaken a review of the endowment portfolio's current asset mix. The impact of this work has resulted in a recommendation to the Board for a significant shift in asset mix. The new asset mix includes a 30% allocation to alternative investments. It is anticipated that a combined allocation to alternatives (infrastructure, private equity and real estate) with their built-in inflation hedges and low correlations to traditional markets will offer the Foundation a lower volatility solution in generating returns and incomes that will improve the risk and return characteristics of the primary endowment portfolio, and thereby move the Foundation closer to achieving its long term investment objective.

Moving beyond traditional investments, the Foundation explored Mission Aligned Investments ("MAI") this past fiscal year as a way to leverage a portion of the endowment for both a financial and mission return on investment. The investment by way of a loan to cSPACE in 2011 to purchase the historic King Edward School for an arts incubator was a first step into this territory. A Mission-Aligned Investment sub-committee has been created and is exploring this new direction, one of the first of its kind in Canada.

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 had been reduced to 4.5% for the fiscal year ending March 31, 2013. The Board made a further decision in March 2013 to consider an additional reduction in the distribution policy to between 4.0% and 4.5% effective April 2014.

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.

- 2013 Events:

Vital City

Vital City celebrates 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 of the Foundation. The 2012 event, presented to an audience of 600, was themed around civic engagement and the Mayor's '3 things for Calgary' initiative. The 2013 Vital City event will highlight 'Smart & Caring Communities', a new initiative developed in partnership between the Governor General and Community Foundations of Canada.

Jane's Walk

Over 900 Calgarians (a 33% increase over 2011) took part in the 2012 Jane's Walk that offered 38 free walking tours in neighbourhoods in every quadrant of Calgary. Celebrating the legacy of Jane Jacobs, the walks celebrate local history, and encourage connections between Calgarians. Part of an international initiative, Jane's Walk has been coordinated locally by the Foundation since 2008 and will continue to be presented annually by the Foundation.

- 2013 Communications Vehicles:

Social Media

Social media, including Twitter and Facebook, were used for event and publication promotion. As of March 2013, the Foundation had over 4,700 followers on Twitter (70 % increase over 2012 statistics) and over 350 'friends' on Facebook. The Foundation tweets on a daily basis to promote upcoming events, support partner organizations and generate conversation with our followers.

Website

A new website was developed to be interactive, easy to navigate and allow integration of new social media networks. From April 2012 to March 2013 the Foundation's website saw 29,590 unique visits with the largest percentage of visitors viewing the 'Grants' section.

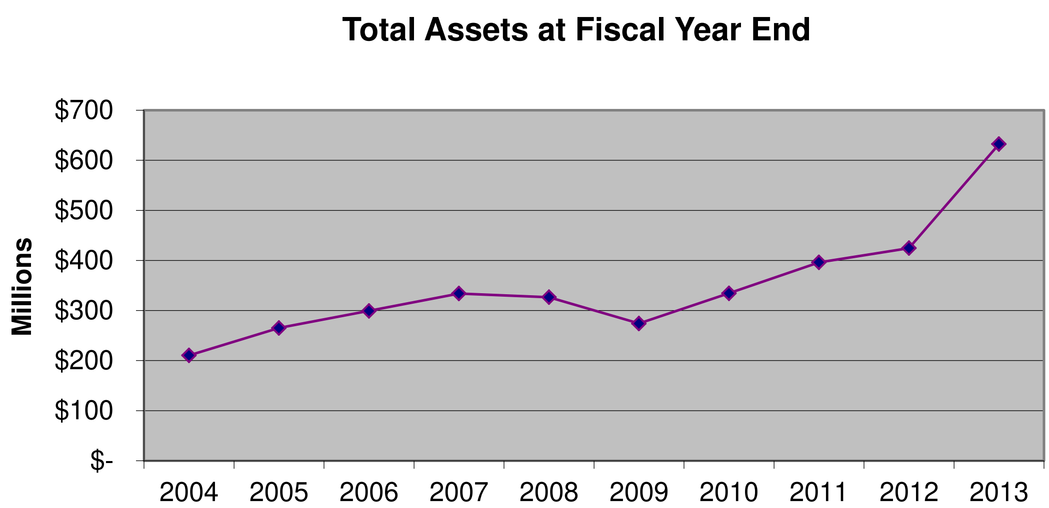
Printed Publications

The Vital Voice newsletter, Annual Report and Vital Signs Report were published in 2012 and distributed to over 100,000 stakeholders. A new partnership has been developed with a media partner to produce a new magazine of the Foundation that will profile community achievements and the people that contribute to building a strong, compassionate community. The magazine will be published two times a year.

CAPABILITY TO DELIVER RESULTS AND HISTORICAL ANALYSIS

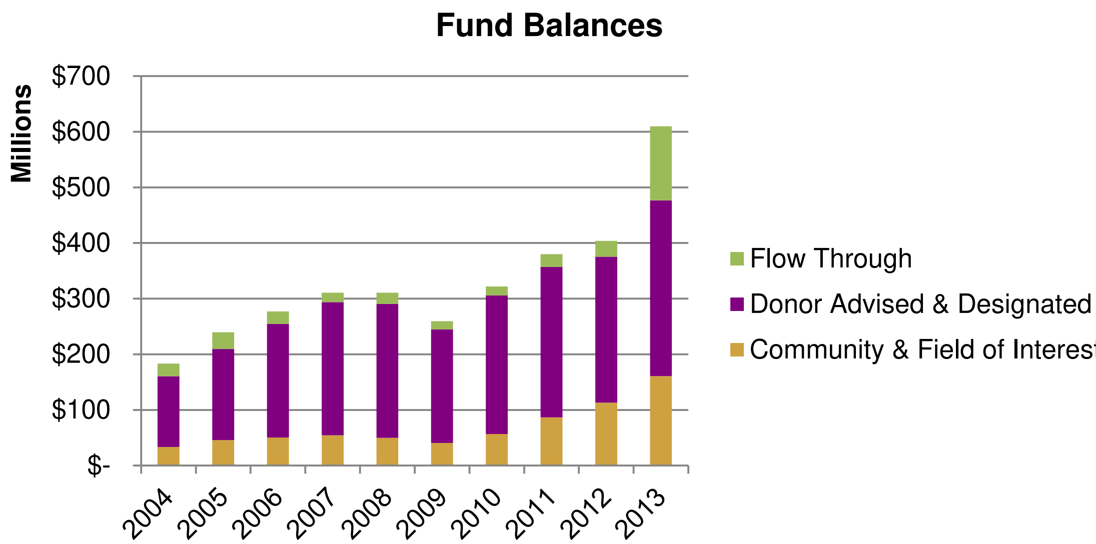
Assets

The Foundation's assets under administration as at March 31, 2013 totalled $632.4 m as compared to $424.7 m at March 31, 2012. The March 31, 2013 figure represents a 49% increase from the prior year end and compares to an increase of 7% in the year ended March 31, 2012.



Of the total assets under administration at fiscal year-end, $18.5 m (2012 – $15.9 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, 2013 were $476.9 m (2012 – $368.1 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 long-term average real rate of return objective, as measured over moving 10-year periods, is expected to be 5.0%. 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 2013 and 2012, TCF's asset allocations were as follows:

Asset Class	2013	2012
Cash and Equivalents	2.5%	2.2%
Fixed Income	27.8%	28.9%
Canadian Equity	31.6%	33.3%
Global Equity	36.2%	34.3%
Real Estate	1.9%	1.3%

Fund Performance

The Fund grew 10.9% (2012, 1.0%) during the fiscal year ending March 31, 2013. Strong absolute returns in the Fund's Canadian and Global equity asset classes drove the positive total fund return.

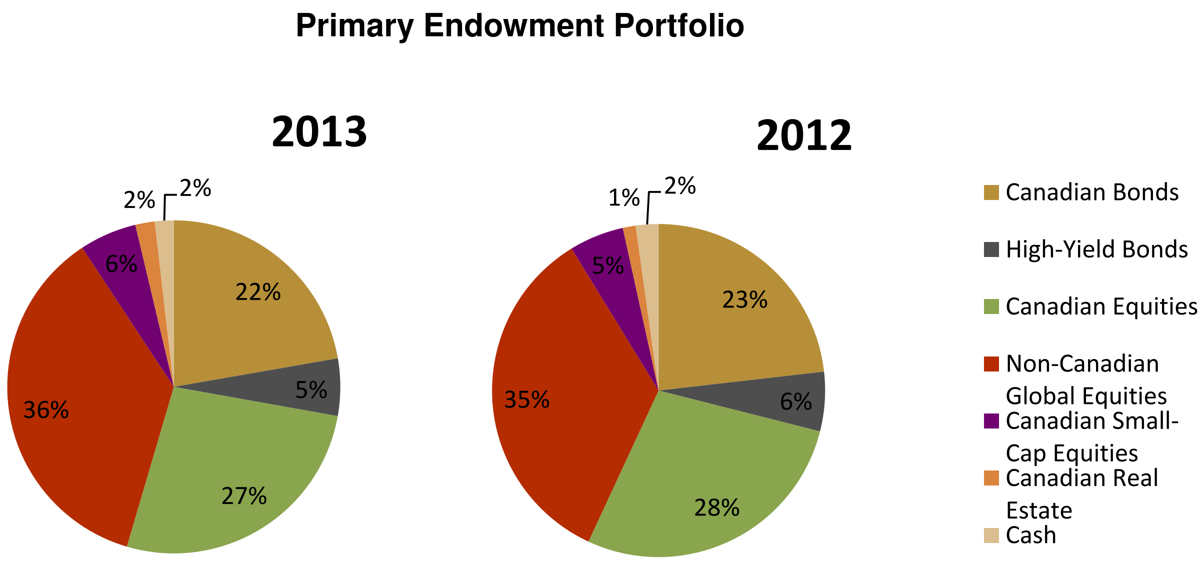
Accommodative monetary policy and the struggle between flight to quality and risk taking continued to dominate the directionality of bond yields, Over the one year period ending March 31, 2013, the Canadian bond mandate, which is indexed to track the performance of the DEX Universe Index, returned a positive 5.9% (2012, 9.7%). The environment for High Yield Bonds remained favorable as investors' appetite for higher risk assets was apparent through most of 2012 with equities and high-yield bonds in high demand, and corporate spreads continuing to narrow. The high-yield bond manager's 11.6% return (2012, 6.5%) for the year ended March 31, 2013, contributed positively to the Fund's total return.

For most of 2012, global equity markets made positive gains, despite a Eurozone recession and weaker growth expectations for the US economy. Over the one year period ending March 31, 2013, the Global Equity mandate, which is indexed to track the performance of the MSCI World Index (excluding Canada) returned a positive 13.0% (2012, negative 2.7%). Over the year we added an emerging markets mandate to the portfolio. Emerging market equities have a favorable growth outlook and are relatively uncorrelated with developed markets, providing a strong diversifying tool for the Fund.

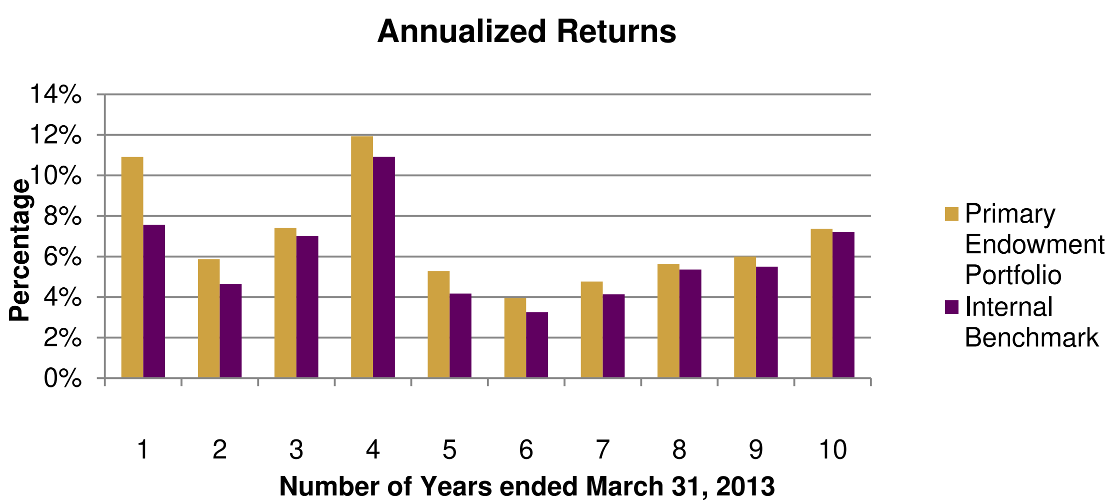
Driven by weakness in the cyclical resource oriented sub-sectors (Gold & Base Metals) the Canadian market lagged other developed equity markets for the period ending March 31, 2013. Despite the weakness relative to global equity markets our Canadian equity managers averaged a strong 14.8% (2012, negative 1.8 %) return over the year. On a relative basis our Canadian equity managers significantly outperformed the benchmark (S&P/TSX Composite capped index) return of 6.1% (2012, negative 9.8%). Furthermore, the actively managed Canadian small capitalization equity mandate returned a solid 20.9% (2012, positive 5.2%) significantly ahead of the BMO Nesbitt Burns Small Cap benchmark index return of negative 3.6% (2012, negative 10.9%).

Our real estate mandate returned 6.4% for the one year period ending March 31, 2013 (2012, 4.0%). Our real estate fund manager's extended commitment period concluded in February 2013, ending the acquisition phase. The Foundation will continue to increase our Real Estate exposure with the goal of achieving a 10% policy weight.

The following chart summarizes the Foundation's investment asset mix as at March 31, 2013 versus March 31, 2012.



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

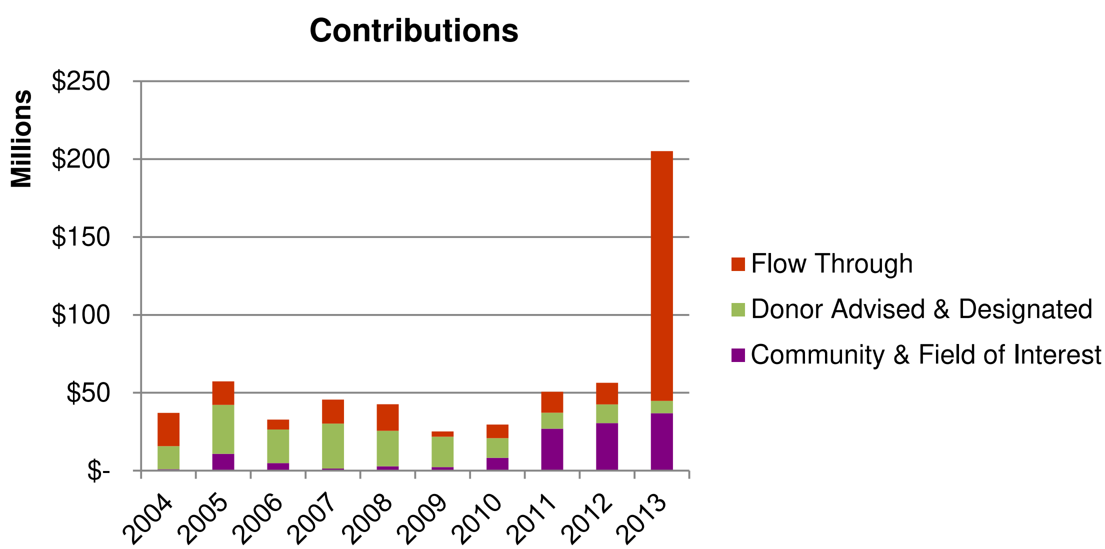
In support of our success in our key result area of Asset Growth, alternatives to investing endowment gifts in the primary endowment portfolio are available.

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, $13.6 m (2012, $13.4 m) was invested in Donor Advised investments.

The $1.1 m market value (2012, $9.2 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.

OPERATIONS

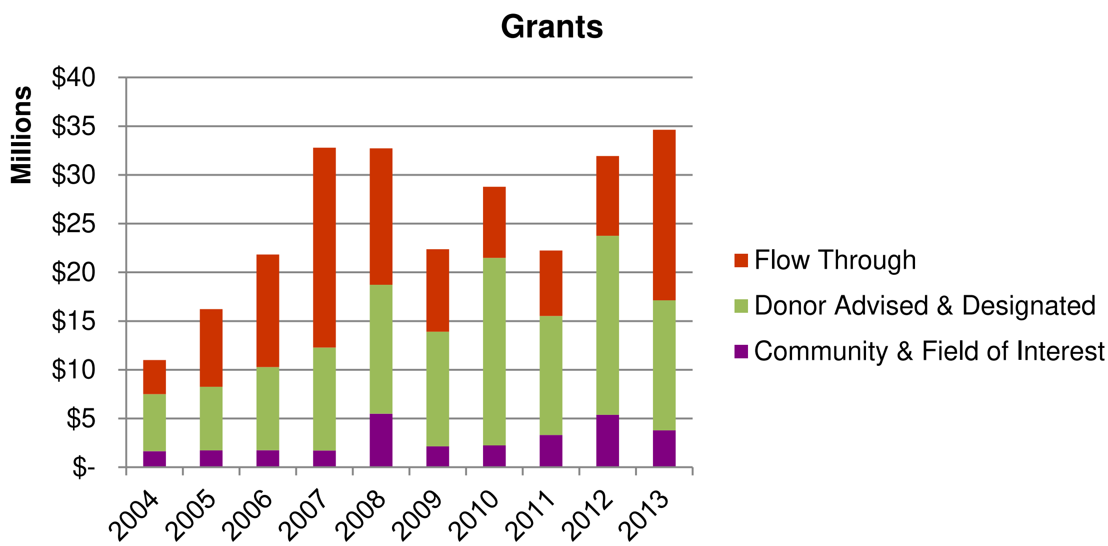
Revenue

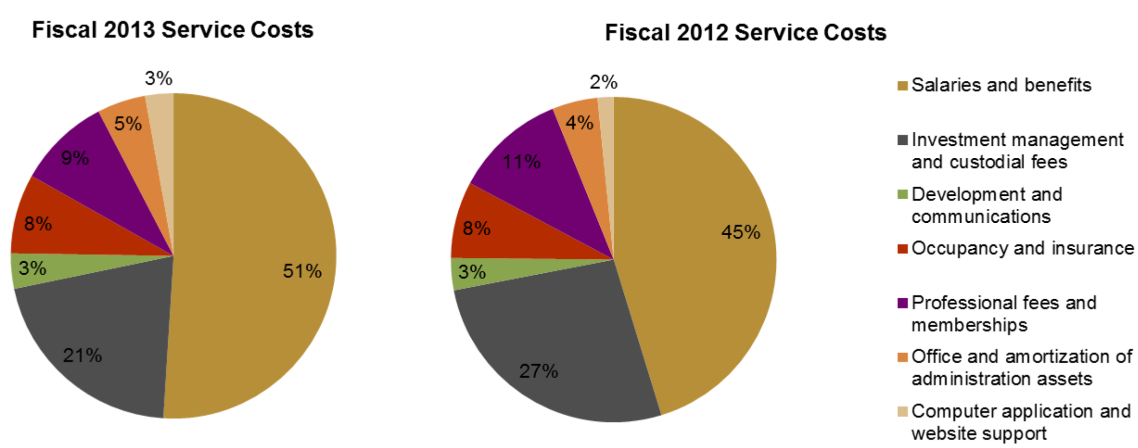


Contributions of non-cash gifts of $7.3 m (2012 – $28.9 m) were received. The majority of these non-cash gifts were gifts of securities which were converted to cash and reinvested. Historically, gifts of shares, received primarily in November and December, have often made up nearly half of the value of gifts received but significant gifts of cash in the 2013 fiscal year altered this trend.

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 58 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

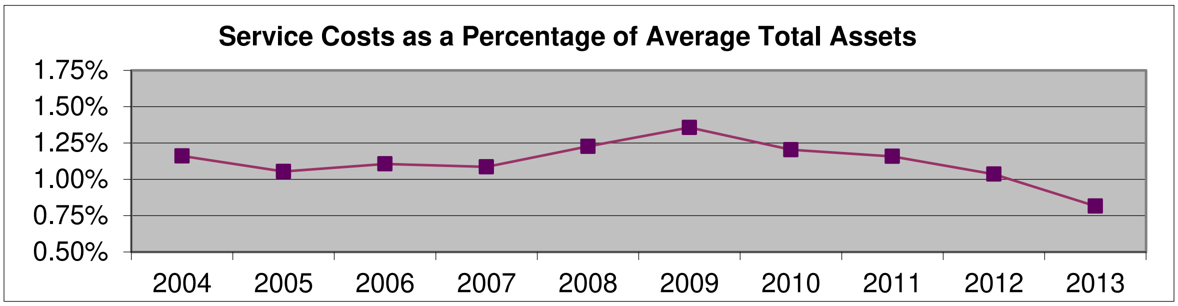




The service costs incurred to execute the strategy and drive performance are distinguished for management purposes between service costs, investment management costs and direct charitable activity. These costs totalled $4.3 m ($4.2 m in 2012). Over 70% of these costs (71% – 2013, 72% – 2012), again this year, are human resource costs ($2.2 m – 2013, $1.9 m – 2012) and investment management costs ($0.9 m – 2013, $1.1 m – 2012).

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 1.12% 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 \$3.7 m in 2013 and \$3.6 m in 2012.

(ii) Interest earned on the money market instruments and fixed income securities, in which flow-through contributions are invested, totalled \$402 thousand ('k') (2012 – \$254 k) and represented 8% of the revenue available to satisfy service and investment management costs in the year (6% in fiscal 2012). The interest revenue, continuing to be constrained by historically low short term rates, grew year over year due to a slightly higher return and a significantly larger daily average balance in money market instruments and fixed income securities.

(iii) Managed fund fees of \$196 k (\$180 k in 2012) represented 4% of service costs and investment management for 2013, (4% in 2012.) Managed fund deposits, net of withdrawals, totalled \$2.5 m in the year (\$1.8 m in 2012). 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

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:

Enduring values: Encouraging Multi-generational Family Philanthropy

A study of global best practices of multi-generational families regarding philanthropy have confirmed that a deliberate approach to engaging next-generation family members is more likely to ensure the continuity of a family's philanthropic goals throughout the decades to come. Many uphold giving back to one's community as a family value and have demonstrated this belief by investing in the community in a sustainable manner for long-term maximum impact. In order to ensure this long-term influence, it is important to encourage future generations to carry on the values that motivated this philanthropy while senior family members are still living. A focused, intentional approach to facilitate multi-generational family philanthropy will be supported by the development and expansion of tools, activities, and resources that would deepen connections between family members.

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.

Excluding significant and non-recurring flow-through gifts to the Foundation, contributions to the Foundation have averaged almost $30.8 million annually over the last decade. Based on the 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.

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, the initiation of a formal risk management plan 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 again grant this upcoming year 4.5% of the March 31, 2013 market value of the endowment funds for the next twelve months. 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.

Additional resources have been allocated to advance the Foundation's work in creating value beyond grant-making. By partnering with the charitable organizations for the long-term, we seek to help the sector identify, measure and demonstrate impact; advance capacity-building initiatives and provide support for their working capital strategies.

Primary Endowment Portfolio:

The primary endowment portfolio has grown to $476.9 m ($368.1 m, 2012) for the fiscal year ended 2013. In 2012, 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 Fund's 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 2013 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 consolidated financial statements of The Calgary Foundation which comprise the consolidated statements of financial position as at March 31, 2013, March 31, 2012 and April 1, 2011, the consolidated statements of operations and changes in Foundation funds and cash flows for the years ended March 31, 2013 and March 31, 2012, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated 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 consolidated 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 consolidated financial statements.

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

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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, 2013, March 31, 2012 and April 1, 2011, and its consolidated results of operations and its consolidated cash flows for the years ended March 31, 2013 and March 31, 2012 in accordance with Canadian accounting standards for not-for-profit organizations.

KPMG LLP

Chartered Accountants

June 28, 2013
Calgary, Canada

THE CALGARY FOUNDATION

Consolidated Statement of Financial Position

March 31, 2013, March 31, 2012 and April 1, 2011

	March 31, 2013	March 31, 2012	April 1, 2011
Assets (note 3)			
Current assets:			
Cash and cash equivalents	$108,497,637	$ 32,564,333	$ 46,949,152
Accrued investment income	658,954	537,073	396,980
Deposit for real estate acquisition (note 4)	–	–	500,000
Current portion of loan receivable (note 5)	–	5,000,000	–
	109,156,591	38,101,406	47,846,132
Investments, at fair value (note 6)	519,288,328	382,717,180	347,439,070
Loan receivable (note 5)	2,940,576	2,940,576	–
Other assets (note 7)	1,057,085	958,500	883,368
	$632,442,580	$424,717,662	$396,168,570
Liabilities and Net Assets			
Current liabilities:			
Grants payable and accrued liabilities	$ 1,351,078	$ 1,402,437	$ 921,930
Deferred flow-through grants (note 8)	132,997,145	28,532,660	22,952,850
	134,348,223	29,935,097	23,874,780
Non-current grants payable	3,033,800	3,530,440	1,269,144
Managed funds (note 9)	18,387,909	15,868,014	14,026,365
Foundation funds:			
Community and Field of Interest funds (note 8)	160,915,173	113,114,073	86,516,807
Donor advised and designated funds (note 8)	315,757,475	262,270,038	270,481,474
	476,672,648	375,384,111	356,998,281
Commitments and contingencies (note 10)			
	$632,442,580	$424,717,662	$396,168,570

See accompanying notes to consolidated financial statements.

On behalf of the Board:

_______________ Director _______________ Director

THE CALGARY FOUNDATION

Consolidated Statement of Operations and Changes in Foundation Funds

Years ended March 31, 2013 and 2012

	Community & Field of Interest	Donor Advised & Designated	Flow-through	Total 2013	Total 2012 (Appendix 1)
Revenue					
Contributions	$36,875,958	$ 7,969,678	$160,359,442	$ 205,205,078	$ 56,387,661
Interest and dividends	4,312,380	8,115,425	66,048	12,493,853	14,242,197
Flow-through funds interest	492,320	–	270,045	762,365	254,680
Managed funds fees (note 9)	195,889	–	–	195,889	179,597
Realized capital gains (losses), net	1,306,628	(1,766,746)	(25,956)	(486,074)	(18,419,369)
Unrealized capital gains (losses), net	8,829,916	17,988,569	(293,046)	26,525,439	7,499,533
Total revenue	52,013,091	32,306,926	160,376,533	244,696,550	60,144,299
Expenditures					
Grants	(3,787,761)	(13,343,313)	(17,502,193)	(34,633,267)	(31,930,391)
Service costs, net (note 11)	(754,344)	(2,669,210)	(886,707)	(4,310,261)	(4,248,268)
Total expenditures	(4,542,105)	(16,012,523)	(18,388,900)	(38,943,528)	(36,178,659)
Transfers	330,114	37,193,034	(37,523,148)	–	–
Increase in deferred flow-through grants	–	–	(104,464,485)	(104,464,485)	(5,579,810)
Change during the year	47,801,100	53,487,437	–	101,288,537	18,385,830
Balance, beginning of year	113,114,073	262,270,038	–	375,384,111	356,998,281
Balance, end of year	$ 160,915,173	$315,757,475	$ –	$ 476,672,648	$ 375,384,111

See accompanying notes to the consolidated financial statements.

THE CALGARY FOUNDATION

Consolidated Statement of Cash Flows

Years ended March 31, 2013 and 2012

	2013	2012
Cash provided from (used in):		
Operating activities:		
Change in Foundation funds	$ 101,288,537	$ 18,385,830
Change in deferred flow-through grants	104,464,485	5,579,810
Change in Managed funds (note 9)	2,519,895	1,841,649
Change in funds	208,272,917	25,807,289
Change in non-current grants payable	(496,640)	2,261,296
Items not involving cash:		
Realized capital loss on sale of investments	313,515	19,259,745
Unrealized capital gain on investments	(27,584,258)	(7,968,273)
Contributions of non-cash gifts	(7,269,736)	(28,928,065)
Grant of publicly listed securities	2,974,912	–
Managed fund fees (note 9)	(195,889)	(179,597)
Amortization of administration assets (note 11)	36,429	18,890
	176,051,250	10,271,285
Changes in non-cash working capital:		
Accrued investment income	(121,880)	(140,093)
Deposit for real estate acquisition (note 4)	–	500,000
Grants payable and accrued liabilities	(51,358)	480,507
	175,878,012	11,111,699
Investing activities:		
Purchase of administrative assets	(88,307)	(37,303)
Current portion of loan receivable (note 5)	5,000,000	(5,000,000)
Loan for real estate acquisition (note 5)	–	(2,940,576)
Proceeds from sale of endowment investments	48,388,566	150,717,315
Purchase of endowment investments	(79,816,086)	(168,235,954)
Purchase of flow-through investments	(73,428,881)	–
	(99,944,708)	(25,496,518)
Net increase (decrease) in cash and cash equivalents	75,933,304	(14,384,819)
Cash and cash equivalents, beginning of year	32,564,333	46,949,152
Cash and cash equivalents, end of year	$ 108,497,637	$ 32,564,333

See accompanying notes to the consolidated financial statements.

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.

On April 1, 2012, the Foundation adopted Canadian accounting standards for Not-For-Profit Organizations in Part III of the Canadian Institute of Chartered Accountants ("CICA") Handbook. These are the first financial statements prepared in accordance with these Standards.

In accordance with the transitional provisions in Not-For-Profit Standards, the Foundation has adopted the changes retrospectively, subject to certain exemptions allowed under these standards. The transition date is April 1, 2011 and all comparative information provided has been presented by applying these Not-For-Profit Standards.

There have been no transitional adjustments to the consolidated statement of operations and changes in Foundation funds for the year ended March 31, 2013 or net assets as at April 1, 2011 as a result of the transition to Not-For-Profit Standards.

(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.

1. The Calgary Foundation (the "Foundation") (continued)

(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 on 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. 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 CICA Handbook (note 12). These controlled organizations follow the deferral method of accounting for contributions.

(b) Financial instruments

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Foundation has not elected to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Foundation determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Foundation expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

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.

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. For investments not quoted on the active market, the Foundation assesses and determines fair value based on available market information.

(i) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Estimates include the valuation of investments and the recoverability and useful life of administrative assets. Consequently, actual results may differ from those estimates.

(j) Contributed services

A substantial number of volunteers contribute a significant amount of time each year. Because of the difficulty of determining the fair value, contributed services are not recognized in the financial statements.

3. Assets by fund

	Community & Field of Interest	Donor Advised & Designated	Flow-through	Managed	Total
Cash and cash equivalents	$ 15,827,374	$ 29,582,850	$ 61,200,560	$ 1,886,853	$108,497,637
Accrued investment income	355,754	138,800	157,048	7,352	658,954
Due (to) from funds	76,951	(76,951)	–	–	–
Investments, at fair value	145,625,902	285,271,664	71,768,168	16,622,594	519,288,328
Loan receivable	2,940,576	–	–	–	2,940,576
Other assets	131,457	920,628	5,000	–	1,057,085
March 31, 2013	$164,958,014	$315,836,991	$133,130,776	$ 18,516,799	$632,442,580

	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

3. Assets by fund (continued)

	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 (to) from 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
April 1, 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 was 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 2012, 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.

5. Loan receivable

	March 31, 2013	March 31, 2012	April 1, 2011
Loan to cSPACE repayable in full November 2016 with interest at 4.75% per annum	$ 2,940,576	$ 7,940,576	$ –
Current portion of loan receivable	–	(5,000,000)	–
	$ 2,940,576	$ 2,940,576	$ –

This loan is secured by a mortgage that is registered against the title to the property.

6. Investments

The Foundation records its investments at fair value. The following table is a summary of the fair value of the Foundation's investments.

	March 31, 2013	March 31, 2012	April 1, 2011
Bonds and debentures			
Investment grade	$167,577,322	$85,404,359	$74,780,492
High yield	26,530,247	21,187,252	19,999,485
	194,107,569	106,591,611	94,779,977
Stocks			
Canada	146,628,039	137,712,878	135,643,998
International	169,544,463	133,775,671	114,160,142
	316,172,502	271,488,549	249,804,140
Real estate	9,008,257	4,637,020	2,854,953
	$519,288,328	$382,717,180	$347,439,070

7. Other assets

	March 31, 2013	March 31, 2012	April 1, 2011
Cash surrender value of donated life insurance policies	$ 897,382	$ 856,771	$ 790,281
Miscellaneous	41,968	41,968	53,968
Administrative assets, net of accumulated amortization of $ 405,605 (2012 - $402,109, 2011 - $383,218)	117,735	59,761	39,119
	$ 1,057,085	$ 958,500	$ 883,368

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

	March 31, 2013			March 31, 2012	April 1, 2011
	Premiums paid	Cash surrender value	Face value	Face value	Face value
Whole life policies	$ 157,431	$ 897,382	$ 15,229,859	$15,198,903	$ 15,106,905
Term life policies	17,400	–	673,000	673,000	673,000
	$ 174,831	$ 897,382	$ 15,902,859	$15,871,903	$ 15,779,905

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 receipt of the proceeds can be estimated and collection is reasonably assured.

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.

	March 31, 2013	March 31, 2012	April 1, 2011
Community	$ 121,523,104	$ 76,538,654	$ 49,156,538
Field of Interest	39,392,069	36,575,419	37,360,269
	$ 160,915,173	$ 113,114,073	$ 86,516,807
Donor advised	$ 170,383,092	$ 160,095,674	$ 167,492,595
Designated	145,374,383	102,174,364	102,988,879
	$ 315,757,475	$ 262,270,038	$ 270,481,474
Deferred flow-through	132,997,145	28,532,660	22,952,850
	$ 609,669,793	$ 403,916,771	$ 379,951,132

Deferred flow-through grants represent flow-through contributions received prior to March 31, 2013 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.

9. Managed funds

a) Change in Managed funds

	March 31, 2013	March 31, 2012
Increases		
Deposits	$ 1,232,493	$ 2,108,802
Interest and dividends	528,037	616,986
Realized capital gains, net	172,559	–
Unrealized capital gains, net	1,058,819	468,740
Total increases	2,991,908	3,194,528
Decreases		
Withdrawals	(276,124)	(332,906)
Service fees	(195,889)	(179,597)
Realized capital losses, net	–	(840,376)
Total decreases	(472,013)	(1,352,879)
Change during the year	2,519,895	1,841,649
Balance, beginning of year	15,868,014	14,026,365
Balance, end of year	$18,387,909	$15,868,014

b) Assets held on the Statement of operations and changes in Foundation funds as at:

	March 31, 2013	March 31, 2012	April 1, 2011
Canadian Hockey Foundation Fund	$ 6,907,519	$ 6,290,583	$ 4,594,682
Ann & Sandy Cross Conservation Area Fund	2,995,495	2,577,837	2,446,580
CSPG Educational Trust Fund	1,373,101	1,252,961	1,249,258
Estelle J. Siebens Outreach Endowment Fund	1,092,927	1,044,807	1,099,674
Foothills Academy Society Bursary Trust Fund	855,358	817,771	860,830
Rotary Club of Calgary Managed Fund	762,496	337,681	337,674
Alberta Stockmen's Memorial Association Fund	748,561	698,636	696,876
Fig Tree Charitable Foundation Fund	555,588	459,396	257,887
CSEG Foundation Managed Fund	501,939	–	–
Alberta Emerald Foundation Managed Fund	498,758	476,179	476,169
Calgary Highlanders Regimental Funds Foundation Fund	454,878	415,299	414,252
Calgary Habitat for Humanity House Repurchase Fund	406,336	371,902	371,894
Vecova Centre for Disability Services and Research Fund	398,623	363,939	363,022
Foothills Academy Tuition Assistance Fund	366,301	350,204	368,643
Girl Guides of Canada, Calgary Area Fund	261,815	239,034	238,432
Christ Church Endowment Trust Managed Fund	208,214	171,785	149,677
Calgary Sexual Health Centre Fund	–	–	100,815
	$18,387,909	$15,868,014	$14,026,365

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 $8.6 million, market value $9.0 million (March 31, 2012 - $4.5 million, market value $4.6 million, April 1, 2011 - $3.0 million, market value $2.9 million.) (See Note 6.)

The Foundation rents office space under operating leases, the future annual payments under the leases are estimated to be:

2014	$ 330,000
2015	330,000
2016	330,000
2017	330,000
2018 (to September 30, 2017)	170,000
	$ 1,490,000

11. Service Costs

	March 31, 2013	March 31, 2012
Salaries and benefits	$ 2,189,664	$ 1,915,105
Investment management and custodial fees	890,793	1,130,141
Occupancy and insurance	340,233	322,878
Professional fees	290,711	395,081
Office	170,402	172,744
Development and communications	150,314	134,924
Memberships	104,313	74,430
Computer application and website support	120,445	67,118
Amortization of administration assets	36,429	18,890
Premiums to maintain life insurance policies	174,831	168,210
Contributions to pay premiums to maintain life insurance policies	(157,874)	(151,253)
	$ 4,310,261	$ 4,248,268

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.

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, 2013 the market value of the three funds totalled $7.6 million (March 31, 2012 - $7.2 million, April 1, 2011 - $7.6 million).

Esther Honens Calgary International Piano Competition Foundation		
As at and for the year ended	December 31, 2012	December 31, 2011
Revenues	$ 2,379,857	$ 1,909,969
Revenues from the three endowment funds	337,061	376,080
Expenses	2,835,059	1,510,967
Assets	900,279	1,123,264
Liabilities	421,971	189,754
Shareholders' equity	478,308	933,510

(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, 2013 the Luxton Historical Foundation Fund had a market value of $4.2 million (March 31, 2012 - $4.1 million, April 1, 2011 - $4.2 million).

12. Controlled organizations (continued)

(b) Eleanor Luxton Historical Foundation (continued):

Eleanor Luxton Historical Foundation		
As at and for the year ended	December 31, 2012	December 31, 2011
Revenues	$ 317,975	$ 292,354
Revenues from the endowment fund	182,595	212,405
Expenses	274,027	307,897
Assets	1,024,745	973,900
Liabilities	39,047	32,150
Net assets	985,698	941,750

(c) Kahanoff Centre for Charitable Activities

On July 4, 2012, the Foundation received a gift of the beneficial ownership of all of the shares of the Kahanoff Centre for Charitable Activities (“Kahanoff Centre”). The Kahanoff Centre provides office and conference space to Calgary not-for-profit organizations at discounted rates, to the benefit of the Calgary community. 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.

Kahanoff Centre for Charitable Activities		
As at and for the year ended	December 31, 2012	December 31, 2011
Revenues	$ 2,426,689	$ 2,292,162
Expenses	2,567,181	2,599,221
Assets	16,514,822	16,010,832
Liabilities	6,953,755	21,669,754
Share capital	15,360,581	100
Unrestricted deficiency	(5,801,209)	(5,659,022)

In the Foundation’s fiscal year ended March 31, 2013, grants totalling $100,000 were made from Community and Field of Interest funds to the Kahanoff Centre (2012 - nil).

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 $259,184 were made by the Foundation from Donor Advised & Designated and Flow-through funds to the Stampede Foundation (2012 - $35,480).

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 $1,882 (2012 - $21,251) The total amount paid as remuneration to employees of the Foundation whose principal duties involve fundraising was $165,102 (2012 - $130,744).

No single disposition of contributions equalled or exceeded 10% of the gross contributions received in either fiscal 2013 or 2012.

15. 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 Statements of Investment Policy, approved by the Board of Directors, which outline the objectives, policies and measures related to its investing activities. These policies prescribe 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.

15. 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 the pooled funds 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	
	March 31, 2013	
Credit rating	Investment grade bond	High yield bond
Bonds and debentures, at fair value	$ 167,577,322	$ 26,530,247
AAA	37.9%	–
AA	39.0%	–
A	18.7%	1.2%
BBB	4.4%	3.6%
BB	–	26.1%
<BB	–	69.1%

15. Financial risk management (continued)

(a) Credit risk (continued):

	Percentage of the market value of the fixed income portfolios	
	March 31, 2012	
Credit rating	Investment grade bond	High yield bond
Bonds and debentures, at fair value	$ 85,404,359	$ 21,187,252
AAA	48.7%	–
AA	23.6%	–
A	20.9%	–
BBB	6.8%	9.6%
BB	–	26.6%
<BB	–	63.8%

	Percentage of the market value of the fixed income portfolios	
	April 1, 2011	
Credit rating	Investment grade bond	High yield bond
Bonds and debentures, at fair value	$ 74,780,492	$ 19,999,485
AAA	50.6%	7.7%
AA	23.3%	–
A	19.8%	2.3%
BBB	6.3%	14.6%
BB	–	30.4%
<BB	–	45.0%

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

15. 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 Statements 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		
	March 31, 2013	March, 31, 2012	April 1, 2011
Investments, at fair value	$ 519,288,328	$ 382,717,180	$ 347,439,070
Canadian dollar	64.7%	63.1%	64.6%
US dollar	20.4%	22.4%	19.8%
Euro	3.1%	4.5%	4.6%
British pound	2.5%	2.8%	3.5%
Japanese yen	2.3%	3.0%	2.6%
Other	7.0%	4.2%	4.9%

15. Financial risk management (continued)

(i) Currency risk (continued):

Total investments held in foreign currencies as at March 31, 2013 was $183,181,011, 35.3% of investments (March 31, 2012 - $141,120,014, 36.9% of investments, April 1, 2011 - $122,908,779, 35.4% of investments). The most significant exposure to currency risk is $ 105,748,506, 20.4% of investments (March 31, 2012 – $85,706,939, 22.4% of investments, April 1, 2011 – 63,198,821, 18.2% of investments) denominated in US dollars. A hypothetical 10 percent weakening (strengthening) of the Canadian dollar against the US dollar at March 31, 2013 would have increased (decreased) net assets and investment income for the year by $10.6 million (2012 – $8.6 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. 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:

	March 31, 2013	
	Investment grade bond	High yield bond
Bonds and debentures, at fair value	$ 167,577,322	$ 26,530,247
Duration (years)	3.9	3.9
Assumed increase in interest rates	+1%	+1%
Approximate resulting decrease in value	$ (6.5 million)	$ (1.0 million)
Approximate resulting percentage decrease	(3.9%)	(3.9%)
Assumed decrease in interest rates	–1%	–1%
Approximate resulting increase in value	$ 6.5 million	$ 1.0 million
Approximate resulting percentage increase	3.9%	3.9%

15. Financial risk management (continued)

(ii) Interest rate risk (continued):

	March 31, 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%

	April 1, 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%

15. Financial risk management (continued)

(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 Statements of Investment Policy apply 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.

	March 31, 2013	
	Canada	International
Stocks, at fair value	$ 146,628,039	$ 169,544,463
Assumed increase in market prices	+8%	+8%
Approximate resulting increase in value	$ 11.7 million	$ 13.6 million
Assumed decrease in market prices	–8%	–8%
Approximate resulting decrease in value	$ (11.7 million)	$ (13.6 million)

	March 31, 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)

15. Financial risk management (continued)

(iii) Equity price risk (continued):

	April 1, 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)

16. Comparative figures

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

THE CALGARY FOUNDATION

Notes to the Consolidated Financial Statements, continued

Years ended March 31, 2013 and 2012

Appendix 1

Consolidated Statement of Operations and Changes in Foundation Funds

Year ended March 31, 2012

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