

*Consolidated Financial Statements of*

**EDMONTON COMMUNITY  
FOUNDATION**

*December 31, 2010*

## Independent Auditor's Report

To the Directors of Edmonton Community Foundation

We have audited the accompanying consolidated financial statements of Edmonton Community Foundation, which comprise the consolidated statement of financial position as at December 31, 2010, and the consolidated statements of changes in endowment funds, changes in non-endowment funds, changes in restricted fund and cash flow for the year then ended, and 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 consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 the 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 the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

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

*Deloitte & Touche LLP*

Chartered Accountants

April 13, 2011

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# EDMONTON COMMUNITY FOUNDATION

## Consolidated Statement of Financial Position

December 31, 2010

(thousands of dollars)

	<u>2010</u>	<u>2009</u> (Restated - See Note 2)
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents	\$ 2,960	\$ 2,921
Trust assets - investments (Note 5)	-	560
Trust assets (Note 6)	160	-
Loans receivable	-	305
Amounts receivable	416	388
	<u>3,536</u>	<u>4,174</u>
INVESTMENTS (Note 7)	273,667	250,850
CAPITAL ASSETS (Note 8)	113	138
	<u>\$ 277,316</u>	<u>\$ 255,162</u>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	\$ 389	\$ 339
Distributions payable	52	70
Trust liabilities - investments (Note 5)	-	560
Trust liabilities (Note 6)	160	-
Funds administered for others (Note 9)	13,583	17,010
Deferred contributions (Note 10)	9	83
Deferred contributions - Province operating (Note 11)	53	74
Deferred contributions - Province Path to Loan Grants (Note 12)	19	80
Deferred contributions - Safety Council (Note 13)	-	75
Deferred contributions - Social Impact (Note 14)	40	130
	<u>14,305</u>	<u>18,421</u>
COMMITMENTS (Note 15)		
<b>FUND BALANCES</b>		
Endowment funds (Note 16)	252,225	225,158
Non-endowment funds (Note 16)	7,309	8,506
Restricted fund (Note 17)	3,477	3,077
	<u>263,011</u>	<u>236,741</u>
	<u>\$ 277,316</u>	<u>\$ 255,162</u>

See accompanying notes

APPROVED BY THE BOARD

..... Director

..... Director

**EDMONTON COMMUNITY FOUNDATION**  
**Consolidated Statement of Changes in Endowment Funds**

Year ended December 31, 2010  
(thousands of dollars)

	2010									2009
	Community	Field of Interest	Scholarships, Bursaries and Awards	Designated	Donor Advised	Combined Purpose	Operating	Social Enterprise	Total	Total (Restated - see Note 2)
Contributions	\$ 249	\$ 618	\$ 234	\$ 5,478	\$ 7,363	\$ 73	\$ -	\$ 10	\$ 14,025	\$ 12,879
Investment income	2,906	1,392	1,542	5,144	11,223	305	220	158	22,890	26,928
Expenditures - net (Note 20)	(320)	(178)	(199)	(675)	(1,417)	(39)	(28)	(19)	(2,875)	(2,674)
Distributions approved	(815)	(472)	(502)	(1,701)	(3,263)	(110)	(76)	(51)	(6,990)	(5,943)
Transfers (to) from:										
Non-endowment funds	-	-	-	17	-	-	-	-	17	-
Endowment funds	-	-	-	(1,698)	1,698	-	-	-	-	-
Classification adjustments	-	-	86	83	(169)	-	-	-	-	-
<b>INCREASE</b>										
<b>DURING THE YEAR</b>	<b>2,020</b>	<b>1,360</b>	<b>1,161</b>	<b>6,648</b>	<b>15,435</b>	<b>229</b>	<b>116</b>	<b>98</b>	<b>27,067</b>	<b>31,190</b>
BALANCE, BEGINNING										
OF YEAR, AS PREVIOUSLY REPORTED	29,833	13,702	15,323	51,839	108,120	3,034	2,189	2,104	226,144	194,451
ADJUSTMENT TO OPENING FUND BALANCES	(133)	(62)	(70)	(235)	(458)	(14)	(10)	(4)	(986)	(483)
BALANCE, BEGINNING										
OF YEAR, AS RESTATED	29,700	13,640	15,253	51,604	107,662	3,020	2,179	2,100	225,158	193,968
<b>BALANCE, END OF YEAR</b>	<b>\$ 31,720</b>	<b>\$ 15,000</b>	<b>\$ 16,414</b>	<b>\$ 58,252</b>	<b>\$ 123,097</b>	<b>\$ 3,249</b>	<b>\$ 2,295</b>	<b>\$ 2,198</b>	<b>\$ 252,225</b>	<b>\$ 225,158</b>

See accompanying notes

**EDMONTON COMMUNITY FOUNDATION**  
**Consolidated Statement of Changes in Non-endowment Funds**

Year ended December 31, 2010  
(thousands of dollars)

	2010					2009	
	Designated	Donor Advised	Combined Purpose	Social Enterprise	Flow Through	Total	Total (Restated - See Note 2)
Contributions	\$ 217	\$ 101	\$ -	\$ -	\$ 2,255	\$ 2,573	\$ 4,059
Investment income	131	464	-	7	-	602	769
Expenditures - net (Note 20)	(17)	(60)	-	(1)	-	(78)	(79)
Distributions approved							
General	(43)	(1,894)	(7)	(20)	(2,239)	(4,203)	(2,747)
Insurance premiums/other	-	-	-	-	(74)	(74)	(66)
Transfers (to) from:							
Endowment funds	-	-	-	-	(17)	(17)	-
<b>(DECREASE) INCREASE DURING THE YEAR</b>	<b>288</b>	<b>(1,389)</b>	<b>(7)</b>	<b>(14)</b>	<b>(75)</b>	<b>(1,197)</b>	<b>1,936</b>
BALANCE, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	1,258	5,456	11	76	1,732	8,533	6,581
ADJUSTMENT TO OPENING FUND BALANCES	(6)	(21)	-	-	-	(27)	(11)
BALANCE, BEGINNING OF YEAR, AS RESTATED	1,252	5,435	11	76	1,732	8,506	6,570
<b>BALANCE, END OF YEAR</b>	<b>\$ 1,540</b>	<b>\$ 4,046</b>	<b>\$ 4</b>	<b>\$ 62</b>	<b>\$ 1,657</b>	<b>\$ 7,309</b>	<b>\$ 8,506</b>

See accompanying notes

**EDMONTON COMMUNITY FOUNDATION**  
**Consolidated Statement of Changes in Restricted Fund**  
Year ended December 31, 2010  
(thousands of dollars)

	<u>2010</u>	<u>2009</u>
Investment income (loss)	\$ 400	\$ (175)
INCREASE (DECREASE) DURING THE YEAR	400	(175)
BALANCE, BEGINNING OF YEAR	3,077	3,252
BALANCE, END OF YEAR	\$ 3,477	\$ 3,077

*See accompanying notes*

# EDMONTON COMMUNITY FOUNDATION

## Consolidated Statement of Cash Flow

Year ended December 31, 2010  
(thousands of dollars)

	<u>2010</u>	<u>2009</u> (Restated - See Note 2)
<b>Cash flows from operating activities</b>		
Contributions to funds administered for others	\$ 577	\$ 858
Contributions to endowment funds	14,025	12,879
Contributions to non-endowment funds	2,573	4,059
Contributions to offset expenditures	601	559
Investment income	6,904	8,980
Fee revenue	94	76
Distributions from funds administered for others	(5,049)	(2,073)
Distributions from endowment funds	(7,029)	(6,367)
Distributions from non-endowment funds	(4,277)	(2,943)
Expenditures	(3,996)	(3,560)
<b>Net cash generated through operating activities</b>	<b>4,423</b>	<b>12,468</b>
<b>Cash flows from investing activities</b>		
Capital assets purchased	(34)	(30)
Investments purchased	(115,069)	(160,793)
Investments sold	110,414	148,329
Loans repaid	305	305
<b>Net cash used in investing activities</b>	<b>(4,384)</b>	<b>(12,189)</b>
<b>NET CASH INFLOW</b>	<b>39</b>	<b>279</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>2,921</b>	<b>2,642</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 2,960</b>	<b>\$ 2,921</b>

*See accompanying notes*

**EDMONTON COMMUNITY FOUNDATION**  
**Notes to the Consolidated Financial Statements**  
Year ended December 31, 2010  
(thousands of dollars)

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**1. NATURE OF THE ORGANIZATION**

The Edmonton Community Foundation (the "Foundation") was created by the Edmonton Community Foundation Act, a special statute enacted by the Legislative Assembly of the Province of Alberta. The Foundation is a charitable public foundation registered under the Income Tax Act and, as such, is exempt from income taxes and able to issue donation receipts for income tax purposes.

The Foundation encourages and promotes philanthropy in the community, creates and manages a variety of funds to meet community needs and responds to emerging needs that come with changing times (see Note 16).

**2. CHANGES IN ACCOUNTING POLICIES**

*a) Future accounting changes*

On December 1, 2010, the Canadian Institute of Chartered Accountants (the "CICA") released the new accounting framework applicable to Canadian not-for-profit organizations, which is effective for fiscal years beginning January 1, 2012. Not-for-profit organizations will have to choose between International Financial Reporting Standards (IFRSs) and Canadian Accounting Standards for not-for-profit organizations (NFPOs), whichever suits them best. Early adoption of these standards is permitted. Adoption is on a retroactive basis. The Foundation currently plans to adopt the new accounting standards for NFPOs for its fiscal year beginning on January 1, 2012; however, the impact of this transition has not yet been determined.

*b) Error correction*

During 2010, the Foundation discovered that the amounts receivable balance relating to the corporate pooled bond fund investment and the related investment income was incorrectly recorded in the consolidated financial statements of the Foundation in 2009, as it was already reflected in the market value of the investments.

Investment income was overstated by \$536 in 2008 and \$554 in 2009 resulting in an overstatement of the amounts receivable balance related to the corporate pooled bond fund of \$1,090. There is no effect in 2010.

**EDMONTON COMMUNITY FOUNDATION**  
**Notes to the Consolidated Financial Statements**  
Year ended December 31, 2010  
(thousands of dollars)

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**2. CHANGES IN ACCOUNTING POLICIES (continued)**

The following table outlines the adjustments made to the 2009 figures to reflect the error corrections.

Adjustment to amounts receivable	
As previously reported	\$ 1,478
Correction of amounts receivable on corporate bonds - pooled funds	(1,090)
<u>As restated</u>	<u>388</u>
Adjustment to closing endowment funds balances	
As previously reported	226,144
Correction of investment income overstatement	(986)
<u>As restated</u>	<u>225,158</u>
Adjustment to investment income - endowment funds	
As previously reported	27,431
Correction of investment income overstatement	(503)
<u>As restated</u>	<u>26,928</u>
Adjustment to closing non-endowment funds balances	
As previously reported	8,533
Correction of investment income overstatement	(27)
<u>As restated</u>	<u>8,506</u>
Adjustment to investment income - non-endowment funds	
As previously reported	785
Correction of investment income overstatement	(16)
<u>As restated</u>	<u>769</u>
Adjustment to closing funds administered for others balances	
As previously reported	17,087
Correction of investment income overstatement	(77)
<u>As restated</u>	<u>17,010</u>
Adjustment to investment income - funds administered for others	
As previously reported	2,211
Correction of investment income overstatement	(35)
<u>As restated</u>	<u>2,176</u>

**EDMONTON COMMUNITY FOUNDATION**  
**Notes to the Consolidated Financial Statements**  
Year ended December 31, 2010  
(thousands of dollars)

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**3. ACCOUNTING POLICIES**

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and reflect the following policies:

*Basis of presentation*

The consolidated financial statements include the accounts of the Foundation and its beneficially owned entities: 1073122 Alberta Ltd., the Edmonton Community Foundation Investment Trust, the Edmonton Community Foundation Real Estate Investment Trust and the Edmonton Community Foundation Investment Trust (Local).

*Cash and cash equivalents*

Cash and cash equivalents are classified as held-for-trading and include cash on hand, balances with banks and highly liquid temporary money market instruments, cashable without penalty after 29 days. Cash and cash equivalents exclude cash held in investments.

*Fund accounting*

The accounts of the Foundation are maintained in accordance with the principles of restricted fund accounting for contributions. The accounts have been segregated into endowment funds, non-endowment funds and a restricted fund as described in Notes 16 and 17.

*Capital assets*

Capital assets are recorded at cost less accumulated amortization. Amortization is recorded on a straight-line basis over the estimated useful life of the related asset at terms ranging from 5 to 10 years. Leasehold improvements are amortized on a straight-line basis over the term of the lease.

When a capital asset no longer has any long-term service potential to the Foundation, the excess of its net carrying amount over any residual value is recognized as an expense in operations.

*Revenue recognition*

Restricted contributions related to operations are recognized as revenue in the year in which the related expenses are incurred. All other restricted contributions are recognized as revenue of the appropriate endowment, non-endowment or restricted fund in the period of receipt.

Unrestricted contributions are recognized as revenue in the period of receipt.

**EDMONTON COMMUNITY FOUNDATION**  
**Notes to the Consolidated Financial Statements**  
Year ended December 31, 2010  
(thousands of dollars)

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**3. ACCOUNTING POLICIES (continued)**

Investment income is comprised of interest, dividends, net rental income and realized and unrealized gains and losses, net of direct investment expenses. Dividend income is recognized based on the ex-dividend date, and interest income and real estate income are recognized on the accrual basis as earned. Investment income also includes both realized and unrealized gains and losses. Since real estate income is determined on a fair value basis, a charge for depreciation and amortization is excluded from the determination of real estate income. Certain management and performance fees for externally-managed private equity are offset against investment income. Investment income is allocated to each fund proportionately, based on the fair value of each fund. Direct investment expenses in 2010 were \$1,137 (2009 - \$671).

*Contributed services*

The Foundation is governed and supported by numerous volunteers. Contributed services are not reflected in these consolidated financial statements as determining their fair value is not practicable.

*Foreign exchange*

Investment transactions in foreign currencies are translated to Canadian dollars at the rate of exchange in effect at the date of the transaction. Investments held in foreign currencies are translated to Canadian dollars at the rate of exchange in effect at December 31.

Foreign exchange gains or losses are recorded in investment income.

*Financial instruments*

The Foundation has chosen to apply Section 3861, *Financial Instruments – Disclosure and Presentation*, in place of Sections 3862, *Financial Instruments – Disclosures*, and 3863, *Financial Instruments – Presentation*.

The Foundation has designated all financial assets and liabilities as held-for-trading. Changes in the fair value of financial assets and liabilities that are classified as held-for-trading are recorded immediately in the consolidated statements of changes in endowment funds, changes in non-endowment funds and changes in restricted fund.

Changes in the fair value of investments are recorded in the consolidated statements of changes in endowment funds, changes in non-endowment funds and changes in restricted fund, and presented as investment income. Purchases and sales of investments are recorded at the trade date. Transaction costs are expensed as incurred.

Publicly traded investments, comprised of cash and cash equivalents, money market funds, bonds, debentures, mutual funds and shares, are recorded at fair value using quoted market values. Investments in core real estate are recorded at fair value as appraised at December 31 using a direct comparison approach. Rental revenue earned on investments in core real estate is recorded as investment income.

**EDMONTON COMMUNITY FOUNDATION**  
**Notes to the Consolidated Financial Statements**  
Year ended December 31, 2010  
(thousands of dollars)

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**3. ACCOUNTING POLICIES (continued)**

Investments in certain limited partnerships include private equity, infrastructure and real estate investments and represent the Foundation's pro rata interest in the net assets of the partnerships as at December 31.

The fair value of limited partnership investments is calculated using the most recent audited or unaudited financial statements available. These statements include the fair value of the limited partnerships as determined by the external managers using accepted industry valuation methods. When the date of these financial statements does not coincide with December 31, the carrying value recorded by the Foundation includes adjustments for the estimated and/or actual amounts of cash flows for the intervening period, including contributions, distributions, interest income, realized gains (losses), management fees and general expenses. Management estimates the change in fair value from the most recent statement date to December 31. The fair value is determined using inputs observed from markets comparable to the underlying investments held by the Foundation, in conjunction with relevant fair value information received from external managers. It is reasonably possible that the recognized amount could change by a material amount in the near term.

The carrying value of cash and cash equivalents, amounts receivable, accounts payable and accrued liabilities, and distributions payable approximates their fair value due to the short-term nature of these assets and liabilities.

Derivative and embedded derivative financial instruments are required to be classified as held-for-trading and included in the consolidated statement of financial position in investments. Changes in the fair value of these derivative financial instruments are recorded in the consolidated statements of changes in endowment funds, changes in non-endowment funds and changes in restricted fund, and presented as investment income.

*Use of estimates*

The preparation of financial statements in accordance with Canadian GAAP 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 income and expenses during the year. Key areas of estimation where management has made subjective judgments, often as a result of matters that are inherently uncertain, include those relating to useful life of capital assets and corresponding depreciation rates, fair values of investments, certain custodian and investment counsel fees, accrued liabilities for items where the invoice has not been received, accruals for investment income not yet received and disclosure of amount of deferred gifts. Actual results could differ materially from those estimates.

**EDMONTON COMMUNITY FOUNDATION**  
**Notes to the Consolidated Financial Statements**  
Year ended December 31, 2010  
(thousands of dollars)

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**4. RISK MANAGEMENT**

In the normal course of operations, the Foundation is exposed to a variety of financial risks which are actively managed by the Foundation. The Foundation adheres to an Asset Management Plan and Investment Policies and Guidelines that outline the objectives to ensure that the Foundation's investments are managed effectively, prudently and in compliance with all applicable requirements. The Foundation's investment policy does not pertain to investments contributed to the Foundation by donors or contributions by donors with specific investment instructions until those investments or contributions are allocated to an investment manager subject to this policy.

The plan and policies are reviewed on a regular basis, along with the investment portfolio, to ensure all activities are in compliance. The policy includes a list of permitted investments, restrictions on minimum and maximum amounts in each asset class, the maximum amounts on the market value of the investment manager's holdings invested in the securities of a single issuer and the maximum amounts of non-Canadian investments, and it prescribes limits around the quality and concentration of investment portfolio. Borrowing is not permitted. The Foundation may hold derivative financial, commodity or currency-related instruments in accordance with a program accepted in writing by the Investment Committee and approved by the Board.

The Foundation's exposure to and management of risk has not changed materially since December 31, 2009.

*Market risk*

Market risk is the risk that the fair value or future cash flows of the Foundation's financial instruments will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

a) Currency risk

Currency risk is the risk that the fair value of future cash flows of financial instruments denominated in currencies other than the functional currency of the Foundation will fluctuate due to changes in foreign exchange rates. The Foundation is directly exposed to currency risk on its foreign market equities and limited partnerships portfolio investments and indirectly within the underlying limited partnerships investments in various portfolio companies, of which some are denominated in functional currencies other than that of the limited partnership. The objective of the Foundation's investment policy is to control currency risk by maintaining a geographically diversified portfolio.

From time to time, the Foundation may enter into foreign currency agreements with financial institutions to mitigate the foreign currency (exchange) risk for investments that are maintained in foreign currencies. The Foundation had a number of foreign currency contracts outstanding at December 31, 2010 (2009 - nil), as detailed on the Schedule of Foreign Exchange Forward Contracts, related to underlying assets of \$106,756 (2009 - nil).

**EDMONTON COMMUNITY FOUNDATION**  
**Notes to the Consolidated Financial Statements**  
Year ended December 31, 2010  
(thousands of dollars)

**4. RISK MANAGEMENT (continued)**

International equities are denominated primarily in Euros and U.K. pound sterling. The following table summarizes the foreign exchange translation rates applied at year-end for U.S. dollars, Euros and U.K. pound sterling, and the impact a 1% change in the foreign exchange translation rates will have on the Foundation's investment in foreign equities fair value at the balance sheet date.

	<u>2010</u>	<u>2009</u>
U.S. dollar	0.99	1.05
Euro	1.33	1.50
U.K. pound sterling	1.55	1.69
Impact of a 1% change in U.S. dollar rate	\$ 568	\$ 475
Impact of a 1% change in Euro rate	421	375
Impact of a 1% change in U.K. pound sterling rate	82	70

b) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk arises when the Foundation invests in interest-bearing financial instruments. The Foundation is directly exposed to interest risk on its bonds, debentures, mortgages and loans receivable. The Foundation is indirectly exposed to interest rate risk on certain limited partnership investments that are comprised of both equity and debt instruments. The objective of the Foundation's investment policy is to control interest rate risk by managing its interest rate exposure.

The term to maturity and related fair values of Consolidated Trust Fund investments in bonds, debentures and note, excluding pooled funds, mortgages and loans receivable held by the Foundation at December 31, 2010, are as follows:

Stated Interest Rate	Term to Maturity			Total
	0-5 years	6-10 years	+10 years	
2.00 - 4.00%	\$ 103	\$ 2,890	\$ -	\$ 2,993
4.01 - 6.00%	-	4,813	5,862	10,675
6.01 - 8.00%	-	-	10,264	10,264
8.01 - 10.00%	-	-	2,539	2,539
10.01 - 12.00%	-	-	92	92
	\$ 103	\$ 7,703	\$ 18,757	\$ 26,563

c) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Foundation is exposed to equity price risk on its investments in common equities and on the portion of the limited partnerships portfolio invested in equities. The objective of the Foundation's investment policy is to control equity price risk by maintaining a portfolio which is diversified across geographic and industry sectors.

**EDMONTON COMMUNITY FOUNDATION**  
**Notes to the Consolidated Financial Statements**  
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**4. RISK MANAGEMENT (continued)**

The Foundation's Consolidated Trust Fund equity portfolio, including investments in private equities, is allocated to six investment managers.

Approximately 39.9% (2009 - 41.2%) of the Foundation's equity investments are invested in Canadian equities. Currently, the two managers of the Canadian pooled equity funds invest in diversified portfolios of Canadian common stocks and have differing investment styles.

Approximately 30.4% (2009 - 29.1%) of the Foundation's equity investments are invested in United States equities by three managers and 29.7% (2009 - 29.7%) are invested in international equities by three managers. The manager of the international pooled equity fund and the U.S. equities mutual fund invests in large multinational companies, with investments well diversified across geography and industry sectors. Another manager of the U.S. equities invests to track the investments in S&P 500 index. Managers of the private equity investments manage the risk by following the investment strategy, which is focused on creating a portfolio of investments in private equity funds diversified by investment type and geography, with exposure to a variety of industry sectors. An essential element of this strategy is capital preservation through intensive due diligence at the time of investment and active monitoring until realization.

*Liquidity risk*

Liquidity risk is the risk that the Foundation cannot meet a demand for cash or fund its obligations as they come due. Liquidity risk is managed as the majority of the Foundation's assets are in investments that are traded in an active market and can be readily liquidated. Liquidity is achieved by limiting the amount invested in closed-ended funds. In addition, the Foundation maintains sufficient cash position to manage liquidity as per the cash management policy. The Foundation's contractual liabilities are all due within one year, with the exception of the following: investment commitments, future years' distributions and lease commitments as set out in Note 15.

*Credit risk*

Credit risk is the potential for financial loss should a counterparty in a transaction fail to meet its obligations. The Foundation's investments in short-term investments, bonds, debentures, mortgages and loans receivable are subject to credit risk. The maximum exposure to credit risk on these financial instruments is their carrying value. The fair value of debt investments included in limited partnerships' portfolios includes consideration of the credit worthiness of the portfolio company, and accordingly, represents the maximum credit risk exposure to the Foundation. The investment policy of the Foundation mandates that bond investments have a minimum credit rating of BBB when purchased; up to 15% of the bond portfolio can be invested in bonds with a BBB rating. The weighted average credit rating of the bond portfolio will be maintained at or above A. The investment policy also mandates that short-term investments will have a minimum credit rating of R-1 or its equivalent when purchased. The Foundation monitors its credit risk policies on a regular basis.

**EDMONTON COMMUNITY FOUNDATION**  
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(thousands of dollars)

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**5. TRUST ASSETS AND LIABILITIES - INVESTMENTS**

Trust assets represent estate contributions held by the Foundation in separate investment accounts at December 31, 2009, pending the final acceptance. The Foundation has accepted the gifts in accordance with the gift acceptance policies and recorded the contributions to their respective funds in 2010. The investment assets are included with the Other Trust Fund Investments (See Note 7).

**6. TRUST ASSETS AND LIABILITIES**

Trust assets represent a separate bank account held on behalf of one program. The Foundation is obligated to administer and disburse these funds in accordance with the agreement.

**7. INVESTMENTS**

*Other Trust Fund investments*

Certain endowment funds received in 2010 are held outside of the Consolidated Trust Fund. They are either governed under separate policy until those investments are allocated to an investment manager subject to the Consolidated Trust Fund policy or are administered under a specific program based on the agreements with the donors.

	<u>2010</u>	<u>2009</u>
<b>Other Trust Fund investments</b>		
Money market funds	\$ 22	\$ -
Bonds and debentures	281	-
Equities		
Canada	728	-
United States	27	-
International	65	-
	820	-
	\$ 1,123	\$ -

**EDMONTON COMMUNITY FOUNDATION**  
**Notes to the Consolidated Financial Statements**  
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(thousands of dollars)

7. INVESTMENTS (continued)

*Consolidated Trust Fund investments*

The Foundation holds most of the endowment and non-endowment funds (excluding flow-through funds) and all funds administered for others within the Consolidated Trust Fund which is subject to the Foundation's Asset Management Plan and Investment Policies and Guidelines as discussed in Note 4.

	2010	2009
<b>Consolidated Trust Fund investments</b>		
Cash on account	\$ 9,812	\$ 13,438
Money market funds	8,813	1,931
	<b>18,625</b>	<b>15,369</b>
Bonds, debentures and note		
Government of Canada	5,780	7,123
Provincial governments	20,459	19,838
Municipal governments	230	-
Corporate bonds - pooled funds	34,945	39,626
Monetization trust note	94	93
	<b>61,508</b>	<b>66,680</b>
Mortgage funds	3,228	3,522
Infrastructure - limited partnership	4,692	4,193
Real estate investment trusts		
Core real estate	6,700	6,000
Limited partnerships	7,430	6,870
	<b>14,130</b>	<b>12,870</b>
Equities		
Canada	67,365	61,111
United States	48,338	41,309
United States - private equity limited partnerships	3,182	1,734
International	39,766	36,788
International - private equity limited partnerships	10,396	7,274
	<b>169,047</b>	<b>148,216</b>
Foreign exchange forward contracts - Schedule	1,314	-
Total Consolidated Trust Fund investments	<b>272,544</b>	<b>250,850</b>
Total Other Trust Fund investments (brought forward)	1,123	-
<b>Total investments</b>	<b>\$ 273,667</b>	<b>\$ 250,850</b>

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**7. INVESTMENTS (continued)**

The underlying purpose of the Foundation's Consolidated Trust Fund investments is to support endowment, non-endowment, restricted and administered funds. Endowment, non-endowment and restricted funds are expected to be held for the long term. Administered funds may be withdrawn by the charitable organization at any time with appropriate notice. The majority of the Foundation's investments are highly liquid and publicly traded. As a result, the Foundation may buy or sell investments to improve investment returns or to meet obligations as they come due. The interest rate and maturity date sensitive investments include money market funds and bonds and debentures which, when recorded at fair value, reflect the sensitivity and economic impact of interest and maturity.

Included in investment income is a net gain of \$2,603 (2009 - loss of \$1,720) related to the change in fair value of investments in certain limited partnerships and core real estate. The fair values for these limited partnerships are determined on the basis disclosed in Note 3.

**8. CAPITAL ASSETS**

	2010		2009	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Furniture and fixtures	\$ 90	\$ 54	\$ 36	\$ 43
Office equipment	6	3	3	-
Computer equipment	224	161	63	54
Leasehold improvements	81	70	11	41
	<b>\$ 401</b>	<b>\$ 288</b>	<b>\$ 113</b>	<b>\$ 138</b>

**EDMONTON COMMUNITY FOUNDATION**  
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**9. FUNDS ADMINISTERED FOR OTHERS**

These funds belong to other charitable organizations and are pooled for investment purposes with the Foundation's endowment and non-endowment funds. Accordingly, these consolidated financial statements include assets administered for other charitable organizations with a corresponding liability comprised of the following:

	<u>2010</u>	<u>2009</u> (Restated - See Note 2)
Contributions	\$ 577	\$ 858
Investment income	1,187	2,176
Administrative fees	(121)	(125)
Distributions	(5,070)	(2,073)
<u>(Decrease) increase during the year</u>	<u>(3,427)</u>	<u>836</u>
Balance, beginning of year, as previously reported	17,087	16,216
Adjustment to beginning balance	(77)	(42)
<u>Balance, beginning of year, as restated</u>	<u>17,010</u>	<u>16,174</u>
<u>Balance, end of year</u>	<u>\$ 13,583</u>	<u>\$ 17,010</u>

**10. DEFERRED CONTRIBUTIONS**

Deferred contributions are externally restricted for operating purposes and are recognized as contributions as the related expenses are incurred. The unamortized balance represents funds received from the City of Edmonton to support the operations of the social enterprise program in 2009 and 2011 Legacy program contribution in 2010.

	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$ 83	\$ 300
Deferred contributions received	342	165
Amount recognized in revenue during the year	(416)	(382)
<u>Balance, end of year</u>	<u>\$ 9</u>	<u>\$ 83</u>

**EDMONTON COMMUNITY FOUNDATION**  
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**11. DEFERRED CONTRIBUTIONS – PROVINCE OPERATING**

Deferred provincial operating contributions represent unamortized resources externally restricted by the Government of Alberta, Department of Alberta Employment and Immigration to provide operational support for the social enterprise program.

	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$ 74	\$ 61
Deferred contributions received	23	43
Amount recognized in revenue during the year	(44)	(31)
<b>Balance, end of year</b>	<b>\$ 53</b>	<b>\$ 74</b>

**12. DEFERRED CONTRIBUTIONS – PROVINCE PATH TO LOAN GRANTS**

Deferred provincial path to loan grants contributions represent unamortized resources externally restricted by the Government of Alberta, Department of Alberta Employment and Immigration to provide financial support to organizations that have advanced along the development path to warrant a serious business social enterprise plan.

	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$ 80	\$ 100
Amount recognized in revenue during the year	(61)	(20)
<b>Balance, end of year</b>	<b>\$ 19</b>	<b>\$ 80</b>

**13. DEFERRED CONTRIBUTIONS – SAFETY COUNCIL**

Deferred operating contributions represent unamortized resources externally restricted by the City of Edmonton, to be expended on the “Community Safety Council Project” in accordance with the funding agreement by December 31, 2010.

	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$ 75	\$ -
Deferred contributions received	-	75
Amount recognized in revenue during the year	(75)	-
<b>Balance, end of year</b>	<b>\$ -</b>	<b>\$ 75</b>

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**14. DEFERRED CONTRIBUTIONS – SOCIAL IMPACT**

Deferred operating contributions represent unamortized resources externally restricted by the City of Edmonton, to be expended on the “Measuring Social Impact Project” in accordance with the extended funding agreement by December 31, 2011.

	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$ 130	\$ -
Deferred contributions received	-	130
Amount recognized in revenue during the year	(90)	-
<u>Balance, end of year</u>	<u>\$ 40</u>	<u>\$ 130</u>

**15. COMMITMENTS**

The Foundation has unfunded investment commitments related to the limited partnerships. At December 31, the unfunded amount for the private equity investments denominated in Euros €4,237 and translated into Canadian dollars is \$5,648, for the private equity investments denominated in U.S. dollars \$20,165 U.S. and translated into Canadian dollars in the amount of \$18,835 for the infrastructure investment denominated in U.S. dollars \$824 U.S. and translated into Canadian dollars in the amount of \$819. The unfunded amounts may be drawn on demand.

The Foundation has approved at December 31 approximately \$1,896 for distribution from future years’ income attributable to the endowment and non-endowment funds.

Future annual lease payments in respect of office premises and office equipment are as follows:

2011	\$ 24
2012	22
2013	3
2014	1
2015	1
	<u>\$ 51</u>

**16. ENDOWMENT AND NON-ENDOWMENT FUNDS**

Endowment funds, comprised of permanent contributions and attributed cumulative net growth, are administered in accordance with the objectives established by the donor.

Non-endowment funds, comprised of externally restricted contributions and attributed cumulative net growth, are not required to be maintained in perpetuity.

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**16. ENDOWMENT AND NON-ENDOWMENT FUNDS (continued)**

On an annual basis, the Foundation distributes a portion of the market value of each fund and capitalizes growth in excess of the distributions. Generally, this results in a net increase in each fund from year to year. Decreases in endowment funds may occur during the year when distributions exceed the growth for the period. In such cases, the decreases are applied to reduce the cumulative capitalized growth in excess of fund distributions. The Foundation monitors the extent of distributions on an ongoing basis, giving consideration to current and expected investment returns.

Restrictions relating to the distributions from endowment and non-endowment funds are described below:

*Community*

Donors indicate that distributions are to be made according to the Foundation's general distribution policies and guidelines, primarily in response to applications received from community agencies.

*Field of interest*

Donor agreements indicate the area(s) of special interest for support.

*Scholarships, bursaries and awards*

Scholarships, bursaries and awards are granted to students for a wide range of continuing education opportunities.

*Designated*

Donors indicate one or more specific charities for support.

*Donor advised*

Donors consult with the Foundation and advise regularly regarding the distributions from these funds.

*Combined purpose*

Donors indicate that portions of the net proceeds are to be distributed using a number of different strategies including discretionary, donor advised and designated.

*Operating*

Donors indicate they wish to support the operations of the Foundation.

*Social enterprise*

Social enterprise funds provide alternative financing, leverage mainstream funding and technical assistance support to charities undertaking social enterprises.

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**16. ENDOWMENT AND NON-ENDOWMENT FUNDS (continued)**

*Flow through*

Donors designate their gifts as being non-endowed and request that the entire gift be distributed to specific charities, usually within two years.

The Foundation's fund balances are summarized below in accordance with the nature of the external restrictions.

	2010		2009	
	Endowment Funds	Non-endowment Funds	Total	Total (Restated - See Note 2)
Community	\$ 31,720	\$ -	\$ 31,720	\$ 29,700
Field of interest	15,000	-	15,000	13,640
Scholarships, bursaries and awards	16,414	-	16,414	15,253
Designated	58,252	1,540	59,792	52,856
Donor advised	123,097	4,046	127,143	113,097
Combined purpose	3,249	4	3,253	3,031
Operating	2,295	-	2,295	2,179
Social enterprise	2,198	62	2,260	2,176
Flow through	-	1,657	1,657	1,732
	<b>\$ 252,225</b>	<b>\$ 7,309</b>	<b>\$ 259,534</b>	<b>\$ 233,664</b>

The Winspear Fund, with a balance of \$11,597 (restated 2009 - \$10,794, see Note 2), is included in the community endowment funds. Pursuant to an amending agreement, 50% of approved distributions were disbursed at the discretion of the Board of Directors, and 50% of distributions were allocated and disbursed based on percentage allocations to specific charities and/or among fields of interests.

**17. RESTRICTED FUND**

A restricted fund has been established, at the discretion of the Board of Directors, to report the unrealized gain (loss) on the core real estate investment that houses the operations of the Foundation. The Foundation's Board of Directors maintains disbursement and capital preservation policies and procedures to both maximize support for charitable activities and to protect the value of the funds. Due to the different operating nature of this investment, the unrealized gains (losses) will not be available for distribution until such gains (losses) are realized.

**EDMONTON COMMUNITY FOUNDATION**  
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**18. DEFERRED GIFTS**

The Foundation is the beneficiary of certain trusts, the value of which approximates \$4,532 at December 31, 2010 (2009 - \$2,797). The residual value of these trusts will be recorded in the consolidated financial statements when the proceeds are received by the Foundation.

The Foundation is the owner and beneficiary of several life insurance policies. The benefit from these policies will be recorded in the consolidated financial statements when proceeds are received by the Foundation.

**19. CAPITAL MANAGEMENT**

Through contributions from donors, the Foundation assembles and administers permanent pools of capital so the returns can be perpetually reinvested in the community. The Foundation complements and supports other charitable agencies.

It is the long-term objective of the Foundation to make available for annual granting an amount of 4.5% of the fair value of each fund in the consolidated trust fund. The Foundation must meet minimum spending requirements of the Income Tax Act, including expending in any taxation year on charitable activities or gifting to qualified donees those amounts which satisfy the Foundation's disbursement quota for that year (currently requires spending to equal to at least 3.5% of average market value calculated over two years), and all other regulatory requirements.

The Foundation shall make no distributions other than the net income each year unless so directed by a donor or so resolved by a two-thirds vote of the Board. Subject to any direction or trust imposed by a donor, such net income will be determined by the Capital Policy Committee and the Board having regard for the Foundation's responsibility to: protect donor intent, charities and the community; hold donor contributions in a manner consistent with the perpetual nature of a permanent endowment fund; maintain meaningful disbursements from a perpetual endowment fund over time; and fulfill the regulatory rules that govern the Foundation, including but not limited to the disbursement quota imposed by the Income Tax Act. The spending rate approved by the Capital Policy Committee and the Board was 3.5% for 2009 and 2010.

Notes 16 and 17 describe restrictions related to distributions from endowment, non-endowment and restricted funds.

**EDMONTON COMMUNITY FOUNDATION**  
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**20. EXPENDITURES**

	<u>2010</u>	<u>2009</u>
Salaries and contract services	\$ 1,388	\$ 1,339
Custodian and investment counsel	1,388	1,159
Office	221	200
Communications	241	196
Donor services	23	7
Occupancy	38	45
Amortization	59	47
Professional fees	82	92
Program and community support	72	53
Professional development	30	30
	<u>3,542</u>	<u>3,168</u>
Less:		
Interest	(18)	(9)
Contributions	(351)	(231)
Distributions from endowment funds	(77)	(70)
Fees charged on funds administered for others	(121)	(125)
	<u>(567)</u>	<u>(435)</u>
Total administrative expenditures - net	<u>2,975</u>	<u>2,733</u>
Direct program expenditures	566	373
Less:		
Contributions	(494)	(277)
Fees	(94)	(76)
Total direct program expenditures - net	<u>(22)</u>	<u>20</u>
Total expenditures - net	<u>\$ 2,953</u>	<u>\$ 2,753</u>
Allocated to:		
Endowment funds	\$ 2,875	\$ 2,674
Non-endowment funds	78	79
	<u>\$ 2,953</u>	<u>\$ 2,753</u>

The Foundation allocates expenditures to each endowment and non-endowment fund proportionately, based on the market value of each fund. Administrative fees are allocated to funds administered for others in accordance with the agreements. Expenses incurred for a specific fund are charged to that fund.

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**21. EDMONTON SOCIAL ENTERPRISE LOAN FUND**

Edmonton Social Enterprise Loan Fund (the "Fund") was incorporated under Part 9 of the Companies Act of the Province of Alberta, R.S.A. 2000, c. C-21, as a non-profit corporation on September 24, 2008.

The Fund is established to facilitate the development and growth of social enterprises in Edmonton and area that foster social benefits including employment creation, the provision of affordable housing and other similar socially beneficial programs and projects with economic benefits.

The Foundation and the City of Edmonton are the members of the Fund. The Fund has not been consolidated in the Foundation's statements.

**Edmonton Social Enterprise Loan Fund**  
**Financial position**

	<u>2010</u>	<u>2009</u>
Total assets	\$ 2,418	\$ 1,913
Total liabilities	510	4
<b>Total net assets</b>	<b>\$ 1,908</b>	<b>\$ 1,909</b>

**Results of operations**

	<u>2010</u>	<u>2009</u>
Interest revenue	\$ 66	\$ 52
Interest payable to investment in trust	(6)	-
Expenses	(4)	(6)
Distributions	(57)	(570)
<b>Deficiency of contributions over distributions</b>	<b>\$ (1)</b>	<b>\$ (524)</b>

**22. 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 expenses for the purposes of soliciting contributions were nil (2009 - nil). Total amount paid as remuneration to employees of the Foundation whose principal duties involve fundraising was nil (2009 - nil).

A grant by way of trust agreement transfer of \$1,800 to a charitable organization was approved by the Board and represents the single disposition of contributions that is equal to or exceeds 10% of the gross contributions received for the 12-month period ending December 31, 2010 (2009 - no single disposition of contributions equalled or exceeded 10% of the gross contributions).

# EDMONTON COMMUNITY FOUNDATION

## Schedule of Foreign Exchange Forward Contracts

Year ended December 31, 2010  
(thousands of dollars)

Currency Description	Contracts Settling on January 7, 2011			Contracts Settling on April 6, 2011			Total Notional CAD Exposure (1) and (2)	Total Fair Value (1) and (3)	Net FX Contracts Payables/Receivables
	CAD Base Cost	CAD Value	Fair Value (1)	Notional CAD Exposure and CAD Base Cost (2)	CAD Value	Fair Value (3)			
Australian Dollar	321	310	(11)	318	318	(0.039)	307	(11)	(630)
Swiss Franc	2,275	2,248	(27)	2,105	2,105	(0.406)	2,078	(28)	(1,969)
Euro Currency Unit	9,464	9,926	461	8,616	8,615	(0.552)	9,077	460	(13,546)
British Pound Sterling	2,553	2,655	102	2,556	2,556	(0.216)	2,658	102	(1,641)
Honk Kong Dollar	504	519	15	506	506	(0.060)	521	15	(7,890)
Japanese Yen	1,057	1,063	6	1,060	1,060	(0.161)	1,066	6	(172,504)
Norwegian Krone	219	224	5	219	219	(0.036)	224	5	(2,568)
U.S. Dollar	22,285	23,051	766	23,713	23,711	(1.196)	24,479	765	(23,815)
<b>Total</b>			<b>1,317</b>	<b>39,093</b>		<b>(2.666)</b>	<b>40,410</b>	<b>1,314</b>	
								<u>2010</u>	<u>2009</u>
Favourable forward currency contracts								1,370	-
Unfavourable forward currency contracts								(56)	-
								<u>1,314</u>	<u>-</u>