

INDEPENDENT AUDITOR'S REPORT

TO THE TRUSTEES OF THE CITY OF SASKATOON FIRE AND PROTECTIVE SERVICES DEPARTMENT SUPERANNUATION PLAN

We have audited the accompanying financial statements of the City of Saskatoon Fire and Protective Services Department Superannuation Plan, which comprise the statement of net assets available for benefits as at December 31, 2010, and the statement of changes in net assets available for benefits, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the net assets available for benefits of the City of Saskatoon Fire and Protective Service Department Superannuation Plan as at December 31, 2010, and its financial performance for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte + Touche LLP

Chartered Accountants
Saskatoon, Saskatchewan
June 15, 2011

City of Saskatoon
Fire and Protective Services Department Superannuation Plan
Statement of Net Assets Available for Benefits

As at December 31, 2010
(in thousands of dollars)

	2009	2010
ASSETS		
Investments (Note 3)		
Money Market Instruments	\$ 515	\$ 1,028
Bonds & Debentures	32,694	33,286
Equities	75,184	81,022
	108,393	115,336
Receivables		
City of Saskatoon	152	188
Accrued Interest and Dividends	296	278
	448	466
TOTAL ASSETS	108,841	115,802
LIABILITIES		
Accounts Payable	55	64
Bank Indebtedness	590	548
TOTAL LIABILITIES	645	612
NET ASSETS AVAILABLE FOR BENEFITS (Note 5)	\$ 108,196	\$ 115,190

See accompanying notes to the financial statements.

Approved by the Trustees on June 15, 2011

City of Saskatoon
Fire and Protective Services Department Superannuation Plan
Statement of Changes in Net Assets Available for Benefits

For the Year Ended December 31, 2010

(in thousands of dollars)

	2009	2010
INCREASE IN ASSETS		
Investment Income		
Interest	\$ 1,616	\$ 1,504
Dividends	1,621	1,841
	3,237	3,345
Current Period Change in Market Values of Investments	10,168	6,871
Contributions (Note 5)		
Employees	1,753	2,053
City of Saskatoon	1,752	2,047
Transfer from Other Plans	75	21
	3,580	4,121
Total Increase in Assets	16,985	14,337
 DECREASE IN ASSETS		
Administrative Expenses	399	450
Pension Benefits Paid	6,338	6,845
Refunds and Transfers	238	48
	6,975	7,343
Total Decrease in Assets	6,975	7,343
INCREASE IN NET ASSETS	10,010	6,994
NET ASSETS AVAILABLE FOR BENEFITS		
AT BEGINNING OF YEAR	98,186	108,196
NET ASSETS AVAILABLE FOR BENEFITS		
AT END OF YEAR	\$ 108,196	\$ 115,190

See accompanying notes to the financial statements.

**CITY OF SASKATOON
FIRE AND PROTECTIVE SERVICES DEPARTMENT SUPERANNUATION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of dollars)**

1. DESCRIPTION OF THE PLAN

The following description of the City of Saskatoon Fire and Protective Services Department Superannuation Plan (the "Plan") is a summary only. For more information, reference should be made to the Plan Agreement.

- (a) **General**

The Plan is a contributory defined benefit pension plan covering all uniformed employees of the City of Saskatoon Fire and Protective Services Department. Under the Plan, contributions are made by the Plan members and the City of Saskatoon. The Plan is registered under the Pension Benefits Act, 1992 (Saskatchewan): registration #0308262.
- (b) **Funding Policy**

The Plan requires that the City of Saskatoon and the members equally fund benefits determined under the Plan. The determination of the value of these benefits is made on the basis of the most recently filed actuarial valuation (see note 5).
- (c) **Service Pensions**

A service pension is normally available based on 1.4% of the portion of the final earnings which are not in excess of the average Year's Maximum Pensionable Earnings (YMPE) in the year of retirement and the previous two years, multiplied by the number of years of contributory service, subject to a maximum of 35 years; plus 2% of the portion of the final earnings in excess of the average YMPE multiplied by the number of years of contributory service subject to a maximum of 35 years.
- (d) **Disability Provisions**

Periods during which a member is in receipt of long-term disability insurance benefits provided by the City of Saskatoon count as contributory service. A member may elect to retire for reasons of ill health without reduction in his earned pension any time after age 50 or completion of 25 years of continuous service.
- (e) **Death Benefits**

In the event of the death of an active member prior to retirement, an amount equal to the greater of two times the member's accumulated contributions with interest, or the commuted value of the member's earned pension, will be paid to the member's spouse, if married, or designated beneficiary, if single.
- (f) **Survivors' Pensions**

The normal form of pension provides that payments will be made to the member for the member's lifetime with 60% of the pension otherwise payable continuing to the surviving spouse upon the member's death. In any event, payments to the member and spouse are guaranteed to be made for at least 60 months.
- (g) **Termination Benefits**

Upon termination of employment prior to becoming vested, a member will receive a refund of all their own contributions with interest. Following vesting, the member will also receive the vested portion of the City of Saskatoon contributions based upon service and earnings to date of termination. Vesting occurs once a member completes two years of service.

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1. DESCRIPTION OF THE PLAN (continued)

- (h) Income Taxes
The Plan is a Registered Pension Trust as defined in the Income Tax Act and is not subject to income taxes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- (a) Basis of Presentation
These financial statements are prepared on the going concern basis and present the aggregate financial position of the Plan as a separate financial reporting entity independent of the sponsor (the City of Saskatoon) and Plan members. They are prepared to assist Plan members and others in reviewing the activities of the Plan for the fiscal period but they do not portray the funding requirements of the Plan or the benefit security of individual Plan members.
- (b) Use of Estimates
These financial statements are prepared by management in accordance with Canadian generally accepted accounting principles. Management makes various estimates and assumptions in determining the reported amounts of assets and liabilities, actuarial values of pension assets and obligations, and increases and decreases in assets for each year presented. Actual results could differ from these estimates.
- (c) Investment Transactions and Income Recognition
Investment transactions are recorded as of the trade date. Realized gains and losses and unrealized appreciation or depreciation of investments are reflected in the change in market value. The plan follows the accrual method for the recording on income and expenses. Dividend income is recognized based on the date of record.
- (d) Future Changes in Accounting Policies
In April 2010, the CICA issued Section 4600, Pension Plans, replacing Section 4100, Pension Plans. The new Section will be applicable to financial statements relating to fiscal years beginning on or after January 1, 2011. Accordingly, the Plan will adopt the new standards for its fiscal year beginning January 1, 2011. It establishes requirements for measurement and presentation of information in general purpose financial statements of pension plans, as well as financial statement disclosures. The Plan is currently evaluating the impact of the adoption of this new Section on its financial statements.

3. INVESTMENTS

RBC Dexia Investor Services Limited is the custodian of the pension fund. Jarislowsky Fraser Limited, Leith Wheeler Investment Counsel Ltd., and Westpen Properties Ltd. act as the investment managers for the Plan. Investments are stated at market value. Therefore, the values reflected in the statement of net assets available for benefits represent the maximum market and credit exposure to the Plan at that point in time. Investments transactions are accounted for on the trade date.

(a) **Money Market Instruments**

	<u>2009</u>	<u>2010</u>
Canadian Short-Term Investments	<u>\$ 515</u>	<u>\$1,028</u>

Money market instruments are primarily securities issued by federal and provincial governments, Canadian chartered banks, and corporations with maturities under one year.

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3. INVESTMENTS (continued)

(b) **Bonds & Debentures**

	<u>2009</u>	<u>2010</u>
Government & Government Guaranteed	\$ 15,575	\$ 13,411
Corporate	17,119	19,875
Total Bonds & Debentures	<u>\$ 32,694</u>	<u>\$ 33,286</u>

Bonds are valued by the custodian (RBC Dexia Investor Services Limited) or agencies thereof.

(c) **Equities**

	<u>2009</u>	<u>2010</u>
Canadian Common Stocks	\$ 33,019	\$ 33,756
Canadian Real Estate	5,263	5,865
Canadian Pooled Equity	1,499	3,016
Foreign Equities	<u>35,403</u>	<u>38,385</u>
Total Equities	<u>\$ 75,184</u>	<u>\$ 81,022</u>

Equities are valued by the custodian (RBC Dexia Investor Services Limited) or agencies thereof.

(d) **Risk Policy, Credit, Interest Rate, Foreign Currency and Valuation Risk**
(i) Risk Policy

The value of the Plan's assets is affected by short-term changes in interest rates and equity markets. Interest rate changes directly impact the value of fixed income securities. Interest rates, along with inflation and salary escalation, also impact the Plan's pension obligations. The Plan manages these risks through the establishment of an appropriate asset mix. The investment policy of the Plan states that assets should be prudently managed to assist in avoiding actuarial deficits and excessive volatility in annual rates of return.

The Plan's risk philosophy is that in order to achieve long term investment goals, the Plan must invest in assets that have uncertain returns, such as Canadian equities, foreign equities and non-government bonds. The Plan has adopted an asset mix that has a bias to equity investments. The Board of Trustees attempted to reduce the overall level of risk by diversifying the asset classes and further diversifying within each individual asset class.

The Plan has moderate to moderately high risk tolerance. The overall risk posture of the Plan is influenced by demographics as well as the funded position of the Plan.

The long-term investment goal of the Plan is to exceed the actuarial real rate of return assumption of 3.25% with a minimum annualized rate of return target of four and one-quarter percentage points in excess of the Canadian Consumer Price Index. This 4.25% real return objective, is consistent with the overall investment risk level that the Plan could assume in order to meet the pension obligations of the Plan, and normally will be assessed over longer time periods.

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3. INVESTMENTS (continued)

(i) Risk Policy (continued)

The Plan's investment policy contains specific performance objectives for the fund and for the investment managers. The primary objective is to outperform a benchmark portfolio over moving four year periods. The benchmark portfolio includes several key market indices including the S&P/TSX Composite Capped Index, the S&P 500, MSCI EAFE Index, Investment Property Databank, DEX Universe Bond Index and 91-day T-Bills. A secondary objective is to exceed the benchmark index in each of the asset classes in which the investment manager invests.

(ii) Credit Risk

Credit risk arises from the potential for an investee to fail or default on its contractual obligations to the Plan. The Plan manages these risks through credit quality limits defined in the Plan's Statement of Investment Policies and Goals. Within the bond portfolio, credit exposure is mitigated by establishing a minimum credit quality for corporate bonds of investment grade (which includes bonds rated AAA, AA, A and BBB or equivalent as rated by an independent rating agency). A maximum of 10% of the bond portfolio is permitted in the lower credit quality BBB bonds, with the remaining 90% required to be in bonds rated A or higher. In addition to ensuring diversification by major asset class, exposure to individual corporate entities is also restricted within the Plan's Statement of Investment Policies and Goals to 10% of the value of individual equity and bond portfolios as well as at the total portfolio level.

<i>Credit Risk Exposure to Bond Sectors</i>	<u>2009</u>	<u>2010</u>
Federal	\$ 8,929	\$ 6,881
Provincial	6,276	6,200
Municipal	370	330
Corporate	<u>17,119</u>	<u>19,875</u>
	<u>\$ 32,694</u>	<u>\$ 33,286</u>

(iii) Interest Rate Risk

Interest rate risk refers to the adverse consequences of interest rate changes on the Plan's cash flows, financial position and income. This risk is the differences arising from differences in the timing and amount of cash flows related to the Plan's assets and liabilities. Duration is used to estimate the impact of a change in interest rate such as a 1% increase in interest rates would, for 6 year duration, be expected to result in a 6% decrease in the market value of the fixed income portfolio. The Plan holds approximately 30.4% (2009 – 30.8%) of its investments in fixed income securities and 64.5% (2009 – 64.3%) in equities at December 31, 2010.

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3. INVESTMENTS (continued)

(iv) Foreign Currency Risk

The Plan is exposed to foreign currency risk through holding of foreign equities where the investment values may fluctuate due to changes in foreign exchange rates. The Plan manages and estimates the foreign currency risk by focusing on equity distribution by country invested in. The policy limits foreign currency exposure of bond investments to 10% of market value of the bond portfolio. The exposure to US currency is net of investments in pooled funds where the US currency is hedged. At December 31, 2010, the Plan's foreign currency exposure was \$38,385.

	<u>2009</u>	<u>2010</u>
US Dollar	\$ 18,176	\$ 19,550
Euro	5,447	5,358
British Pound	3,556	4,146
Japanese Yen	2,624	3,079
Swiss Franc	1,892	2,041
Hong Kong Dollar	806	948
Other	<u>2,904</u>	<u>3,263</u>
	<u>\$ 35,403</u>	<u>\$ 38,385</u>

(v) Valuation Risk

The Plan is exposed to valuation risk through holding investments that may not be subject to objective valuation measurements. In accordance with CICA Section 3862, the Plan evaluates that risk by monitoring the levels of valuation available for investments based on 3 valuation levels.

Level 1 values are based on quoted price (unadjusted) in active markets for identical assets or liabilities that the Plan has the ability to access at the measurement date.

Level 2 values are based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 values are used when there is no objective valuation method available and cost or some other subjective quoted price is used.

	Quoted Prices In Active Markets (Level 1)	Significant Other Observable Valuation (Level 2)	Significant Unobservable Valuation (Level 3)	Balance as at December 31, 2010
Equities	\$81,022	-	-	\$81,022
Bonds & Debentures	-	\$33,081	\$205	\$33,286
Short-Term Investments	\$206	\$822	-	\$1,028
	<u>\$ 81,228</u>	<u>\$33,903</u>	<u>\$ 205</u>	<u>\$115,336</u>

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4. OBLIGATIONS FOR PENSION BENEFITS

An actuarial valuation was prepared as of December 31, 2009 by AON Hewitt, a firm of consulting actuaries. The present value of accrued pension benefits was then extrapolated to December 31, 2010 using management's best estimates and assumptions.

The actuarial present value of benefits as at December 31, 2010 and the principal components of changes in actuarial present values during the year were as follows:

	<u>2009</u>	<u>2010</u>
Actuarial present value of accrued pension benefits at beginning of the year	\$121,342	\$125,456
Change in assumption	-	(2,564)
Plan experience	(374)	1,116
Actuarial present value of accrued pension benefits at December 31 from valuation	<u>\$120,968</u>	<u>\$124,008</u>
Plan amendments	-	-
Interest accrued on benefits	7,490	7,746
Benefits accrued	3,499	3,820
Benefits paid	<u>(6,501)</u>	<u>(6,872)</u>
Actuarial present value of projected accrued pension benefits at end of the year	<u>\$125,456</u>	<u>\$128,702</u>

The assumptions used in determining the actuarial value of accrued pension benefits were developed by reference to expected long-term market conditions. Significant long-term actuarial assumptions used in the valuation were:

Asset rate of return	6.45%
Salary escalation rate (inflation component)	3.00%

5. FUNDING POLICY

In accordance with the Plan Agreement, employees are required to contribute 7.7% of their salary. The City of Saskatoon is required to match employee contributions. Any costs over the 7.7% matching contribution rate will be shared equally between the employees and the City of Saskatoon.

The most recent actuarial valuation for funding purposes was prepared by AON Hewitt as of December 31, 2009 and a copy of this valuation was filed with Saskatchewan Financial Services Commission (Pensions Division). This valuation disclosed that assets equal liabilities on a going concern basis. As disclosed in Note 4, the actuarial valuation that was prepared as of December 31, 2009 and extrapolated to December 31, 2010, calculated an accumulated present value of projected accrued benefits of \$128,702. These amounts should be considered when evaluating the sufficiency of Net Assets Available for Benefits.

The Pension Benefits Act, 1992 (Saskatchewan) requires that an actuarial certificate be filed with Saskatchewan Financial Services Commission (Pensions Division) at least every three years or earlier if the plan is significantly amended.

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5. FUNDING POLICY (continued)

The latest actuarial valuation as of December 31, 2009 indicated that the Plan was fully funded in accordance with the going concern basis but not in accordance with the solvency basis. The solvency ratio was reported as 83%, meaning that the value of the Plan assets at December 31, 2009 was not sufficient to provide the Plan's liabilities in the event that the Plan was wound up and all liabilities had to be settled. The Board of Trustees has applied for solvency relief for a 3 year period in accordance with the Pension Benefits Regulations until the next valuation at December 31, 2012. At this time no special payments are being made.