

## INDEPENDENT AUDITOR'S REPORT

### TO THE TRUSTEES OF THE CITY OF SASKATOON GENERAL SUPERANNUATION PLAN

We have audited the accompanying financial statements of the City of Saskatoon General 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

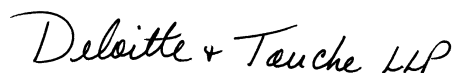
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable 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 General Superannuation Plan as at December 31, 2010, and its financial performance for the year then ended in accordance with Canadian generally accepted accounting principles.



**Chartered Accountants**  
Saskatoon, Saskatchewan

June 29, 2011

**City of Saskatoon**  
**General Superannuation Plan**  
**Statement of Net Assets Available for Benefits**  
As at December 31, 2010  
(in thousands of dollars)

	2009	2010
<b>ASSETS</b>		
Investments (Note 3)		
Money Market Instruments	\$ 1,622	\$ 2,396
Bonds & Debentures	144,709	151,572
Equities	313,056	342,464
	459,387	496,432
Receivables		
City of Saskatoon	941	982
Accrued Interest and Dividends	307	351
	1,248	1,333
Cash	1,915	178
<b>TOTAL ASSETS</b>	462,550	497,943
<b>LIABILITIES</b>		
Accounts Payable	143	127
<b>TOTAL LIABILITIES</b>	143	127
<b>NET ASSETS AVAILABLE FOR BENEFITS (Note 5)</b>	\$ 462,407	\$ 497,816

**See accompanying notes.**

*Approved by the Trustees on June 29, 2011*

**City of Saskatoon**  
**General Superannuation Plan**  
**Statement of Changes in Net Assets Available for Benefits**  
For the Year Ended December 31, 2010  
(in thousands of dollars)

	2009	2010
<b>INCREASE IN ASSETS</b>		
Investment Income		
Interest	\$ 6,876	\$ 6,932
Dividends	7,705	7,767
	<u>14,581</u>	<u>14,699</u>
Current Period Change in Market Values of Investments	<u>38,513</u>	<u>23,732</u>
Contributions (Note 5)		
Employees	9,854	10,563
City of Saskatoon	9,712	10,302
Transfers from Other Plans	79	246
	<u>19,645</u>	<u>21,111</u>
Total Increase in Assets	<u>72,739</u>	<u>59,542</u>
<b>DECREASE IN ASSETS</b>		
Administrative Expenses		
Fund Manager Fees (Note 6)	609	559
City Administrative Fees	137	131
Other	190	232
	<u>936</u>	<u>922</u>
Benefits Paid		
Pension Benefits	18,521	20,242
Death Benefits	-	515
	<u>18,521</u>	<u>20,757</u>
Refunds and Transfers		
Refunds of Contributions	614	682
Transfers to Other Plans	1,586	1,772
	<u>2,200</u>	<u>2,454</u>
Total Decrease in Assets	<u>21,657</u>	<u>24,133</u>
<b>INCREASE IN NET ASSETS</b>	<b>51,082</b>	<b>35,409</b>
<b>NET ASSETS AVAILABLE FOR BENEFITS</b>		
<b>AT BEGINNING OF YEAR</b>	<u>411,325</u>	<u>462,407</u>
<b>NET ASSETS AVAILABLE FOR BENEFITS</b>		
<b>AT END OF YEAR</b>	<u>\$ 462,407</u>	<u>\$ 497,816</u>

See accompanying notes.

**CITY OF SASKATOON  
GENERAL 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 General Superannuation Plan (the "Plan") is a summary only. For more complete information, reference should be made to the Plan Agreement.

- (a) **General**  
The Plan is a contributory defined benefit pension plan covering all employees of the City of Saskatoon, except those employees covered under the Police, Firefighters and Seasonal/Part-Time Superannuation Plans, and those members listed in the Plan Bylaw. 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 #0234237.
- (b) **Funding Policy**  
The Pension Benefits Act, 1992 (Saskatchewan) requires that the City of Saskatoon, being the Plan sponsor, must 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 the number of years of contributory service times 2% of a member's average highest 48 consecutive months earnings period and adjusted for Canada Pension Plan benefits for certain periods of past and future service.
- (d) **Disability Provisions**  
Periods during which a member is in receipt of worker's compensation, sick bank or long-term disability insurance benefits count as contributory service. Earnings applied in the pension formula include deemed earnings for a member in receipt of such disability benefits.
- (e) **Death Benefits**  
In the event of death of an active member before retirement, the Plan provides for payment to the spouse of a married member or the designated beneficiary of a single member, equal to the greater of:
  - (i) two times the member's accumulated contributions with interest, or
  - (ii) the commuted value of the member's pension earned to the date of death.
- (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 contributions with interest. Following vesting, the member will also receive the vested portion of the City of Saskatoon's contributions based upon service and earnings to the date of termination. Vesting occurs once a member completes two years of service.

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**1. DESCRIPTION OF THE PLAN** (continued)

(h) Contingency Reserve

The specified level of the reserve is 5% of the assets plus 5% of the liabilities as determined from the most recent actuarial value not to exceed the lesser of 20% of total actuarial liabilities and the greater of two times the current service cost or 10% of the Plan's actuarial liabilities. Surpluses which exceed this amount shall be applied to provide for pensioner increases and Plan improvements for active members.

(i) 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 of 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.

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GENERAL SUPERANNUATION PLAN  
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**3. INVESTMENTS**

RBC Dexia Investor Services Limited is the custodian of the pension fund. TD Asset Management, Jarislowsky Fraser Limited, Templeton Investment Management, Westpen Properties Ltd., Pantheon and Letko Brosseau Investment Management 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. Investment transactions are accounted for on the trade date.

**(a) Money Market Instruments**

	<u>2009</u>	<u>2010</u>
Canadian Short Term Investments	<u>\$ 1,622</u>	<u>\$ 2,396</u>

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

**(b) Bonds & Debentures**

	<u>2009</u>	<u>2010</u>
Bonds & Debentures	<u>\$ 144,709</u>	<u>\$ 151,572</u>

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

**(c) Equities**

	<u>2009</u>	<u>2010</u>
Canadian Common Stocks	\$ 92,246	\$ 147,145
Canadian Pooled Equity	41,757	6,974
Foreign Common Stocks	49,170	49,893
Foreign Pooled Equity	<u>129,883</u>	<u>138,452</u>
Total Equities	<u>\$ 313,056</u>	<u>\$ 342,464</u>

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

**(d) Risk Policy, Credit, Interest Rate, Foreign Currency & 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.

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**3. INVESTMENTS** (continued)

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

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 an above average risk tolerance. As a result, an investment philosophy with an equity bias has been adopted. 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 achieve a minimum annualized rate of return of three percentage points in excess of the Canadian Consumer Price Index. This 3% 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.

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, the S&P 500H, MSCI EAFE Index, IPD Canadian Property Index, 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>	<b><u>2009</u></b>	<b><u>2010</u></b>
Federal	\$ 67,854	\$ 69,920
Provincial	35,048	38,575
Municipal	2,011	2,168
Corporate	<u>39,796</u>	<u>40,909</u>
	<u>\$ 144,709</u>	<u>\$ 151,572</u>

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**3. INVESTMENTS** (continued)

**(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 30.5% (2009 – 30.5%) of its investments in fixed income securities and 69.5% (2009 – 67.7%) in equities, real estate and private equity as at December 31, 2010.

**(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 \$144,864.

	<u>2009</u>	<u>2010</u>
US Dollar	\$ 49,292	\$ 52,569
Euro	36,857	36,380
British Pound	20,247	21,215
Japanese Yen	7,864	9,645
Swiss Franc	6,793	7,325
Hong Kong Dollar	1,855	2,364
Other	<u>14,688</u>	<u>15,366</u>
	<u>\$ 137,596</u>	<u>\$ 144,864</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.

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**3. INVESTMENTS** (continued)

	<i>Quoted Prices In Active Markets (Level 1)</i>	<i>Significant Other Observable Valuation (Level 2)</i>	<i>Significant Unobservable Valuation (Level 3)</i>	<i>Balance as at December 31, 2010</i>
<b>Equities</b>	\$340,698	-	\$1,766	\$342,464
<b>Bonds &amp; Debentures</b>	151,572	-	-	151,572
<b>Short-Term Investments</b>	380	2,016	-	2,396
	<b>\$492,650</b>	<b>\$2,016</b>	<b>\$1,766</b>	<b>\$496,432</b>

**4. OBLIGATIONS FOR PENSION BENEFITS**

The present value of accrued pension benefits has been determined using the attained age actuarial cost method. An actuarial valuation was prepared as of December 31, 2009 by AON Hewitt, a firm of consulting actuaries. The present value of accrued 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>
<b>Actuarial present value of accrued pension benefits at beginning of the year</b>	\$487,002	\$522,782
Change in actuarial assumptions	-	(35,074)
Plan experience	3,481	9,877
Interest accrued on benefits	30,494	32,705
Benefits accrued	22,447	23,946
Benefits paid net of transfers	(20,642)	(22,965)
<b>Actuarial present value of accrued pension benefits at end of the year</b>	<u>\$522,782</u>	<u>\$531,271</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	6.75%
Salary escalation rate (inflation component)	3.25%

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(in thousands of dollars)**

**5. FUNDING POLICY**

In accordance with the Plan Agreement, employees are required to contribute 7.5% of earnings up to the Year's Maximum Pensionable Earnings ("YMPE") and 9.1% of earnings above the YMPE. The City of Saskatoon is required to provide the balance of the funding, based on annual actuarial valuations, necessary to ensure that benefits will be fully provided for at retirement. The City of Saskatoon funding policy is to make monthly contributions to the Plan in amounts which match the employees' contributions, with the exception of some buybacks exercised by the employee for which the City of Saskatoon has no obligation to contribute.

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) in 2010. This valuation disclosed a Plan going concern surplus of \$9,681 and is a Contingency Reserve. As disclosed in Note 4, the extrapolation to December 31, 2010 calculated an accumulated present value of projected accrued pension benefits of \$522,782. 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.

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 84%, 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.

**6. FUND MANAGER FEES**

The Plan pays Fund Management Fees to TD Asset Management, Jarislowsky Fraser Limited, Templeton Investment Management, and Letko Brosseau Investment Management. The Plan additionally pays fees on its pooled investments managed by Jarislowsky Fraser Limited through a reduction to the investments. On a quarterly basis, the Plan receives a global rebate on all management fees paid in the year to Jarislowsky Fraser Limited based on the preceding quarter end market valuation of the account.

	<b><u>2009</u></b>	<b><u>2010</u></b>
TD Asset Management	\$85	\$91
Jarislowsky Fraser Limited	183	211
Templeton Investment Management	332	361
Letko Brosseau Investment Management	111	151
Subtotal	711	814
Jarislowsky Fraser Limited – Global Rebates	<u>(102)</u>	<u>(255)</u>
<b>Total Fund Manager Fees</b>	<b><u>\$ 609</u></b>	<b><u>\$ 559</u></b>