

INDEPENDENT AUDITOR'S REPORT

TO THE TRUSTEES OF THE CITY OF SASKATOON POLICE SUPERANNUATION PLAN

We have audited the accompanying financial statements of the City of Saskatoon Police 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 Police 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 14, 2011

City of Saskatoon
Police 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 Investments	\$ -	\$ 5,731
Real Estate	7,947	11,846
Bonds & Debentures	77,550	79,425
Equities	129,565	135,175
Mortgages	2,588	2,314
	217,650	234,491
Receivables		
City of Saskatoon	214	240
Accrued Interest and Dividends	288	240
	502	480
Prepaid Expenditures	2	2
Cash	2,845	1,270
TOTAL ASSETS	220,999	236,243
LIABILITIES		
Accounts Payable	202	216
Bank Indebtedness	289	698
	491	914
TOTAL LIABILITIES	491	914
NET ASSETS AVAILABLE FOR BENEFITS (Note 4)	\$ 220,508	\$ 235,329

See accompanying notes to the financial statements.

Approved by the Trustees on June 14, 2011

City of Saskatoon
Police 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	\$ 3,928	\$ 3,600
Dividends	2,634	3,316
	6,562	6,916
Current Period Change in Market Values of Investments	24,658	15,116
Contributions		
Employees	2,518	2,901
City of Saskatoon	2,518	2,901
Transfers from Other Plans	278	366
	5,314	6,168
Total Increase in Assets	36,534	28,200
DECREASE IN ASSETS		
Administrative Expenses	845	1,022
Benefits Paid		
Pension Benefits Paid	11,331	11,733
Death Benefits	-	-
	11,331	11,733
Refunds and Transfers		
Refunds of Contributions	54	43
Transfers to Other Plans	913	581
	967	624
Total Decrease in Assets	13,143	13,379
INCREASE IN NET ASSETS	23,391	14,821
NET ASSETS AVAILABLE FOR BENEFITS		
AT BEGINNING OF YEAR	197,117	220,508
NET ASSETS AVAILABLE FOR BENEFITS		
AT END OF YEAR	\$ 220,508	\$ 235,329

See accompanying notes to financial statements.

**CITY OF SASKATOON
POLICE 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 Police Services 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 police employees of the City of Saskatoon Police Services. Under the Plan, contributions are made by the Plan members and the Board of Police Commissioners. The Plan is registered under the Pension Benefits Act, 1992 (Saskatchewan) registration #0206102.
- (b) **Funding Policy**
The Pension Benefits Act, 1992 (Saskatchewan) requires that the Board of Police Commissioners, 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 valuation (see note 6).
- (c) **Service Pensions**
A service pension is normally available based on 2% of the final earnings multiplied by the pensionable service, subject to a maximum of 35 years, adjusted for Canada Pension Plan benefits for periods of past service from 1990 to 1994 inclusive.
- (d) **Disability Provisions**
Periods in which a member is in receipt of Workers' Compensation, sick bank, or long-term disability insurance benefits count as contributory service.

Participants who become disabled may retire at any time provided they have completed twenty-five 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 pension earned to the date of death will be paid to the member's beneficiary.
- (f) **Survivors' Pensions**
The normal form of pension provides that payments will be made to the member for the member's lifetime with 66 2/3% 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 of his/her own contributions with interest. Following vesting, the member will also receive the vested portion of the Board of Police Commissioners contributions based upon service and earnings to date of termination. Vesting occurs once a member completes two years of service.
- (h) **Income Taxes**
The Plan is a Registered Pension Trust as defined in the Income Tax Act and is not subject to income taxes.

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

1. DESCRIPTION OF THE PLAN (continued)

- (i) **Contingency Reserve**
The specified level of the reserve is the greater of either 50% of the excess of the Fund's assets over liabilities or an amount equivalent to one year of Board required contributions for current service as determined by actuarial valuation.

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 (Saskatoon Board of Police Commissioners) 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.

3. INVESTMENTS

RBC Dexia Investor Services Limited is the custodian of the Plan. Bona Vista Asset Management Ltd., JP Morgan Asset Management Inc., Burgundy Asset Management Ltd., Greystone Managed Investments Inc., and State Street Global Advisors 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. Investment transactions are accounted for on the trade date.

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

3. INVESTMENTS (continued)

a) Money Market Instruments

	<u>2009</u>	<u>2010</u>
Canadian Short Term Investments	\$ -	<u>\$ 5,731</u>

Money Market Instruments are primarily securities issued by Federal and Provincial governments, Canadian Chartered Banks, and Canadian corporations with maturities under one year.

b) Real Estate

	<u>2009</u>	<u>2010</u>
Greystone Real Estate Fund Inc.	\$ 7,947	<u>\$ 11,846</u>

Real Estate is based on appraisal values including mortgage debt.

c) Bonds & Debentures

	<u>2009</u>	<u>2010</u>
Government & Government Guaranteed	\$ 24,249	<u>\$ 20,214</u>
Corporate	6,301	<u>11,096</u>
Pooled Fixed Income Funds	<u>47,000</u>	<u>48,115</u>
Total Bonds & Debentures	<u>\$ 77,550</u>	<u>\$ 79,425</u>

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

d) Equities

	<u>2009</u>	<u>2010</u>
Canadian Common Stocks	\$ 23,282	<u>\$ 28,291</u>
Canadian Pooled Equity Funds	30,758	<u>26,261</u>
International Common Stocks	65	<u>167</u>
International Equity Pooled Fund	55,229	<u>39,472</u>
Foreign Common Stocks	442	<u>-</u>
Foreign Pooled Equity Funds	<u>19,789</u>	<u>40,984</u>
Total Equities	<u>\$129,565</u>	<u>\$135,175</u>

Equities are valued by the custodian or agencies thereof.

e) Mortgages

	<u>2009</u>	<u>2010</u>
Mortgages	\$ 2,588	<u>\$ 2,314</u>

Mortgages are secured by real estate and represent one to five year loans made at commercial rates, to individuals and corporations, amortized over periods ranging from ten to twenty-five years. Mortgages are valued using current market yields.

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POLICE SUPERANNUATION PLAN
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(in thousands of dollars)**

3. INVESTMENTS (continued)

f) Risk Policy, Credit, Foreign Currency, Interest Rate, 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 the Plan 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 the long-term investment goals, the Plan must invest in assets that have uncertain returns, such as Canadian equities, foreign equities and bonds. The Plan has adopted an asset mix that has a bias to equity investments. The Board of Trustees attempts to reduce the overall level of risk by diversifying the asset classes and further diversifying within each individual asset class. An actuarial surplus, on both a solvency and ongoing basis, also increases risk tolerance.

The Plan has moderate to moderately high 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 return of three and one-half percentage points in excess of the Canadian Consumer Price Index. This 3.50% 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 Plan and for the investment manager. The primary objective is to outperform a benchmark portfolio over moving four-year periods. The benchmark portfolio includes several key market indices such as the S&P/TSX Composite, the S&P 500, the S&P 500H and 91-day T-Bills. A second objective is to equal or exceed market returns over moving four-year periods. A third objective, as previously mentioned, is to achieve a minimum real rate of return of 3.50%; that is, the Canadian Consumer Price Index plus 3.50% over moving four-year periods.

(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.

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3. INVESTMENTS (continued)

(ii) Credit Risk (continued)

Exposure To Bond Sectors (Credit Risk):

	<u>2009</u>	<u>2010</u>
Supranational	\$ 915	\$ 830
Federal	11,066	12,148
Provincial	10,242	5,266
Municipal	2,026	1,969
Corporate	6,301	11,096
Pooled	<u>47,000</u>	<u>48,116</u>
Total Bonds	<u>\$ 77,550</u>	<u>\$ 79,425</u>

The Plan holds approximately 33.8% (2009 – 37.6%) of its investments in fixed income securities and 57.6% (2009 – 58.8%) in equities at December 31, 2010. The remainder of the investments consist of money market instruments, real estate and mortgages.

(iii) Foreign Currency Risk

The Plan is exposed to foreign currency risk through holding foreign equities where the investment values may fluctuate due to changes in foreign exchange rates. The Plan manages and estimates 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 US currency is hedged. At December 31, 2010, the Plan's foreign currency exposure was \$53,114.

	<u>2009</u>	<u>2010</u>
US Dollar	\$ 11,527	\$ 12,445
Euro	11,071	9,860
Japanese Yen	7,288	7,948
British Pound	7,120	8,365
Swiss Franc	4,611	4,488
Hong Kong Dollar	2,346	2,339
Other	<u>6,941</u>	<u>7,669</u>
	<u>\$ 50,904</u>	<u>\$ 53,114</u>

(iv) Interest Rate Risk

	<u>2009</u>	<u>2010</u>
Bonds Market Value (\$)	\$77,550	\$79,425
Bonds Modified Duration*	6.05	6.18
Short Term Investments & Cash Market Value (\$)	\$ 2,845	\$7,001
Total Fixed Income Market Value	\$80,395	\$86,426
Weighted average duration of fixed income assuming Zero duration for short term and money market	5.83	5.68

* weighted average of market value

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(in thousands of dollars)**

3. INVESTMENTS (continued)

(iv) Interest Rate Risk (continued)

Estimated impact of a 1% change in interest rates 6.1% (2009) **6.2% (2010)**

Duration is used to estimate the impact of a change in interest rates: a 1% increase in interest rates would, for a 6 year duration, be expected to result in a 6% decrease in the market value of the fixed income portfolio.

(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)
Equities	\$135,175	\$ 0	\$ 0
Money Markets	5,731	0	0
Fixed Income	48,116	31,309	0
Real Estate	11,846	0	0
Mortgages	0	0	2,314
Cash on Hand	1,270	0	0
Accounts Receivable	240	0	0
Accrued Income	240	0	0
Total Market Value	\$202,618	\$ 31,309	\$2,314

**CITY OF SASKATOON
POLICE SUPERANNUATION PLAN
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FOR THE YEAR ENDED DECEMBER 31, 2010
(in thousands of dollars)**

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, 2010 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	\$ 233,872	\$ 243,591
Plan amendments	-	-
Interest accrued on benefits	14,469	15,111
Benefits accrued	7,270	8,376
Benefits paid	<u>(12,020)</u>	<u>(11,991)</u>
Expected present value of accrued pension benefits at end of year	\$ 243,591	\$ 255,087
Change in assumptions	-	(7,717)
Plan experience	<u>-</u>	<u>2,256</u>
Actuarial present value of accrued pension benefits at end of year	<u>\$ 243,591</u>	<u>\$ 249,626</u>

The above extrapolation reflects the data, assumptions and actuarial cost methods used in the valuation report on the plan performed as at December 31, 2009. In addition, the plan reflects all plan provisions up to December 31, 2010. Significant long-term actuarial assumptions used in the valuation were:

Asset rate of return	6.50%
Inflation rate	3.00%

There was one amendment to the Plan in 2010. In 2010 the plan was amended effective March 11, 2009 to remove the option of a Plan member to take the commuted value of his or her pension out of the Plan on retirement. The amendment in 2010 was effective retroactive to March 11, 2009 with the purpose of clarifying the provisions of the 2009 amendment.

5. FUNDING POLICY

In accordance with the Plan Agreement, employee and the Board of Police Commissioners contributions are based on 7.0% of pensionable earnings. Effective January 1, 2011 the required contribution rate will be increased from the current 7% to 9% over the next three years as follows:

January 1, 2011 – 7.67%
January 1, 2012 – 8.34%
January 1, 2013 – 9.00%

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

5. FUNDING POLICY (continued)

The Board of Police Commissioners' funding policy is to make monthly contributions to the Plan in amounts which match the employee's contributions, with the exception of some buybacks exercised by the employee for which the Board of Police Commissioners 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 the valuation was filed with Saskatchewan Financial Services Commission (Pension Division). This valuation disclosed a going concern surplus of \$34. This surplus is a Contingency Reserve and should be considered in addition to the actuarial present value of projected accrued pension benefits of \$249,626 at December 31, 2010 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 88%, 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.