

CITY OF MOBILE, ALABAMA

**Police and Firefighters
Retirement Plan**

**Financial Report
September 30, 2006 and 2005**

**SMITH, DUKES &
BUCKALEW, L.L.P.**

**CITY OF MOBILE, ALABAMA
Police and Firefighters Retirement Plan**

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the City Council
City of Mobile
Mobile, Alabama

We were engaged to audit the financial statements of the City of Mobile, Alabama Police and Firefighters Retirement Plan as of September 30, 2006 and 2005 and for the years then ended, as listed in the accompanying index. These financial statements are the responsibility of the Plan's management.

The plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information which was certified by Regions Bank, the custodian of the Plan, except for comparing the information with the related information included in the financial statements. We have been informed by the plan administrator that the custodian holds the Plan's investment assets and executes investment transactions. The plan administrator has obtained a certification from the custodian, as of and for the years ended September 30, 2006 and 2005 that the information provided to the plan administrator by the custodian is complete and accurate.

Because of the significance of the information that we did not audit, we are unable to, and do not, express an opinion on the accompanying financial statements taken as a whole. The form and content of the information included in the financial statements, other than that derived from the information certified by the custodian, have been audited by us in accordance with auditing standards generally accepted in the United States of America and, in our opinion, are presented in accordance with accounting principles generally accepted in the United States of America.

The supplementary information on page 12 is not a required part of the basic financial statements, and we did not audit and do not express an opinion on such information.

Smith, Dukes & Buckalew, L.L.P.

Mobile, Alabama
February 15, 2007

FINANCIAL STATEMENTS

CITY OF MOBILE, ALABAMA
Police and Firefighters Retirement Plan

STATEMENTS OF PLAN NET ASSETS
September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Assets		
Investments	\$ 83,711,573	\$ 76,907,237
Receivables		
Accrued income	273,725	232,394
Employer contribution	7,884,403	8,335,042
Due from City of Mobile	<u>2,693,443</u>	<u>46,419</u>
	10,851,571	8,613,855
Cash	<u>64,170</u>	<u>75,128</u>
Total assets	<u>94,627,314</u>	<u>85,596,220</u>
Liabilities		
Accounts payable	36,731	65,570
Accrued benefits payable - DROP Program	<u>2,176,808</u>	<u>1,711,390</u>
Total liabilities	<u>2,213,539</u>	<u>1,776,960</u>
Net assets held in trust for pension benefits (a schedule of funding progress is presented on page 10)	<u>\$ 92,413,775</u>	<u>\$ 83,819,260</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MOBILE, ALABAMA
Police and Firefighters Retirement Plan

STATEMENTS OF CHANGES IN PLAN NET ASSETS
September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Additions		
Investment income		
Net appreciation in fair value		
of investments	\$ 5,130,900	\$ 13,098,655
Interest income	<u>1,696,047</u>	<u>1,367,294</u>
	6,826,947	14,465,949
Less investment and custodial fees	<u>230,605</u>	<u>263,129</u>
	6,596,342	14,202,820
Contributions		
Employee	2,393,737	2,317,962
Employer	<u>15,403,865</u>	<u>15,581,462</u>
	17,797,602	17,899,424
Other income		
Employee pension buy back	<u>21,470</u>	<u>37,775</u>
	21,470	37,775
Total additions	<u>24,415,414</u>	<u>32,140,019</u>
Deductions		
Benefit payments	15,276,682	14,157,626
Refunds of employee contributions	471,929	530,274
Administrative expenses	<u>72,288</u>	<u>55,358</u>
	15,820,899	14,743,258
Total deductions	<u>15,820,899</u>	<u>14,743,258</u>
Net increase	8,594,515	17,396,761
Net assets held in trust for pension benefits		
Beginning of year	<u>83,819,260</u>	<u>66,422,499</u>
End of year	<u>\$ 92,413,775</u>	<u>\$ 83,819,260</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

Description of Plan

The following brief description of The City of Mobile, Alabama Police and Firefighters Retirement Plan (Plan) is provided for general information purposes only. Participants should refer to the Act for more complete information.

General

The Plan is a single-employer defined benefit pension plan. The Plan was established by an Act of the Alabama State Legislature (Act) on September 2, 1964. The Plan was last amended on May 17, 2001.

Participation

Every member of the police and fire departments of the City of Mobile, except for civilian employees hired after April 15, 1985, certain civilian employees hired before April 15, 1985, and certain police officers and firefighters who elected not to participate during a temporary period of discretionary participation, comes under the provisions and benefits of the Plan.

Funding

The Plan provides for the following methods of funding:

Employer contributions

The City of Mobile is required to contribute an actuarially determined amount each plan year. The City's contribution is determined as of each October 1 and the contribution must be made within 18 months.

Employee contributions

Participants who have earned less than 30 years of service are required to contribute 8% of basic salary.

Municipal Court receipts

The Plan receives 5% of all fines and moneys paid as a result of prosecutions for violations of ordinances and laws of the City of Mobile. These receipts are included in employer contributions.

Description of Plan (continued)

Fire insurance premium tax

The Plan receives 2% of the gross fire insurance premiums collected on policies which cover property within the City of Mobile limits and its police jurisdiction. These receipts are included in employer contributions.

Benefits

Participants in the Plan are entitled to certain benefits depending upon whether sufficient assets are in the Plan to cover the benefits. The Plan provides for retirement, disability and death benefits. Also, the plan provides for certain other types of benefits including a Deferred Retirement Option Plan (DROP).

Retirement

The Plan provides that a participant, who was hired prior to March 28, 1990, with at least 20 years of service (the last 10 years of which are consecutive) and who has attained 50 years of age, may retire and receive a monthly payment equal to 2.5% of his/her final average salary (average salary of the last three full years of active service) multiplied by the number of years in service and divided by twelve. The benefit, however, cannot exceed 75% of the participant's final average salary. The Plan provides that a participant, who was hired on or after March 28, 1990, with 20 years of service (the last 10 years of which are consecutive) and who has attained 55 years of age, may retire and receive a monthly payment equal to 2.5% of his/her final average salary (average salary of the last five full years of active service) multiplied by the first 20 years of service, and 2.25% of his/her average salary for years of service in excess of 20 years. The benefit however is not to exceed 72.5% of the participant's final average salary.

Disability

If a participant who has at least 15 years of service becomes permanently physically or mentally disabled other than while performing his or her duties as a uniformed officer by reason other than hypertension, heart disease, respiratory disease, AIDS, hepatitis, or cancer, he or she shall receive a monthly disability benefit equal to 2.5% of his or her final salary multiplied by his or her years of service, but not more than 60 percent of his or her final salary.

If any participant becomes permanently physically or mentally disabled while performing his or her duties as a uniformed officer other than due to hypertension, heart disease, respiratory disease, AIDS, hepatitis, or cancer; or, any member who has completed three years of service as a uniformed officer becomes permanently physically or mentally disabled due to hypertension, heart disease, respiratory disease, AIDS, hepatitis, or cancer, the participant shall receive a monthly disability benefit equal to 45 percent of the participant's final salary at the time the participant became disabled. However, any

Plan of Plan (continued)

Participant who can demonstrate to the Board that he or she is totally disabled from gainful employment, he or she shall receive a disability benefit equal to 60 percent of the participant's final salary at the time the participant became disabled.

Death

Whenever the employment of a participant of the Plan is terminated by death before eligibility for pension benefits has been established, the contributions of such participant to the Plan shall be refunded in a lump sum plus up to \$5,000 in matching benefits, without interest, to the named beneficiary on file with the Plan secretary. If a participant who is eligible for a retirement benefit dies prior to his or her annuity starting date, his or her eligible family members shall receive a benefit equal to the greater of, (1) the benefit they would have received had the participant met the requirements of the Plan, as the case may be, retired, or terminated employment on the day preceding his or her death and begun to receive his or her benefit in accordance with the 50% survivor's benefit, or (2) in a single lump sum equal to the lesser of twice the participant's contributions to the Plan or the sum of the participant's contributions to the Plan plus five thousand dollars.

Other

Whenever the employment of a participant of the Plan is terminated other than by reason of death or disability, after completion of 15 years of service (the last ten years without a break in service exceeding one year), he or she shall receive a pension beginning on the first day following the latest of his or her termination of employment or on his or her 65th birthday. If a participant terminates employment prior to 15 years of service for causes other than death or disability, he will receive a refund of his contributions excluding interest.

DROP program

Effective October 1, 1997, the Plan was amended to provide for the addition of a Deferred Retirement Option Plan (DROP). The DROP program is available for participants who are eligible for retirement and who wish to continue their respective jobs with the police or fire departments. Those retirees who elect the DROP will have their monthly retirement benefit accumulated in a DROP account. Upon termination of participation, the retiree will receive a distribution of his or her DROP account including interest.

Description of Plan (continued)

As of September 30, 2006 and 2005, the following amounts were accumulated in the DROP accounts:

	2006	2005
Benefit payments	\$ 1,829,769	\$ 1,571,102
Accumulated interest	347,039	140,288
Total	<u>\$ 2,176,808</u>	<u>\$ 1,711,390</u>

Summary of Significant Accounting Policies

Basis of accounting

The accompanying financial statements have been prepared on the accrual basis of accounting.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Plan administrator to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Investments

The Plan's investments are stated at fair value. When available, fair value is determined by quoted market price.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Reclassifications

Certain previously reported amounts have been reclassified to conform to the presentation adopted in the current year.

Plan Membership

Participation in the Plan as of October 1, 2005 and 2004, according to the latest actuarial valuations, was comprised of the following:

	<u>2005</u>	<u>2004</u>
Retired members - service retirement	488	486
Retired members - disability retirement	68	72
Retired members - beneficiaries	136	140
Active members - regular active employees	872	897
Active members - DROP program	40	38
Deferred vested members	<u>7</u>	<u>6</u>
	<u>1,611</u>	<u>1,639</u>

Funding Status and Progress

The annual pension cost and net pension obligation for Plan years 2005/2006 and 2004/2005 were as follows:

	<u>Plan Year 2005/2006</u>	<u>Plan Year 2004/2005</u>
Annual required contribution	\$ 5,178,167	\$ 6,169,345
Interest on net pension obligation	(3,138,139)	(2,251,323)
Adjustment to annual required contribution	<u>1,658,075</u>	<u>1,189,515</u>
Annual pension cost	3,698,103	5,107,537
Contributions made (with interest to EOY)	<u>(15,999,325)</u>	<u>(16,192,730)</u>
Decrease in net pension obligation	(12,301,222)	(11,085,193)
Net pension obligation beginning of year	<u>(39,226,735)</u>	<u>(28,141,542)</u>
Net pension obligation end of year	<u>\$ (51,527,957)</u>	<u>\$ (39,226,735)</u>

Funding Status and Progress (continued)

The annual required contributions for the 2004/2005 and 2003/2004 Plan years were determined as part of the October 1 actuarial valuations. The following is a list of additional information:

	<u>October 1, 2005</u>	<u>October 1, 2004</u>
Actuarial cost method	Projected unit credit	Projected unit credit
Amortization method	Level percent open	Level percent open
Remaining amortization	40 years	40 years
Asset valuation method	Market value	Market value - 5 year smoothed
Actuarial assumptions:		
Investment rate of return	8.00%	8.00%
Projected salary increases	5.00%	5.00%
Inflation component	3.50%	3.50%
Cost-of-living adjustments	None	None

Effective October 1, 2005, the actuarial value of assets has been changed from the market value adjusted to reflect a five-year phase-year phase-in of the net investment appreciation after September 30, 2000 to market value.

Trend information for the Annual Pension Cost for the Plan for the current and three previous years is as follows:

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
September 30, 2003	\$ 6,052,585	221%	\$ (20,871,363)
September 30, 2004	\$ 5,327,591	236%	\$ (28,141,543)
September 30, 2005	\$ 5,107,537	319%	\$ (39,266,735)
September 30, 2006	\$ 3,698,103	433%	\$ (51,527,957)

The schedule of employer contributions is as follows:

<u>Fiscal Year Ended</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
September 30, 2003	\$ 6,563,855	204%
September 30, 2004	\$ 6,115,088	206%
September 30, 2005	\$ 6,169,345	262%
September 30, 2006	\$ 5,178,167	309%

Funding Status and Progress (continued)

The schedule of funding progress is as follows:

	(1)	(2)	(3)	(4)	(5)	(6)
		Actuarial				UAAL
Actuarial Valuation Date	Actuarial Value of Assets	Accrued Liability (AAL)	Unfunded AAL (UAAL) (2) - (1)	Funded Ratio (1) / (2)	Covered Payroll	as % of Covered Payroll (3) / (5)
10/1/00	\$ 70,038,085	\$ 174,227,962	\$ 104,189,877	40.2%	\$ 31,872,604	326.9%
10/1/01	\$ 65,335,510	\$ 181,462,320	\$ 116,126,810	36.0%	\$ 31,496,159	368.7%
10/1/02	\$ 60,638,533	\$ 183,496,114	\$ 122,857,581	33.0%	\$ 30,259,246	406.0%
10/1/03	\$ 61,521,737	\$ 184,055,017	\$ 122,533,280	33.4%	\$ 29,428,553	416.4%
10/1/04	\$ 61,705,780	\$ 190,094,181	\$ 128,388,401	32.5%	\$ 30,974,684	414.5%
10/1/05	\$ 83,819,260	\$ 197,225,687	\$ 113,406,427	42.5%	\$ 32,055,235	353.8%

Investments

The following table presents investments at September 30, 2006 and 2005. Investments that represent 5% or more of the Plan's net assets are separately identified.

	2006	2005
Collective investment trusts		
Russell 1000 Fund	\$ 24,515,270	\$ 22,253,503
Others	1,727,773	3,240,268
Cabrra Capital	7,458,340	-
Real estate mortgages/venture capital	18,791,774	14,992,259
Corporate bonds	13,485,199	13,056,005
U.S. governments bonds	7,895,863	6,330,604
U.S. Agency notes	-	406,524
Common stocks	9,837,354	16,628,074
	<u>\$ 83,711,573</u>	<u>\$ 76,907,237</u>

Information Certified by Custodian

The Plan's custodian, Regions Bank, has issued a certification covering all investment assets, transactions, and income earned. Investments other than real estate mortgages/venture capital are stated at fair value and are determined by quoted market prices. The real estate mortgages/venture capital investments are stated at cost, which approximates fair value.

Income Tax Status

The Plan obtained its latest determination letter in 1998 in which the Internal Revenue Service, stated that the Plan, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code. The Plan has been amended since receiving the determination letter. However, the Plan's management and the Plan's tax counsel believe that the Plan is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, they believe that the Plan was qualified and the related trust was tax-exempt as of the financial statement date.

Plan Administration

The responsibilities for general administration of the Plan are entrusted to an independent Board of Trustees. The Plan's assets are held in trust by Regions Bank.

The Plan has an investment advisor and uses various professional investment managers to manage the Plan's assets.

Certain administrative functions are performed by employees of the City of Mobile. These employees are not compensated by the Plan. Salaries and other administrative expenses paid by the City of Mobile totaled \$170,930 and \$166,724 for the years ended September 30, 2006 and 2005, respectively.

Plan Termination

The City may terminate the Plan with the consent of the majority of the participants for any reason at any time. In case of termination, the rights of participants to their benefits as of the date of termination, to the extent then funded or protected by law, if greater, shall be nonforfeitable.

SUPPLEMENTARY INFORMATION

CITY OF MOBILE, ALABAMA
Police and Firefighters Retirement Plan

REVENUES BY SOURCE AND EXPENSES BY TYPE
LAST TEN FISCAL YEARS

Revenues by Source

Fiscal Year	Employee Contributions	Employer and Other Contributions	Investment and Other Income/(Loss)	Total
1997	2,139,386	5,855,524	4,457,098	12,452,008
1998	2,149,765	7,622,229	11,791,243	21,563,237
1999	2,220,474	9,228,230	1,481,835	12,930,539
2000	2,296,803	8,065,836	9,061,956	19,424,595
2001	2,369,388	7,343,012	(9,190,185)	522,215
2002	2,306,468	9,773,827	(4,972,501)	7,107,794
2003	2,281,878	12,868,697	8,414,638	23,565,213
2004	2,296,731	12,122,210	6,689,543	21,108,484
2005	2,317,962	15,581,462	14,503,724	32,403,148
2006	2,393,737	15,403,865	6,848,417	24,646,019

Expenses by Type

Fiscal Year	Benefits	Administrative and Other Expenses	Refunds	Total
1997	9,874,324	258,167	253,437	10,385,928
1998	10,081,937	271,847	221,587	10,575,371
1999	10,661,214	197,589	322,564	11,181,367
2000	11,384,772	220,512	354,443	11,959,727
2001	13,996,593	237,172	388,916	14,622,681
2002	12,711,842	316,853	578,027	13,606,722
2003	13,104,410	439,908	415,472	13,959,790
2004	13,972,920	327,810	522,790	14,823,520
2005	14,157,626	318,487	530,274	15,006,387
2006	15,276,682	302,893	471,929	16,051,504