

CITY OF MOBILE, ALABAMA

**Police and Firefighters
Retirement Plan**

**Financial Report
September 30, 2011 and 2010**

CITY OF MOBILE, ALABAMA
Police and Firefighters Retirement Plan

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WILKINS MILLER HIERONYMUS LLC
CERTIFIED PUBLIC ACCOUNTANTS + ADVISORS

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INDEPENDENT AUDITORS' 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 (the Plan) as of September 30, 2011 and 2010, and for the years then ended, and the supplementary schedules, as listed in the accompanying table of contents. These financial statements and supplementary schedules 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 summarized in Note 6, which was certified by The Bank of New York Mellon, 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, 2011 and 2010, 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 and supplementary schedules 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 required supplementary information on page 12 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The other supplementary information on page 13 is presented as additional analysis and is not a required part of the basic financial statements, and we did not audit and do not express an opinion on such information.

Wilkins Miller Hieronymus, LLC

January 31, 2012

CITY OF MOBILE, ALABAMA
Police and Firefighters Retirement Plan

STATEMENTS OF PLAN NET ASSETS

	September 30	
	2011	2010
Assets		
Cash	\$ 7,637,334	\$ 22,382
Investments, at fair value	87,767,595	87,480,810
Receivables		
Accrued income	272,512	280,878
Employer contribution receivable	11,826,378	6,325,386
Due from City of Mobile	-	7,622,551
Total receivables	<u>12,098,890</u>	<u>14,228,815</u>
Total assets	<u>107,503,819</u>	<u>101,732,007</u>
Liabilities		
Accounts payable	92,038	53,160
Accrued benefits payable - DROP Program	1,427,541	601,938
Due to City of Mobile	<u>4,476,451</u>	<u>-</u>
Total liabilities	<u>5,996,030</u>	<u>655,098</u>
Net assets held in trust for pension benefits	<u><u>\$ 101,507,789</u></u>	<u><u>\$ 101,076,909</u></u>

See accompanying notes to financial statements

CITY OF MOBILE, ALABAMA
Police and Firefighters Retirement Plan

STATEMENTS OF CHANGES IN PLAN NET ASSETS

	Year Ended September 30	
	2011	2010
Additions to Plan Net Assets		
Investment income, net		
Net appreciation (depreciation) in fair value of investments	\$ (855,263)	\$ 5,234,255
Interest income	1,500,884	1,586,612
	645,621	6,820,867
Less investment and custodial fees	(369,704)	(293,299)
	275,917	6,527,568
Contributions		
Employee	3,043,066	3,034,919
Employer	13,852,639	15,037,059
	16,895,705	18,071,978
Other income		
Miscellaneous revenue	10,408	3,638
Employee pension buy back	43,288	-
	53,696	3,638
 Total additions	 17,225,318	 24,603,184
 Deductions from Plan Net Assets		
Benefits paid to participants	16,015,197	15,326,349
Refunds of employee contributions	674,887	705,860
Administrative expenses and fees	104,354	120,727
 Total deductions	 16,794,438	 16,152,936
 Net increase	 430,880	 8,450,248
 Plan Net Assets		
Beginning of year	101,076,909	92,626,661
 End of year	 \$ 101,507,789	 \$ 101,076,909

See accompanying notes to financial statements

CITY OF MOBILE, ALABAMA
Police and Firefighters Retirement Plan

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND 2010

Note 1 - Description of Plan

The following brief description of The City of Mobile, Alabama Police and Firefighters Retirement Plan (the Plan) is provided for general information purposes only. The Plan was established by an Act of the Alabama State Legislature (the Act) on September 2, 1964. Participants should refer to the Act for more complete information.

General

The Plan is a single-employer defined benefit pension plan. 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 October 1st of each Plan year 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, as defined by the Plan.

Municipal Court receipts

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

CITY OF MOBILE, ALABAMA
Police and Firefighters Retirement Plan

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2011 AND 2010

Note 1 - 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 or 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 or 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 or 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% of his or her final salary.

CITY OF MOBILE, ALABAMA
Police and Firefighters Retirement Plan

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2011 AND 2010

Note 1 - Description of Plan (continued)

Disability (continued)

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 participant 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% of the participant's final salary at the time the participant became disabled. However, any participant who can demonstrate to the Board of Trustees of The City of Mobile, Alabama Police and Firefighters Retirement Plan that he or she is totally disabled from gainful employment, he or she shall receive a disability benefit equal to 60% 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 \$5,000.

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 or she will receive a refund of his or her contributions excluding interest.

CITY OF MOBILE, ALABAMA
Police and Firefighters Retirement Plan

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2011 AND 2010

Note 1 - Description of Plan (continued)

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. DROP accounts earn a rate of interest that is based on the actual investment return of the fund for the prior plan year, less two percent if the return is at least equal to the assumed investment return.

As of September 30, 2011 and 2010, the following amounts were accumulated in the DROP accounts:

	<u>2011</u>	<u>2010</u>
Benefit payments	\$ 1,380,059	\$ 614,979
Accumulated earnings	<u>47,482</u>	<u>(13,041)</u>
Total	<u><u>\$ 1,427,541</u></u>	<u><u>\$ 601,938</u></u>

Note 2 - Summary of Significant Accounting Policies

Basis of accounting

The accompanying financial statements have been prepared on the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

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.

CITY OF MOBILE, ALABAMA
Police and Firefighters Retirement Plan

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2011 AND 2010

Note 2 - Summary of Significant Accounting Policies (continued)

Investments

The Plan's investments are stated at fair value. When available, fair value is determined by quoted market price. Short term investments are reported at cost, which approximates fair value. Investments for which market quotations are not readily available are valued at their fair value as determined by the custodian under the direction of the Plan's Board of Trustees with the assistance of a valuation service.

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.

Note 3 - Plan Membership

Participation in the Plan as of October 1, 2010 and 2009, according to the latest actuarial valuations, was comprised of the following:

	<u>2010</u>	<u>2009</u>
Retired members - service retirement	508	515
Retired members - disability retirement	49	51
Retired members - beneficiaries	145	148
Active members - regular active employees	977	1,002
Active members - DROP program	28	12
Deferred vested members	<u>5</u>	<u>5</u>
	<u><u>1,712</u></u>	<u><u>1,733</u></u>

CITY OF MOBILE, ALABAMA
Police and Firefighters Retirement Plan

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2011 AND 2010

Note 4 - Funding Status and Progress

The funded status of the plan as of October 1, 2010, the most recent actuarial valuation date, is as follows:

(1)	(2)	(3)	(4)	(5)	(6)
Actuarial	Actuarial	Unfunded		Annual	UAAL as % of
Value of	Accrued	AAL	Funded	Covered	Annual
Assets	Liability	(UAAL)	Ratio	Payroll	Covered
	(AAL)	(2) - (1)	(1) / (2)		Payroll
					(3) / (5)
\$ 102,393,499	\$ 220,173,032	\$ 117,779,533	46.5%	\$ 36,845,566	319.7%

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AAL for benefits.

The annual required contributions for the 2009/2010 and 2008/2009 Plan years were determined as part of the October 1 actuarial valuations. The following is a list of additional information:

	October 1, 2010	October 1, 2009
Actuarial cost method	Projected unit credit	Projected unit credit
Amortization method	Level dollar, closed	Level dollar, closed
Remaining amortization	30 years	30 years
Asset valuation method	Five-year smoothed market value	Five-year smoothed market value
Actuarial assumptions		
Investment rate of return	8.00%	8.00%
Projected salary increases	4.00%	4.00%
Inflation component	2.75%	2.75%

CITY OF MOBILE, ALABAMA
Police and Firefighters Retirement Plan

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2011 AND 2010

Note 4 - Funding Status and Progress (continued)

Effective October 1, 2009, the Board of Trustees has adopted a five-year smoothing method to determine the actuarial value of the plan assets whereby the realized and unrealized gains and losses on the market value of the plan assets are reflected over a five-year period. Previously, the actuarial value of the plan assets was determined using the market value approach. Also, the administrative expense assumption has been changed from a 0.50% loading of all costs and liabilities to 0.25% of future payroll.

Note 5 - Investments

The following table presents investments at September 30, 2011 and 2010. Investments that represent 5% or more of the Plan's net assets are separately identified.

	<u>2011</u>	<u>2010</u>
Russell 1000 Fund (Insurance contract)	\$ 25,866,300	\$ 25,763,698
Julias Baer (Mutual funds)	6,874,676	8,301,806
Advisory RES (Equities)	7,067,508	-
Century Capital (Equities)	8,544,002	-
Orleans (Government bonds)	10,062,609	-
Orleans (Corporate bonds)	15,255,193	-
Corporate bonds	434,340	14,962,527
U.S. Government bonds	-	9,918,881
Insurance contracts	9,999,655	10,287,742
Pooled & mutual funds	3,604,556	2,976,789
Equities	<u>58,756</u>	<u>15,269,367</u>
	<u>\$ 87,767,595</u>	<u>\$ 87,480,810</u>

Note 6 - Information Certified by Custodian

The Plan's custodian, The Bank of New York Mellon, has issued a certification covering all investment assets, transactions, and income earned as of and for the years ended September 30, 2011 and 2010.

CITY OF MOBILE, ALABAMA
Police and Firefighters Retirement Plan

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2011 AND 2010

Note 7 - Income Tax Status

The Plan obtained its latest determination letter in 1998 in which the Internal Revenue Service (IRS) 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. During the year ended September 30, 2011, the Plan submitted a revised plan to the IRS for consideration.

Note 8 - Plan Administration

The responsibilities for general administration of the Plan are entrusted to a Board of Trustees made up of three elected police officers, three elected firefighters, the Executive Director of Financial Services for the City of Mobile and two members appointed by the governing body of the City of Mobile. The Plan's assets are held in trust by The Bank of New York Mellon.

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 nor are they members of the Plan. Salaries and other administrative expenses paid by the City of Mobile totaled \$205,314 and \$206,849 for the years ended September 30, 2011 and 2010, respectively.

Note 9 - Plan Termination

The City of Mobile 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.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MOBILE, ALABAMA
Police and Firefighters Retirement Plan

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Accrued Liability (AAL)	(3) Unfunded AAL (UAAL) (2) - (1)	(4) Funded Ratio (1) / (2)	(5) Annual Covered Payroll	(6) UAAL Annual Covered Payroll (3) / (5)
10/1/05	\$ 83,819,260	\$ 197,225,687	\$ 113,406,427	42.5%	\$ 32,055,235	353.8%
10/1/06	\$ 92,405,268	\$ 205,362,700	\$ 112,957,432	45.0%	\$ 33,158,518	340.7%
10/1/07	\$ 105,396,066	\$ 222,111,577	\$ 116,715,511	47.5%	\$ 36,488,843	319.9%
10/1/08	\$ 89,418,551	\$ 225,276,657	\$ 135,858,113	39.7%	\$ 39,153,543	347.0%
10/1/09	\$ 98,525,321	\$ 225,176,329	\$ 126,651,008	43.8%	\$ 37,828,223	334.8%
10/1/10	\$ 102,393,499	\$ 220,173,032	\$ 117,779,533	46.5%	\$ 36,845,566	319.7%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ended	Annual Required Contribution	Percentage Contributed	Annual Pension Cost	Percentage Contributed
September 30, 2005	\$6,169,345	262%	\$5,107,537	317%
September 30, 2006	\$5,178,167	309%	\$3,698,103	433%
September 30, 2007	\$4,754,860	296%	\$2,810,659	500%
September 30, 2008	\$8,321,440	148%	\$6,443,263	192%
September 30, 2009	\$9,904,212	166%	\$8,307,711	198%
September 30, 2010	\$15,060,773	100%	\$15,233,494	99%

OTHER 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
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
2007	2,579,329	13,520,226	13,101,059	29,200,614
2008	2,873,922	11,881,087	(14,466,340)	288,669
2009	3,117,345	16,473,275	(364,177)	19,226,443
2010	3,034,919	15,037,059	6,824,505	24,896,483
2011	3,043,066	13,852,639	656,029	17,551,734

Expenses by Type

Fiscal Year	Benefits	Administrative and Other Expenses	Refunds	Total
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
2007	15,170,811	323,553	723,959	16,218,323
2008	15,256,315	479,158	530,711	16,266,184
2009	15,396,092	314,469	307,772	16,018,333
2010	15,326,349	414,026	705,860	16,446,235
2011	16,015,197	474,058	674,887	17,164,142