

**CITY OF MOBILE, ALABAMA  
POLICE AND FIREFIGHTERS RETIREMENT PLAN**

**FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION  
FOR THE YEARS ENDED  
SEPTEMBER 30, 2016 AND 2015**

**CITY OF MOBILE, ALABAMA  
POLICE AND FIREFIGHTERS RETIREMENT PLAN**

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## INDEPENDENT AUDITORS' REPORT

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

### Report on the Financial Statements

We were engaged to audit the accompanying financial statements of the City of Mobile, Alabama Police and Firefighters Retirement Plan (the Plan), which comprise the statements of fiduciary net position as of September 30, 2016 and 2015, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Plan management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### Basis for Disclaimer of Opinion

The Plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note 4, 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 and supplementary information. 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, 2016 and 2015, that the information provided to the Plan administrator by the Custodian is complete and accurate.

## **Disclaimer of Opinion**

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

## **Supplementary Information**

U.S. generally accepted accounting principles require that the schedules of pension information included on pages 17 - 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. The other supplementary information included on page 20 is presented as additional analysis and is not a required part of the basic financial statements. Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we do not express an opinion on the supplementary information referred to above.

*Wilkins Miller, LLC*

Mobile, Alabama  
July 14, 2017

**CITY OF MOBILE, ALABAMA  
POLICE AND FIREFIGHTERS RETIREMENT PLAN**

**STATEMENTS OF FIDUCIARY NET POSITION**

|                                      | September 30          |                       |
|--------------------------------------|-----------------------|-----------------------|
|                                      | 2016                  | 2015                  |
| Assets                               |                       |                       |
| Cash                                 | \$ 5,182,229          | \$ 4,523,276          |
| Investments, at fair value:          |                       |                       |
| Cash and cash equivalents            | 3,699,231             | 5,720,196             |
| Fixed income securities              | 36,248,059            | 30,289,963            |
| Equities                             | 100,436,531           | 92,322,508            |
| Real estate funds                    | <u>4,303,625</u>      | <u>4,328,658</u>      |
| Total investments                    | <u>144,687,446</u>    | <u>132,661,325</u>    |
| Receivables                          |                       |                       |
| Accrued income                       | 274,003               | 254,623               |
| Employer contribution                | 17,616,310            | 14,505,767            |
| Investment sales                     | <u>-</u>              | <u>41,893</u>         |
| Total receivables                    | <u>17,890,313</u>     | <u>14,802,283</u>     |
| Total assets                         | <u>167,759,988</u>    | <u>151,986,884</u>    |
| Liabilities                          |                       |                       |
| Accounts payable                     | 131,521               | 86,251                |
| Investment payable                   | 77,018                | 30,294                |
| Due to City of Mobile                | <u>6,810,672</u>      | <u>7,401,047</u>      |
| Total liabilities                    | <u>7,019,211</u>      | <u>7,517,592</u>      |
| Net position restricted for pensions | <u>\$ 160,740,777</u> | <u>\$ 144,469,292</u> |

*See accompanying notes to financial statements*

**CITY OF MOBILE, ALABAMA**  
**POLICE AND FIREFIGHTERS RETIREMENT PLAN**  
**STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION**

|  | <u>Year Ended September 30</u> |                       |
|--|--------------------------------|-----------------------|
|  | <u>2016</u>                    | <u>2015</u>           |
| Additions  |                                |                       |
| Investment income  |                                |                       |
| Net appreciation (depreciation) in fair value of investments | \$ 10,806,909                  | \$ (8,033,122)        |
| Interest and dividends                                       | <u>1,564,101</u>               | <u>1,494,247</u>      |
|  | 12,371,010                     | (6,538,875)           |
| Less investment and custodial fees                           | <u>(443,500)</u>               | <u>(365,978)</u>      |
| Investment income (loss), net                                | <u>11,927,510</u>              | <u>(6,904,853)</u>    |
| Contributions  |                                |                       |
| Employee   | 2,995,750                      | 2,969,379             |
| Employer   | <u>19,701,944</u>              | <u>16,354,458</u>     |
| Total contributions  | <u>22,697,694</u>              | <u>19,323,837</u>     |
| Other income   |                                |                       |
| Miscellaneous revenue  | <u>211</u>                     | <u>23,131</u>         |
|  | <u>211</u>                     | <u>23,131</u>         |
| Total additions  | <u>34,625,415</u>              | <u>12,442,115</u>     |
| Deductions   |                                |                       |
| Benefits paid to participants                                | 17,458,315                     | 18,745,918            |
| Refunds of employee contributions                            | 877,554                        | 911,730               |
| Management and administrative fees                           | 8,253                          | 4,989                 |
| Miscellaneous expense  | <u>9,808</u>                   | <u>-</u>              |
| Total deductions   | <u>18,353,930</u>              | <u>19,662,637</u>     |
| Net increase (decrease)                                      | 16,271,485                     | (7,220,522)           |
| Net position restricted for pensions                         |                                |                       |
| Beginning of year  | <u>144,469,292</u>             | <u>151,689,814</u>    |
| End of year  | <u>\$ 160,740,777</u>          | <u>\$ 144,469,292</u> |

*See accompanying notes to financial statements*

**CITY OF MOBILE, ALABAMA  
POLICE AND FIREFIGHTERS RETIREMENT PLAN**

**NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 AND 2015**

**NOTE 1 - PLAN DESCRIPTION**

The following brief description of the City of Mobile, Alabama Police and Firefighters Retirement Plan (the Plan) provides only general information. 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 a more complete description of the Plan's provisions.

*General.* The Plan is a single-employer defined benefit pension plan. The Plan was last amended on July 3, 2012.

*Participation.* Every member of the police and fire departments of the City of Mobile (the City), 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 is required to contribute an actuarially determined amount each Plan year. The 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. These receipts are included in employer contributions.

Fire insurance premium tax

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

**CITY OF MOBILE, ALABAMA  
POLICE AND FIREFIGHTERS RETIREMENT PLAN**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2016 AND 2015**

**NOTE 1 - PLAN DESCRIPTION (CONTINUED)**

*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 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 of the highest salary for 36 months of the previous ten years of 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 of the highest salary for 60 months of the previous ten years of service) multiplied by the first 20 years of service, and 2.25% of his or her final 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.

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.



**CITY OF MOBILE, ALABAMA  
POLICE AND FIREFIGHTERS RETIREMENT PLAN**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2016 AND 2015**

**NOTE 1 - PLAN DESCRIPTION (CONTINUED)**

*Benefits (continued)*

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.

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, 2016 and 2015 the following amounts were accumulated in the DROP accounts:

|                             | September 30        |                     |
|-----------------------------|---------------------|---------------------|
|                             | 2016                | 2015                |
| Benefit payments            | \$ 1,537,884        | \$ 1,109,432        |
| Accumulated earnings (loss) | (25,717)            | 70,051              |
| Total                       | <u>\$ 1,512,167</u> | <u>\$ 1,179,483</u> |

**CITY OF MOBILE, ALABAMA**  
**POLICE AND FIREFIGHTERS RETIREMENT PLAN**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**SEPTEMBER 30, 2016 AND 2015**

**NOTE 1 - PLAN DESCRIPTION (CONTINUED)**

*Benefits (continued)*

DROP program (continued)

With the implementation of Government Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*, the statement of fiduciary net position only presents a liability for DROP benefits due but not yet distributed to members who had ended their participation in the DROP program at September 30 (none at September 30, 2016 or 2015).

**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.

In March 2016, the Government Accounting Standards Board (GASB) issued GASB 82, *Pension Issues: an Amendment of GASB Statements No. 67, No. 68, and No. 73*. This statement addresses issues regarding 1) the presentation of payroll-related measures in required supplementary information, 2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and 3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

Investments

The Plan's investments are stated at fair value as provided by the Custodian, The Bank of New York Mellon. When available, fair value is determined by quoted market price. Short-term investments are reported at cost, which approximates fair value. Investments for which 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.

# CITY OF MOBILE, ALABAMA

## POLICE AND FIREFIGHTERS RETIREMENT PLAN

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

#### SEPTEMBER 30, 2016 AND 2015

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Administration

Administrative costs are financed through the Plan's investment earnings.

##### Estimates

The preparation of financial statements in conformity with U.S. 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.

#### NOTE 3 - PLAN MEMBERSHIP

Participation in the Plan as of October 1, 2015, according to the latest actuarial valuations, was comprised of the following:

|   | October 1    |              |
|---|--------------|--------------|
|   | 2015         | 2014         |
| Active members  |              |              |
| Regular active members  | 933          | 974          |
| DROP program members  | <u>25</u>    | <u>36</u>    |
|   | <u>958</u>   | <u>1,010</u> |
| Inactive employees and beneficiaries currently receiving benefits |              |              |
| Retired - service retirement                                      | 542          | 537          |
| Retired - disability retirement                                   | 43           | 38           |
| Retired - beneficiaries   | <u>142</u>   | <u>143</u>   |
|   | <u>727</u>   | <u>718</u>   |
| Inactive employees entitled to but not yet receiving benefits     |              |              |
| Deferred vested members   | <u>16</u>    | <u>13</u>    |
|   | <u>1,701</u> | <u>1,741</u> |

#### NOTE 4 - CASH AND INVESTMENTS

##### Deposits

The Plan's cash deposits were comprised of cash in banks, amounting to \$5,182,229 and \$4,523,276 at September 30, 2016 and 2015, respectively. Each of the banks holding the Plan's deposits, is a certified participant in the Security for Alabama Funds Enhancement (SAFE) program. Through the SAFE program, all public funds are protected through a collateral pool administered by the Alabama State Treasury. All of the Plan's deposits were fully insured or collateralized at September 30, 2016 and 2015.

**CITY OF MOBILE, ALABAMA  
POLICE AND FIREFIGHTERS RETIREMENT PLAN**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2016 AND 2015**

**NOTE 4 - CASH AND INVESTMENTS (CONTINUED)**

Credit risk

The Plan's investment policy allows for U.S. Treasury, federal agencies, and U.S. government guaranteed obligations up to 100% of the fixed income securities portfolio. The Plan's investment policy provides that its investments in corporate bonds, debentures, notes, asset-backed securities, equipment trust certificates rated Baa3 or BBB- or higher (investment grade) by Moody's, Fitch or Standard and Poor's (including split-rated bonds), and investment grade money market instruments are allowed up to 100% of the fixed income securities portfolio. Below investment grade securities are allowed up to 20% of the market value of the fixed income securities portfolio after consideration of whether they are prudent under the circumstances then prevailing. The Plan's investments in fixed income securities were rated by applicable rating services at September 30, 2016 and 2015 as follows:

| <u>Rating</u>  | <u>2016</u>          | <u>2015</u>          |
|----------------|----------------------|----------------------|
| U.S. Agencies  | \$ 10,443,622        | \$ 7,615,958         |
| Aaa            | -                    | 823,927              |
| Aa1            | 814,516              | -                    |
| Aa3            | -                    | 672,157              |
| A1             | 1,179,843            | 1,102,269            |
| A2             | 4,871,638            | 5,387,182            |
| A3             | 4,642,139            | 4,001,456            |
| Ba1            | 966,166              | -                    |
| Baa1           | 7,277,078            | 5,245,287            |
| Baa2           | 5,256,177            | 3,169,880            |
| Baa3/no rating | 796,880              | 2,011,983            |
| B2             | -                    | 259,864              |
|                | <u>\$ 36,248,059</u> | <u>\$ 30,289,963</u> |

Custodial credit risk

Custodial credit risk is the risk the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party in the event of a failure of the counterparty. The Plan's investments are either held in the name of the Plan or held in trust under the Plan's name.

**CITY OF MOBILE, ALABAMA**  
**POLICE AND FIREFIGHTERS RETIREMENT PLAN**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**SEPTEMBER 30, 2016 AND 2015**

**NOTE 4 - CASH AND INVESTMENTS (CONTINUED)**

Foreign currency risk

Foreign currency risk is the risk that significant fluctuations in exchange rates may adversely affect the fair value of an investment. The Plan's holdings in the international equity discipline are primarily composed of underlying investments in international equities primarily in British, Japanese and other Asian companies. The Plan has no stated restrictions on the amount of investment in foreign currency-denominated securities. The Plan's investment policy states that the international funds shall be diversified by country and industry with diversification targets of 10% of Plan assets with a permissible range of 5% to 15%.

Concentration of credit risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Plan's investment in a single issuer. The Plan's policy regarding concentration of credit risk specifies the portfolio shall not hold investments in a single company exceeding ten percent of the market value of the portfolio. Further, it provides guidelines regarding target allocation ranges for various investment disciplines.

The following table presents investments at September 30, 2016 and 2015 that represent 5% or more of the Plan's net position.

|                                   | September 30  |            |
|-----------------------------------|---------------|------------|
|                                   | 2016          | 2015       |
| SSGA Russell 1000 Fund            | \$ 44,193,265 | 43,553,020 |
| SSGA Mid-Cap 400 Equity Fund      | 18,964,251    | 16,444,787 |
| SIT NFJ International Value Trust | 10,117,092    | 10,352,958 |

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, 2016 and 2015.

**CITY OF MOBILE, ALABAMA  
POLICE AND FIREFIGHTERS RETIREMENT PLAN**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2016 AND 2015**

**NOTE 4 - CASH AND INVESTMENTS (CONTINUED)**

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Plan's investment policy does not require a maximum term for any single fixed income security. The Plan's investment policy does not address weighted average portfolio maturities.

As of September 30, 2016, maturities of the Plan's fixed income securities were as follows:

|               | Investment Maturities (fair value by years) |                      |                     |                      |
|---------------|---|----------------------|---------------------|----------------------|
|               | 1-5   | 6-10                 | More Than 10        | Fair Value           |
| Corporate     | \$ 9,347,358                                | \$ 15,700,667        | \$ 756,412          | \$ 25,804,437        |
| U.S. Agencies | <u>66,586</u>                               | <u>1,329,906</u>     | <u>9,047,130</u>    | <u>10,443,622</u>    |
|               | <u>\$ 9,413,944</u>                         | <u>\$ 17,030,573</u> | <u>\$ 9,803,542</u> | <u>\$ 36,248,059</u> |

Rate of return

For the years ended September 30, 2016 and 2015, the estimated annual money-weighted rate of return on Plan investments, net of investment expenses, was 8.20% and (4.56%), respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**NOTE 5 - INCOME TAX STATUS**

The Plan obtained its latest determination letter as of September 24, 2014, 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'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.

**CITY OF MOBILE, ALABAMA**  
**POLICE AND FIREFIGHTERS RETIREMENT PLAN**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**SEPTEMBER 30, 2016 AND 2015**

**NOTE 6 - 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. Plan benefit provisions were established and may be amended by the Plan's Board of Trustees subject to approval by the City of Mobile City Council. Cost of living adjustments may be provided by the Plan's Board of Trustees after consultation with its actuary and other advisors. Contribution requirements were established and may be amended subject to approval by the Board of Trustees and the City of Mobile City Council.

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. 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 \$213,870 and \$214,427 for the years ended September 30, 2016 and 2015, respectively.

**NOTE 7 - 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 non-forfeitable.

**NOTE 8 - NET PENSION LIABILITY OF THE CITY OF MOBILE**

The components of the net pension liability of the City at September 30, 2016 and 2015, are as follows:

|   | <u>2016</u>          | <u>2015</u>           |
|---|----------------------|-----------------------|
| Total pension liability   | \$ 260,638,251       | \$ 260,565,945        |
| Plan fiduciary net position   | <u>(160,740,777)</u> | <u>(144,469,292)</u>  |
| City's net pension liability  | <u>\$ 99,897,474</u> | <u>\$ 116,096,653</u> |
| Plan fiduciary net position as a percentage<br>of the total pension liability | 61.67%               | 55.44%                |

**CITY OF MOBILE, ALABAMA  
POLICE AND FIREFIGHTERS RETIREMENT PLAN**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2016 AND 2015**

**NOTE 8 - NET PENSION LIABILITY OF THE CITY OF MOBILE (CONTINUED)**

Actuarial assumptions

The total pension liability was determined by an actuarial valuation as of October 1, 2015 and 2014 (and rolled forward to September 30, 2016 and 2015, respectively), using the following actuarial assumptions, applied to all periods included in the measurement:

|                           | October 1, 2015  | October 1, 2014  |
|---------------------------|--|--|
| Inflation                 | 2.5 percent  | 2.5 percent  |
| Salary increases          | 3.0 percent per annum  | 3.0 percent per annum  |
| Investment rate of return | 7.0 percent, net of pension plan investment expense, including inflation | 7.0 percent, net of pension plan investment expense, including inflation |
| Mortality rates           | RP-2000 Mortality Table  | RP-2000 Mortality Table  |

The actuarial assumptions used in the October 1, 2015 and 2014 valuations were based on results of an actuarial experience study for the period October 1, 2006 through September 30, 2015.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocation are summarized in the discussion below.



**CITY OF MOBILE, ALABAMA  
POLICE AND FIREFIGHTERS RETIREMENT PLAN**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2016 AND 2015**

**NOTE 8 - NET PENSION LIABILITY OF THE CITY OF MOBILE (CONTINUED)**

Investment policy

The Plan's policy in regard to the authorized types of investment securities and allocation of invested assets is established and may be amended by the Plan's Board of Trustees. The Plan is required to be actuarially sound, strive to achieve sufficient earnings to meet present and future obligations, earn the highest total return on invested funds consistent with safety and in accordance with generally accepted investment practices, favor investments which will have a positive impact on the local and state economy where investment characteristics are equivalent, and achieve performance equal to or greater than the actuarial assumption.

The Plan's policy pursues a multi-manager team investment approach that diversifies Plan assets so as to minimize the risk associated with dependence on the success of one enterprise. Allocations among firms should not exceed plus or minus five percent of the allocated portfolio value.

The Plan's policy allows for investment in domestic large cap equities, domestic small/mid cap growth equities, domestic small/mid cap value equities, international equities, fixed income securities, and alternative investments including closed-end limited partnerships in private equity, mezzanine finance, opportunistic real estate, and pooled funds of the foregoing. The Plan's policy states the specific targets and permissible diversification ranges by asset class are as follows:

| Asset Class               | Target<br>Allocation | Long-term<br>Expected Real<br>Rate of Return |
|---------------------------|----------------------|--|
| Broad equity markets      | 5.0 %                | 6.01 % per annum                             |
| Domestic large cap equity | 28.0 %               | 6.91 % per annum                             |
| Domestic mid cap equity   | 9.5 %                | 8.91 % per annum                             |
| Domestic small cap equity | 9.5 %                | 5.01 % per annum                             |
| International equity      | 10.0 %               | 3.31 % per annum                             |
| Domestic fixed income     | 25.0 %               | 0.81 % per annum                             |
| Alternative investments   | 13.0 %               | 7.51 % per annum                             |
|                           | <u>100.0 %</u>       | 5.07 % per annum                             |

Discount rate

The discount rate used to measure the total pension liability was 7.32 percent. The projection of cash flows used to determine the discount rate assumed that Plan member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**CITY OF MOBILE, ALABAMA  
POLICE AND FIREFIGHTERS RETIREMENT PLAN**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2016 AND 2015**

**NOTE 8 - NET PENSION LIABILITY OF THE CITY OF MOBILE (CONTINUED)**

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the City, calculated using the discount rate of 7.32 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.32 percent) or one percentage point higher (8.32 percent) than the current rate:

|                              | 1%<br>Decrease<br>(6.32%) | Current<br>Discount<br>(7.32%) | 1%<br>Increase<br>(8.32%) |
|------------------------------|---------------------------|--------------------------------|---------------------------|
| City's net pension liability | \$ 130,126,313            | \$ 99,897,474                  | \$ 75,068,542             |

**NOTE 9 - SUBSEQUENT EVENT**

Effective March 1, 2017, the Plan changed custodial banks from The Bank of New York Mellon to Wells Fargo.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF MOBILE, ALABAMA  
POLICE AND FIREFIGHTERS RETIREMENT PLAN**

**SCHEDULE OF CHANGES IN THE CITY OF MOBILE NET PENSION  
LIABILITY AND RELATED RATIOS**

|  | <u>2016</u>          | <u>2015</u>           | <u>2014</u>           |
|--|----------------------|-----------------------|-----------------------|
| Change in total pension liability  |                      |                       |                       |
| Service cost   | \$ 1,414,553         | \$ 1,501,441          | \$ 1,542,522          |
| Interest   | 18,550,878           | 18,407,492            | 18,287,147            |
| Demographic experience   | (1,557,256)          | 1,341,073             | -                     |
| Benefit payments, including refunds of member contributions                | <u>(18,335,869)</u>  | <u>(19,657,648)</u>   | <u>(17,958,800)</u>   |
| Net change in total pension liability                                      | 72,306               | 1,592,358             | 1,870,869             |
| Total pension liability, beginning   | <u>260,565,945</u>   | <u>258,973,587</u>    | <u>257,102,718</u>    |
| Total pension liability, ending (a)  | 260,638,251          | 260,565,945           | 258,973,587           |
| Change in plan fiduciary net position                                      |                      |                       |                       |
| Contributions - employer   | 19,701,944           | 16,354,458            | 14,950,855            |
| Contributions - employees  | 2,995,750            | 2,969,379             | 2,945,173             |
| Net investment and miscellaneous income (loss)                             | 11,927,721           | (6,881,722)           | 10,307,058            |
| Benefit payments, including refunds of member contributions                | (18,335,869)         | (19,657,648)          | (18,186,135)          |
| Administrative expenses  | <u>(18,061)</u>      | <u>(4,989)</u>        | <u>(110,549)</u>      |
| .  | 16,271,485           | (7,220,522)           | 9,906,402             |
| Plan fiduciary net position, beginning                                     | <u>144,469,292</u>   | <u>151,689,814</u>    | <u>141,783,412</u>    |
| Plan fiduciary net position, ending (b)                                    | <u>160,740,777</u>   | <u>144,469,292</u>    | <u>151,689,814</u>    |
| City's net pension liability, ending (a) - (b)                             | <u>\$ 99,897,474</u> | <u>\$ 116,096,653</u> | <u>\$ 107,283,773</u> |
| Plan fiduciary net position as a percentage of the total pension liability | 61.67 %              | 55.44 %               | 58.57 %               |
| Covered payroll  | \$ 36,451,544        | \$ 35,887,574         | \$ 36,010,184         |
| City's net pension liability as a percentage of covered payroll            | 274.06 %             | 323.50 %              | 297.93 %              |

Note: GASB Statement No. 67 was implemented in Plan year 2014. This schedule is being built prospectively. Ultimately, ten years of data will be presented.

**CITY OF MOBILE, ALABAMA  
POLICE AND FIREFIGHTERS RETIREMENT PLAN**

**SCHEDULE OF INVESTMENT RETURNS**

| <u>Fiscal Year Ended</u> | <u>Annual Money-<br/>Weighted Rate of<br/>Return, Net of<br/>Investment Expense</u> |
|--------------------------|---|
| September 30, 2014       | 2.10 %  |
| September 30, 2015       | (4.56)%   |
| September 30, 2016       | 8.20 %  |

Note: GASB Statement No. 67 was implemented in Plan year 2014. This schedule is being built prospectively. Ultimately, ten years of data will be presented.

**CITY OF MOBILE, ALABAMA  
POLICE AND FIREFIGHTERS RETIREMENT PLAN**

**SCHEDULE OF CONTRIBUTIONS**

| <u>Fiscal Year End</u> | <u>Actuarially<br/>Determined<br/>Contribution</u> | <u>Contributions in<br/>Relation to the<br/>Actuarially<br/>Determined<br/>Contribution</u> | <u>Contribution<br/>Deficiency<br/>(Excess)</u> | <u>Covered Payroll</u> | <u>Contributions<br/>as a Percentage<br/>of Covered<br/>Payroll</u> |
|------------------------|--|---|---|------------------------|---|
| September 30, 2014     | \$ 14,950,855                                      | \$ 14,950,855   | \$ -  | \$ 36,010,184          | 41.52 %   |
| September 30, 2015     | 16,354,458   | 16,354,458  | -   | 35,887,574             | 45.57 %   |
| September 30, 2016     | 19,701,944   | 19,701,944  | -   | 36,451,544             | 54.05 %   |

Notes to Schedule of Contributions:

|                   |   |
|-------------------|---|
| Valuation date    | October 1, 2015   |
| Notes             | Actuarially determined contribution rates are calculated as of September 30 that is 12 months prior to the beginning of the fiscal year for which the contributions are reported. |
| Other information | There were no changes in benefit provisions or actuarial assumptions as of the actuarial valuation date.  |

Methods and assumptions used to determine contribution rates:

|                               |  |
|-------------------------------|--|
| Actuarial cost method         | Projected unit credit  |
| Amortization method           | Level dollar, closed   |
| Remaining amortization period | 30 years   |
| Asset valuation method        | Open 5-year smoothed market  |
| Inflation                     | 2.5 percent  |
| Salary increases              | 3.0 percent per annum  |
| Investment rate of return     | 7.0 percent, net of pension plan investment expense, including inflation |
| Mortality rates               | RP-2000 Mortality Table  |

Note: GASB Statement No. 67 was implemented in Plan year 2014. This schedule is being built prospectively. Ultimately, ten years of data will be presented.

## **OTHER SUPPLEMENTARY INFORMATION**

**CITY OF MOBILE, ALABAMA  
POLICE AND FIREFIGHTERS RETIREMENT PLAN**

**REVENUES BY SOURCE**

| <u>Fiscal Year</u> | <u>Employee<br/>Contributions</u> | <u>Employer and Other<br/>Contributions</u> | <u>Investment<br/>and Other Income<br/>(Loss)</u> | <u>Total</u>  |
|--------------------|-----------------------------------|---|---|---------------|
| 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    |
| 2012               | 3,006,582                         | 17,508,284                                  | 15,263,723  | 35,778,589    |
| 2013               | 3,108,945                         | 19,707,446                                  | 15,096,423  | 37,912,814    |
| 2014               | 2,945,173                         | 14,950,855                                  | 10,805,399  | 28,701,427    |
| 2015               | 2,969,379                         | 16,354,458                                  | (6,515,744)                                       | 12,808,093    |
| 2016               | 2,995,750                         | 19,701,944                                  | 12,371,221  | 35,068,915    |

**EXPENSES BY TYPE**

| <u>Fiscal Year</u> | <u>Benefits</u> | <u>Administrative and<br/>Other Expenses</u> | <u>Refunds</u> | <u>Total</u>  |
|--------------------|-----------------|--|----------------|---------------|
| 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    |
| 2012               | 16,485,304      | 507,675                                      | 770,972        | 17,763,951    |
| 2013               | 16,879,218      | 608,945                                      | 668,097        | 18,156,260    |
| 2014               | 17,829,219      | 608,890                                      | 356,916        | 18,795,025    |
| 2015               | 18,745,918      | 370,967                                      | 911,730        | 20,028,615    |
| 2016               | 17,458,315      | 461,561                                      | 877,554        | 18,797,430    |