

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

**FINANCIAL STATEMENTS
AND
SUPPLEMENTAL SCHEDULES
FOR THE YEARS ENDED
SEPTEMBER 30, 2012 AND 2011**

**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, 2012 and 2011, and for the years then ended, and the supplemental schedules, as listed in the accompanying table of contents. These financial statements and supplemental 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 and supplemental schedules. 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 certifications from the Custodian as of and for the years ended September 30, 2012 and 2011, 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 supplemental 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 U.S. generally accepted accounting principles.

The required supplementary information on pages 11 and 12 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. 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, 2013

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

STATEMENTS OF PLAN NET ASSETS

	<u>September 30</u>	
	<u>2012</u>	<u>2011</u>
Assets		
Cash	\$ 94,022	\$ 7,637,334
Investments, at fair value	111,089,473	87,767,595
Receivables		
Accrued income	315,018	272,512
Employer contribution receivable	<u>15,516,232</u>	<u>11,826,378</u>
Total receivables	<u>15,831,250</u>	<u>12,098,890</u>
Total assets	<u>127,014,745</u>	<u>107,503,819</u>
Liabilities		
Accounts payable	112,694	92,038
Accrued benefits payable - DROP program	2,504,431	1,427,541
Due to City of Mobile	<u>4,875,193</u>	<u>4,476,451</u>
Total liabilities	<u>7,492,318</u>	<u>5,996,030</u>
Net assets held in trust for pension benefits	<u>\$ 119,522,427</u>	<u>\$ 101,507,789</u>

See accompanying notes to financial statements

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

STATEMENTS OF CHANGES IN PLAN NET ASSETS

	<u>Year Ended September 30</u>	
	<u>2012</u>	<u>2011</u>
Additions to plan net assets		
Investment income		
Net appreciation (depreciation) in fair value of investments	\$ 13,754,849	\$ (855,263)
Interest income	<u>1,504,955</u>	<u>1,500,884</u>
	15,259,804	645,621
Less investment and custodial fees	<u>(411,197)</u>	<u>(369,704)</u>
Investment income, net	<u>14,848,607</u>	<u>275,917</u>
Contributions		
Employee	3,006,582	3,043,066
Employer	<u>17,508,284</u>	<u>13,852,639</u>
	<u>20,514,866</u>	<u>16,895,705</u>
Other income		
Miscellaneous revenue	3,919	10,408
Employee pension buy back	<u>-</u>	<u>43,288</u>
	<u>3,919</u>	<u>53,696</u>
Total additions	<u>35,367,392</u>	<u>17,225,318</u>
Deductions from plan net assets		
Benefits paid to participants	16,485,304	16,015,197
Refunds of employee contributions	770,972	674,887
Management and administrative fees	<u>96,478</u>	<u>104,354</u>
Total deductions	<u>17,352,754</u>	<u>16,794,438</u>
Net increase	18,014,638	430,880
Plan net assets		
Beginning of year	<u>101,507,789</u>	<u>101,076,909</u>
End of year	<u>\$ 119,522,427</u>	<u>\$ 101,507,789</u>

See accompanying notes to financial statements

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

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011**

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 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, 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.

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 types of benefits including a Deferred Retirement Option Plan (DROP).

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

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2012 AND 2011**

NOTE 1 - PLAN DESCRIPTION (CONTINUED)

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 the 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 the 60 months of the previous ten years of 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.

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, 2012 AND 2011

NOTE 1 - PLAN DESCRIPTION (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, 2012 and 2011, the following amounts were accumulated in the DROP accounts:

	September 30	
	2012	2011
Benefit payments	\$ 2,461,853	\$ 1,380,059
Accumulated earnings	42,578	47,482
Total	<u>\$ 2,504,431</u>	<u>\$ 1,427,541</u>

CITY OF MOBILE, ALABAMA
POLICE AND FIREFIGHTERS RETIREMENT PLAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2012 AND 2011

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.

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.

NOTE 3 - PLAN MEMBERSHIP

Participation in the Plan as of October 1, 2011 and 2010, according to the latest actuarial valuations, was comprised of the following:

	October 1	
	2011	2010
Retired members - service retirement	511	508
Retired members - disability retirement	47	49
Retired members - beneficiaries	141	145
Active members - regular active members	986	977
Active members - DROP program	39	28
Deferred vested members	8	5
	<u>1,732</u>	<u>1,712</u>

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

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2012 AND 2011**

NOTE 4 - FUNDING STATUS AND PROGRESS

The funded status of the Plan as of October 1, 2011, the most recent actuarial valuation date, is as follows:

(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as % of Annual Covered Payroll
		(2) - (1)	(1) / (2)		(3) / (5)
<u>\$103,134,597</u>	<u>\$231,927,460</u>	<u>\$128,792,863</u>	<u>44.47 %</u>	<u>\$ 36,829,749</u>	<u>349.70 %</u>

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 2010/11 and 2009/10 Plan years were determined as part of the October 1 actuarial valuations. The following is a list of additional information:

	<u>October 1, 2011</u>	<u>October 1, 2010</u>
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, 2012 AND 2011**

NOTE 5 - INVESTMENTS

The following table presents investments at September 30, 2012 and 2011. Investments that represent 5% or more of the Plan's net assets are separately identified.

	September 30	
	2012	2011
Russell 1000 Fund (insurance contract)	\$ 33,625,198	\$ 25,866,300
Allianz Global (insurance contract)	10,909,241	-
Julias Baer (mutual funds)	-	6,874,676
Advisory RES (equities)	10,228,520	7,067,508
Century Capital (equities)	10,162,431	8,544,002
Orleans (government bonds)	9,615,742	10,062,609
Orleans (corporate bonds)	17,850,258	15,255,193
Corporate bonds	-	434,340
Insurance contracts	9,831,125	9,999,655
Pooled and mutual funds	3,398,260	3,604,556
Equities	<u>5,468,698</u>	<u>58,756</u>
	<u>\$ 111,089,473</u>	<u>\$ 87,767,595</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, 2012 and 2011.

NOTE 7 - INCOME TAX STATUS

The Plan obtained its latest determination letter as of April 16, 2012 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 was formally amended since receiving the determination letter, however, the amendment fell within the 90 day time period allotted by the IRS to be in compliance with the rules of the IRS determination letter process. 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, 2012 AND 2011**

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 \$206,980 and \$205,314 for the years ended September 30, 2012 and 2011, 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 non-forfeitable.

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)
10/1/06	\$ 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	\$ 135,858,106	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%
10/1/11	\$ 103,134,597	\$ 231,927,460	\$ 128,792,863	44.5%	\$ 36,829,749	349.7%

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

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Fiscal Year Ended</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>	<u>Annual Pension Cost</u>	<u>Percentage Contributed</u>
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 %
September 30, 2011	\$ 13,972,923	99 %	\$ 14,145,203	98 %

OTHER SUPPLEMENTARY INFORMATION

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

REVENUES BY SOURCE

<u>Fiscal Year</u>	<u>Employee Contributions</u>	<u>Employer and Other Contributions</u>	<u>Investment and Other Income/(Loss)</u>	<u>Total</u>
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
2012	3,006,582	17,508,284	15,263,723	35,778,589

EXPENSES BY TYPE

<u>Fiscal Year</u>	<u>Benefits</u>	<u>Administrative and Other Expenses</u>	<u>Refunds</u>	<u>Total</u>
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
2012	16,485,304	507,675	770,972	17,763,951