

**CITY OF MOBILE, ALABAMA**

**Police and Firefighters  
Retirement Plan**

**Financial Report  
September 30, 2008 and 2007**

**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

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, 2008, and for the year then ended, as listed in the accompanying index. These financial statements are the responsibility of the Plan's management. The financial statements of the Plan as and for the year ended September 30, 2007 were audited by other auditors. The plan administrator instructed the other auditors not to perform, and they did not perform, any auditing procedures with respect to the information certified by The Bank of New York, the custodian of the Plan. Their report dated January 15, 2008, indicated that (a) because of the significance of the information that they did not audit, they were unable to, and did not, express an opinion on the financial statements taken as a whole and (b) the form and content of the information included in the financial statements, other than that derived from the information certified by the custodian, were presented in accordance with accounting principles generally accepted in the United States of America.

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, 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, 2008, 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 required supplementary information on page 12 is not a required part of the basic financial statements but are 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, P.C.*

March 30, 2009

Wilkins Miller, P.C.



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

**STATEMENTS OF PLAN NET ASSETS**

	September 30	
	2008	2007
<b>Assets</b>		
Investments, at fair value	\$ 81,486,238	\$ 97,016,642
Receivables		
Accrued income	264,362	256,157
Employer contribution receivable	3,262,026	5,405,447
Due from City of Mobile	5,500,362	4,140,672
	<u>9,026,750</u>	<u>9,802,276</u>
Cash	<u>97,252</u>	<u>60,223</u>
Total assets	<u>90,610,240</u>	<u>106,879,141</u>
<b>Liabilities</b>		
Accounts payable	40,137	63,500
Due to broker	-	363,031
Accrued benefits payable - DROP Program	<u>1,151,552</u>	<u>1,056,544</u>
Total liabilities	<u>1,191,689</u>	<u>1,483,075</u>
Net assets held in trust for pension benefits	<u>\$ 89,418,551</u>	<u>\$ 105,396,066</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	
	2008	2007
<b>Additions to Plan Net Assets</b>		
Investment income, net		
Net appreciation (depreciation) in fair value of investments	\$ (16,203,673)	\$ 11,205,488
Interest income	1,714,909	1,895,571
	(14,488,764)	13,101,059
Less investment and custodial fees	(365,469)	(210,194)
	(14,854,233)	12,890,865
Contributions		
Employee	2,873,922	2,579,329
Employer	11,881,087	13,520,226
	14,755,009	16,099,555
Other Income		
Employee pension buy back	22,424	-
	(76,800)	28,990,420
<b>Deductions from Plan Net Assets</b>		
Benefits paid to participants	15,256,315	15,170,811
Refunds of employee contributions	530,711	723,959
Administrative expenses and fees	113,689	113,359
	15,900,715	16,008,129
	(15,977,515)	12,982,291
<b>Plan Net Assets</b>		
Beginning of year	105,396,066	92,413,775
End of year	<u>\$ 89,418,551</u>	<u>\$ 105,396,066</u>

See accompanying notes to financial statements

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

**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008 AND 2007**

**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 1<sup>st</sup> 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, 2008 AND 2007**

**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, 2008 AND 2007**

**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 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 65<sup>th</sup> 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, 2008 AND 2007**

**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. Upon termination of participation, the retiree will receive a distribution of his or her DROP account including interest.

As of September 30, 2008 and 2007, the following amounts were accumulated in the DROP accounts:

	<u>2008</u>	<u>2007</u>
Benefit payments	\$ 1,022,372	\$ 968,739
Accumulated interest	<u>129,180</u>	<u>87,805</u>
Total	<u><u>\$ 1,151,552</u></u>	<u><u>\$ 1,056,544</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, 2008 AND 2007**

**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, 2007 and 2006, according to the latest actuarial valuations, was comprised of the following:

	<u>2007</u>	<u>2006</u>
Retired members - service retirement	513	500
Retired members - disability retirement	60	64
Retired members - beneficiaries	146	141
Active members - regular active employees	923	868
Active members - DROP program	25	41
Deferred vested members	<u>6</u>	<u>7</u>
	<u>1,673</u>	<u>1,621</u>



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

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**SEPTEMBER 30, 2008 AND 2007**

**Note 4 - Funding Status and Progress**

The funded status of the plan as of October 1, 2007, 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)
\$ 105,396,066	\$ 222,111,577	\$ 116,715,511	47.5%	\$ 36,488,843	319.9%

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 2006/2007 and 2006/2005 Plan years were determined as part of the October 1 actuarial valuations. The following is a list of additional information:

	October 1, 2007	October 1, 2006
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
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.

Effective October 1, 2007, the mortality assumption has been changed from the 1995 Buck Hourly Mortality Table, set forward five years for disabled members to the RP-2000 Mortality Table for annuitants and non-annuitants, and all costs and liabilities have been loaded by 0.50% to account for administrative expenses other than investment expenses and commissions.



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

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**SEPTEMBER 30, 2008 AND 2007**

**Note 5 - Investments**

The following table presents investments at September 30, 2008 and 2007. Investments that represent 5% or more of the Plan's net assets are separately identified.

	<u>2008</u>	<u>2007</u>
Collective investment trusts		
Russell 1000 Fund	\$ 22,316,158	\$ 28,656,862
Others	-	2,443,616
Artio Global Investors	8,158,196	-
Real estate mortgages/venture capital	-	23,484,404
Corporate bonds	12,889,734	12,789,826
U.S. Government bonds	10,353,749	9,330,965
Insurance contracts	10,873,398	-
U.S. Agency notes	-	397,076
Pooled & Mutual Funds	3,093,367	-
Common stocks	13,801,636	19,913,893
	<u>\$ 81,486,238</u>	<u>\$ 97,016,642</u>

**Note 6 - Information Certified by Custodian**

The Plan's custodian, The Bank of New York, 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.

**Note 7 - 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.

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

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**SEPTEMBER 30, 2008 AND 2007**

**Note 8 - 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 The Bank of New York.

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 \$206,904 and \$196,513 for the years ended September 30, 2008 and 2007, 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**

**SCHEDULES OF FUNDING PROGRESS**

Actuarial Valuation Date	(1)  Actuarial Value of Assets	(2)  Actuarial Accrued Liability (AAL)	(3)  Unfunded AAL (UAAL) (2) - (1)	(4)  Funded Ratio (1) / (2)	(5)  Annual Covered Payroll	(6)  UAAL as % of Annual Covered Payroll (3) / (5)
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%
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%

**SCHEDULES OF EMPLOYER CONTRIBUTIONS**

<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%
September 30, 2007	\$4,754,860	296%
September 30, 2008	\$5,177,476	238%

**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**

<u>Fiscal Year</u>	<u>Employee Contributions</u>	<u>Employer and Other Contributions</u>	<u>Investment and Other Income/(Loss)</u>	<u>Total</u>
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
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

**Expenses by Type**

<u>Fiscal Year</u>	<u>Benefits</u>	<u>Administrative and Other Expenses</u>	<u>Refunds</u>	<u>Total</u>
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
2007	15,170,811	323,553	723,959	16,218,323
2008	15,256,315	479,158	530,711	16,266,184