Police and Fire Pension Fund

Financial Statements as of and for the Year Ended September 30, 2006, Supplemental Schedules as of and for the Year Ended September 30, 2006, and Independent Auditors' Reports

POLICE AND FIRE PENSION FUND

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POLICE AND FIRE PENSION FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2006 (UNAUDITED)

We are pleased to provide this overview and analysis of the financial activities of the Police and Fire Pension Fund (the "Fund" or "Plan") during the fiscal year ended September 30, 2006. This section presents management's discussion and analysis of key financial performance indicators in a narrative format.

Financial Highlights

- The net assets of the Fund as of the close of the reporting period were $839,515,351. All of these net assets, which are held in trust for pension benefits, are available to meet the Fund's ongoing obligations to plan participants and their beneficiaries.

- The $839,515,351 value of net assets represents an increase of $44,141,561, or 5.5%. The increase was primarily a result of the substantial appreciation in the market value of equity securities and an increase in the rate of employer contributions. The rate of increase in net assets would have been higher had it not been for the negative cash flow fundamentally associated with the Fund's mature status and in the growth in liabilities to Deferred Retirement Option Program ("DROP") participants.

- The Fund's ongoing funding objective is to meet long-term benefit obligations through contributions, investment income, and the receipt of various revenue sources. As of September 30, 2006, the funded ratio for the Fund was approximately 60.10%, which compares to the September 30, 2005, funded ratio of 58.21%. In general, the current funded ratio indicates that for every dollar of benefits due, the Fund has approximately $0.60 of assets to cover it.

- The Fund's rate of return on investments of 8.5% on a market value basis over the fiscal year ended September 30, 2006, was primarily attributable to a substantial appreciation in the market value of equity securities on a global basis. The magnitude of the appreciation in world equity markets over the one-year period ended September 30, 2006, is evidenced from the 10.4% return for the Wilshire 5000, the 10.8% return for the S&P 500, and the 19.7% return for the EAFE (international equity). The return of 8.5% placed the Fund's investment performance in the 31st percentile when compared to other public pension funds as measured by the Fund's investment performance consultant. This means that the Fund's 8.5% return exceeded the returns generated by 69% of other public pension funds. The Fund's annualized rate of return over the last three years of 9.7% produced a ranking in the 39th percentile. The Fund's annualized rate of return over the last five years of 7.8% produced a ranking in the 14th percentile.

- Revenues (additions to fund net assets) other than investment income for the 2006 fiscal year were $62,220,841, which comprises member and employer contributions of $49,043,894 and other additions of $13,176,947. This compares to revenues in the amount of $49,326,132 in the prior fiscal year. A large element of this increase was attributable to an increase in the rate of the employer pension contribution from 18.55% to 26.20% of payroll for members who do not participate in the DROP.

- Revenues (additions to fund net assets) derived from investment income for the 2006 fiscal year were $74,082,115. This compares to investment income in the amount of $91,109,345 that was recorded in the prior fiscal year as a result of the recovery in world equity markets that followed an earlier period of declining market values.

- Expenses (deductions in plan net assets) not related to investment activities for the 2006 fiscal year increased from $84,441,208 to $92,161,395, or approximately 9.14%. Essentially, all of this increase was attributable to an increase in the level of benefits paid directly to plan participants. The magnitude of this increase was primarily linked to the large number of DROP participants who separated from service during the 2006 and 2005 fiscal years and commenced the receipt of pension benefits.

Overview of Financial Statements

The following discussion and analysis is intended to serve as an introduction to the Fund's financial statements, which are comprised of these components: 1) statement of plan net assets, 2) statement of changes in plan net assets, 3) notes to the financial statements, and 4) required supplementary information. The information available in each of these sections is briefly summarized as follows:

1) **The statement of plan net assets** is a snapshot of account balances at the end of the fiscal year. It indicates the assets available for future payments to retirees and beneficiaries and any current liabilities that are owed at this time.

2) **The statement of changes in plan net assets** provides a view of current year additions to and deductions from the resources of the Fund during the fiscal year.

   Both statements are presented in compliance with Governmental Accounting Standards Board ("GASB") pronouncements. These pronouncements require certain disclosures and reporting standards. The Fund complies with all material requirements of these pronouncements.

   The statement of plan net assets and the statement of changes in plan net assets report information about the Fund's financial activities. These statements include all assets and liabilities, using the full accrual basis of accounting, which is similar to the basis of accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. All realized and unrealized gains and losses are shown on investments, and all property and equipment (i.e. fixed assets) are depreciated over their useful lives.

   These two statements report the Fund's net assets held in trust for pension benefits (i.e. the difference between assets and liabilities) as one way to measure the Fund's financial position. Over time, increases and decreases in the Fund's net assets are one indicator of whether its financial health is improving or deteriorating. Other factors, such as market conditions, should also be considered in measuring the Fund's overall financial health (see the Fund's financial statements on pages 7–8 of this report).

3) **Notes to the financial statements** provide additional information that is essential to a full understanding of the data provided in the financial statements (see notes to financial statements on pages 9–14 of this report).

4) **Required supplementary information.** In addition to the financial statements and accompanying notes, this report presents certain required supplementary information concerning the Fund's progress in funding its obligations to provide pension benefits to members (see required supplementary information on pages 16–18 of this report). Management's discussion and analysis described herein is additionally classified as required supplementary information for reporting and auditing purposes even though it is not presented in the required supplementary information section of this report.

Financial Analysis

The Fund provides retirement benefits to police officers and firefighters employed by the consolidated City of Jacksonville (the "City"). The pension benefits, which are provided by the Fund, are funded by member and employer contributions, by earnings on investments, and by various revenue sources. The Fund's net assets held in trust for benefits at September 30, 2006 were $839,515,351, an increase of $44,151,561 or 5.5% from $795,367,451 at September 30, 2005. The increase was primarily a result of the substantial appreciation in the market value of equity securities in world equity markets and an increase in the rate of employer contributions.

As a supplement to the core mission of providing retirement benefits to members, the Fund additionally maintains a separate trust fund to manage a program that allows retirees to transfer the value of terminal leave balances for use in paying health insurance premiums in retirement. To date, 79 members of the Fund have participated in this Terminal Leave Conversion Program ("TLCP"). During fiscal year 2006, TLCP received $951,865 in participant-directed remittances and accommodated the payment of $360,671 in City health insurance premiums on behalf of participants. As of September 30, 2006, the cash balance held for the benefit of program participants was $1,171,282.

For the 2006 fiscal year, employer and member contributions were $49,043,894, representing an increase of 33.5% over the $36,734,654 recorded during the 2005 fiscal year. The increase in the level of pension contributions experienced during fiscal year 2006 resulted from an increase in the rate of the employer contribution from 18.55% to 26.2% of payroll for members who do not participate in the DROP. The Fund recognized a net investment income of $74,082,115 for the 2006 fiscal year, compared with a net investment income of $91,109,345 for the 2005 fiscal year. The investment gain in 2006 reflected the continued rebound in world equity prices from the severe declines that were experienced in 2002. The magnitude of the continued rebound in world equity markets for the 2006 and 2005 fiscal years is evidenced from the returns from the Wilshire 5000 of 10.4% and 14.7%, respectively, and the returns from the EAFE (international equities) of 19.7% and 26.3%, respectively. Other revenues recorded by the Fund are largely represented by Court Fines and Penalties and Chapter Revenues authorized under Chapters 175 and 185 of the Florida Statutes. For the 2006 fiscal year, these other revenue sources produced revenues in the amount of $13,176,947 for the Fund, an increase of 4.6% over the $12,591,478 recorded during the 2005 fiscal year. This increase was largely attributable to an expanding value of property insured under casualty insurance policies and increasing rates for coverage which collectively produced material increases in revenue from Chapters 175 and 185 proceeds.

Deductions from the Fund's net assets held in trust for benefits included mainly retirement and survivor benefits, refunds of contributions, and administrative expenses. For the 2006 fiscal year, retirement and survivor benefits (including DROP and TLCP expenditures and accruals) were $90,054,735, an increase of 8.9% over the $82,710,765 recorded during the 2005 fiscal year. The magnitude of this increase primarily results from the large number of DROP participants who separated from service during the 2006 and 2005 fiscal years and commenced the receipt of pension distributions. Administrative expenses during the 2006 fiscal year were $1,977,543 versus $1,550,460 in the prior year. A large element of this increase was attributable to the Fund's efforts to internally develop a new pension payroll system.

The Fund's investments, excluding accrued interest and dividends receivable, were $972,360,366 at September 30, 2006, which were $51,400,535 or 5.6% more than the $920,959,831 in total Fund investments at September 30, 2005. This increase was primarily a result of the substantial appreciation in world equity markets.

At September 30, 2006, the Fund held $575,985,798 in U.S. equity and international equity securities, an increase of $24,866,351 or 4.5% from the $551,119,447 held at September 30, 2005. The Fund's money managers administering U.S. equity and international equity securities earned returns of approximately 8.5% and 19.3% respectively, for the 2006 fiscal year, compared to the Fund's benchmark return of 10.4% and 19.7%, respectively, on such securities.

At September 30, 2006, the Fund held $299,251,375 in U.S. fixed income securities, an increase of $16,767,303 or 5.9% from the $282,484,072 held at September 30, 2005. The Fund's money managers administering U.S. fixed income securities returned approximately 3.4% for the 2006 fiscal year, compared to the Fund's benchmark return of 3.4% on such securities. The increase in fixed income allocations experienced in the 2006 fiscal year was attributable to the combined impact of interest income and a decreased reliance upon cash equivalent securities.

At September 30, 2006, the Fund held $7,826,072 in cash and short-term investments, which represents a decrease of $17,630,857 or 69.3% in the $25,456,929 value of short-term investments held at September 30, 2005. Short-term investments generally represent liquid assets that are held by investment counseling firms and awaiting investment decisions.

The Fund earns additional investment income by lending investment securities to brokers. The brokers provide collateral to the Fund as a part of the securities lending transaction. The Fund invests cash collateral received from the brokers in order to earn interest. For the 2006 fiscal year, securities lending revenues were $399,873, an increase from the $369,089 recorded during the 2005 fiscal year. The increase in securities lending revenue for the 2006 fiscal year mainly represents an increase in demand by brokers to borrow the Fund's securities.

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of the
Police and Fire Pension Fund
Jacksonville, Florida

We have audited the accompanying financial statements of the Police and Fire Pension Fund (the "Fund") as of and for the year ended September 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Fund as of September 30, 2006, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 1 through 4 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Fund's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of management's discussion and analysis. However, we did not audit such information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Police and Fire Pension Fund taken as a whole. The accompanying required basic supplemental schedules on pages 17 through 19 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. These supplemental schedules are the responsibility of the Fund's management. Such schedules have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2007, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

January 5, 2007

POLICE AND FIRE PENSION FUND

STATEMENT OF PLAN NET ASSETS
AS OF SEPTEMBER 30, 2006

ASSETS:	
Cash and investments:	
Equity in pooled cash	$ 4,965,974
Short-term investments	2,863,865
Investments	964,530,527
Total cash and investments	972,360,366
Interest, dividends, and other receivables	3,432,911
Due from City of Jacksonville	3,082,130
Furniture and equipment:	
Furniture and equipment	571,502
Accumulated depreciation	(484,648)
Net furniture and equipment	86,854
Total assets	978,962,261
LIABILITIES:	
Due to participants	138,429,347
Accounts payable and accrued expenses	994,990
Accrued compensated absences	22,573
Total liabilities	139,446,910
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (A schedule of funding progress is presented on page 16)	$ 839,515,351

See notes to financial statements.

POLICE AND FIRE PENSION FUND

STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

ADDITIONS:	
Contributions:	
Employee	$ 11,781,503
Employer	37,268,730
Total contributions	49,050,233
Other additions:	
Court fines and penalties	1,412,474
State insurance contributions	7,673,592
Contributions from other governmental units	4,050,000
Other	40,881
Total other additions	13,176,947
Investment income—net	
Net appreciation in fair value of investments	49,053,858
Interest and dividends	28,673,020
Rental revenue	870,883
Total investment income	78,597,761
Investment expenses	(4,294,070)
Rental expenses	(221,576)
Total investment income—net	74,082,115
TOTAL ADDITIONS	136,309,295
DEDUCTIONS:	
Pension benefits remitted	66,425,795
DROP benefits remitted	23,628,940
Total benefits remitted	90,054,735
Refunds of contributions	129,117
Administrative expenses:	
Personnel services	963,757
Central services	338,824
Supplies	21,022
Depreciation	85,546
Other services and charges	568,394
Total administrative expenses	1,977,543
TOTAL DEDUCTIONS	92,161,395
NET INCREASE	44,147,900
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:	
Beginning of year	795,367,451
End of year	$ 839,515,351

1. THE REPORTING ENTITY

The Police and Fire Pension Fund (the "Fund") is a single-employer contributory defined benefit pension plan covering all full-time civil service members of the City Police and Fire Departments. The Fund is administered solely by a five-member board of trustees.

The Fund is included in the City's Comprehensive Annual Financial Report.

2. PLAN DESCRIPTION

The Fund's membership consists of:

Retirees and beneficiaries currently receiving benefits	1,810
Deferred Retirement Option Program ("DROP") participants	221
Terminated employees entitled to benefits but not yet receiving them	37
Active plan members	2,509
Total	4,577

The Fund, as amended effective April 1, 2001, provides, in general, a 3% annual rate of accrual for retirement benefits after 20 years of credited membership, regardless of age, with a minimum benefit of 60% of the average salary received for the 52 pay periods immediately preceding retirement. An additional 2% for each completed year over 20 up to a maximum of 80% may be earned. There is no mandatory retirement age. Effective April 1, 2000, the Fund provides for a cost of living increase to pensioners and their beneficiaries of 3% per annum.

Pension benefits vest after a minimum of five years of membership. Benefits are computed based on average salary for the 52 pay periods immediately preceding vesting multiplied by 3% times the number of credited years of service. Employees in this category may alternatively select a 100% payout of member contributions to the Fund without interest, upon withdrawal from the Fund.

Eligible members of the Fund may elect to participate in the DROP. Upon election to participate, the member's credited service and final average salary is frozen for purposes of determining pension benefits. The member continues employment with the City for a defined period of time not to exceed 60 months. The deferred monthly retirement benefits under the DROP accrue in the Fund plus interest on behalf of the member. Upon termination of employment, the member receives the DROP benefits as defined in the plan document and begins to receive normal retirement benefits directly.

Eligible members of the Fund may elect to participate in the Terminal Leave Conversion Program ("TLCP") upon retirement. Upon election to participate, the member's credited Terminal Leave and Retirement Leave account balance is transferred into the Fund. The balance is then used to pay for biweekly health-care premiums. The member's TLCP balance in the Fund continues to accrue interest until the member's individual account balance is drawn to zero.

The state of Florida requires funding of pension contributions to be made based upon an actuarial valuation. The most recent actuarial valuation is dated October 1, 2003. The Jacksonville City Council has the authority to amend its contribution to the Fund to not less than the minimum state requirement.

Upon termination of the Fund's pension plan for any reason, the asset value as of the date of termination shall be apportioned as follows:

1. Apportionment shall first be made in respect of each retired police officer and firefighter receiving a retirement income hereunder on such date, each person receiving a retirement income on such date on account of a retired (but since deceased) police officer and firefighter, and each police officer and firefighter who has, by such date, become eligible for normal retirement but has not yet retired.

2. For any value remaining, apportionment shall next be made in respect of each police officer and firefighter in the service of the City on such date who has completed at least 10 years of credited service, and who has contributed to the Fund for at least 10 years.

3. If there remains an asset value after the previous apportionments, apportionment shall lastly be made in respect of each police officer and firefighter in the service of the City on such date who is not entitled to an apportionment under previous paragraphs in the amount equal to his or her total contributions to the Fund to date of termination.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and financial reporting policies of the Fund included in this report conform to accounting principles generally accepted in the United States of America as applicable to governmental units.

Basis of Accounting—These financial statements have been prepared on the accrual basis of accounting. Revenues are recorded at the time they are earned. Benefits paid directly to participants, which include amounts due to DROP participants, and refunds of contributions are recorded when paid. Refunds of DROP contributions, which are deferred for future pension benefit, are accrued for when recorded. Administrative expenses are recorded when incurred.

New Accounting Pronouncements—In June 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* which establishes uniform financial reporting standards for other post employment benefit plans and supersedes the interim guidance included in Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans.* Statement No. 43 is required to be adopted for periods beginning after December 15, 2005. As required, the Fund will adopt the requirements of Statement No. 43 on October 1, 2006. The Fund's management does not believe Statement No. 43 will have a material impact on its financial statements.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which addresses standards for the measurement, recognition, and display of employers' other postemployment benefits expense and related liabilities or assets, note disclosures, and, if applicable, required supplementary information. Statement No. 45 is required to be adopted for periods beginning after December 15, 2006. The Fund's management does not believe Statement No. 45 will have a material impact on its financial statements.

Method Used to Value Cash and Investments—Investments, other than non-marketable securities and real estate, are valued at fair market value determined by quoted prices in an active market. For non-marketable securities, the fair value of such shares is determined by the investment manager, based upon the current market values of the underlying investments. Investments in real estate are valued at fair market value as determined by appraisals. Short-term investments consist of money market accounts and other short-term invested cash. Such amounts are recorded at cost which approximates market value. The pooled cash account is recorded at cost and represents amounts pooled with other accounts at the City.

Furniture and Equipment—Furniture and equipment are carried at historical cost and are depreciated using the straight-line method of depreciation over their respective useful lives.

4. CASH AND INVESTMENTS

The Fund participates in a pooled cash account with other funds at the City. At September 30, 2006, the carrying amount of cash on hand and on deposit with banks, including interest-bearing accounts, was $4,965,974.

The deposits and investments of the Fund which have been transferred to the pension custodians are held separately from those of other City funds and are required to be administered by nationally recognized investment counseling firms.

At September 30, 2006, the carrying amount of these deposits and investments (including the pooled cash account but excluding income producing properties) was $958,224,914. Monies which are placed on deposit with financial institutions in the form oı demand deposit accounts, time deposit accounts, and certificates of deposit are defined as public deposits.

All of the Fund's public deposits are held in qualified public depositories pursuant to State of Florida Statutes, Chapter 280, *Florida Security for Public Deposits Act* (the "Act"). Under the Act, all qualified public depositories are required to pledge eligible collateral having a market value equal to or greater than the average daily or monthly balance of all public deposits, multiplied by the depository's collateral pledging level. The pledging level may range from 50% to 125% depending upon the depository's financial condition and establishment period. All collateral must be deposited with an approved financial institution. Any losses to public depositors are covered by applicable deposit insurance, sale of securities pledged as collateral, and if necessary, assessments against other qualified public depositories of the same type as the depository in default.

The Fund is authorized to invest in certificates of deposit, money market certificates, obligations of the U. S. Treasury, its agencies and instrumentalities, repurchase and reverse repurchase agreements collateralized by U. S. government securities, the local government surplus fund's trust fund, obligations of the City, the State of Florida, and the Jacksonville Electric Authority, as well as commercial paper rated A-1 or P-1 by a nationally recognized rating service, bankers' acceptances, corporate bonds, including collateralized mortgage obligations, preferred stocks, common stocks, foreign securities, securities lending transactions, and real estate investment trusts. The Fund held no investments in obligations of the City or related entities at September 30, 2006.

The Fund purchased land, an office building with related improvements, and a parking garage in fiscal year 1999. Upon purchase of the parking garage, the Fund took assignment of the existing management agreement and receives rental revenue from parking tenants. These assets have been classified as investments, as they are income-producing assets.

In the prior year, the City approved an ordinance which allowed the City to convey three vacant buildings to the Fund in an exchange for a reduction in the unfunded accrued actuarial liability of the Fund in the amount of $3,025,000. The Fund has incurred current year costs of $1,792,638 to pay for improvements to these buildings, of which $1,050,000 in such costs were reimbursed by the City and the State in the form of matching funds. In the current year, the City approved a new ordinance which allows the City to convey one vacant building to the Fund in an exchange for a reduction in the unfunded accrued actuarial liability of the Fund in the amount of $3,000,000, which is the amount that the City paid for the building. These assets have been classified as investments, as they are planned to be used as income producing assets once they are renovated. The total $4,050,000 amount contributed by the City and the State in the current year has been included as other additions within the statement of changes in plan net assets.

At September 30, 2006, the recorded values of all investments were as follows (in thousands):

	Fair Value
U. S. government and agency obligations	$ 96,930
Corporate bonds	85,964
Julius Baer Equity Fund	50,674
Northern Trust S&P 500 Equity Index Fund	45,877
Common stocks	479,425
Mortgage-backed securities	72,822
Asset-backed securities	43,534
Convertible equity	8
JP Morgan Strategic Property Fund	75,161
Real estate	14,135
	964,530
Short-term investments	2,864
Equity in pooled cash	4,966
Total cash and investments	$972,360

During 2006, the Fund's investments (including investments bought and sold as well as held during the year) appreciated in value as follows (in thousands):

U.S. government and agency obligations	$ 1,815
Corporate bonds	1,609
Common stocks	37,818
Mortgage-backed securities	4,782
Asset-backed securities	2,858
Convertible equity	1
Real estate	171
	$49,054

As of September 30, 2006, the Fund's debt security investments had the following maturities (in thousands):

Investment Type	Fair Value	Investment Maturities (In Years) Less Than 1	1–5	6–10	More Than 10
U. S. government and agency obligations	$ 96,930	$ 8,486	$ 63,183	$22,662	$ 2,599
Corporate bonds	85,964	7,610	34,678	19,439	24,237
Subtotal	$ 182,894	$ 16,096	$ 97,861	$42,101	$ 26,836
Mortgage-backed and other asset-backed securities	116,357				
Total	$ 299,251	$ 16,096	$ 97,861	$42,101	$ 26,836

Bonds not due at a single maturity date have been included in the above table in the year of final contractual maturity. Actual maturities may differ from contractual maturities due to the exercise of prepayment options.

Other than a general limit on fixed income securities of 35% of Fund assets, the Fund does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

As of September 30, 2006, the Fund's exposure to foreign currency risk is as follows (all such investments are held in foreign common stock) (in thousands):

Currency	Fair Value
European Euro	$ 16,281
Japanese Yen	12,099
British Pound	8,884
Swiss Franc	3,116
Australian Dollar	1,621
Singapore Dollar	1,165
Hong Kong Dollar	329
Swedish Krona	237
South African Rand	172
	$ 43,904

The Fund's investment policy permits it to invest up to 10% of total investments in foreign investments. The Fund's current position is 4.5%.

Credit and Concentration Risk—The Fund's investment policy was designed to mitigate both credit and concentration risk by providing specific guidance as to the weighting and integrity of the deposit and investment instruments. The Statement of Investment Policy currently in effect provides for a strategic assets allocation mix that is comprised of domestic stock (50%), domestic fixed income securities (30%), real estate (10%), and international stocks (10%). The Trustees additionally seek diversification within the investment portfolio through the utilization of various investment styles, particularly within the stock component of the portfolio.

Custodial Credit Risk—For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the Fund will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Fund's investments are either held in the name of the Fund or held in trust under the Fund's name.

5. CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

The Fund's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay benefits when due. Level percentages of payroll employer contribution rates are determined using the frozen entry age actuarial cost method. The Fund also uses the level percentage of payroll method to amortize any unfunded liability and changes in plan provisions, actuarial assumptions, and gains and losses over a period of 30 years.

Fund members are required to contribute 7% of their annual covered salary (DROP participants contribute 2%). The City is required to contribute an actuarially determined percentage of the members' annual covered salary (26.2% for 2006). The remaining required contribution is primarily comprised of state insurance contributions, fines and forfeitures, and transfers from the reserve accounts.

The Fund had an annual pension cost of $53,263,387 for the year ended September 30, 2006, which was equal to the actual and required contributions. Three-year trend information is as follows:

Plan Years Ended September 30	Annual Pension Cost ("APC")	Percentage of APC Contributed	Net Pension Obligation
2004	$ 39,295,089	100 %	$ -
2005	50,727,035	100	-
2006	53,263,387	100	-

See note to supplemental schedules for actuarial assumptions and methods used.

6. RESERVE ACCOUNTS

An agreement between the Fund and the City established certain reserve accounts consisting of an Enhanced Benefit Reserve Account and a City Budget Stabilization Account. Each reserve account is established to account for contributions in excess of current funding requirements and related earnings thereon for the purpose of leveling the impact of actuarial gain and losses on current funding requirements and to allow greater flexibility in funding options and the granting of enhanced benefits. These reserve accounts totaled $12,177,690 at September 30, 2006.

7. TAX STATUS

The Fund obtained a determination letter on January 20, 1999, in which the Internal Revenue Service stated that the Fund, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code. The Fund has been amended since receiving the determination letter. The Fund's administrator believes that the Fund is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, Fund's administrator believes the Fund was qualified and the related trust was tax exempt as of September 30, 2006.

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REQUIRED SUPPLEMENTAL SCHEDULES

POLICE AND FIRE PENSION FUND

SCHEDULE OF FUNDING PROGRESS
AS OF SEPTEMBER 30, 2006

Plan Years Ended September 30	Actuarial Value of Assets (a)	Accumulated Reserve Accounts (b) [3]	Actuarial Accrued Liability ("AAL") (c)	Unfunded AAL ("UAAL") (c-a)	Funded Ratio (a/c)	Covered Valuation Payroll (d)	UAAL as a Percentage of Covered Payroll [(c-a)/d]
1997	$615,421,074	$47,977,987	$ 842,848,761	$227,427,687	73.02 %	$106,111,490	214.33 %
1998	675,414,204	36,851,865	902,034,674	226,620,470	74.88	110,597,695	204.91
1999	738,460,821	33,446,826	970,418,025	231,957,204	76.10	97,666,003	237.50
2000	814,889,039	29,003,489	939,801,566	124,912,527 [1]	86.71	97,207,387	128.50
2001 [2]	766,413,563	24,409,050	1,012,576,828	246,163,265	75.69	96,198,772	255.89
2002	725,416,325	12,264,500	977,779,454	252,363,129	74.19	101,698,016	248.15
2003	732,525,878	4,422,747	1,146,459,228	413,933,350	63.89	109,636,548	377.55
2004	727,955,101	18,959,684	1,222,354,766	494,399,665	59.55	118,510,432	417.18
2005	765,179,843	12,609,987	1,314,423,639	549,243,796	58.21	130,392,284	421.22
2006	827,337,661 [4]	12,177,690	1,376,658,788	549,321,127	60.10	134,694,392	407.83

1 Rederived as of April 1, 2000.

2 The values published for GASB in January 2002 were later revised with the release of the October 1, 2001 Actuarial Report.

3 These accounts were redefined by the Restated Agreement effective April 1, 2000. As of September 30, 2006, the value of the City Budget Stabilization Account was $2,209,087 and the Enhanced Benefit Account was $9,968,603. These amounts are not included in the Actuarial Value of Assets.

4 The Actuarial Value of Assets has been changed to equal Market Value.

See note to supplemental schedules.

POLICE AND FIRE PENSION FUND

SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYER AND OTHER CONTRIBUTING ENTITIES FOR THE YEAR ENDED SEPTEMBER 30, 2006

Plan Years Ended September 30	Annual Required Contribution *	Percentage Contributed
2000	$ 32,145,813	100 %
2001	26,874,610	100
2002	35,584,692	100
2003	36,310,748	100
2004	39,295,089	100
2005	50,727,035	100
2006	53,263,387	100

* Excess contributions from all sources are accumulated in the City Budget Stabilization Account, which is drawn upon if actual contributions fall below the annual required contribution.

See note to supplemental schedules.

POLICE AND FIRE PENSION FUND

NOTE TO SUPPLEMENTAL SCHEDULES
AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2006

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	October 1, 2006
Actuarial cost method	Entry age normal
Amortization method	Level percent closed
Remaining amortization period	26.5 years
Asset valuation method	Market value

Actuarial assumptions:	
Net investment rate of return *	8.50 %
Projected salary increases *	5.00
* Includes inflation percentage of	3.50
Cost-of-living adjustments	3.00

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees of the
Police and Fire Pension Fund
Jacksonville, Florida

We have audited the financial statements of the Police and Fire Pension Fund (the "Fund") as of and for the year ended September 30, 2006, and have issued our report thereon dated January 5, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

COMPLIANCE

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Trustees, management of the Fund, and the Auditor General of the state of Florida and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

January 5, 2007

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INDEPENDENT AUDITORS' MANAGEMENT LETTER

To the Board of Trustees of the
Police and Fire Pension Fund
Jacksonville, Florida

We have audited the financial statements of the Police and Fire Pension Fund (the "Fund") as of and for the year ended September 30, 2006, and have issued our report thereon dated January 5, 2007.

We conducted our audit in accordance with United States generally accepted auditing standards, and *Government Auditing Standards* issued by the Comptroller General of the United States. We have issued our Independent Auditors' Report on Compliance and Internal Control over Financial Reporting. Disclosures in that report, which are dated January 5, 2007, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, *Rules of the Auditor General*, which govern the conduct of local governmental entity audits performed in the State of Florida and require that certain items be addressed in this letter.

The *Rules of the Auditor General* (Section 10.554(1) (h) 1.) state that a management letter shall include a statement as to whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. There were no such findings or recommendations reported in the preceding annual financial audit report.

The *Rules of the Auditor General* (Section 10.554(1)(h) 2.) state that a management letter shall have a statement as to whether or not the Fund has complied with Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit of the financial statements of the Fund, the results of our tests indicated that the Fund was in compliance with Section 218.415 regarding the investment of public funds.

The *Rules of the Auditor General* (Section 10.554(1)(h)(3) require that we address in the management letter any findings and recommendations to improve financial management, accounting procedures, and internal controls. In connection with our audit, we did not have any such findings.

The *Rules of the Auditor General* (Section 10.554(1) (h) 6a.) state that a management letter shall include a statement as to whether or not a unit of local government entity is in a state of financial emergency as a consequence of conditions described in Section 218.503(1), Florida Statutes. Section 218.503(1) states that a local governmental entity is in a state of financial emergency when any of the following conditions occur:

a. Failure within the same fiscal year in which due to pay short-term loans or failure to make bond debt service or other long-term payments when due, as a result of a lack of funds.

b. Failure to pay uncontested claims from creditors within 90 days after the claim is presented, as a result of lack of funds.

c. Failure to transfer at the appropriate time, due to lack of funds: (1) taxes withheld on the income of employees, or (2) employer and employee contributions for a) federal social security, or b) any pension, retirement, or benefit plan of an employee.

d. Failure for any one pay period to pay, due to lack of funds: (1) wages and salaries owed to employees, or (2) retirement benefits owed to former employees.

e. An unreserved or total Fund balance or retained earnings deficit, or unrestricted or total net assets deficit, as reported on the balance sheet or statement of net assets on the general purpose or Fund financial statements, for which sufficient resources of the local governmental entity, as reported on the balance sheet or statement of net assets on the general purpose or Fund financial statements, are not available to cover the deficit. Resources available to cover reporting deficits include net assets that are not otherwise restricted by federal, state, or local laws, bond covenants, or contractual constraints. Fixed or capital assets, the disposal of which would impair the ability of a local government entity to carry out its functions, are not considered resources available to cover reported deficits.

Section 218.503(2) states that a local governmental entity shall notify the Governor and the Legislative Auditing Committee when one or more of the conditions specified in Section 218.503(1) have occurred or will occur if action is not taken to assist the local government entity.

Management of the Fund has determined that the Fund is not in a state of financial emergency under Section 218.503(1). In connection with our audit of the financial statements of the Fund, the results of our tests did not indicate that the Fund is in a state of financial emergency as a consequence of the conditions in Section 218.503(1). However, our audit does not provide a legal determination on the Fund's compliance with this requirement.

The *Rules of the Auditor General* (Section 10.554(1) (h) 6b.) state that a management letter shall include a statement as to whether or not the financial report filed with the Florida Department of Financial Services pursuant to Section 218.32(1) (a), Florida Statutes, is in agreement with the annual financial audit report for the current audit period and, if not, explanations of any significant differences. The information will be filed on a combined basis with the City of Jacksonville.

The *Rules of the Auditor General* (Rule Section 10.554(1)(h)6.c.) state that a management letter shall have a statement as to whether or not the Fund's auditor applied financial condition assessment procedures pursuant to Rule Section 10.556(7), and if deteriorating financial conditions are noted through application of these procedures, a description of conditions causing the auditor to make this conclusion must be prepared in accordance with Rule 10.557(6). In connection with our audit of the financial statements of the Fund for the year ended September 30, 2006, we applied financial condition assessment procedures pursuant to Rule 10.556(7) and did not note deteriorating financial conditions. It is management's responsibility to monitor the entity's financial condition, and our financial condition assessment was based on part on representations made by management and review of financial information provided by the same. However, our audit was not directed toward obtaining knowledge regarding the Fund's compliance with this requirement.

This management letter is intended solely for the information and use of the Board of Trustees, management of the Fund, and the State of Florida Office of Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

January 5, 2007