CITY OF JACKSONVILLE, FLORIDA
POLICE AND FIRE PENSION FUND

A Pension Trust Fund of the City of Jacksonville

Financial Report for the Fiscal
Year Ended September 30, 2007

CITY OF JACKSONVILLE, FLORIDA
POLICE AND FIRE PENSION FUND

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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, 2007. 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 $950,349,837. 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 $950,349,837 value of net assets represents an increase of $110,834,486, or 13.2%. 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, 2007, the funded ratio for the Fund was approximately 63.53%, which compares to the September 30, 2006 funded ratio of 60.10%. In general, the current funded ratio indicates that for every dollar of benefits due, the Fund has approximately $.64 of assets to cover it.

- The Fund's rate of return on investments of 15.3% on a market value basis over the fiscal year ended September 30, 2007 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, 2007 is evidenced from the 17.0% return for the Wilshire 5000, the 16.4% return for the S&P 500, and the 25.4% return for the EAFE (international equity). The return of 15.3% placed the Fund's investment performance in the 21st percentile when compared to other public pension funds as measured by the Fund's investment performance consultant. This means that the Fund's 15.3% return exceeded the returns generated by 79% of other public pension funds. The Fund's annualized rate of return over the last three years of 11.7% produced a ranking in the 26th percentile. The Fund's annualized rate of return over the last five years of 12.2% produced a ranking in the 28th percentile.

- Revenues (additions to fund net assets) other than investment income for the 2007 fiscal year were $67,238,382, which comprises member and employer contributions of $56,959,050 and other additions of $10,279,332. This compares to revenues in the amount of $62,227,180 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 26.20% to 28.97% of payroll for members who do not participate in the DROP.

- Revenues (additions to fund net assets) derived from investment income and securities lending activities for the 2007 fiscal year was $142,019,696. This compares to investment income in the amount of $74,082,115 that was recorded in the prior fiscal year as a result of the continued strong recovery in world equity markets that followed an earlier period of declining market values.

- Expenses (deductions in fund net assets) not related to investment activities for the 2007 fiscal year increased from $92,161,395 to $98,423,592 or approximately 6.79%. The majority 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 growing number of DROP participants who separated from service during the 2006 and 2007 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 (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 9–15 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, 2007 were $950,349,837, an increase of $110,834,486 or 13.2% from $839,515,351 at September 30, 2006. 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, 89 members of the Fund have participated in this Terminal Leave Conversion Program ("TLCP"). During fiscal year 2007, the TLCP received $190,767 in participant-directed remittances and accommodated the payment of $455,600 in City health insurance premiums on behalf of participants. As of September 30, 2007, the cash balance held for the benefit of program participants was $952,147.

For the 2007 fiscal year, employer and member contributions were $56,959,050 representing an increase of 16.1% over the $49,050,233 recorded during the 2006 fiscal year. The increase in the level of pension contributions experienced during fiscal year 2007 resulted from an increase in the rate of employer contribution from 26.20% to 28.97% of payroll for members who do not participate in the DROP. The Fund recognized a net investment gain of $142,019,696 for the 2007 fiscal year, compared with a net investment gain of $74,082,115 for the 2006 fiscal year. The investment gain in 2007 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 2007 and 2006 fiscal years is evidenced from the returns from the Wilshire 5000 of 17.0% and 10.4%, respectively, and the returns from the EAFE (international equities) of 25.4% and 19.7%, 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 2007 fiscal year, these other revenue sources produced revenues in the amount of $10,279,332 for the Fund, a decrease of 22.0% over the $13,176,947 recorded during the 2006 fiscal year. This decrease was attributable to a one time contribution of real estate and related subsidy payments in the amount of $4,500,000 that were extended from the City of Jacksonville during 2006.

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 2007 fiscal year, retirement and survivor benefits (including DROP and TLCP expenditures and accruals) were $96,024,802, an increase of 6.5% over the $90,183,852 recorded during the 2006 fiscal year. The magnitude of this increase primarily results from the growing number of DROP participants who separated from service during the 2006 and 2007 fiscal years and commenced the receipt of pension distributions. Administrative expenses during the 2007 fiscal year were $2,398,790 versus $1,977,543 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 $1,092,626,900 at September 30, 2007, which were $120,266,534 or 12.4% more than the $972,360,366 in total Fund investments at September 30, 2006. This increase was primarily a result of the substantial appreciation in world equity markets.

At September 30, 2007, the Fund held $672,427,479 in U.S. equity and international equity securities, an increase of $96,441,681 or 16.7% from the $575,985,798 held at September 30, 2006. The Fund's money managers administering U.S. equity and international equity securities earned returns of approximately 19.1% and 24.7%, respectively, for the 2007 fiscal year, compared to the Fund's benchmark return of 17.0% and 25.4%, respectively, on such securities.

At September 30, 2007, the Fund held $299,497,448 in U.S. fixed income securities, an increase of $246,073 or 0.1% from the $299,251,375 held at September 30, 2006. The Fund's money managers administering U.S. fixed income securities returned approximately 5.2% for the 2007 fiscal year, compared to the Fund's benchmark return of 5.1% on such securities.

At September 30, 2007, the Fund held $88,954,249 in a commingled U.S. real estate investment trust, an increase of $13,792,390 or 18.4% from the $75,161,859 held at September 30, 2006. The money manager administering this real estate product earned a return of 18.3% for the 2007 fiscal year, compared to the Fund's benchmark return of 17.3% on such investments.

At September 30, 2007, the Fund held $6,387,583 in short-term investments, which represent a decrease of $1,442,256 or 18.4% in the $7,829,839 value of short-term investments held at September 30, 2006. 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 2007 fiscal year, securities lending revenues were $467,426, an increase from the $399,873 recorded during the 2006 fiscal year. The increase in securities lending revenue for the 2007 fiscal year mainly represents an increase in demand by brokers to borrow the Fund's securities.

CONTACTING THE FUND'S FINANCIAL MANAGEMENT

The financial report is designed to provide citizens, taxpayers, fund participants and other interested parties with an overview of the Fund's finances and the prudent exercise of the Board's oversight. If you have any questions regarding this report or need additional financial information, please contact the Fund's Executive Director/Administrator, One West Adams Street, Suite 100, Jacksonville, Florida 32202-3616.

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INDEPENDENT AUDITOR'S 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") of the Consolidated City of Jacksonville, Florida (the "City") as of and for the year ended September 30, 2007, 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 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.

As discussed in Note 1, the financial statements present only the Police and Fire Pension Fund and do not purport to, and do not, present fairly the financial position of the City as of September 30, 2007 and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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, 2007, 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.

In accordance with *Government Auditing Standards,* we have also issued our report dated January 11, 2008, 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.

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 16 through 18 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.

January 11, 2008

CITY OF JACKSONVILLE, FLORIDA
POLICE AND FIRE PENSION FUND
STATEMENT OF PLAN NET ASSETS
AS OF SEPTEMBER 30, 2007

ASSETS:	
Cash and investments	
Equity in pooled cash	$ 5,002,258
Short-term investments	1,385,325
Investments	1,086,239,317
Total cash and investments	1,092,626,900
Interest, dividends, and other receivables	3,546,346
Securities lending collateral	173,175,248
Due from City of Jacksonville	3,072,493
Furniture and equipment:	
Furniture and equipment	586,735
Accumulated depeciation	(507,726)
Net furniture and equipment	79,009
Total Assets	1,272,499,996
LIABILITIES:	
Due to participants	147,721,666
Obligations under securities lending	173,175,248
Accounts payable and accrued expenses	1,253,245
Total liabilities	322,150,159
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	**$ 950,349,837**

See notes to the financial statements

CITY OF JACKSONVILLE, FLORIDA
POLICE AND FIRE PENSION FUND
STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

ADDITIONS:	
Contributions:	
Employee	$ 11,451,060
Employer	45,507,990
Total contributions	56,959,050
Other additions:	
Court fines and penalties	1,341,955
State insurance contributions	8,878,324
Other	59,053
Total other additions	10,279,332
Investment income	
From investement activities:	
Net appreciation in fair value of investments	113,614,122
Interest and dividends	30,806,444
Rental revenue	1,871,033
Investment expenses	(4,552,979)
Rental expenses	(186,350)
Net Income from investing activities	141,552,270
From securities lending activities:	
Securities lending income	9,356,935
Securities lending expenses:	
Interest expense (returned to Borrower)	(8,733,853)
Agent fees	(155,656)
Total securites lending activites expenses	(8,889,509)
Net income from securities lending activities	467,426
Total net investment income	142,019,696
TOTAL ADDITIONS	209,258,078
DEDUCTIONS:	
Pension benefits remitted	71,913,193
DROP benefits remitted	23,987,317
Total benefits remitted	95,900,510
Refunds of contributions	124,292
Administrative expenses:	
Personnel services	1,162,768
Central services	473,564
Supplies	14,673
Depreciation	49,516
Other services and charges	698,269
Total administrative expenses	2,398,790
TOTAL DEDUCTIONS	98,423,592
NET INCREASE	110,834,486
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:	
Beginning of year	839,515,351
End of year	$ 950,349,837

See notes to the financial statements

NOTE 1 - THE REPORTING ENTITY

The financial statements presented are only for the Police and Fire Pension Fund (the "Fund") of the Consolidated City of Jacksonville, Florida (the "City") and are not intended to present the basic financial statements of the City.

The Fund is included in the City's Comprehensive Annual Financial Report (CAFR), which are separately issued documents. Anyone wishing further information about the City is referred to the CAFR in which the Police and Fire Pension Fund has been included.

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.

NOTE 2 – PLAN DESCRIPTION

The Fund's membership consists of:

Retirees and beneficiaries currently receiving benefits	1,849
Deferred Retirement Option Program ("DROP") participants	230
Terminated employees entitled to benefits but not yet receiving them	38
Active plan members	2,541
Total	4,658

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, 2006. The Jacksonville City Council has the authority to amend its contribution to the Fund to not less than the minimum state requirement.

NOTE 2 - PLAN DESCRIPTION (Continued)

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.

NOTE 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 biweekly for DROP remittances and monthly for interest credits. Administrative expenses are recorded when incurred.

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.

NOTE 4 - CASH AND INVESTMENTS

The Fund participates in a pooled cash account with other funds at the City. At September 30, 2007, the carrying amount of cash on hand and on deposit with banks, including interest-bearing accounts, was $5,002,258.

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, 2007, the carrying amount of these deposits and investments (including the pooled cash account but excluding income producing properties) was $1,067,266,766. Monies which are placed on deposit with financial institutions in the form of demand deposit accounts, time deposit accounts, and certificates of deposit are defined as public deposits.

NOTE 4 - CASH AND INVESTMENTS (Continued)

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, 2007.

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. In the current year, the Fund purchased an office building for which rental revenue is received. The lease agreement included the option for the tenant to purchase the building. The tenant has indicated to the Fund its intent to purchase, but nothing further has occurred with regard to the potential sale. These assets have been classified as investments, as they are income-producing assets.

In a 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. In the prior year, the Fund incurred costs of $1,792,638 to pay for improvements to these buildings, of which $1,050,000 in such costs was reimbursed by the City and the State in the form of matching funds. In the prior year, the City approved an ordinance which allowed 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. The $3,000,000 has been accrued and is included in the Due from City of Jacksonville account balance. The City transferred the property to the Fund on December 5, 2007.

Land and buildings are reported at their fair value and have been classified as investments, as they are used as income producing assets.

NOTE 4 - CASH AND INVESTMENTS (Continued)

At September 30, 2007, the recorded values of all investments were as follows:

US Government and agency obligations	$	95,588,620
Corporate bonds		100,626,599
Mortgage-backed securities		72,155,263
Asset-backed securities		31,126,971
Common stocks		551,491,395
Northern Trust S&P 500 Equity Index Fund		53,437,062
Preferred stock		831,637
Rights/Warrants		166,629
JP Morgan Strategic Property Fund		88,954,249
Julius Baer Equity Fund		66,500,758
Real estate (land and buildings)		25,360,134
		1,086,239,317
Short-term investments		1,385,325
Equity in pooled cash		5,002,258
Total cash and investments	$	1,092,626,900

During 2007, the Fund's investments (including investments bought and sold as well as held during the year) appreciated in value as follows:

US Government and agency obligations	$	1,266,601
Corporate bonds		(618,279)
Mortgage-backed securities		138,045
Asset-backed securities		66,327
Common Stocks		87,070,311
Preferred Stock		213,945
Rights/Warrants		166,629
JP Morgan Strategic Property Fund		9,534,815
Julius Baer Equity Fund		15,826,113
Real Estate		(50,385)
	$	113,614,122

Interest rate risk - This is the risk that changes in market interest rates would adversely affect the fair value of an investment. 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. Information about the sensitivity of the fair values of the investments over time for the Fund to market interest rate fluctuations is provided in the following table.

NOTE 4 - CASH AND INVESTMENTS (Continued)

As of September 30, 2007, the Fund's debt security investments had the following maturities:

	Fair Value	Investment Maturities (In Years) Less Than 1	1-5	6-10	More than 10
US Government and agency obligations	$ 95,588,620	$ 9,763,264	$ 37,868,655	$ 42,612,566	$ 5,344,134
Corporate bonds	100,626,597	4,465,395	38,549,474	37,872,690	19,739,037
Mortgage-backed and other asset-backed securities	103,282,231	(1,906,125)	21,019,444	3,352,652	80,816,260
	$ 299,497,448	$ 20,230,519	$ 97,437,573	$ 83,837,908	$ 105,899,432

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.

The Fund holds certain investments in mortgage-backed and other asset-backed securities. Generally, these are securities whose cash flows are backed by the principal and interest payments of a set of loans and payments are typically made monthly over the lifetime of the underlying loans. These types of investments are subject to various risks which have the potential to result in a decline in the value of the investments. For example, credit risk can be affected by borrowers defaulting on their loans. In addition, a change in interest rates may result in mortgage borrowers refinancing their loans or payment lives may change which will impact the life of the security. If the investments are backed by risky loans or sub-prime home loans for which the monthly interest payments fall, there is a potential for a decline in the value of these investments.

Foreign Currency Risk - As of September 30, 2007, the Fund's exposure to foreign currency risk is as follows (all such investments are held in foreign common stock):

European Euro	$ 17,960,429
Japanese Yen	11,958,831
British Pound	11,053,305
Swiss Franc	4,068,035
Australian Dollar	2,042,440
Singapore Dollar	595,130
Hong Kong Dollar	1,208,727
Swedish Krona	602,007
South African Rand	266,379
South Korean Won	574,172
	$ 50,329,455

The Fund's investment policy permits it to invest up to 10% of total investments in foreign investments. The Fund's current position is 4.6%.

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. The composite credit ratings of applicable investments by type are not currently available.

NOTE 4 - CASH AND INVESTMENTS (Continued)

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.

Use of Estimates – The Fund uses various investment instruments which, in general, are exposed to various risks such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the fair value of the investment securities will occur in the near term such that changes could materially affect amounts reported in the financial statements.

Securities Lending Transactions

The Fund participates in securities lending. The Fund has a contract with its custodian, Northern Trust Company that allows the custodian, acting as agent, to lend securities held in the portfolios. The transaction is designed to be invisible to either the third party money managers or in-house staff that manages segments of various portfolios.

The market for securities lending developed to provide temporary access to a large portfolio of securities for brokers/dealers who might have a need to borrow specific instruments. Securities are loaned against collateral that may include cash, U.S. government securities and irrevocable letters of credit. The Borrowing Agreement, entered into by the agent and borrower, shall provide that at the time the loan is made there shall be a transfer of borrowed securities against a transfer of collateral having a market value equal to not less than 100% of the market value of the borrowed securities of applicable collateral. The market value of the borrowed securities shall include accrued interest if appropriate to particular securities. If upon termination of a loan the broker/dealer fails to deliver equivalent securities, then the custodian, acting as agent, will utilize the collateral to replace the securities borrowed.

Lender's net revenue during any period shall consist of (a) in the case of cash collateral, the aggregate income from the investment of cash collateral during the period, net of (i) any applicable payment or withholding of tax; (ii) aggregate rebate fees (amount required to be paid by the agent for the account of lender to a borrower in respect of each loan of lender's securities as to which the borrower has furnished cash as collateral) paid or accrued to the borrowers pursuant to the Borrowing Agreements; and (iii) certain expenses, adjustments and charges, and (b) in all other cases, the aggregate premium or loan fees paid by the borrowers pursuant to the Borrowing Agreements, reduced by any applicable payment or withholding of tax.

The Fund periodically reviews the custodian's practices to ensure fair distribution of lending opportunities as well as risk evaluation of prospective broker/dealer borrowers. For the fiscal year ended September 30, 2007, the Fund received net income of $467,426 from securities lending activities. Through September 30, 2007, the Fund has not incurred a loss through its participation in this program.

NOTE 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 (28.97% for 2007). The remaining required contribution is primarily comprised of state insurance contributions, fines and forfeitures, and transfers from the reserve accounts.

NOTE 5 – CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE (Continued)

The Fund had an annual pension cost of $55,926,556 for the year ended September 30, 2007, 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
2005	$ 50,727,035	100%	$ -
2006	53,263,387	100%	-
2007	55,926,556	100%	-

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

NOTE 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 $19,895,785 at September 30, 2007.

NOTE 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, 2007.

NOTE 8 – CONTINGENCIES

The Internal Revenue Service (IRS) has determined that a portion of the termination benefits paid out during the fiscal year 2005 should have been taxable to the individual benefit recipient. The IRS has imposed a penalty related to the previously non-taxable treatment. The penalty is not considered a liability of the Fund.

NOTE 9 – SUBSEQUENT EVENT

Subsequent to year end, the Fund's Board terminated the investment and evaluation and consultant services agreement with Merrill Lynch.

REQUIRED SUPPLEMENTAL SCHEDULES

CITY OF JACKSONVILLE, FLORIDA
POLICE AND FIRE PENSION FUND

SCHEDULE OF FUNDING PROGRESS AS OF SEPTEMBER 30, 2007

Plan Years Ended September 30,	Actuarial Value of Assets (a)	Accumulated Reserve Accounts (b)	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]
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%
2007	930,454,052	19,895,785 [3]	1,464,507,647	534,053,595	63.53%	143,006,154	373.45%

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, 2007, the value of the City Budget Stabilization Account was $6,863,768 and the Enhanced Benefit Account was $13,032,017. These amounts are not included in the Actuarial Value of Assets.

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

See note to supplemental schedules

CITY OF JACKSONVILLE, FLORIDA
POLICE AND FIRE PENSION FUND

SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYER AND OTHER CONTRIBUTING ENTITIES FOR THE YEAR ENDED SEPTEMBER 30, 2007

Plan Years Ended September 30,	Annual Required Contribution *	Percentage Contributed
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%
2007	55,926,556	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

NOTES TO SUPPLEMENTAL SCHEDULES
AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2007

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	23.5 years
Asset valuation method	Market Value
Actuarial assumptions:	
Net investment rate of return *	8.5%
Projected salary increases *	5.0%
* Includes inflation percentage of	3.5%
Cost-of-living adjustments	3.0%

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS 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") of the Consolidated City of Jacksonville, Florida (the "City") as of and for the year ended September 30, 2007, and have issued our report thereon dated January 11, 2008. 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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Fund's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Fund's financial statements that is more than inconsequential will not be prevented or detected by the Fund's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Fund's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

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, and contracts, 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 or other matters that are required to be reported under *Government Auditing Standards.*

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.

January 11, 2008

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MANAGEMENT LETTER PURSUANT TO THE RULES OF THE AUDITOR GENERAL FOR THE STATE OF FLORIDA

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

We have audited the accompanying basic financial statements of the Police and Fire Pension Fund (the "Fund") of the Consolidated City of Jacksonville, Florida (the "City") as of and for the fiscal year ended September 30, 2007, and have issued our report thereon dated January 11, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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.

In addition, we have issued our Report on Internal Control over Financial Reporting and Compliance and Other Matters dated January 11, 2008. Disclosures in that report should be considered in conjunction with this management letter.

The purpose of this letter is to comment on those matters required by Chapter 10.550 of the Rules of the Auditor General for the State of Florida. Accordingly, in connection with our audit of the financial statements of the District, as described in the first paragraph, we report the following:

I. **Current year findings and recommendations.**
II. **Status of prior year findings and recommendations.**
III. **Compliance with the Provisions of the Auditor General of the State of Florida.**

This report is intended for the information of the management, Board of Trustees of the Police and Fire Pension Fund (the "Fund") of the Consolidated City of Jacksonville, Florida (the "City") 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.

We wish to thank the Police and Fire Pension Fund (the "Fund") of the Consolidated City of Jacksonville, Florida (the "City") and the personnel associated with it, for the opportunity to be of service to them in this endeavor as well as future engagements, and the courtesies extended to us.

January 11, 2008

REPORT TO MANAGEMENT

I. CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None in the current year

II. PRIOR YEAR FINDINGS AND RECOMMENDATIONS

None in the prior year

III. COMPLIANCE WITH THE PROVISIONS OF THE AUDITOR GENERAL OF THE STATE OF FLORIDA

Unless otherwise required to be reported in the auditor's report on compliance and internal controls, the management letter shall include, but not be limited to the following:

1. 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 significant findings and recommendations made in the preceding annual financial audit report for the fiscal year ended September 30, 2006.

2. A statement as to whether or not the local governmental entity complied with Section 218.415, Florida Statutes, regarding the investment of public funds.

   The District complied with Section 218.415, Florida Statutes, regarding the investment of public funds.

3. Any recommendations to improve the local governmental entity's financial management, accounting procedures, and internal controls.

   There were no such matters discovered by, or that came to the attention of, the auditor, to be reported.

4. Violations of provisions of contracts and grant agreements or abuse that have an effect on the financial statements that is less than material but more than inconsequential.

   There were no such matters discovered by, or that came to the attention of, the auditor, to be reported.

5. For matters that are inconsequential to the financial statements, considering both quantitative and qualitative factors, the following may be reported based on professional judgment:

   a. Violations of laws, rules, regulations, and contractual provisions or abuse that have occurred, or were likely to have occurred, and would have an immaterial effect on the financial statements.

   b. Improper expenditures or illegal acts that would have an immaterial effect on the financial statements.

   c. Control deficiencies that are not significant deficiencies, including, but not limited to:

      1. Improper or inadequate accounting procedures (e.g., the omission of required disclosures from the annual financial statements).

      2. Failures to properly record financial transactions.

      3. Other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor.

There were no such matters discovered by, or that came to the attention of, the auditor, that, in our judgment, are required to be reported.

6. The name or official title and legal authority of the Fund are disclosed in the notes to the financial statements.

7. The District has not met one or more of the financial emergency conditions described in Section 218.503(1), Florida Statutes.

8. The financial report filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes agrees with the September 30, 2007 financial audit report. The information will be filed on a combined basis with the Consolidated City of Jacksonville.