Grau & Associates
CERTIFIED PUBLIC ACCOUNTANTS

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, 2011

CITY OF JACKSONVILLE, FLORIDA
POLICE AND FIRE PENSION FUND

FINANCIAL REPORT FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

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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 fiscal year ended September 30, 2011, 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, 2011 and the changes in its financial position for the fiscal 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, 2011, and the changes in plan net assets for the fiscal 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 17, 2012, 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 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Police and Fire Pension Fund taken as a whole. The accompanying required supplemental schedules are presented for the purpose of additional analysis and are not a required part of the financial statements. These supplemental schedules are the responsibility of the Fund's management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. We have applied certain limited procedures to the supplemental schedules in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Gran & Associates

January 17, 2012

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, 2011. 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 $751,447,830. 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 $751,447,830 value of net assets represents a decrease of $31,908,209 or 4.1%. The decrease was largely a result of the modest investment returns available in the financial markets, which when combined with pension contributions, were not sufficient to adequately support the level of benefit payments and DROP accruals during the fiscal year.

- 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, 2011, the funded ratio for the Fund was approximately 42.94%, which compares to the September 30, 2010 funded ratio of 52.38%. In general, the current funded ratio indicates that for every dollar of benefits due, the Fund has approximately $.43 of assets to cover it.

- The Fund's rate of return on investments of positive .53% on a market value basis over the fiscal year ended September 30, 2011 was primarily attributable to a modest recovery in the financial markets which more than overcame substantial losses in the international financial markets. The magnitude of the modest recovery in domestic equity markets over the one year period ended September 30, 2011 is evidenced from the 1.14% return for the S&P 500. The magnitude in the recovery in real estate investments over the one year period ended September 30, 2011 is evidenced from the 18.27% return for the NCREIF Fund Index ODCE. The return of .53% for the Fund fell below the Fund Policy Benchmark return of 1.84% and placed the Fund's investment performance in the 50th percentile when compared to other pension funds as measured by the Fund's investment performance consultant. This means that the Fund's .53% return exceeded the returns generated by 50% of other pension funds. The Fund's annualized rate of return over the last three years of 2.83% produced a ranking in the 80th percentile. The Fund's annualized rate of return over the last five years of 1.87% produced a ranking in the 59th percentile.

- Revenues (additions to the fund net assets) other than investment income for the 2011 fiscal year were $99,950,564, which comprises member and employer contributions of $90,031,989 and other additions of $9,918,575. This compares to revenues in the amount of $106,699,436 in the prior fiscal year. This 6.3% decrease was largely attributable to a decrease in the employer pension contributions during the fiscal year ended September 30, 2011 from reduced accruals, increased DROP participation, and a slightly reduced work force.

- Revenues (additions to fund net assets) derived from investment income for the 2011 fiscal year was $415,476. This modest return for 2011 compares to investment income in the amount of $70,748,155 that was recorded in the prior fiscal year as a result of the strong recovery in the financial markets in the prior fiscal year.

- Expenses (deductions in fund net assets) not related to investment activities for the 2011 fiscal year increased from $122,582,096 to $132,274,249 or approximately 7.9%. The majority of this increase was attributable to an increase in the level of benefits credited to the accounts of active DROP plan participants. The magnitude of this increase was primarily linked to the growing number of DROP participants who became enrolled in the DROP during the 2010 and 2011 fiscal years.

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) statements 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) and 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 9-16 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 17-18 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, 2011 were $751,447,830, a decrease of $31,908,209 or 4.1% from $783,356,039 at September 30, 2010. The decrease was largely a result of the modest investment returns available in the financial markets, which when combined with pension contributions, were not sufficient to adequately support the level of benefit payments and DROP accruals during the fiscal year.

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 retirement leave account balances for use in paying health insurance premiums in retirement. To date, 107 members of the Fund have participated in this Terminal Leave Conversion Program ("TLCP"). During fiscal year 2011 the TLCP received $79,560 in participant-directed remittances and accommodated the payment of $177,887 in City health insurance premiums on behalf of participants. As of September 30, 2011, the cash balance held for the benefit of program participants was $232,717.

For the 2011 fiscal year, employer and member contributions were $90,031,989 representing a decrease of 7.0% over the $96,763,490 recorded during the 2010 fiscal year. The decrease in the level of pension contributions experienced during fiscal year 2011 resulted from a substantial increase in the level of actively employed members who elected to become enrolled in the DROP during 2010 and 2011. Upon such enrollment, the City's 49.6% employer contribution rate is discontinued, thus producing the 7.0% reduction in the level of pension contributions during 2011. The Fund recognized a modest net investment gain of $415,476 for the 2011 fiscal year, compared with a net investment gain of $70,748,155 for the 2010 fiscal year. The investment gain in 2011 reflected the modest recovery in the domestic financial markets following the substantial gains in market values that were experienced in 2010. The magnitude of the comparison in domestic equity markets for the 2011 and 2010 fiscal years is evidenced from the returns from the S&P 500 of 1.14% and 10.16%, 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 Statues. For the 2011 fiscal year, these other revenue sources produced revenues in the amount of $9,918,575 for the Fund, a decrease of 0.2% over the $9,935,946 recorded during the 2010 fiscal year.

Deductions from the Fund's net assets held in trust for benefits included mainly retirement and survivor benefits, DROP accruals, refunds of contributions, and administrative expenses. For the 2011 fiscal year, retirement and survivor benefits (including DROP and TLCP expenditures and accruals) were $129,634,977, an increase of 7.6% over the $120,444,407 recorded during the 2010 fiscal year. The magnitude of this increase primarily results from the growing number of DROP participants who became enrolled in the DROP during the 2010 and 2011 fiscal years. Administrative expenses during the 2011 fiscal year were $2,639,272 versus $2,137,689 in the prior fiscal year. A large element of this increase was attributable to increased levels of expenditures for charges for legal services required from four major court cases.

The Fund's investments, excluding accrued interest and dividends receivable were $951,571,605 at September 30, 2011, which were $12,887,390 or 1.3% less than the $964,458,995 in total Fund investments at September 30, 2010. This decrease was primarily a result of the modest investment returns available in the financial markets, which when combined with decreasing employer pension contributions, were not sufficient to adequately support the level of benefit payments required during the fiscal year.

At September 30, 2011, the Fund held $580,282,415 in U.S. equity and international equity securities, a decrease of $41,018,233 or 6.6% from the $621,300,648 held at September 30, 2010. The Fund's money managers administering U.S. equity and international equity securities earned returns of approximately positive 1.3% and negative 13.9%, respectively, for the 2011 fiscal year, compared to the Fund's benchmark return of positive .55% and negative 10.4%, respectively, on such securities.

At September 30, 2011, the Fund held $248,880,657 in U.S. fixed income securities, an increase of $6,049,360 or 2.5% from the $242,831,297 held at September 30, 2010. The Fund's money managers administering U.S. fixed income securities returned approximately 5.1% for the 2011 fiscal year, compared to the Fund's benchmark return of 5.3% on such securities.

At September 30, 2011, the Fund held $79,317,213 in a commingled U.S. real estate investment trust, an increase of $12,141,534 or 18.1% from the $67,175,679 held at September 30, 2010. The money managers administering real estate products for the Fund earned a return of 20.7% for the 2011 fiscal year, compared to Fund's benchmark return of 18.3% on such investments.

At September 30, 2011, the Fund held $24,321,628 in short-term investments, which represent an increase of $9,979,907 or 69.6% in the $14,341,721 value of short-term investments held at September 30, 2010. Short-term investments generally represent liquid assets that are held by investment counseling firms and awaiting investment decisions.

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.

CITY OF JACKSONVILLE, FLORIDA
POLICE AND FIRE PENSION FUND
STATEMENT OF PLAN NET ASSETS
AS OF SEPTEMBER 30, 2011

ASSETS:		
Cash and investments		
Cash	$	84,918
Equity in pooled cash		3,525,549
Short-term investments		20,796,079
Investments		927,249,977
Total cash and investments		951,656,523
Interest, dividends, and other receivables		2,506,328
Due from other governments		1,399,571
Furniture and equipment:		
Furniture and equipment		567,394
Accumulated depreciation		(533,775)
Net furniture and equipment		33,619
Total Assets		955,596,041
LIABILITIES:		
Due to participants		202,820,428
Accounts payable and accrued expenses		1,291,029
Accrued compensated absences and other liabilities		36,754
Total liabilities		204,148,211
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$	751,447,830

(See the schedule of funding progress on page 17)

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, 2011

ADDITIONS:	
Contributions:	
Plan member	$ 12,316,095
Employer	77,715,894
Total contributions	90,031,989
Other contributions:	
Court fines and penalties	864,318
State insurance contributions	8,954,611
Other	99,646
Total other contributions	9,918,575
Investment income (loss)	
Net appreciation in fair value of investments	(18,860,287)
Interest and dividends	22,347,844
Rental revenue	1,936,950
Investment expenses	(4,781,035)
Rental expenses	(227,996)
Net investment income (loss)	415,476
TOTAL ADDITIONS	100,366,040
DEDUCTIONS:	
Pension benefits remitted	90,980,478
DROP benefits remitted	38,340,906
Total benefits remitted	129,321,384
Refunds of contributions	313,593
Administrative expenses:	
Personnel services	1,266,267
Central services	119,240
Supplies	7,902
Depreciation	24,699
Other services and charges	1,221,164
Total administrative expenses	2,639,272
TOTAL DEDUCTIONS	132,274,249
NET INCREASE (DECREASE)	(31,908,209)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:	
Beginning of year	783,356,039
End of year	$ 751,447,830

See notes to the financial statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. Qualified membership is further limited to only police officers and firefighters. The Fund is administered solely by a five-member board of trustees.

Fund Financial Statements

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 and are financed by the Fund.

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.

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.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 – PLAN DESCRIPTION

The Fund's membership consists of:

Retirees and beneficiaries currently receiving benefits	2,004
Deferred Retirement Option Program ("DROP") participants	439
Terminated employees entitled to benefits but not yet receiving them	38
Active plan members	2,451
Total	4,932

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 full actuarial valuation report available for distribution is dated October 1, 2008. 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.

NOTE 3 – DEPOSITS AND INVESTMENTS

The Fund participates in a pooled cash account with other funds at the City. At September 30, 2011, the carrying amount of cash on hand and on deposit with banks, including interest-bearing accounts, was $3,610,467.

The general investment objective of the Fund is to preserve the purchasing power of the Fund's assets and earn a reasonable rate of return (after inflation) over the long term while minimizing, to the extent reasonable, the short-term volatility of returns.

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, 2011, the carrying amount of these deposits and investments (including the pooled cash account but excluding income producing properties) was $932,886,831. 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.

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, obligations of the U. S. Treasury, its agencies and instrumentalities, repurchase and reverse repurchase agreements, the local government surplus fund's trust fund, obligations of the City, the State of Florida, fixed income obligations issued by foreign governments if the obligations are rated investment grade by at least as well as one nationally recognized rating service, commercial paper of prime quality of the highest letter and numerical rating as provided for by at least one nationally recognized rating service, bankers' acceptances, group annuity contracts, corporate bonds, including collateralized mortgage obligations, preferred stocks, common stocks, foreign securities, securities lending transactions, and real estate investments. For the comprehensive list of available investments, the Statement of Investment Policy approved by the Board of Pension Trustees on September 8, 2010 should be referenced.

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. This asset is reported at its fair value, as determined by appraisals, and has been classified as an investment, as it is an income-producing asset. During the fiscal year ended September 30, 2011, the office building and parking garage generated $746,950 in rental revenue.

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

In a prior fiscal 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 a 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 a prior fiscal 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 City transferred the property to the Fund on December 5, 2007. In prior fiscal years, the Fund incurred costs of $14,286,448 to pay for improvements to this building, of which $4,286,448 was reimbursed by the City via a transfer from the City's Capital Projects Funds. This asset is reported at its fair value, as determined by appraisals, and has been classified as an investment, as it is an income-producing asset. During the fiscal year ended September 30, 2011, the building generated $1,190,000 in rental revenue. According to the terms of the lease, the landlord shall be entitled to 8.5% annual simple interest return on its out-of-pocket costs not to exceed $10 million incurred up to the date of payment during the renovation period prior to the beginning of the lease term. Thereafter, the annual rent will be 11.9% of the total out of pocket costs not to exceed $10,000,000, incurred by the landlord in connection with the premises.

At September 30, 2011, the recorded values of all cash and investments were as follows:

US Government and agency obligations	$ 109,064,349
Corporate bonds	50,422,647
Mortgage-backed securities	79,673,158
Asset-backed securities	6,438,240
Guaranteed fixed income	3,282,263
Common stocks	531,361,960
Northern Trust S&P 500 Equity Index Fund	46,100,035
Preferred stock	242,062
Rights/warrants	28,210
Equity exchange traded fund	2,550,148
JP Morgan Strategic Property Fund	79,317,213
Real estate (land and buildings)	18,769,692
	927,249,977
Short-term investments	20,796,079
Equity in pooled cash	3,525,549
Cash	84,918
Total cash and investments	$ 951,656,523

During 2011, the Fund's investments (including investments bought and sold as well as held during the year) appreciated/depreciated in value as follows:

US Government and agency obligations	$ 5,228,634
Corporate bonds	(1,362,689)
Mortgage-backed securities	1,041,165
Asset-backed securities	(43,371)
Guaranteed fixed income	(59,611)
Common Stocks	(36,853,428)
Preferred Stock	(118,531)
Rights/Warrants	17,406
Equity Exchange Traded Fund	286,335
JP Morgan Strategic Property Fund	8,047,361
Julius Baer Equity Fund	4,914,567
Real Estate	41,875
	$ (18,860,287)

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

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 25% 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.

As of September 30, 2011, the Fund's debt security investments had the following maturities:

			Investment Maturities (in Years)			
		Fair Value	Less Than 1	1-5	6-10	More than 10
US Government and agency obligations	$	109,064,349	$ 9,304,658	$ 27,931,200	$ 17,348,257	$ 54,480,234
Corporate bonds		50,422,647	2,418,384	23,349,191	19,732,245	4,922,827
Guaranteed fixed income		3,282,263	3,282,263			
Mortgage-backed and other asset-backed securities		86,111,398		3,855,969	4,432,020	77,823,409
	$	248,880,657	15,005,305	55,136,360	41,512,522	137,226,470

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, 2011, the Fund's exposure to foreign currency risk is as follows (all such investments are held in foreign common stock):

European Euro	$ 14,872,927
Japanese Yen	13,374,665
British Pound	8,947,554
Swiss Franc	4,105,974
Australian Dollar	2,947,544
Singapore Dollar	1,097,717
Hong Kong Dollar	2,709,559
Swedish Krona	1,918,892
South African Rand	555,262
Norwegian Krone	181,504
South Korean Won	467,415
	$ 51,179,013

The Fund's investment policy permits it to invest up to 20% of total investments in foreign investments. The Fund's current position is approximately 5.5%.

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

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 equities (40%), fixed income securities (25%), real estate (15%), and international equities (20%). 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 equity investments are not currently available.

As of September 30, 2011, the Fund's debt security investments credit risk is as follows:

Credit Risk	Fair Value
U.S. Treasuries	$ 47,272,532
U.S. Agencies	119,015,373
S&P AAA/Moody's Aaa	15,452,386
S&P AA+	15,607,002
S&P AA	1,928,764
S&P AA-	1,839,116
S&P A+	6,867,792
S&P A	13,771,724
S&P A-	7,548,963
S&P BBB+	5,914,942
S&P BBB	7,677,418
S&P BBB-	5,984,645
	$ 248,880,657

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.

NOTE 4 – 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 $24,370,814 at September 30, 2011.

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 individual 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 5-30 years.

NOTE 5 – CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE (Continued)

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 (49.60% for 2011). 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 $94,631,375 for the fiscal year ended September 30, 2011, which was equal to the actual and required contributions. Three-year trend information is as follows:

Plan Fiscal Years Ended September 30,		Annual Pension Cost ("APC")	Percentage of APC Contributed	Net Pension Obligation
2009		$ 67,993,368	100%	
2010	1	95,019,914	100%	
2011		94,631,375	100%	-

1 The value for 2010 was revised by the Fund's actuary.

See Note 8 for actuarial assumptions and methods used.

NOTE 6 – 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, the Fund's administrator believes the Fund was qualified and the related trust was tax exempt as of September 30, 2011.

NOTE 7 – CLAIMS AND LITIGATION

The Fund is involved in various claims and litigation arising in the ordinary course of operations, most of which, in the opinion of the Fund's Administrator, will not have a material effect on the Fund's financial position.

The Fund has sought damages against Club Deal 108 Jax North Florida Venture, Ltd ("Club Deal"). In this action, the Fund was awarded a monetary judgment (the "Club Deal Judgment") against Club Deal in the sum of $919,011.88, plus interest from January 1, 2011, and action remains pending against the Greenleaf Building Condominium Association, Inc. (the "Association"). Neither defendant has filed a counterclaim against the Fund. A renewed motion for summary judgment against the Association was filed and is set for February 8, 2012. The Club Deal Judgment is being appealed and the Fund does not believe that the appeal has merit. The Fund is claiming attorney fees for with respect to the Club Deal Judgment and will seek attorney fees should it be successful against the Association. Club Deal has instituted a Chapter 11 bankruptcy proceeding in which the Fund filed a claim with respect to the Club Deal Judgment. As a result of the bankruptcy filing, both the Fund's motion for attorney fees and Club Deal's appeal have been stayed. The Fund is also a defendant in a mortgage foreclosure proceeding brought by FLFVenture, Ltd. ("FLFVenture"), against Club Deal and the Fund (the "Foreclosure"). FLFVenture obtained an order striking the Fund's affirmative defenses to the Foreclosure and enabling it to proceed against Club Deal as to which FLFVenture had obtained relief from Club Deal's bankruptcy automatic stay to proceed with its foreclosure. However, FLFVenture has not yet filed its motion for summary judgment to complete its foreclosure. The Fund is being sued in the Foreclosure solely to establish that the plaintiff's mortgage is a superior lien to the Club Deal Judgment and no monetary relief is being sought against the Fund.

NOTE 8 – ACTUARIAL METHODS AND ASSUMPTIONS

The information methods and assumptions used in valuations on which reported information about the Annual Required Contribution, Annual Pension Cost, the funded status, and the funding progress of the pension plan is based on the following:

Valuation date	October 1, 2011
Actuarial cost method	Individual entry age
Amortization method	Level percent; open
Remaining amortization period	5-30 years
Asset valuation method	5 year smoothing

Actuarial assumptions:	
Net investment rate of return * (effective 10/1/11)	7.75%
Projected salary increases *	5.0%
* Includes inflation percentage of	3.0%
Post-retirement benefit increases	3.0%

NOTE 9 – FUNDED STATUS

Plan Fiscal Years Ended September 30,		Actuarial Value of Assets	Actuarial Accrued Liability ("AAL")	Unfunded AAL ("UAAL")	Funded Ratio	Annual Covered Payroll	Ratio of UAAL to Annual Covered Payroll
		(a)	(c)	(c-a)	(a/c)	(d)	[(c-a)/d]
2007		$ 930,454,052	$ 1,464,507,647	$ 534,053,595	63.53%	$ 143,006,154	373.45%
2008		894,903,336	1,692,974,683	798,071,347	52.86%	148,276,743	538.23%
2009		855,996,514	1,753,945,664	897,949,150	48.80%	155,557,729	577.24%
2010	1	1,060,406,308	2,024,453,414	964,047,106	52.38%	158,046,680	609.98%
2011	1	1,042,240,921	2,427,197,626	1,384,956,705	42.94%	148,967,906	929.70%

1 Beginning with 2010, the actuarial value of assets and AAL reflect accumulated DROP payments along with DROP and RLA interest.

See Note 8 for actuarial assumptions and methods used and the schedule of funding progress in the Required Supplementary Information section. The schedule of funding progress provides multi-year trend data to help determine whether plan assets are increasing or decreasing over time.

NOTE 10 – MODIFICATIONS TO THE PLAN

Due to the fiscal situation caused by worldwide economic issues, meltdown of the Domestic stock market, credit crisis, record unemployment and historic decline in property values-and-tax receipts, the Trustees recognize the concept of meaningful modifications to the pension funding and benefit structure for new members. Any modifications to the current pension benefit structure shall be limited to new members of the Fund who become members after the effective date of amendments to the Ordinance Code implementing any modifications to the pension benefit structure and State approval as may be required. As of the report date, no formal action has been taken.

NOTE 11 – SUBSEQUENT EVENTS

Increase in Market Value of Investments

As of December 31, 2011, the market value of investments including accruals of interest and dividends receivable was $1,058,311,028. This balance includes a transfer of $60,084,277 from the City. As such, the change in market value attributable to investment returns from September 30, 2011 is approximately 7%.

REQUIRED SUPPLEMENTAL SCHEDULES

CITY OF JACKSONVILLE, FLORIDA
POLICE AND FIRE PENSION FUND

SCHEDULE OF FUNDING PROGRESS AS OF SEPTEMBER 30, 2011

Plan Fiscal 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]
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 [1]	12,177,690	1,376,658,788	549,321,127	60.10%	134,694,392	407.83%
2007	930,454,052	19,895,785	1,464,507,647	534,053,595	63.53%	143,006,154	373.45%
2008	894,903,336	12,723,482	1,692,974,683	798,071,347	52.86%	148,276,743	538.23%
2009	855,996,514	13,048,401	1,753,945,664	897,949,150	48.80%	155,557,729	577.24%
2010	1,060,406,308 [3]	22,116,760	2,024,453,414	964,047,106	52.38%	158,046,680	609.98%
2011	1,042,240,921 [3]	24,370,814 [2]	2,427,197,626	1,384,956,705	42.94%	148,967,906	929.70%

1 For Plan Years ending 9/30/06 and 9/30/07, the Actuarial Value of Assets was changed to equal Market Value.

2 These accounts were redefined by the Restated Agreement effective April 1, 2000. As of September 30, 2011, the value of the City Budget Stabilization Account was $8,134,910 and the Enhanced Benefit Account was $16,235,904. These amounts are not included in the Actuarial Value of Assets.

3 Beginning with 2010, the actuarial value of assets and AAL reflect accumulated DROP payments along with DROP and RLA interest since these are assets of the Trust.

Information has been updated as of October 1, 2011. However, the actuarial valuation date of October 1, 2008 was used in the schedule of funding progress, where applicable.

See Note 8 to the notes to the financial statements

SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYER AND OTHER CONTRIBUTING ENTITIES FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

Plan Fiscal Years Ended September 30,		Annual Required Contribution *	Percentage Contributed
2005		$ 50,727,035	100%
2006		53,263,387	100%
2007		55,926,556	100%
2008		65,389,407	100%
2009		67,993,368	100%
2010	1	95,019,914	100%
2011		94,631,375	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.

1 The value for 2010 has been revised.

See Note 8 to the notes to the financial statements

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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 fiscal year ended September 30, 2011, and have issued our report thereon dated January 17, 2012. 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 *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 Fund members and is not intended to be and should not be used by anyone other than these specified parties.

Grau & Associates
January 17, 2012