



**STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS**

Financial Statements and Schedules

June 30, 2007

(With Independent Auditors' Report Thereon)

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

June 30, 2007

Table of Contents

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Statement of Fiduciary Net Assets – Fiduciary Funds	8
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	9
Notes to Financial Statements	10
Schedules	
1 Required Supplementary Information (Unaudited) – Schedule of Funding Progress	44
2 Required Supplementary Information (Unaudited) – Schedule of Employer Contributions	49
3 Schedule of Administrative Expenses	54
4 Schedule of Investment Expense	55
5 Schedule of Expenses for Consultants	56
6 Schedule of Fiduciary Net Assets – Fiduciary Funds	57
6A Combining Schedule of Fiduciary Net Assets – Pension Trust and Health Benefit Program Funds	58
7 Schedule of Changes in Fiduciary Net Assets – Fiduciary Funds	59
7A Combining Schedule of Changes in Fiduciary Net Assets – Pension Trust and Health Benefit Program Funds	60
8 Combining Schedule of Balance Sheet Information – Fiduciary Funds – Agency Funds	61
9 Schedule of Changes in Fiduciary Net Assets – Agency Funds	62
10 Combining Schedule of Fiduciary Net Assets – Health Benefit Program Fund-State	63
11 Combining Schedule of Changes in Fiduciary Net Assets – Health Benefit Program Fund-State	64
12 Combining Schedule of Fiduciary Net Assets – Health Benefit Program Fund-Local	65
13 Combining Schedule of Changes in Fiduciary Net Assets – Health Benefit Program Fund-Local	66
14 Combining Schedule of Balance Sheet Information – Agency Fund – Dental Expense Program	67
15 Combining Schedule of Changes in Fiduciary Net Assets – Agency Fund – Dental Expense Program	68



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Independent Auditors' Report

Office of Legislative Services
Office of the State Auditor
State of New Jersey:

We have audited the accompanying financial statements of the State of New Jersey Division of Pensions and Benefits (the Division) as of and for the year ended June 30, 2007, which collectively comprise the Division's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the Division'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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Division's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 of the Division are intended to present the financial position and the changes in financial position of the State that is attributable to the transactions of the Division. They do not purport to, and do not, present fairly the financial position of the State of New Jersey as of June 30, 2007 and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the State of New Jersey Division of Pensions and Benefits as of June 30, 2007, and the changes in plan net assets for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in notes 1 and 8 to the financial statements, the Division adopted Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* as of July 1, 2006.

Management's Discussion and Analysis and the supplementary information included in the schedule of funding progress and schedule of employer contributions (schedules 1 and 2) are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedules 3 through 15 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

KPMG LLP

February 29, 2008

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Management's Discussion and Analysis

June 30, 2007

Our discussion and analysis of the financial performance of the fiduciary funds (the Funds) administered by the Division of Pensions and Benefits (the Division) provides an overview of the Funds' financial activities for the fiscal year ended June 30, 2007. Please read it in conjunction with the basic financial statements and financial statement footnotes, which follow this discussion.

As a result of the implementation of the provisions of Governmental Accounting Standards Board (GASB) Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other than Pension Plans" (OPEB), effective fiscal year 2007, the State Health Benefit Program Funds (SHBP)-State and Local, the Prescription Drug Program Funds (PDP)-State and Local, and the Post-Retirement Medical Funds (PRM) of the Public Employees' Retirement System (PERS) and Teachers' Pension and Annuity Fund (TPAF) are combined and reported as trust funds under the Health Benefit Program Funds. Also, as a result of the implementation of GASB Statement No. 43, the Dental Expense Program Fund (DEP) is combined with the Alternate Benefit Program Fund (ABP) and the Pension Adjustment Fund (PAF) and reported as agency funds.

For comparison purposes, management's discussion and analysis has been updated to reflect these changes by including the SHBP and PDP 2006 amounts with the pension trust fund balances and the DEP 2006 amounts with the agency fund balances.

For the pension trust funds, the aggregate funded ratio for fiscal year 2007 is 77.5% with an unfunded actuarial accrued liability of \$24.8 billion. For the health benefit program trust funds, the unfunded actuarial accrued liability for other postemployment benefits (OPEB under GASB Statement No. 43) is \$58.1 billion for the State and \$10.8 billion for the Local participating employers in the State Health Benefit Program Fund.

Financial Highlights

Fiduciary Funds-Pension Trust and Health Benefit Program Funds

- Fiduciary net assets increased by \$10.1 billion as a result of this year's operations from \$79.7 billion to \$89.7 billion.
- Additions for the year are \$19.6 billion, which are comprised of member and employer pension contributions of \$7.5 billion and investment income of \$12.1 billion.
- Deductions for the year are \$9.7 billion, which are comprised of benefit and refund payments of \$9.6 billion and administrative expenses of \$46.4 million.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of two components: 1) fiduciary fund financial statements and 2) notes to the financial statements. This report also contains required and other supplementary information in addition to the basic financial statements.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Division uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS**

Management's Discussion and Analysis

June 30, 2007

Fiduciary Funds

Fiduciary funds are used to account for the assets that the Division holds on behalf of others as their agent. Fiduciary funds are custodial in nature and do not involve measurement of results of operations.

The Division administers sixteen fiduciary funds: eleven pension trust funds, two health benefit program trust funds, and three agency funds. The basic fiduciary fund financial statements consist of the statement of fiduciary net assets and the statement of changes in fiduciary net assets.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information, which includes information regarding the funding status of the pension trust and health benefit program funds.

Financial Analysis

Summary of Fiduciary Net Assets

	2007	2006	Increase
Pension trust and health benefit program funds:			
Assets	\$ 108,900,714,379	94,521,585,091	14,379,129,288
Liabilities	19,155,290,318	14,845,480,120	4,309,810,198
Net assets	\$ 89,745,424,061	79,676,104,971	10,069,319,090

Assets of the pension trust and health benefit program funds mainly consist of cash and cash equivalents, securities lending collateral, investments, and contributions due from members and participating employers. Between fiscal years 2006 and 2007, total assets increased by \$14.4 billion or 15.2%. This is attributable to the growth in the fair value of investments of \$9.5 billion, securities lending collateral increase of \$4.3 billion and an increase in receivables of \$0.6 billion.

Liabilities of the pension trust and health benefit program funds consist of pension payments owed to members and beneficiaries, outstanding contributory and non-contributory insurance premium payments, securities lending collateral and rebates payable, and outstanding medical claims payable of the health benefit program funds. Total liabilities increased by \$4.3 billion or 29.0%. This is due to increases in securities lending collateral and rebates payable of \$4.3 billion.

Net assets of the pension trust and health benefit program funds increased by \$10.1 billion or 12.6%.

**STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS**

Management's Discussion and Analysis

June 30, 2007

Summary of Fiduciary Net Assets

	<u>2007</u>	<u>2006</u>	<u>Increase</u>
Agency funds:			
Assets	\$ 57,415,161	48,172,923	9,242,238
Liabilities	<u>57,415,161</u>	<u>48,172,923</u>	<u>9,242,238</u>
Net assets	<u>\$ —</u>	<u>—</u>	<u>—</u>

Assets of the agency funds consist of cash and cash equivalents, investments and contributions due from the State and local employers. Between fiscal years 2006 and 2007, total assets increased by \$9.2 million or 19.2%. This is attributable due to the growth in the fair value of investments of \$8.1 million and the increase in other contribution receivables of \$2.0 million.

Liabilities of the agency funds consist of pension reimbursements owed by the State of New Jersey to the state/county colleges, outstanding life and long-term disability insurance premiums payable in the ABP, and claims payable in DEP. Between fiscal years 2006 and 2007, total liabilities increased by \$9.2 million or 19.2%. This is attributable to an increase in the State's reimbursement liability to the state and county colleges for the employer share in the ABP of \$3.5 million and the increase by \$5.7 million of DEP claims payable due to DEP membership increase.

Summary of Additions to Fiduciary Net Assets

	<u>2007</u>	<u>2006</u>	<u>Increase</u>
Pension and health benefit program trust funds:			
Member contributions	\$ 1,848,119,957	1,786,192,312	61,927,645
Employer contributions and other	5,635,989,538	4,530,482,419	1,105,507,119
Net investment income	<u>12,139,822,671</u>	<u>7,355,152,979</u>	<u>4,784,669,692</u>
Totals	<u>\$ 19,623,932,166</u>	<u>13,671,827,710</u>	<u>5,952,104,456</u>

Additions of the pension trust and health benefit program funds consist primarily of member and employer contributions and earnings from investment activities. There is an increase by \$61.9 million or 3.5% in total member contributions. In all pension trust funds, member contributions increased between 2006 and 2007 due to normal salary increases and/or increased membership.

Employer pension contributions (state and local) per annual appropriation increased by \$1.1 billion from \$1,038.2 million to \$2,112.1 million or 103.4% over the last fiscal year. This is attributable to the increase in the State's annual appropriation to TPAF by \$596.5 million and the other pension trust funds including PERS by \$197.6 million and PFRS by \$54.2 million. Likewise, the annual local employer appropriation billings increased due to several factors including the salaries of employees and the rate of contribution which the employers are required to make to the funds. In PERS, the local appropriation billing increased by \$155.3 million and the PFRS billing increased by \$54.2 million.

**STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS**

Management's Discussion and Analysis

June 30, 2007

Other state pension contributions include \$29.0 million for the State Police Retirement System (SPRS), \$12.6 million for the Judicial Retirement System (JRS), and \$1.8 million for the Consolidated Police and Firemen's Pension Fund (CPFPPF).

The Health Benefit Program Fund-State employer contributions decreased by \$32.2 million and Health Benefit Program Fund-Local employer contributions increased by \$64.7 million due to a rate increase.

The State made a contribution of \$592.7 million for TPAF and \$224.3 million for PERS for post-retirement medical (PRM), which is included in the health benefit program funds as a result of GASB Statement No. 43.

Non-Contributory Group Life Insurance-State contributions for 2007 were as follows: \$27.4 million for TPAF, \$23.5 million for PERS, \$6.8 million for PFRS, \$145.6 thousand for JRS, and \$292.0 thousand for SPRS. The local contribution for Non-Contributory Group Life Insurance is included in the annual billings to local employers.

Net investment income increased by \$4.8 billion or 65.1% due to the net appreciation in fair value of investments.

The total investment return for all pension funds is estimated to be 17.1% compared to 9.7% in the prior year.

Summary of Deductions from Fiduciary Net Assets

	<u>2007</u>	<u>2006</u>	<u>Increase</u>
Pension trust and health benefit program funds:			
Benefits	\$ 9,528,663,826	8,800,293,056	728,370,770
Refunds of contributions	120,147,063	110,262,702	9,884,361
Administrative expenses	46,402,187	42,612,224	3,789,963
Totals	<u>\$ 9,695,213,076</u>	<u>8,953,167,982</u>	<u>742,045,094</u>

Deductions of the pension trust and health benefit program funds are mainly comprised of pension benefit payments to retirees and beneficiaries, refunds of contributions to former members, and administrative costs incurred by the Funds. Also included are claim charges for the self-insured health, prescription drug, and premium charges for the insured health programs as a result of GASB Statement No. 43. Between fiscal years 2006 and 2007 benefit payments increased by \$728.4 million or 8.3% due to an increase in the number of retirees receiving retirement and other benefits. The health benefit program funds had an increase in claims payments of \$254.0 million or 7.6%. The number of refunds processed increased by \$9.9 million or 9.0% compared to last year. Administrative expenses increased by \$3.8 million or 8.9% due to salary and fringe benefit increases.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Management's Discussion and Analysis

June 30, 2007

Overall Financial Condition of the Funds

For the pension trust funds, the combined funded ratio is 77.5% for fiscal year 2007 and was 81.5% for 2006 on an actuarial basis per GASB 25. Conversely on a financial reporting basis, net assets of the pension trust funds increased by \$10 billion.

In the Health Benefit Program-State, expenditures are greater than revenue; therefore, the 2007 fiscal year end net asset balance is lower than the beginning net asset balance. The State as the employer is attempting to deal with the rising cost of healthcare by implementing changes to cost sharing between employees and employers, by the conversion of an indemnity plan to a managed care plan, and through the establishment of rates that are projected to recover anticipated claims and result in a positive balance.

The Dental Expense Program received contributions to meet this year's benefit obligations.

During the year, the Alternate Benefits Program Fund and the Pension Adjustment Fund received sufficient funding to meet their benefit obligations.

For the State Employees Deferred Compensation Plan and the Supplemental Annuity Collective Trust, members are 100% vested in the present value of their contributions, and the funds have sufficient assets to meet future benefit obligations.

Contacting System Financial Management

This financial report is designed to provide our members, beneficiaries, investors, and other interested parties with a general overview of the Funds' finances and to show the Funds' accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295.

**STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS**

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30 2007

	Pension Trust and Health Benefit Program Funds	Agency Funds
Assets:		
Cash and cash equivalents	\$ 1,397,016	692,405
Securities lending collateral	18,488,147,522	—
Investments, at fair value:		
Cash Management Fund	4,218,175,364	26,640,301
Bonds	120,670,093	—
Common Pension Fund A	33,235,413,335	—
Common Pension Fund B	20,937,806,815	—
Common Pension Fund D	17,713,301,235	—
Common Pension Fund E	6,070,474,457	—
Common and preferred stocks	176,685,426	—
Mortgages	1,308,448,286	—
U.S. Government obligations	440,449,436	—
Domestic equities	1,273,088,973	—
International equities	156,071,071	—
Other fixed income securities	35,155,805	—
Total investments	85,685,740,296	26,640,301
Receivables:		
Contributions:		
Members	205,563,744	—
Employers	2,815,801,088	1,801,378
Accrued interest and dividends	527,520,897	—
Members' loans	1,155,031,652	—
Other	21,512,164	28,281,077
Total receivables	4,725,429,545	30,082,455
Total assets	\$ 108,900,714,379	57,415,161
Liabilities:		
Accounts payable and accrued expenses	\$ 515,420,554	48,369,099
Retirement benefits payable	137,726,573	—
Non-contributory group insurance premiums payable	11,073,293	—
Cash overdraft	2,922,376	1,860,166
Assets held for local contributing employers	—	3,659,658
Pension adjustment payroll payable	—	589,500
Due to State of New Jersey	—	1,890,493
Due to other funds	—	1,046,245
Securities lending collateral and rebates payable	18,488,147,522	—
Total liabilities	19,155,290,318	57,415,161
Net assets:		
Held in trust for pension and health benefits	\$ 89,745,424,061	—

See schedule of funding progress on page 44-48.

See accompanying notes to financial statements.

**STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS**

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2007

	Pension Trust and Health Benefit Program Funds
Additions:	
Contributions:	
Members	\$ 1,848,119,957
Employers	5,627,460,578
Other	8,528,960
Total contributions	7,484,109,495
Investment income:	
Net appreciation in fair value of investments	9,640,135,953
Interest	1,802,064,142
Dividends	708,708,122
	12,150,908,217
Less: investment expense	11,085,546
Net investment income	12,139,822,671
Total additions	19,623,932,166
Deductions:	
Benefits	9,528,663,826
Refunds of contributions	120,147,063
Administrative expenses	46,402,187
Total deductions	9,695,213,076
Change in net assets	9,928,719,090
Net assets – Beginning of year	79,816,704,971
Net assets – End of year	\$ 89,745,424,061

See accompanying notes to financial statements.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Notes to Financial Statements

June 30, 2007

(1) Description of the Funds

The State of New Jersey sponsors and administers the following benefit funds which have been included in the basic financial statements of the State of New Jersey Division of Pensions and Benefits (the Division), collectively referred to as the Funds, Systems, and Trusts:

Fiduciary Funds

Pension Trust and Health Benefit Program Funds

Judicial Retirement System (JRS)
Consolidated Police and Firemen's Pension Fund (CPFPPF)
Police and Firemen's Retirement System (PFRS)
Prison Officers' Pension Fund (POPF)
Public Employees' Retirement System (PERS)
State Police Retirement System (SPRS)
Teachers' Pension and Annuity Fund (TPAF)
Supplemental Annuity Collective Trust (SACT)
Central Pension Fund (CPF)
New Jersey State Employees Deferred Compensation Plan (NJSEDCP)
Alternate Benefit Long-Term Disability Fund (ABPLTD)
State Health Benefits Program Fund (SHBP) - State
State Health Benefits Program Fund (SHBP) - Local

Agency Funds

Pension Adjustment Fund (PAF)
Alternate Benefit Program Fund (ABP)
Dental Expense Program Fund (DEP)

Stand alone financial reports which include the above funds have been prepared. These financial reports, which can be obtained from the Division of Pensions and Benefits, provide a description of the nature and purpose of each individual fund. A description of the contribution requirements and benefit provisions for each fund is provided in notes 5 and 6.

The pension trust funds are single-employer defined benefit pension plans, except for PERS and PFRS, which are cost-sharing multiple-employer defined benefit plans, TPAF and CPFPPF, which are cost-sharing defined benefit plans with a special funding situation, and SACT, NJSEDCP, and ABPLTD which are single-employer defined contribution plans.

The Division adopted Governmental Accounting Standards Board (GASB) Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other than Pension Plans" (OPEB) as of July 1, 2006. Prior to the adoption SHBP-State, PDP-State and DEP-State were reported as governmental funds – special revenue funds. The SHBP-Local, PDP-Local and DEP-Local were reported as proprietary funds – enterprise funds. The Post-Retirement Medical Funds (PRM) of PERS and TPAF were reported as trust funds and were combined with the respective PERS and TPAF pension trust fund plans. As a result of the implementation of GASB Statement No. 43, SHBP, PDP, and Post-Retirement Medical Funds (PRM) of

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Notes to Financial Statements

June 30, 2007

PERS and TPAF are combined and reported as Health Benefit Program Funds. Specifically, SHBP-State, PDP-State, and PRM of PERS are combined and reported as a trust fund classified as a single employer plan. The SHBP-Local, PDP-Local, and PRM of TPAF are combined and reported as a separate trust fund classified as a cost-sharing multiple-employer plan. Certain amounts included in the PERS PRM and TPAF PRM are legally required to be transferred to the SHBP and are recorded as additions and deductions in PERS PRM, TPAF PRM and SHBP. All interfund transactions have been eliminated in the accompanying financial statements.

Also, as a result of the implementation of GASB Statement No. 43, DEP is combined with ABP and PAF and reported as agency funds. See also note 8.

(2) Summary of Significant Accounting Policies

The financial statements of the Division have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Reporting Entity

The financial statements include all funds which are administered by the Division over which operating controls are with the individual funds, systems, or trusts governing Boards and/or the State of New Jersey. The financial statements of the funds, systems, and trusts are included in the financial statements of the State of New Jersey; however, the accompanying financial statements are intended to present solely the funds listed above which are administered by the Division and not the State of New Jersey as a whole.

Fund Accounting

The accounts of the Division are maintained in accordance with the principles of fund accounting to ensure observance of limitations and restrictions on the resources available. The principles of fund accounting require that the resources be classified for accounting and reporting purposes into funds in accordance with activities or objectives specified for the resources. Each fund is a separate accounting entity with a self-balancing set of accounts.

Fiduciary Funds

Pension trust and health benefit program funds – Account for monies received for, expenses incurred by and the net assets available for plan benefits of the various public employee retirement systems.

Agency funds – Agency funds are used to account for the assets that the Division holds on behalf of others as their agent. Agency funds are custodial in nature and do not involve measurement of results of operations.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All funds are accounted for using an economic resources measurement focus.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Notes to Financial Statements

June 30, 2007

The accrual basis of accounting is used for measuring financial position and changes in net assets of the pension trust and health benefit program funds. Under this method, revenues are recorded in the accounting period in which they are earned, and deductions are recorded at the time the liabilities are incurred. The financial statements of the pension trust funds conform to the provisions of GASB Statement No. 25, "Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contributions Plans." The financial statements of the health benefit program funds conform to the provisions of the GASB Statement No. 43. Employer contributions are recognized when payable to the Funds. Benefits and refunds are recognized when due and payable in accordance with the terms of the Funds.

Capital Assets

Capital assets utilized by the Division include equipment which is owned by the State of New Jersey.

Significant Legislation

Chapter 103, P.L. 2007, certain parts effective July 1, 2007, provides for the following: changes contribution rates of TPAF, PERS, and Defined Contribution Retirement Program (DCRP) to 5.5% of annual compensation; imposes an annual maximum wage contribution base and a new retirement age to new employees; implements changes to State Health Benefits Program (SHBP) and establishes an employee contribution of 1.5% of the employee's base salary.

Chapter 92, P.L. 2007 implements certain recommendations contained in the December 1, 2006 report of the Joint Legislative Committee on Public Employee Benefits Reform: establishes a DCRP for elected and certain appointed officials, effective July 1, 2007; closes the Workers' Compensation Judges Part of PERS to new members, effective July 1, 2007; eliminates the 4% fixed rate of interest for loans from the defined benefit plans and provides that the rate of interest will be set by the State Treasurer at a commercially reasonable rate as required by the Internal Revenue Code and permits that an administrative processing fee may be charged for such loans. As such, effective January 1, 2008, the new pension loan interest rate will be 4.69% per year, and an \$8.00 processing fee per loan will be charged. It also removed language from existing law that permits the State Treasurer to reduce employer pension contributions needed to fund the system when excess assets are available.

Chapter 108, P.L. 2003, effective July 1, 2003, provided that the State Treasurer will reduce local employer PERS normal and accrued liability contributions to be a percentage of the amount certified annually by PERS as follows: 20% for payments due in State fiscal year 2005; not more than 40% in fiscal year 2006; not more than 60% in fiscal year 2007; and not more than 80% in fiscal year 2008.

Chapter 108, P.L. 2003 also provided that local employer PFRS normal and accrued liability contributions will be 20% of the amount certified by the PFRS for payments due in State fiscal year 2004 and thereafter a percentage of the amount certified by the PFRS as the State Treasurer will determine, but not more than 40% in fiscal year 2005, not more than 60% in fiscal year 2006, and not more than 80% in fiscal year 2007.

**STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS**

Notes to Financial Statements

June 30, 2007

Membership and Contributing Employers

Membership and contributing employers of the pension trust and health benefit program funds consisted of the following at June 30, 2006, the date of the most recent actuarial valuations (June 30, 2007 for SACT, CPF, NJSEDCP, and ABPLTD):

	<u>JRS</u>	<u>CPFPF</u>	<u>PFRS</u>	<u>POPF</u>	<u>PERS</u>	<u>SPRS</u>
Retiree members:						
Retirees and beneficiaries receiving benefits currently	437	719	30,428	184	124,776	2,338
Terminated employees entitled to benefits but not yet receiving them	3	—	59	—	1,816	—
Total retiree members	<u>440</u>	<u>719</u>	<u>30,487</u>	<u>184</u>	<u>126,592</u>	<u>2,338</u>
Active members:						
Vested	212	—	28,236	—	140,306	1,774
Nonvested	228	—	16,589	—	177,434	1,219
Total active members	<u>440</u>	<u>—</u>	<u>44,825</u>	<u>—</u>	<u>317,740</u>	<u>2,993</u>
Total	<u>880</u>	<u>719</u>	<u>75,312</u>	<u>184</u>	<u>444,332</u>	<u>5,331</u>
Contributing employers	1	1	588	1	1,677	1
	<u>TPAF</u>	<u>SACT</u>	<u>CPF</u>	<u>NJSEDCP</u>	<u>ABPLTD</u>	<u>SHBP*</u>
Retiree members:						
Retirees and beneficiaries receiving benefits currently	68,614	578	317	3,338	—	104,540
Terminated employees entitled to benefits but not yet receiving them	853	—	—	—	—	—
Total retiree members	<u>69,467</u>	<u>578</u>	<u>317</u>	<u>3,338</u>	<u>—</u>	<u>104,540</u>
Active members:						
Vested	75,069	3,823	—	36,599	132	417,814
Nonvested	78,819	—	—	—	—	—
Total active members	<u>153,888</u>	<u>3,823</u>	<u>—</u>	<u>36,599</u>	<u>132</u>	<u>417,814</u>
Total	<u>223,355</u>	<u>4,401</u>	<u>317</u>	<u>39,937</u>	<u>132</u>	<u>522,354</u>
Contributing employers	37	—	1	—	1	454

* The health benefit programs (including PDP) had a total of 454 state and local participating employers and contributing entities for fiscal year 2007 based on the OPEB.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Notes to Financial Statements

June 30, 2007

Membership in the agency funds administered by the Division consisted of the following as of June 30, 2007:

	<u>State</u>	<u>Local</u>	<u>Total</u>
Dental Expense Program Fund**	114,157	31,593	145,750
Alternate Benefit Program Fund***	13,751	3,243	16,994
Pension Adjustment Fund	103,560	104,701	208,261

** active and retired participants

*** including those receiving long-term disability benefits

Investments

The Division of Investment, Department of the Treasury, State of New Jersey (Division of Investment) manages and invests certain assets of seven of the defined benefit plans (PERS, TPAF, JRS, PFRS, CPFPPF, SPRS and POPF) and two defined contribution plans (SACT and NJSEDCP). The Division of Investment separately reports the assets, liabilities and net assets of the underlying investment portfolio of the seven defined benefit plans in its Pension Fund report and a SACT report. The Division of Investment accounts included in the Pension Fund report are: Common Fund A, Common Fund B, Common Fund D, Common Fund E, Police and Firemen's Mortgage Program accounts and other investments owned directly by the seven defined benefit pension plans. Common Fund A invests primarily in domestic equity securities. Common Fund B invests primarily in domestic fixed income securities. Common Fund D invests primarily in foreign equity and fixed income securities. Common Fund E invests primarily in alternative investments which includes private equity, real assets and absolute return strategy investments. The Police and Firemen's Retirement System includes a mortgage loan program administered by the New Jersey Housing and Mortgage Finance Agency that provides participants with mortgages from the program at rates which are fixed by formula. The law establishing the program provides that the Fund may not sell the mortgages, and no independent market exists for them.

Prudential Retirement was selected as the NJSEDCP's third-party administrator following a competitive bidding process with a contract awarded on August 26, 2005. As of January 1, 2006, the four state-managed investment options (DCP Money Market, DCP Equity, DCP Bond and DCP Small Cap Equity) were closed to new investment and 23 new investment options were opened. Participant recordkeeping operations were transferred to Prudential Retirement on January 2, 2006. Assets held in the four state-managed investment options were transferred to Prudential separate accounts on February 1, 2006. The custodian of Plan assets was PNC Bank through January 31, 2006, with State Street Bank acting as custodian, through an agreement with Prudential Retirement, from February 1, 2006 to present. The Division of Investment retains its fiduciary functions over the Plan's assets and the Division of Pensions and Benefits maintains its administrative oversight functions.

Investments are reported at fair value as follows:

- U.S. Government and Agency, Foreign and Corporate obligations – prices quoted by a major dealer in such securities.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Notes to Financial Statements

June 30, 2007

- Common Stock and Equity Funds, Foreign Equity Securities, Forward Foreign Exchange Contracts – closing prices as reported on the primary market or exchange on which they trade.
- Money Market Instruments – amortized cost which approximates fair value.
- Cash Management Fund – closing bid price on the last day of trading during the period as determined by the Transfer Agent.
- Alternative investments (private equity, real assets and absolute return strategy funds) – estimated fair value provided by the general partner and/or investment manager and reviewed by management. Because alternative investments are not always readily marketable, their estimated value is subject to uncertainty and therefore may differ significantly from the value that would be used if a ready market for such investments existed. Accordingly, the realized value received upon the sale of the asset may differ from the fair value.

Investment transactions are accounted for on a trade or investment date basis. Gains and losses from investment transactions are determined by the average cost method. Interest and dividend income is recorded on the accrual basis, with dividends accruing on the ex-dividend date.

The net asset value of Common Funds A, B, D and E (Common Funds) is determined as of the close of the last day of business of each month. Purchases and redemptions of participants' units are transacted each month within fifteen days subsequent to that time and at such net asset value.

Dividends and interest earned per unit are calculated monthly and distributed quarterly for Common Fund A and B. Dividends and interest earned per unit are calculated monthly for Common Fund D, and the income earned on Common Fund D units is reinvested. Income earned per unit is calculated monthly for Common Fund E, and the income earned on Common Fund E units is reinvested.

Securities Lending

Common Funds A, B and D and several of the direct pension plan portfolios participate in securities lending programs, whereby securities are loaned to brokers or other borrowers and, in return, the pension funds have rights to the collateral received. All of the securities held in Common Funds A, B and D, and certain securities held directly by the pension plans, are eligible for the securities lending program. Collateral received may consist of cash, letters of credit, or government securities having a market value equal to or exceeding 102% (U.S. dollar denominated) or 105% (non-U.S. dollar denominated) of the value of the loaned securities at the time the loan is made. For Common Funds A and B, in the event that the market value of the collateral falls below 101% of the market value of all the outstanding loaned securities to an individual borrower, additional collateral shall be transferred by the borrower to the respective funds no later than the close of the next business day so that the market value of such additional collateral, when added to the market value of the other collateral, shall equal 102% of the market value of the loaned securities. For Common Fund D, in the event that the market value of the collateral falls below the collateral requirement of either 102% or 105% (depending on whether the securities are denominated in U.S. dollars or a foreign currency, respectively) of the market value of the outstanding loaned securities to an individual borrower, additional collateral shall be transferred in an amount that will increase the aggregate of the borrower's collateral to meet the collateral requirements. As of June 30, 2007, the

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Notes to Financial Statements

June 30, 2007

Common Funds have no aggregate credit risk exposure to borrowers because the collateral amount held by the Common Funds exceeded the market value of the securities on loan.

The contracts with the Common Funds' custodian banks require them to indemnify the Common Funds if the brokers or other borrowers fail to return the securities or fail to pay the Common Funds for income distributions on the securities while they are on loan. The custodian bank for Common Fund D also indemnifies the Common Funds for any loss of principal or interest on the invested collateral. For any losses on the investment collateral in Common Funds A or B or other pension plan portfolios, the lending fee paid to the lending agent shall be reduced by 25% of the amount of such loss, up to an amount not to exceed 75% of the previous six months' securities lending fees. The securities loans can be terminated by notification by either the borrower or the Common Funds. The term to maturity of the securities loans is generally matched with the term to maturity of the investment of the cash collateral.

Derivatives

The Common Funds' international portfolio managers utilize forward foreign currency contracts, a derivative security, as a means to hedge against the currency risk in the Common Funds' foreign stock and fixed income portfolios. A derivative security is an investment whose payoff depends upon the value of other assets such as bond and stock prices, a market index, or commodity prices. Derivative transactions involve, to varying degrees, credit risk and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. Market risk is the possibility that a change in market prices or currency rates will cause the value of a financial instrument to decrease or become more costly to settle.

Forward foreign currency contracts are agreements to buy or sell a specific amount of a foreign currency at a specified delivery or maturity date for an agreed upon price. Forward foreign currency contracts are used to hedge against the currency risk in the Common Funds' foreign stock and fixed income portfolios.

There were no foreign forward currency contracts at June 30, 2007.

The Common Funds utilize covered call and put options in an effort to add value to or reduce the risk level in the portfolio. Covered options are agreements that give the owner of the option the right, but not obligation, to buy (in the case of a call option) or to sell (in the case of a put option) a specific amount of an asset for a specific price (called the strike price) on or before a specified expiration date. The writer of call options receives a premium at the outset of the agreement and bears the risk of an unfavorable change (i.e., an increase) in the price of the instrument underlying the option. The Common Funds owned 53,208 contracts on indexed put options with a fair value of \$169,137,647 at June 30, 2007, which is included in the fair value of the portfolio.

Certain alternative investment funds and partnerships may use derivative instruments to hedge against market risk and to enhance investment returns. At any point during the year, the Common Funds may have additional exposure to derivatives primarily through limited liability vehicles such as limited partnerships and commingled investment funds.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Notes to Financial Statements

June 30, 2007

Members' Loans

Members of JRS, PFRS, SPRS, PERS and TPAF who have at least three years of service in these Funds may borrow up to 50% of their accumulated member contributions. Repayment of loan balances is deducted from payroll checks and bears an interest rate of 4%. Members who retire with an outstanding loan have the option of paying the loan in full prior to receiving any benefits or continuing their monthly loan payment schedule into retirement.

Under the Internal Revenue Service regulations effective January 1, 2004, the Division changed its pension loan repayment policy: Members who take multiple loans must repay the outstanding balance of the original loan, and all subsequent loans taken before the original loan is completely paid off, within a period not to exceed 5 years from the issuance of the first loan taken after January 1, 2004. Failure to repay the loan within the five-year period will result in the unpaid balance being declared a taxable distribution.

Administrative Expenses

Administrative expenses are paid by the funds, systems, and trusts to the State of New Jersey, Department of the Treasury and are included in the accompanying financial statements, except for administrative expenses of CPF which are paid by the State of New Jersey, who is responsible for such costs.

Income Tax Status

Based on a 1986 declaration of the Attorney General of the State of New Jersey, the funds, systems, and trusts are qualified plans as described in Section 401(a) of the Internal Revenue Code, with the exception of the ABPLTD which is a qualified plan as described in Section 403(b) and the NJSEDCP which is an eligible plan as described in Section 457 of the Internal Revenue Code.

Commitments

The Common Funds are obligated, under certain private equity, real estate and absolute return strategy alternative investment agreements to make additional capital contributions up to contractual levels over the investment period specified for each investment. As of June 30, 2007, the Common Funds had unfunded commitments totaling approximately \$4.2 billion.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expense during the reporting period. Actual results could differ from those estimates.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Notes to Financial Statements

June 30, 2007

(3) Investments

Investments as of June 30, 2007 are as follows:

Cash management funds	\$ 4,244,815,665
Domestic equities	32,924,616,396
International equities	17,330,840,249
Domestic fixed income	19,648,980,451
International fixed income	996,400,682
Commodity linked notes	502,393,611
Police and Fireman's mortgages	1,109,584,450
Private equity	1,159,903,960
Real estate	1,003,932,926
Absolute return strategy funds	2,340,519,278
U.S. government and agency obligations	561,119,529
Other fixed income securities	35,155,805
Other	3,854,117,595
	\$ 85,712,380,597

New Jersey state statute provides for a State Investment Council (Council) and a Director. Investment authority is vested in the Director of the Division of Investment and the role of the Council is to formulate investment policies. The Council issues regulations which establish guidelines for permissible investments which include domestic and international equities and exchange traded funds, covered call and put options, equity futures contracts, obligations of the U.S. Treasury, government agencies, corporations, finance companies and banks, obligations of international corporations, governments and agencies, interest rate swap transactions, fixed income exchange traded funds, U.S. Treasury futures contracts, New Jersey State and Municipal general obligations, public authority revenue obligations, collateralized notes and mortgages, commercial paper, certificates of deposit, repurchase agreements, bankers acceptances, guaranteed income contracts, funding agreements, money market funds, private equity, real estate, other real assets and absolute return strategy funds.

The Division's investments are subject to various risks. Among these risks are credit risk, concentration of credit risk, interest rate risk and foreign currency risk. Each one of these risks is discussed in more detail below.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is evaluated by nationally recognized statistical rating agencies such as Moody's Investors Service, Inc. (Moody's), Standard & Poor's Corporation (S&P), and Fitch Ratings (Fitch). Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. There are no restrictions in the amount that can be invested in United States treasury and government agency obligations. Council regulations require minimum credit ratings for certain categories

**STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS**

Notes to Financial Statements

June 30, 2007

of fixed income obligations held directly by the pension funds and limit the amount that can be invested in any one issuer or issue. These limits for the period July 1, 2006 through September 4, 2006 were as follows:

<u>Category</u>	<u>Minimum rating</u>		<u>Limitation of issuer's outstanding debt</u>	<u>Limitation of issue</u>	<u>Other limitations</u>
	<u>Moody's</u>	<u>S&P</u>			
Corporate obligations	Baa	BBB	25%	25%	—
U.S. finance company debt, bank debentures and NJ state and municipal obligations	A	A	10%	10%	—
Canadian obligations	A	A	10%	10%	Purchase cannot exceed greater of 10% of issue or \$10 million; not more than 2% of fund assets can be invested in any one issuer
International government and agency obligations	Aa	AA	2%	10%	Not more than 1% of fund assets can be invested in any one issuer
Public Authority revenue obligations	A	A	—	10%	Not more than 2% of fund assets can be invested in any one public authority
Collateralized notes and mortgages	Baa	BBB	—	33.3%	Not more than 2% of fund assets can be invested in any one issuer
Commercial paper	P-1	A-1	—	—	—
Certificates of deposit and Banker's acceptances (rating applies to international)	Aa/P-1	—	—	—	Uncollateralized certificates of deposit and banker's acceptances cannot exceed 10% of issuer's primary capital
Guaranteed income contracts	P-1	—	—	—	A+ rating from A.M. Best for insurance companies
Money market funds	—	—	—	—	Not more than 10% of fund assets can be invested in money market funds; limited to 5% of shares or units outstanding

**STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS**

Notes to Financial Statements

June 30, 2007

Effective September 5, 2006, the following limits became effective:

Category	Minimum rating			Limitation of issuer's outstanding debt	Limitation of issue	Other limitations
	Moody's	S&P	Fitch			
Corporate obligations	Baa3	BBB-	BBB-	10%	25%	Not more than 5% of fund assets can be invested in one corporation
U.S. finance company debt and bank debentures	Baa3	BBB-	BBB-	10%	25%	Not more than 5% of fund assets can be invested in one corporation
International corporate obligations	Baa3	BBB-	BBB-	10%	25%	Not more than 5% of fund assets can be invested in any one issuer with maturities exceeding 12 months; not more than 10% of fund assets can be invested in this category
International government and agency obligations	Aa3	AA-	AA-	25%	Greater of 25% or \$10 million	Not more than 1% of fund assets can be invested in any one issuer
Collateralized notes and mortgages	Baa3	BBB-	BBB-	—	25%	Not more than 5% of fund assets can be invested in any one issue; not more than 10% of fund assets (or 20% of Fund B assets) can be invested in this category
Commercial paper	P-1	A-1	F1	—	—	—
Certificates of deposit and Banker's acceptances:						Certificates of deposit and banker's acceptances cannot exceed 10% of issuer's primary capital
Domestic	A3/P-1	A-/A-1	A-/F1	—	—	
International	Aa3/P-1	AA-/A-1	AA-/F1	—	—	
Guaranteed income contracts and funding agreements	A3	A-	A-	—	—	—
Money market funds	—	—	—	—	—	Not more than 10% of fund assets can be invested in money market funds; limited to 5% of shares or units outstanding

**STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS**

Notes to Financial Statements

June 30, 2007

Category	Minimum rating			Limitation of issuer's outstanding debt	Limitation of issue	Other limitations
	Moody's	S&P	Fitch			
Interest rate swap transactions	A3	A-	A-	—	—	Notional value of net exposure to any one counterparty shall not exceed 10% of fund assets
Repurchase agreements	Aa3	AA-	AA-	—	—	—
NJ state & municipal obligations	A3	A-	A-	10%	10%	Not more than 10% of fund assets can be invested in debt of any one political entity maturing more than 12 months from purchase
Public authority revenue obligations	A3	A-	A-	—	10%	Not more than 2% of fund assets can be invested in any one public authority
Mortgage backed pass-through securities	A3	A-	A-	—	—	Not more than 5% of fund assets can be invested in any one issue
Mortgage backed senior debt securities	—	—	—	—	25%	Not more than 5% of fund assets can be invested in any one issue

Up to 5% of the market value of Common Pension Fund B may be invested in corporate obligations, finance company debt, bank debentures, international corporate obligations, collateralized notes and mortgages and mortgage backed pass-through securities that do not meet the minimum credit rating requirements set forth above.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Notes to Financial Statements

June 30, 2007

For securities in the fixed income portfolio, the following table discloses aggregate market value, by major credit quality rating category at June 30, 2007:

(In thousands)	Moody's rating						
	Aaa	Aa	A	Baa	Ba	B	P1
United States Treasury Notes	\$ 2,122,306	572	62,166	—	—	—	—
United States Treasury TIPS	1,875,063	—	—	—	—	—	—
United States Treasury Bonds	5,308,216	—	—	—	—	—	—
United States Treasury Strips	39,649	—	—	—	—	—	—
Title XI Merchant Marine Notes	2,786	—	—	—	—	—	—
Federal Agricultural Mortgage Corp. Notes	95,295	—	—	—	—	—	—
Federal Farm Credit Bank Bonds	51,043	—	—	—	—	—	—
Federal Home Loan Bank Bonds	289,167	—	—	—	—	—	—
Federal Home Loan Bank Discounted Notes	96,345	—	—	—	—	—	—
Federal Home Loan Mortgage Corp. Notes	134,217	—	—	—	—	—	—
Federal National Mortgage Association Notes	96,919	—	—	—	—	—	—
Resolution Funding Corp. Obligations	6,466	—	—	—	—	—	—
Tennessee Valley Authority Strips	72,610	—	—	—	—	—	—
Floating Rate Notes	9,999	20,038	—	—	—	—	—
Domestic Corporate Obligations	442,472	788,787	2,122,634	2,049,844	223	3	—
International Corporate Obligations	—	—	47,912	35,330	—	—	—
Real Estate Investment Trust Obligations	—	—	—	34,025	—	—	—
Finance Company Debt	299,205	296,882	498,203	9,240	—	—	—
International Bonds and Notes	404,960	64,583	48,200	—	—	—	—
Foreign Government Obligations	302,900	92,516	—	—	—	—	—
Remic/FHLMC	952,817	—	—	—	—	—	—
Remic/FNMA	66,490	—	—	—	—	—	—
Remic/GNMA	17,969	—	—	—	—	—	—
GNMA Mortgage Backed Certificates	64,206	—	—	—	—	—	—
FHLM Mortgage Backed Certificates	996,350	—	—	—	—	—	—
FNMA Mortgage Backed Certificates	839,452	—	—	—	—	—	—
SBA Pass-through Certificates	9,700	—	—	—	—	—	—
Asset Backed Obligations	310,611	—	—	—	—	—	—
Private Export Obligations	56,771	—	—	—	—	—	—
Exchange Traded Securities	—	—	52,290	—	—	—	—
Other	3,332	313	625	2,507	2	—	140
	<u>\$ 14,967,316</u>	<u>1,263,691</u>	<u>2,832,030</u>	<u>2,130,946</u>	<u>225</u>	<u>3</u>	<u>140</u>

The table does not include certain corporate obligations totaling \$25,310,000 which have an S&P rating of A and do not have a Moody's rating. The table also does not include other fixed income securities totaling \$21,994,000, Police and Firemen's Mortgages totaling \$1,109,584,450 and the Cash Management fund totaling \$4,244,815,665 which are not rated.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Notes to Financial Statements

June 30, 2007

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Commercial paper must mature within 270 days. Certificates of deposits and bankers acceptances are limited to a term of one year or less. The maturity requirement for repurchase agreements was 15 days through September 4, 2006; this was revised to 30 days effective September 5, 2006. The investment in guaranteed income contracts and funding agreements is limited to a term of 10 years or less.

The following table summarizes the maturities (or, in the case of Remics, Police and Firemen's Mortgages and mortgage-backed securities, the expected average life) of the fixed income portfolio at June 30, 2007:

Fixed income investment type	Total market value	Maturities in years			
		Less than 1	1-5	6-10	More than 10
United States Treasury Notes	\$ 2,185,044	153,882	564,164	1,463,658	3,340
United States Treasury Tips	1,875,063	—	185,161	762,124	927,778
United States Treasury Bonds	5,308,216	—	120,670	86,215	5,101,331
United States Treasury Strips	39,649	—	—	—	39,649
Title XI Merchant Marine Notes	2,786	—	—	—	2,786
Federal Agricultural Mortgage Corp. Notes	95,295	—	95,295	—	—
Federal Farm Credit Bank Bonds	51,043	20,114	30,722	207	—
Federal Home Loan Bank Bonds	289,167	18,107	250,170	20,890	—
Federal Home Loan Bank Discounted Notes	96,345	—	—	—	96,345
Federal Home Loan Mortgage Corp. Notes	134,217	4,378	125,273	3,452	1,114
Federal National Mortgage Association Notes	96,919	—	96,355	—	564
Resolution Funding Corp. Obligations	6,466	—	—	—	6,466
Floating Rate Notes	30,037	—	20,038	9,999	—
Tennessee Valley Authority Strips	72,610	—	—	—	72,610
Domestic Corporate Obligations	5,433,249	130,265	902,952	997,354	3,402,678
International Corporate Obligations	83,242	—	—	—	83,242
Real Estate Investment Trust Obligations	34,025	—	19,574	14,451	—
Finance Company Debt	1,103,718	64,133	552,757	243,809	243,019
Foreign Government Obligations	395,416	64,184	244,266	67,973	18,993
International Bonds and Notes	517,743	69,410	128,538	110,541	209,254
Remic/FHLMC	952,817	—	—	39,882	912,935
Remic/FNMA	66,490	—	—	18,036	48,454
Remic/GNMA	17,969	—	—	—	17,969
SBA pass-through certificates	9,700	—	—	9,700	—
Police and Firemen's Mortgages	1,109,585	425	839	9,292	1,099,029
GNMA Mortgage Backed Certificates	64,206	131	36	—	64,039
FHLM Mortgage Backed Certificates	996,350	161	46,763	4,876	944,550
FNMA Mortgage Backed Certificates	839,452	171	5,284	16,137	817,860
Asset Backed Obligations	310,611	—	59,947	59,978	190,686
Private Export Obligations	56,771	—	32,490	24,281	—
Other	24,749	18,085	4,399	729	1,536
	<u>\$ 22,298,950</u>	<u>543,446</u>	<u>3,485,693</u>	<u>3,963,584</u>	<u>14,306,227</u>

**STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS**

Notes to Financial Statements

June 30, 2007

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The pension funds invest in global markets. The market value of international preferred and common stocks and issues convertible into common stocks, when combined with the market value of international government and agency obligations, previously could not exceed 22% of the market value of the pension funds. Effective September 5, 2006, the market value of emerging market securities cannot exceed more than 1.5 times the percentage derived by dividing the total market capitalization of companies included in the Morgan Stanley Capital International (MSCI) Emerging Market Index by the total market capitalization of the companies included in the MSCI All-Country World Ex-United States Index of the total market value of the assets held by Common Fund D. Prior to September 5, 2006, not more than 5% of the value of the assets held by Common Fund D can be invested in companies incorporated in emerging market countries. Not more than 5% of the market value of the emerging market securities can be invested in any one corporation. Council regulations permit the pension funds to enter into foreign exchange contracts for the purpose of hedging the international portfolio. There were no foreign forward currency contracts at June 30, 2007. The pension funds had the following foreign currency exposure (expressed in U.S. dollars and in thousands):

<u>Currency</u>	<u>Total market value</u>	<u>Equities</u>	<u>Foreign government obligations</u>	<u>Alternative investments</u>
Australian dollar	\$ 475,709	475,709	—	—
Canadian dollar	700,705	700,705	—	—
Danish krone	237,298	237,298	—	—
Euro	5,796,720	5,485,858	278,743	32,119
Hong Kong dollar	187,640	187,640	—	—
Japanese yen	4,383,864	4,383,864	—	—
Mexican peso	75,875	75,875	—	—
New Zealand dollar	26,524	26,524	—	—
Norwegian krone	426,559	426,559	—	—
Pound sterling	2,082,538	2,056,544	—	25,994
Singapore dollar	151,921	151,921	—	—
South Korean won	175,851	175,851	—	—
Swedish krona	898,358	898,358	—	—
Swiss franc	1,705,695	1,705,695	—	—
Other	115,543	115,543	—	—
	<u>\$ 17,440,800</u>	<u>17,103,944</u>	<u>278,743</u>	<u>58,113</u>

The Cash Management Fund is not evidenced by securities that exist in physical or book entry form held by the pension funds.

The pension funds' interests in alternative investments may contain elements of credit, currency and market risk. Such risks include, but are not limited to, limited liquidity, absence of regulatory oversight, dependence upon key individuals, emphasis on speculative investments (both derivatives and non-marketable investments), and nondisclosure of portfolio composition. Effective September 5, 2006, Council regulations require that not more than 18% of the market value of the pension funds can be

**STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS**

Notes to Financial Statements

June 30, 2007

invested in alternative investments, with the individual categories of real estate, real assets, private equity and absolute return strategy investments limited to 7%. Not more than 5% of the market value of Common Fund E, plus outstanding commitments, may be committed to any one partnership or investment, without the prior written approval of the Council. The investments in Common Fund E cannot comprise more than 20% of any one investment manager's total assets.

(4) Securities Lending Collateral

The securities lending collateral is subject to various risks. Among these risks are credit risk, concentration of credit risk, and interest rate risk. Agreements with the lending agents require minimum credit ratings for certain categories of fixed income obligations and limit the amount that can be invested in any one issuer or issue. These limits are consistent with Council regulations and internal policies for funds managed by the Division of Investment. These limits for the period July 1, 2006 through September 4, 2006 were as follows:

Category	Minimum rating		Limitation of issuer's outstanding debt	Limitation of issue	Other limitations
	Moody's	S&P			
Corporate obligations	A3	A-	25%	25%	—
U.S. finance company debt and bank debentures	A2	A	10%	10%	—
Collateralized notes and mortgages	Aaa	AAA	—	33.3%	Limited to not more than 10% of the assets of the collateral portfolio
Commercial paper	P-1	A-1	—	—	Dollar limits by issuer
Certificates of deposit/ Banker's acceptances (rating applies to international)	Aa3/P-1	—	—	—	Uncollateralized certificates of deposit and banker's acceptances cannot exceed 10% of issuer's primary capital; dollar limits by issuer
Guaranteed income contracts	P-1	—	—	—	Limited to 5% of the assets of the collateral portfolio; A+ rating from A.M. Best for insurance companies

**STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS**

Notes to Financial Statements

June 30, 2007

Category	Minimum rating		Limitation of issuer's outstanding debt	Limitation of issue	Other limitations
	Moody's	S&P			
Money market funds	—	—	—	—	Limited to 10% of the assets of the collateral portfolio; limited to approved money market funds

Effective September 5, 2006, the following limits became effective:

Category	Minimum rating			Limitation of issuer's outstanding debt	Limitation of issue	Other limitations
	Moody's	S&P	Fitch			
Corporate obligations	Baa3	BBB-	BBB-	10%	25%	—
U.S. finance company debt and bank debentures	Baa3	BBB-	BBB-	10%	25%	—
Collateralized notes and mortgages	Baa3	BBB-	BBB-	—	25%	Limited to not more than 10% of the assets of the collateral portfolio
Commercial paper	P-1	A-1	F1	—	—	Dollar limits by issuer
Certificates of deposit/ Banker's acceptances:						Certificates of deposit and banker's acceptances' cannot exceed 10% of issuer's primary capital; dollar limits by issuer
Domestic	A3/P-1	A-/A-1	A-/F1	—	—	
International	Aa3/P-1	AA-/A-1	AA-/F1	—	—	
Guaranteed income contracts and funding agreements	A3	A-	A-	—	—	Limited to 5% of the assets of the collateral portfolio
Money market funds	—	—	—	—	—	Limited to 10% of the assets of the collateral portfolio; limited to approved money market funds

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Notes to Financial Statements

June 30, 2007

Maturities of corporate obligations, U.S. finance company debt, bank debentures, collateralized notes and mortgages, guaranteed income contracts, and funding agreements must be less than 25 months. Commercial paper maturities cannot exceed 270 days. Repurchase agreement maturities cannot exceed 30 days. Certificates of deposit and banker's acceptances must mature in one year or less.

The collateral for repurchase agreements is limited to obligations of the U.S. Government or certain U.S. Government agencies, collateralized notes and mortgages and corporate obligations meeting certain minimum rating criteria.

Total exposure to any individual issuer is limited, except for U.S. Treasury and Government agency obligations. For money market funds, the total amount of shares or units purchased or acquired of any money market fund shall not exceed 5% of the shares or units outstanding of said money market fund. For Collateralized notes and mortgages, not more than 2% and 5% of the assets of the collateral portfolio shall be invested in the obligations of any one issuer and issue, respectively. For Guaranteed income contracts and funding agreements, the total investment in any one issuer shall be limited to 2.5% of the collateral portfolio. The Division sets individual issuer limits for Commercial paper and Certificate of deposits. For Corporate obligations, U.S. finance company debt, Bank debentures and Bankers acceptances, exposure to any one issuer shall be limited to the following percentages of the collateral portfolio in accordance with the issuer's rating from Moody's: Aaa (4%), Aa (3%), A (2%), and Baa (1%).

For securities exposed to credit risk in the collateral portfolio, the following table discloses aggregate market value, by major credit quality rating category at June 30, 2007. In those cases where an issuer and/or security have both a long-term and short-term rating, the short-term rating is presented.

(In thousands)	Rating					
	Aaa/AAA	Aa/AA	A/A	Baa/BBB	P1	Not rated
Corporate obligations	\$ 1,142,643	3,209,558	2,712,377	217,479	713,321	—
Commercial paper	—	—	—	—	3,594,013	—
Certificates of deposit	—	99,985	—	—	1,032,601	—
Repurchase agreements	—	—	—	—	—	1,765,830
Funding agreements	—	—	—	—	700,000	—
Money market funds	10,763	1,730,000	500,000	—	—	285,379
Collateralized notes	150,200	5,005	—	—	618,881	—
Cash	—	—	—	—	—	113
	<u>\$ 1,303,606</u>	<u>5,044,548</u>	<u>3,212,377</u>	<u>217,479</u>	<u>6,658,816</u>	<u>2,051,322</u>

**STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS**

Notes to Financial Statements

June 30, 2007

The following table summarizes the maturities of the collateral portfolio at June 30, 2007.

(In thousands)	Total market value	Maturities	
		Less than one year	One year to 25 months
Corporate obligations	\$ 7,995,378	4,154,943	3,840,435
Commercial paper	3,594,013	3,594,013	—
Certificates of deposit	1,132,586	1,132,586	—
Repurchase agreements	1,765,830	1,765,830	—
Funding agreements	700,000	700,000	—
Money market funds	2,526,142	2,526,142	—
Collateralized notes	774,086	769,081	5,005
	<u>\$ 18,488,035</u>	<u>14,642,595</u>	<u>3,845,440</u>

As of June 30, 2007, the Fund had outstanding loaned investment securities with an aggregate market value of \$18,034,823,201 and received cash collateral of \$18,423,399,432 and non-cash collateral of \$4,471,761. In accordance with GASB accounting standards, the non-cash collateral is not reflected in the accompanying financial statements.

(5) Contributions

Contribution Requirements – JRS

The contribution policy is set by N.J.S.A. 43:6A and requires contributions by active members and the State of New Jersey. Plan member and employer contributions may be amended by State of New Jersey legislation. Members enrolled on January 1, 1996 or after contribute at 3% on their entire base salary. Contributions by active members enrolled prior to January 1, 1996 are based on 3% of the difference between their current salary and the salary of the position on January 18, 1982. The State of New Jersey is required to contribute at an actuarially determined rate. The annual employer contributions include funding for basic retirement allowances, cost-of-living adjustments and noncontributory death benefits.

The State made a contribution of \$12.60 million in fiscal year 2007, the first significant contribution to the system since fiscal year 1997. The amount contributed in fiscal year 2007 is equal to approximately 57.5% of the actuarially determined amount.

Contribution Requirements – CPFPPF

There are no active members in the CPFPPF.

The State made a contribution of \$1.78 million to satisfy the actuarially accrued liability in fiscal year 2007.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Notes to Financial Statements

June 30, 2007

Contribution Requirements – PFRS

The contribution policy is set by N.J.S.A. 43:16A and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. Employers are required to contribute at an actuarially determined rate. The annual employer contributions include funding for basic retirement allowances, cost-of-living adjustments, and noncontributory death benefits. Members contribute at a uniform rate of 8.5% of base salary.

Chapter 108, P.L. 2003, effective July 1, 2003, provided that local employer PFRS normal and accrued liability contributions will be 20% of the amount certified by the PFRS for payments due in State fiscal year 2004 and thereafter a percentage of the amount certified by the PFRS as the State Treasurer will determine, but not more than 40% in fiscal year 2005, not more than 60% in fiscal year 2006, and not more than 80% in fiscal year 2007.

The State made a contribution of \$121.36 million for fiscal year 2007, the first significant contribution to the system since fiscal year 1997. The amount contributed in fiscal year 2007 is equal to approximately 57.5% of the actuarially determined amount.

Contribution Requirements – POPF

There are no active members in the POPF. Accordingly, based on actuarial valuation, there is no normal cost or accrued liability contribution required by employers.

Contribution Requirements – PERS

The contribution policy is set by N.J.S.A. 43:15A and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. Members contribute at a uniform rate. The full normal employee contribution rate is 5% of base salary. The rate for members who are eligible for the Prosecutors Part of PERS (Chapter 366, P.L. 2001) is 7.5% of base salary. Employers are required to contribute at an actuarially determined rate. The annual employer contributions include funding for basic retirement allowances, cost-of-living adjustments, and noncontributory death benefits.

To fund the benefit increases provided by Chapter 133, the legislation provided for the use of excess assets. A special benefit enhancement fund (BEF) was established from which the required normal contributions for the increased benefits will be charged. To fund the accrued liabilities incurred by the System, the actuarial value of assets for the valuation period ending June 30, 1999 was adjusted to reflect the full market value of assets. The BEF also provided funding for the benefit increases under Chapter 353, P.L. 2001.

As of June 30, 2006 actuarial valuation, the assets in the BEF-State were fully depleted, and thus funding for the benefit enhancement will be part of the annual state appropriation.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Notes to Financial Statements

June 30, 2007

The State made a contribution of \$230.96 million for fiscal year 2007, the first significant contribution to the system since fiscal year 1997. The amount contributed in fiscal year 2007 is equal to approximately 57.5% of the actuarially determined amount.

Chapter 108, P.L. 2003 provided that the State Treasurer will reduce local employer PERS normal and accrued liability contributions to be a percentage of the amount certified annually by the PERS as follows: 20% for payments due in State fiscal year 2005; not more than 40% in fiscal year 2006; not more than 60% in fiscal year 2007; and not more than 80% in fiscal year 2008.

Contribution Requirements – SPRS

The contribution policy is set by N.J.S.A. 53:5A-34 and requires contributions by active members and the State of New Jersey. Plan member and employer contributions may be amended by State of New Jersey legislation. Members contribute at a uniform rate of 7.5% of base salary. Employers are required to contribute at an actuarially determined rate. The annual employer contributions include funding for basic retirement allowances, cost-of-living adjustments and noncontributory death benefits.

The State made a contribution of \$28.98 million for fiscal year 2007, the first significant contribution to the system since fiscal year 1997. The amount contributed in fiscal year 2007 is equal to approximately 57.5% of the actuarially determined amount.

Contribution Requirements – TPAF

The contribution policy is set by N.J.S.A. 18:66 and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. Members contribute at a uniform rate of 5%. Employers are required to contribute at an actuarially determined rate. The annual employer contributions include funding for basic retirement allowances, cost-of-living adjustments, and noncontributory death benefits.

To fund the benefit increases provided by Chapter 133, P.L. 2001, the legislation provided for the use of excess assets. A special benefit enhancement fund (BEF) was established from which the required normal contributions for the increased benefits will be charged. To fund the accrued liabilities incurred by the TPAF, the actuarial value of assets for the valuation period ending June 30, 1999 was adjusted to reflect the full market value of assets.

As of June 30, 2005 actuarial valuation, the assets in the BEF were fully depleted, and thus funding for the benefit enhancement will be part of the annual state appropriation.

The State made a contribution of \$664.93 million for fiscal year 2007, the first significant contribution to the system since fiscal year 1997. The amount contributed in fiscal year 2007 is equal to approximately 57.5% of the actuarially determined amount.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Notes to Financial Statements

June 30, 2007

Contribution Requirements – SACT

Participants contribute through payroll deductions and may contribute from 1% to 10% of their base salary, as defined. Contributions are voluntary and may be suspended at the beginning of any quarter. Contributions under the Tax Sheltered Supplemental Annuity Plan are subject to Federal law limitations and qualify for tax-sheltered treatment permitted under Section 403(b) of the Internal Revenue Code. Participants are always fully vested for the accumulated units in their accounts.

Contribution Requirements – CPF

The State of New Jersey makes an annual appropriation payment to the CPF to pay current year benefits. The contribution requirements were established by the aforementioned statutes and are not actuarially determined. An actuarial valuation is not performed to determine the actuarial implications of the contribution requirements.

The contribution amount required and paid by the State of New Jersey for the fiscal year ended June 30, 2007 is \$426 thousand.

Contribution Requirements - SHBP-State (including PDP-State)

Contributions to pay for the health premiums of participating employees in the State Health Benefits Program (SHBP)-State are collected from the State of New Jersey, active members and retired members. The State of New Jersey provides contributions for State employees through State appropriations. These appropriations are generally distributed to the SHBP on a monthly basis. Active and retired member contributions and payments from the PERS are generally received on a monthly basis. Certain State employees share in the cost of their premiums, as provided by Chapter 8, P.L. 1996.

Under the provisions of Chapter 8, P.L. 1996, the SHBP implemented premium sharing for employees covered under the State component of the program. Chapter 8 authorizes the State to negotiate premium sharing in the collective bargaining agreements governing employment of State employees. Premium sharing also applies to retired group coverage for employees who attain 25 years of creditable pension service after July 1, 1997 or who retire on a disability retirement after that same date. Those employees not represented by any bargaining unit premium share in accordance with rules established by the State Health Benefits Commission.

Contributions to pay for the premiums of participating employees in the PDP are collected from the State of New Jersey, and former active and retired members who have elected to participate under the rules of COBRA. The State of New Jersey provides contributions for State employees through State appropriations. These appropriations are distributed to the PDP on a monthly basis.

The State of New Jersey's contribution also includes funding for the cost of medical premiums after retirement for qualified retirees. In accordance with Chapter 62, P.L. 1994, post-retirement medical (PRM) benefits have been funded on a pay-as-you-go basis since 1994. Prior to 1994, medical benefits were funded on an actuarial basis.

The State made a contribution of \$1.29 billion including \$224.31 million for PERS PRM for fiscal year 2007.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Notes to Financial Statements

June 30, 2007

Contribution Requirements - SHBP-Local (including PDP-Local)

Contributions to pay for the health premiums of participating employees in the State Health Benefits Program (SHBP)-Local are collected from State of New Jersey, participating local employers, active members and retired members. Local employer payments, active and retired member contributions, and payments from the TPAF are generally received on a monthly basis.

Local group employees are not affected by the premium sharing provisions of Chapter 8, P.L. 1996.

Contributions to pay for the premiums of participating employees in the PDP are collected from participating local employers, and former active and retired members who have elected to participate under the rules of COBRA. Local employer payments as well as COBRA contributions are also received on a monthly basis.

The State of New Jersey's contribution also includes funding for the cost of medical premiums after retirement for qualified retirees. In accordance with Chapter 62, P.L. 1994, post-retirement medical (PRM) benefits have been funded on a pay-as-you-go basis since 1994. Prior to 1994, medical benefits were funded on an actuarial basis.

The State made a contribution of \$592.71 million for TPAF PRM for fiscal year 2007.

Contribution Requirements – NJSEDCP

Participants may defer between 1% and 100% of their salary and less any 414(h) reductions or \$15.5 thousand annually. Under the limited "catch-up" provision, a participant may be eligible to defer up to a maximum of twice the annual maximum in the three years immediately preceding the retirement age at which no reduction in benefits would be applicable. The employer does not make contributions to the Plan.

Contribution Requirements – ABPLTD

The State of New Jersey makes an annual contribution to the ABPLTD, as required, toward the cost of long-term disability benefits which extend beyond the calendar year following the year in which the disability benefits commence for those with a benefit commencement date on or after October 1, 1986.

The State made a contribution of \$2.61 million for fiscal year 2007.

Contribution Requirements – ABP

Members contribute a mandatory 5% of base or contractual salary that is tax deferred under the 414(h) provisions of the Internal Revenue code. Members are also permitted to make voluntary federal tax-deferred contributions under Internal Revenue Code Section 403(b). The State of New Jersey pays the employer contribution for all State and county employees participating in the plan. The employer contribution is based on 8% of base or contractual salary. The State of New Jersey is also responsible for the cost of noncontributory life insurance coverage and long term disability coverage for its plan members.

The State made a contribution of \$128.96 million for fiscal year 2007.

**STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS**

Notes to Financial Statements

June 30, 2007

Contribution Requirements – PAF

The contribution requirements were established by N.J.S.A. 43:3B-4. The State of New Jersey is required to make an annual appropriation payment to fund the cost-of-living increases payable to retirees and beneficiaries of retired members in the CPFPPF, POPF and CPF. Funding is on a pay-as-you-go basis.

The State made a contribution of \$1.49 million for fiscal year 2007.

Contribution Requirements – DEP-State and Local

Contributions to pay for the premiums of participating employees in the Dental Expense Program Fund are collected from the State of New Jersey, local governmental and educational employers, active employees, and former and retired members who have elected to participate under the rules of COBRA. The cost of the premiums is shared by the State of New Jersey and active State employees. Former and retired employees who have chosen to participate under the rules of COBRA pay the full cost of the premium. The employers are billed for the full cost of coverage. The State of New Jersey provides contributions through State appropriations. These appropriations are distributed to the DEP on a biweekly and monthly basis. The active member share of the cost of premiums, which is included in the billing to the employers, is paid to the State on a biweekly and monthly basis. Members participating under COBRA remit their payments on a monthly basis. Retirees pay 100% of the overall dental cost.

The State made a contribution of \$37.94 million for fiscal year 2007.

(6) Vesting and Benefits

Vesting and Benefit Provisions – JRS

The vesting and benefit provisions are set by N.J.S.A. 43:6A and amended and supplemented by Chapter 470, P.L. 1981. The JRS provides retirement benefits as well as death and disability benefits. Retirement benefits for age and years of service are as follows:

Age	Years of judicial service	Benefit as a percentage of final salary
70	10	75%
65	15	75%
60	20	75%

Age	Years of judicial service	Years of public and judicial service	Benefit as a percentage of final salary
65	5	15	50%
60	5	20	50%

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Notes to Financial Statements

June 30, 2007

Retirement benefits are also available at age 60 with five years of judicial service plus 15 years in the aggregate of public service, or at age 60 while serving as a judge with the benefit determined to be 2% of final salary, as defined, for each year of public service up to 25 years plus 1% of final salary for each year in excess of 25 years. Deferred and early retirement benefits are also available.

Vesting and Benefit Provisions – CPFPP

The vesting and benefit provisions are set by N.J.S.A. 43:16. The CPFPP provides retirement as well as death and disability benefits to any active member after 25 years of service. A member may retire at age 60 after 25 years of service. Retirement is mandatory at age 65, except for chiefs of police, who may retire at age 70. Benefits are generally determined to be 60% of final salary, as defined, plus 1% for each creditable year of service, as defined, in excess of 25 years, but not to exceed 30 years. Members are always fully vested in their own contributions.

Chapter 4, P.L. 2001 provided increased benefits to certain members who retired prior to December 29, 1989 with at least 25 years of creditable service. The maximum amount of the increase was 5% of the retiree's final compensation. For those with 30 or more years of service, the total pension benefit would increase from 65% to 70% of final compensation.

Vesting and Benefit Provisions – PFRS

The vesting and benefit provisions are set by N.J.S.A. 43:16A and 43:3B. The PFRS provides retirement as well as death and disability benefits. All benefits vest after ten years of service, except disability benefits which vest after four years of service. Retirement benefits for age and service are available at age 55 and are generally determined to be 2% of final compensation for each year of creditable service, as defined, up to 30 years plus 1% for each year of service in excess of 30 years. Final compensation equals the compensation for the final year of service prior to retirement. Members may seek special retirement after achieving 25 years of creditable service or they may elect deferred retirement after achieving ten years of service, in which case benefits would begin at age 55 equal to 2% of final compensation for each year of service. The annual benefit under special retirement is 65% of the member's final compensation plus 1% for each year of creditable service over 25 years but not to exceed 30 years. The maximum allowance is therefore 70% of final compensation.

Widow/widowers of members retired since December 18, 1967 receive 50% of the retiree's final compensation. The minimum annual widow/widower's benefits of an accidental disability retiree prior to December 18, 1967 and of all retirees since December 18, 1967 is \$4,500.

Members are always fully vested for their own contributions. In the case of death before retirement, members' beneficiaries are entitled to full payment of members' contributions providing no survivor death benefits are payable.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Notes to Financial Statements

June 30, 2007

Eligible retirees receiving monthly benefits are entitled to cost-of-living increases equal to 60% of the change in the average consumer price index for the calendar year in which the pensioner retired, as compared to the average consumer price index for a 12-month period ending with each August 31st immediately preceding the year in which the adjustment becomes payable. The regular retirement allowance is multiplied by the 60% factor as developed and results in the dollar amount of the adjustment payable. Retired members become eligible for pension adjustment benefits after 24 months of retirement. The cost-of-living increases are funded by the retirement system and are included in the annual actuarial calculations of the required state and state-related employer contributions.

Chapter 130, P.L. 2003 provided early retirement incentive benefits to local employees.

Chapter 4, P.L. 2001 provided increased benefits to certain members who retired prior to December 29, 1989 with at least 25 years of creditable service. The maximum amount of the increase was 5% of the retiree's final compensation. For those with 30 or more years of service, the total pension benefit would increase from 65% to 70% of final compensation.

Vesting and Benefit Provisions – POPF

The vesting and benefit provisions are set by N.J.S.A. 43:7. The POPF provides retirement, as well as death and disability benefits. Retirement benefits are available after 25 years of service or at age 55 with 20 years of service. The benefit is in the form of a life annuity equal to the greater of (a) 2% of average final compensation up to the 30 years of service, plus 1% of average final compensation for each year of service above 30 and prior to age 65; (b) 50% of final pay; or (c) for members with 25 or more years of service, 2% of average final compensation for each year of service up to 30 years, plus 1% for each year in excess of 30 years. Average final compensation equals the average salary for the final three years of service prior to retirement (or highest three years' compensation if other than the final three years).

Members are always fully vested for their own contributions.

Vesting and Benefit Provisions – PERS

The vesting and benefit provisions are set by N.J.S.A. 43:15A and 43:3B. The PERS provides retirement, death and disability benefits, as well as medical benefits for certain qualified members. All benefits vest after eight to ten years of service, except for medical benefits, which vest after 25 years of service or under the disability provisions of the PERS. Retirement benefits for age and service are available at age 60 and are generally determined to be 1/55 of final average salary for each year of service credit (as defined). Final average salary equals the average salary for the final three years of service prior to retirement (or highest three years' compensation if other than the final three years). Members may seek early retirement after achieving 25 years service credit, as defined, or they may elect deferred retirement after achieving eight to ten years of service credit, in which case benefits would begin the first day of the month after the member attains normal retirement age.

Members are always fully vested for their own contributions and, after three years of service credit, become vested for earnings on their contributions at 2% per annum. In the case of death before retirement, members' beneficiaries are entitled to full interest credited to the members' accounts.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Notes to Financial Statements

June 30, 2007

Eligible retirees receiving monthly benefits are entitled to cost-of-living increases equal to 60% of the change in the average consumer price index for the calendar year in which the pensioner retired, as compared to the average consumer price index for a 12-month period ending with each August 31st immediately preceding the year in which the adjustment becomes payable. The regular retirement allowance is multiplied by the 60% factor as developed and results in the dollar amount of the adjustment payable. Retired members become eligible for pension adjustment benefits after 24 months of retirement.

Chapter 23, P.L. 2002 provided early retirement incentive benefits to State employees who meet specified age and service requirements and who retired within a specified time period that generally extended from February 1, 2002 to July 1, 2002. The incentive benefits include an additional three years of service credit to employees who are at least 50 years of age with at least 25 years of service credit; State paid health care benefits to employees who are at least 60 years of age with at least 20 but less than 25 years of service credit; and an additional monthly benefit of \$500 per month for 24 months following the date of retirement to employees who are at least 60 years of age with at least 10 but not more than 20 years of service credit. For those eligible for veterans' retirement benefit, the incentive is an additional pension of 3/55 of the compensation upon which the retirement benefit is based to employees who are at least 55 years of age with 25 or more years of service credit. Similarly, Chapter 127, 128, and 129, P.L. 2003 provided early retirement incentive benefits to local employees.

Chapter 353, P.L. 2001 provided an increase in the special veterans' retirement allowance and the ordinary and accidental disability retirement allowances. The special veterans retirement allowance increased from 50% to 54.5% of the members' compensation during the highest-paid year of service. The minimum ordinary disability retirement allowance increased from 40% to 43.6% of final average compensation, and the accidental disability retirement allowance increased from 66.66% to 72.7% of the actual annual compensation at the time of the accident. Existing retirees and beneficiaries are eligible for the increases, which was effective October 2001.

Chapter 133, P.L. 2001 increased the retirement benefits under service, deferred, and early retirement by changing the formula from 1/60 to 1/55 of final compensation for each year of service. This legislation also increased the retirement benefit for veteran members with 35 or more years of service and reduced the age qualification from 60 to 55. Existing retirees and beneficiaries received a comparable percentage increase in their retirement allowances. This benefit enhancement was effective with the November 1, 2001 benefit payments.

Chapter 259, P.L. 2001 amended the PERS statutes and created special retirement benefits for members employed as workers' compensation judges. PERS members entitled to the new benefits are the Chief Judge, the administrative supervisory judges, the supervisory judges, and the judges of compensation of the Division of Workers' Compensation of the Department of Labor. Those in eligible titles would receive retirement benefits comparable to those provided to members of the JRS. The effective date of this legislation was December 6, 2001.

Chapter 366, P.L. 2001 provided enhanced pension benefits to selected individuals with County Prosecutor Offices and in the Division of Criminal Justice.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Notes to Financial Statements

June 30, 2007

Vesting and Benefit Provisions – SPRS

The vesting and benefit provisions are set by N.J.S.A. 53:5A. The SPRS provides retirement as well as death and disability benefits. All benefits vest after ten years of service (as defined). Retirement benefits are available after 20 years of service (as defined) at any age with mandatory retirement at age 55. The retirement benefit is based upon final compensation, which is defined as salary (as defined) plus maintenance allowance (as defined) during the last 12 months prior to retirement, and is a life annuity equal to the greater of the following: (a) 50% of final compensation; (b) for members retiring due to mandatory retirement, 50% of final compensation, plus 2% for each year of service in excess of 20 years to a maximum of 60% of final compensation; or (c) for members retiring with 25 or more years of service, 65% of final compensation, plus 1% for each year of service in excess of 25 years, to a maximum of 70% of final compensation. Members may elect deferred retirement after ten years of service in which case benefits in the form of life annuity would begin at age 55 equal to 2% of final compensation for each year of service up to 20 years.

Members are always fully vested for their own contributions.

Vesting and Benefit Provisions – TPAF

The vesting and benefit provisions are set by N.J.S.A. 18A:66. The TPAF provides retirement, death and disability benefits, as well as medical benefits for certain qualified members. All benefits vest after ten years of service, except for medical benefits, which vest after 25 years of service or under the disability provisions of the TPAF. Retirement benefits for age and service are available at age 60 and are generally determined to be 1/55 of final average salary for each year of service credit, as defined. Final average salary equals the average salary for the final three years of service prior to retirement (or highest three years' compensation if other than the final three years). Members may seek early retirement after achieving 25 years service credit, as defined, or they may elect deferred retirement after achieving ten years of service credit, in which case benefits would begin the first day of the month after the member attains normal retirement age.

Members are always fully vested for their own contributions and, after three years of service credit, become vested for 2% of related interest earned on the contributions. In the case of death before retirement, members' beneficiaries are entitled to full interest credited to the members' accounts.

Eligible retirees receiving monthly benefits are entitled to cost-of-living increases equal to 60% of the change in the average consumer price index for the calendar year in which the pensioner retired, as compared to the average consumer price index for a 12-month period ending with each August 31st immediately preceding the year in which the adjustment becomes payable. The regular retirement allowance is multiplied by the 60% factor as developed and results in a dollar amount of the adjustment payable. Retired members become eligible for pension adjustment benefits (COLA) after 24 months of retirement.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Notes to Financial Statements

June 30, 2007

Chapter 23, P.L. 2002 provided early retirement incentive benefits to State employees who meet specified age and service requirements and who retired within a specified time period that generally extended from February 1, 2002 to July 1, 2002. The incentive benefits include an additional three years of service credit to employees who are at least 50 years of age with at least 25 years of service credit; State paid health care benefits to employees who are at least 60 years of age with at least 20 but less than 25 years of service credit; and an additional monthly benefit of \$500 per month for 24 months following the date of retirement to employees who are at least 60 years of age with at least 10 but not more than 20 years of service credit. For those eligible for veterans' retirement benefit, the incentive is an additional pension of 3/55 of the compensation upon which the retirement benefit is based to employees who are at least 55 years of age with 25 or more years of service credit. Similarly, Chapter 128 and 129, P.L. 2003 provided early retirement incentive benefits to local employees.

Chapter 353, P.L. 2001 provided an increase in the special veterans' retirement allowance and the ordinary and accidental disability retirement allowances. The special veterans retirement allowance increased from 50% to 54.5% of the members' compensation during the highest-paid year of service. The minimum ordinary disability retirement allowance increased from 40% to 43.6% of final average compensation, and the accidental disability retirement allowance increased from 66.66% to 72.7% of the actual annual compensation at the time of the accident. Existing retirees and beneficiaries are eligible for the increases, which was effective October 2001.

Chapter 133, P.L. 2001 increased the retirement benefits under service, deferred, and early retirement by changing the formula from 1/60 to 1/55 of final compensation for each year of service. This legislation also increased the retirement benefit for veteran members with 35 or more years of service and reduced the age qualification from 60 to 55. Existing retirees and beneficiaries received a comparable percentage increase in their retirement allowances. This benefit enhancement was effective with the November 1, 2001 benefit payments.

Vesting and Benefit Provisions – SACT

Upon retirement, a participant is paid a single cash payment or may elect various forms of monthly annuities or reduced annuity payments with a beneficiary provision based on the value of the participant's account in the month of retirement. Upon the death of a participant, the designated beneficiary may elect to receive a lump sum equal to the account value or an annuity under any of the settlement options which a retiree could elect under the Trust. Upon termination of employment and withdrawal from the basic retirement systems, a participant must also withdraw his account under the Trust as a lump-sum settlement.

Benefit Provisions – CPF

Benefits are payable under various State of New Jersey acts in an amount equal to one-half of the compensation received by the participant for his/her service. In the case of Disabled Veterans' Pensions and Surviving Spouses the amount is \$62.50 per month.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Notes to Financial Statements

June 30, 2007

Vesting and Benefit Provisions – NJSEDCP

Assets in the Plan are held in trust for the exclusive benefit of Plan members and their beneficiaries in accordance with GASB Statement No. 32, “Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans.” Plan members are fully vested for the current valuation of their account from the date of enrollment in the Plan. Benefits are payable upon separation from service with the State of New Jersey.

Benefit Provisions – ABPLTD

Members who are totally disabled due to an occupational or nonoccupational condition are eligible to receive a regular monthly benefit equal to 60% of the base salary earned over the 12 month period preceding the onset of the disability. The long-term disability benefits continue until such time as the member retires or attains the age of 70, whichever comes first.

Vesting and Benefit Provisions - SHBP – State (including PDP-State)

The Program provides medical coverage to qualified active and retired participants. Under Chapter 136, P.L. 1977, the State of New Jersey pays for the health insurance coverage of all enrolled retired State employees (regardless of age) whose pensions are based upon 25 years or more of credited service or a disability retirement regardless of years of service. Retirees who are not eligible for employer paid health coverage at retirement can continue in the program by paying the cost of the insurance for themselves and their covered dependents. The Prescription Drug Program Fund (PDP) was established in December 1974, under N.J.S.A. 52:14-17.29 to provide coverage to employees and their eligible dependents for drugs which under federal or State law may be dispensed only upon a prescription written by a physician. State employees are eligible for PDP coverage after 60 days of employment.

Vesting and Benefit Provisions - SHBP – Local (including PDP-Local)

The Program provides free coverage to members of the PERS, TPAF and ABP who retire from a board of education or county college with 25 years of service or on a disability retirement. Partially funded benefits are also provided to local police officers and firefighters who retire with 25 years of service (or on disability) from an employer who does not provide coverage. Also, local employees are eligible for the PDP coverage after 60 days of employment.

Vesting and Benefit Provisions – ABP

The ABP provides retirement benefits, disability benefits, and group life insurance benefits to eligible participants. Retirement benefits are payable upon separation from service with no age or service requirements. However, distributions under age 55 are limited to employee contributions and accumulations. The remaining employer’s contributions and earnings are available for distribution upon attaining age 55. Participants are immediately vested if the participant has an existing retirement account containing employer and employee contributions based on employment in public education, or is an active or vested member of a federal or state retirement system.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Notes to Financial Statements

June 30, 2007

Benefit Provisions – PAF

The Pension Adjustment Program covers eligible retirees and survivors of the CPFPPF, POPF and CPF. Eligible retirees and/or survivors are those who have been retired at least 24 months.

Those eligible for benefits are entitled to cost-of-living increases equal to 60% of the change in the average consumer price index for the calendar year in which the pensioner retired, as compared to the average consumer price index for a 12-month period ending with each August 31st immediately preceding the year in which the adjustment becomes payable. The regular retirement allowance is multiplied by the 60% factor as developed and results in a dollar amount of the adjustment payable. Retired members become eligible for pension adjustment benefits after 24 months of retirement.

Chapter 4, P.L. 2001 provided increased benefits to certain members of the Consolidated Police and Firemen's Pension Fund who retired prior to December 29, 1989 with at least 25 years of creditable service. The benefit increase is effective November 1, 2001. The maximum amount of the increase was 5% of the retiree's final compensation. For those with 30 or more years of service, the total pension benefit would increase from 65% to 70% of final compensation.

As a result of this legislation, cost-of-living benefits payable to eligible retirees also increased. The State, not the local municipalities, is responsible for these costs.

Benefit Provisions – DEP-State and Local

The Program provides coverage to employees and their eligible dependents for dental services performed by a qualified dentist. Employees are eligible for coverage after 60 days of employment.

(7) Funds

The Funds maintain the following legally required funds as follows (amounts indicated in parenthesis represent net assets held in trust for the respective fund as indicated):

Members' Annuity Savings Fund – JRS (\$32,728,281); TPAF (\$7,563,158,194); PERS (\$8,530,151,309); PFRS (\$2,691,572,376); SPRS (\$163,513,046)

The Members' Annuity Savings Fund is credited with all contributions made by active members of the Funds. Member withdrawals are paid out of this Fund.

Contingent Reserve Fund – JRS (\$186,667,175); TPAF (\$1,705,254,326); PERS (\$1,467,366,773); SPRS (\$1,362,223,843)

The Contingent Reserve Fund is credited with the contributions of contributing employers. Interest earnings, after crediting the Accumulative Interest Fund, Retirement Reserve Fund, and Special Reserve Fund, as required, are credited to this account. Additionally, payments for life insurance premiums and administrative expenses are made from this Fund.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Notes to Financial Statements

June 30, 2007

Retirement Reserve Fund – JRS (\$152,955,092); TPAF (\$24,799,022,806); PERS (\$17,419,836,954); PFRS (\$9,315,156,079); SPRS (\$543,524,025)

The Retirement Reserve Fund is the account from which retirement benefits including cost-of-living adjustments are paid. Upon retirement of a member, accumulated contributions together with accumulated interest are transferred to the Retirement Reserve Fund from the Members' Annuity Savings Fund. Any additional reserves needed to fund the balance of the retirement benefit are transferred from the Contingent Reserve Fund or Pension Accumulation Fund. Annually, interest as determined by the State Treasurer (8.25% for fiscal year 2007) is credited to the Retirement Reserve Fund.

Retirement Reserve Fund – POPF (\$13,499,361)

The Retirement Reserve Fund is credited with active member and State of New Jersey contributions and investment income. In addition, all benefits are paid from this account.

Special Reserve Fund – TPAF (\$338,834,188); PERS (\$261,992,402); PFRS (\$196,283,294)

The Special Reserve Fund is a fund to which any excess earnings and gains from sales and maturities of investments are transferred and against which any losses from the sales of securities are applied. The maximum limit on the accumulation of this account is 1% of the market value of the investments allocated to the Funds, excluding Cash Management Fund investments and bonds allocated to the Contributory Group Insurance Premium Fund. Amounts in excess of 1% are credited to the Contingent Reserve Fund.

Contributory Group Insurance Premium Fund – TPAF (\$120,393,621); PERS (\$262,851,256)

The Contributory Group Insurance Premium Fund represents the accumulation of member group insurance contributions in excess of premiums disbursed to the insurance carrier since the inception of the contributory death benefit program plus reserves held by the insurance carriers. Members are required by statute to participate in the contributory group insurance plan in the first year of membership and may cancel the contributory coverage thereafter. The current contribution rate for active members is 0.4 of 1% of salary for TPAF and 0.5 of 1% of salary for PERS, as defined.

Non-Contributory Group Insurance Premium Fund – PFRS-Local (\$1,971,884)

The Non-Contributory Group Insurance Premium Fund represents the accumulation of employer group insurance contributions in excess of premiums disbursed to the insurance carrier since the inception of the non-contributory death benefit program plus reserves held by the insurance carrier. Members are eligible by statute for the non-contributory group insurance plan in the first year of membership. PERS-Local maintained a negative balance of \$11,589,626 which represents a restricted asset.

Pension Accumulation Fund – PFRS (\$9,365,000,072)

The Pension Accumulation Fund is credited with the contributions of the State of New Jersey and other employers. Interest earnings, after crediting the Annuity Savings Fund (ASF) and the Retirement Reserve Fund, as required, are credited to this account. Additionally, payments for life insurance premiums and administrative expenses are made from this Fund.

**STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS**

Notes to Financial Statements

June 30, 2007

Pension Reserve Fund – CPFPPF (\$16,096,595)

The Pension Reserve Fund is credited with all active member and State of New Jersey contributions and investment income.

Reserve Fund – Alternate Benefit – Long Term Disability (\$1,913,525)

The fund balance of the ABPLTD is available for future payments to participants.

Benefit Enhancement Reserve Fund – TPAF (\$0); PERS (\$444,437,196)

The Benefit Enhancement Reserve Fund is a special reserve fund from which the required normal contributions to provide benefit increases under Chapter 353, P.L. 2001 and Chapter 133, P.L. 2001 will be charged. The fund was established in 2002 and credited with excess assets equivalent to member contributions for fiscal years 2000 and 2001 by transferring reserves in the Contingent Reserve Fund to the Benefit Enhancement Fund. Additional transfers will be made, as required, to maintain a fund balance equal to the present value of expected additional normal contributions due to the increased benefits.

Reserve Fund – SHBP-State (including PDP-State) (\$-30,286,656)

In the Health Benefit Program-State, expenditures were greater than revenue; therefore, the 2007 year end balance was lower than the beginning balance. The State as the employer is attempting to deal with the rising cost of healthcare by implementing changes to cost sharing between employees and employers, by conversion of an indemnity plan to a managed care plan, and through the establishment of rates that are projected to recover anticipated claims and result in a positive balance.

Reserve Fund – SHBP-Local (including PDP-Local) (\$581,517,756)

The net assets of the SHBP - Local are available to pay claims of future periods. These reserves are maintained by the fund to stabilize rates and to meet unexpected increase in claims.

Various Reserve Fund net asset balances as of June 30, 2007 as described previously:

	Pension Trust Funds	Health Benefit Program Funds
	<u> </u>	<u> </u>
Members' Annuity Savings Fund	\$ 18,981,123,206	—
Contingent Reserve Fund	4,721,512,117	—
Retirement Reserve Fund	52,243,994,317	—
Special Reserve Fund	797,109,884	—
Contributory Group Insurance Premium Fund	383,244,877	—
Non-Contributory Group Insurance Premium Fund	1,971,884	—
Pension Accumulation Fund	9,365,000,072	—
Pension Reserve Fund	16,096,595	—
Reserve Fund	1,913,525	551,231,100
Benefit Enhancement Reserve Fund	444,437,196	—
Variable Accumulation Reserve Account (SACT and DCP)	2,217,585,812	—
Variable Benefits Reserve Account (SACT)	31,793,102	—
	<u>\$ 89,205,782,587</u>	<u>551,231,100</u>

**STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS**

Notes to Financial Statements

June 30, 2007

(8) Dental Expense Program Fund, Net Assets, Beginning of year - Restatement

As discussed in note 1, the Division implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other than Pension Plans" for the year ended June 30, 2007. As a result of the implementation the Dental Expense Program met the conditions to be reported as an agency fund. The net assets, beginning of year were restated as follows:

	<u>State</u>	<u>Local</u>	<u>Total</u>
July 1, 2006 Net assets (deficit), beginning of year	\$ 5,137,704	(2,827,749)	2,309,955
Liability	<u>(5,137,704)</u>	<u>2,827,749</u>	<u>(2,309,955)</u>
July 1, 2006 Net assets, beginning of year, as restated	\$ <u>—</u>	<u>—</u>	<u>—</u>

**STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS**

Required Supplementary Information

Schedule of Funding Progress

(Unaudited)

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (b)	Unfunded (overfunded) actuarial accrued liability (b - a)	Funded ratio (a / b)	Covered payroll (c)	Unfunded (overfunded) actuarial accrued liability as a percentage of covered payroll (b - a) / c
Judicial Retirement System (JRS)						
June 30, 1998	\$ 333,437,794	305,779,217	(27,658,577)	109.0%	\$ 48,196,350	(57.4)%
June 30, 1999	352,858,160	313,873,659	(38,984,501)	112.4	48,886,350	(79.7)
June 30, 2000	374,486,433	350,920,345	(23,566,088)	106.7	55,514,214	(42.5)
June 30, 2001	379,592,346	372,760,069	(6,832,277)	101.8	57,800,334	(11.8)
June 30, 2002	373,231,198	388,950,803	15,719,605	96.0	61,873,500	25.4
June 30, 2003	372,835,265	431,450,218	58,614,953	86.4	61,600,500	95.2
June 30, 2004	371,730,163	445,922,358	74,192,195	83.4	61,576,750	120.5
June 30, 2005	369,491,366	466,145,912	96,654,546	79.3	60,506,750	159.7
June 30, 2006	369,493,799	493,778,007	124,284,208	74.8	62,492,250	198.9
Consolidated Police and Firemen's Pension Fund (CPFPF)						
June 30, 1998	\$ 62,205,001	59,272,789	(2,932,212)	104.9%	N/A	N/A
June 30, 1999	54,018,660	52,226,208	(1,792,452)	103.4	N/A	N/A
June 30, 2000	46,078,644	46,544,429	465,785	99.0	N/A	N/A
June 30, 2001	38,656,261	41,658,355	3,002,094	92.8	N/A	N/A
June 30, 2002	31,842,796	36,350,384	4,507,588	87.6	N/A	N/A
June 30, 2003	27,623,585	41,396,376	13,772,791	66.7	N/A	N/A
June 30, 2004	21,735,396	35,052,202	13,316,806	62.0	N/A	N/A
June 30, 2005	21,886,445	30,031,591	8,145,146	72.9	N/A	N/A
June 30, 2006	22,453,828	24,749,667	2,295,839	90.7	N/A	N/A
Police and Firemen's Retirement System (PFRS)						
State:						
June 30, 1998	\$ 1,559,131,933	1,377,734,455	(181,397,478)	113.2%	\$ 346,079,078	(52.4)%
June 30, 1999	1,717,248,151	1,534,470,501	(182,777,650)	111.9	362,949,950	(50.4)
June 30, 2000	1,884,870,936	1,666,842,906	(218,028,030)	113.1	363,360,250	(60.0)
June 30, 2001	1,991,299,968	1,866,140,391	(125,159,577)	106.7	398,118,379	(31.4)
June 30, 2002	2,032,977,241	2,046,820,189	13,842,948	99.3	418,849,259	3.3
June 30, 2003	1,907,752,767	2,330,909,918	423,157,151	81.8	447,470,022	94.6
June 30, 2004	1,940,936,459	2,509,192,584	568,256,125	77.4	450,406,301	126.2
June 30, 2005	2,005,752,079	2,815,620,221	809,868,142	71.2	482,460,402	167.9
June 30, 2006	2,082,930,162	3,082,176,677	999,246,515	67.6	506,084,434	197.4
Local:						
June 30, 1998	\$ 13,169,957,658	12,881,842,367	(288,115,291)	102.2%	\$ 1,870,322,787	(15.4)%
June 30, 1999	14,536,570,357	13,894,951,617	(641,618,740)	104.6	1,971,087,124	(32.6)
June 30, 2000	15,644,750,281	14,924,699,712	(720,050,569)	104.8	2,055,781,766	(35.0)
June 30, 2001	16,083,153,842	16,056,446,646	(26,707,196)	100.2	2,163,590,060	(1.2)
June 30, 2002	16,392,195,411	17,181,142,310	788,946,899	95.4	2,275,130,620	34.7
June 30, 2003	16,447,380,691	18,422,073,072	1,974,692,381	89.3	2,393,467,444	82.5
June 30, 2004	16,762,453,668	19,769,046,766	3,006,593,098	84.8	2,524,859,162	119.1
June 30, 2005	17,372,138,294	21,388,972,326	4,016,834,032	81.2	2,619,347,468	153.4
June 30, 2006	18,281,315,556	22,907,522,660	4,626,207,104	79.8	2,772,915,465	166.8

**STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS**

Required Supplementary Information

Schedule of Funding Progress

(Unaudited)

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (b)	Unfunded (overfunded) actuarial accrued liability (b - a)	Funded ratio (a / b)	Covered payroll (c)	Unfunded (overfunded) actuarial accrued liability as a percentage of covered payroll (b - a) / c
Prison Officers' Pension Fund (POPF)						
June 30, 1998	\$ 20,096,072	16,430,313	(3,665,759)	122.3%	N/A	N/A
June 30, 1999	19,137,919	15,292,629	(3,845,290)	125.1	N/A	N/A
June 30, 2000	18,268,489	14,216,588	(4,051,901)	128.5	N/A	N/A
June 30, 2001	18,269,899	12,994,567	(5,275,332)	140.6	N/A	N/A
June 30, 2002	17,908,452	11,781,734	(6,126,718)	152.0	N/A	N/A
June 30, 2003	17,277,953	10,727,647	(6,550,306)	161.1	N/A	N/A
June 30, 2004	15,884,428	10,060,710	(5,823,718)	157.9	N/A	N/A
June 30, 2005	14,783,465	9,077,157	(5,706,308)	162.9	N/A	N/A
June 30, 2006	14,014,718	8,236,295	(5,778,423)	170.2	N/A	N/A
Public Employees' Retirement System (PERS)						
State:						
March 31, 1998	\$ 7,600,621,930	7,155,035,122	(445,586,808)	106.2%	\$ 2,805,791,909	(15.9)%
June 30, 1999	8,879,920,323	7,823,576,056	(1,056,344,267)	113.5	2,928,470,790	(36.1)
June 30, 2000	9,743,727,383	8,538,685,222	(1,205,042,161)	114.1	3,094,280,664	(38.9)
June 30, 2001	11,123,818,861	9,886,463,368	(1,237,355,493)	112.5	3,288,383,788	(37.6)
June 30, 2002	11,073,156,965	10,760,557,483	(312,599,482)	102.9	3,511,151,199	(8.9)
June 30, 2003	10,829,953,189	11,942,299,170	1,112,345,981	90.7	3,576,118,300	31.1
June 30, 2004	10,693,508,592	12,620,379,435	1,926,870,843	84.7	3,751,765,096	51.4
June 30, 2005	10,631,348,826	13,432,528,883	2,801,180,057	79.1	4,028,028,170	69.5
June 30, 2006	10,668,645,162	14,797,684,446	4,129,039,284	72.1	4,253,564,219	97.1
Local:						
March 31, 1998	\$ 11,486,495,310	10,286,532,879	(1,199,962,431)	111.7%	\$ 4,513,357,772	(26.6)%
June 30, 1999	13,171,311,650	11,163,283,877	(2,008,027,773)	118.0	4,655,241,261	(43.1)
June 30, 2000	14,380,511,913	12,007,160,806	(2,373,351,107)	119.8	4,910,962,708	(48.3)
June 30, 2001	16,625,288,260	13,819,038,491	(2,806,249,769)	120.3	5,240,338,738	(53.6)
June 30, 2002	16,503,081,054	14,929,334,103	(1,573,746,951)	110.5	5,534,322,805	(28.4)
June 30, 2003	16,406,284,200	15,887,012,746	(519,271,454)	103.3	5,811,726,702	(8.9)
June 30, 2004	16,414,022,003	17,077,938,057	663,916,054	96.1	6,140,413,756	10.8
June 30, 2005	16,482,040,944	18,341,857,304	1,859,816,360	89.9	6,416,265,644	29.0
June 30, 2006	16,699,827,172	20,273,979,840	3,574,152,668	82.4	6,730,309,209	53.1
State Police Retirement System (SPRS)						
June 30, 1998	\$ 1,458,600,992	1,369,277,968	(89,323,024)	106.5%	\$ 167,145,161	(53.4)%
June 30, 1999	1,600,165,104	1,469,144,146	(131,020,958)	108.9	178,203,420	(73.5)
June 30, 2000	1,752,423,441	1,512,909,805	(239,513,636)	115.8	188,466,237	(127.1)
June 30, 2001	1,829,414,353	1,626,631,656	(202,782,697)	112.5	199,727,203	(101.5)
June 30, 2002	1,853,684,177	1,739,427,739	(114,256,438)	106.6	215,161,126	(53.1)
June 30, 2003	1,865,079,083	1,815,725,256	(49,353,827)	102.7	217,448,864	(22.7)
June 30, 2004	1,897,525,210	1,949,309,641	51,784,431	97.3	223,552,154	23.2
June 30, 2005	1,922,443,732	2,075,266,080	152,822,348	92.6	241,813,372	63.2
June 30, 2006	1,970,398,511	2,319,656,532	349,258,021	84.9	263,220,592	132.7
Teachers' Pension and Annuity Fund (TPAF)						
March 31, 1998	\$ 24,478,860,383	23,484,403,450	(994,456,933)	104.2%	\$ 5,989,748,156	(16.6)%
June 30, 1999	27,457,451,678	25,546,083,289	(1,911,368,389)	107.5	6,254,198,406	(30.6)
June 30, 2000	30,203,205,322	27,404,618,051	(2,798,587,271)	110.2	6,571,641,181	(42.6)
June 30, 2001	35,351,379,511	32,745,357,185	(2,606,022,326)	108.0	6,948,381,383	(37.5)
June 30, 2002	35,148,246,433	35,146,591,842	(1,654,591)	100.0	7,348,993,141	—
June 30, 2003	34,651,825,932	37,383,732,882	2,731,906,950	92.7	7,702,854,159	35.5
June 30, 2004	34,633,790,549	40,447,690,339	5,813,899,790	85.6	8,047,272,269	72.2
June 30, 2005	34,789,389,875	43,967,927,299	9,178,537,424	79.1	8,454,072,109	108.6
June 30, 2006	35,531,294,790	46,539,868,653	11,008,573,863	76.3	8,748,623,186	125.8

**STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS**

Required Supplementary Information

Schedule of Funding Progress

(Unaudited)

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (b)	Unfunded (overfunded) actuarial accrued liability (b - a)	Funded ratio (a / b)	Covered payroll *	Unfunded (overfunded) actuarial accrued liability as a percentage of covered payroll * ((b - a) / c)
Health Benefits Program Fund-State						
June 30, 2006	\$ —	21,587,100,000	21,587,100,000	—	N/A	N/A
Health Benefits Program Fund-Education-State						
June 30, 2006	—	36,471,900,000	36,471,900,000	—	N/A	N/A
Total State	—	58,059,000,000	58,059,000,000	—	N/A	N/A
Health Benefits Program Fund-Local						
June 30, 2006	—	10,774,600,000	10,774,600,000	—	N/A	N/A

* Required disclosure at adoption of standard. Covered payroll not available for this initial analysis

**STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS**

Required Supplementary Information

Schedule of Funding Progress – Additional Actuarial Information

(Unaudited)

Significant actuarial methods and assumptions used in the most recent 2006 actuarial valuations include the following:

	JRS	CPFPF
Actuarial cost method	Projected unit credit	Projected unit credit
Asset valuation method	5 year average of market value	5 year average of market value
Amortization method	Level percent, open	Level dollar, closed
Remaining amortization period	30 years	1 year
Actuarial assumptions:		
Interest rate	8.25%	2.00%
Salary range	5.45	N/A
Cost-of-living adjustments	1.80	N/A
Valuation date	June 30, 2006	June 30, 2006
	PFRS	POPF
Actuarial cost method	Projected unit credit	Projected unit credit
Asset valuation method	5 year average of market value	Market value
Amortization method	Level percent, open	Level dollar, closed
Remaining amortization period	30 years	1 year
Actuarial assumptions:		
Interest rate	8.25%	5.00%
Salary range	7.20	N/A
Cost-of-living adjustments	1.80	N/A
Valuation date	June 30, 2006	June 30, 2006
	PERS	SPRS
Actuarial cost method	Projected unit credit	Projected unit credit
Asset valuation method	5 year average of market value	5 year average of market value
Amortization method	Level percent, open	Level percent, open
Remaining amortization period	30 years	30 years
Actuarial assumptions:		
Interest rate	8.25%	8.25%
Salary range	5.45	5.45
Cost-of-living adjustments	1.80	1.80
Valuation date	June 30, 2006	June 30, 2006
	TPAF	
Actuarial cost method	Projected unit credit	
Asset valuation method	5 year average of market value	
Amortization method	Level percent, open	
Remaining amortization period	30 years	
Actuarial assumptions:		
Interest rate	8.25%	
Salary range	5.45	
Cost-of-living adjustments	1.80	
Valuation date	June 30, 2006	

**STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS**

Required Supplementary Information

Schedule of Funding Progress – Additional Actuarial Information

(Unaudited)

Significant actuarial methods and assumptions used in the most recent 2006 actuarial valuations include the following:

	<u>Health Benefits Program Funds</u>
Actuarial cost method	Projected unit credit
Asset valuation method	Market value
Amortization method	Level percent, open
Payroll growth rate for amortization	4.00%
Remaining amortization period	30 years
Actuarial assumptions:	
Interest rate	4.50% (assuming no prefunding)
Salary range	N/A
Cost-of-living adjustments	N/A
Valuation date	June 30, 2006

For medical benefits, the healthcare cost trend rate assumption initially is at 10.0% or 11.0% (depending on the medical plan) and decreases to a 5.0% long-term trend rate for all medical benefits after twelve years. For prescription drug benefits, the initial healthcare cost trend rate assumption is 12.0%, decreasing to a 5.0% long-term trend rate after fourteen years. For Medicare Part B reimbursement, the healthcare cost trend rate assumption is 6.5% for three years, with a long-term trend rate of 5.0% thereafter.

**STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS**

Required Supplementary Information
Schedule of Employer Contributions
(Unaudited)

	<u>Annual required contribution</u>	<u>Employer contributions⁽¹⁾</u>	<u>Percentage contributed</u>
Judicial Retirement System			
Year ended June 30:			
1998	\$ 14,658,095	13,478,708	92.0%
1999	13,416,851	—	—
2000	13,407,153	—	—
2001	12,816,557	—	—
2002	15,575,602	—	—
2003	16,913,237	8,467,287	50.1
2004	18,720,233	3,355,438	17.9
2005	22,525,773	6,162,076	27.4
2006	23,212,502	7,972,000	34.3
2007	25,174,191	13,355,587	53.1
Consolidated Police and Firemen's Pension Fund			
Year ended June 30:			
1998	\$ —	—	N/A
1999	—	—	N/A
2000	—	—	N/A
2001	—	—	N/A
2002	550,864	506,541	92.0
2003	3,550,445	2,713,914	76.4
2004	5,330,714	1,950,425	36.6
2005	14,329,212	7,046,000	49.2
2006	13,854,805	6,396,222	46.2
2007	8,474,210	1,783,902	21.1

**STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS**

Required Supplementary Information
Schedule of Employer Contributions
(Unaudited)

	<u>Annual required contribution</u>	<u>Employer contributions⁽¹⁾</u>	<u>Percentage contributed</u>
Police and Firemen's Retirement System			
Year ended June 30:			
State:			
1998	\$ 84,167,834	73,587,848	87.4%
1999	93,920,617	23,730,087	25.3
2000	98,974,449	60,521,749	61.1
2001	95,883,272	—	—
2002	103,580,989	—	—
2003	104,998,547	—	—
2004	118,297,232	22,215,429	18.8
2005	161,455,508	49,326,846	30.6
2006	200,902,193	73,541,000	36.6
2007	216,570,332	127,404,777	58.8
Local:			
1998	\$ 238,002,765	223,491,008	93.9%
1999	273,210,113	256,551,862	93.9
2000	275,790,739	214,164,848	77.7
2001	249,746,232	75,670,018	30.3
2002	248,754,078	185,415	0.1
2003	259,969,532	364,850	0.1
2004	316,272,883	53,396,685	16.9
2005	355,229,715	132,740,650	37.4
2006	475,872,193	260,986,583	54.8
2007	584,645,679	422,743,218	72.3

**STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS**

Required Supplementary Information
Schedule of Employer Contributions
(Unaudited)

	<u>Annual required contribution</u>	<u>Employer contributions⁽¹⁾</u>	<u>Percentage contributed</u>
Prison Officers' Pension Fund			
Year ended June 30:			
1998	\$ —	—	N/A
1999	—	—	N/A
2000	—	—	N/A
2001	—	—	N/A
2002	—	—	N/A
2003	—	—	N/A
2004	—	—	N/A
2005	—	—	N/A
2006	—	—	N/A
2007	—	—	N/A
Public Employees' Retirement System⁽²⁾			
Year ended June 30:			
State:			
1998	\$ 78,833,287	—	—%
1999	86,945,810	—	—
2000	103,033,425	—	—
2001	85,078,620	—	—
2002	88,911,187	—	—
2003	44,636,619	—	—
2004	50,365,892	526,505	1.0
2005	115,017,395	463,342	0.4
2006	153,436,981	568,139	0.4
2007	379,946,338	215,629,964	56.8
Local:			
1998	\$ 84,639,988	19,034,673	22.5%
1999	111,886,040	19,599,153	17.5
2000	112,800,127	20,541,177	18.2
2001	88,717,727	21,670,774	24.4
2002	77,254,063	16,174,534	20.9
2003	—	16,987,033	N/A
2004	—	20,882,718	N/A
2005	29,425,853	56,916,883	193.4
2006	102,618,135	141,498,069	137.9
2007	382,344,230	242,230,174	63.4

**STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS**

Required Supplementary Information
Schedule of Employer Contributions
(Unaudited)

	<u>Annual required contribution</u>	<u>Employer contributions⁽¹⁾</u>	<u>Percentage contributed</u>
State Police Retirement System			
Year ended June 30:			
1998	\$ 33,317,314	—	—%
1999	33,116,255	—	—
2000	33,598,843	—	—
2001	35,341,259	—	—
2002	24,990,652	—	—
2003	29,449,164	—	—
2004	37,600,821	—	—
2005	37,943,519	187,909	0.5
2006	47,196,900	12,941,000	27.4
2007	56,502,006	29,875,748	52.9
Teachers' Pension and Annuity Fund			
Year ended June 30:			
1998	\$ 297,219,462	—	—%
1999	314,671,482	258,816,649	82.2
2000	368,904,564	—	—
2001	—	—	N/A
2002	—	—	N/A
2003	194,435,594	—	—
2004	686,284,850	—	—
2005	883,460,483	—	—
2006	1,177,674,055	93,834,999	8.0
2007	1,407,249,580	699,322,200	49.7

**STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS**

Required Supplementary Information
Schedule of Employer Contributions
(Unaudited)

	<u>Annual required contribution⁽³⁾</u>	<u>Employer contributions</u>	<u>Percentage contributed</u>
Health Benefits Program Fund-State			
Year ended June 30: 2007	\$ 1,880,600,000	404,415,000	21.5%
Health Benefits Program Fund-Education-State			
Year ended June 30: 2007	<u>3,067,400,000</u>	<u>659,405,000</u>	<u>21.5%</u>
Total State	4,948,000,000	1,063,820,000	21.5%
Health Benefits Program Fund-Local			
Year ended June 30: 2007	892,200,000	185,536,000	20.8%

Notes to schedule:

- (1) In accordance with Chapter 115, P.L. 1997, available excess valuation assets were used to fund, in full or in part, the required employer pension contributions.
- (2) The local employer pension contributions to PERS from 1998 to 2004 represent the required contributions under the early retirement incentive programs.
- (3) The Annual Required Contribution reflects a 30-year, 4.0% annual increasing amortization of the unfunded actuarial accrued liability. Based on expected benefit payments plus retiree drug subsidy for the applicable fiscal year end.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Schedule of Administrative Expenses

Year ended June 30, 2007

	<u>PERS</u>	<u>TPAF</u>	<u>PFRS</u>	<u>CPFPP</u>	<u>POPF</u>	<u>SPRS</u>	<u>JRS</u>	<u>NJSEDCP</u>	<u>Total</u>
Personnel services:									
Salaries and wages	\$ 9,208,150	5,455,526	2,677,689	13,197	3,298	264,946	106,071	197,827	17,926,704
Employee benefits	3,133,022	1,901,342	875,988	4,530	1,132	80,776	35,477	68,650	6,100,917
Total personnel services	12,341,172	7,356,868	3,553,677	17,727	4,430	345,722	141,548	266,477	24,027,621
Professional services:									
Actuarial services (1)	587,650	227,900	305,467	2,400	668	21,694	3,456	—	1,149,235
Data processing	1,107,000	835,113	214,949	1,490	899	75,266	2,432	25,291	2,262,440
Information systems	1,556,465	1,806,610	742,211	2,474	1,967	31,406	5,003	31,373	4,177,509
Other professional (2)	411,818	209,553	74,431	554	154	5,399	798	170,600	873,307
Medical review (exams/hearings) (1)	317,311	64,288	231,711	—	—	13,100	—	—	626,410
Elections (1)	59,363	—	—	—	—	—	—	—	59,363
Internal audit and legal	573,999	293,027	99,173	779	217	7,043	1,122	—	975,360
Total professional services	4,613,606	3,436,491	1,667,942	7,697	3,905	153,908	12,811	227,264	10,123,624
Communication:									
Travel	4,973	9,993	4,481	3	1	248	4	1,875	21,578
Telephone	150,706	96,936	46,038	205	57	1,849	295	2,800	298,886
Postage	569,120	290,536	198,330	772	215	6,983	1,112	1,000	1,068,068
Motor pool	17,997	9,187	3,109	24	7	221	35	—	30,580
Printing and office	230,907	117,878	82,189	313	87	2,833	451	—	434,658
Total communication	973,703	524,530	334,147	1,317	367	12,134	1,897	5,675	1,853,770
Miscellaneous:									
Office space	1,497,375	974,741	379,193	1,032	565	18,373	2,927	12,000	2,886,206
Maintenance	53,846	37,488	19,303	73	20	661	105	—	111,496
Equipment	15,566	7,947	2,689	21	6	191	30	—	26,450
Other services and charges	11,482	5,862	1,984	16	4	141	22	—	19,511
Total miscellaneous	1,578,269	1,026,038	403,169	1,142	595	19,366	3,084	12,000	3,043,663
Total administrative expenses	\$ 19,506,750	12,343,927	5,958,935	27,883	9,297	531,130	159,340	511,416	39,048,678

(1) Consulting

(2) Portion of Consulting

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Schedule of Investment Expense

Year ended June 30, 2007

	<u>PERS</u>	<u>TPAF</u>	<u>PFRS</u>	<u>CPFPF</u>	<u>POPF</u>	<u>SPRS</u>	<u>JRS</u>	<u>NJSEDCP</u>	<u>Total</u>
Investment expense	\$ 6,445,180	3,221,987	1,091,961	10,226	2,553	78,291	12,721	222,627	11,085,546

**STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS**

Schedule of Expenses for Consultants

Year ended June 30, 2007

	<u>PERS</u>	<u>TPAF</u>	<u>PFRS</u>	<u>CPFPF</u>	<u>POPF</u>	<u>SPRS</u>	<u>JRS</u>	<u>NJSEDCP</u>	<u>Total</u>
Actuarial:									
Buck Consultants	\$ 587,650	—	305,467	2,400	668	21,694	3,456	—	921,335
Milliman	—	227,900	—	—	—	—	—	—	227,900
Medical reviews (exams/hearings)	317,311	64,288	231,711	—	—	13,100	—	—	626,410
Unemployment contract:									
TALX	31,283	15,975	5,404	—	—	383	61	—	53,106
Elections:									
Corporate marketing	59,363	—	—	—	—	—	—	—	59,363
Total expenses for consultants	\$ <u>995,607</u>	<u>308,163</u>	<u>542,582</u>	<u>2,400</u>	<u>668</u>	<u>35,177</u>	<u>3,517</u>	<u>—</u>	<u>1,888,114</u>

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Schedule of Fiduciary Net Assets
Fiduciary Funds

June 30 2007

	Pension Trust Funds	Health Benefits Program Funds	Total
Assets:			
Cash and cash equivalents	\$ 1,022,277	374,739	1,397,016
Securities lending collateral	18,488,147,522	—	18,488,147,522
Investments, at fair value:			
Cash Management Fund	3,308,071,472	910,103,892	4,218,175,364
Bonds	120,670,093	—	120,670,093
Common Pension Fund A	33,235,413,335	—	33,235,413,335
Common Pension Fund B	20,937,806,815	—	20,937,806,815
Common Pension Fund D	17,713,301,235	—	17,713,301,235
Common Pension fund E	6,070,474,457	—	6,070,474,457
Common and preferred stocks	176,685,426	—	176,685,426
Mortgages	1,308,448,286	—	1,308,448,286
U.S. government obligations	440,449,436	—	440,449,436
Domestic equities	1,273,088,973	—	1,273,088,973
International equities	156,071,071	—	156,071,071
Other fixed income securities	35,155,805	—	35,155,805
Total investments	<u>84,775,636,404</u>	<u>910,103,892</u>	<u>85,685,740,296</u>
Receivables:			
Contributions:			
Members	204,532,623	1,031,121	205,563,744
Employers	2,709,463,244	106,337,844	2,815,801,088
Accrued interest and dividends	527,520,897	—	527,520,897
Members' loans	1,155,031,652	—	1,155,031,652
Other	20,305,994	1,206,170	21,512,164
Total receivables	<u>4,616,854,410</u>	<u>108,575,135</u>	<u>4,725,429,545</u>
Total assets	<u>\$ 107,881,660,613</u>	<u>1,019,053,766</u>	<u>108,900,714,379</u>
Liabilities:			
Accounts payable and accrued expenses	\$ 47,687,828	467,732,726	515,420,554
Retirement benefits payable	137,726,573	—	137,726,573
Non-contributory group insurance premiums payable	11,073,293	—	11,073,293
Cash overdraft	2,832,436	89,940	2,922,376
Securities lending collateral and rebates payable	18,488,147,522	—	18,488,147,522
Total liabilities	<u>18,687,467,652</u>	<u>467,822,666</u>	<u>19,155,290,318</u>
Net assets held in trust for pension and health benefits	<u>\$ 89,194,192,961</u>	<u>551,231,100</u>	<u>89,745,424,061</u>

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Combining Schedule of Fiduciary Net Assets
Pension Trust and Health Benefit Program Fund:

June 30, 2007

	Alternate Benefit Long term Disability Fund	Central Pension Fund	Consolidated Police and Firemen's Pension Fund	Deferred Compensation Fund	Judicial Retirement System	Police and Firemen's Retirement System	Prison Officers' Pension Fund	Public Employees' Retirement System	State Police Retirement System	Supplemental Annuity Collective Trust	Teachers' Pension and Annuity Fund	Health Benefits Program Fund State	Health Benefits Program Fund Local	Total
Assets:														
Cash	\$ —	27,172	131,585	23,422	32,274	143,305	340,478	—	—	—	324,041	—	374,739	1,397,016
Securities lending collateral	—	—	8,274	—	74,379,660	3,887,547,737	4,553	6,189,377,299	463,646,660	—	7,873,183,339	—	—	18,488,147,522
Investments, at fair value:														
Cash Management Fund	1,913,525	26,975	14,176,800	162,407,735	27,345,034	870,697,795	13,099,603	1,042,670,402	73,208,520	7,122,664	1,095,402,419	134,549,125	775,554,767	4,218,175,364
Bonds	—	—	—	—	—	—	—	72,403,031	—	—	48,267,062	—	—	120,670,093
Common Pension Fund A	—	—	—	—	125,480,285	7,734,741,833	—	10,361,222,471	804,804,189	—	14,209,164,557	—	—	33,235,413,335
Common Pension Fund B	—	—	—	—	85,584,121	4,166,503,153	—	7,152,080,186	537,129,252	—	8,996,510,103	—	—	20,937,806,815
Common Pension Fund D	—	—	—	—	77,574,526	4,137,994,344	—	5,649,171,869	434,567,085	—	7,413,993,411	—	—	17,713,301,235
Common Pension Fund E	—	—	—	—	52,121,374	1,552,048,426	—	2,123,723,024	175,921,487	—	2,166,660,146	—	—	6,070,474,457
Common and Preferred Stocks	—	—	—	—	—	—	—	—	—	176,685,426	—	—	—	176,685,426
Mortgages	—	—	411,158	—	1,947,625	1,166,343,866	226,247	60,626,217	3,735,807	—	75,157,366	—	—	1,308,448,286
U.S. government obligations	—	—	—	440,449,436	—	—	—	—	—	—	—	—	—	440,449,436
Domestic equities	—	—	—	1,273,088,973	—	—	—	—	—	—	—	—	—	1,273,088,973
International equities	—	—	—	156,071,071	—	—	—	—	—	—	—	—	—	156,071,071
Other fixed income securities	—	—	—	35,155,805	—	—	—	—	—	—	—	—	—	35,155,805
Total investments	1,913,525	26,975	14,587,958	2,067,173,020	370,052,965	19,628,329,417	13,325,850	26,461,897,200	2,029,366,340	183,808,090	34,005,155,064	134,549,125	775,554,767	85,685,740,296
Receivables:														
Contributions:														
Members	—	—	—	—	67,030	53,598,187	—	74,639,159	1,086,577	519,092	74,622,578	556,909	474,212	205,563,744
Employers	—	—	—	—	—	1,367,331,659	—	1,258,945,811	29,095	—	83,156,679	26,114,160	80,223,684	2,815,801,088
Accrued interest and dividends	—	26	2,780	1,990,572	2,355,960	117,119,971	—	172,961,771	13,419,505	210,956	219,459,356	—	—	527,520,897
Members' loans	—	—	—	—	789,885	424,055,800	—	479,776,089	28,254,602	—	222,155,276	—	—	1,155,031,652
Other	—	—	1,670,297	—	74,719	13,603,365	1,415	3,325,804	—	16,443	1,613,951	213,538	992,632	21,512,164
Total receivables	—	26	1,673,077	1,990,572	3,287,594	1,975,708,982	1,415	1,989,648,634	42,789,779	746,491	601,007,840	26,884,607	81,690,528	4,725,429,545
Total assets	\$ 1,913,525	54,173	16,400,894	2,069,187,014	447,752,493	25,491,729,441	13,672,296	34,640,923,133	2,535,802,779	184,554,581	42,479,670,284	161,433,732	857,620,034	108,900,714,379
Liabilities:														
Accounts payable and accrued expenses	\$ —	46,587	17,910	1,038,750	9,563	1,886,718	2,477	24,492,545	57,952	36,759	20,098,567	191,630,448	276,102,278	515,420,554
Retirement benefits payable	—	7,586	278,115	—	1,012,722	30,318,907	165,905	44,458,326	2,797,966	1,291,428	57,395,618	—	—	137,726,573
Non-contributory group insurance premiums payable	—	—	—	—	—	1,992,374	—	6,751,294	—	—	2,329,625	—	—	11,073,293
Cash overdraft	—	—	—	—	—	—	—	797,405	39,287	1,995,744	—	89,940	—	2,922,376
Securities lending collateral and rebates payable	—	—	8,274	—	74,379,660	3,887,547,737	4,553	6,189,377,299	463,646,660	—	7,873,183,339	—	—	18,488,147,522
Total liabilities	—	54,173	304,299	1,038,750	75,401,945	3,921,745,736	172,935	6,265,876,869	466,541,865	3,323,931	7,953,007,149	191,720,388	276,102,278	19,155,290,318
Net assets held in trust for pension and health benefits	\$ 1,913,525	—	16,096,595	2,068,148,264	372,350,548	21,569,983,705	13,499,361	28,375,046,264	2,069,260,914	181,230,650	34,526,663,135	(30,286,656)	581,517,756	89,745,424,061

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Schedule of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2007

	Pension Trust Funds	Health Benefits Program Funds	Total
Additions:			
Contributions:			
Members	\$ 1,687,006,457	161,113,500	1,848,119,957
Employers	2,240,952,925	3,386,507,653	5,627,460,578
Other	8,528,960	—	8,528,960
Total contributions	<u>3,936,488,342</u>	<u>3,547,621,153</u>	<u>7,484,109,495</u>
Investment income:			
Net appreciation in fair value of investments	9,639,187,168	948,785	9,640,135,953
Interest	1,752,804,971	49,259,171	1,802,064,142
Dividends	708,708,122	—	708,708,122
	<u>12,100,700,261</u>	<u>50,207,956</u>	<u>12,150,908,217</u>
Less: investment expense	11,085,546	—	11,085,546
Net investment income	<u>12,089,614,715</u>	<u>50,207,956</u>	<u>12,139,822,671</u>
Total additions	<u>16,026,103,057</u>	<u>3,597,829,109</u>	<u>19,623,932,166</u>
Deductions:			
Benefits	5,927,567,004	3,601,096,822	9,528,663,826
Refunds of contributions	120,147,063	—	120,147,063
Administrative expenses	39,048,678	7,353,509	46,402,187
Total deductions	<u>6,086,762,745</u>	<u>3,608,450,331</u>	<u>9,695,213,076</u>
Net increase (decrease)	9,939,340,312	(10,621,222)	9,928,719,090
Net assets held in trust for pension and health benefits:			
Beginning of year	<u>79,254,852,649</u>	<u>561,852,322</u>	<u>79,816,704,971</u>
End of year	<u>\$ 89,194,192,961</u>	<u>551,231,100</u>	<u>89,745,424,061</u>

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Combining Schedule of Changes In Fiduciary Net Assets
Pension Trust and Health Benefit Program Fund

Year ended June 30, 2007

	Alternate Benefit Long term Disability Fund	Central Pension Fund	Consolidated Police and Firemen's Pension Fund	Deferred Compensation Fund	Judicial Retirement System	Police and Firemen's Retirement System	Prison Officers' Pension Fund	Public Employees' Retirement System	State Police Retirement System	Supplemental Annuity Collective Trust	Teachers' Pension and Annuity Fund	Health Benefits Program Fund State	Health Benefits Program Fund Local	Total
Additions:														
Contributions:														
Members	\$ —	—	—	173,352,442	2,201,527	307,335,360	—	654,493,521	17,861,043	7,764,788	523,997,776	79,768,468	81,345,032	1,848,119,957
Employers	2,613,675	426,071	1,809,773	—	12,741,898	825,687,477	—	674,629,437	29,285,276	—	693,759,318	1,289,772,833	2,096,734,820	5,627,460,578
Other	—	28,234	7,362,588	—	—	—	1,138,138	—	—	—	—	—	—	8,528,960
Total contributions	<u>2,613,675</u>	<u>454,305</u>	<u>9,172,361</u>	<u>173,352,442</u>	<u>14,943,425</u>	<u>1,133,022,837</u>	<u>1,138,138</u>	<u>1,329,122,958</u>	<u>47,146,319</u>	<u>7,764,788</u>	<u>1,217,757,094</u>	<u>1,369,541,301</u>	<u>2,178,079,852</u>	<u>7,484,109,495</u>
Investment income:														
Net appreciation (depreciation) in fair value of investments	(39)	—	132,848	222,642,662	41,849,434	2,204,650,600	65,642	3,014,223,973	233,324,427	29,171,768	3,893,125,853	538,358	410,427	9,640,135,953
Interest	146,565	6,264	489,317	14,433,257	7,491,489	411,094,785	649,096	581,860,217	41,205,946	355,615	695,072,420	14,442,105	34,817,066	1,802,064,142
Dividends	—	—	—	11,924,994	2,887,195	162,505,272	—	221,326,372	17,079,357	3,036,368	289,948,564	—	—	708,708,122
	146,526	6,264	622,165	249,000,913	52,228,118	2,778,250,657	714,738	3,817,410,562	291,609,730	32,563,751	4,878,146,837	14,980,463	35,227,493	12,150,908,217
Less: investment expense	—	—	10,226	222,627	12,721	1,091,961	2,553	6,445,180	78,291	—	3,221,987	—	—	11,085,546
Net investment income	<u>146,526</u>	<u>6,264</u>	<u>611,939</u>	<u>248,778,286</u>	<u>52,215,397</u>	<u>2,777,158,696</u>	<u>712,185</u>	<u>3,810,965,382</u>	<u>291,531,439</u>	<u>32,563,751</u>	<u>4,874,924,850</u>	<u>14,980,463</u>	<u>35,227,493</u>	<u>12,139,822,671</u>
Total additions	<u>2,760,201</u>	<u>460,569</u>	<u>9,784,300</u>	<u>422,130,728</u>	<u>67,158,822</u>	<u>3,910,181,533</u>	<u>1,850,323</u>	<u>5,140,088,340</u>	<u>338,677,758</u>	<u>40,328,539</u>	<u>6,092,681,944</u>	<u>1,384,521,764</u>	<u>2,213,307,345</u>	<u>19,623,932,166</u>
Deductions:														
Benefits	2,641,791	426,800	11,873,928	61,812,001	32,941,192	1,253,343,568	2,356,383	1,977,034,746	110,912,899	20,670,715	2,453,552,981	1,597,684,686	2,003,412,136	9,528,663,826
Refunds of contributions	—	33,769	—	—	—	6,081,982	—	77,345,336	176,844	—	36,509,132	—	—	120,147,063
Administrative expenses	—	—	27,883	511,416	159,340	5,958,935	9,297	19,506,750	531,130	—	12,343,927	3,126,203	4,227,306	46,402,187
Total deductions	<u>2,641,791</u>	<u>460,569</u>	<u>11,901,811</u>	<u>62,323,417</u>	<u>33,100,532</u>	<u>1,265,384,485</u>	<u>2,365,680</u>	<u>2,073,886,832</u>	<u>111,620,873</u>	<u>20,670,715</u>	<u>2,502,406,040</u>	<u>1,600,810,889</u>	<u>2,007,639,442</u>	<u>9,695,213,076</u>
Net increase (decrease)	118,410	—	(2,117,511)	359,807,311	34,058,290	2,644,797,048	(515,357)	3,066,201,508	227,056,885	19,657,824	3,590,275,904	(216,289,125)	205,667,903	9,928,719,090
Net assets held in trust for pension and health benefits														
Beginning of year	1,795,115	—	18,214,106	1,708,340,953	338,292,258	18,925,186,657	14,014,718	25,308,844,756	1,842,204,029	161,572,826	30,936,387,231	186,002,469	375,849,853	79,816,704,971
End of year	<u>\$ 1,913,525</u>	<u>—</u>	<u>16,096,595</u>	<u>2,068,148,264</u>	<u>372,350,548</u>	<u>21,569,983,705</u>	<u>13,499,361</u>	<u>28,375,046,264</u>	<u>2,069,260,914</u>	<u>181,230,650</u>	<u>34,526,663,135</u>	<u>(30,286,656)</u>	<u>581,517,756</u>	<u>89,745,424,061</u>

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Combining Schedule of Balance Sheet Information
Fiduciary Funds – Agency Funds

June 30, 2007

	Alternate Benefit Program Fund	Pension Adjustment Fund	Dental Expense Program Fund	Total Agency Funds
Assets:				
Cash and cash equivalents	\$ —	692,405	—	692,405
Investments, at fair value:				
Cash Management Fund	3,646,750	3,225,781	19,767,770	26,640,301
Total investments	<u>3,646,750</u>	<u>3,225,781</u>	<u>19,767,770</u>	<u>26,640,301</u>
Receivables:				
State related employer contributions	—	1,801,378	—	1,801,378
Other contributions	26,542,749	10,237	1,728,091	28,281,077
Total receivables	<u>26,542,749</u>	<u>1,811,615</u>	<u>1,728,091</u>	<u>30,082,455</u>
Total assets	<u>\$ 30,189,499</u>	<u>5,729,801</u>	<u>21,495,861</u>	<u>57,415,161</u>
Liabilities:				
Accounts payable and accrued expenses	\$ 27,237,632	—	21,131,467	48,369,099
Cash overdraft	1,495,772	—	364,394	1,860,166
Assets held for local contributing employers	—	3,659,658	—	3,659,658
Pension adjustment payroll payable	—	589,500	—	589,500
Due to State of New Jersey	1,456,095	434,398	—	1,890,493
Due to other funds	—	1,046,245	—	1,046,245
Total liabilities	<u>\$ 30,189,499</u>	<u>5,729,801</u>	<u>21,495,861</u>	<u>57,415,161</u>

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Schedule of Changes in Fiduciary Net Assets
Agency Funds

Year ended June 30, 2007

	<u>Alternate Benefit Program Fund</u>	<u>Pension Adjustment Fund</u>	<u>Dental Expense Program Fund</u>	<u>Total</u>
Additions:				
Contributions:				
Members	\$ 805,344	—	65,176,517	65,981,861
Employers	145,797,690	8,883,029	39,006,222	193,686,941
Total contributions	<u>146,603,034</u>	<u>8,883,029</u>	<u>104,182,739</u>	<u>259,668,802</u>
Investment income:				
Net depreciation in fair value of investments	(67)	(71)	(411)	(549)
Interest	208,136	420,209	988,272	1,616,617
Total investment income	<u>208,069</u>	<u>420,138</u>	<u>987,861</u>	<u>1,616,068</u>
Total additions	<u>146,811,103</u>	<u>9,303,167</u>	<u>105,170,600</u>	<u>261,284,870</u>
Deductions:				
Benefits	145,347,004	8,519,028	108,474,036	262,340,068
Refunds of contributions and to the general fund	1,464,099	784,139	(3,303,436)	(1,055,198)
Total deductions	<u>146,811,103</u>	<u>9,303,167</u>	<u>105,170,600</u>	<u>261,284,870</u>
Change in net assets	—	—	—	—
Net assets – Beginning of year, as restated	—	—	—	—
Net assets – End of year	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>—</u>

**STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS**

Combining Schedule of Fiduciary Net Assets
Health Benefit Program Fund State

June 30, 2007

	Health Benefits Program Fund State	Prescription Drug Program Fund State	PERS Post- Retirement Medical Fund	Total Health Benefits Program Fund State
Assets:				
Investments, at fair value:				
Cash Management Fund	\$ 115,059,321	18,369,134	1,120,670	134,549,125
Total investments	<u>115,059,321</u>	<u>18,369,134</u>	<u>1,120,670</u>	<u>134,549,125</u>
Receivables:				
Contributions:				
Members	507,633	49,276	—	556,909
Employers	26,094,710	19,450	—	26,114,160
Other	185,818	27,720	—	213,538
Total receivables	<u>26,788,161</u>	<u>96,446</u>	<u>—</u>	<u>26,884,607</u>
Total assets	<u>\$ 141,847,482</u>	<u>18,465,580</u>	<u>1,120,670</u>	<u>161,433,732</u>
Liabilities:				
Accounts payable and accrued expenses	\$ 184,944,910	6,685,538	—	191,630,448
Cash overdraft	138,529	(48,589)	—	89,940
Total liabilities	<u>185,083,439</u>	<u>6,636,949</u>	<u>—</u>	<u>191,720,388</u>
Net assets held in trust for health benefits	<u>\$ (43,235,957)</u>	<u>11,828,631</u>	<u>1,120,670</u>	<u>(30,286,656)</u>

**STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS**

Combining Schedule of Changes In Fiduciary Net Assets Information
Health Benefits Program Fund State

Year ended June 30, 2007

	Health Benefits Program Fund State	Prescription Drug Program Fund State	PERS Post- Retirement Medical Fund	Eliminations	Total Health Benefits Program Fund State
Additions:					
Contributions:					
Members	\$ 78,039,233	1,729,235	—	—	79,768,468
Employers	1,086,163,519	189,797,720	224,307,808	(210,496,214)	1,289,772,833
Total contributions	<u>1,164,202,752</u>	<u>191,526,955</u>	<u>224,307,808</u>	<u>(210,496,214)</u>	<u>1,369,541,301</u>
Investment income:					
Net appreciation (depreciation) in fair value of investments	(2,721)	(1,048)	542,127	—	538,358
Interest	10,036,421	4,405,684	—	—	14,442,105
Net investment income	<u>10,033,700</u>	<u>4,404,636</u>	<u>542,127</u>	<u>—</u>	<u>14,980,463</u>
Total additions	<u>1,174,236,452</u>	<u>195,931,591</u>	<u>224,849,935</u>	<u>(210,496,214)</u>	<u>1,384,521,764</u>
Deductions:					
Benefits	1,326,788,276	254,493,027	226,899,597	(210,496,214)	1,597,684,686
Administrative expenses	3,126,203	—	—	—	3,126,203
Total deductions	<u>1,329,914,479</u>	<u>254,493,027</u>	<u>226,899,597</u>	<u>(210,496,214)</u>	<u>1,600,810,889</u>
Net decrease	(155,678,027)	(58,561,436)	(2,049,662)	—	(216,289,125)
Net assets held in trust for health benefits:					
Beginning of year	112,442,070	70,390,067	3,170,332	—	186,002,469
End of year	<u>\$ (43,235,957)</u>	<u>11,828,631</u>	<u>1,120,670</u>	<u>—</u>	<u>(30,286,656)</u>

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Combining Schedule of Fiduciary Net Assets Information
Health Benefits Program Fund Local

June 30, 2007

	Health Benefits Program Fund Local	Prescription Drug Program Fund Local	TPAF Post- Retirement Medical Fund	Total Health Benefits Program Fund Local
Assets:				
Cash	\$ 370,599	4,140	—	374,739
Investments, at fair value:				
Cash Management Fund	743,558,426	31,545,311	451,030	775,554,767
Total investments	743,558,426	31,545,311	451,030	775,554,767
Receivables:				
Contributions:				
Members	473,447	765	—	474,212
Employers	74,786,483	5,437,201	—	80,223,684
Other	153,601	839,031	—	992,632
Total receivables	75,413,531	6,276,997	—	81,690,528
Total assets	\$ 819,342,556	37,826,448	451,030	857,620,034
Liabilities:				
Accounts payable and accrued expenses	\$ 273,902,278	2,200,000	—	276,102,278
Total liabilities	273,902,278	2,200,000	—	276,102,278
Net assets held in trust for health benefits	\$ 545,440,278	35,626,448	451,030	581,517,756

**STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS**

Combining Schedule of Changes In Fiduciary Net Assets
Health Benefit Program Fund-Local

Year ended June 30, 2007

	Health Benefits Program Fund Local	Prescription Drug Program Fund Local	TPAF Post- Retirement Medical Fund	Eliminations	Total Health Benefits Program Fund Local
Additions:					
Contributions:					
Members	\$ 80,767,565	577,467	—	—	81,345,032
Employers	1,958,407,057	90,801,190	592,708,536	(545,181,963)	2,096,734,820
Total contributions	<u>2,039,174,622</u>	<u>91,378,657</u>	<u>592,708,536</u>	<u>(545,181,963)</u>	<u>2,178,079,852</u>
Investment income:					
Net appreciation (depreciation) in fair value of investments	(15,495)	(262)	426,184	—	410,427
Interest	33,715,645	1,101,421	—	—	34,817,066
Net investment income	<u>33,700,150</u>	<u>1,101,159</u>	<u>426,184</u>	<u>—</u>	<u>35,227,493</u>
Total additions	<u>2,072,874,772</u>	<u>92,479,816</u>	<u>593,134,720</u>	<u>(545,181,963)</u>	<u>2,213,307,345</u>
Deductions:					
Benefits	1,867,510,457	85,907,650	595,175,992	(545,181,963)	2,003,412,136
Administrative expenses	4,227,306	—	—	—	4,227,306
Total deductions	<u>1,871,737,763</u>	<u>85,907,650</u>	<u>595,175,992</u>	<u>(545,181,963)</u>	<u>2,007,639,442</u>
Net increase (decrease)	201,137,009	6,572,166	(2,041,272)	—	205,667,903
Net assets held in trust for health benefits:					
Beginning of year	344,303,269	29,054,282	2,492,302	—	375,849,853
End of year	<u>\$ 545,440,278</u>	<u>35,626,448</u>	<u>451,030</u>	<u>—</u>	<u>581,517,756</u>

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Combining Schedule of Balance Sheet Information
Agency Fund - Dental Expense Program

June 30, 2007

	State	Local	Total Agency Fund - Dental Expense Program
Assets:			
Investments, at fair value:			
Cash Management Fund	\$ 18,463,454	1,304,316	19,767,770
Total investments	18,463,454	1,304,316	19,767,770
Receivables:			
Contributions	1,711,120	16,971	1,728,091
Total receivables	1,711,120	16,971	1,728,091
Total assets	\$ 20,174,574	1,321,287	21,495,861
Liabilities:			
Accounts payable and accrued expenses	\$ 20,150,333	981,134	21,131,467
Cash overdraft	24,241	340,153	364,394
Total liabilities	\$ 20,174,574	1,321,287	21,495,861

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Combining Schedule of Changes in Fiduciary Net Assets Information
Agency Fund - Dental Expense Program

Year ended June 30, 2007

	<u>State</u>	<u>Local</u>	<u>Total Agency Fund - Dental Expense Program</u>
Additions:			
Contributions:			
Members	\$ 44,635,094	20,541,423	65,176,517
Employers	37,950,886	1,055,336	39,006,222
Total contributions	<u>82,585,980</u>	<u>21,596,759</u>	<u>104,182,739</u>
Investment income:			
Net depreciation in fair value of investments	(390)	(21)	(411)
Interest	938,858	49,414	988,272
Total investment income	<u>938,468</u>	<u>49,393</u>	<u>987,861</u>
Total additions	<u>83,524,448</u>	<u>21,646,152</u>	<u>105,170,600</u>
Deductions:			
Benefits	87,060,139	21,413,897	108,474,036
Refunds of contributions and to the general fund	(3,535,691)	232,255	(3,303,436)
Total deductions	<u>83,524,448</u>	<u>21,646,152</u>	<u>105,170,600</u>
Change in net assets	—	—	—
Net assets – Beginning of year, as restated	<u>—</u>	<u>—</u>	<u>—</u>
Net assets – End of year	<u>\$ —</u>	<u>—</u>	<u>—</u>