

**STATE OF NEW JERSEY
CENTRAL PENSION FUND**

Financial Statements

June 30, 2005 and 2004

(With Independent Auditors' Report Thereon)

Independent Auditors' Report

New Jersey State House Commission
State of New Jersey
Central Pension Fund:

We have audited the accompanying statements of fiduciary net assets of the State of New Jersey Central Pension Fund (the Fund) as of June 30, 2005 and 2004, and the related statements of changes in fiduciary net assets for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State of New Jersey Central Pension Fund as of June 30, 2005 and 2004, and the changes in its financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures to this information as prescribed by professional standards, 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.

KPMG LLP

December 14, 2005

**STATE OF NEW JERSEY
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Management's Discussion and Analysis

June 30, 2005 and 2004

Our discussion and analysis of the Central Pension Fund (the Fund)'s financial performance provides an overview of the Fund's financial activities for the fiscal year ended June 30, 2005 and 2004. Please read it in conjunction with the basic financial statements and financial statement footnotes which follow this discussion.

FINANCIAL HIGHLIGHTS

2005 - 2004

- Additions for the year were \$458,402, which are comprised of employer contributions of \$456,126 including contributions from the Pension Adjustment Fund, and investment income of \$2,276.
- Deductions for the year were \$458,402 which represent benefit and refund payments.

2004 - 2003

- Additions for the year were \$455,732, which are comprised of employer contributions of \$454,945 including contributions from the Pension Adjustment Fund, and investment income of \$787.
- Deductions for the year were \$455,732, which represent benefit and refund payments.

THE STATEMENTS OF FIDUCIARY NET ASSETS AND THE STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS

This annual report consists of two financial statements: *The Statements of Fiduciary Net Assets* and *The Statements of Changes in Fiduciary Net Assets*. These financial statements report information about the Fund and about its activities to help you assess whether the Fund, as a whole, has improved or declined as a result of the year's activities. The financial statements were prepared using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the period they are earned, and expenses are recorded in the year they are incurred, regardless of when cash is received or paid.

The Statements of Fiduciary Net Assets show the balances in all of the assets and liabilities of the Fund at the end of the fiscal year. The difference between assets and liabilities represents the Fund's fiduciary net assets. Over time, increases or decreases in the Fund's fiduciary net assets provide one indication of whether the financial health of the Fund is improving or declining. *The Statements of Changes in Fiduciary Net Assets* show the results of financial operations for the year. The statements provide an explanation for the change in the Fund's fiduciary net assets since the prior year. These two financial statements should be reviewed along with the information contained in the financial statement footnotes, including the required supplementary schedules, to determine whether the Fund is becoming financially stronger or weaker.

FINANCIAL ANALYSIS

STATEMENTS OF FIDUCIARY NET ASSETS

2005 - 2004

	2005	2004	Increase (Decrease)
Assets	\$55,152	\$61,777	\$(6,625)
Liabilities	55,152	61,777	(6,625)
Net Assets	\$0	\$0	\$0

The Fund's assets mainly consist of cash and investments. Between fiscal years 2004 and 2005, total assets decreased by 10.7% due to a decrease in fair value of Cash Management Fund.

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Management's Discussion and Analysis, Continued

Liabilities mainly consist of pension benefit payments owed to retirees and beneficiaries. Total liabilities decreased by 10.7% mainly due to a decrease in contribution back to the State. Fewer retiree and beneficiaries are receiving benefits compared to last year.

The Fund has no net assets held in trust for pension benefits.

2004 - 2003

	2004	2003	Increase (Decrease)
Assets	\$61,777	\$40,020	\$21,757
Liabilities	61,777	40,020	21,757
Net Assets	\$0	\$0	\$0

Between fiscal years 2003 and 2004, total assets increased by 54.4% due to an increase in fair value of Cash Management Fund.

Total liabilities increased by 54.4% mainly due to an increase in contribution back to the State. Fewer retiree and beneficiaries are receiving benefits compared to last year.

The Fund has no net assets held in trust for pension benefits.

STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS

ADDITIONS TO FIDUCIARY NET ASSETS

2005 - 2004

	2005	2004	Increase (Decrease)
Employer Contributions	\$456,126	\$454,945	\$1,181
Investment	2,276	787	1,489
Totals	\$458,402	\$455,732	\$2,670

Additions consist of contributions from the State to cover pension benefit payments, contributions from the Pension Adjustment Fund to cover cost-of-living adjustments, and earnings from investment activities. Total contributions increased by 0.3% between fiscal year 2004 and 2005. Investment income increased by 189.2% due to a higher interest rate.

2004 - 2003

	2004	2003	Increase (Decrease)
Employer Contributions	\$454,945	\$423,982	\$30,963
Investment	787	955	(168)
Totals	\$455,732	\$424,937	\$30,795

Total contributions increased by 7.3% between fiscal year 2003 and 2004. Investment income decreased by 17.6% due to a low interest rate.

DEDUCTIONS FROM FIDUCIARY NET ASSETS

2005 - 2004

	2005	2004	Increase (Decrease)
Benefits	\$443,764	\$435,528	\$8,236
Refunds & Adjustments	14,638	20,204	(5,566)
Totals	\$458,402	\$455,732	\$2,670

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Management's Discussion and Analysis, Continued

Deductions consist of pension benefit payments to retirees and beneficiaries and refunds of contributions. Benefit expense increased by 1.9%. Refunds, representing the excess of contributions and investment interest over benefit payments, decreased by 27.6%.

2004 - 2003

	2004	2003	Increase (Decrease)
Benefits	\$435,528	\$420,483	\$15,045
Refunds & Adjustments	20,204	4,454	15,750
Totals	\$455,732	\$424,937	\$30,795

Benefit expense increased by 3.6% due to Chapter 134, P.L. 2002, effective January 9, 2004, which revised the statute authorizing municipalities to pay pensions to the widow and minor children of local volunteer personnel who died in the course of volunteer service. Refunds, representing the excess of contributions and investment interest over benefit payments, increased by 353.6%.

RETIREMENT SYSTEM AS A WHOLE

The Fund is maintained on a pay-as-you-go basis. In fiscal year 2005 and 2004, sufficient funding was provided to meet the benefit obligations incurred by the Fund.

CONTACTING SYSTEM FINANCIAL MANAGEMENT

The financial report is designed to provide our members, beneficiaries, investors and other interested parties with a general overview of the Fund's finances and to show the Fund's 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
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Notes to Financial Statements

June 30, 2005 and 2004

(1) DESCRIPTION OF THE FUND

The State of New Jersey Central Pension Fund (the Fund) is a "pay-as-you-go" single-employer defined benefit plan for payment of benefits under the various state statutes. The Fund is included along with other state-administered pension trust and agency funds in the basic financial statements of the State of New Jersey.

The Fund's designated purpose is to provide retirement allowances under the following series of noncontributory pension acts:

Veterans Act Pensioners	N.J.S.A. 43:4-1 to 4-6
Heath Pension Act	N.J.S.A. 43:5-1 to 5-4
Pension to Widows of Governors	N.J.S.A. 43:8-2
Disabled Veterans Pension; Surviving Spouse of Veterans	N.J.S.A. 38:18-1 to 18-2 and N.J.S.A. 38:18A-1
Special Act	N.J.S.A. 43:5A to 5A-1

Each of the various statutes comprising the Fund prescribes the condition for payment of such pension and designates the agencies or officers having the authority to grant pensions thereunder.

The New Jersey State House Commission and the New Jersey Department of Defense are responsible for determining who is eligible to participate in the Fund. At June 30, 2005 and 2004, the number of retirees and beneficiaries receiving benefits from the Fund totaled 341 and 350, respectively. There are no active employees covered by the Fund.

Benefit Provisions:

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.

Pension Adjustment Program:

Pursuant to N.J.S.A. 43:3B, Health Act and Veterans Act pensioners 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 and paid from the State of New Jersey Pension Adjustment Fund which is maintained on a "pay-as-you-go" basis by state appropriation. These benefits are not funded through the Central Pension Fund.

Significant Legislation:

Chapter 134, P.L. 2002, revised the statute authorizing municipalities to pay pensions to the widow and minor children of local volunteer personnel who died in the course of volunteer service, effective January 9, 2004.

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Notes to Financial Statements, Continued

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus and Basis of Accounting:

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Fund is accounted for using an economic resources measurement focus. The Fund that focuses on total economic resources employs the accrual basis of accounting, which recognizes increases and decreases in economic resources as soon as the underlying event or transaction occurs.

The accrual basis of accounting is used for measuring financial position and changes in fiduciary net assets of the Fund. 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 Fund conform to the provisions of Governmental Accounting Standards Board (GASB) Statement No. 25, "Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contributions Plans." Employer contributions are recognized when payable to the Fund. Benefits and refunds are recognized when payable in accordance with the terms of the Fund.

Investment Valuation:

State of New Jersey Cash Management Fund units are stated at fair value.

The State of New Jersey, Department of the Treasury, Division of Investment, issues publicly available financial reports that include the financial statements of the State of New Jersey Cash Management Funds. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Investment, P.O. Box 290, Trenton, New Jersey 08625-0290.

The State of New Jersey Division of Investment, under the jurisdiction of the State Investment Council, has the investment responsibility for all funds administered by the State of New Jersey Division of Pensions and Benefits. All investments must conform to standards set by state law.

The purchase, sale, receipt of income, and other transactions affecting investments are governed by custodial agreements between the Fund, through the State Treasurer, and custodian banks as agents for the Fund. State laws and policies set forth the requirements of such agreements and other particulars as to the size of the custodial institutions, amount of the portfolio to be covered by the agreements, and other pertinent matters.

Investments:

The Fund' investments as of June 30, 2005 consist of an interest in the Cash Management Fund. The Cash Management Fund is not evidenced by securities that exist in physical or book entry form held by the Fund, and it is unrated.

(3) CONTRIBUTIONS

The State of New Jersey makes an annual appropriation payment to the Fund 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 amounts paid by the State of New Jersey for the fiscal years ended June 30, 2005 and 2004 were \$431 thousand and \$425 thousand, respectively.

(4) INCOME TAX STATUS

Based on a 1986 declaration of the Attorney General of the State of New Jersey, the Fund is a qualified plan as described in Section 401(a) of the Internal Revenue Code.