



**STATE OF NEW JERSEY
CONSOLIDATED POLICE AND FIREMEN'S
PENSION FUND**

Financial Statements and Schedules

June 30, 2008 and 2007

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 402
301 Carnegie Center
Princeton, NJ 08540-6227

Independent Auditors' Report

The Board of Trustees
State of New Jersey
Consolidated Police and Firemen's Pension Fund:

We have audited the accompanying statements of fiduciary net assets of the State of New Jersey Consolidated Police and Firemen's Pension Fund (the Fund) as of June 30, 2008 and 2007, 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 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 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 Consolidated Police and Firemen's Pension Fund as of June 30, 2008 and 2007, and the changes in its financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 1 to the financial statements, the Fund adopted Governmental Accounting Standards Board (GASB) Statement No. 50, *Pension Disclosures* in 2008.

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 audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Fund's basic financial statements. The 2008 schedule of changes in fiduciary net assets by fund (schedule 3) is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Fund. Such information has been subjected to the auditing procedures applied in the audit of the 2008 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2008 basic financial statements taken as a whole.

KPMG LLP

April 29, 2009

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Management's Discussion and Analysis

June 30, 2008 and 2007

Our discussion and analysis of the financial performance of the Consolidated Police and Firemen's Pension Fund (the Fund) provides an overview of the Fund's financial activities for the fiscal years ended June 30, 2008 and 2007. Please read it in conjunction with the basic financial statements and financial statement footnotes, which follow this discussion.

Financial Highlights

2008 – 2007

- Net assets held in trust for pension benefits decreased by \$2,914,212 as a result of fiscal year 2008's operations from \$16,096,595 to \$13,182,383.
- Additions for the year are \$7,504,538, which are comprised of contributions of \$7,066,189 and net investment income of \$438,349.
- Deductions for the year are \$10,418,750, which are comprised of benefit payments of \$10,398,599 and administrative expenses of \$20,151.

2007 – 2006

- Net assets held in trust for pension benefits decreased by \$2,117,511 as a result of fiscal year 2007's operations from \$18,214,106 to \$16,096,595.
- Additions for the year are \$9,784,300, which are comprised of contributions of \$9,172,361 and net investment income of \$611,939.
- Deductions for the year are \$11,901,811, which are comprised of benefit payments of \$11,873,928 and administrative expenses of \$27,883.

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.

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Financial Analysis

Summary of Schedule of Fiduciary Net Assets

2008 – 2007

	<u>2008</u>	<u>2007</u>	<u>Decrease</u>
Assets	\$ 14,077,043	16,400,894	(2,323,851)
Liabilities	<u>894,660</u>	<u>304,299</u>	<u>590,361</u>
Net assets	<u>\$ 13,182,383</u>	<u>16,096,595</u>	<u>(2,914,212)</u>

The Fund's assets mainly consist of cash, investments, and contributions due from other funds. Between fiscal years 2007 and 2008, total assets decreased by \$2.3 million or 14.2% due to a decrease in the amount invested in the Cash Management Fund (CMF).

Liabilities mainly consist of pension benefit payments owed to retirees and beneficiaries. Total liabilities increased by 194.0% due to full accrual of the July 1, 2008 retirement benefits payable.

Net assets held in trust for pension benefits decreased by \$2.9 million or 18.1% primarily because benefit payments exceeded State contributions and investment revenues as employer contributions to the fund are being reduced as the number of retirees and beneficiaries decline in this closed fund.

2007 – 2006

	<u>2007</u>	<u>2006</u>	<u>Decrease</u>
Assets	\$ 16,400,894	18,559,367	(2,158,473)
Liabilities	<u>304,299</u>	<u>345,261</u>	<u>(40,962)</u>
Net assets	<u>\$ 16,096,595</u>	<u>18,214,106</u>	<u>(2,117,511)</u>

The Fund's assets mainly consist of cash, securities lending collateral, investments, and contributions due from other funds. Between fiscal years 2006 and 2007, total assets decreased by \$2.2 million or 11.6% due to a decrease in employer appropriation contributions available for investment in the Cash Management Fund.

Liabilities mainly consist of pension benefit payments owed to retirees and beneficiaries, and securities lending collateral and rebates payable. Total liabilities decreased by 11.9% mainly due to fewer retirees and beneficiaries receiving benefits compared to last year.

Net assets held in trust for pension benefits decreased by \$2.1 million or 11.6% primarily because benefit payments exceeded State contributions and investment revenues as employer contributions to the fund are being reduced as the number of retirees and beneficiaries decline in this closed fund.

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Summary of Additions to Fiduciary Net Assets

2008 – 2007

	<u>2008</u>	<u>2007</u>	<u>Decrease</u>
Employer contributions	\$ 7,066,189	9,172,361	(2,106,172)
Net investment income	438,349	611,939	(173,590)
Totals	<u>\$ 7,504,538</u>	<u>9,784,300</u>	<u>(2,279,762)</u>

Additions primarily consist of employer contributions and earnings from investment activities. Employer contributions are made primarily by the State to provide funding for pension benefits. Contributions are also received from the Pension Adjustment Fund to cover the cost-of-living adjustments included in benefit payments. The State contributed \$0.6 million and \$1.8 million toward the unfunded actuarial accrued liability in fiscal year 2008 and 2007, respectively.

Net investment income decreased by \$0.2 million or 28.4% due to the decline in the net appreciation in the fair value of investments and less income earned on these investments.

2007 – 2006

	<u>2007</u>	<u>2006</u>	<u>Increase (decrease)</u>
Employer contributions	\$ 9,172,361	14,681,884	(5,509,523)
Net investment income	611,939	405,597	206,342
Totals	<u>\$ 9,784,300</u>	<u>15,087,481</u>	<u>(5,303,181)</u>

Additions primarily consist of employer contributions and earnings from investment activities. Employer contributions are made primarily by the State to provide funding for pension benefits. Contributions are also received from the Pension Adjustment Fund to cover the cost-of-living adjustments included in benefit payments. The State contributed \$1.8 million and \$6.4 million toward the unfunded actuarial accrued liability in fiscal year 2007 and 2006, respectively.

Net investment income increased by \$0.2 million or 50.9% due to an increase in the net appreciation in fair value of investments.

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Summary of Deductions from Fiduciary Net Assets

2008 – 2007

	<u>2008</u>	<u>2007</u>	<u>Decrease</u>
Benefits	\$ 10,398,599	11,873,928	(1,475,329)
Administrative expenses	20,151	27,883	(7,732)
Totals	<u>\$ 10,418,750</u>	<u>11,901,811</u>	<u>(1,483,061)</u>

Deductions are mainly comprised of pension benefit payments to retirees and beneficiaries and administrative costs incurred by the Fund. Benefit payments decreased by \$1.5 million or 12.4% due to fewer retirees and beneficiaries. Administrative expenses decreased by 27.7%.

2007 – 2006

	<u>2007</u>	<u>2006</u>	<u>Increase (decrease)</u>
Benefits	\$ 11,873,928	13,478,301	(1,604,373)
Administrative expenses	27,883	25,777	2,106
Totals	<u>\$ 11,901,811</u>	<u>13,504,078</u>	<u>(1,602,267)</u>

Deductions are mainly comprised of pension benefit payments to retirees and beneficiaries and administrative costs incurred by the Fund. Benefit payments decreased by \$1.6 million or 11.9% due to fewer retirees and beneficiaries. Administrative expenses increased slightly by 8.2%.

Retirement System as a Whole

The overall funded ratios are 91.7% for fiscal year 2008 and 90.7% for fiscal year 2007.

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.

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Statements of Fiduciary Net Assets

June 30, 2008 and 2007

	2008	2007
Assets:		
Cash	\$ 163,325	131,585
Securities lending collateral	—	8,274
Investments, at fair value:		
Cash Management Fund	12,257,575	14,176,800
Mortgages	254,095	411,158
Total investments	12,511,670	14,587,958
Receivables:		
Accrued interest	1,498	2,780
Due from pension adjustment fund	1,363,430	1,635,745
Other	37,120	34,552
Total receivables	1,402,048	1,673,077
Total assets	14,077,043	16,400,894
Liabilities:		
Accounts payable and accrued expenses	33,993	17,910
Retirement benefits payable	860,667	278,115
Securities lending collateral and rebates payable	—	8,274
Total liabilities	894,660	304,299
Net assets:		
Held in trust for pension benefits	\$ 13,182,383	16,096,595

See schedule of funding progress on pages 29-30.

See accompanying notes to financial statements.

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Statements of Changes in Fiduciary Net Assets

Years ended June 30, 2008 and 2007

	2008	2007
Additions:		
Contributions:		
Employers	\$ 550,881	1,809,773
Pension adjustment fund	6,515,308	7,362,588
Total contributions	7,066,189	9,172,361
Investment income:		
Net appreciation in fair value of investments	464	132,848
Interest	450,182	489,317
	450,646	622,165
Less investment expense	12,297	10,226
Net investment income	438,349	611,939
Total additions	7,504,538	9,784,300
Deductions:		
Benefits	10,398,599	11,873,928
Administrative expenses	20,151	27,883
Total deductions	10,418,750	11,901,811
Change in net assets	(2,914,212)	(2,117,511)
Net assets – beginning of year	16,096,595	18,214,106
Net assets – end of year	\$ 13,182,383	16,096,595

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2008 and 2007

(1) Description of the Fund

The State of New Jersey Consolidated Police and Firemen's Pension Fund (the Fund; CPFPPF) is a cost-sharing contributory defined benefit plan with a special funding situation which was established as of January 1, 1952, under the provisions of N.J.S.A. 43:16. 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, death and disability benefits to its members. Membership in the Fund is limited to county and municipal police and firemen who were appointed prior to July 1, 1944. There are no active vested members and 620 pensioners and beneficiaries are receiving benefits as of June 30, 2007, the date of the most recent actuarial valuation. As of June 30, 2006, there were no active members and 719 pensioners and beneficiaries receiving benefits. The Fund's Board of Trustees is primarily responsible for its administration.

According to State of New Jersey Administrative Code, all obligations of the Fund will be assumed by the State of New Jersey should the Fund terminate.

In 2008, the Fund adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 50, "*Pension Disclosures*."

Vesting and Benefit Provisions

The vesting and benefit provisions are set by N.J.S.A. 43:16. The CPFPPF 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 increased from 65% to 70% of final compensation.

Membership and Contributing Employers

Membership in the Fund at June 30, 2007 and 2006, the dates of the most recent actuarial valuations, consisted of 620 and 719 retirees and beneficiaries, respectively, receiving benefits currently. Additionally there were 96 employers contributing to the Fund

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(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 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 due and payable in accordance with the terms of the Fund.

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). 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. 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.

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.
- 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 estate, commodity, and absolute return strategy funds) – estimated fair value provided by the general partner and/or investment manager and reviewed by management. The inputs into the determinations of fair value (particularly for private equity and real estate) require significant management judgment or estimation. Because by their very nature,

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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. The development of fair value is further complicated by (1) the current lack of liquidity in the financial system and (2) the extreme levels of volatility in the market for public equity in general and for debt securities linked to these asset classes. For these reasons, the realized value received upon the sale of these investments in the open market might be different from the fair value reported in the financial statements.

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

The State Investment Council policies permit Common Funds A, B and D and several of the direct pension plan portfolios to 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. The securities lending contracts do not allow the Common Funds to pledge or sell any collateral securities unless the borrower defaults. As of June 30, 2008, the Fund did not participate in the securities lending program. As of June 30, 2007, the Common Funds have no aggregate credit risk exposure to brokers because the collateral amount held by the Common Funds exceeded the market value of the securities on loan.

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The contracts with the Common Funds' securities lending agent 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 Common Fund D securities lending agent 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 (or, in the case of floating rate notes, to the next interest rate reset date) of the cash collateral.

Administrative Expenses

The Fund is administered by the State of New Jersey Division of Pensions and Benefits. Administrative expenses are paid by the Fund to the State of New Jersey, Department of the Treasury, and are included in the accompanying financial statements.

Funded Status and Funding Progress

The required supplementary information regarding the funded status and funding progress is based on actuarial valuations which involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the probability of future events.

The required schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial calculations reflect a long-term perspective and are based on the benefits provided under State statutes in effect at the time of each valuation and also consider the pattern of the sharing of costs between the employer and members at that point in time. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and members in the future.

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Actuarial Methods and Assumptions

In the June 30, 2007 and 2006 actuarial valuations, the projected unit credit was used as actuarial cost method, and the five year average of market value was used as the asset valuation method for the Fund. The actuarial assumptions included 2% for investment rate of return.

Actuarial valuation date	June 30, 2007	June 30, 2006
Actuarial value of assets	\$ 19,336,247	\$ 22,453,828
Actuarial accrued liability	21,090,186	24,749,667
Unfunded actuarial accrued liability	1,753,939	2,295,839
Funded ratio	91.7%	90.7%
Covered payroll	N/A	N/A
Unfunded actuarial accrued liability as a percentage of covered payroll	N/A	N/A
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 dollar, closed	Level dollar, closed
Payroll growth rate for amortization	—	—
Remaining amortization period	1 year	1 year
Actuarial assumptions:		
Interest rate	2%	2%
Salary range	N/A	N/A
Cost-of-living adjustments	N/A	N/A

(3) Investments

The Fund is invested in mortgage backed securities which represent 0.02% and 0.03% of the investment total of the Pension Fund as of June 30, 2008 and 2007, respectively.

Pension funds' investments as of June 30 are as follows:

	<u>2008</u>	<u>2007</u>
Domestic equities	\$ 23,849,523,038	31,474,841,997
International equities	14,728,747,252	17,174,769,178
Domestic fixed income	20,276,259,245	19,648,980,451
International fixed income	2,913,035,116	996,400,682
Commodity funds	975,518,400	502,393,611
Police and Fireman's mortgages	1,288,049,378	1,109,584,450
Private equity	2,850,167,142	1,159,903,960
Real estate	1,916,228,663	1,003,932,926
Absolute return strategy funds	3,739,013,571	2,340,519,278
	<u>\$ 72,536,541,805</u>	<u>75,411,326,533</u>

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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 and the State of New Jersey Cash Management Fund (CMF). The CMF is a short-term cash fund and is open to state and certain non-state participants.

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

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

Custodial credit risk, as it relates to investments, is the risk that in the event of the failure of the counterparty to a transaction, the pension funds will not be able to recover the value of investment or collateral securities that are in the possession of the third party. The pension funds' investment securities are not exposed to custodial credit risk as they are held in segregated trust accounts in the name of the pension funds with the custodians.

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 of fixed income obligations held directly by the pension funds and limit the amount that can be invested in any one issuer or issue.

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These limits for the period July 1, 2006 through September 4, 2006 were as follows:

Category	Minimum rating ⁽¹⁾		Limitation of issuer's outstanding debt	Limitation of issue	Other limitations
	Moody's	S&P			
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

(1) Short term ratings (e.g. P-1, A-1, F-1) are used for commercial paper and certificates of deposit.

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

Category	Minimum rating ⁽¹⁾			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

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Category	Minimum rating ⁽¹⁾			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

(1) Short term ratings (e.g. P-1, A-1, F-1) are used for commercial paper and certificates of deposit.

Effective August 20, 2007, up to 5% of the market value of the combined assets of the pension and annuity funds 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; prior to that, the limitation was 5% of the market value of Common Fund B.

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For securities in the fixed income portfolio, the following tables disclose aggregate market value, by major credit quality rating category at June 30, 2008 and 2007:

(In thousands)	June 30, 2008						
	Moody's rating						
	Aaa	Aa	A	Baa	Ba	B	Caa
United States Treasury TIPS	\$ 3,573,893	—	—	—	—	—	—
United States Treasury Bonds	3,914,404	—	—	—	—	—	—
United States Treasury Strips	622,327	—	—	—	—	—	—
Title XI Merchant Marine Notes	2,646	—	—	—	—	—	—
United States Government Agency Federal Home Loan Bank Notes and Bonds	78,910	—	—	—	—	—	—
Federal Home Loan Discounted Bonds	120,820	—	—	—	—	—	—
Floating Rate Notes	6,670	—	—	—	—	—	—
Tennessee Valley Authority Strips	28,070	—	—	—	—	—	—
Domestic Corporate Obligations	166,919	—	—	—	—	—	—
Domestic Corporate Discounted Obligations	428,516	674,633	3,024,990	2,642,103	90,580	41,315	84,813
International Corporate Obligations	105,177	—	4,879	—	—	—	—
Real Estate Investment Trust Obligations	—	—	205,817	193,352	—	—	—
Finance Company Debt	385,235	476,076	744,296	268,772	—	86,584	64,347
Foreign Government Obligations	1,077,186	150,700	—	—	—	—	—
Foreign Government Discount Obligations	879,287	—	—	—	—	—	—
Adjustable Rate Municipal Bonds	31,000	135,665	135,000	—	—	—	—
International Bonds and Notes	298,755	20,274	67,775	19,889	—	—	—
Remic/FHLMC	546,377	—	—	—	—	—	—
Remic/FNMA	50,343	—	—	—	—	—	—
SBA Pass-through Certificates	100,373	—	—	—	—	—	—
GNMA Mortgage Backed Certificates	148,306	—	—	—	—	—	—
FHLM Mortgage Backed Certificates	440,058	—	—	—	—	—	—
FNMA Mortgage Backed Certificates	448,589	—	—	—	—	—	—
Asset Backed Obligations	63,791	119,057	—	139,267	—	—	—
Private Export Obligations	85,742	—	—	—	—	—	—
Exchange Traded Securities	—	—	131,820	—	—	4,700	—
	\$ 13,603,394	1,576,405	4,314,577	3,282,774	90,580	132,599	149,160

The 2008 table does not include certain exchange traded funds (ETFs) totaling \$39,805,000 which invest in an underlying portfolio of fixed income securities and do not have a Moody's rating. The Police and Firemen's Mortgages and the Cash Management fund are unrated.

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(In thousands)	June 30, 2007			
	Moody's rating			
	Aaa	Aa	A	Baa
United States Treasury Notes	\$ 2,038,229	—	—	—
United States Treasury TIPS	1,875,022	—	—	—
United States Treasury Bonds	5,187,546	—	—	—
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	50,227	—	—	—
Federal Home Loan Bank Bonds	289,167	—	—	—
Federal Home Loan Bank Discounted Notes	96,345	—	—	—
Federal National Mortgage Association Notes	96,355	—	—	—
Resolution Funding Corp. Obligations	6,466	—	—	—
Tennessee Valley Authority Strips	72,610	—	—	—
Floating Rate Notes	9,999	20,038	—	—
Domestic Corporate Obligations	427,646	760,349	2,093,792	2,020,011
International Corporate Obligations	—	—	47,912	35,330
Real Estate Investment Trust Obligations	—	—	—	34,025
Finance Company Debt	293,489	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	939,992	—	—	—
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	—
	<u>\$ 14,546,699</u>	<u>1,234,368</u>	<u>2,740,397</u>	<u>2,098,606</u>

The 2007 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 Police and Firemen's Mortgages and the Cash Management Fund are unrated.

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.

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The following tables summarize 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, 2008 and 2007:

(In thousands)	June 30, 2008				
	Fixed income investment type	Total market value	Maturities in years		
Less than 1			1-5	6-10	
United States Treasury TIPS	\$ 3,573,893	—	—	369,231	3,204,662
United States Treasury Bonds	3,914,404	—	—	—	3,914,404
United States Treasury Strips	622,327	—	—	—	622,327
Title XI Merchant Marine Notes	2,646	—	—	—	2,646
United States Government Agency	78,910	—	—	—	78,910
Federal Home Loan Bank Notes and Bonds	120,820	—	—	38,492	82,328
Federal Home Loan Discounted Bonds	6,670	—	—	—	6,670
Floating Rate Notes	28,071	—	18,071	10,000	—
Tennessee Valley Authority Strips	166,919	—	—	—	166,919
Domestic Corporate Obligations	6,986,947	4,993	756,272	1,655,983	4,569,699
Domestic Corporate Discounted Obligations	110,056	—	8,234	—	101,822
International Corporate Obligations	399,169	—	—	69,560	329,609
Real Estate Investment Trust Obligations	19,391	—	19,391	—	—
Finance Company Debt	2,025,311	154,379	183,305	989,819	697,808
Foreign Government Obligations	1,227,887	70,477	230,400	45,001	882,009
Foreign Government Discount Obligations	879,287	879,287	—	—	—
Adjustable Rate Municipal Bonds	301,665	—	—	—	301,665
International Bonds and Notes	406,693	—	25,795	196,102	184,796
Remic/FHLMC	546,377	—	—	19,647	526,730
Remic/FNMA	50,343	—	—	—	50,343
SBA Pass-through Certificates	100,373	—	—	100,373	—
Police and Firemen's Mortgages	1,288,049	—	—	—	1,288,049
GNMA Mortgage Backed Certificates	148,306	—	—	—	148,306
FHLM Mortgage Backed Certificates	440,058	6	181	1,820	438,051
FNMA Mortgage Backed Certificates	448,589	339	2,146	11,959	434,145
Asset Backed Obligations	322,115	—	31,144	14,594	276,377
Private Export Obligations	85,743	12,547	21,219	51,977	—
	<u>\$ 24,301,019</u>	<u>1,122,028</u>	<u>1,296,158</u>	<u>3,574,558</u>	<u>18,308,275</u>

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(In thousands)	June 30, 2007					
	Fixed income investment type	Total market value	Maturities in years			More than 10
			Less than 1	1-5	6-10	
United States Treasury Notes	\$ 2,038,229	148,736	447,759	1,441,734	—	
United States Treasury TIPS	1,875,022	—	185,141	762,104	927,777	
United States Treasury Bonds	5,187,546	—	—	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	50,227	20,114	30,113	—	—	
Federal Home Loan Bank Bonds	289,167	18,107	250,170	20,890	—	
Federal Home Loan Bank Discounted Notes	96,345	—	—	—	96,345	
Federal National Mortgage Association Notes	96,355	—	96,355	—	—	
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	5,327,108	127,673	850,539	959,663	3,389,233	
International Corporate Obligations	83,242	—	—	—	83,242	
Real Estate Investment Trust Obligations	34,025	—	19,574	14,451	—	
Finance Company Debt	1,097,814	59,175	552,626	243,679	242,334	
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	939,992	—	68	2,644	937,280	
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	—	
	<u>\$ 21,702,675</u>	<u>508,126</u>	<u>3,019,078</u>	<u>3,897,199</u>	<u>14,278,272</u>	

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. Effective August 20, 2007, 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, cannot exceed 30% of the market value of the pension funds; previously, this limitation was 22%. 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 10% of the market value of the emerging market securities can be invested in the common and preferred stock of any one corporation; the total amount of stock purchased of any one corporation cannot exceed 5% of its stock

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classes eligible to vote. Council regulations permit the pension funds to enter into foreign exchange contracts for the purpose of hedging the international portfolio. The pension funds held forward contracts totaling approximately \$1.4 billion (with a \$5.3 million net exposure) at June 30, 2008. The pension funds did not have a forward contract exposure at June 30, 2007.

The pension funds had the following foreign currency exposure (expressed in U.S. dollars and in thousands) at June 30, 2008 and 2007:

Currency	June 30, 2008			
	Total market value	Equities	Foreign government obligations	Alternative investments
Australian dollar	\$ 614,583	456,834	157,749	—
Brazilian Real	118,301	118,301	—	—
Canadian dollar	546,560	546,560	—	—
Chilean peso	1,286	1,286	—	—
Czech koruna	4,512	4,512	—	—
Danish krone	205,512	205,512	—	—
Euro	6,983,288	5,829,751	1,005,136	148,401
Egyptian pound	20,424	20,424	—	—
Hong Kong dollar	263,291	263,291	—	—
Hungarian forint	6,528	6,528	—	—
Indonesian rupiah	22,783	22,783	—	—
Israeli shekel	14,716	14,716	—	—
Japanese yen	2,822,687	1,943,400	879,287	—
Malaysian ringgit	18,557	18,557	—	—
Mexican peso	19,444	19,444	—	—
New Zealand dollar	18,052	18,052	—	—
Norwegian krone	451,099	451,099	—	—
Omani rial	1,991	1,991	—	—
Pakistan rupee	2,679	2,679	—	—
Philippines peso	1,050	1,050	—	—
Polish peso	9,910	9,910	—	—
Qatar rial	4,497	4,497	—	—
Singapore dollar	135,551	135,551	—	—
South African rand	69,675	69,675	—	—
South Korean won	110,363	110,363	—	—
Swedish krona	521,596	521,596	—	—
Swiss franc	1,460,269	1,460,269	—	—
New Taiwan dollar	13,978	13,978	—	—
Thailand baht	17,001	17,001	—	—
Turkish lira	27,871	27,871	—	—
British pound sterling	1,970,705	1,916,931	—	53,774
	<u>\$ 16,478,759</u>	<u>14,234,412</u>	<u>2,042,172</u>	<u>202,175</u>

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June 30, 2007				
Currency	Total market value	Equities	Foreign government obligations	Alternative investments
Australian dollar	\$ 472,778	472,778	—	—
Canadian dollar	700,076	700,076	—	—
Danish krone	236,914	236,914	—	—
Euro	5,777,859	5,466,997	278,743	32,119
Hong Kong dollar	187,292	187,292	—	—
Japanese yen	4,377,681	4,377,681	—	—
Mexican peso	74,710	74,710	—	—
New Zealand dollar	26,505	26,505	—	—
Norwegian krone	426,080	426,080	—	—
Pound sterling	2,077,051	2,051,057	—	25,994
Singapore dollar	151,674	151,674	—	—
South Korean won	175,851	175,851	—	—
Swedish krona	897,683	897,683	—	—
Swiss franc	1,702,575	1,702,575	—	—
	\$ 17,284,729	16,947,873	278,743	58,113

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 Fund can be invested in alternative investments, with the individual categories of real estate, real assets, private equity and absolute return strategy investments limited to 7%. On August 18, 2008 the overall limitation was revised to 28%. 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.

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(4) Securities Lending Collateral

The Fund did not participate in the securities lending program as of June 30, 2008. The Fund's share in the securities lending program is less than 0.001% of the total market value of the collateral as of June 30, 2007.

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:

<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>			
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
Money market funds	—	—	—	—	Limited to 10% of the assets of the collateral portfolio; limited to approved money market funds

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

<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>	<u>Fitch</u>			
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

All investments in the collateral portfolio must mature or are to be redeemed within one year, except that up to 25% of the portfolio may be invested in eligible securities which mature within 25 months; provided, however, that the average maturity of all investments shall not exceed one year.

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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 of Investment 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)	June 30, 2007					
	Rating					
	Aaa/AAA	Aa/AA	A/A	Baa/BBB	P1	Not rated
Corporate obligations	\$ 1,142,643	3,199,254	2,712,377	217,479	713,321	—
Commercial paper	—	—	—	—	3,536,172	—
Certificates of deposit	—	99,985	—	—	1,032,601	—
Repurchase agreements	—	—	—	—	—	1,765,830
Funding agreements	—	—	—	—	700,000	—
Money market funds	7,224	1,730,000	500,000	—	—	285,283
Collateralized notes	150,200	2,002	—	—	618,881	—
Cash	—	—	—	—	—	65
	<u>\$ 1,300,067</u>	<u>5,031,241</u>	<u>3,212,377</u>	<u>217,479</u>	<u>6,600,975</u>	<u>2,051,178</u>

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

(In thousands)	June 30, 2007		
	Total market value	Maturities	
		Less than one year	One year to 25 months
Corporate obligations	\$ 7,985,074	4,144,639	3,840,435
Commercial paper	3,536,172	3,536,172	—
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	2,522,507	2,522,507	—
Collateralized notes	771,083	769,081	2,002
	<u>\$ 18,413,252</u>	<u>14,570,815</u>	<u>3,842,437</u>

As of June 30, 2007, the Pension 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. There were no material violations of legal or contractual provisions, no borrower or lending agent default losses, and no recoveries or prior-period losses during the year.

(5) Contributions

There are no active members in the CPFPPF.

The State made a contribution of \$0.52 million and \$1.78 million to satisfy the actuarially accrued liability in fiscal year 2008 and 2007 based upon the July 1, 2006 and 2005 actuarial valuations, respectively. The amounts contributed in fiscal year 2008 and 2007 are equal to 21.86% and 21.02% of the actuarially determined amounts, respectively. The local contributions of \$0.03 million and another \$0.03 million represent the administrative fees billed to various locations in fiscal years 2008 and 2007.

(6) Funds

CPFPPF maintains the following legally required fund as follows:

Pension Reserve Fund (2008 – \$13,182,383; 2007 – \$16,096,595)

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

**STATE OF NEW JERSEY
CONSOLIDATED POLICE AND FIREMEN'S
PENSION FUND**

Notes to Financial Statements

June 30, 2008 and 2007

(7) Subsequent Events

Subsequent to the June 30, 2008 fiscal year end, global financial markets suffered significant declines in value attributable to significant strains on many of the world's largest financial institutions. These difficulties, which were caused by a combination of liquidity constraints and continued write downs of mortgage-related assets, have resulted in a global economic downturn that has negatively impacted the value of most financial assets.

The investment assets of the Pension Funds have also incurred a considerable decline in value since June 30, 2008 due to these unfavorable market conditions. As of December 31, 2008 the fair value of the portfolio declined by approximately 17.9% due to these factors. Readers of this financial statement should check the New Jersey Division of Investment's website for more current information about the fair value of the pension funds' portfolio.

**STATE OF NEW JERSEY
CONSOLIDATED POLICE AND FIREMEN'S
PENSION FUND**

Required Supplementary Information

Schedule of Funding Progress

(Unaudited - See accompanying independent auditors' report)

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)
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
June 30, 2007	19,336,247	21,090,186	1,753,939	91.7	N/A	N/A

**STATE OF NEW JERSEY
CONSOLIDATED POLICE AND FIREMEN'S
PENSION FUND**

Required Supplementary Information

Schedule of Funding Progress – Additional Actuarial Information

(Unaudited - See accompanying independent auditors' report)

Significant actuarial methods and assumptions used in the most recent 2007 and 2006 actuarial valuations included the following:

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
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 dollar, closed	Level dollar, closed
Payroll growth rate for amortization	—	—
Remaining amortization period	1 year	1 year
Actuarial assumptions:		
Interest rate	2.00%	2.00%
Salary range	N/A	N/A
Cost-of-living adjustments	N/A	N/A

**STATE OF NEW JERSEY
CONSOLIDATED POLICE AND FIREMEN'S
PENSION FUND**

Required Supplementary Information

Schedule of Employer Contributions

(Unaudited - See accompanying independent auditors' report)

Year ended June 30	Annual required contribution	Employer contributions⁽¹⁾⁽²⁾	Percentage contributed
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
2008	2,388,591	522,176	21.9

Notes to schedule:

- (1) Excludes contributions from local employers to cover administrative expenses of the Fund.
- (2) Differences between the amounts in the employer contribution column in this schedule and the amounts recorded in the financial statements and footnotes are attributed to timing differences between the 2007 actuarial valuations and the actual amounts received in fiscal year 2008. Employer contributions per this schedule represent anticipated contribution amounts determined at the time the actuarial valuations were prepared and finalized prior to the end of fiscal year 2008. The financial statements and footnotes reflect the actual amounts received in 2008.

**STATE OF NEW JERSEY
CONSOLIDATED POLICE AND FIREMEN'S
PENSION FUND**

Schedule of Changes in Fiduciary Net Assets by Fund

Year ended June 30, 2008

	Pension reserve fund	Pension adjustment pass-through	Total
Additions:			
Contributions:			
Employers	\$ 550,881	—	550,881
Pension adjustment fund	—	6,515,308	6,515,308
Total contributions	550,881	6,515,308	7,066,189
Distribution of net investment income	438,349	—	438,349
Total additions	989,230	6,515,308	7,504,538
Deductions:			
Benefits	3,883,291	6,515,308	10,398,599
Administrative expenses	20,151	—	20,151
Total deductions	3,903,442	6,515,308	10,418,750
Net decrease	(2,914,212)	—	(2,914,212)
Net assets held in trust for pension benefits:			
Beginning of year	16,096,595	—	16,096,595
End of year	\$ 13,182,383	—	13,182,383