

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

FINANCIAL STATEMENTS AND SCHEDULES

June 30, 2012 and 2011

(With Independent Auditor's Report Thereon)



CliftonLarsonAllen

Independent Auditor's Report

State House Commission
State of New Jersey
Judicial Retirement System

We have audited the accompanying statements of fiduciary net assets of the State of New Jersey Judicial Retirement System (the System) as of June 30, 2012 and 2011, and the related statements of changes in fiduciary net assets for the years then ended. These financial statements are the responsibility of the System'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 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 Judicial Retirement System as of June 30, 2012 and 2011, and changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 6 and the schedules of funding progress and employer contributions and related additional actuarial information (schedules 1 and 2) be presented to supplement the basic financial statements, such information although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. 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 basic financial statements taken as a whole. The additional information, the 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. The additional information, the schedule of changes in fiduciary net assets by fund, has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional information, the schedule of changes in fiduciary net assets by fund, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

CliftonLarsonAllen LLP

Mt. Laurel, New Jersey
November 5, 2012

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Management's Discussion and Analysis

June 30, 2012 and 2011

Our discussion and analysis of the financial performance of the Judicial Retirement System (the System; JRS) provides an overview of the System's financial activities for the fiscal years ended June 30, 2012 and 2011. Please read it in conjunction with the basic financial statements and financial statement footnotes, which follow this discussion.

Financial Highlights

2012 – 2011

- Net assets held in trust for pension benefits decreased by \$32,668,703 as a result of fiscal year 2012's operations from \$264,704,368 to \$232,035,665.
- Additions for the year were \$13,492,372, which are comprised of member and employer pension contributions of \$8,538,158 and net investment income of \$4,954,214.
- Deductions for the year were \$46,161,075, which are comprised of benefit and refund payments of \$46,001,187 and administrative expenses of \$159,888.

2011 – 2010

- Net assets held in trust for pension benefits increased by \$3,180,376 as a result of fiscal year 2011's operations from \$261,523,992 to \$264,704,368.
- Additions for the year were \$46,627,192, which are comprised of member and employer pension contributions of \$4,268,731 and net investment income of \$42,358,461.
- Deductions for the year were \$43,446,816, which are comprised of benefit and refund payments of \$43,289,292 and administrative expenses of \$157,524.

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 System and about its activities to help you assess whether the System, 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 System at the end of the fiscal year. The difference between assets and liabilities represents the System's fiduciary net assets. Over time, increases or decreases in the System's fiduciary net assets provide one indication of whether the financial health of the System 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 System'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 System is becoming financially stronger or weaker.

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Management's Discussion and Analysis

June 30, 2012 and 2011

Financial Analysis

Summary of Fiduciary Net Assets

2012 – 2011

	<u>2012</u>	<u>2011</u>	<u>Increase (decrease)</u>
Assets	\$ 239,579,486	271,319,216	(31,739,730)
Liabilities	<u>7,543,821</u>	<u>6,614,848</u>	<u>928,973</u>
Net assets	<u>\$ 232,035,665</u>	<u>264,704,368</u>	<u>(32,668,703)</u>

The System's assets primarily consist of cash, investments, securities lending collateral and members' loans receivable. Between fiscal years 2012 and 2011, total assets decreased by \$31.7 million or 11.7% due to a reduction in investments of \$33.8 million that were utilized to pay the benefits of the System, an increase in the securities lending collateral of \$0.9 million, and a net increase in receivables and cash of \$1.2 million.

Liabilities consist of retirement benefits payable to retirees and beneficiaries, securities lending collateral and rebates payable and, classified under accounts payable and accrued expenses, liabilities of JRS for checks issued to members that have not been negotiated by the members but remain due and payable. Total liabilities increased by a net \$929 thousand or 14.0% over last year due to an increase in the securities lending collateral and rebates payable of \$898 thousand and an increase in retirement benefits payable and other payables of \$31 thousand.

Net assets held in trust for pension benefits decreased by \$32.7 million or 12.3%.

Summary of Fiduciary Net Assets

2011 – 2010

	<u>2011</u>	<u>2010</u>	<u>Increase</u>
Assets	\$ 271,319,216	265,183,068	6,136,148
Liabilities	<u>6,614,848</u>	<u>3,659,076</u>	<u>2,955,772</u>
Net assets	<u>\$ 264,704,368</u>	<u>261,523,992</u>	<u>3,180,376</u>

The System's assets primarily consist of investments, securities lending collateral, accrued investment income and members' loans receivable. Between fiscal years 2011 and 2010, total assets increased by a net \$6.1 million or 2.3% due to an increase in investments of \$3.8 million, an increase in the securities lending collateral of \$2.9 million, offset by a decrease in receivables and cash of \$0.5 million.

Liabilities consist of retirement benefits payable to retirees and beneficiaries, Non-contributory Group Insurance benefits (NCGI) payable, securities lending collateral and rebates payable and, classified under accounts payable and accrued expenses, liabilities of JRS for unclaimed member accounts and checks issued to members that have not been negotiated by the members but remain due and payable. Total liabilities increased by a net \$3.0 million or 80.8% over last year due to an increase in the securities lending collateral and rebates payable of \$2.9 million and an increase in retirement benefits payable and other payables of \$0.1 million.

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Management's Discussion and Analysis

June 30, 2012 and 2011

Net assets held in trust for pension benefits increased by \$3.2 million or 1.2%.

Summary of Changes to Fiduciary Net Assets

2012 – 2011

	<u>2012</u>	<u>2011</u>	<u>Increase (decrease)</u>
Additions:			
Member contributions	\$ 2,476,205	2,575,319	(99,114)
Employer contributions	6,061,953	1,693,412	4,368,541
Net investment income	4,954,214	42,358,461	(37,404,247)
Total additions	<u>13,492,372</u>	<u>46,627,192</u>	<u>(33,134,820)</u>
Deductions:			
Benefits	45,955,546	43,198,034	2,757,512
Refunds of contributions	45,641	91,258	(45,617)
Administrative and miscellaneous expenses	159,888	157,524	2,364
Total deductions	<u>46,161,075</u>	<u>43,446,816</u>	<u>2,714,259</u>
Changes in net assets	<u>\$ (32,668,703)</u>	<u>3,180,376</u>	<u>(35,849,079)</u>

Additions primarily consist of member and employer contributions and earnings from investment activities. Member contributions decreased by \$99 thousand or 3.8% due to a decrease in active membership.

There was an increase in employer contributions of \$4.4 million or 257.9%. Chapter 1, P.L. 2010, effective May 21, 2010, required the State to make its full pension contribution, defined as 1/7th of the required amount, beginning in fiscal year 2012. The State made a contribution of \$5.5 million, excluding the State's contribution of non-contributory group insurance (NCGI) of \$0.5 million, for fiscal year 2012. The amount contributed for fiscal year 2012 is equal to 12.9% of the actuarially determined statutory amount of the Annual Required Contribution (ARC) and equal to 14.3% of the budgetary recommended contribution amount.

The total investment return for all pension funds was estimated to be a 2.52% gain compared to an 18.03% gain in the prior year. As a result, net investment income decreased by \$ 37.4 million or 88.3% due to there being less investment income earned on these investments in fiscal year 2012 as compared to fiscal year 2011.

Deductions are mainly comprised of pension benefit payments to retirees and beneficiaries and administrative costs incurred by the System to run the plan. Benefit payments increased by \$2.8 million or 6.4% primarily due to the increased number of retirees receiving benefits. Refunds of contributions decreased by 50.0%. Administrative expenses slightly increased by 1.5%.

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Management's Discussion and Analysis

June 30, 2012 and 2011

Summary of Changes to Fiduciary Net Assets

2011 – 2010

	<u>2011</u>	<u>2010</u>	<u>Increase (decrease)</u>
Additions:			
Member contributions	\$ 2,575,319	3,054,881	(479,562)
Employer contributions	1,693,412	2,308,854	(615,442)
Net investment income	42,358,461	37,131,556	5,226,905
Total additions	<u>46,627,192</u>	<u>42,495,291</u>	<u>4,131,901</u>
Deductions:			
Benefits	43,198,034	41,232,511	1,965,523
Refunds of contributions	91,258	174,362	(83,104)
Administrative and miscellaneous expenses	157,524	192,762	(35,238)
Total deductions	<u>43,446,816</u>	<u>41,599,635</u>	<u>1,847,181</u>
Changes in net assets	<u>\$ 3,180,376</u>	<u>895,656</u>	<u>2,284,720</u>

Additions primarily consist of member and employer contributions and earnings from investment activities. Member contributions decreased by \$0.5 million or 15.7% due to a decrease in active membership.

The State did not make a pension contribution for fiscal year 2011 but did make a contribution of \$0.6 million for NCGI death benefits.

Net investment income increased by \$5.2 million or 14.1% due to appreciation of investments.

The total investment return for all pension funds was estimated to be 18.03% gain compared to 13.4% gain in the prior year.

Deductions are mainly comprised of pension benefit payments to retirees and beneficiaries and administrative costs incurred by the System. Benefit payments increased by \$2.0 million or 4.8% primarily due to the increased number of retirees receiving benefits. Refunds of contributions decreased by 47.7%. Administrative expenses slightly decreased by 18.3% due to a change in the method of calculating the amount reimbursed to the State of New Jersey general fund between fiscal years 2010 and 2011.

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Management's Discussion and Analysis

June 30, 2012 and 2011

Retirement System as a Whole

The overall funded ratios are 52.1% for fiscal year 2012 and 59.3% for fiscal year 2011.

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 System's finances and to show the System'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
JUDICIAL RETIREMENT SYSTEM**

Statements of Fiduciary Net Assets

June 30, 2012 and 2011

Assets:	<u>2012</u>	<u>2011</u>
Cash	\$ 3,708,778	52,730
Securities lending collateral	3,840,518	2,940,438
Investments, at fair value:		
Cash Management Fund	7,938,281	8,796,429
Common Pension Fund A	56,600,129	69,675,336
Common Pension Fund B	49,131,942	76,768,911
Common Pension Fund D	48,122,001	52,086,213
Common Pension Fund E	69,117,360	56,174,547
Mortgages	—	1,253,813
Total investments	<u>230,909,713</u>	<u>264,755,249</u>
Receivables:		
Contributions:		
Members	71,376	7,705
Employer	—	36,349
Accrued interest and dividends	38	1,428,121
Members' loans	912,566	1,012,681
Other	136,497	1,085,943
Total receivables	<u>1,120,477</u>	<u>3,570,799</u>
Total assets	<u>239,579,486</u>	<u>271,319,216</u>
Liabilities:		
Accounts payable and accrued expenses	227	420
Retirement benefits payable	3,708,945	3,641,421
Non-contributory group insurance premiums payable	—	36,349
Securities lending collateral and rebates payable	3,834,649	2,936,658
Total liabilities	<u>7,543,821</u>	<u>6,614,848</u>
Net assets:		
Held in trust for pension benefits	<u>\$ 232,035,665</u>	<u>264,704,368</u>

See schedule of funding progress on pages 29-30.
See accompanying notes to financial statements.

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Statements of Changes in Fiduciary Net Assets

Years ended June 30, 2012 and 2011

	2012	2011
Additions:		
Contributions:		
Members	\$ 2,476,205	2,575,319
Employers	6,061,953	1,693,412
Total contributions	8,538,158	4,268,731
Investment income:		
Net appreciation (depreciation) in fair value of investments	(690,294)	35,147,697
Interest	4,386,655	6,035,398
Dividends	1,273,929	1,191,578
	4,970,290	42,374,673
Less investment expense	16,076	16,212
Net investment income	4,954,214	42,358,461
Total additions	13,492,372	46,627,192
Deductions:		
Benefits	45,955,546	43,198,034
Refunds of contributions	45,641	91,258
Administrative and miscellaneous expenses	159,888	157,524
Total deductions	46,161,075	43,446,816
Change in net assets	(32,668,703)	3,180,376
Net assets – beginning of year	264,704,368	261,523,992
Net assets – end of year	\$ 232,035,665	264,704,368

See accompanying notes to financial statements.

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Notes to Financial Statements

June 30, 2012 and 2011

(1) Description of the System

The State of New Jersey Judicial Retirement System (the System; JRS) is a single-employer contributory defined benefit plan which was established as of June 1, 1973, under the provisions of N.J.S.A. 43:6A and amended and supplemented by Chapter 470, P.L. 1981. The System is included along with other state-administered pension trust and agency funds in the basic financial statements of the State of New Jersey.

The System's designated purpose is to provide retirement, death and disability benefits to its members. Membership in the System is mandatory for all members of the state judiciary in the State of New Jersey. The System's State House Commission is primarily responsible for its administration.

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

Vesting and Benefit Provisions

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 by 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%

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.

Eligible retirees receiving monthly benefits are entitled to cost-of-living adjustment (COLA) 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

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Notes to Financial Statements

June 30, 2012 and 2011

adjustment payable. Retired members become eligible for pension adjustment benefits after 24 months of retirement. Pursuant to the provisions of Chapter 78, P.L. 2011, COLA increases are suspended for all current and future retirees of all retirement systems. No further COLA increases will be granted. The law does not reduce any COLA increases that have already been added to retiree benefits.

Membership and Contributing Employers

Membership in the System consisted of the following at July 1, 2011 and 2010, the dates of the most recent actuarial valuations:

	2011	2010
Retirees and beneficiaries receiving benefits currently and terminated employees entitled to benefits but not yet receiving them	525	508
Active members:		
Vested	194	198
Nonvested	212	234
Total active members	406	432
Total	931	940

The State of New Jersey is the only contributing employer of this System.

(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 System 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 System. 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 System 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 System. Benefits and refunds are recognized when due and payable in accordance with the terms of the System.

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.

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Notes to Financial Statements

June 30, 2012 and 2011

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 international equity and fixed income securities. Common Fund E invests primarily in alternative investments which includes private equity, real estate, 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 System 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, Sovereign and Corporate obligations – prices quoted by a major dealer in such securities.
- Domestic and Foreign Equity Securities, Exchanged Traded Funds, 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, real asset, and absolute return strategy funds) – Fair values for the individual funds are based upon the net asset values for the funds at the closest available reporting date, adjusted for subsequent contributions, distributions, management fees and reserves. The valuation techniques vary based upon investment type and involve a certain degree of expert judgment. The most significant input into the net asset value of an entity is the value of its investment holdings. The net asset value is provided by the general partner and/or investment manager and reviewed by management. The net asset values are audited annually. The strategy of private equity and real estate funds are long term and illiquid in nature which can prevent the investment from being readily marketable. Hedge funds may be subject to redemption restrictions which can limit distributions and restrict the ability of a limited partner to exit a partnership. For alternative investments, the realized value received upon the sale of these investments in the open market might be different than the fair value reported in the accompanying 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.

Securities Lending

The State Investment Council policies permit Common Funds A, B, D and E 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 public traded securities held in Common Funds A, B, D and E, and certain securities held directly by the

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Notes to Financial Statements

June 30, 2012 and 2011

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. Collateral is marked to market daily and adjusted as needed to maintain the required minimum level.

Effective December 2010, for loans of U.S. government securities or sovereign debt issued by non-U.S. governments, in the event that the market value of the collateral falls below 100% of the market value of the outstanding loaned securities to an individual borrower, or the market value of the collateral of all loans of such securities falls below the collateral requirement, 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 together with collateral previously delivered meets the collateral requirements.

For loans of all other types of securities, 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, 2012 and 2011, the Common Funds had 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' securities lending agent require them to indemnify the Common Funds if the brokers or other borrowers fail to return the securities and provides that collateral securities may be sold in the event of a borrower default. The Common Funds are also indemnified for any loss of principal or interest on collateral invested in repurchase agreements. The Common Funds cannot participate in any dividend reinvestment program or vote with respect to any securities that are on loan on the applicable record date. 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 Division of Investment, from time to time, utilizes forward foreign currency contracts, a derivative security, as a means to hedge against currency risks in the Common Funds' foreign equity and fixed income portfolios.

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.

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Notes to Financial Statements

June 30, 2012 and 2011

The fair value of foreign forward currency contracts held directly by the Common Funds as of June 30, 2012 and 2011 were as follows:

	2012	2011
Forward currency receivable	\$ 423,267,019	1,285,366,143
Forward currency payable	420,869,210	1,310,308,414
Net unrealized gain (loss)	\$ 2,397,809	(24,942,271)

The Common Funds utilize covered call and put options in an effort to add value to or reduce the risk level in the portfolio. 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 Common Funds enter into covered calls when it writes (or sells) call options on underlying stocks held by the Common Funds or stock indices. The Common Funds enter into covered put options when it purchases put options on underlying stocks held by the Common Funds or stock indices. The Common Fund enters into put spreads when it purchases put options while simultaneously writing put options on the same underlying securities of indices at a lower strike price. The purchaser of put options pays a premium at the outset of the agreement and stands to gain from an unfavorable change (i.e., a decrease) in the price of the instrument underlying the option. The writer of call options receives a premium at the outset of the agreement and may bear the risk of an unfavorable change (i.e., an increase) in the price of the instrument underlying the option.

The System had written call options on 7,000,000 and 5,375,000 shares, and these options had a fair value of \$5,570,000 and \$3,822,200 at June 30, 2012 and 2011, respectively. The System owned 12,100 and 11,650 put option contracts with a fair value of \$696,600 and \$5,505,500 at June 30, 2012 and 2011, respectively.

Certain of the 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.

Members' Loans

Members who have at least three years of service in the System may borrow up to 50% of their accumulated member contributions. Repayment of loan balances is deducted from payroll checks and bears a commercially reasonable interest rate as set by the State Treasurer. For 2012 the interest rate is 5.25%, and there is a \$8 processing fee per loan. 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.

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Notes to Financial Statements

June 30, 2012 and 2011

Administrative Expenses

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

Miscellaneous expenses and reimbursements from the System that comprise various adjustments to member and employer accounts are incorporated into the administrative expense amounts included in the accompanying financial statements.

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, 2012, the Common Funds had unfunded commitments totaling approximately \$7.6 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.

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.

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Notes to Financial Statements

June 30, 2012 and 2011

Actuarial Methods and Assumptions

In the revised July 1, 2011 and 2010 actuarial valuations, the projected unit credit was used as the actuarial cost method, and the five year average of market value was used as the asset valuation method for the System. The actuarial assumptions included (a) 7.95% and 8.25% for investment rate of return and (b) 2.50% and 4.50% for projected salary increases as of July 1, 2011 and 2010, respectively.

Actuarial valuation date	July 1, 2011	July 1, 2010
Actuarial value of assets	\$ 305,245,844	\$ 329,030,387
Actuarial accrued liability	585,700,787	554,540,403
Unfunded actuarial accrued liability	280,454,943	225,510,016
Funded ratio	52.1%	59.3%
Covered payroll	\$ 67,437,125	\$ 71,746,413
Unfunded actuarial accrued liability as a percentage of covered payroll	415.9%	314.3%
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, open	Level dollar, open
Remaining amortization period	30 years	30 years
Actuarial assumptions:		
Interest rate	7.95%	8.25%
Salary range	2.50%	4.50%
Cost-of-living adjustments	0.00%	0.00%

(3) Investments

The System is invested in Common Fund A, Common Fund B, Common Fund D, and Common Fund E, which represent 0.3%, 0.2%, 0.3%, and 0.4%, respectively, of each investment total of the pension fund as of June 30, 2012.

The System is invested in Common Fund A, Common Fund B, Common Fund D, Common Fund E, and other investments, including mortgage backed securities, which represent 0.4%, 0.3%, 0.3%, 0.4%, and 0.1%, respectively, of each investment total of the pension fund as of June 30, 2011.

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Notes to Financial Statements

June 30, 2012 and 2011

The pension funds' investments as of June 30, 2012 and 2011 were as follows:

	2012	2011
Domestic equities	\$ 18,366,219,480	\$ 18,794,883,830
International equities	13,686,071,035	14,710,800,731
Domestic fixed income	15,012,944,491	18,023,341,944
International fixed income*	2,877,198,257	2,066,705,578
Bank loan funds	1,364,990,293	1,174,078,860
Police and Firemen's mortgages	963,899,029	1,140,494,077
Private equity funds	5,488,969,238	5,381,612,092
Real estate funds	3,106,708,016	2,731,205,959
Absolute return strategy funds	5,547,000,728	3,902,428,308
Real assets	1,448,241,708	1,191,374,306
Put options	696,600	5,505,500
	\$ 67,862,938,875	\$ 69,122,431,185

* US dollar denominated securities

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 options and put options, equity futures contracts, obligations of the U.S. Treasury, government agencies, corporations, international governments and agencies, bank loans, interest rate swap transactions, credit default swaps, fixed income exchange traded funds, U.S. Treasury futures contracts, 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 funds, real estate funds, other real assets, 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 CMF is not evidenced by securities that exist in physical or book entry form held by the pension funds.

Custodial credit risk, as it relates to investments, is the risk that in the event of the failure of the custodian, the pension funds will not be able to recover the value of investments 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.

The System'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.

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Notes to Financial Statements

June 30, 2012 and 2011

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of issuers and debt instruments 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.

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Notes to Financial Statements

June 30, 2012 and 2011

These credit ratings and limits are as follows:

Category	Minimum rating (1)			Limitation of issuer's outstanding debt/stock	Limitation of issue	Other limitations
	Moody's	S&P	Fitch			
Bank loans	Baa3	BBB-	BBB-	10%	—	Not more than 10% of fund assets can be invested in this category
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	—	—	
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 Common Fund B assets) can be invested in this category
Commercial paper	P-1	A-1	F1	—	—	—
Corporate obligations	Baa3	BBB-	BBB-	10%	25%	Not more than 5% of fund assets can be invested in debt and non-convertible preferred stock of one issuer
Credit default swap transactions	A1	A+	A+	—	—	Nominal value of net exposure to any one counterparty shall not exceed 10% of fund assets
Guaranteed income contracts and funding agreements	A3	A-	A-	—	—	—
Interest rate swap transactions	A1	A+	A+	—	—	Notional value of net exposure to any one counterparty shall not exceed 10% of fund assets
International corporate obligations	Baa3	BBB-	BBB-	10%	25%	Not more than 5% of fund assets can be invested in debt and non-convertible preferred stock of any one issuer; not more than 10% of fund assets can be invested in this category
International government and agency obligations	Baa3	BBB-	BBB-	25%	Greater of 25% or \$10 million	—

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Notes to Financial Statements

June 30, 2012 and 2011

Category	Minimum rating (1)			Limitation of issuer's outstanding debt	Limitation of issue	Other limitations
	Moody's	S&P	Fitch			
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
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
Non-convertible preferred stocks of US corporations	Baa3	BBB-	BBB-	10%	25%	Not more than 5% of fund assets can be invested in debt and non-convertible stock of any one corporation
Public authority revenue obligations	A3	A-	A-	—	10%	Not more than 2% of fund assets can be invested in any one public authority
Repurchase agreements	Aa3	AA-	AA-	—	—	—
State & municipal obligations	A3	A-	A-	10%	10%	Not more than 2% of fund assets can be invested in debt of any one political entity maturing more than 12 months from purchase

(1) Short term ratings (e.g. P-1, A-1, F1) are used for commercial paper and certificates of deposit.

Up to 5% of the market value of the combined assets of the pension and annuity funds may be invested in corporate obligations, international corporate obligations, collateralized notes and mortgages, bank loans, non-convertible preferred stock, and mortgage backed pass-through securities that do not meet the minimum credit rating requirements set forth above.

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Notes to Financial Statements

June 30, 2012 and 2011

For securities in the fixed income portfolio, the following tables disclose aggregate market value by major credit quality rating category as of June 30, 2012. The first table for 2012 includes fixed income securities rated by Moody's. The second table for 2012 discloses S&P and Fitch ratings for fixed income securities not rated by Moody's.

		June 30, 2012								
		Moody's rating (1)								
(In thousands)		Aaa	Aa	A	Baa	Ba	B	Ca	Caa	Totals
Corporate obligations	\$	534,211	912,398	3,287,413	3,719,664	347,686	486,636	835	171,336	\$ 9,460,179
United States treasury tips		1,818,164	—	—	—	—	—	—	—	1,818,164
United States treasury bonds		666,630	—	—	—	—	—	—	—	666,630
Foreign government obligations		618,145	1,431,403	54,136	—	—	—	—	—	2,103,684
International corporate obligations		10,468	—	370,672	275,231	39,035	36,056	—	12,450	743,912
Mortgages (FHLMC/FNMA/GNMA)		359,681	—	—	—	—	—	—	—	359,681
United States government strips		583,671	—	—	—	—	—	—	—	583,671
Federal agency obligations		264,056	—	—	—	—	—	—	—	264,056
SBA pass through certificates		158,841	—	—	—	—	—	—	—	158,841
Asset backed obligations		16,628	—	—	—	—	—	—	—	16,628
Other		94,306	797,273	213,720	—	—	—	—	—	1,105,299
	\$	<u>5,124,801</u>	<u>3,141,074</u>	<u>3,925,941</u>	<u>3,994,895</u>	<u>386,721</u>	<u>522,692</u>	<u>835</u>	<u>183,786</u>	<u>\$ 17,280,745</u>

(1) Subsequent to June 30, 2011, Standard & Poor's downgraded the United States credit rating to AA+ from its top rank of AAA, for the first time in history.

		June 30, 2012							
		Standard & Poor's							
(In thousands)		A	AA	AAA	B	BB	BBB	CCC	Totals
Corporate obligations	\$	164,813	86,598	—	12,749	200	92,569	5,165	\$ 362,094
International corporate obligations		—	18,091	—	360	—	—	—	18,451
Other		17,653	53,759	56,587	—	—	—	—	127,999
	\$	<u>182,466</u>	<u>158,448</u>	<u>56,587</u>	<u>13,109</u>	<u>200</u>	<u>92,569</u>	<u>5,165</u>	<u>\$ 508,544</u>

The 2012 tables do not include certain domestic and international corporate obligations including certain exchange traded funds (ETFs) totaling \$100,854,257, which invest in an underlying portfolio of fixed income securities and do not have a Moody's, Standard & Poor's or Fitch rating. The Police and Firemen's Mortgages and the CMF are also unrated.

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Notes to Financial Statements

June 30, 2012 and 2011

For securities in the fixed income portfolio, the following tables disclose aggregate market value by major credit quality rating category as of June 30, 2011. The first table for 2011 includes fixed income securities rated by Moody's. The second table for 2011 discloses S&P and Fitch ratings for fixed income securities not rated by Moody's.

	June 30, 2011								
	Moody's rating (1)								
	Aaa	Aa	A	Baa	Ba	B	Ca	Caa	Totals
(In thousands)									
Corporate obligations	\$ 579,318	1,240,698	3,767,728	3,703,489	291,148	262,447	3,200	119,424	\$ 9,967,452
United States treasury TIPS	2,728,503	—	—	—	—	—	—	—	2,728,503
United States treasury bonds	1,739,541	—	—	—	—	—	—	—	1,739,541
Foreign government obligations	183,511	916,049	26,762	—	125	—	—	—	1,126,447
International corporate obligations	—	109,077	456,420	284,861	9,170	16,450	714	6,399	883,091
Mortgages (FHLMC/FNMA/GNMA)	630,629	—	—	—	—	—	—	—	630,629
United States government strips	568,556	—	—	—	—	—	—	—	568,556
Federal agency obligations	362,867	—	—	—	—	—	—	—	362,867
SBA pass through certificates	152,640	—	—	—	—	—	—	—	152,640
Asset backed obligations	—	16,786	25,189	43,759	1,519	—	—	623	87,876
Other	97,477	854,064	249,972	—	—	—	—	—	1,201,513
	<u>\$ 7,043,042</u>	<u>3,136,674</u>	<u>4,526,071</u>	<u>4,032,109</u>	<u>301,962</u>	<u>278,897</u>	<u>3,914</u>	<u>126,446</u>	<u>\$ 19,449,115</u>

(1) Subsequent to June 30, 2011, Standard & Poor's downgraded the United States credit rating to AA+ from its top rank of AAA, for the first time in history.

	June 30, 2011								
	Standard & Poor's & Fitch ratings								
	Standard & Poor's						Fitch	Totals	
A	AA	AAA	B	BB	BBB	CCC	BBB		
(In thousands)									
Corporate obligations	\$ 97,733	69,219	—	11,032	3,981	94,199	5,131	13,234	\$ 294,529
International corporate obligations	—	—	—	2,943	618	—	—	—	3,561
Other	50,139	65,320	34,625	—	—	—	—	—	150,084
	<u>\$ 147,872</u>	<u>134,539</u>	<u>34,625</u>	<u>13,975</u>	<u>4,599</u>	<u>94,199</u>	<u>5,131</u>	<u>13,234</u>	<u>\$ 448,174</u>

The 2011 tables do not include certain domestic and international corporate obligations including certain exchange traded funds (ETFs) totaling \$172,869,190, which invest in an underlying portfolio of fixed income securities and do not have a Moody's, Standard & Poor's or Fitch rating. The Police and Firemen's Mortgages and the CMF are also 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. Repurchase agreement must mature within 30 days. The investment in guaranteed income contracts and funding agreements is limited to a term of 10 years or less.

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Notes to Financial Statements

June 30, 2012 and 2011

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 as of June 30, 2012 and 2011:

June 30, 2012					
Maturities in years					
Fixed income investment type	Less than 1	1-5	6-10	More than 10	Total fair value
Corporate obligations	\$ 2,497	815,660	3,772,682	5,269,697	\$ 9,860,536
United States treasury inflation index notes	—	56,116	248,107	1,513,941	1,818,164
United States treasury bonds	—	—	—	666,630	666,630
Foreign government obligations	—	156,880	1,136,294	828,601	2,121,775
Police & firemen's mortgage program	43	1,962	6,556	955,338	963,899
International corporate obligations	—	44,736	265,402	445,286	755,424
Mortgages (FHLMC/FNMA/GNMA)	9	2,505	—	357,167	359,681
United States government strips	—	—	—	583,671	583,671
Federal agency obligations	—	7,864	185,783	70,409	264,056
Asset backed obligations	—	—	16,628	51,441	68,069
SBA pass through certificates	—	5,461	153,380	—	158,841
Other	—	—	—	1,233,298	1,233,298
	<u>\$ 2,549</u>	<u>1,091,184</u>	<u>5,784,832</u>	<u>11,975,479</u>	<u>\$ 18,854,044</u>

June 30, 2011					
Maturities in years					
Fixed income investment type	Less than 1	1-5	6-10	More than 10	Total fair value
Corporate obligations	\$ 2,470	788,190	3,826,864	5,683,875	\$ 10,301,399
United States treasury inflation index notes	—	—	2,296,801	431,702	2,728,503
United States treasury bonds	—	—	—	1,739,541	1,739,541
Foreign government obligations	—	122,643	447,719	598,498	1,168,860
Police and firemen's mortgage program	1	330	4,726	1,135,437	1,140,494
International corporate obligations	—	131,075	299,110	467,661	897,846
Mortgages (FHLMC/FNMA/GNMA)	—	4,608	6	626,015	630,629
United States government strips	—	—	—	568,556	568,556
Federal agency obligations	—	11,202	211,747	139,918	362,867
Asset backed obligations	—	1,347	17,409	148,962	167,718
SBA pass through certificates	—	—	152,640	—	152,640
Other	—	—	—	1,351,599	1,351,599
	<u>\$ 2,471</u>	<u>1,059,395</u>	<u>7,257,022</u>	<u>12,891,764</u>	<u>\$ 21,210,652</u>

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Notes to Financial Statements

June 30, 2012 and 2011

The pension funds invest in global markets. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The market value of international preferred and common stocks and issues convertible into common stocks, when combined with the market value of international government, agency, and corporate obligations, cannot exceed 30% of the market value of the pension funds. 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. 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 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 contract receivables totaling approximately \$423.3 million and payables totaling approximately \$420.9 million (with a \$2.4 million net gain) as of June 30, 2012. The pension funds held forward contract receivables totaling approximately \$1.28 billion and payables totaling approximately \$1.31 billion (with a \$24.9 million net exposure) as of June 30, 2011. At June 30, 2012, the credit ratings of the counterparties to the forward currency contracts had Moody's credit ratings of no less than A3.

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Notes to Financial Statements

June 30, 2012 and 2011

The pension funds had the following foreign currency exposure as of June 30, 2012 and 2011 (expressed in U.S. dollars):

<u>Currency</u>	<u>June 30, 2012</u>		
	<u>Equities</u>	<u>Alternative investments</u>	<u>Total fair value</u>
Australian dollar	\$ 404,954,100	—	\$ 404,954,100
Brazilian real	172,085,944	—	172,085,944
Canadian dollar	992,370,679	—	992,370,679
Czech koruna	2,569,245	—	2,569,245
Danish krone	98,819,480	—	98,819,480
Egyptian pound	20,394,383	—	20,394,383
Euro	1,689,226,359	360,483,508	2,049,709,867
Hong Kong dollar	538,220,766	—	538,220,766
Hungarian forint	18,229,565	—	18,229,565
Indonesian rupiah	78,278,460	—	78,278,460
Israeli shekel	7,460,574	—	7,460,574
Japanese yen	1,981,574,037	—	1,981,574,037
Malaysian ringgit	37,936,336	—	37,936,336
Mexican peso	42,885,574	—	42,885,574
New Russian ruble	9,029	—	9,029
New Taiwan dollar	13,881,976	—	13,881,976
Norwegian krone	107,748,167	—	107,748,167
Pakistan rupee	7,436,961	—	7,436,961
Philippine peso	29,208,830	—	29,208,830
Polish zloty	19,937,010	—	19,937,010
Pound sterling (U.K.)	1,274,777,605	12,365,673	1,287,143,278
Singapore dollar	219,137,755	—	219,137,755
South African rand	144,895,161	—	144,895,161
South Korean won	303,027,034	—	303,027,034
Swedish krona	357,003,430	—	357,003,430
Swiss franc	712,213,298	—	712,213,298
Thailand baht	65,424,218	—	65,424,218
Turkish lira	77,161,333	—	77,161,333
	<u>\$ 9,416,867,309</u>	<u>372,849,181</u>	<u>\$ 9,789,716,490</u>

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Notes to Financial Statements

June 30, 2012 and 2011

(In thousands)	June 30, 2011		
Currency	Equities	Alternative Investments	Total fair value
Australian dollar	\$ 539,940	—	\$ 539,940
Brazilian real	234,906	—	234,906
Canadian dollar	1,424,080	—	1,424,080
Chilean peso	3,700	—	3,700
Czech koruna	16,889	—	16,889
Danish krone	148,033	—	148,033
Egyptian pound	28,329	—	28,329
Euro	2,645,346	325,883	2,971,229
Hong Kong dollar	658,318	—	658,318
Hungarian forint	19,799	—	19,799
Indonesian rupiah	80,706	—	80,706
Israeli shekel	7,614	—	7,614
Japanese yen	2,008,900	—	2,008,900
Malaysian ringgit	52,994	—	52,994
Mexican peso	39,165	—	39,165
New Taiwan dollar	15,699	—	15,699
Norwegian krone	115,985	—	115,985
Pakistan rupee	8,043	—	8,043
Philippine peso	17,252	—	17,252
Polish zloty	24,996	—	24,996
Pound sterling (U.K.)	1,864,042	11,399	1,875,441
Singapore dollar	260,687	—	260,687
South African rand	152,337	—	152,337
South Korean won	321,936	—	321,936
Swedish krona	584,331	—	584,331
Swiss franc	781,942	—	781,942
Thailand baht	48,799	—	48,799
Turkish lira	57,784	—	57,784
	<u>\$ 12,162,552</u>	<u>337,282</u>	<u>\$ 12,499,834</u>

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, speculative investments (both derivatives and nonmarketable investments), and nondisclosure of portfolio composition. Effective April 18, 2011, Council regulations provide that not more than 38% of the market value of the pension funds can be invested in alternative investments, with limits on the individual investment categories of real estate (9%), real assets (7%), private equity (12%) and absolute return strategy (15%). Prior to that, the overall limitation was 28% with a 7% limit on each of the individual categories. 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.

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Notes to Financial Statements

June 30, 2012 and 2011

At June 30, 2012, Other Receivables includes \$299 million related to the secondary sale of certain private equity funds which is due from the purchasers in December 2013.

(4) Securities Lending Collateral

The System's share in the securities lending program was 0.3% of the total market value of the collateral as of June 30, 2012 and 2011.

The securities lending collateral is subject to various risks. Among these risks are custodial credit risk, credit risk, concentration of credit risk, and interest rate risk. The pension funds did not lend securities from July through December 2010. As of December 2010, securities lending collateral is invested in repurchase agreements, the maturities of which cannot exceed 30 days. 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 consistent with internal policies for funds managed by the Division of Investment.

For securities exposed to credit risk in the collateral portfolio, the following tables disclose aggregate fair value, by major credit quality rating category as of June 30, 2012 and 2011.

(In thousands)	June 30, 2012		
	Rating		
	Aaa/AAA	Not rated	Totals
Repurchase agreements	\$ 1,203,274	—	\$ 1,203,274
Cash	—	3,889	3,889
Totals	\$ 1,203,274	3,889	\$ 1,207,163

Custodial credit risk for investments is the risk that in the failure of the counterparty to the transaction, the pension funds will not recover the value of the investments that are in the possession of an outside party. The repurchase agreement's underlying securities are held in the pension funds' name.

As of June 30, 2012, the pension funds had outstanding loaned investment securities with an aggregate market value of \$1,202,238,220 and did not hold any non-cash collateral. There were no borrowers or lending agent default losses, and no recoveries or prior period losses during the year.

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Notes to Financial Statements

June 30, 2012 and 2011

(In thousands)	June 30, 2011		
	Rating		
	Aaa/AAA	Not rated	Totals
Repurchase agreements	\$ 847,919	—	\$ 847,919
Cash	—	5,686	5,686
Totals	\$ 847,919	5,686	\$ 853,605

As of June 30, 2011, the pension funds had outstanding loaned investment securities with an aggregate market value of \$831,618,717. In accordance with GASB accounting standards, the noncash collateral is not reflected in the accompanying financial statements. There were no borrower or lending agent default losses, and no recoveries or prior period losses during the year.

(5) Contributions

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. Pursuant to the provisions of Chapter 78, P.L. 2011, the active member contribution rate will be increased from 3% to 12%, phased in over seven years for new members hired or reappointed after June 28, 2011. For fiscal year 2012, the member contribution rate for new members increased in October 2011. The phase-in of the additional incremental member contribution rate will take place in July of each subsequent fiscal year. The State of New Jersey contribution amount is based on an actuarially determined rate. The annual employer contributions include funding for basic retirement allowances, cost-of-living adjustments and non-contributory death benefits.

Chapter 1, P.L. 2010, effective May 21, 2010, required the State to make its full pension contribution, defined as 1/7th of the required amount, beginning in fiscal year 2012. The State made a contribution of \$5.5 million, excluding the State's contribution of non-contributory group insurance (NCGI) of \$0.5 million, for fiscal year 2012. The amount contributed for fiscal year 2012 is equal to 12.9% of the actuarially determined statutory amount of Annual Required Contribution (ARC) and equal to 14.3% of the budgetary recommended contribution amount.

The State did not make a pension contribution for fiscal year 2011 but did make a contribution of \$0.6 million for NCGI death benefits.

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Notes to Financial Statements

June 30, 2012 and 2011

(6) Funds

JRS maintains the following legally required funds as follows:

Members' Annuity Savings and Accumulative Interest Fund (2012 – \$44,485,288; 2011 – \$43,221,648)

The Members' Annuity Savings Fund (ASF) is credited with all contributions made by active members of the System. Interest earned on member contributions is credited to the Accumulative Interest Fund. Member withdrawals are paid out of this Fund.

Contingent Reserve Fund (2012 – \$-13,060,769; 2011 – \$31,650,396)

The Contingent Reserve Fund is credited with the contributions of the State of New Jersey. Interest earnings, after crediting the Accumulative Interest Fund and the Retirement Reserve Fund, as required, are credited to this account. Additionally, payments for administrative expenses are made from this Fund.

Retirement Reserve Fund (2012 – \$200,611,146; 2011 – \$189,832,324)

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' ASF and Accumulative Interest Fund. Any additional reserves needed to fund the balance of the retirement benefit are transferred from the Contingent Reserve Fund. Annually, interest as determined by the State Treasurer (8.25% for fiscal years 2012 and 2011) is credited to the Retirement Reserve Fund.

Non-contributory Group Insurance Premium Fund (2012 – \$0; 2011 – \$0)

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.

(7) Income Tax Status

Based on an Internal Revenue Service determination letter received in January, 2012, the System complies with the qualification requirements of the Internal Revenue Code.

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Required Supplementary Information

Schedule of Funding Progress

(Unaudited – See accompanying independent auditor’s 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)
July 1, 2006	\$ 369,493,799	493,778,007	124,284,208	74.8%	\$ 62,492,250	198.9%
July 1, 2007	379,364,939	524,970,330	145,605,391	72.3	63,144,685	230.6
July 1, 2008	380,964,713	553,284,647	172,319,934	68.9	67,159,516	256.6
July 1, 2009	354,399,646	594,043,375	239,643,729	59.7	70,133,372	341.7
July 1, 2010	329,030,387	554,540,403	225,510,016	59.3	71,746,413	314.3
July 1, 2011	305,245,844	585,700,787	280,454,943	52.1	67,437,125	415.9

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Required Supplementary Information

Schedule of Funding Progress – Additional Actuarial Information

(Unaudited – See accompanying independent auditor’s report)

Significant actuarial methods and assumptions used in the most recent 2011 and 2010 actuarial valuations included the following:

	<u>July 1, 2011</u>	<u>July 1, 2010</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, open	Level percent, open
Remaining amortization period	30 years	30 years
Actuarial assumptions:		
Interest rate	7.95%	8.25%
Salary range	2.50%	4.50%
Cost-of-living adjustments	—%	—%

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Required Supplementary Information

Schedule of Employer Contributions

(Unaudited – See accompanying independent auditor’s report)

Year ended June 30	Annual required contribution	Employer contributions⁽¹⁾	Percentage contributed
2007	\$ 25,174,191	12,741,898 ⁽²⁾	50.6%
2008	27,171,100 ⁽²⁾	12,913,890 ⁽²⁾	47.5
2009	29,809,782	1,696,843 ⁽²⁾	5.7
2010	32,540,704	1,032,857 ⁽²⁾	3.2
2011	38,450,553	651,718 ⁽²⁾	1.7
2012	42,475,660	6,437,938	15.2

Notes to schedule:

- (1) 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 2011 actuarial valuations and the actual amounts received in fiscal year 2012. 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 2012. The financial statements and footnotes reflect the actual amounts received in 2012.
- (2) The fiscal year 2008 annual required contribution and the fiscal year 2007 through 2011 contributions have been reduced in accordance with the provisions of the Appropriation Act for each respective fiscal year.

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Schedule of Changes in Fiduciary Net Assets by Fund

Year ended June 30, 2012

	Members' Annuity Savings and Accumulative Interest Fund	Contingent Reserve Fund	Retirement Reserve Fund	NCGI Reserve Fund	Total
Additions:					
Contributions:					
Members	\$ 2,476,205	—	—	—	2,476,205
Employers	—	5,571,240	—	490,713	6,061,953
Total contributions	2,476,205	5,571,240	—	490,713	8,538,158
Distribution of net investment income	2,853,312	(13,560,265)	15,661,167	—	4,954,214
Total additions	5,329,517	(7,989,025)	15,661,167	490,713	13,492,372
Deductions:					
Benefits	—	—	45,464,833	490,713	45,955,546
Refunds of contributions	45,641	—	—	—	45,641
Administrative expenses	—	159,888	—	—	159,888
Total deductions	45,641	159,888	45,464,833	490,713	46,161,075
Net increase (decrease) before transfers among reserves	5,283,876	(8,148,913)	(29,803,666)	—	(32,668,703)
Transfers among reserves:					
Retirements	(4,020,236)	(36,562,252)	40,582,488	—	—
Net increase (decrease)	1,263,640	(44,711,165)	10,778,822	—	(32,668,703)
Net assets held in trust for pension benefits:					
Beginning of year	43,221,648	31,650,396	189,832,324	—	264,704,368
End of year	\$ 44,485,288	(13,060,769)	200,611,146	—	232,035,665