FINANCIAL SECTION

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STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
June 30, 2005

INDEX

KPMG

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Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the State of New Jersey Division of Pensions and Benefits (the Division) as of and for the year ended June 30, 2005, which collectively comprise the Division's basic financial statements as listed in the accompanying index. These financial statements are the responsibility of the Division's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Division's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Division are intended to present the financial position, and the changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, the business-type activities, and each major fund, of the State that is attributable to the transactions of the Division. They do not purport to, and do not, present fairly the financial position of the State of New Jersey as of June 30, 2005, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and each major fund of the State of New Jersey Division of Pensions and Benefits as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Division's basic financial statements. The combining schedules and schedule of administrative expenses, schedule of investment expenses, and schedule of expenses for consultants are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

The information included in the schedule of loss development information and the Introductory, Investment, Actuarial, and Statistical sections of this report is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

KPMG LLP

December 14, 2005

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Management's Discussion and Analysis
June 30, 2005

Our discussion and analysis of the financial performance of the governmental funds, proprietary funds, and fiduciary funds (the Funds) administered by the Division of Pensions and Benefits (the Division) provides an overview of the Funds' financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the basic financial statements and financial statement footnotes, which follow this discussion.

FINANCIAL HIGHLIGHTS

Government-wide Financial Statements

Governmental Activities:

- For Health Benefits Program-State, net assets increased by $36.1 million, decreasing the deficit from $(63.5) million to $(27.4) million. For Prescription Drug Program-State, net assets increased by $7.3 million from $27.6 million to $34.9 million. For Dental Expense Program-State, net assets decreased by $9.4 million from $12.1 million to $2.7 million.
- Revenues recognized during the year were as follows: $1.1 billion for the Health Benefits Program-State; $231.7 million for the Prescription Drug Program-State; and $58.9 million for the Dental Expense Program-State.
- Expenses incurred during the year were as follows: $1.1 billion for the Health Benefits Program-State; $224.4 million for the Prescription Drug Program-State; and $68.3 million for the Dental Expense Program-State.

Business-Type Activities:

- For Health Benefits Program-Local, net assets increased by $68.2 million from $128.4 million to $196.6 million. For Prescription Drug Program-Local, net assets increased by $12.3 million from $9.0 million to $21.3 million. For Dental Expense Program-Local which became effective January 1, 2005, net assets have a deficit of $(1.2) million.
- Revenues recognized during the year were as follows: $1.8 billion for the Health Benefits Program-Local; $92.4 million for the Prescription Drug Program-Local; and $5.4 million for the Dental Expense Program-Local.
- Expenses incurred during the year were as follows: $1.8 billion for the Health Benefits Program-Local; $80.0 million for the Prescription Drug Program-Local; and $6.6 million for the Dental Expense Program-Local.

Fund Financial Statements

Fiduciary Funds:

Pension Trust Funds:

- Fiduciary net assets increased by $3.1 billion as a result of this year's operations from $71.6 billion to $74.7 billion.
- Additions for the year were $9.0 billion, which are comprised of member and employer pension contributions of $2.9 billion and investment income of $ 6.1 billion.
- Deductions for the year were $5.9 billion, which are comprised of benefit and refund payments of $5.9 billion and administrative expenses of $47.3 million.

Agency Funds:

- The Funds' total additions were $141.0 million mostly consisting of member and employer contributions of $140.6 million and investment income of $0.4 million.
- The Funds' total deductions were $141.0 million consisting of pension and insurance benefit charges of $138.6 million and other expenses of $2.4 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the basic financial statements. The basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required and other supplementary information in addition to the basic financial statements.

Government-wide financial statements

Government-wide financial statements include the following governmental activities and business-type activities:

Governmental Activities:

Health Benefits Program – State

Prescription Drug Program – State

Dental Expense Program – State

Business-Type Activities:

Health Benefits Program – Local

Prescription Drug Program – Local

Dental Expense Program – Local

The government-wide financial statements consist of the statement of net assets and the statement of activities. The statement of net assets presents information on all of the assets and liabilities of the Funds, with the difference between the two reported as net assets (deficit). Over time, increases or decreases in the net assets (deficit) provide one indication of whether the financial health of the Funds is improving or declining. The statement of activities presents information showing how the Funds' net assets (deficit) changed during the most recent fiscal year. All changes in net assets (deficit) are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Division uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Division can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds:

Unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Funds' long-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Proprietary Funds:

Proprietary funds include funds that are classified as Enterprise funds. Enterprise funds account for operations that are financed and operated in a manner similar to business enterprises with the intent that the costs of providing services on a continuing basis be financed or recovered primarily through user charges.

Like government-wide financial statements, the financial statements of the proprietary funds were prepared using the accrual basis of accounting. The basic proprietary fund financial statements consist of the statement of net assets, the statement of revenues, expenses, and changes in net assets (deficit), and the statement of cash flows. The statement of cash flows provides detail about the individual sources and uses of cash associated with operating activities and noncapital financing activities.

Fiduciary Funds:

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

The Division administers thirteen fiduciary funds: eleven pension trust funds and two agency funds. The basic fiduciary fund financial statements consist of the statement of fiduciary net assets and the statement of changes in fiduciary net assets.

Notes to the financial statements

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

Other information

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

FINANCIAL ANALYSIS

Government-wide:

STATEMENT OF NET ASSETS (DEFICIT)

Governmental Activities:

	2005	2004	Increase (Decrease)
Assets	$ 203,595,080	$ 152,666,147	$ 50,928,933
Liabilities	193,408,330	176,501,958	16,906,372
Net Assets (Deficit)	$ 10,186,750	$ (23,835,811)	$ 34,022,561

Business-Type Activities:

	2005	2004	Increase (Decrease)
Assets	$ 518,065,490	$ 399,618,655	$ 118,446,835
Liabilities	301,420,577	262,269,465	39,151,112
Net Assets (Deficit)	$ 216,644,913	$ 137,349,190	$ 79,295,723

Assets mainly consist of cash, investments, and contributions due from members, participating employers and former members who are covered under the rules of the Federal Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA), and contributions due from Public Employees' Retirement System (PERS) and Teachers' Pension and Annuity Fund (TPAF) to provide funding for post-retirement medical benefits. For the Governmental Activities, between fiscal years 2004 and 2005, total assets increased by $50.9 million or 33.4%. For the Business-Type Activities, total assets increased by $118.4 million or 29.6%. The increase in total assets is mainly due to an increase in fair value balances invested in the Cash Management Fund (CMF) and an increase in charges for services in 2005.

Liabilities mainly consist of outstanding medical and long-term disability claim payments, including incurred but not reported (IBNR) claims. For the Governmental Activities, total liabilities increased by $16.9 million or 9.6%. For the Business-Type Activities, total liabilities increased by $39.1 million or 14.9%. The increase in total liabilities is mainly due to an increase in claims payable including IBNR.

For the Governmental Activities, net assets increased by $34.0 million or 142.7%. For the Business-Type Activities, net assets increased by $79.3 million or 57.7%. The increase in net assets is due to an increase in fair value of investments and revenues exceeding expenses.

STATEMENT OF ACTIVITIES

REVENUES - ADDITIONS TO NET ASSETS (DEFICIT)

Governmental Activities:

	2005	2004	Increase (Decrease)
Member Contributions	$ 114,227,002	$ 108,605,249	$ 5,621,753
Employer Contributions	1,271,991,065	1,142,379,402	129,611,663
CMF Investment & Other	3,558,790	856,232	2,702,558
Totals	$ 1,389,776,857	$ 1,251,840,883	$137,935,974

Business-Type Activities:

	2005	2004	Increase (Decrease)
Member Contributions	$ 93,328,849	$ 85,621,581	$ 7,707,268
Employer Contributions	1,837,856,549	1,683,134,186	154,722,363
CMF Investment & Other	8,674,083	2,841,106	5,832,977
Totals	$ 1,939,859,481	$ 1,771,596,873	$168,262,608

Revenues primarily consist of member and employer contributions and earnings from CMF Investment activities. For the Governmental Activities, revenues increased by $137.9 million or 11.0%. For the Business-Type Activities, total revenues increased by $168.3 million or 9.5%. The increase in revenues is attributable to an increase in the premium rates for the health, dental, and prescription drug plans. Member contributions increased by 5.2% for the Governmental Activities and by 9.0% for the Business-Type Activities for the same reason. The increase in investment and other revenues is primarily due to net appreciation in fair value of investments and a higher CMF interest rate.

EXPENSES - DEDUCTIONS FROM NET ASSETS (DEFICIT)

Governmental Activities:

	2005	2004	Increase (Decrease)
Benefits	$ 1,353,189,620	$ 1,218,641,656	$134,547,964
Administrative Expenses	2,564,676	2,656,283	(91,607)
Totals	$ 1,355,754,296	$ 1,221,297,939	$134,456,357

Expenses primarily consist of claim charges for the self-insured health, prescription drug, and dental plans, premium charges for the insured health and dental programs, and administrative expenses. During the year, expenses increased by $134.5 million or 11.0% for the Governmental Activities. For the insured plans, expenses increased due to the higher premium rates for calendar year 2005. The average premium rate increase for all plans is 3.9% for active members and 9.5% for retirees in calendar year 2005. For the self-insured plans, the increase in benefit expenses was due to higher claim charges, which is attributable to the rising cost of health services.

Business-Type Activities:

	2005	2004	Increase (Decrease)
Benefits	$1,856,716,744	$ 1,696,844,732	$ 159,872,012
Administrative Expenses	3,847,014	3,835,625	11,389
Totals	$1,860,563,758	$ 1,700,680,357	$159,883,401

Expenses primarily consist of claim charges for the self-insured health, prescription drug, and dental plans, premium charges for the insured health and dental programs, and administrative expenses. During the year, expenses increased by $159.9 million or 9.4% for the Business-Type Activities. For the insured plans, expenses increased due to higher premium rates for calendar year 2005. The average premium rate increase for all plans is 7.5% for active members and 8.5% for retirees in calendar year 2005. For the self-insured plans, the increase in benefit expenses was due to higher claim charges, which is attributable to the rising cost of health services.

Fiduciary Funds:

STATEMENT OF FIDUCIARY NET ASSETS

Pension Trust Funds:

	2005	2004	Increase (Decrease)
Assets	$ 87,314,303,498	$83,331,702,856	$ 3,982,600,642
Liabilities	12,582,266,466	11,682,856,217	899,410,249
Net Assets	$ 74,732,037,032	$71,648,846,639	$3,083,190,393

Assets mainly consist of cash, securities lending collateral, investments, and contributions due from members and participating employers. Between fiscal years 2004 and 2005, total assets increased by $4.0 billion or 4.8%. The total assets increased partly due to an increase in fair value of investments. It is also related to an increase in member contributions and employer contributions receivables. Employer contributions receivables were based on Chapter 23, P.L. 2002 (early retirement incentive benefits to State employees) for Teachers' Pension and Annuity Fund (TPAF) and Public Employees' Retirement System (PERS); Chapter 128 and 129, P.L. 2003 (early retirement incentive benefits to local employees) for TPAF; Chapter 127, 128, and 129 for PERS; Chapter 130 for Police and Firemen's Retirement System (PFRS); and Chapter 108, P.L. 2003 (pension obligation payments by local employers through a five-year phase-in) for PERS and PFRS.

Liabilities consist of pension and death benefit payments owed to members and beneficiaries, outstanding insurance premium payments, securities lending collateral and rebates payable, and other payables. Total liabilities increased by $899.4 million or 7.7% over last year. This is mainly due to an increase in benefits payable to retirees and beneficiaries.

Net assets increased by $3.1 billion or 4.3%.

Agency Funds:

	2005	2004	Increase (Decrease)
Assets	$ 30,761,110	$ 27,295,305	$ 3,465,805
Liabilities	30,761,110	27,295,305	3,465,805
Net Assets (Deficit)	$ 0	$ 0	$ 0

The Funds' assets mainly consist of cash, investments and contributions due from the State and local employers. Between fiscal years 2004 and 2005, total assets increased by $3.5 million or 12.7%. This is mainly due to an increase in other receivables.

Liabilities mainly consist of pension reimbursements owed by the State of New Jersey to state/county colleges and outstanding life and long-term disability insurance premium charges in the Alternate Benefit Program Fund (ABP). Between fiscal year 2004 and 2005, total liabilities increased by $3.5 million or 12.7%. The increase in the liabilities is mainly related to an increase in Due to State General Fund.

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

ADDITIONS TO FIDUCIARY NET ASSETS

Pension Trust Funds:

	2005	2004	Increase (Decrease)
Member Contributions	$ 1,460,882,145	$ 1,196,974,064	$ 263,908,081
Employer Contributions & Other	1,461,575,456	1,515,936,587	(54,361,131)
Investment	6,058,920,769	8,805,203,159	(2,746,282,390)
Totals	$ 8,981,378,370	$11,518,113,810	$ (2,536,735,440)

Additions primarily consist of member and employer contributions and earnings from investment activities. There was an increase by $263.9 million or 22.1% in total member contributions. In all pension trust funds other than Judicial Retirement System (JRS), member contributions increased between 2004 and 2005 partly due to normal salary increases or increased membership. Also, in TPAF and PERS, the increase is partly due to elimination of a reduction in the employee contribution rate (i.e., returning to the normal rate of 5% from 3%), which was effective January 1, 2004 for TPAF, July 1, 2004 for PERS-State, and January 1, 2005 for PERS-Local. The increases in member contributions ranged from 2.1% in Supplemental Annuity Collective Trust (SACT) to 42.4% in PERS. JRS decreased by 17.5%.

Employer contributions (excluding pension adjustment fund) decreased by $53.4 million or 3.6%. The decrease was mainly from PERS by $363.7 million or 47.0%. Employer contributions included appropriation from local employers due April 1, 2006 for PERS and PFRS based on Chapter 108, P.L. 2003; contributions from local employers for TPAF, PERS, and PFRS based on Chapter 127, 128, 129, and/or 130, P.L. 2003; and contributions from State appropriation for TPAF and PERS based on Chapter 23, P.L. 2002.

The State made a contribution of $494.7 million for TPAF and $190.8 million for PERS fiscal year 2005 post-retirement medical (PRM).

The State made a contribution of $6.2 million to JRS, $7.0 million to Consolidated Police and Firemen's Pension Fund (CPFPF), and $49.3 million to PFRS to satisfy the actuarially accrued liabilities in fiscal year 2005. Also, the State made a contribution of $187.9 thousand to State Police Retirement System (SPRS).

For fiscal year 2005, the 50% of TPAF, PERS, and PFRS available excess valuation assets could be utilized to offset normal contributions. Thereafter, a certain percentage of available excess valuation assets may be used as specified in the legislation. The normal contribution for basic pension benefits, noncontributory death benefits, and cost-of-living adjustments was funded by excess valuation assets in accordance with Chapter 115, P.L. 1997.

Investment & other revenues decreased by $2.7 billion or 31.2% due to decrease in net appreciation in fair value of investments.

The total investment gain for all pension funds was estimated to be 8.7% compared to 14.2% in the prior year.

Agency Funds:

	2005	2004	Increase (Decrease)
Member Contributions	$ 737,213	$ 699,121	$ 38,092
Employer Contributions	139,907,140	132,369,860	7,537,280
Investment & Other	353,072	174,436	178,636
Totals	$ 140,997,425	$ 133,243,417	$ 7,754,008

For the ABP, additions primarily consist of member and employer contributions and earnings from investment activities. During the year, member contribution increased by 5.5% due to higher base salaries. Employer contributions increased by $9.4 million or 7.8% due to higher base salaries. Investment earnings increased by 116.7% due to net appreciation in fair value of investments and a higher CMF interest rate.

For the PAF, additions consist of employer contributions and earnings from investment activities. Contributions recognized by the PAF decreased by $1.9 million or 16.3% over last year due to a decrease in number of retirees and beneficiaries receiving pension adjustment benefit. Investment earnings increased by 82.6% due to net appreciation in fair value of investments and a higher CMF interest rate.

DEDUCTIONS FROM FIDUCIARY NET ASSETS

Pension Trust Funds:

	2005	2004	Increase (Decrease)
Benefits	$ 5,750,478,219	$ 5,276,329,933	$ 474,148,286
Refunds & Adjustments	100,425,050	101,777,214	(1,352,164)
Administrative Expenses	47,284,708	32,219,076	15,065,632
Totals	$ 5,898,187,977	$ 5,410,326,223	$ 487,861,754

Deductions are mainly comprised of pension benefit payments to retirees and beneficiaries, refunds of contributions to former members, and administrative costs incurred by the Funds. Benefit payments increased by $487.9 million or 9.0%. It is partly due to an increase in number of retirees. The number of refunds processed decreased by $1.4 million or 1.3% compared to last year. Administrative expenses increased by $15.1 million or 46.8% mainly due to the reimbursement to the State General Fund for the Special Project Fund Appropriation for the system reengineering project.

Agency Funds:

	2005	2004	Increase (Decrease)
Benefits	$ 138,562,001	$ 132,187,587	$ 6,374,414
Refunds & Amounts Due the General Fund	2,435,424	1,055,830	1,379,594
Totals	$ 140,997,425	$ 133,243,417	$ 7,754,008

The increase in benefit payments is mainly due to the increase in the State reimbursement expense to state/county colleges based on 8% of the base salaries of active participants in the ABP. Benefit payments increased by $7.4 million or 6.1% in the ABP. The number of active and retired claims processed was higher as compared to the prior year.

Refunds and amounts due the general fund primarily represent contributions received from the State of New Jersey in excess of the amount required to cover benefit charges incurred by the Funds. There was an increase in this expense by $1.4 million or 130.7% between 2005 and 2004.

OVERALL FINANCIAL CONDITION OF THE FUNDS

For the pension benefit funds, the combined funded ratios of 87.2% for fiscal year 2005 and 93.7% for 2004 indicate that these funds have sufficient assets to meet their benefit obligations.

For the State Health Benefits Program Fund - State and Local, contributions received by the Funds to pay the premiums for covered members are now keeping pace with the rising health costs and produce a necessary reserve. Management intends that through further rate actions and other initiatives, the Funds will maintain sufficient reserves.

The Prescription Drug - State and Local received contributions to meet this year's benefit obligations and to maintain a sufficient reserve. Through further rate actions and other initiatives, management intends that the financial condition of these benefit programs will remain stable.

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

CONTACTING SYSTEM FINANCIAL MANAGEMENT

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

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Statement of Net Assets

June 30, 2005

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Assets:			
Cash and cash equivalents	$32,860	464,502	$497,362
Investments, at fair value:			
Cash Management Fund	148,862,136	431,963,542	580,825,678
Total investments	148,862,136	431,963,542	580,825,678
Receivables:			
Other	54,573,513	85,145,096	139,718,609
Due from other funds	126,571	492,350	618,921
Total receivables	54,700,084	85,637,446	140,337,530
Total assets	$203,595,080	518,065,490	$721,660,570
Liabilities:			
Accounts payable and accrued expenses	$47,436,699	38,770,570	$86,207,269
Cash overdraft	577,346	216,949	794,295
Incurred but not reported claims	143,039,000	261,500,000	404,539,000
Deferred revenue	1,934,908	—	1,934,908
Other	293,806	440,708	734,514
Due to other funds	126,571	492,350	618,921
Total liabilities	193,408,330	301,420,577	494,828,907
Net assets — unrestricted	10,186,750	216,644,913	226,831,663
Total liabilities and net assets — unrestricted	$203,595,080	518,065,490	$721,660,570

See accompanying notes to financial statements.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Statement of Activities

Year Ended June 30, 2005

		Program Revenues	Net (Expense) Revenue and Changes in Net Assets (Deficit)		
Functions/Programs	**Expenses**	**Charges for Services (Contributions)**	**Governmental Activities**	**Business-Type Activities**	**TOTAL**
Primary government:					
Governmental activities:					
Health Benefits Program - State	$ 1,063,128,414	1,096,996,160	33,867,746	—	$ 33,867,746
Dental Expense Program	68,270,257	58,467,105	(9,803,152)	—	(9,803,152)
Prescription Drug Program - State	224,355,625	230,754,802	6,399,177	—	6,399,177
Total governmental activities	1,355,754,296	1,386,218,067	30,463,771	—	30,463,771
Business-type activities:					
Health Benefits Program - Local	1,773,894,997	1,833,697,629	—	59,802,632	59,802,632
Dental Expense Program - Local	6,605,724	5,346,636	—	(1,259,088)	(1,259,088)
Prescription Drug Program - Local	80,063,037	92,141,133	—	12,078,096	12,078,096
Total business-type activities	1,860,563,758	1,931,185,398	—	70,621,640	70,621,640
Total primary government	$ 3,216,318,054	3,317,403,465	30,463,771	70,621,640	$ 101,085,411
General Revenues:					
Investment Earnings			$ 3,558,790	8,674,083	$ 12,232,873
Total general revenues			3,558,790	8,674,083	12,232,873
Change in Net Assets			34,022,561	79,295,723	113,318,284
Net assets (deficit) - Beginning of year			(23,835,811)	137,349,190	113,513,379
Net assets - End of year			$ 10,186,750	216,644,913	$ 226,831,663

See accompanying notes to financial statements.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Balance Sheet
Governmental Funds
June 30, 2005

	HEALTH BENEFITS PROGRAM FUND STATE	DENTAL EXPENSE PROGRAM FUND STATE	PRESCRIPTION DRUG PROGRAM FUND STATE	TOTAL
Assets:				
Cash and cash equivalents	$ —	—	32,860	$ 32,860
Investments, at fair value:				
Cash Management Fund	99,068,720	9,942,140	39,851,276	148,862,136
Total investments	99,068,720	9,942,140	39,851,276	148,862,136
Receivables:				
Other	53,077,780	1,456,177	39,556	54,573,513
Due from other funds	121,511	5,060	—	126,571
Total receivables	53,199,291	1,461,237	39,556	54,700,084
Total assets	$ 152,268,011	11,403,377	39,923,692	$ 203,595,080
Liabilities:				
Accounts payable and accrued expenses	$ 41,401,041	1,135,658	4,900,000	$ 47,436,699
Cash overdraft	145,120	432,226	—	577,346
Deferred revenue	1,015,342	917,216	2,350	1,934,908
Other	293,806	—	—	293,806
Due to other funds	5,060	—	121,511	126,571
Total liabilities	42,860,369	2,485,100	5,023,861	50,369,330
Fund balances:				
Unreserved	109,407,642	8,918,277	34,899,831	153,225,750
Total liabilities and fund balances	$ 152,268,011	11,403,377	39,923,692	$ 203,595,080
Amounts reported in the statement of net assets are different because: Long term liabilities including IBNR are not due and payable in the current period and therefore not reported in the funds.	(136,794,000)	(6,245,000)	—	(143,039,000)
Fund Balances (Deficiencies)	$ (27,386,358)	2,673,277	34,899,831	$ 10,186,750

See accompanying notes to financial statements.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds

Year Ended June 30, 2005

	HEALTH BENEFITS PROGRAM FUND STATE	DENTAL EXPENSE PROGRAM FUND STATE	PRESCRIPTION DRUG PROGRAM FUND STATE	TOTAL
Revenues:				
Contributions:				
Members	$ 76,446,658	36,318,296	1,462,048	$ 114,227,002
Employers	1,020,549,502	22,148,809	229,292,754	1,271,991,065
Total contributions	1,096,996,160	58,467,105	230,754,802	1,386,218,067
Investment income:				
Net appreciation (depreciation) in fair value of investments	5,341	2,028	570	7,939
Interest	2,240,912	383,285	926,654	3,550,851
Total investment income	2,246,253	385,313	927,224	3,558,790
Total revenues	1,099,242,413	58,852,418	231,682,026	1,389,776,857
Expenditures:				
Benefits	1,044,426,738	67,595,257	224,355,625	1,336,377,620
Administrative expense	2,564,676	—	—	2,564,676
Total expenditures	1,046,991,414	67,595,257	224,355,625	1,338,942,296
Excess (deficiency) of revenues over (under) expenditures	52,250,999	(8,742,839)	7,326,401	50,834,561
Fund Balances:				
Beginning of year	57,156,643	17,661,116	27,573,430	102,391,189
End of year	$ 109,407,642	8,918,277	34,899,831	$ 153,225,750
Benefits — Modified Accrual	1,044,426,738	67,595,257	224,355,625	1,336,377,620
Benefits — Full Accrual	1,060,563,738	68,270,257	224,355,625	1,353,189,620
Adjustment of IBNR	(16,137,000)	(675,000)	—	(16,812,000)
Change in Net Assets	$ 36,113,999	(9,417,839)	7,326,401	$ 34,022,561

See accompanying notes to financial statements.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Statement of Net Assets
Proprietary Funds

June 30, 2005

	HEALTH BENEFITS PROGRAM FUND LOCAL	PRESCRIPTION DRUG PROGRAM FUND LOCAL	DENTAL EXPENSE PROGRAM FUND LOCAL	TOTAL
Assets:				
Cash and cash equivalents	$ —	430,217	34,285	$ 464,502
Investments, at fair value:				
Cash Management Fund	416,483,163	14,869,941	610,438	431,963,542
Total investments	416,483,163	14,869,941	610,438	431,963,542
Receivables:				
Other	77,817,663	7,308,917	18,516	85,145,096
Due from other funds	13,064	479,286	—	492,350
Total receivables	77,830,727	7,788,203	18,516	85,637,446
Total assets	$ 494,313,890	23,088,361	663,239	$ 518,065,490
Liabilities:				
Accounts payable and accrued expenses	$ 38,770,570	—	—	$ 38,770,570
Incurred but not reported claims	257,800,000	1,800,000	1,900,000	261,500,000
Cash overdraft	216,949	—	—	216,949
Deferred revenue	—	—	—	—
Other	440,708	—	—	440,708
Due to other funds	479,286	—	13,064	492,350
Total liabilities	297,707,513	1,800,000	1,913,064	301,420,577
Net Assets	$ 196,606,377	21,288,361	(1,249,825)	$ 216,644,913

See accompanying notes to financial statements.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds

Year Ended June 30, 2005

	HEALTH BENEFITS PROGRAM FUND LOCAL	PRESCRIPTION DRUG PROGRAM FUND LOCAL	DENTAL EXPENSE PROGRAM FUND LOCAL	TOTAL
Operating Revenues:				
Contributions:				
Members	$ 87,593,743	599,206	5,135,900	$ 93,328,849
Employers	1,746,103,886	91,541,927	210,736	1,837,856,549
Total operating revenues	1,833,697,629	92,141,133	5,346,636	1,931,185,398
Operating Expenses:				
Benefits	1,770,047,983	80,063,037	6,605,724	1,856,716,744
Administrative expense	3,847,014	—	—	3,847,014
Total operating expenses	1,773,894,997	80,063,037	6,605,724	1,860,563,758
Operating income	59,802,632	12,078,096	(1,259,088)	70,621,640
Non-operating revenue:				
Investment income:				
Net appreciation (depreciation) in fair value of investments	17,723	142	130	17,995
Interest	8,415,291	231,664	9,133	8,656,088
Total non-operating revenue	8,433,014	231,806	9,263	8,674,083
Change in net assets	68,235,646	12,309,902	(1,249,825)	79,295,723
Net Assets				
Beginning of year	128,370,731	8,978,459	—	137,349,190
End of year	$ 196,606,377	21,288,361	(1,249,825)	$ 216,644,913

See accompanying notes to financial statements.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Statement of Cash Flows
Proprietary Funds

Year Ended June 30, 2005

	HEALTH BENEFITS PROGRAM FUND LOCAL	PRESCRIPTION DRUG PROGRAM FUND LOCAL	DENTAL EXPENSE PROGRAM FUND LOCAL	TOTAL
Cash flows from operating activities:				
Receipts — Employer Contributions	$1,745,735,909	91,441,293	208,986	$ 1,837,386,188
Receipts — Member Contributions	87,431,069	608,800	5,119,134	93,159,003
Benefit payments	(1,671,766,145)	(85,113,896)	(4,692,660)	(1,761,572,701)
Premium payments	(56,309,732)	—	—	(56,309,732)
Administrative expense	(3,747,162)	—	—	(3,747,162)
Net cash provided by operating activities	101,343,939	6,936,197	635,460	108,915,596
Cash flows from noncapital financing activities:				
Cash overdraft	216,949	—	—	216,949
Net cash provided by non-capital financing activities	216,949	—	—	216,949
Cash flows from investing activities:				
Interest and dividends	8,415,291	231,664	9,133	8,656,088
Sale/purchase of investments	(110,794,429)	(6,870,829)	(610,308)	(118,275,566)
Net cash provided by investing activities	(102,379,138)	(6,639,165)	(601,175)	(109,619,478)
Increase/decrease in cash equivalents	(818,250)	297,032	34,285	(486,933)
Cash and cash equivalents beginning of year	818,250	133,185	—	951,435
Cash and cash equivalents end of year	$ —	430,217	34,285	$ 464,502
Reconciliation of operating income to net cash provided by operating activities				
Operating Income	$ 59,802,632	12,078,096	(1,259,088)	$ 70,621,640
Adjustments to reconcile operating income to net cash used by operating activities:				
Changes in assets and liabilities:				
(Increase)/decrease in accounts receivable	(1,038,446)	(91,040)	(18,516)	(1,148,002)
(Increase)/decrease in interfund receivable	507,795	—	—	507,795
Increase/(decrease) in accounts payable	41,592,672	(4,530,000)	1,900,000	38,962,672
Increase/(decrease) in service charges payable	—	—	—	—
Increase/(decrease) in due to other funds	479,286	(520,859)	13,064	(28,509)
Total adjustments	41,541,307	(5,141,899)	1,894,548	38,293,956
Net cash provided by operating activities	$ 101,343,939	6,936,197	635,460	$ 108,915,596
Non-cash transactions:				
Change in fair value of investments	$ 17,723	142	130	$ 17,995

See accompanying notes to financial statements.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2005

	PENSION TRUST FUNDS	AGENCY FUNDS	TOTAL
Assets:			
Cash and cash equivalents	$ 590,792	1,011,474	$ 1,602,266
Securities lending collateral	12,122,692,569	—	12,122,692,569
Investments, at fair value:			
Cash Management Fund	2,351,835,217	7,666,775	2,359,501,992
Bonds	396,703,495	—	396,703,495
Common Pension Fund A	35,571,503,404	—	35,571,503,404
Common Pension Fund B	17,497,083,859	—	17,497,083,859
Common Pension Fund D	13,688,046,009	—	13,688,046,009
Common and preferred stocks	1,104,822,874	—	1,104,822,874
Mortgages	1,241,301,096	—	1,241,301,096
Total investments	71,851,295,954	7,666,775	71,858,962,729
Receivables:			
Contributions:			
Members	192,924,978	—	192,924,978
Employers	1,605,075,951	1,747,855	1,606,823,806
Accrued interest and dividends	389,149,406	—	389,149,406
Members' loans	1,120,643,002	—	1,120,643,002
Other	31,930,846	20,335,006	52,265,852
Due from other funds	—	—	—
Total receivables	3,339,724,183	22,082,861	3,361,807,044
Total assets	$ 87,314,303,498	30,761,110	$ 87,345,064,608
Liabilities:			
Accounts payable and accrued expenses	$ 27,194,426	22,351,581	$ 49,546,007
Retirement benefits payable	417,048,590	—	417,048,590
NCGI premiums payable	7,578,739	—	7,578,739
Cash overdraft	7,752,142	—	7,752,142
Securities lending collateral and rebates payable	12,122,692,569	—	12,122,692,569
Participant distributions payable	—	3,040,538	3,040,538
Pension adjustment payroll payable	—	831,130	831,130
Due to State of New Jersey	—	3,203,001	3,203,001
Other	—	1,334,860	1,334,860
Total liabilities	12,582,266,466	30,761,110	12,613,027,576
Net Assets:			
Held in trust for pension benefits	$ 74,732,037,032	—	$ 74,732,037,032

See accompanying notes to financial statements.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Combining Statement of Fiduciary Net Assets
Pension Trust and Post-Retirement Medical Funds

June 30, 2005

	ALTERNATE BENEFIT LONG TERM DISABILITY FUND	CENTRAL PENSION FUND	CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND	DEFERRED COMPENSATION FUND	JUDICIAL RETIREMENT SYSTEM	POLICE AND FIREMEN'S RETIREMENT SYSTEM	PRISON OFFICERS' PENSION FUND
Assets:							
Cash	$ —	16,732	132,802	130,241	33,576	—	277,441
Securities lending collateral	—	—	158,152	—	52,589,726	2,578,670,674	1,055,853
Investments, at fair value:							
Cash Management Fund	3,626,852	38,400	14,813,796	342,723,902	20,006,810	538,642,642	9,057,530
Bonds	—	—	88,480	220,448,406	—	3,052,179	5,181,450
Common Pension Fund A	—	—	—	—	167,553,524	8,267,954,828	—
Common Pension Fund B	—	—	—	—	73,835,513	3,250,307,191	—
Common Pension Fund D	—	—	—	—	63,009,709	3,141,068,036	—
Common and Preferred Stocks	—	—	—	956,868,107	—	—	—
Mortgages	—	—	752,339	—	3,319,369	991,411,345	431,996
Total investments	3,626,852	38,400	15,654,615	1,520,040,415	327,724,925	16,192,436,221	14,670,976
Receivables:							
Contributions:							
Members	—	—	—	(13,307)	70,225	47,861,340	—
Employers	—	—	—	—	—	701,894,418	—
Accrued interest and dividends	—	20	4,979	3,550,565	1,688,575	85,743,875	—
Members' loans	—	—	—	—	618,753	451,221,016	—
Other	—	—	2,106,703	—	—	24,714,134	70,891
Total receivables	—	20	2,111,682	3,537,258	2,377,553	1,311,434,783	70,891
Total assets	$ 3,626,852	55,152	18,057,251	1,523,707,914	382,725,780	20,082,541,678	16,075,161
Liabilities:							
Accounts payable and accrued expenses	$ —	15,094	25,573	673,518	50,719	1,640,149	5,608
Retirement benefits payable	—	40,058	1,242,823	6,660,337	2,486,459	88,473,032	230,235
NCGI premiums payable	—	—	—	—	—	2,227,401	—
Cash overdraft	—	—	—	—	—	1,551,071	—
Securities lending collateral and rebates payable	—	—	158,152	—	52,589,726	2,578,670,674	1,055,853
Total liabilities	—	55,152	1,426,548	7,333,855	55,126,904	2,672,562,327	1,291,696
Net assets held in trust for pension and post-retirement medical benefits	$ 3,626,852	—	16,630,703	1,516,374,059	327,598,876	17,409,979,351	14,783,465

See accompanying notes to financial statements.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Combining Statement of Fiduciary Net Assets
Pension Trust and Post-Retirement Medical Funds

June 30, 2005

	PUBLIC EMPLOYEES' RETIREMENT SYSTEM	PERS POST-RETIREMENT MEDICAL FUND	STATE POLICE RETIREMENT SYSTEM	SUPPLEMENTAL ANNUITY COLLECTIVE TRUST	TEACHERS' PENSION AND ANNUITY FUND	TPAF POST-RETIREMENT MEDICAL FUND	TOTAL
Assets:							
Cash	—	—	—	—	—	—	$590,792
Securities lending collateral	3,953,288,908	—	273,620,853	—	5,263,308,403	—	12,122,692,569
Investments, at fair value:							
Cash Management Fund	691,868,555	32,864	115,047,240	3,275,078	612,691,720	9,828	2,351,835,217
Bonds	118,360,381	6,828	—	—	49,564,719	1,052	396,703,495
Common Pension Fund A	11,409,902,828	658,209	874,350,488	—	14,850,768,277	315,250	35,571,503,404
Common Pension Fund B	5,873,527,783	338,829	387,544,934	—	7,911,361,668	167,941	17,497,083,859
Common Pension Fund D	4,404,736,054	254,098	330,268,014	—	5,748,588,068	122,030	13,688,046,009
Common and Preferred Stocks	—	—	—	147,954,767	—	—	1,104,822,874
Mortgages	105,990,035	6,114	6,756,191	—	132,630,891	2,816	1,241,301,096
Total investments	22,604,385,636	1,296,942	1,713,966,867	151,229,845	29,305,605,343	618,917	71,851,295,954
Receivables:							
Contributions:							
Members	68,518,669	—	939,761	427,494	75,120,796	—	192,924,978
Employers	845,969,563	—	—	—	57,211,970	—	1,605,075,951
Accrued interest and dividends	124,743,734	—	8,764,347	205,262	164,448,049	—	389,149,406
Members' loans	427,671,798	—	28,757,540	—	212,373,895	—	1,120,643,002
Other	2,463,152	—	77,146	1,070,528	1,428,292	—	31,930,846
Total receivables	1,469,366,916	—	38,538,794	1,703,284	510,583,002	—	3,339,724,183
Total assets	28,027,041,460	1,296,942	2,026,126,514	152,933,129	35,079,496,748	618,917	$87,314,303,498
Liabilities:							
Accounts payable and accrued expenses	14,320,010	—	217,304	102,189	10,144,262	—	$27,194,426
Retirement benefits payable	138,076,181	—	8,269,034	655,973	170,914,458	—	417,048,590
NCGI premiums payable	3,699,778	—	—	—	1,651,560	—	7,578,739
Cash overdraft	3,139,910	—	97,942	1,097,773	1,865,446	—	7,752,142
Securities lending collateral and rebates payable	3,953,288,908	—	273,620,853	—	5,263,308,403	—	12,122,692,569
Total liabilities	4,112,524,787	—	282,205,133	1,855,935	5,447,884,129	—	12,582,266,466
Net assets held in trust for pension and post-retirement medical benefits	23,914,516,673	1,296,942	1,743,921,381	151,077,194	29,631,612,619	618,917	$74,732,037,032

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year Ended June 30, 2005

		PENSION TRUST FUNDS
Additions:		
Contributions:		
Members	$	1,460,882,145
Employers		1,451,192,245
Other		10,383,211
Total contributions		2,922,457,601
Investment income:		
Net appreciation in fair value of investments		3,870,407,856
Interest		1,454,126,661
Dividends		742,177,621
		6,066,712,138
Less: investment expense		7,791,369
Net investment income		6,058,920,769
Total additions		8,981,378,370
Deductions:		
Benefits		5,750,478,219
Refunds of contributions and due General Fund		100,425,050
Administrative expenses		47,284,708
Total deductions		5,898,187,977
Change in net assets		3,083,190,393
Net assets — Beginning of year		71,648,846,639
Net assets — End of year	$	74,732,037,032

See accompanying notes to financial statements.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Combining Statement of Changes In Fiduciary Net Assets
Pension Trust and Post-Retirement Medical Funds

Year Ended June 30, 2005

	ALTERNATE BENEFIT LONG TERM DISABILITY FUND	CENTRAL PENSION FUND	CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND	DEFERRED COMPENSATION FUND	JUDICIAL RETIREMENT SYSTEM	POLICE AND FIREMEN'S RETIREMENT SYSTEM	PRISON OFFICERS' PENSION FUND
Additions:							
Contributions							
Members	$ —	—	—	137,662,924	1,480,942	276,195,076	—
Employers	2,400,000	430,878	7,074,835	—	6,162,076	473,227,921	—
Other	—	25,248	9,137,417	—	—	—	1,219,507
Total contributions	2,400,000	456,126	16,212,252	137,662,924	7,643,018	749,422,997	1,219,507
Investment income:							
Net appreciation (depreciation) in fair value of investments	224	—	(22,830)	59,555,956	17,347,395	932,344,545	(250,279)
Interest	99,043	2,276	262,766	17,621,147	6,004,780	285,746,114	577,547
Dividends	—	—	—	16,113,875	3,424,124	166,201,533	—
	99,267	2,276	239,936	93,290,978	26,776,299	1,384,292,192	327,268
Less: investment expense	—	—	8,587	207,771	12,889	895,806	1,804
Net investment income	99,267	2,276	231,349	93,083,207	26,763,410	1,383,396,386	325,464
Total additions	2,499,267	458,402	16,443,601	230,746,131	34,406,428	2,132,819,383	1,544,971
Deductions:							
Benefits	1,974,304	443,764	15,137,682	66,714,506	29,018,355	1,064,463,253	2,631,732
Refunds of contributions	—	14,638	—	—	—	5,609,036	—
Administrative expenses	—	—	54,494	933,696	169,357	5,964,075	14,202
Total deductions	1,974,304	458,402	15,192,176	67,648,202	29,187,712	1,076,036,364	2,645,934
Net increase (decrease)	524,963	—	1,251,425	163,097,929	5,218,716	1,056,783,019	(1,100,963)
Net assets held in trust for pension and post-retirement medical benefits:							
Beginning of year	3,101,889	—	15,379,278	1,353,276,130	322,380,160	16,353,196,332	15,884,428
End of year	$ 3,626,852	—	16,630,703	1,516,374,059	327,598,876	17,409,979,351	14,783,465

See accompanying notes to financial statements.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Combining Statement of Changes In Fiduciary Net Assets
Pension Trust and Post-Retirement Medical Funds

Year Ended June 30, 2005

	PUBLIC EMPLOYEES' RETIREMENT SYSTEM	PERS POST-RETIREMENT MEDICAL FUND	STATE POLICE RETIREMENT SYSTEM	SUPPLEMENTAL ANNUITY COLLECTIVE TRUST	TEACHERS' PENSION AND ANNUITY FUND	TPAF POST-RETIREMENT MEDICAL FUND	TOTAL
Additions:							
Contributions							
Members	533,862,353	—	15,450,745	7,368,235	488,861,870	—	$1,460,882,145
Employers	219,912,516	190,824,454	437,652	—	56,025,944	494,695,969	1,451,192,245
Other	—	—	39	—	1,000	—	10,383,211
Total contributions	753,774,869	190,824,454	15,888,436	7,368,235	544,888,814	494,965,969	2,922,457,601
Investment income:							
Net appreciation (depreciation) in fair value of investments	1,189,990,877	97,706	90,220,101	11,573,953	1,569,513,311	36,897	3,870,407,856
Interest	511,024,216	—	32,426,017	42,199	600,320,556	—	1,454,126,661
Dividends	231,924,448	—	17,811,325	2,630,548	304,071,768	—	742,177,621
	1,932,939,541	97,706	140,457,443	14,246,700	2,473,905,635	36,897	6,066,712,138
Less: investment expense	4,215,006	—	70,687	—	2,378,819	—	7,791,369
Net investment income	1,928,724,535	97,706	140,386,756	14,246,700	2,471,526,816	36,897	6,058,920,769
Total additions	2,682,499,404	190,922,160	156,275,192	21,614,935	3,016,415,630	494,732,866	8,981,378,370
Deductions:							
Benefits	1,709,117,882	190,753,469	98,869,750	15,578,830	2,061,234,677	494,540,015	5,750,478,219
Refunds of contributions	65,486,887	—	78,730	—	29,235,759	—	100,425,050
Administrative expenses	25,602,118	—	490,227	—	14,056,539	—	47,284,708
Total deductions	1,800,206,887	190,753,469	99,438,707	15,578,830	2,104,526,975	494,540,015	5,898,187,977
Net increase (decrease)	882,292,517	168,691	56,836,485	6,036,105	911,888,655	192,851	3,083,190,393
Net assets held in trust for pension and post-retirement medical benefits:							
Beginning of year	23,032,224,156	1,128,251	1,687,084,896	145,041,089	28,719,723,964	426,066	71,648,846,639
End of year	23,914,516,673	1,296,942	1,743,921,381	151,077,194	29,631,612,619	618,917	$74,732,037,032

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Notes to Financial Statements
June 30, 2005

(1) DESCRIPTION OF THE FUNDS

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

Governmental Funds:
State Health Benefits Program Fund (SHBP) - State
Dental Expense Program Fund (DEPF) - State
Prescription Drug Program Fund (PDPF) – State

Proprietary Funds:
State Health Benefits Program Fund (SHBP) - Local
Dental Expense Program Fund (DEPF) - Local
Prescription Drug Program Fund (PDPF) - Local

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

Agency Funds:
Pension Adjustment Fund (PAF)
Alternate Benefit Program Fund (ABP)

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

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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the State of New Jersey Division of Pensions and Benefits have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *Continued*

Reporting Entity:

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

Fund Accounting:

The accounts of the Division are maintained in accordance with the principles of fund accounting to ensure observance of limitations and restrictions on the resources available. The principles of fund accounting require that the resources be classified for accounting and reporting purposes into funds in accordance with activities or objectives specified for the resources. Each fund is a separate accounting entity with a self-balancing set of accounts. Funds are classified into three categories: governmental, proprietary, and fiduciary. Each category, in turn, is divided into separate "fund types."

Government-wide Financial Statements:

The government-wide financial statements consist of the statement of net assets and the statement of activities. The statement of net assets presents information on all of the assets and liabilities of the Funds, with the difference between the two reported as net assets (deficit). Over time, increases or decreases in the net assets (deficit) provide one indication of whether the financial health of the Funds is improving or declining. The statement of activities presents information showing how the Funds' net assets (deficit) changed during the most recent fiscal year. All changes in net assets (deficit) are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Fiduciary funds of the primary government that are fiduciary in nature are not included in the government-wide financial statements.

Fund Financial Statements:

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Division uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Division can be divided into three catagories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds:

Governmental funds account for proceeds of specific revenue sources that are legally restricted for expenditure for specified purposes.

Proprietary Funds:

Proprietary funds account for operations that are financed and operated in a manner similar to business enterprises with the intent that the costs of providing services on a continuing basis be financed or recovered primarily through user charges.

Fiduciary Funds:

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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *Continued*

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

Measurement Focus and Basis of Accounting:

The accounting and financial reporting treatment applied to government-wide statements and funds is determined by its measurement focus. The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. All funds, except for the governmental funds and the agency funds, are accounted for using an economic resources measurement focus. Agency funds as well as funds that focus on total economic resources employ the accrual basis of accounting, which recognizes increases and decreases in economic resources as soon as the underlying event or transaction occurs.

The governmental funds are accounted for using a current financial resources measurement focus and modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases, i.e., revenues and other financing additions, and decreases, i.e., expenditures and other deductions, in net assets.The accrual basis of accounting is used for measuring financial position and changes in net assets of pension trust funds. Under this method, revenues are recorded in the accounting period in which they are earned, and deductions are recorded at the time the liabilities are incurred. The financial statements of the pension trust funds conform to the provisions of Governmental Accounting Standards Board (GASB) Statement No. 25, "Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contributions Plans" and No. 26, "Financial Reporting for Post-employment Healthcare Plans Administered by Defined Benefit Pension Plans." Employer contributions are recognized when payable to the funds. Benefits and refunds are recognized when payable in accordance with the terms of the funds.

The modified accrual basis of accounting is used for measuring financial position and changes in financial position for the governmental funds. Under this method, revenues are recognized when measurable and available, and expenditures are recognized when due and payable.

Incurred but not reported (IBNR) claims are recognized as expenses and liabilities in the government-wide financial statements under the full accrual basis. For the governmental funds, IBNR claims are recognized when due and payable.

The focus of proprietary funds measurement is upon determination of changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector.

In addition to complying with all applicable GASB pronouncements, the Division's financial statements comply with the guidance provided by the Financial Accounting Standards Board ("FASB"), the Accounting Principles Board and the Committee on Accounting Procedure issued on or before November 30, 1989. GASB pronouncements take precedence when there is a conflict or contradiction between pronouncements. The Division has elected not to apply FASB pronouncements issued after November 30, 1989.

Capital Assets:

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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *Continued*

Significant Legislation:

Chapter 246, P.L. 2004, "Domestic Partnership Act" established the rights and responsibilities of domestic partnerships effective July 10, 2004.

P.L. 2003, effective July 14, 2003, provided employees of local employers with additional retirement benefits through early retirement incentive programs: Chapter 127 for a public agency other than State agencies under PERS; Chapter 128 for a county, a county college, or a municipality under PERS, TPAF, or ABP; Chapter 129 for a local school board or educational services commission under PERS or TPAF; and Chapter 130 for PFRS local. Any employee who was eligible, or could have been if the employer elected, to participate in the State early retirement incentive program offered in 2002 pursuant to Chapter 23, P.L. 2002, is not eligible for the early retirement incentive benefits under this law.

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

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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *Continued*

Membership and Contributing Employers:

Membership and contributing employers of the Pension Trust Funds consisted of the following at June 30, 2004, the date of the most recent actuarial valuations (June 30, 2005 for SACT, CPF, NJSEDCP, and ABPLTD):

	JRS	CPFPF	PFRS	POPF	PERS	SPRS	TPAF	SACT	CPF
Retiree members:									
Retirees and beneficiaries receiving benefits currently	417	948	27,871	205	117,363	2,204	61,993	626	341
Terminated employees entitled to benefits but not yet receiving them	4	—	61	—	1,827	—	925	—	—
Total retiree members	421	948	27,932	205	119,190	2,204	62,918	626	341
Active members:									
Vested	217	—	27,386	—	140,529	1,767	76,328	3,956	—
Non-vested	216	—	16,810	—	162,433	917	72,769	—	—
Total active members	433	—	44,196	—	302,962	2,684	149,097	3,956	—
Total	854	948	72,128	205	422,152	4,888	212,015	4,582	341
Contributing Employers	1	1	586	1	1,683	1	102	—	1

	NJSEDCP	ABPLTD
Retiree members:		
Retirees and beneficiaries receiving benefits currently	2,332	—
Terminated employees entitled to benefits but not yet receiving them	—	—
Total retiree members	2,332	—
Active members:		
Vested	32,082	118
Non-vested	—	—
Total active members	32,082	118
Total	34,414	118
Contributing Employers	—	1

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *Continued*

Membership in the other funds, systems, and trusts administered by the Division consisted of the following as of June 30, 2005:

	STATE	LOCAL	TOTAL
Health Benefits Program Fund*	147,298	216,137	363,435
Prescription Drug Program Fund	114,090	36,690	150,780
Dental Expense Program Fund	110,831	23,674	134,505
Alternate Benefit Program Fund**	13,879	3,041	16,920
Pension Adjustment Fund	95,662	98,129	193,791

* active and retired participants
** including those receiving long-term disability benefits

Adoption of Accounting Standard:

Effective July 1, 2004, the Division adopted Statement No. 40 of the Governmental Accounting Standards Board (GASB), "Deposit and Investment Risk Disclosures", an amendment of GASB Statement No. 3.

Valuation of Investments:

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.

Investment Transactions:

Investment transactions are accounted for on a trade 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.

Unit Transactions:

The net asset values of Common Funds A, B and D (Common Funds) are 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 D, and the income earned on Common Fund D units is reinvested.

Securities Lending:

Common Funds A, B and D and several of the direct pension plan portfolios participate in securities lending programs with their custodian banks, whereby securities are loaned to brokers and, in return, the Pension Funds

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *Continued*

have rights to the collateral received. All of the securities held in Common Funds A, B and D 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, 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% of the market value of the outstanding loaned securities, 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, 2005, 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.

The contracts with the Common Funds' custodian banks require them to indemnify the Common Funds if the brokers fail to return the securities or fail to pay the Common Funds for income distributions by the securities' issuers while the securities are on loan. The securities loans can be terminated by notification by either the broker or the Common Funds. The term to maturity of the securities loans is generally matched with the term to maturity of the investment of the cash collateral.

Derivatives:

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

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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *Continued*

The fair value of foreign forward currency contracts outstanding as of June 30, 2005 is as follows:

		Amount
Forward currency receivable	$	745,577,063
Forward currency payable		745,525,163
Net unrealized gain		(51,900)

The net unrealized gain is included in investments in the accompanying statements of net assets at June 30, 2005.

The Common Funds utilize covered call options in an effort to add value to the portfolio (collect premiums). Covered call options are agreements that give the owner of the option the right, but not obligation, to buy a specific amount of an asset from the Common Funds for a specific price (called the strike price) on or before a specified expiration date. As the writer of financial options, the Common Funds receive a premium at the outset of the agreement and bear the risk of an unfavorable change in the price of the instrument underlying the option. The Common Funds have written call options on 215,400 shares with a fair value of $548,100 at June 30, 2005 which are reflected as a contra-asset to the fair value of the portfolio.

Members' Loans:

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

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

Administrative Expenses:

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

Income Tax Status:

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

(3) INVESTMENTS

The Division's investments as of June 30, 2005 are as follows:

		Amount
Cash management funds	$	2,359,501,992
Domestic equities		35,887,098,993
International equities		11,232,483,997
Domestic fixed income		16,521,446,786
International fixed income		2,201,826,936
Domestic floating rate securities		77,922,181
Police and Firemen's mortgages		896,706,544
Net forward foreign exchange contracts		51,900
U.S. Government and Agency obligations		185,878,456
Other fixed income securities		34,569,950
Other		2,461,474,994
	$	71,858,962,729

Investments included in the Governmental and Proprietary funds consist of cash management funds of $580,825,678.

New Jersey state statute provides for a State Investment Council (Council) and a Director. Investment authority is vested in the Director of the Division 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, obligations of the U.S. Treasury, government agencies, corporations, finance companies and banks, international government and agency obligations, Canadian obligations, 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 and money market funds.

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

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is measured by nationally recognized statistical rating agencies such as Moody's Investors Service, Inc. (Moody's) or Standard & Poor's Corporation (S&P). 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 and limit the

(3) INVESTMENTS, *Continued*

amount that can be invested in any one issuer or issue as follows:

Category	Minimum Rating		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 & municipal obligations	A	A	10%	10%	—
Canadian obligations	A	A	10%	10%	Purchase cannot exceed $10 million
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

(3) INVESTMENTS, *Continued*

With respect to SACT, not more than 10% of the market value can be invested in the common stock and convertible securities of any one corporation. With respect to NJSEDCP, not more than 10% of the market value of the equity or small capitalization equity accounts can be invested in any one corporation, not more than 10% of the market value of the fixed income account can be invested in the debt of any one corporation, and not more than 10% of any one issue may be purchased at the time of issue.

For securities exposed to credit risk in the fixed income portfolio, the following table discloses aggregate market value, by major credit quality rating category at June 30, 2005:

(000's)		Moody's Rating			
		Aaa	Aa	A	Baa
United States Treasury Notes	$	1,912,675	—	—	—
United States Treasury TIPS		603,195	—	—	—
United States Treasury Bonds		2,193,224	—	—	—
United States Treasury Strips		42,326	—	—	—
Title XI Merchant Marine Notes		3,956	—	—	—
Federal Agricultural Mortgage Corp. Notes		—	101,698	—	—
Federal Farm Credit Bank Bonds		109,251	—	—	—
Federal Home Loan Bank Bonds		521,527	—	—	—
Federal Home Loan Bank Discounted Notes		4,244	—	—	—
Federal Home Loan Mortgage Corp. Notes		301,126	26,953	—	—
Federal National Mortgage Association Notes		698,324	26,078	—	—
Resolution Funding Corp. Obligations		7,337	—	—	—
Floating Rate Notes		25,026	19,983	9,999	22,914
Corporate Obligations		645,239	604,490	2,732,068	1,310,398
Real Estate Investment Trust Obligations		—	—	—	99,301
Finance Company Debt		285,528	978,641	757,113	132,094
Supranational Obligations		122,496	—	—	—
International Bonds and Notes		420,419	—	—	—
Foreign Government Obligations		1,293,765	283,284	58,319	—
Remic/FHLMC		638,865	—	—	—
Remic/FNMA		73,982	—	—	—
Remic/GNMA		17,993	—	—	—
GNMA Mortgage Backed Certificates		112,091	—	—	—
FHLM Mortgage Backed Certificates		774,802	—	—	—
FNMA Mortgage Backed Certificates		684,226	—	—	—
Asset Backed Obligations		252,973	—	—	—
Private Export Obligations		34,127	—	—	—
Exchange Traded Securities		—	—	56,050	—
	$	11,778,717	2,041,127	3,613,549	1,564,707

The table does not include certain investments which do not have a Moody's rating which include foreign government obligations totaling $18,842,884 with an S&P rating of AAA and convertible zero coupon bonds totaling $4,701,462 with an S&P rating of BBB. 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

(3) INVESTMENTS, *Continued*

limited to a term of one year or less. The maturity of repurchase agreements shall not exceed 15 days. The investment in a guaranteed income contract is limited to a term of 10 years or less. With respect to NJSED-CP, Council regulations provide limitations in the amounts that can be invested in fixed income securities maturing more than 12 months from date of purchase for finance company debt and New Jersey state and municipal general obligations.

The following table summarizes the maturities of the fixed income portfolio at June 30, 2005:

(000's)

		Maturitities in Years			
Fixed Income Investment Type	**Market Value**	**Total Less than 1**	**1-5**	**6-10**	**More than 10**
United States Treasury Notes	$ 1,912,674	125,549	864,912	922,213	—
United States Treasury Tips	603,195	—	5,070	517,312	80,813
United States Treasury Bonds	2,193,224	—	—	—	2,193,224
United States Treaury Strips	42,326	—	—	—	42,326
Title XI Merchant Marine Notes	3,956	—	—	—	3,956
Federal Agricultural Mortgage Corp. Notes	101,698	—	101,698	—	—
Federal Farm Credit Bank Bonds	109,251	56,604	52,647	—	—
Federal Home Loan Bank Bonds	521,527	49,610	471,917	—	—
Federal Home Loan Bank Discounted Notes	4,244	—	—	—	4,244
Federal Home Loan Mortgage Corp. Notes	328,079	4,005	197,403	117,092	9,579
Federal National Mortgage Association Notes	724,402	226,752	315,835	26,078	155,737
Resolution Funding Corp. Obligations	7,337	—	—	—	7,337
Floating Rate Notes	77,922	—	67,923	9,999	—
Corporate Obligations	5,292,195	497,039	1,642,054	1,514,393	1,638,709
Real Estate Investment Trust Obligations	99,301	—	19,836	79,465	—
Finance Company Debt	2,153,376	410,204	1,031,596	576,593	134,983
Supranational Obligations	122,496	25,227	—	—	97,269
International Bonds and Notes	420,419	54,846	300,229	19,865	45,479
Foreign Government Obligations	1,654,211	45,065	632,606	567,437	409,103
Remic/FHLMC	638,865	—	9,872	20,959	608,034
Remic/FNMA	73,982	196	4,734	18,358	50,694
Remic/GNMA	17,993	—	—	—	17,993
Police and Firemen's Mortgages	896,707	—	—	—	896,707
GNMA Mortgage Backed Certificates	112,091	41	1,479	—	110,571
FHLM Mortgage Backed Certificates	774,802	—	265	4,999	769,538
FNMA Mortgage Backed Certificates	684,227	15,162	30,598	29,116	609,351
Asset Backed Obligations	252,973	—	153,828	34,509	64,636
Private Export Obligations	34,127	—	12,289	21,838	—
Convertible Zero Coupon Bonds	4,701	—	—	4,701	—
	$ 19,862,301	1,510,300	5,916,791	4,484,927	7,950,283

(3) INVESTMENTS, *Continued*

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Common Funds invest in global markets. The Common Funds can invest in securities of companies incorporated in one of thirty countries approved by the Council. 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 22 percent of the market value of forward contracts totaling approximately $650 million at June 30, 2005. At June 30, 2005, the Common Funds had the following foreign currency exposure (expressed in U.S. dollars):

Currency		Total Market Value	Equities	Foreign Government Obligations
Australian dollar	$	401,418,580	272,431,668	128,986,912
Canadian dollar		587,693,580	502,887,128	84,806,452
Danish krone		148,396,127	148,396,128	—
Euro		4,447,969,733	3,646,096,193	801,873,540
Hong Kong dollar		167,808,826	167,808,826	—
Japanese yen		2,218,395,101	2,213,693,639	4,701,462
Mexican peso		40,732,398	40,732,398	—
New Zealand dollar		72,765,425	32,928,859	39,836,566
Norwegian krone		198,279,321	91,284,080	106,995,241
Pound sterling		2,181,964,380	1,957,488,690	224,475,690
Singapore dollar		75,677,979	75,677,979	—
South Korean won		141,633,342	141,633,342	—
Swedish krona		735,391,335	628,135,901	107,255,434
Swiss franc		1,017,523,657	1,017,523,657	—
	$	12,435,649,784	10,936,718,487	1,498,931,297

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

Net appreciation or depreciation in fair value of investments includes net realized gains and the change in net unrealized gains and losses on investments for the fiscal year ended June 30, 2005. The net realized gain from investment transactions amounted to $2,730,596,688 and the net increase in unrealized gains on investments amounted to $1,006,112,689 for the year ended June 30, 2005.

(4) SECURITIES LENDING COLLATERAL

The securities lending collateral is subject to various risks. Among these risks are credit risk, concentration of credit risk and interest rate risk. Agreements with the lending agents require minimum credit ratings for certain categories of fixed income obligations and limit the amount that can be invested in any one issuer or issue as follows:

Category	Minimum Rating		Limitation of Issuer's Outstanding Debt	Limitation of Issue	Other Limitations
	Moody's	S&P			
Corporate obligations	A3	A-	25%	25%	—
U.S. finance company debt and bank debentures	A2	A	10%	10%	—
Collateralized notes and mortgages	Aaa	AAA	—	33.3%	Limited to not more than 10% of the assets of the collateral portfolio
Commercial paper	P-1	A-1	—	—	—
Certificates of deposit/ Banker's acceptances	Aa3/P-1	—	—	—	Uncollateralized certificates of deposit and banker's acceptances cannot exceed 10% of issuer's primary capital
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

Maturities of corporate obligations, U.S. finance company debt, bank debentures, collateralized notes and mortgages and guaranteed income contracts must be less than 25 months. Commercial paper maturities cannot exceed 270 days. Repurchase agreement maturities cannot exceed 15 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.

(4) SECURITIES LENDING COLLATERAL, *Continued*

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 five percent of the shares or units outstanding of said money market fund. For Collateralized Notes and Mortgages, not more than two percent of the assets of the collateral portfolio shall be invested in the obligations of any one issuer. For Guaranteed Income Contracts, the total investment in any one issuer shall be limited to 2.5% of the collateral portfolio. The Division sets individual issuer limits for Commercial Paper and Certificate of Deposits. For Corporate Obligations, U.S. Finance Company Debt, Bank Debentures and Bankers Acceptances, exposure to any one issuer shall be limited to the following percentages of the collateral portfolio in accordance with the issuer's rating from Moody's: Aaa (4%), Aa (3%) and A (2%).

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, 2005:

(000's)		Moody's Rating				S&P Rating (1)
		Aaa	Aa	A	P-1	A
Corporate Obligations	$	440,053	3,748,203	2,052,074	—	—
Commercial Paper		—	—	—	2,373,183	—
Certificates of Deposit		—	1,357,406	—	—	97,900
Repurchase Agreements		—	—	—	—	—
Guaranteed Investment Contracts		—	150,000	200,000	—	—
Money Market Funds		103,815	—	—	—	—
Collateralized Notes		10,000	—	—	—	—
	$	553,868	5,255,609	2,252,074	2,373,183	97,900

(1) *Moody's rating not available*

In addition, the collateral portfolio includes money market funds with a current market value of $1,074,355 and repurchase agreements with a current market value of $1,588,984,270 at June 30, 2005 which are not rated.

The following table summarizes the maturities of the collateral portfolio at June 30, 2005:

(000's)		Total Market Value	Maturities: Less than one year	One year to 25 months
Corporate Obligations	$	6,240,331	4,753,161	1,487,170
Commercial Paper		2,373,183	2,373,183	—
Certificates of Deposits		1,455,306	1,455,306	—
Repurchase Agreements		1,588,984	1,588,984	—
Guaranteed Investment Contracts		350,000	250,000	100,000
Money Market Funds		104,889	104,889	—
Collateralized Notes		10,000	10,000	—
	$	12,122,693	10,535,523	1,587,170

(4) SECURITIES LENDING COLLATERAL, *Continued*

As of June 30, 2005, the Common Funds had received cash collateral of $12,166,888,240 for outstanding loaned investment securities having market values of $11,780,098,612. In addition, as of June 30, 2005, the Common Funds loaned investment securities having market values of $38,245,996, against which it had received non cash collateral with a current value of $39,118,460, which is not reflected in the accompanying financial statements.

(5) CONTRIBUTIONS

Contribution Requirements - JRS

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

Legislation passed in 1997 (Chapter 115, P.L. 1997) provided for the use of actuarially determined excess valuation assets to offset the required normal contributions of the State of New Jersey. As a result of this legislation, the State of New Jersey was not required to make a contribution to the JRS for the years between 1997 and 2002.

The State made a contribution of $6.16 million to satisfy the actuarially accrued liability in fiscal year 2005.

Contribution Requirements - CPFPF

The contribution policy is set by N.J.S.A. 43:16 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. Contributions by active members are based on 7% of their salary. Employers are required to contribute at an actuarially determined rate.

The State made a contribution of $7.05 million to satisfy the actuarially accrued liability in fiscal year 2005.

Contribution Requirements - PFRS

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

For fiscal year 2005, the 50% of available excess valuation assets could be utilized to offset normal contributions. Thereafter, a certain percentage of available excess valuation assets may be used as specified in the legislation. The normal contribution for basic pension benefits, noncontributory death benefits, and cost-of-living adjustments was funded by excess valuation assets in accordance with Chapter 115, P.L. 1997. This legislation provides for actuarially determined excess valuation assets to offset the required normal contributions of the State of New Jersey and the local participating employers.

(5) CONTRIBUTIONS, *Continued*

In 2005 there were no excess valuation assets to fund the required State or local employer contributions.

In accordance with legislation passed in 2001 (Chapter 44, P.L. 2001), excess valuation assets were recognized to reduce 2001 local employer contributions by $150 million to approximately $75 million. This legislation required that the savings realized by counties and municipalities as a result of this reduction be used for property tax relief.

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

Contribution Requirements - POPF

The contribution policy is set by N.J.S.A. 43:7 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. Contributions by active members are based on 6% of their salary. Employers are required to contribute at an actuarially determined rate.

Contribution Requirements - PERS

The contribution policy is set by N.J.S.A. 43:15A and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. Members contribute at a uniform rate. The full normal employee contribution rate is 5% of base salary. However, as a result of special legislation (Chapter 415, P.L. 1999), the employee rate was reduced to 3% of base salary effective January 1, 2000. The rate for State and local employees returned to the normal rate of 5% effective July 1, 2004 and January 1, 2005, respectively per statute since there are no longer surplus assets available in the System. On the other hand, the rate for members who are eligible for the Prosecutors Part of the PERS (Chapter 366, P.L. 2001) remains unchanged at 7.5% of base salary. Employers are required to contribute at an actuarially determined rate. The annual employer contributions include funding for basic retirement allowances, cost-of-living adjustments, and noncontributory death benefits. The State of New Jersey's contribution also includes funding for the cost of medical premiums after retirement for qualified retirees. In accordance with Chapter 62, P.L. 1994, post-retirement medical benefits have been funded on a pay-as-you-go basis since 1994. Prior to 1994, medical benefits were funded on an actuarial basis. Beginning in 1996, the State has made an additional contribution to the Post-Retirement Medical Reserve Fund to ensure an increase in the fund balance of 1/2 of 1% of the salary of active state employees.

For fiscal year 2005, the 50% of available excess valuation assets could be utilized to offset normal contributions. Thereafter, a certain percentage of available excess valuation assets may be used as specified in the legislation. The State and local employers were not required to make a normal contribution to the PERS between the years 1997 and 2004. The normal contribution for basic pension benefits, noncontributory death benefits, and cost-of-living adjustments was funded by excess valuation assets in accordance with Chapter 115, P.L. 1997. This legislation provides for actuarially determined excess valuation assets to offset the required normal contributions of the State of New Jersey and the local participating employers.

(5) CONTRIBUTIONS, *Continued*

The State made a contribution of $190.82 million for fiscal year 2005 post-retirement medical (PRM). Legislation passed in 2002 (Chapter 11, P.L. 2002) allowed the State to use net assets in PRM Fund to cover the required pay-as-you-go medical premiums.

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

The BEF will also provide funding for the benefit increases under Chapter 353, P.L. 2001. Actuarially determined excess valuation assets will cover the additional accrued liability incurred by the retirement system. No additional formula State contribution is required in fiscal year 2005; instead, that contribution will be covered by the BEF.

Chapter 108, P.L. 2003, provided that the State Treasurer will reduce local employer PERS normal and accrued liability contributions to be a percentage of the amount certified annually by the PERS as follows: 20% for payments due in State fiscal year 2005; not more than 40% in fiscal year 2006; not more than 60% in fiscal year 2007; and not more than 80% in fiscal year 2008. According to the Appropriation Act of 2003, the State as well is paying pension obligations through a five-year phase-in. In fiscal year 2005, the State paid 30% of the normal and accrued liability pension costs by using the BEF.

Contribution Requirements - SPRS

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

The State made a contribution of $188 thousand to the System in fiscal year 2005, the first time since 1997, to satisfy the actuarially accrued liability. The normal contributions had been funded using net assets (excess assets above the required funding level) till fiscal year 2004 due to Pension Security legislation passed in 1997. According to the Appropriation Act of 2003, the State is paying pension obligations through a five-year phase-in.

Contribution Requirements - TPAF

The contribution policy is set by N.J.S.A. 18:66 and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. Members contribute at a uniform rate. In accordance with legislation passed in 2001 (Chapter 133, P.L. 2001), the employee contribution rate was lowered to 3% effective January 1, 2002. Prior to this date, employees had been contributing at a rate of 4.5%. The rate returned to the normal rate of 5% effective January 1, 2004 per statute since there are no longer surplus assets available in the Fund. Employers are required to contribute at an actuarially determined rate. The annual employer contributions include funding for basic retirement allowances, cost-of-living adjustments, and noncontributory death benefits. The State of New Jersey's contribution also includes funding for the cost of medical premiums after retirement for qualified retirees. In accor-

(5) CONTRIBUTIONS, *Continued*

dance with Chapter 62, P.L. 1994, post-retirement medical benefits have been funded on a pay-as-you-go basis since 1994. Prior to 1994, medical benefits were funded on an actuarial basis. Beginning 1996, the State has made an additional contribution to the Post-Retirement Medical Reserve Fund to ensure an increase in the fund balance of 1/2 of 1% of the salary of active state employees.

For fiscal year 2005, the 50% of available excess valuation assets could be utilized to offset normal contributions. Thereafter, a certain percentage of available excess valuation assets may be used as specified in the legislation. The State and local employers were not required to make a normal contribution to the TPAF in between the years 1997 and 2005. The normal contribution for basic pension benefits, noncontributory death benefits, and cost-of-living adjustments was funded by excess valuation assets in accordance with Chapter 115, P.L. 1997. This legislation provides for actuarially determined excess valuation assets to offset the required normal contributions of the State of New Jersey and the local participating employers.

The State made a contribution of $494.70 million for fiscal year 2005 post-retirement medical (PRM). Legislation passed in 2002 (Chapter 11, P.L. 2002) allowed the State to use net assets in PRM Fund to cover the required pay-as-you-go medical premiums.

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

The BEF will also provide funding for the benefit increases under Chapter 353, P.L. 2001. Actuarially determined excess valuation assets will cover the additional accrued liability incurred by the retirement fund. No additional formula State contribution is required in fiscal year 2005; instead, that contribution will be covered by the BEF.

According to the Appropriation Act of 2003, the State is paying pension obligations through a five-year phase-in. In fiscal year 2005, the State paid 30% of the normal and accrued liability pension cost by using the BEF.

Contribution Requirements - SACT

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

Contribution Requirements - CPF

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

The contribution amount required and paid by the State of New Jersey for the fiscal year ended June 30, 2005 was $431 thousand.

(5) CONTRIBUTIONS, *Continued*

Contribution Requirements - SHBP- State and Local

Contributions to pay for the health premiums of participating employees in the State Health Benefits Program (SHBP) are collected from the State of New Jersey, participating local employers, active members, retired members, the Public Employees' Retirement System (PERS), and the Teachers' Pension and Annuity Fund (TPAF). The State of New Jersey provides contributions for State employees through State appropriations. These appropriations are generally distributed to the SHBP on a monthly basis. Local employer payments, active and retired member contributions, and payments from the PERS and TPAF are generally received on a monthly basis. Certain State employees share in the cost of their premiums, as provided by Chapter 8, P.L. 1996.

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

Contribution Requirements - PDPF- State and Local

Contributions to pay for the premiums of participating employees in the Prescription Drug Program Fund are collected from the State of New Jersey, participating local employers, and former active and retired members who have elected to participate under the rules of COBRA. The State of New Jersey provides contributions for State employees through State appropriations. These appropriations are distributed to the PDPF on a monthly basis. Local employer payments as well as COBRA contributions are also received on a monthly basis.

Contribution Requirements - DEPF- State and Local

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

Contribution Requirements - NJSEDCP

Participants may defer between 1% and 100% of their salary and less any 414h reductions or $14 thousand annually. Under the limited "catch-up" provision, a participant may be eligible to defer up to a maximum of twice the annual maximum in the three years immediately preceding the retirement age at which no reduction in benefits would be applicable. The employer does not make contributions to the Plan.

(5) CONTRIBUTIONS, *Continued*

Contribution Requirements - ABPLTD

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

Contribution Requirements - ABP

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

Contribution Requirements - PAF

The contribution requirements were established by N.J.S.A. 43:3B-4. The State of New Jersey is required to make an annual appropriation payment to fund the cost-of-living increases payable to retirees and beneficiaries of retired members in the Consolidated Police and Firemen's Pension Fund, Prison Officers' Pension Fund and the Central Pension Fund. Funding is on a pay-as-you-go basis.

(6) VESTING AND BENEFITS

Vesting and Benefit Provisions - JRS

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

Age	Years of Judicial Service	Benefit as a Percentage of Final Salary
70	10	75%
65	15	75
60	20	75

Age	Years of Judicial Service	Years of Public and Judicial Service	Benefit as a Percentage of Final Salary
65	5	15	50%
60	5	20	50

Retirement benefits are also available at age 60 with five years of judicial service and 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.

(6) VESTING AND BENEFITS, *Continued*

Vesting and Benefit Provisions - CPFPF

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

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

Vesting and Benefit Provisions - PFRS

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

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

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

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

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

Chapter 4, P.L. 2001 provided increased benefits to certain members who retired prior to December 29, 1989

(6) VESTING AND BENEFITS, *Continued*

with at least 25 years of creditable service. The maximum amount of the increase was 5% of the retiree's final compensation. For those with 30 or more years of service, the total pension benefit would increase from 65% to 70% of final compensation.

Vesting and Benefit Provisions - POPF

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

Members are always fully vested for their own contributions.

Vesting and Benefit Provisions - PERS

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

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

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

Chapter 23, P.L. 2002 provided early retirement incentive benefits to State employees who meet specified age and service requirements and who retire within a specified time period that generally extends from February 1, 2002 to July 1, 2002. The incentive benefits include an additional three years of service credit to employees who are at least 50 years of age with at least 25 years of service credit; State paid health care benefits to employees who are at least 60 years of age with at least 20 but less than 25 years of service credit; and an additional monthly benefit of $500 per month for 24 months following the date of retirement to employ-

(6) VESTING AND BENEFITS, *Continued*

ees who are at least 60 years of age with at least 10 but not more than 20 years of service credit. For those eligible for veterans' retirement benefit, the incentive is an additional pension of 3/55 of the compensation upon which the retirement benefit is based to employees who are at least 55 years of age with 25 or more years of service credit. Similarly, Chapter 127, 128, and 129, P.L. 2003 provided early retirement incentive benefits to local employees.

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

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

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

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

Vesting and Benefit Provisions - SPRS

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

Members are always fully vested for their own contributions.

(6) VESTING AND BENEFITS, *Continued*

Vesting and Benefit Provisions - TPAF

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

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

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

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

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

Chapter 133, P.L. 2001 increased the retirement benefits under service, deferred, and early retirement by changing the formula from 1/60 to 1/55 of final compensation for each year of service. This legislation also increased the retirement benefit for veteran members with 35 or more years of service and reduced the age

(6) VESTING AND BENEFITS, *Continued*

qualification from 60 to 55. Existing retirees and beneficiaries received a comparable percentage increase in their retirement allowances. This benefit enhancement was effective with the November 1, 2001 benefit payments.

Vesting and Benefit Provisions - SACT

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

Benefit Provisions - CPF

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

Vesting and Benefit Provisions - SHBP - State and Local

The Program provides medical coverage to qualified active and retired participants. Under Chapter 136, P.L. 1977, the State of New Jersey pays for the health insurance coverage of all enrolled retired State employees (regardless of age) whose pensions are based upon 25 years or more of credited service or a disability retirement regardless of years of service. The State of New Jersey also provides free coverage to members of the Public Employees' Retirement System, Teachers' Pension and Annuity Fund, and the Alternate Benefit Program who retire from a board of education or county college with 25 years of service or on a disability retirement. Partially funded benefits are also provided to local police officers and firefighters who retire with 25 years of service (or on disability) from an employer who does not provide coverage. Retirees who are not eligible for employer paid health coverage at retirement can continue in the program by paying the cost of the insurance for themselves and their covered dependents.

Benefit Provisions - PDPF - State and Local

The Program provides coverage to employees and their eligible dependents for drugs which under federal or State law may be dispensed only upon a prescription written by a physician. State and local employees are eligible for coverage after 60 days of employment.

Benefit Provisions - DEPF- State and Local

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

Vesting and Benefit Provisions - NJSEDCP

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

(6) VESTING AND BENEFITS, *Continued*

Benefit Provisions - ABPLTD

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

Vesting and Benefit Provisions - ABP

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

Benefit Provisions - PAF

The pension adjustment program covers eligible retirees and survivors of the Consolidated Police and Firemen's Pension Fund, Prison Officers' Pension Fund, and Central Pension Fund. Eligible retirees and/or survivors are those who have been retired at least 24 months.

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

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

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

(7) FUNDS

The Funds maintain the following legally required funds as follows (amounts indicated in parenthesis represent respective fund balances or net asset balances for the funds indicated):

Members' Annuity Savings Fund - JRS ($27,758,263); TPAF ($6,813,180,653); PERS ($7,273,813,479); PFRS ($2,399,046,135); SPRS ($142,516,383)

The Members' Annuity Savings Fund is credited with all contributions made by active members of the Funds.

(7) FUNDS, *Continued*

Contingent Reserve Fund - JRS ($151,132,055); TPAF ($1,312,591,471); PERS ($830,151,874); SPRS ($1,051,611,513)

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

Retirement Reserve Fund - JRS ($148,708,558); TPAF ($20,785,937,925); PERS ($14,764,795,737); PFRS ($8,481,386,767); SPRS ($549,793,485)

The Retirement Reserve Fund is the account from which retirement benefits other than life insurance premiums, contributory group insurance premiums, and post-retirement medical premiums, including cost-of-living benefits, are paid. Upon retirement of a member, accumulated contributions together with accumulated interest are transferred to the Retirement Reserve Fund from the Members' Annuity Savings Fund. Any additional reserves needed to fund the balance of the retirement benefit are transferred from the Contingent Reserve Fund or Pension Accumulation Fund. Annually, interest as determined by the State Treasurer (8.75% for 2005) is credited to the Retirement Reserve Fund.

Retirement Reserve Fund - POPF ($14,783,465)

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

Special Reserve Fund - TPAF ($328,374,407); PERS ($197,407,522); PFRS ($315,555,099)

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

Contributory Group Insurance Premium Fund - TPAF ($101,254,877); PERS ($211,220,174)

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

(7) FUNDS, *Continued*

Pension Accumulation Fund - PFRS ($6,213,991,350)

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

Pension Reserve Fund - CPFPF ($16,630,703)

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

Reserve Fund - SHBP - State ($109,407,642); PDPF - State ($34,899,831); DEPF - State ($8,918,277)

The fund balances of the SHBP - State, PDPF - State, and DEPF- State are available to pay claims of future periods. These reserves are maintained by the Funds to stabilize rates and to meet unexpected increase in claims.

Reserve Fund - SHBP - Local ($196,606,377); PDPF - Local ($21,288,361); DEPF - Local (-$1,249,825)

The SHBP - Local and PDPF - Local have net assets, which are available to pay claims of future periods. The DEPF - Local became effective January 1, 2005. It has net deficit of $1,249,825 as of June 30, 2005.

Reserve Fund - Alternate Benefit - Long Term Disability ($3,626,852)

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

Post-Retirement Medical Fund - TPAF ($618,917); PERS ($1,296,942)

The Post-Retirement Medical Fund is credited with employer contributions for post-retirement medical benefits, interest earnings on post-retirement medical reserves, and from which post-retirement medical premiums are paid.

Benefit Enhancement Reserve Fund - TPAF ($290,273,286); PERS ($637,127,887)

The Benefit Enhancement Reserve Fund is a special reserve fund from which the required normal contributions to provide benefit increases under Chapter 353, P.L. 2001 and Chapter 133, P.L. 2001 will be charged. The fund was established in 2002 and credited with excess assets equivalent to member contributions for fiscal years 2000 and 2001 by transferring reserves in the Contingent Reserve Fund to the Benefit Enhancement Fund. Additional transfers will be made, as required, to maintain a fund balance equal to the present value of expected additional normal contributions due to the increased benefits. The State will be required to make contributions to the Benefit Enhancement Fund on behalf of State and local employers if excess valuation assets are not available.

(7) FUNDS, *Continued*

Various Reserve Fund fund balances or net asset balances as of June 30, 2005 as described previously:

FUNDS	PENSION TRUST FUNDS	GOVERNMENTAL FUNDS	PROPRIETARY FUNDS
Members' Annuity Savings Fund	$16,656,314,913		
Contingent Reserve Fund	3,345,486,913		
Retirement Reserve Fund	44,745,405,937		
Special Reserve Fund	841,337,028		
Contributory Group Insurance Premium Fund	312,475,051		
Pension Accumulation Fund	6,213,991,350		
Pension Reserve Fund	16,630,703		
Reserve Fund	3,626,852	$153,225,750	$216,644,913
Post-Retirement Medical Fund	1,915,859		
Benefit Enhancement Reserve Fund	927,401,173		
Variable Accumulation Reserve Account	1,639,510,804		
Variable Benefits Reserve Account	27,940,449		
Total	**$74,732,037,032**	**$153,225,750**	**$216,644,913**

(8) UNPAID CLAIMS LIABILITIES

As discussed in Note 2, the Division established a liability for both reported and unreported claims, which includes estimates of future payments of claims and related claim adjustment expenses. The following represent changes in those aggregate liabilities for Governmental Activities and Business-Type Activities during the fiscal year 2005:

	HEALTH BENEFITS PROGRAM FUND STATE	PRESCRIPTION DRUG PROGRAM FUND STATE	DENTAL EXPENSE PROGRAM FUND STATE
Unpaid claims at beginning of year	$ 154,886,603	$ 5,940,000	$ 6,689,379
Incurred claims:			
Provision for insured events of current year	1,060,563,738	224,355,625	68,270,257
Payments	(1,039,833,464)	(225,395,625)	(67,637,209)
Unpaid claims at end of year	$ 175,616,877	$ 4,900,000	$ 7,322,427

	HEALTH BENEFITS PROGRAM FUND LOCAL	PRESCRIPTION DRUG PROGRAM FUND LOCAL	DENTAL EXPENSE PROGRAM FUND LOCAL
Unpaid claims at beginning of year	$ 250,241,143	$ 6,330,000	$ 0
Incurred claims:			
Provision for insured events of current year	1,770,047,983	80,063,037	6,605,724
Payments	(1,723,731,848)	(84,593,037)	(4,705,724)
Unpaid claims at end of year	$ 296,557,278	$ 1,800,000	$ 1,900,000

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JUDICIAL RETIREMENT SYSTEM (JRS)						
June 30, 1997	$317,289,094	$295,150,638	$(22,138,456)	107.5%	$46,912,950	(47.2%)
June 30, 1998	333,437,794	305,779,217	(27,658,577)	109.0%	48,196,350	(57.4%)
June 30, 1999	352,858,160	313,873,659	(38,984,501)	112.4%	48,886,350	(79.7%)
June 30, 2000	374,486,433	350,920,345	(23,566,088)	106.7%	55,514,214	(42.5%)
June 30, 2001	379,592,346	372,760,069	(6,832,277)	101.8%	57,800,334	(11.8%)
June 30, 2002	373,231,198	388,950,803	15,719,605	96.0%	61,873,500	25.4%
June 30, 2003	372,835,265	431,450,218	58,614,953	86.4%	61,600,500	95.2%
June 30, 2004	371,730,163	445,922,358	74,192,195	83.4%	61,576,750	120.5%
CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND (CPFPF)						
June 30, 1997	$70,420,937	$66,004,245	$(4,416,692)	106.7%	N/A	N/A
June 30, 1998	62,205,001	59,272,789	(2,932,212)	104.9%	N/A	N/A
June 30, 1999	54,018,660	52,226,208	(1,792,452)	103.4%	N/A	N/A
June 30, 2000	46,078,644	46,544,429	465,785	99.0%	N/A	N/A
June 30, 2001	38,656,261	41,658,355	3,002,094	92.8%	N/A	N/A
June 30, 2002	31,842,796	36,350,384	4,507,588	87.6%	N/A	N/A
June 30, 2003	27,623,585	41,396,376	13,772,791	66.7%	N/A	N/A
June 30, 2004	21,735,396	35,052,202	13,316,806	62.0%	N/A	N/A
POLICE AND FIREMEN'S RETIREMENT SYSTEM (PFRS)						
State						
June 30, 1997	$1,183,747,522	$1,234,959,165	$51,211,643	95.9%	$315,690,310	16.2%
June 30, 1998	1,559,131,933	1,377,734,455	(181,397,478)	113.2%	346,079,078	(52.4%)
June 30, 1999	1,717,248,151	1,534,470,501	(182,777,650)	111.9%	362,949,950	(50.4%)
June 30, 2000	1,884,870,936	1,666,842,906	(218,028,030)	113.1%	363,360,250	(60.0%)
June 30, 2001	1,991,299,968	1,866,140,391	(125,159,577)	106.7%	398,118,379	(31.4%)
June 30, 2002	2,032,977,241	2,046,820,189	13,842,948	99.3%	418,849,259	3.3%
June 30, 2003	1,907,752,767	2,330,909,918	423,157,151	81.8%	447,470,022	94.6%
June 30, 2004	1,940,936,459	2,509,192,584	568,256,125	77.4%	450,406,301	126.2%
Local						
June 30, 1997	10,854,173,290	11,746,169,752	891,996,462	92.4%	1,767,762,346	50.5%
June 30, 1998	13,169,957,658	12,881,842,367	(288,115,291)	102.2%	1,870,322,787	(15.4%)
June 30, 1999	14,536,570,357	13,894,951,617	(641,618,740)	104.6%	1,971,087,124	(32.6%)
June 30, 2000	15,644,750,281	14,924,699,712	(720,050,569)	104.8%	2,055,781,766	(35.0%)
June 30, 2001	16,083,153,842	16,056,446,646	(26,707,196)	100.2%	2,163,590,060	(1.2%)
June 30, 2002	16,392,195,411	17,181,142,310	788,946,899	95.4%	2,275,130,620	34.7%
June 30, 2003	16,447,380,691	18,422,073,072	1,974,692,381	89.3%	2,393,467,444	82.5%
June 30, 2004	16,762,453,668	19,769,046,766	3,006,593,098	84.8%	2,524,859,162	119.1%

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PRISON OFFICERS' PENSION FUND (POPF)						
June 30, 1997	$20,977,035	$17,479,545	$(3,497,490)	120.0%	N/A	N/A
June 30, 1998	20,096,072	16,430,313	(3,665,759)	122.3%	N/A	N/A
June 30, 1999	19,137,919	15,292,629	(3,845,290)	125.1%	N/A	N/A
June 30, 2000	18,268,489	14,216,588	(4,051,901)	128.5%	N/A	N/A
June 30, 2001	18,269,899	12,994,567	(5,275,332)	140.6%	N/A	N/A
June 30, 2002	17,908,452	11,781,734	(6,126,718)	152.0%	N/A	N/A
June 30, 2003	17,277,953	10,727,647	(6,550,306)	161.1%	N/A	N/A
June 30, 2004	15,884,428	10,060,710	(5,823,718)	157.9%	N/A	N/A
PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)						
State						
March 31, 1997	$6,987,217,172	$6,606,707,924	$(380,509,248)	105.8%	$2,714,991,457	(14.0%)
March 31, 1998	7,600,621,930	7,155,035,122	(445,586,808)	106.2%	2,805,791,909	(15.9%)
June 30, 1999	8,879,920,323	7,823,576,056	(1,056,344,267)	113.5%	2,928,470,790	(36.1%)
June 30, 2000	9,743,727,383	8,538,685,222	(1,205,042,161)	114.1%	3,094,280,664	(38.9%)
June 30, 2001	11,123,818,861	9,886,463,368	(1,237,355,493)	112.5%	3,288,383,788	(37.6%)
June 30, 2002	11,073,156,965	10,760,557,483	(312,599,482)	102.9%	3,511,151,199	(8.9%)
June 30, 2003	10,829,953,189	11,942,299,170	1,112,345,981	90.7%	3,576,118,300	31.1%
June 30, 2004	10,693,508,592	12,620,379,435	1,926,870,843	84.7%	3,751,765,096	51.4%
Local						
March 31, 1997	10,523,061,499	9,599,816,842	(923,244,657)	109.6%	4,407,751,955	(20.9%)
March 31, 1998	11,486,495,310	10,286,532,879	(1,199,962,431)	111.7%	4,513,357,772	(26.6%)
June 30, 1999	13,171,311,650	11,163,283,877	(2,008,027,773)	118.0%	4,655,241,261	(43.1%)
June 30, 2000	14,380,511,913	12,007,160,806	(2,373,351,107)	119.8%	4,910,962,708	(48.3%)
June 30, 2001	16,625,288,260	13,819,038,491	(2,806,249,769)	120.3%	5,240,338,738	(53.6%)
June 30, 2002	16,503,081,054	14,929,334,103	(1,573,746,951)	110.5%	5,534,322,805	(28.4%)
June 30, 2003	16,406,284,200	15,887,012,746	(519,271,454)	103.3%	5,811,726,702	(8.9%)
June 30, 2004	16,414,022,003	17,077,938,057	663,916,054	96.1%	6,140,413,756	10.8%
STATE POLICE RETIREMENT SYSTEM (SPRS)						
June 30, 1997	$1,322,406,703	$1,272,242,451	$(50,164,252)	103.9%	$142,636,260	(35.2%)
June 30, 1998	1,458,600,992	1,369,277,968	(89,323,024)	106.5%	167,145,161	(53.4%)
June 30, 1999	1,600,165,104	1,469,144,146	(131,020,958)	108.9%	178,203,420	(73.5%)
June 30, 2000	1,752,423,441	1,512,909,805	(239,513,636)	115.8%	188,466,237	(127.1%)
June 30, 2001	1,829,414,353	1,626,631,656	(202,782,697)	112.5%	199,727,203	(101.5%)
June 30, 2002	1,853,684,177	1,739,427,739	(114,256,438)	106.6%	215,161,126	(53.1%)
June 30, 2003	1,865,079,083	1,815,725,256	(49,353,827)	102.7%	217,448,864	(22.7%)
June 30, 2004	1,897,525,210	1,949,309,641	51,784,431	97.3%	223,552,154	23.2%

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TEACHERS' PENSION AND ANNUITY FUND (TPAF)						
March 31, 1997	$22,045,481,579	$21,224,484,588	$(820,996,991)	103.9%	$5,771,763,164	(14.2%)
March 31, 1998	24,478,860,383	23,484,403,450	(994,456,933)	104.2%	5,989,748,156	(16.6%)
June 30, 1999	27,457,451,678	25,546,083,289	(1,911,368,389)	107.5%	6,254,198,406	(30.6%)
June 30, 2000	30,203,205,322	27,404,618,051	(2,798,587,271)	110.2%	6,571,641,181	(42.6%)
June 30, 2001	35,351,379,511	32,745,357,185	(2,606,022,326)	108.0%	6,948,381,383	(37.5%)
June 30, 2002	35,148,246,433	35,146,591,842	(1,654,591)	100.0%	7,348,993,141	0.0%
June 30, 2003	34,651,825,932	37,383,732,882	2,731,906,950	92.7%	7,702,854,159	35.5%
June 30, 2004	34,633,790,549	40,447,690,339	5,813,899,790	85.6%	8,047,272,269	72.2%

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Significant actuarial methods and assumptions used in the most recent 2004 actuarial valuations include the following:

	JRS	**CPFPF**
Actuarial cost method	Projected unit credit	Projected unit credit
Asset valuation method	5 year average of market value	5 year average of market value
Amortization method	Level dollar, closed	Level dollar, closed
Remaining amortization period	30 years	1 year
Actuarial assumptions:		
Interest rate	8.25%	2.00%
Salary range	4.00%	—
Cost-of-living adjustments	1.80%	—
Valuation date	June 30, 2004	June 30, 2004

	PFRS	**POPF**
Actuarial cost method	Projected unit credit	Projected unit credit
Asset valuation method	5 year average of market value	Market value
Amortization method	Level percent, closed	Level dollar, closed
Remaining amortization period	30 years	1 year
Actuarial assumptions:		
Interest rate	8.25%	5.00%
Salary range	5.95%	—
Cost-of-living adjustments	1.80%	—
Valuation date	June 30, 2004	June 30, 2004

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Required Supplementary Information, Continued

Schedule of Funding Progress — Additional Actuarial Information

	PERS	SPRS
Actuarial cost method	Projected unit credit	Projected unit credit
Asset valuation method	5 year average of market value	5 year average of market value
Amortization method	Level percent, closed	Level dollar, closed
Remaining amortization period	37 years for UAAL balance; 7 years for asset method change	30 years
Actuarial assumptions:		
Interest rate	8.25%	8.25%
Salary range	5.45%	5.45%
Cost-of-living adjustments	1.80%	1.80%
Valuation date	June 30, 2004	June 30, 2004

	TPAF
Actuarial cost method	Projected unit credit
Asset valuation method	5 year average of market value
Amortization method	Level percent, closed
Remaining amortization period	30 years
Actuarial assumptions:	
Interest rate	8.25%
Salary range	5.45%
Cost-of-living adjustments	1.80%
Valuation date	June 30, 2004

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Required Supplementary Information, Continued
Schedule of Employer Contributions

YEAR ENDED JUNE 30,	ANNUAL REQUIRED CONTRIBUTION	EMPLOYER CONTRIBUTIONS[1]	PERCENTAGE CONTRIBUTED
JUDICIAL RETIREMENT SYSTEM			
1997	$18,406,865	$110,483,753[2]	600.2%
1998	14,658,095	13,478,708	92.0%
1999	13,416,851	—	0.0%
2000	13,407,153	—	0.0%
2001	12,816,557	—	0.0%
2002	15,575,602	—	0.0%
2003	16,913,237	8,467,287	50.1%
2004	18,720,233	3,355,438	17.9%
2005	22,525,773	6,162,076	27.4%
CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND			
1997	$10,580,991	$43,995,746[2]	415.8%
1998	—	—	N/A
1999	—	—	N/A
2000	—	—	N/A
2001	—	—	N/A
2002	550,864	506,541	92.0%
2003	3,550,445	2,713,914	76.4%
2004	5,330,714	1,950,425	36.6%
2005	14,329,212	7,046,000	49.2%
POLICE AND FIREMEN'S RETIREMENT SYSTEM			
State			
1997	$111,775,028	$715,344,385[2]	640.0%
1998	84,167,834	73,587,848	87.4%
1999	93,920,617	23,730,087	25.3%
2000	98,974,449	60,521,749	61.1%
2001	95,883,272	—	0.0%
2002	103,580,989	—	0.0%
2003	104,998,547	—	0.0%
2004	118,297,232	22,215,429	18.8%
2005	161,455,508	49,326,846	30.6%
Local			
1997	250,220,580	234,963,865	93.9%
1998	238,002,765	223,491,008	93.9%
1999	273,210,113	256,551,862	93.9%
2000	275,790,739	214,164,848	77.7%
2001	249,746,232	75,670,018	30.3%
2002	248,754,078	185,415	0.1%
2003	259,969,532	364,850	0.1%
2004	316,272,883	53,396,685	16.9%
2005	355,229,715	132,740,650	37.4%

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Required Supplementary Information, Continued
Schedule of Employer Contributions

YEAR ENDED JUNE 30,	ANNUAL REQUIRED CONTRIBUTION	EMPLOYER CONTRIBUTIONS[1]	PERCENTAGE CONTRIBUTED
PRISON OFFICERS' PENSION FUND			
1997	$2,949,604	$21,688,219[2]	735.3%
1998	—	—	N/A
1999	—	—	N/A
2000	—	—	N/A
2001	—	—	N/A
2002	—	—	N/A
2003	—	—	N/A
2004	—	—	N/A
2005	—	—	N/A
PUBLIC EMPLOYEES' RETIREMENT SYSTEM[3]			
State			
1997	$134,878,582	$241,106,642[2]	178.8%
1998	78,833,287	—	0.0%
1999	86,945,810	—	0.0%
2000	103,033,425	—	0.0%
2001	85,078,620	—	0.0%
2002	88,911,187	—	0.0%
2003	44,636,619	—	0.0%
2004	50,365,892	526,505	1.0%
2005	115,017,395	463,342	0.4%
Local			
1997	142,672,255	67,476,771	47.3%
1998	84,639,988	19,034,673	22.5%
1999	111,886,040	19,599,153	17.5%
2000	112,800,127	20,541,177	18.2%
2001	88,717,727	21,670,774	24.4%
2002	77,254,063	16,174,534	20.9%
2003	—	16,987,033	N/A
2004	—	20,882,718	N/A
2005	29,425,853	56,916,883	193.4%
STATE POLICE RETIREMENT SYSTEM			
1997	$44,384,679	$120,308,862[2]	271.1%
1998	33,317,314	—	0.0%
1999	33,116,255	—	0.0%
2000	33,598,843	—	0.0%
2001	35,341,259	—	0.0%
2002	24,990,652	—	0.0%
2003	29,449,164	—	0.0%
2004	37,600,821	—	0.0%
2005	37,943,519	187,909	0.5%

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Required Supplementary Information, Continued
Schedule of Employer Contributions

YEAR ENDED JUNE 30,	ANNUAL REQUIRED CONTRIBUTION	EMPLOYER CONTRIBUTIONS[1]	PERCENTAGE CONTRIBUTED
	TEACHERS' PENSION AND ANNUITY FUND		
1997	$372,060,546	$1,601,688,633[2]	430.5%
1998	297,219,462	—	0.0%
1999	314,671,482	258,816,649	82.2%
2000	368,904,564	—	0.0%
2001	—	—	N/A
2002	—	—	N/A
2003	194,435,594	—	0.0%
2004	686,284,850	—	0.0%
2005	883,460,483	—	0.0%

Notes to schedule:

(1) In accordance with Chapter 115, P.L. 1997, available excess valuation assets were used to fund, in full or in part, the required employer contributions.

(2) For the year ended June 30, 1997, the employer contributions exceeded the annual required contributions as a result of legislation that was enacted (Chapter 114, P.L. 1997) authorizing the New Jersey Economic Development Authority to issue bonds, notes or other obligations for the purpose of financing, in full or in part, the State of New Jersey's portion of the unfunded accrued liability under the State of New Jersey retirement systems.

(3) The local employer contributions to the PERS from 1998 to 2004 represent the required contributions under the early retirement incentive programs.

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Schedule of Loss Development Information
June 30, 2005

HEALTH BENEFITS PROGRAM FUND — LOCAL		FISCAL YEAR ENDED JUNE 30, 2005
Premiums and investment revenue earned	$	1,842,130,643
Estimated losses and expenses		1,773,894,997

PRESCRIPTION DRUG PROGRAM FUND — LOCAL		FISCAL YEAR ENDED JUNE 30, 2005
Premiums and investment revenue earned	$	92,372,939
Estimated losses and expenses		80,063,037

DENTAL EXPENSE PROGRAM FUND — LOCAL		FISCAL YEAR ENDED JUNE 30, 2005
Premiums and investment revenue earned	$	5,355,899
Estimated losses and expenses		6,605,724

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Schedule of Administrative Expenses
Year Ended June 30, 2005

	PERS	TPAF	PFRS	CPFPF	POPF	SPRS	JRS	NJSEDCP	TOTAL
Personnel Services									
Salaries & Wages	$8,739,027	$4,354,808	$1,472,190	$16,176	$2,938	$104,425	$76,758	$217,871	$14,984,193
Employee Benefits	2,900,795	1,445,515	488,672	5,369	976	34,662	25,512	97,528	4,999,029
Total Personnel Services	11,639,822	5,800,323	1,960,862	21,545	3,914	139,087	102,270	315,399	19,983,222
Professional Services									
Actuarial Services*	782,365	151,611	421,602	4,706	1,053	29,726	4,848		1,395,911
Data Processing	1,356,559	675,996	228,528	2,511	457	16,209	2,740	60,229	2,343,229
Information Systems	2,203,476	1,098,030	371,202	4,079	742	26,329	4,450	92,449	3,800,757
Other Professional**	446,513	221,953	83,922	826	150	5,531	902	87,600	847,397
Medical Review*	227,222	59,444	236,193			13,153			536,012
Elections*	131,636		39,188						170,824
Internal Audit & Legal	416,471	207,535	70,159	771	140	4,976	841		700,893
Total Professional Services	5,564,242	2,414,569	1,450,794	12,893	2,542	95,924	13,781	240,278	9,795,023
Communication									
Travel	11,304	20,587	5,886	16	3	378	17	4,284	42,475
Telephone	150,910	75,201	25,422	279	51	1,803	305	2,800	256,771
Postage	536,703	267,448	90,414	994	181	6,413	1,084	42,000	945,237
Motor Pool	11,352	5,657	1,912	21	4	136	23		19,105
Printing & Office	453,079	212,858	81,173	1,075	437	7,138	1,169	5,809	762,738
Total Communication	1,163,348	581,751	204,807	2,385	676	15,868	2,598	54,893	2,026,326
Miscellaneous									
Office Space	1,451,044	723,080	244,537	2,686	488	17,338	2,930	12,000	2,454,103
Maintenance	51,947	25,886	8,754	96	17	621	105		87,426
Equipment	85,392	42,553	14,391	158	29	1,020	172		143,715
Other Services & Charges	5,646,323	4,468,377	2,079,930	14,731	6,536	220,369	47,501	311,126	12,794,893
Total Miscellaneous	7,234,706	5,259,896	2,347,612	17,671	7,070	239,348	50,708	323,126	15,480,137
Total Administrative Expense	$25,602,118	$14,056,539	$5,964,075	$54,494	$14,202	$490,227	$169,357	$933,696	$47,284,708

* Consulting
** Portion of Consulting

Schedule 5

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Schedule of Investment Expenses
Year Ended June 30, 2005

	PERS	TPAF	PFRS	CPFPF	POPF	SPRS	JRS	NJSEDCP	TOTAL
Investment Expense	$3,877,723	$1,928,444	$657,466	$8,587	$1,804	$44,206	$7,658	$207,771	$6,733,659
Global Custody, Fees	337,283	450,375	238,340			26,481	5,231		1,057,710
Total Investment Expenses	$4,215,006	$2,378,819	$895,806	$8,587	$1,804	$70,687	$12,889	$207,771	$7,791,369

Schedule 6

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Schedule of Expenses for Consultants
Year Ended June 30, 2005

	PERS	TPAF	PFRS	CPFPF	POPF	SPRS	JRS	TOTAL
Actuarial								
Buck Consultants	$782,365		$421,602	$4,706	$1,053	$29,726	$4,848	$1,244,300
Milliman		151,611						151,611
Exams/Hearings	227,222	59,444	236,193			13,153		536,012
Unemployment Contract								
TALX	30,614	15,229	5,197			360	51	51,451
Elections								
Corporate Marketing	131,636		39,188					170,824
Total Expenses for Consultants	$1,171,837	$226,284	$702,180	$4,706	$1,053	$43,239	$4,899	$2,154,198

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2005

	PENSION TRUST FUNDS	POST-RETIREMENT MEDICAL FUNDS	TOTAL
Assets:			
Cash and cash equivalents	$ 590,792	—	$ 590,792
Securities lending collateral	12,122,692,569	—	12,122,692,569
Investments, at fair value:			
Cash Management Fund	2,351,792,525	42,692	2,351,835,217
Bonds	396,695,615	7,880	396,703,495
Common Pension Fund A	35,570,529,945	973,459	35,571,503,404
Common Pension Fund B	17,496,577,089	506,770	17,497,083,859
Common Pension Fund D	13,687,669,881	376,128	13,688,046,009
Common and preferred stocks	1,104,822,874	—	1,104,822,874
Mortgages	1,241,292,166	8,930	1,241,301,096
Total investments	71,849,380,095	1,915,859	71,851,295,954
Receivables:			
Contributions:			
Members	192,924,978	—	192,924,978
Employers	1,605,075,951	—	1,605,075,951
Accrued interest and dividends	389,149,406	—	389,149,406
Members' loans	1,120,643,002	—	1,120,643,002
Other	31,930,846	—	31,930,846
Total receivables	3,339,724,183	—	3,339,724,183
Total assets	$ 87,312,387,639	1,915,859	$ 87,314,303,498
Liabilities:			
Accounts payable and accrued expenses	$ 27,194,426	—	$ 27,194,426
Retirement benefits payable	417,048,590	—	417,048,590
NCGI premiums payable	7,578,739	—	7,578,739
Cash overdraft	7,752,142	—	7,752,142
Securities lending collateral and rebates payable	12,122,692,569	—	12,122,692,569
Total liabilities	12,582,266,466	—	12,582,266,466
Net assets held in trust for pension and post-retirement medical benefits	$ 74,730,121,173	1,915,859	$ 74,732,037,032

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2005

	PENSION TRUST FUNDS	POST-RETIREMENT MEDICAL FUNDS	TOTAL
Additions:			
Contributions:			
Members	$ 1,460,882,145	—	$ 1,460,882,145
Employers	765,671,822	685,520,423	1,451,192,245
Other	10,383,211	—	10,383,211
Total contributions	2,236,937,178	685,520,423	2,922,457,601
Investment income:			
Net appreciation in fair value of investments	3,870,273,253	134,603	3,870,407,856
Interest	1,454,126,661	—	1,454,126,661
Dividends	742,177,621	—	742,177,621
	6,066,577,535	134,603	6,066,712,138
Less: investment expense	7,791,369	—	7,791,369
Net investment income	6,058,786,166	134,603	6,058,920,769
Total additions	8,295,723,344	685,655,026	8,981,378,370
Deductions:			
Benefits	5,065,184,735	685,293,484	5,750,478,219
Refunds of contributions	100,425,050	—	100,425,050
Administrative expenses	47,284,708	—	47,284,708
Total deductions	5,212,894,493	685,293,484	5,898,187,977
Net increase	3,082,828,851	361,542	3,083,190,393
Net assets held in trust for pension and post-retirement medical benefits:			
Beginning of year	71,647,292,322	1,554,317	71,648,846,639
End of year	$ 74,730,121,173	1,915,859	$ 74,732,037,032

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Balance Sheet
Fiduciary Funds - Agency Funds
June 30, 2005

	ALTERNATE BENEFIT PROGRAM FUND	PENSION ADJUSTMENT FUND	TOTAL
Assets:			
Cash and cash equivalents	$ 981,712	29,762	$ 1,011,474
Investments, at fair value:			
Cash Management Fund	4,186,500	3,480,275	7,666,775
Total investments	4,186,500	3,480,275	7,666,775
Receivables:			
State related employer contributions	—	1,747,855	1,747,855
Other	20,312,923	22,083	20,335,006
Total receivables	20,312,923	1,769,938	22,082,861
Total assets	$ 25,481,135	5,279,975	$ 30,761,110
Liabilities:			
Accounts payable and accrued expenses	$ 22,351,581	—	$ 22,351,581
Assets held for state-related employers	—	3,040,538	3,040,538
Pension adjustment payroll payable	—	831,130	831,130
Due to State of New Jersey	3,129,554	73,447	3,203,001
Other	—	1,334,860	1,334,860
Total liabilities	$ 25,481,135	5,279,975	$ 30,761,110

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Schedule of Changes in Fiduciary Net Assets
Agency Funds

Year ended June 30, 2005

	ALTERNATE BENEFIT PROGRAM FUND	PENSION ADJUSTMENT FUND	TOTAL
Additions:			
Contributions:			
Members	$ 737,213	—	$ 737,213
Employers	130,366,136	9,541,004	139,907,140
Total contributions	131,103,349	9,541,004	140,644,353
Investment income:			
Net appreciation (depreciation) in fair value of investments	1,563	252	1,815
Interest	218,107	133,150	351,257
Total investment income	219,670	133,402	353,072
Total additions	131,323,019	9,674,406	140,997,425
Deductions:			
Benefits	128,188,984	10,373,017	138,562,001
Refunds of contributions and due General Fund	3,134,035	(698,611)	2,435,424
Total deductions	131,323,019	9,674,406	140,997,425
Change in net assets	—	—	—
Net assets — Beginning of year	—	—	—
Net assets — End of year	$ —	—	$ —

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