STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Financial Statements and Schedules

June 30, 2006 and 2005

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 402
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Independent Auditors' Report

The Board of Trustees
State of New Jersey
Teachers' Pension and Annuity Fund:

We have audited the accompanying statements of fiduciary net assets of the State of New Jersey Teachers' Pension and Annuity Fund (the Fund) as of June 30, 2006 and 2005, and the related statements of changes in fiduciary net assets for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State of New Jersey Teachers' Pension and Annuity Fund as of June 30, 2006 and 2005, and the changes in its financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

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

Our audits were made for the purpose of forming an opinion on the financial statements that collectively comprise the Fund's basic financial statements. The 2006 schedule of changes in fiduciary net assets by fund (Schedule 3) is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Fund. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

KPMG LLP

January 25, 2007

Our discussion and analysis of the Teachers' Pension and Annuity Fund (the Fund) financial performance provides an overview of the Fund's financial activities for the fiscal years ended June 30, 2006 and 2005. Please read it in conjunction with the basic financial statements and financial statement footnotes which follow this discussion.

FINANCIAL HIGHLIGHTS

2006 - 2005

- Net assets held in trust for pension and post-retirement medical benefits increased by $1,306,647,997 as a result of fiscal year 2006's operations from $29,632,231,536 to $30,938,879,533.
- Additions for the year were $4,144,661,248, which are comprised of member and employer pension contributions of $1,163,837,776 and investment income of $2,980,823,472.
- Deductions for the year were $2,838,013,251, which are comprised of benefit and refund payments of $2,827,624,229 and administrative expenses of $10,389,022.

2005 - 2004

- Net assets held in trust for pension and post-retirement medical benefits increased by $912,081,506 as a result of fiscal year 2005's operations from $28,720,150,030 to $29,632,231,536.
- Additions for the year were $3,511,148,496, which are comprised of member and employer pension contributions of $1,039,584,783 and investment income of $2,471,563,713.
- Deductions for the year were $2,599,066,990, which are comprised of benefit and refund payments of $2,585,010,451 and administrative expenses of $14,056,539.

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

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

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

(Continued)

FINANCIAL ANALYSIS

SCHEDULE OF FIDUCIARY NET ASSETS

2006 - 2005

	2006	2005	Increase (Decrease)
Assets	$37,031,539,935	$35,080,115,665	$1,951,424,270
Liabilities	6,092,660,402	5,447,884,129	644,776,273
Net Assets	$30,938,879,533	$29,632,231,536	$1,306,647,997

The Fund's assets mainly consist of cash, securities lending collateral, investments, and contributions due from members and participating employers. Between fiscal years 2005 and 2006, total assets increased by $2.0 billion or 5.6%. The total assets increased mainly due to an overall increase in fair value of investments and an increase in securities lending collateral.

In fiscal year 2006, employer contributions receivables include State appropriation based on Chapter 23, P.L. 2002 (early retirement incentive benefits to State employees) and appropriation due from local employers, based on Chapter 128 and 129 (early retirement incentive benefits to local employees).

Liabilities consist of pension and death benefit payments owed to members and beneficiaries, noncontributory group insurance premiums owed to the Fund's insurance provider, securities lending collateral and rebates payable, and other payables. Total liabilities increased by $644.8 million or 11.8% over last year. This is mainly due to an increase in benefits payable to retirees and beneficiaries and also an increase in securities lending collateral and rebates payable.

Net assets held in trust for pension and post-retirement medical benefits increased by $1.3 billion or 4.4%.

2005 - 2004

	2005	2004	Increase (Decrease)
Assets	$35,080,115,665	$33,696,406,755	$1,383,708,910
Liabilities	5,447,884,129	4,976,256,725	471,627,404
Net Assets	$29,632,231,536	$28,720,150,030	$912,081,506

Between fiscal years 2004 and 2005, total assets increased by $1.4 billion or 4.1%. The total assets increased mainly due to increase in contributions receivable from members, based on increase in membership and elimination of a reduction in the employee contribution rate (returning to the normal rate of 5% from 3%), effective January 1, 2004.

Employer contributions receivables decreased partly due to Chapter 42, P.L. 2002, which permitted local government units to issue refunding bonds to retire an unfunded accrued liability resulting from early retirement benefits. In fiscal year 2005, employer contributions receivables are including State appropriation based on Chapter 23, P.L. 2002 (early retirement incentive benefits to State employees) and appropriation due from local employers, based on Chapter 128 and 129 (early retirement incentive benefits to local employees).

Total liabilities increased by $471.6 million or 9.5% over last year. This is mainly due to increase in benefits payable to retirees and beneficiaries, partly related to the State Early Retirement Incentive (Chapter 23, P.L. 2002).

Net assets held in trust for pension and post-retirement medical benefits increased by $912.1 million or 3.2%.

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ADDITIONS TO FIDUCIARY NET ASSETS
2006-2005

	2006	2005	Increase (Decrease)
Member Contributions	$507,106,612	$488,861,870	$18,244,742
Employer Contributions	656,731,164	550,722,913	106,008,251
Investment	2,980,823,472	2,471,563,713	509,259,759
Totals	$4,144,661,248	$3,511,148,496	$633,512,752

Additions primarily consist of member and employer contributions and earnings from investment activities. Member contributions increased by $18.2 million or 3.7% due to increase in active member count.

Employer contributions increased by $106.0 million or 19.3% over last year. The State made a contribution of $555.3 million for fiscal year 2006 post-retirement medical (PRM). Also, employer contributions are including State appropriation based on Chapter 23, P.L. 2002 and appropriation due from local employers, based on Chapter 128 and 129, P.L. 2003.

The State made a contribution of $93.8 million for fiscal year 2006 pension obligation. According to the Appropriation Act of 2003 related to fiscal year 2006, the State is paying pension obligations through a five-year phase-in.

Investment & other revenues increased by $509.3 million or 20.6% due to an increase in net appreciation in fair value of investments and a higher rate of return on investments.

The total investment return for all pension funds was estimated to be 9.7% compared to 8.7% in the prior year.

2005-2004

	2005	2004	Increase (Decrease)
Member Contributions	$488,861,870	$405,695,555	$83,166,315
Employer Contributions	550,722,913	456,411,646	94,311,267
Investment	2,471,563,713	3,652,597,813	(1,181,034,100)
Totals	$3,511,148,496	$4,514,705,014	$(1,003,556,518)

Member contributions increased by $83.2 million or 20.5% due to increase in active member count and the contribution rate of 5% back from 3%, effective January 1, 2004.

Employer contributions increased by $94.3 million or 20.7% over last year. The State made a contribution of $494.7 million for fiscal year 2005 post-retirement medical (PRM). Also, employer contributions are including State appropriation based on Chapter 23, P.L. 2002 and appropriation due from local employers, based on Chapter 128 and 129, P.L. 2003.

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 was not required to make a normal contribution to the Fund between 1997 and 2005 based on Pension Security legislation passed in 1997.

Investment & other revenues decreased by $1.2 billion or 32.3% due to decrease in net appreciation in fair value of investments.

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

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DEDUCTIONS FROM FIDUCIARY NET ASSETS
2006 - 2005

	2006	2005	Increase (Decrease)
Benefits	$2,794,412,846	$2,555,774,692	$238,638,154
Refunds & Adjustments	33,211,383	29,235,759	3,975,624
Administrative Expenses	10,389,022	14,056,539	(3,667,517)
Totals	$2,838,013,251	$2,599,066,990	$238,946,261

Deductions are mainly comprised of pension benefit payments to retirees and beneficiaries, refunds of contributions to former members, and administrative costs incurred by the Fund. Benefit payments increased by $238.6 million or 9.3% partly due to increase in number of retirees. The number of refunds processed increased by $4.0 million or 13.6%. Administrative expenses decreased by $3.7 million or 26.1%. Last year's administrative expense was higher due to the reimbursement to the State General Fund of the Special Project Fund Appropriation utilized for the system reengineering project.

2005 - 2004

	2005	2004	Increase (Decrease)
Benefits	$2,555,774,692	$2,306,188,800	$249,585,892
Refunds & Adjustments	29,235,759	28,737,720	498,039
Administrative Expenses	14,056,539	8,788,960	5,267,579
Totals	$2,599,066,990	$2,343,715,480	$255,351,510

Benefit payments increased by $249.6 million or 10.8% partly due to increase in number of retirees. The number of refunds processed has increased by $1.7% due to increase in members transferring-out. Administrative expenses increased by $5.3 million or 59.9% mainly due to the reimbursement to the State General Fund for the Special Project Fund Appropriation for the system reengineering project.

RETIREMENT SYSTEM AS A WHOLE

The overall funded ratios are 79.1% for fiscal year 2006 and 85.6% for 2005.

CONTACTING SYSTEM FINANCIAL MANAGEMENT

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

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Statements of Fiduciary Net Assets

June 30, 2006 and 2005

	2006			2005		
	PENSION FUND	POST-RETIREMENT MEDICAL FUND	TOTAL	PENSION FUND	POST-RETIREMENT MEDICAL FUND	TOTAL
Assets:						
Cash	$ 4,783,607	—	4,783,607	—	—	—
Securities Lending Collateral	6,021,492,285	—	6,021,492,285	5,263,308,403	—	5,263,308,403
Investments, at fair value:						
Cash Management Fund	836,216,981	68,481	836,285,462	612,691,720	9,828	612,701,548
Bonds	47,540,087	3,893	47,543,980	49,564,719	1,052	49,565,771
Common Pension Fund A	15,090,783,960	1,235,850	15,092,019,810	14,850,768,277	315,250	14,851,083,527
Common Pension Fund B	8,004,526,581	655,526	8,005,182,107	7,911,361,668	167,941	7,911,529,609
Common Pension Fund D	5,962,008,870	488,255	5,962,497,125	5,748,588,068	122,030	5,748,710,098
Common Pension Fund E	399,366,604	32,706	399,399,310	—	—	—
Mortgage Backed Securities	92,680,786	7,591	92,688,377	132,630,891	2,816	132,633,707
Total investments	30,433,123,869	2,492,302	30,435,616,171	29,305,605,343	618,917	29,306,224,260
Receivables:						
Contributions:						
Members	68,133,184	—	68,133,184	75,120,796	—	75,120,796
Employers	81,869,995	—	81,869,995	57,211,970	—	57,211,970
Accrued interest and dividends	202,857,201	—	202,857,201	164,448,049	—	164,448,049
Members' loans	214,906,013	—	214,906,013	212,373,895	—	212,373,895
Other	1,881,479	—	1,881,479	1,428,292	—	1,428,292
Total receivables	569,647,872	—	569,647,872	510,583,002	—	510,583,002
Total assets	37,029,047,633	2,492,302	37,031,539,935	35,079,496,748	618,917	35,080,115,665
Liabilities:						
Accounts payable and accrued expenses	14,462,917	—	14,462,917	10,144,262	—	10,144,262
Retirement benefits payable	54,642,143	—	54,642,143	170,914,458	—	170,914,458
Non-contributory group insurance premiums payable	2,063,057	—	2,063,057	1,651,560	—	1,651,560
Cash overdraft	—	—	—	1,865,446	—	1,865,446
Securities lending collateral and rebates payable	6,021,492,285	—	6,021,492,285	5,263,308,403	—	5,263,308,403
Total liabilities	6,092,660,402	—	6,092,660,402	5,447,884,129	—	5,447,884,129
Net Assets:						
Held in trust for pension benefits	$ 30,936,387,231	2,492,302	30,938,879,533	29,631,612,619	618,917	29,632,231,536

See schedule of funding progress on pages 26-27.
See accompanying notes to financial statements.

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Statements of Changes in Fiduciary Net Assets

Years ended June 30, 2006 and 2005

	2006			2005		
	PENSION FUND	POST-RETIREMENT MEDICAL FUND	TOTAL	PENSION FUND	POST-RETIREMENT MEDICAL FUND	TOTAL
Additions:						
Contributions:						
Members	$ 507,106,612	—	507,106,612	488,861,870	—	488,861,870
Employers	101,386,162	555,344,002	656,730,164	56,025,944	494,695,969	550,721,913
Other	1,000	—	1,000	1,000	—	1,000
Total contributions	608,493,774	555,344,002	1,163,837,776	544,888,814	494,695,969	1,039,584,783
Investment income:						
Net appreciation in fair value of investments	2,051,274,590	59,787	2,051,334,377	1,569,513,311	36,897	1,569,550,208
Interest	615,739,784	—	615,739,784	600,320,556	—	600,320,556
Dividends	315,385,571	—	315,385,571	304,071,768	—	304,071,768
	2,982,399,945	59,787	2,982,459,732	2,473,905,635	36,897	2,473,942,532
Less: investment expense	1,636,260	—	1,636,260	2,378,819	—	2,378,819
Net investment income	2,980,763,685	59,787	2,980,823,472	2,471,526,816	36,897	2,471,563,713
Total additions	3,589,257,459	555,403,789	4,144,661,248	3,016,415,630	494,732,866	3,511,148,496
Deductions:						
Benefits	2,240,882,442	553,530,404	2,794,412,846	2,061,234,677	494,540,015	2,555,774,692
Refunds of contributions	33,211,383	—	33,211,383	29,235,759	—	29,235,759
Administrative expenses	10,389,022	—	10,389,022	14,056,539	—	14,056,539
Total deductions	2,284,482,847	553,530,404	2,838,013,251	2,104,526,975	494,540,015	2,599,066,990
Change in net assets	1,304,774,612	1,873,385	1,306,647,997	911,888,655	192,851	912,081,506
Net assets - Beginning of year	29,631,612,619	618,917	29,632,231,536	28,719,723,964	426,066	28,720,150,030
Net assets - End of year	$ 30,936,387,231	2,492,302	30,938,879,533	29,631,612,619	618,917	29,632,231,536

See accompanying notes to financial statements.

(1) DESCRIPTION OF THE FUND

The State of New Jersey Teachers' Pension and Annuity Fund (the Fund; TPAF) is a cost-sharing contributory defined benefit plan with a special funding situation which was established as of January 1, 1955, under the provisions of N.J.S.A. 18A:66. The Fund is included along with other state-administered pension trust and agency funds in the basic financial statements of the State of New Jersey.

The Fund's designated purpose is to provide retirement benefits, death, disability and medical benefits to certain qualified members. Membership in the Fund is mandatory for substantially all teachers or members of the professional staff certified by the State Board of Examiners, and employees of the Department of Education who have titles that are unclassified, professional and certified. The Fund's Board of Trustees is primarily responsible for the administration of the Fund.

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

Vesting and Benefit Provisions:

The vesting and benefit provisions are set by N.J.S.A. 18A:66. The Fund 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 Fund. 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 retired within a specified time period that generally extended from February 1, 2002 to July 1, 2002. The incentive benefits include an additional three years of service credit to employees who are at least 50 years of age with at least 25 years of service credit; State paid health care benefits to employees who are at least 60 years of age with at least 20 but less than 25 years of service credit; and an additional monthly benefit of $500 per month for 24 months following the date of retirement to employees who are at least 60 years of age with at least 10 but not more than 20 years of service credit. For those eligible for veterans' retirement benefit, the incentive is an additional pension of 3/55 of the compensation upon which the retirement benefit is based to employees who are at least 55 years of age with 25 or more years of service credit. Similarly, Chapter 128 and 129, P.L. 2003 provided early retirement incentive benefits to local employees.

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

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

Significant Legislation:

P.L. 2003, effective July 14, 2003, provided employees of local employers with additional retirement benefits through early retirement incentive programs: Chapter 128 for a county college and Chapter 129 for a local school board. They also permitted issuance of refunding bonds to fund benefits. 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.

Membership and Contributing Employers:

Membership in the Fund consisted of the following at June 30, 2005 and 2004, the dates of the most recent actuarial valuation:

2005	PENSION BENEFITS	POST-RETIREMENT MEDICAL BENEFITS
Retirees and beneficiaries receiving benefits currently and terminated employees entitled to benefits but not yet receiving them	66,348	47,938
Active members:		
Vested	75,545	27,610
Non-vested	76,328	124,263
Total active members	151,873	151,873
Total	218,221	199,811
Contributing Employers	59	1

2004	PENSION BENEFITS	POST-RETIREMENT MEDICAL BENEFITS
Retirees and beneficiaries receiving benefits currently and terminated employees entitled to benefits but not yet receiving them	62,918	45,209
Active members:		
Vested	76,328	28,774
Non-vested	72,769	120,323
Total active members	149,097	149,097
Total	212,015	194,306
Contributing Employers	102	1

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus and Basis of Accounting:

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

The accrual basis of accounting is used for measuring financial position and changes in fiduciary net assets of the Fund. Under this method, revenues are recorded in the accounting period in which they are earned, and deductions are recorded at the time the liabilities are incurred. The financial statements of the Fund conform to the provisions of Governmental Accounting Standards Board (GASB) Statement No. 25, "Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contributions Plans" and No. 26, "Financial Reporting for Post-employment Healthcare Plans Administered by Defined Benefit Pension Plans." Employer contributions are recognized when payable to the Fund. Benefits and refunds are recognized when due and payable in accordance with the terms of the Fund.

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.
- Alternative investments (private equity, real assets and absolute return strategy funds) – estimated fair value provided by the investment manager and reviewed by management. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ significantly from the value that would be used if a ready market for such investments existed. Accordingly, the realized value received upon the sale of the asset may differ from the fair value.

Investment Transactions:

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

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

Securities Lending:

Common Funds A, B and D and several of the directly-held pension plan portfolios participate in securities lending programs, whereby securities are loaned to brokers or to other borrowers and, in return, the pension funds have rights to the collateral received. All of the securities held in Common Funds A, B and D, and certain securities held directly by the pension plans, are eligible for the securities lending program. Collateral received may consist of cash, letters of credit, or government securities having a market value equal to or exceeding 102% (U.S. dollar denominated) or 105% (non-U.S. dollar denominated) of the value of the loaned securities at the time the loan is made. For Common Funds A and B, in the event that the market value of the collateral falls below 101% of the market value of all the outstanding loaned securities to an individual borrower, additional collateral shall be transferred by the borrower to the respective funds no later than the close of the next business day so that the market value of such additional collateral, when added to the market value of the other collateral, shall equal 102% of the market value of the loaned securities. For Common Fund D, in the event that the market value of the collateral falls below the collateral requirement of either 102% or 105% of the market value of the outstanding loaned securities to an individual borrower, additional collateral shall be transferred in an amount that will increase the aggregate of the borrower's collateral to meet the collateral requirements. As of June 30, 2006 and 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 on the securities while they are on loan. The custodian bank for Common Fund D also indemnifies Common Funds for any loss of principal or interest on the invested collateral. For any losses on the investment collateral in Common Funds A or B or other pension plan portfolios, the lending fee paid to the lending agent shall be reduced by 25% of the amount of such loss, up to an amount not to exceed 75% of the previous six months' securities lending fees. The securities loans can be terminated by notification by either the borrower or the Common Funds. The term to maturity of the securities loans is generally matched with the term to maturity of the investment of the cash collateral.

Derivatives:

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

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

The fair value of foreign forward currency contracts held directly by the Common Funds as of June 30, 2006 and 2005 is as follows:

		2006	2005
Forward currency receivable	$	1,887,515,323	745,577,063
Forward currency payable		1,902,654,117	745,525,163
Net unrealized loss (gain)		15,138,794	(51,900)

The net unrealized gain or loss is included in investments in the accompanying statements of net assets at June 30, 2006 and 2005.

The Common Funds utilize covered call and put options in an effort to add value to or reduce the risk level in the portfolio. Covered options are agreements that give the owner of the option the right, but not obligation, to buy (in the case of a call option) or to sell (in the case of a put option) a specific amount of an asset for a specific price (called the strike price) on or before a specified expiration date. The writer of call options receives a premium at the outset of the agreement and bears the risk of an unfavorable change in the price of the instrument underlying the option. The Common Funds have written call options on 182,000 shares with a fair value of $470,032 at June 30, 2006 and 215,400 shares with a fair value of $548,100 at June 30, 2005 which are reflected as contra-assets to the fair value of the portfolio. The Common Funds own put options on 6,990,800 shares with a fair value of $1,631,358, which are included in the portfolio at June 30, 2006.

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

Members' Loans:

Members who have at least three years of service in the Fund 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.

(Continued)

Administrative Expenses:

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

(3) INVESTMENTS

The Fund is invested in Common Pension Fund A, Common Pension Fund B, Common Pension Fund D, Common Pension Fund E, and other investments, including mortgage backed securities, which represent 41.51%, 43.66%, 41.51%, 35.88%, and 10.49%, respectively, of each investment total of the pension funds as of June 30, 2006.

The Fund was invested in Common Pension Fund A, Common Pension Fund B, Common Pension Fund D, and other investments, including mortgage backed securities, which represent 41.75%, 45.22%, 42.00%, and 10.61%, respectively, of each investment total of the pension funds as of June 30, 2005.

The pension funds investments as of June 30 are as follows:

	2006	2005
Domestic equities	$ 36,206,866,148	34,782,276,119
International equities	12,953,297,531	11,232,483,997
Domestic fixed income	16,949,855,296	16,521,446,786
International fixed income	1,187,184,887	2,201,826,936
Domestic floating rate securities	77,882,139	77,922,181
Police and Fireman's mortgages	965,008,210	896,706,544
Private equity	236,208,692	—
Real estate	81,345,789	—
Absolute return strategy funds	260,707,666	—
Net forward foreign exchange contracts	(15,138,794)	51,900
	$ 68,903,217,564	65,712,714,463

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, private equity, real estate, other real assets and absolute return strategy funds.

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

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is evaluated by nationally recognized statistical rating agencies such as Moody's Investors Service, Inc. (Moody's) 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 held directly by the pension funds and limit the amount that can be invested in any one issuer or issue as follows:

Category	Minimum Rating Moody's	Minimum Rating S&P	Limitation of Issuer's Outstanding Debt	Limitation of Issue	Other Limitations
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 greater of 10% of issue or $10 million; not more than 2% of fund assets can be invested in any one issuer
International government and agency obligations	Aa	AA	2%	10%	Not more than 1% of fund assets can be invested in any one issuer
Public Authority revenue obligations	A	A	—	10%	Not more than 2% of fund assets can be invested in any one public authority
Collateralized notes and mortgages	Baa	BBB	—	33.3%	Not more than 2% of fund assets can be invested in any one issuer
Commercial paper	P-1	A-1	—	—	—
Certificates of deposit and Banker's acceptances (rating applies to international)	Aa/P-1	—	—	—	Uncollateralized certificates of deposit and banker's acceptances cannot exceed 10% of issuer's primary capital
Guaranteed income contracts	P-1	—	—	—	A+ rating from A.M. Best for insurance companies
Money market funds	—	—	—	—	Not more than 10% of fund assets can be invested in money market funds; limited to 5% of shares or units outstanding

For securities in the fixed income portfolio, the following tables disclose aggregate market value, by major credit quality rating category at June 30, 2006 and 2005:

June 30, 2006	**Moody's Rating**				
(000's)	**Aaa**	**Aa**	**A**	**Baa**	**Ba**
United States Treasury Notes	$ 3,516,004	—	—	—	—
United States Treasury Bills	389,716	—	—	—	—
United States Treasury TIPS	790,555	—	—	—	—
United States Treasury Bonds	1,984,003	—	—	—	—
United States Treasury Strips	37,219	—	—	—	—
Title XI Merchant Marine Notes	3,615	—	—	—	—
Federal Agricultural Mortgage Corp. Notes	95,763	—	—	—	—
Federal Farm Credit Bank Bonds	50,270	—	—	—	—
Federal Home Loan Bank Bonds	466,312	—	—	—	—
Federal Home Loan Bank Discounted Notes	89,894	—	—	—	—
Federal Home Loan Mortgage Corp. Notes	341,897	—	—	—	—
Federal National Mortgage Association Notes	226,193	—	—	—	—
Resolution Funding Corp. Obligations	6,397	—	—	—	—
Floating Rate Notes	25,023	20,020	9,999	22,841	—
Corporate Obligations	509,357	674,474	2,172,927	1,545,710	—
Real Estate Investment Trust Obligations	—	—	—	93,436	—
Finance Company Debt	217,653	623,016	626,864	9,097	55,587
Supranational Obligations	75,512	—	—	—	—
International Bonds and Notes	208,740	99,215	19,539	—	—
Foreign Government Obligations	470,461	313,716	—	—	—
Remic/FHLMC	731,131	—	—	—	—
Remic/FNMA	67,108	—	—	—	—
Remic/GNMA	17,650	—	—	—	—
GNMA Mortgage Backed Certificates	78,051	—	—	—	—
FHLM Mortgage Backed Certificates	598,915	—	—	—	—
FNMA Mortgage Backed Certificates	620,790	—	—	—	—
Asset Backed Obligations	178,119	—	—	—	—
Private Export Obligations	55,971	—	—	—	—
Exchange Traded Securities	—	—	51,735	—	—
	$ 11,852,319	1,730,441	2,881,064	1,671,084	55,587

The table does not include certain corporate obligations totaling $24,426,500 which have an S&P rating of A and do not have a Moody's rating. The Police and Firemen's Mortgages and the Cash Management fund are unrated.

June 30, 2005 (000's)	Moody's Rating			
	Aaa	Aa	A	Baa
United States Treasury Notes	$ 1,813,358	—	—	—
United States Treasury TIPS	598,125	—	—	—
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	102,225	—	—	—
Federal Home Loan Bank Bonds	521,527	—	—	—
Federal Home Loan Bank Discounted Notes	4,244	—	—	—
Federal Home Loan Mortgage Corp. Notes	265,077	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	594,643	2,722,186	1,310,398
Real Estate Investment Trust Obligations	—	—	—	99,301
Finance Company Debt	285,528	963,800	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	645,810	—	—	—
Asset Backed Obligations	252,973	—	—	—
Private Export Obligations	34,127	—	—	—
Exchange Traded Securities	—	—	56,050	—
	$ 11,592,839	2,016,439	3,603,667	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 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.

The following table summarizes the maturities (or, in the case of Remics, Police and Firemen's Mortgages and mortgage-backed securities, the expected average life) of the fixed income portfolio at June 30, 2006 and 2005:

June 30, 2006 (000's) Fixed Income Investment Type	**Total Market Value**	**Maturities in Years**			
		Less than 1	**1-5**	**6-10**	**More than 10**
United States Treasury Notes	$ 3,516,004	747,277	796,007	1,972,720	—
United States Treasury Bills	389,716	389,716	—	—	—
United States Treasury TIPS	790,555	—	60,532	580,319	149,704
United States Treasury Bonds	1,984,003	—	—	215,305	1,768,698
United States Treasury Strips	37,219	—	—	—	37,219
Title XI Merchant Marine Notes	3,615	—	—	—	3,615
Federal Agricultural Mortgage Corp. Notes	95,763	—	95,763	—	—
Federal Farm Credit Bank Bonds	50,270	—	50,270	—	—
Federal Home Loan Bank Bonds	466,312	175,074	268,104	23,134	—
Federal Home Loan Bank Discounted Notes	89,894	—	—	—	89,894
Federal Home Loan Mortgage Corp. Notes	341,897	322,470	—	19,427	—
Federal National Mortgage Association Notes	226,193	129,785	96,408	—	—
Resolution Funding Corp. Obligations	6,397	—	—	—	6,397
Floating Rate Notes	77,883	35,021	32,863	9,999	—
Corporate Obligations	4,926,894	712,831	1,267,070	1,126,601	1,820,392
Real Estate Investment Trust Obligations	93,436	—	42,914	50,522	—
Finance Company Debt	1,532,217	380,558	741,111	273,382	137,166
Supranational Obligations	75,512	—	—	—	75,512
International Bonds and Notes	327,494	124,499	145,353	18,137	39,505
Foreign Government Obligations	784,177	22,393	459,160	193,953	108,671
Remic/FHLMC	731,131	3,383	—	39,299	688,449
Remic/FNMA	67,108	1,321	—	17,827	47,960
Remic/GNMA	17,650	—	—	—	17,650
Police and Firemen's Mortgages	965,008	—	—	—	965,008
GNMA Mortgage Backed Certificates	78,051	12	637	—	77,402
FHLM Mortgage Backed Certificates	598,915	—	148	3,698	595,069
FNMA Mortgage Backed Certificates	620,790	149	9,291	21,177	590,173
Asset Backed Obligations	178,119	—	118,906	59,213	—
Private Export Obligations	55,971	—	11,887	44,084	—
	$ 19,128,194	3,044,489	4,196,424	4,668,797	7,218,484

June 30, 2005 (000's) Fixed Income Investment Type	Total Market Value	Maturities in Years Less than 1	1-5	6-10	More than 10
United States Treasury Notes	$ 1,813,358	111,930	795,152	906,276	—
United States Treasury TIPS	598,125	—	—	517,312	80,813
United States Treasury Bonds	2,193,224	—	—	—	2,193,224
United States Treasury 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	102,225	49,578	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	292,030	—	174,938	117,092	—
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	5,272,466	492,077	1,632,208	1,509,472	1,638,709
Real Estate Investment Trust Obligations	99,301	—	19,836	79,465	—
Finance Company Debt	2,138,535	405,222	1,021,737	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	645,810	—	7,343	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	—
	$ 19,641,853	1,460,544	5,776,536	4,464,069	7,940,704

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The pension funds invest in global markets. The pension 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% of the market value of the pension funds. Not more than 5% of the value of the assets held by Common Fund D can be invested in companies incorporated in emerging market countries, and not more than 5% of the market value of the emerging market securities can be invested in any one corporation. Council regulations permit the pension funds to enter into foreign exchange contracts for the purpose of hedging the international portfolio. The pension funds held forward contracts totaling approximately $1.9 billion and $650 million at June 30, 2006 and 2005, respectively. Common Fund D had the following foreign currency exposure (expressed in U.S. dollars and 000's):

June 30, 2006

Currency	Total Market Value	Equities	Foreign Government Obligations
Australian dollar	$ 387,324	387,324	—
Canadian dollar	635,640	635,640	—
Danish krone	198,388	198,388	—
Euro	4,789,852	4,286,765	503,087
Hong Kong dollar	130,126	130,126	—
Japanese yen	3,039,675	3,039,675	—
Mexican peso	46,306	46,306	—
New Zealand dollar	18,426	18,426	—
Norwegian krone	269,692	269,692	—
Pound sterling	1,712,822	1,637,310	75,512
Singapore dollar	98,276	98,276	—
South Korean won	121,267	121,267	—
Swedish krona	760,561	682,104	78,457
Swiss franc	1,263,174	1,263,174	—
	$ 13,471,529	12,814,473	657,056

June 30, 2005

Currency		Total Market Value	Equities	Foreign Government Obligations
Australian dollar	$	401,419	272,432	128,987
Canadian dollar		587,693	502,887	84,806
Danish krone		148,396	148,396	—
Euro		4,447,970	3,646,096	801,874
Hong Kong dollar		167,809	167,809	—
Japanese yen		2,218,395	2,213,694	4,701
Mexican peso		40,732	40,732	—
New Zealand dollar		72,766	32,929	39,837
Norwegian krone		198,279	91,284	106,995
Pound sterling		2,181,965	1,957,489	224,476
Singapore dollar		75,678	75,678	—
South Korean won		141,633	141,633	—
Swedish krona		735,391	628,136	107,255
Swiss franc		1,017,524	1,017,524	—
	$	12,435,650	10,936,719	1,498,931

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 pension funds.

The pension funds' interests in alternative investments may contain elements of credit, currency and market risk. Such risks include, but are not limited to, limited liquidity, absence of regulatory oversight, dependence upon key individuals, emphasis on speculative investments (both derivatives and non-marketable investments), and nondisclosure of portfolio composition. Council regulations require that not more than 13 percent of the market value of the pension funds can be invested in alternative investments, with the individual categories of real assets, private equity and absolute return strategy investments limited to 5 percent, 7 percent and 5 percent of the market value, respectively. Not more than 5 percent of the market value of Common Fund E may be committed to any one partnership or investment, without the prior written approval of the Council. Common Fund E cannot own more than 25 percent of any individual investment. The investments in Common Fund E cannot comprise more than 20 percent of any one investment manager's total assets.

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 years ended June 30, 2006 and 2005. The net realized gain from investment transactions amounted to $3,946,824,420 and the net increase in unrealized gains on investments amounted to $567,526,008 for the year ended June 30, 2006. The net realized gain from investment transactions amounted to $2,729,925,208 and the net increase in unrealized gains on investments amounted to $935,762,205 for the year ended June 30, 2005.

(4) SECURITIES LENDING COLLATERAL

The Fund's share in the securities lending program is 42.47% and 43.42% of the total market value of the collateral as of June 30, 2006 and 2005, respectively.

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

(Continued)

The collateral for repurchase agreements is limited to obligations of the U.S. Government or certain U.S. Government agencies.

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 tables disclose aggregate market value, by major credit quality rating category at June 30, 2006 and 2005. In those cases where an issuer and/or security have both a long-term and short-term rating, the short-term rating is disclosed.

June 30, 2006
(000's)

		Moody's Rating				
		Aaa	**Aa**	**A**	**P1**	**Not rated**
Corporate Obligations	$	699,376	3,602,027	1,611,461	—	—
Commercial Paper		—	—	—	3,683,532	—
Certificates of Deposit		1,957,748	—	—	—	—
Repurchase Agreements		—	—	—	—	1,609,375
Guaranteed Investment Contracts		—	450,000	—	—	—
Money Market Funds		253,861	—	—	—	101,392
Collateralized Notes		—	135,924	—	—	—
Cash		—	—	—	—	147
	$	2,910,985	4,187,951	1,611,461	3,683,532	1,710,914

June 30, 2005
(000's)

		Moody's Rating				S&P Rating (1)
		Aaa	**Aa**	**A**	**P1**	**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.

(Continued)

The following tables summarize the maturities of the collateral portfolio at June 30, 2006 and 2005.

June 30, 2006 (000's)		Total Market Value	Maturities: Less than one year	Maturities: One year to 25 months
Corporate Obligations	$	5,912,864	2,301,117	3,611,747
Commercial Paper		3,683,531	3,683,531	—
Certificates of Deposit		1,957,748	1,957,748	—
Repurchase Agreements		1,609,375	1,609,375	—
Guaranteed Investment Contracts		450,000	350,000	100,000
Money Market Funds		355,253	355,253	—
Collateralized Notes		135,924	—	135,924
	$	14,104,695	10,257,024	3,847,671

June 30, 2005 (000's)		Total Market Value	Maturities: Less than one year	Maturities: 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 Deposit		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

As of June 30, 2006, the pension funds had received cash collateral of $14,115,678,308 for outstanding loaned investment securities having market values of $13,824,349,093. As of June 30, 2005, the pension 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, 2006, the pension funds loaned investment securities having market values of $1,471,340, against which it had received non-cash collateral with a current value of $1,494,859, which is not reflected in the accompanying financial statements. As of June 30, 2005, the pension 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.

(Continued)

(5) CONTRIBUTIONS

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 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.

For fiscal year 2006, the 50% of any 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 was not required to make a normal contribution to the Fund 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 $555.34 million for fiscal year 2006 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, 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 Fund, the actuarial value of assets for the valuation period ending June 30, 1999 was adjusted to reflect the full market value of assets.

As of June 30, 2005 actuarial valuation, the assets in the BEF had been eliminated, and thus, no reduction to the contribution was available to the State.

The State made a contribution of $93.83 million for fiscal year 2006 pension obligation. According to the Appropriation Act of 2003 related to fiscal year 2006, the State is paying pension obligations through a five-year phase-in.

(6) FUNDS

This Fund maintains the following legally required funds:

Members' Annuity Savings and Accumulative Interest Fund (2006 - $7,187,652,156; 2005 - $6,813,180,653)

The Members' Annuity Savings Fund (ASF) is credited with all contributions made by active members of the Fund. Interest earned on member contributions is credited to the Accumulated Interest Fund.

Contingent Reserve Fund (2006 - $654,716,245; 2005 - $1,312,591,471)

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 (2006 - $22,681,090,859; 2005 - $20,785,937,925)

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 and medical benefits for certain retirees, are paid. Upon retirement of a member, accumulated contributions, together with accumulated interest, are transferred to the Retirement Reserve Fund from the Members' ASF and Accumulative Interest Fund. Any additional reserves needed for the retirement and cost-of-living benefits are transferred from the Contingent Reserve Fund. Annually, interest as determined by the State Treasurer (8.25% for fiscal year 2006; 8.75% for 2005) is credited to the Retirement Reserve Fund.

Special Reserve Fund (2006 - $303,248,438; 2005 - $328,374,407)

The Special Reserve Fund is the fund to which excess 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 Fund, excluding Cash Management Fund investments and bonds allocated to the Contributory Group Insurance Premium Fund which amounted to $110.77 million and $102.39 million as of June 30, 2006 and 2005, respectively. Amounts in excess of 1% are credited to the Contingent Reserve Fund.

Contributory Group Insurance Premium Fund (2006 - $109,679,533; 2005 - $101,254,877)

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 carrier. 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, as defined.

Post-Retirement Medical Fund (2006 - $2,492,302; 2005 - $618,917)

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 (2006 - $0; 2005 - $290,273,286)

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 2003 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) INCOME TAX STATUS

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

Schedule 1

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Required Supplementary Information (Unaudited)

Schedule of Funding Progress

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS (a)	ACTUARIAL ACCRUED LIABILITY (b)	UNFUNDED (OVERFUNDED) ACTUARIAL ACCRUED LIABILITY (b - a)	FUNDED RATIO (a / b)	COVERED PAYROLL (c)	UNFUNDED (OVERFUNDED) ACTUARIAL ACCRUED LIABILITY AS A PERCENTAGE OF COVERED PAYROLL ((b - a) / c)
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%
June 30, 2005	34,789,389,875	43,967,927,299	9,178,537,424	79.1%	8,454,072,109	108.6%

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Required Supplementary Information (Unaudited)

Schedule of Funding Progress - Additional Actuarial Information

Significant actuarial methods and assumptions used in the most recent June 30, 2005 and June 30, 2004 actuarial valuations included the following:

	June 30, 2005	**June 30, 2004**
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 percent, closed
Payroll growth rate for amortization	4.00%	4.00%
Remaining amortization period	30 years	30 years
Actuarial assumptions:		
Interest rate	8.25%	8.25%
Salary range	5.45%	5.45%
Cost-of-living adjustments	1.80%	1.80%

Annual covered payroll is an estimate based upon annualizing one quarter's actual payroll.

Schedule 2

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Required Supplementary Information (Unaudited)

Schedule of Employer Contributions

YEAR ENDED JUNE 30,	ANNUAL REQUIRED CONTRIBUTION	EMPLOYER CONTRIBUTIONS[1]	PERCENTAGE CONTRIBUTED
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%
2006	1,177,674,055	93,834,999[3]	8.0%

Notes to Schedule

(1) Excludes post-retirement medical contributions and contributions received from other State of New Jersey retirement systems or funds for certain members who transferred their eligible prior service credit to the Teachers' Pension and Annuity Fund.

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) As of June 30, 2005 actuarial valuation, the assets in the Benefit Enhancement Fund had been eliminated, and thus, no reduction to the contribution was available to the State. In fiscal year 2006, the State started to make a contribution to the Fund to satisfy the actuarially accrued liability.

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Schedule of Changes in Fiduciary Net Assets by Fund

Year ended June 30, 2006

		MEMBERS' ANNUITY SAVINGS AND ACCUMULATIVE INTEREST FUND	CONTINGENT RESERVE FUND	RETIREMENT RESERVE FUND	SPECIAL RESERVE FUND	CONTRIBUTORY GROUP INSURANCE PREMIUM FUND	POST-RETIREMENT MEDICAL FUND	BENEFIT ENHANCEMENT FUND	OTHER	TOTAL
Additions:										
Contributions:										
Members	$	472,554,457	—	—	—	34,552,155	—	—	—	507,106,612
Employers		—	101,386,162	—	—	—	555,344,002	—	—	656,730,164
Other		—	—	—	—	—	—	—	1,000	1,000
Total contributions		472,554,457	101,386,162	—	—	34,552,155	555,344,002	—	1,000	1,163,837,776
Distribution of net investment income		506,563,645	718,494,966	1,752,732,281	—	2,972,793	59,787	—	—	2,980,823,472
Total additions		979,118,102	819,881,128	1,752,732,281	—	37,524,948	555,403,789	—	1,000	4,144,661,248
Deductions:										
Benefits		—	26,950,775	2,184,830,375	—	29,100,292	553,530,404	—	1,000	2,794,412,846
Refunds of contributions		32,632,017	579,366	—	—	—	—	—	—	33,211,383
Administrative expenses		—	10,389,022	—	—	—	—	—	—	10,389,022
Total deductions		32,632,017	37,919,163	2,184,830,375	—	29,100,292	553,530,404	—	1,000	2,838,013,251
Net increase (decrease) before transfers among reserves		946,486,085	781,961,965	(432,098,094)	—	8,424,656	1,873,385	—	—	1,306,647,997
Transfers among reserves:										
Retirements		(574,924,316)	(1,301,285,079)	1,876,209,395	—	—	—	—	—	—
Other		2,909,734	(138,552,112)	451,041,633	(25,125,969)	—	—	(290,273,286)	—	—
Net increase (decrease)		374,471,503	(657,875,226)	1,895,152,934	(25,125,969)	8,424,656	1,873,385	(290,273,286)	—	1,306,647,997
Net assets held in trust for pension and post-retirement medical benefits :										
Beginning of year		6,813,180,653	1,312,591,471	20,785,937,925	328,374,407	101,254,877	618,917	290,273,286	—	29,632,231,536
End of year	$	7,187,652,156	654,716,245	22,681,090,859	303,248,438	109,679,533	2,492,302	—	—	30,938,879,533