



**STATE OF NEW JERSEY
NEW JERSEY STATE EMPLOYEES
DEFERRED COMPENSATION PLAN**

Financial Statements

June 30, 2009 and 2008

(With Independent Auditors' Report Thereon)



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

Independent Auditors' Report

New Jersey State Employees Deferred
Compensation Plan Board
New Jersey State Employees Deferred
Compensation Plan:

We have audited the accompanying statements of fiduciary net assets of the New Jersey State Employees Deferred Compensation Plan (the Plan) as of June 30, 2009 and 2008, and the related statements of changes in fiduciary net assets for the years then ended. These financial statements are the responsibility of the Plan'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 Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the New Jersey State Employees Deferred Compensation Plan as of June 30, 2009 and 2008, and the changes in its financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

February 26, 2010

**STATE OF NEW JERSEY
NEW JERSEY STATE EMPLOYEES
DEFERRED COMPENSATION PLAN**

Management's Discussion and Analysis

June 30, 2009 and 2008

Our discussion and analysis of the financial performance of the New Jersey State Employees Deferred Compensation Plan (the Plan) provides an overview of the Plan's financial activities for the fiscal years ended June 30, 2009 and 2008. Please read it in conjunction with the basic financial statements and financial statement footnotes, which follow this discussion.

Financial Highlights

2009 – 2008

- Net assets decreased by \$238,248,924 as a result of fiscal year 2009's operations from \$2,017,670,989 to \$1,779,422,065.
- Additions for the year are negative \$161,866,759, which are comprised of member contributions of \$172,895,622 and an investment loss of \$334,762,381.
- Deductions for the year are \$76,382,165, which are comprised of benefit payments of \$75,870,854 and administrative expenses of \$511,311.

2008 – 2007

- Net assets decreased by \$50,477,275 as a result of fiscal year 2008's operations from \$2,068,148,264 to \$2,017,670,989.
- Additions for the year are \$14,992,262, which are comprised of member contributions of \$185,234,570 and an investment loss of \$170,242,308.
- Deductions for the year are \$65,469,537, which are comprised of benefit payments of \$65,013,841 and administrative expenses of \$455,696.

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

**STATE OF NEW JERSEY
NEW JERSEY STATE EMPLOYEES
DEFERRED COMPENSATION PLAN**

Management's Discussion and Analysis

June 30, 2009 and 2008

net assets since the prior year. These two financial statements should be reviewed along with the information contained in the financial statement footnotes to determine whether the Plan is becoming financially stronger or weaker.

Financial Analysis

Summary of Fiduciary Net Assets

2009 – 2008

	<u>2009</u>	<u>2008</u>	<u>(Decrease)</u>
Assets	\$ 1,780,876,816	2,019,849,491	(238,972,675)
Liabilities	<u>1,454,751</u>	<u>2,178,502</u>	<u>(723,751)</u>
Net assets	<u>\$ 1,779,422,065</u>	<u>2,017,670,989</u>	<u>(238,248,924)</u>

Total assets decreased by \$239.0 million or 11.8% between fiscal years 2008 and 2009 due to the decrease in the fair value of investments.

Total liabilities decreased by \$0.7 million or 33.2% due to the decrease in administrative fees payable.

Net assets decreased by \$238.2 million or 11.8%.

Summary of Fiduciary Net Assets

2008 – 2007

	<u>2008</u>	<u>2007</u>	<u>Increase (decrease)</u>
Assets	\$ 2,019,849,491	2,069,187,014	(49,337,523)
Liabilities	<u>2,178,502</u>	<u>1,038,750</u>	<u>1,139,752</u>
Net assets	<u>\$ 2,017,670,989</u>	<u>2,068,148,264</u>	<u>(50,477,275)</u>

Total assets decreased by \$49.3 million or 2.4% between fiscal years 2007 and 2008 due to the decrease in the fair value of investments.

Total liabilities increased by \$1.1 million or 109.7% due to an increase in administrative fees payable and cash overdraft.

Net assets decreased by \$50.4 million or 2.4%.

**STATE OF NEW JERSEY
NEW JERSEY STATE EMPLOYEES
DEFERRED COMPENSATION PLAN**

Management's Discussion and Analysis

June 30, 2009 and 2008

Summary of Changes to Fiduciary Net Assets

2009 – 2008

	<u>2009</u>	<u>2008</u>	<u>Increase (decrease)</u>
Additions:			
Member contributions	\$ 172,895,622	185,234,570	(12,338,948)
Net investment loss	(334,762,381)	(170,242,308)	(164,520,073)
Total additions	<u>(161,866,759)</u>	<u>14,992,262</u>	<u>(176,859,021)</u>
Deductions:			
Benefits	75,870,854	65,013,841	10,857,013
Administrative expenses	511,311	455,696	55,615
Total deductions	<u>76,382,165</u>	<u>65,469,537</u>	<u>10,912,628</u>
Change in net assets	<u>\$ (238,248,924)</u>	<u>(50,477,275)</u>	<u>(187,771,649)</u>

Additions consist of member contributions and earnings from investment activities. Total additions decreased by \$176.9 million between fiscal year 2008 and 2009 primarily due to the depreciation in investments from 2008 to 2009.

Deductions consist of benefit payments made during the year and administrative expenses. Total benefit payments increased by \$10.9 million or 16.7% between fiscal year 2008 and 2009.

The change in net assets of \$187.8 million was primarily a result of the depreciation in investments from 2008 to 2009.

Summary of Changes to Fiduciary Net Assets

2008 – 2007

	<u>2008</u>	<u>2007</u>	<u>Increase (decrease)</u>
Additions:			
Member contributions	\$ 185,234,570	173,352,442	11,882,128
Net investment (loss) income	(170,242,308)	248,778,286	(419,020,594)
Total additions	<u>14,992,262</u>	<u>422,130,728</u>	<u>(407,138,466)</u>
Deductions:			
Benefits	65,013,841	61,812,001	3,201,840
Administrative expenses	455,696	511,416	(55,720)
Total deductions	<u>65,469,537</u>	<u>62,323,417</u>	<u>3,146,120</u>
Change in net assets	<u>\$ (50,477,275)</u>	<u>359,807,311</u>	<u>(410,284,586)</u>

**STATE OF NEW JERSEY
NEW JERSEY STATE EMPLOYEES
DEFERRED COMPENSATION PLAN**

Management's Discussion and Analysis

June 30, 2009 and 2008

Additions consist of member contributions and earnings from investment activities. Total additions decreased by \$407.1 million between fiscal year 2007 and 2008 primarily due to the depreciation in investments from 2007 to 2008.

Deductions consist of benefit payments made during the year and administrative expenses. Total benefit payments increased by \$3.1 million or 5.0% between fiscal year 2007 and 2008.

The change in net assets of \$410.3 million was primarily a result of the depreciation in investments from 2007 to 2008.

Retirement System as a Whole

Members are 100% vested in the present value of their contributions.

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 Plan's finances and to show the Plan'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
NEW JERSEY STATE EMPLOYEES
DEFERRED COMPENSATION PLAN**

Statements of Fiduciary Net Assets

June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Assets:		
Cash	\$ 1,053	—
Investments, at fair value:		
Cash Management Fund	112,490,622	138,364,923
U.S. Government obligations	284,765,388	587,719,678
Domestic equities	787,787,745	1,108,910,500
International equities	120,834,682	161,165,096
Other fixed income securities	473,364,108	21,789,935
Total investments	<u>1,779,242,545</u>	<u>2,017,950,132</u>
Receivables:		
Accrued interest and dividends	1,633,218	1,868,133
Other	—	31,226
Total receivables	<u>1,633,218</u>	<u>1,899,359</u>
Total assets	<u>1,780,876,816</u>	<u>2,019,849,491</u>
Liabilities:		
Accounts payable and accrued expenses	1,454,751	1,518,573
Cash overdraft	—	659,929
Total liabilities	<u>1,454,751</u>	<u>2,178,502</u>
Net assets:		
Held in trust for benefits	<u>\$ 1,779,422,065</u>	<u>2,017,670,989</u>

See accompanying notes to financial statements.

**STATE OF NEW JERSEY
NEW JERSEY STATE EMPLOYEES
DEFERRED COMPENSATION PLAN**

Statements of Changes in Fiduciary Net Assets

Years ended June 30, 2009 and 2008

	2009	2008
Additions:		
Member contributions	\$ 172,895,622	185,234,570
Investment loss:		
Net depreciation in fair value of investments	(349,842,469)	(192,302,803)
Interest	6,845,437	11,141,724
Dividends	8,499,024	11,165,631
	(334,498,008)	(169,995,448)
Less investment expense	264,373	246,860
Net investment loss	(334,762,381)	(170,242,308)
Total additions	(161,866,759)	14,992,262
Deductions:		
Benefits	75,870,854	65,013,841
Administrative expenses	511,311	455,696
Total deductions	76,382,165	65,469,537
Change in net assets	(238,248,924)	(50,477,275)
Net assets – beginning of year	2,017,670,989	2,068,148,264
Net assets – end of year	\$ 1,779,422,065	2,017,670,989

See accompanying notes to financial statements.

**STATE OF NEW JERSEY
NEW JERSEY STATE EMPLOYEES
DEFERRED COMPENSATION PLAN**

Notes to Financial Statements

June 30, 2009 and 2008

(1) Summary of Significant Accounting policies

Basis of Accounting

The financial statements of the New Jersey State Employees Deferred Compensation Plan (the Plan or NJSEDCP) have been prepared using the accrual basis of accounting and conform to the provisions of Government Accounting Standards Board (GASB) Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*.

Investments

The Division of Investment, Department of the Treasury, State of New Jersey (the Division of Investment) manages and invests certain assets of various divisions, agencies and employees of the State of New Jersey in various groups of funds, which includes the Plan.

Prudential Retirement is the third-party administrator for the NJSEDCP. Prudential Retirement provides recordkeeping, administration services and access to 23 investments through a combination of their separate account product offerings and retail branded mutual funds. The four state-managed investments options (DCP Bond Fund, DCP Equity Fund, DCP Small Cap Equity Fund and DCP Money Market Fund) are closed to new investments. The Division of Investment is the fiduciary for the investments of the Plan. The Division of Pensions and Benefits maintains its administrative oversight functions for the Plan.

Investments are reported at fair value as follows:

- U.S. Government obligations and other fixed income securities – prices quoted by a major dealer in such securities.
- Domestic and international equities – closing prices as reported on the primary market or exchange on which they trade.
- Cash Management Fund – closing bid price on the last day of trading during the period as determined by the Transfer Agent.

Investment transactions are accounted for on a trade or investment date basis. Gains and losses from investment transactions are determined by the average cost method. Interest and dividend income is recorded on the accrual basis, with dividends accruing on the ex-dividend date.

Administrative Expenses

Expenses associated with the Plan, which include but are not limited to administrative and investment costs, are charged against the Plan's net assets as determined by the action of the New Jersey State Employees Deferred Compensation Board (the Board). The fee is charged to participants' accounts on a monthly basis. Amounts charged against the net assets by the Plan to date have exceeded the payments made, the excess of which has been recorded as administrative fees payable.

**STATE OF NEW JERSEY
NEW JERSEY STATE EMPLOYEES
DEFERRED COMPENSATION PLAN**

Notes to Financial Statements

June 30, 2009 and 2008

Unit Valuation

Participants' net asset value per unit is determined on a daily basis for each of the Plan's 27 investment fund options. Net asset value per unit is computed on the total fair value at the end of the day of the Plan's net assets divided by the total outstanding units of the Plan.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expense during the reporting period. Actual results could differ from those estimates.

(2) Description of the Plan

The following description of the Plan provides only general information. Participants should refer to the Plan information statement, which is available from the State of New Jersey, Division of Pensions and Benefits, for a more complete description of the Plan's provisions.

General

The Plan was established by Chapter 39, P.L. 1978, which became effective June 19, 1978, amended by Chapter 449, P.L. 1985, effective January 14, 1986, and by Chapter 116, P.L. 1997, effective June 6, 1997, and is available to any state employee who is a member of a state-administered retirement system or an employee of an eligible state agency, authority, commission or instrumentality of state government provided the employee has at least 12 continuous months of employment, and any individual employed through a Governor's appointment. The Plan's membership was 42,966 and 42,201 at June 30, 2009 and 2008, respectively.

The assets of the Plan are being held in trust for the exclusive benefit of Plan members and their beneficiaries as required by Internal Revenue Code Section 457.

Contributions

Participants may defer between 1% and 100% of their salary, as defined, and less any 414(h) reductions or \$16,500 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. Participants must defer at least 1% of their annual salary but no less than \$10 biweekly or \$20 monthly. Federal income taxes are not due on deferred amounts or on any accumulated earnings until the participant receives a distribution of assets. Participants may elect to invest their contributions in multiples of 1% in any of the four investment fund options, and may increase, decrease or suspend their deferrals once a month. Compensation amounts deferred and accumulated earnings thereon, while in trust for the exclusive benefit of the participants, remain the property of the State of New Jersey until distributed to participants. Participants are always fully vested for the accumulated units in their accounts. Participation in the Plan ceases at retirement, termination of service, disability or death. The employer does not make contributions to the Plan.

**STATE OF NEW JERSEY
NEW JERSEY STATE EMPLOYEES
DEFERRED COMPENSATION PLAN**

Notes to Financial Statements

June 30, 2009 and 2008

Participants' Accounts

The administrator maintains a bookkeeping account for each participant that is credited as of the date at which the participant's compensation is deferred.

The account is also credited with any increase or charged with any decrease related to the transactions of the Plan.

The State of New Jersey is only under a contractual obligation to make payments under this Plan in accordance with the provisions of the applicable statute as payments become due. The State of New Jersey is not a guarantor of the Plan.

Distribution of Assets

A participant of the Plan or beneficiary may receive a distribution of assets under the Plan upon the participant's retirement, termination of service, disability, or death. Distribution of the participant's account will be made in a single lump-sum payment within two months after the administrator is notified of the event for all accounts unless the participant elects to delay distribution from the Plan. In all cases, distribution must commence no later than 90 days following the close of the calendar year in which the participant retired, terminated service, became disabled, died or attained age 70½, whichever is later. If the value of the participant's account is at least \$5,000, the participant may choose distribution as a lump-sum payment or, in substantially equal installments over a period not to exceed fifteen years. Additionally, the participant may select a combination payment consisting of an initial lump-sum payment followed by installments over a period not to exceed fifteen years if the balance in the account following the initial lump-sum payment is at least \$5,000. Accounts are valued for distribution purposes as of the end of the month immediately preceding distribution.

Distribution is also permitted in the case of an unforeseen emergency, as defined by Internal Revenue Code 457 regulations. A participant may also elect to receive an in-service distribution if the participant has not made deferrals into the Plan for 24 consecutive months and the total value of the participant's account does not exceed \$5,000.

Termination of the Plan

The Board, in accordance with the provisions of Chapter 39, P.L. 1978, has the authority to terminate this Plan or to substitute a new plan consistent with the requirements of the United States Internal Revenue Service.

Upon termination, each participant shall be deemed to have withdrawn from the Plan as of the date of such termination; the participant's full compensation on a Nondeferred basis will be restored; and the administrator shall treat such participants as if they had termination of service on the date of such termination and pay such deferred compensation in accordance with provisions of the Plan.

**STATE OF NEW JERSEY
NEW JERSEY STATE EMPLOYEES
DEFERRED COMPENSATION PLAN**

Notes to Financial Statements

June 30, 2009 and 2008

Any substitute of a new plan, consistent with the requirements of the United States Internal Revenue Service, shall provide for the retention by the employer of the amounts already deferred under the prior plan and for the distribution of said amounts in accordance with the irrevocable written elections made pursuant to the Plan.

Vesting and Benefit Provisions

Assets in the Plan are held in trust for the exclusive benefit of Plan members and their beneficiaries in accordance with GASB 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.

(3) Investments

The Plan's investments as of June 30, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Cash management fund	\$ 112,490,622	138,364,923
Domestic equities	787,787,745	1,108,910,500
International equities	120,834,682	161,165,096
U.S. government obligations	284,765,388	587,719,678
Other fixed income securities	473,364,108	21,789,935
	<u>\$ 1,779,242,545</u>	<u>2,017,950,132</u>

New Jersey state statute provides for a State Investment Council (Council) and a Director. Investment authority is vested in the Director of the Division of Investment and the role of the Council is to formulate investment policies. The Council issues regulations which establish guidelines for permissible investments which include domestic and international equities and exchange traded funds, covered call and put options, equity futures contracts, obligations of the U.S. Treasury, government agencies, corporations, international governments and agencies, bank loans, interest rate swap transactions, credit default swaps, fixed income exchange traded funds, U.S. Treasury futures contracts, New Jersey State and Municipal general obligations, public authority revenue obligations, collateralized notes and mortgages, commercial paper, certificates of deposit, repurchase agreements, bankers acceptances, guaranteed income contracts, funding agreements, money market funds, private equity funds, real estate funds, other real assets, absolute return strategy funds, and the State of New Jersey Cash Management Fund (CMF). The CMF is a short-term cash fund and is open to state and certain nonstate participants.

**STATE OF NEW JERSEY
NEW JERSEY STATE EMPLOYEES
DEFERRED COMPENSATION PLAN**

Notes to Financial Statements

June 30, 2009 and 2008

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

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

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

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of debt instruments is evaluated by nationally recognized statistical rating agencies such as Moody's Investors Service, Inc. (Moody's), Standard & Poor's Corporation (S&P), and Fitch Ratings (Fitch). Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. There are no restrictions in the amount that can be invested in United States Treasury and Government agency obligations. Council regulations require minimum credit ratings for certain categories of fixed income obligations held directly by the Plan and limit the amount that can be invested in any one issuer or issue.

**STATE OF NEW JERSEY
NEW JERSEY STATE EMPLOYEES
DEFERRED COMPENSATION PLAN**

Notes to Financial Statements

June 30, 2009 and 2008

Effective July 1, 2008, these limits were as follows:

Category	Minimum rating ⁽¹⁾			Limitation of issuer's outstanding debt	Limitation of issue	Other limitations
	Moody's	S&P	Fitch			
Corporate obligations	Baa3	BBB-	BBB-	10%	25%	Not more than 5% of fund assets can be invested in debt and non-convertible preferred stock of one issuer (3)
International corporate obligations	Baa3	BBB-	BBB-	10%	25%	Not more than 5% of fund assets can be invested in debt and non-convertible preferred stock of any one issuer (2)(3); not more than 10% of fund assets can be invested in this category
International government and agency obligations	Baa3	BBB-	BBB-	25%	Greater of 25% or \$10 million	—
Collateralized notes and mortgages	Baa3	BBB-	BBB-	—	25%	Not more than 5% of fund assets can be invested in any one issue; not more than 10% of fund assets (or 20% of Common Fund B assets) can be invested in this category
Commercial paper	P-1	A-1	F1	—	—	—
Certificates of deposit and Banker's acceptances:						Certificates of deposit and banker's acceptances cannot exceed 10% of issuer's primary capital
Domestic	A3/P-1	A-/A-1	A-/F1	—	—	
International	Aa3/P-1	AA-/A-1	AA-/F1	—	—	
Credit default swap transactions (4)	A1	A+	A+	—	—	Nominal value of net exposure to any one counterparty shall not exceed 10% of fund assets
Guaranteed income contracts and funding agreements	A3	A-	A-	—	—	—
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

**STATE OF NEW JERSEY
NEW JERSEY STATE EMPLOYEES
DEFERRED COMPENSATION PLAN**

Notes to Financial Statements

June 30, 2009 and 2008

Category	Minimum rating ⁽¹⁾			Limitation of issuer's outstanding debt	Limitation of issue	Other limitations
	Moody's	S&P	Fitch			
Interest rate swap transactions (5)	A1	A+	A+	—	—	Notional value of net exposure to any one counterparty shall not exceed 10% of fund assets
Repurchase agreements	Aa3	AA-	AA-	—	—	—
NJ state & municipal obligations	A3	A-	A-	10%	10%	Not more than 2% of fund assets can be invested in debt of any one political entity maturing more than 12 months from purchase
Public authority revenue obligations	A3	A-	A-	—	10%	Not more than 2% of fund assets can be invested in any one public authority
Mortgage backed pass-through securities	A3	A-	A-	—	—	Not more than 5% of fund assets can be invested in any one issue
Mortgage backed senior debt securities	—	—	—	—	25%	Not more than 5% of fund assets can be invested in any one issue
Non-convertible preferred stocks of US corporations (4)	Baa3	BBB-	BBB-	10%	25%	Not more than 5% of fund assets can be invested in debt and nonconvertible stock of any one corporation
Bank loans (4)	Baa3	BBB-	BBB-	—	—	Not more than 10% of fund assets can be invested in this category

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

(2) Prior to December 15, 2008, this restriction only applied to maturities exceeding 12 months.

(3) Prior to December 15, 2008, this restriction applied to debt only.

(4) Effective December 15, 2008.

(5) Prior to December 15, 2008, the minimum rating requirements were A3 (Moody's) and A- (S&P and Fitch).

**STATE OF NEW JERSEY
NEW JERSEY STATE EMPLOYEES
DEFERRED COMPENSATION PLAN**

Notes to Financial Statements

June 30, 2009 and 2008

Effective September 5, 2006 through June 30, 2008, the following limits became effective:

Category	Minimum rating ⁽¹⁾			Limitation of issuer's outstanding debt	Limitation of issue	Other limitations
	Moody's	S&P	Fitch			
Corporate obligations	Baa3	BBB-	BBB-	10%	25%	Not more than 5% of fund assets can be invested in one corporation
U.S. finance company debt and bank debentures	Baa3	BBB-	BBB-	10%	25%	Not more than 5% of fund assets can be invested in one corporation
International corporate obligations	Baa3	BBB-	BBB-	10%	25%	Not more than 5% of fund assets can be invested in any one issuer with maturities exceeding 12 months; not more than 10% of fund assets can be invested in this category
International government and agency obligations	Aa3	AA-	AA-	25%	Greater of 25% or \$10 million	Not more than 1% of fund assets can be invested in any one issuer
Collateralized notes and mortgages	Baa3	BBB-	BBB-	—	25%	Not more than 5% of fund assets can be invested in any one issue; not more than 10% of fund assets (or 20% of Fund B assets) can be invested in this category
Commercial paper	P-1	A-1	F1	—	—	—
Certificates of deposit and Banker's acceptances:						Certificates of deposit and banker's acceptances cannot exceed 10% of issuer's primary capital
Domestic	A3/P-1	A-/A-1	A-/F1	—	—	
International	Aa3/P-1	AA-/A-1	AA-/F1	—	—	
Guaranteed income contracts and funding agreements	A3	A-	A-	—	—	—
Money market funds	—	—	—	—	—	Not more than 10% of fund assets can be invested in money market funds; limited to 5% of shares or units outstanding

**STATE OF NEW JERSEY
NEW JERSEY STATE EMPLOYEES
DEFERRED COMPENSATION PLAN**

Notes to Financial Statements

June 30, 2009 and 2008

Category	Minimum rating ⁽¹⁾			Limitation of issuer's outstanding debt	Limitation of issue	Other limitations
	Moody's	S&P	Fitch			
Interest rate swap transactions	A3	A-	A-	—	—	Notional value of net exposure to any one counterparty shall not exceed 10% of fund assets
Repurchase agreements	Aa3	AA-	AA-	—	—	—
NJ state & municipal obligations	A3	A-	A-	10%	10%	Not more than 10% of fund assets can be invested in debt of any one political entity maturing more than 12 months from purchase
Public authority revenue obligations	A3	A-	A-	—	10%	Not more than 2% of fund assets can be invested in any one public authority
Mortgage backed pass-through securities	A3	A-	A-	—	—	Not more than 5% of fund assets can be invested in any one issue
Mortgage backed senior debt securities	—	—	—	—	25%	Not more than 5% of fund assets can be invested in any one issue

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

**STATE OF NEW JERSEY
NEW JERSEY STATE EMPLOYEES
DEFERRED COMPENSATION PLAN**

Notes to Financial Statements

June 30, 2009 and 2008

For securities exposed to credit risk in the fixed income portfolio, the following tables disclose aggregate fair value, by major credit quality rating category at June 30, 2009 and 2008:

		June 30, 2009							
		Moody's rating							
(In thousands)		Aaa	Aa	A	Baa	Ba	B	P1	Not rated
U.S. Treasury bonds	\$	194,449	—	—	—	—	—	—	75
U.S. Government agency		89,990	—	—	—	—	—	—	25
Domestic corporate obligations		264,604	31,310	69,431	59,192	2,543	122	55	28,015
Other		10,266	735	2,441	3,507	874	—	420	75
Total	\$	<u>559,309</u>	<u>32,045</u>	<u>71,872</u>	<u>62,699</u>	<u>3,417</u>	<u>122</u>	<u>475</u>	<u>28,190</u>

		June 30, 2008							
		Moody's rating							
(In thousands)		Aaa	Aa	A	Baa	Ba	B	P1	Not rated
U.S. Treasury bonds	\$	155,056	—	—	—	—	—	—	—
U.S. Government agency		76,242	64	—	—	—	—	—	1,090
Domestic corporate obligations		237,237	20,528	46,521	39,517	851	655	—	11,089
Commercial paper		—	—	—	—	—	—	1,305	30
Other		12,644	3,676	1,859	(329)	111	—	1,124	240
Total	\$	<u>481,179</u>	<u>24,268</u>	<u>48,380</u>	<u>39,188</u>	<u>962</u>	<u>655</u>	<u>2,429</u>	<u>12,449</u>

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Commercial paper must mature within 270 days. Certificates of deposits and bankers acceptances are limited to a term of one year or less. Repurchase agreements must mature within 30 days. The investment in guaranteed income contracts and funding agreements is limited to a term of 10 years or less.

**STATE OF NEW JERSEY
NEW JERSEY STATE EMPLOYEES
DEFERRED COMPENSATION PLAN**

Notes to Financial Statements

June 30, 2009 and 2008

The following tables summarize the maturities of the fixed income portfolio at June 30, 2009 and 2008:

(In thousands)		June 30, 2009				
		Maturities in years				
Fixed income investment type	Total fair value	Less than 1	1 – 5	6 – 10	More than 10	Unknown
U.S. Treasury bonds	\$ 194,524	33,412	91,675	32,376	37,061	—
U.S. Government agency	90,015	4,816	68,431	9,335	7,433	—
Domestic corporate obligations	455,272	21,743	189,896	187,616	56,017	—
Other	18,318	7,390	5,343	2,541	3,044	—
Total	<u>\$ 758,129</u>	<u>67,361</u>	<u>355,345</u>	<u>231,868</u>	<u>103,555</u>	<u>—</u>

(In thousands)		June 30, 2008				
		Maturities in years				
Fixed income investment type	Total fair value	Less than 1	1 – 5	6 – 10	More than 10	Unknown
U.S. Treasury bonds	\$ 155,056	5,048	111,079	9,823	29,106	—
U.S. Government agency	77,396	3,218	57,691	7,638	8,849	—
Domestic corporate obligations	356,398	15,068	112,603	173,756	54,943	28
Commercial paper	1,335	1,335	—	—	—	—
Other	19,325	7,656	(1,679)	5,755	4,613	2,980
Total	<u>\$ 609,510</u>	<u>32,325</u>	<u>279,694</u>	<u>196,972</u>	<u>97,511</u>	<u>3,008</u>

(4) Income Tax Status

The Plan is an eligible plan as described in Section 457 of the Internal Revenue Code. The Plan operates within the terms of the Plan and remains eligible under the applicable provisions of the Internal Revenue Code.