

**STATE OF NEW JERSEY
PRISON OFFICERS' PENSION FUND**

FINANCIAL STATEMENTS AND SCHEDULES

June 30, 2011 and 2010

(With Independent Auditor's Report Thereon)



Independent Auditor's Report

The Board of Trustees
State of New Jersey
Prison Officers' Pension Fund

We have audited the accompanying statement of fiduciary net assets of the State of New Jersey Prison Officers' Pension Fund (the Fund) as of June 30, 2011 and 2010, and the related statement of changes in fiduciary net assets for the year 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. The financial statements of the Fund as of June 30, 2010 were audited by other auditors whose report dated October 27, 2010 expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 State of New Jersey Prison Officers' Pension Fund as of June 30, 2011, and changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The 2011 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 basic financial statements, and, in our opinion, is presented fairly, in all material respects, in relation to the basic financial statements taken as a whole.

Clifton Gunderson LLP

Mt. Laurel, New Jersey
November 1, 2011

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Management's Discussion and Analysis

June 30, 2011 and 2010

Our discussion and analysis of the financial performance of the Prison Officers' Pension Fund (the Fund) provides an overview of the Fund's financial activities for the fiscal years ended June 30, 2011 and 2010. Please read it in conjunction with the basic financial statements and financial statement footnotes, which follow this discussion.

Financial Highlights

2011 - 2010

- Net assets held in trust for pension benefits decreased by \$1,020,718 as a result of fiscal year 2011's operations from \$11,018,368 to \$9,997,650.
- Additions for the year are \$1,096,674, which are comprised of net investment income of \$32,429 and contributions for pension adjustment benefits of \$1,064,245.
- Deductions for the year are \$2,117,392, which are comprised of benefit payments of \$2,110,016 and administrative expenses of \$7,376.

2010 - 2009

- Net assets held in trust for pension benefits decreased by \$968,552 as a result of fiscal year 2010's operations from \$11,986,920 to \$11,018,368.
- Additions for the year are \$1,100,162, which are comprised of net investment income of \$53,572 and contributions for pension adjustment benefits of \$1,046,590.
- Deductions for the year are \$2,068,714, which are comprised of benefit payments of \$2,063,123 and administrative expenses of \$5,591.

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

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Management's Discussion and Analysis

June 30, 2011 and 2010

Financial Analysis

Summary of Fiduciary Net Assets

2011 – 2010

	<u>2011</u>	<u>2010</u>	<u>(Decrease)</u>
Assets	\$ 10,180,710	11,202,586	(1,021,876)
Liabilities	<u>183,060</u>	<u>184,218</u>	<u>(1,158)</u>
Net assets	<u>\$ 9,997,650</u>	<u>11,018,368</u>	<u>(1,020,718)</u>

The Fund's assets consist primarily of cash and investments. Between fiscal years 2010 and 2011, total assets decreased by \$1.0 million or 9.1% due to a decrease in the amount invested in the Cash Management Fund (CMF).

Liabilities consist of pension benefit payments owed to retirees and beneficiaries. Total liabilities slightly decreased by 0.6%.

Net assets held in trust for pension benefits decreased by \$1.0 million or 9.3%.

Summary of Fiduciary Net Assets

2010 – 2009

	<u>2010</u>	<u>2009</u>	<u>(Decrease)</u>
Assets	\$ 11,202,586	12,205,825	(1,003,239)
Liabilities	<u>184,218</u>	<u>218,905</u>	<u>(34,687)</u>
Net assets	<u>\$ 11,018,368</u>	<u>11,986,920</u>	<u>(968,552)</u>

The Fund's assets consist primarily of cash and investments. Between fiscal years 2009 and 2010, total assets decreased by \$1.0 million or 8.2% due to a decrease in the amount invested in the Cash Management Fund (CMF).

Liabilities consist of pension benefit payments owed to retirees and beneficiaries. Total liabilities decreased by 15.8%.

Net assets held in trust for pension benefits decreased by \$1.0 million or 8.1%.

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Management's Discussion and Analysis

June 30, 2011 and 2010

Summary of Changes to Fiduciary Net Assets

2011 – 2010

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>
Additions:			
Contributions	\$ 1,064,245	1,046,590	17,655
Net investment income	32,429	53,572	(21,143)
Total additions	<u>1,096,674</u>	<u>1,100,162</u>	<u>(3,488)</u>
Deductions:			
Benefits	2,110,016	2,063,123	46,893
Administrative expenses	7,376	5,591	1,785
Total deductions	<u>2,117,392</u>	<u>2,068,714</u>	<u>48,678</u>
Change in net assets	\$ <u>(1,020,718)</u>	<u>(968,552)</u>	<u>(52,166)</u>

Additions consist of contributions from the Pension Adjustment Fund to cover cost-of-living benefits and earnings from investment activities. Contributions increased slightly compared to the prior year by 1.7%. Investment earnings decreased by 39.5% due to the decline in the net appreciation in the fair value of investments and less income earned on these investments.

Fiscal year 2011 is the fourteenth consecutive year that the State has not made a contribution to the Fund. As of July 1, 2010, the date of the most recent actuarial valuation, the actuarial value of the Fund's assets exceeds the projected value of accrued liabilities by \$5.4 million.

Deductions are comprised of pension benefit payments to retirees and beneficiaries and administrative costs incurred by the Fund. Benefit payments increased by 2.3% mainly due to a large non-standard payroll that was issued in December 2010. Administrative costs increased by 31.9% due to a change in the method of calculating the amount reimbursed to the State of New Jersey General fund between fiscal years 2010 and 2011.

Summary of Changes to Fiduciary Net Assets

2010 – 2009

	<u>2010</u>	<u>2009</u>	<u>(Decrease)</u>
Additions:			
Contributions	\$ 1,046,590	1,088,687	(42,097)
Net investment income	53,572	197,755	(144,183)
Total additions	<u>1,100,162</u>	<u>1,286,442</u>	<u>(186,280)</u>
Deductions:			
Benefits	2,063,123	2,181,622	(118,499)
Administrative expenses	5,591	8,341	(2,750)
Total deductions	<u>2,068,714</u>	<u>2,189,963</u>	<u>(121,249)</u>
Change in net assets	\$ <u>(968,552)</u>	<u>(903,521)</u>	<u>(65,031)</u>

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Management's Discussion and Analysis

June 30, 2011 and 2010

Additions consist of contributions from the Pension Adjustment Fund to cover cost-of-living benefits and earnings from investment activities. Contributions decreased slightly compared to the prior year by 3.9%. Investment earnings decreased by \$0.1 million or 72.9% due to the decline in the net appreciation in the fair value of investments and less income earned on these investments.

Fiscal year 2010 is the thirteenth consecutive year that the State has not made a contribution to the Fund. As of July 1, 2009, the date of the most recent actuarial valuation, the actuarial value of the Fund's assets exceeds the projected value of accrued liabilities by \$5.9 million.

Deductions are comprised of pension benefit payments to retirees and beneficiaries and administrative costs incurred by the Fund. Benefit payments decreased by 5.4% due to fewer retirees and beneficiaries. Administrative costs decreased by 33.0%.

Retirement System as a Whole

The overall funded ratios of 195.5% for fiscal year 2011 and 195.3% for fiscal year 2010 indicate that the Fund has sufficient assets to meet its benefit obligations.

Contacting System Financial Management

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

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Statements of Fiduciary Net Assets

June 30, 2011 and 2010

	2011	2010
Assets:		
Cash	\$ 220,838	259,605
Investments, at fair value:		
Cash Management Fund	9,822,598	10,770,466
Mortgages	50,873	84,548
Total investments	9,873,471	10,855,014
Receivables:		
Other	86,401	87,967
Total receivables	86,401	87,967
Total assets	10,180,710	11,202,586
Liabilities:		
Accounts payable and accrued expenses	5,996	4,789
Retirement benefits payable	177,064	179,429
Total liabilities	183,060	184,218
Net assets:		
Held in trust for pension benefits	\$ 9,997,650	11,018,368

See schedule of funding progress on pages 12 and 13.
See accompanying notes to financial statements.

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Statements of Changes in Fiduciary Net Assets

Years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Additions:		
Contributions:		
Pension adjustment fund	\$ 1,064,245	1,046,590
Total contributions	<u>1,064,245</u>	<u>1,046,590</u>
Investment income:		
Net depreciation in fair value of investments	(575)	(1,245)
Interest	<u>35,420</u>	<u>57,265</u>
	34,845	56,020
Less: investment expense	<u>2,416</u>	<u>2,448</u>
Net investment income	<u>32,429</u>	<u>53,572</u>
Total additions	<u>1,096,674</u>	<u>1,100,162</u>
Deductions:		
Benefits	2,110,016	2,063,123
Administrative expenses	<u>7,376</u>	<u>5,591</u>
Total deductions	<u>2,117,392</u>	<u>2,068,714</u>
Change in net assets	(1,020,718)	(968,552)
Net assets – beginning of year	<u>11,018,368</u>	<u>11,986,920</u>
Net assets – end of year	<u>\$ 9,997,650</u>	<u>11,018,368</u>

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2011 and 2010

(1) Description of the Fund

The Prison Officers' Pension Fund of New Jersey (the Fund; POPF) is a single-employer contributory defined benefit plan which was established as of January 1, 1941, under the provisions of N.J.S.A. 43:7 and closed to new members in January 1960. The Fund is included along with other state-administered pension trust and agency funds in the basic financial statements of the State of New Jersey.

The Fund's designated purpose is to provide retirement, death and disability benefits to its members. Membership in the Fund is limited to various employees in the state penal institutions who were appointed prior to January 1, 1960. There are no active members and 149 pensioners and beneficiaries are receiving benefits as of July 1, 2010, the date of the most recent actuarial valuation. As of July 1, 2009, there were no active members and 155 pensioners and beneficiaries receiving benefits. The Fund's Board of Trustees is primarily responsible for its administration.

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

Vesting and Benefit Provisions

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

(2) Summary of Significant Accounting Policies

Measurement Focus and Basis of Accounting

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

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

Investments

The Division of Investment, Department of the Treasury, State of New Jersey (Division of Investment) manages and invests certain assets of seven of the defined benefit plans (PERS, TPAF, JRS, PFRS,

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Notes to Financial Statements

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CPFPF, SPRS and POPF). The Division of Investment separately reports the assets, liabilities and net assets of the underlying investment portfolio of the seven defined benefit plans in its Pension Fund report.

Investments are reported at fair value as follows:

- Cash Management Fund – closing bid price on the last day of trading during the period as determined by the Transfer Agent.
- Mortgages – priced by a major dealer in such securities and reviewed by management for reasonableness.

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

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

The State of New Jersey, Department of the Treasury, Division of Investment, issues publicly available financial reports that include the financial statements of the State of New Jersey Cash Management Funds. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Investment, P.O. Box 290, Trenton, New Jersey 08625-0290.

The State of New Jersey, Department of the Treasury, Division of Investment, under the jurisdiction of the State Investment Council, has the investment responsibility for all funds administered by the State of New Jersey, Division of Pensions and Benefits. All investments must conform to standards set by state law.

The purchase, sale, receipt of income, and other transactions affecting investments are governed by custodial agreements between the Fund, through the State Treasurer, and custodian banks as agents for the Fund. State laws and policies set forth the requirements of such agreements and other particulars as to the size of the custodial institutions, amount of the portfolio to be covered by the agreements, and other pertinent matters.

Administrative Expenses

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

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.

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Notes to Financial Statements

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Funded Status and Funding Progress

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

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

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

Actuarial Methods and Assumptions

In the July 1, 2010 and 2009 actuarial valuations, the projected unit credit was used as the actuarial cost method, and market value was used as the asset valuation method for the Fund. The actuarial assumptions included 5% for investment rate of return.

Actuarial valuation date	July 1, 2010	July 1, 2009
Actuarial value of assets	\$ 11,018,367	\$ 11,986,919
Actuarial accrued liability	5,635,024	6,136,441
Overfunded actuarial accrued liability	(5,383,343)	(5,850,478)
Funded ratio	195.5%	195.3%
Covered payroll	N/A	N/A
Overfunded actuarial accrued liability as a percentage of covered payroll	N/A	N/A
Actuarial cost method	Projected unit credit	Projected unit credit
Asset valuation method	Market value	Market value
Amortization method	Level dollar, closed	Level dollar, closed
Remaining amortization period	1 year	1 year
Actuarial assumptions:		
Interest rate	5.00%	5.00%
Salary range	N/A	N/A
Cost-of-living adjustments	N/A	N/A

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Notes to Financial Statements

June 30, 2011 and 2010

(3) Contributions

There are no active members in the POPF. Accordingly, based on actuarial valuations, there is no normal cost or accrued liability contributions required by employers for fiscal years 2011 and 2010.

(4) Funds

POPF maintains the following legally required fund as follows:

Retirement Reserve Fund (2011 – \$9,997,650; 2010 – \$11,018,368)

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

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Required Supplementary Information

Schedule of Funding Progress

(Unaudited – See accompanying independent auditor's report)

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued Liability (b)	Unfunded (overfunded) actuarial accrued liability (b – a)	Funded ratio (a / b)	Covered payroll (c)	Unfunded (overfunded) actuarial accrued liability as a percentage of covered payroll (b – a) / c)
July 1, 2005	\$ 14,783,465	9,077,157	(5,706,308)	162.9%	N/A	N/A
July 1, 2006	14,014,718	8,236,295	(5,778,423)	170.2	N/A	N/A
July 1, 2007	13,499,361	7,378,386	(6,120,975)	183.0	N/A	N/A
July 1, 2008	12,890,441	6,789,017	(6,101,424)	189.9	N/A	N/A
July 1, 2009	11,986,919	6,136,441	(5,850,478)	195.3	N/A	N/A
July 1, 2010	11,018,367	5,635,024	(5,383,343)	195.5	N/A	N/A

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Required Supplementary Information

Schedule of Funding Progress – Additional Actuarial Information

(Unaudited – See accompanying independent auditor's report)

Significant actuarial methods and assumptions used in the most recent 2010 and 2009 actuarial valuations include the following:

	July 1, 2010	July 1, 2009
Actuarial cost method	Projected unit credit	Projected unit credit
Asset valuation method	Market value	Market value
Amortization method	Level dollar, closed	Level dollar, closed
Remaining amortization period	1 year	1 year
Actuarial assumptions:		
Interest rate	5.00%	5.00%
Salary range	N/A	N/A
Cost-of-living adjustments	N/A	N/A

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Required Supplementary Information

Schedule of Employer Contributions

(Unaudited – See accompanying independent auditor's report)

Year ended June 30,	Annual required contribution	Employer contributions	Percentage contributed
2006	\$ —	—	N/A
2007	—	—	N/A
2008	—	—	N/A
2009	—	—	N/A
2010	—	—	N/A
2011	—	—	N/A

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Schedule of Changes in Fiduciary Net Assets by Fund
Year ended June 30, 2011

	Retirement reserve fund	Pension adjustment pass-through	Total
Additions:			
Contributions:			
Pension adjustment fund	\$ —	1,064,245	1,064,245
Total contributions	—	1,064,245	1,064,245
Distribution of net investment income	32,429	—	32,429
Total additions	32,429	1,064,245	1,096,674
Deductions:			
Benefits	1,045,771	1,064,245	2,110,016
Administrative expenses	7,376	—	7,376
Total deductions	1,053,147	1,064,245	2,117,392
Net decrease	(1,020,718)	—	(1,020,718)
Net assets held in trust for pension benefits:			
Beginning of year	11,018,368	—	11,018,368
End of year	\$ 9,997,650	—	9,997,650