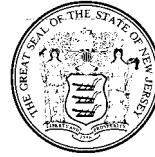


**DEPARTMENT OF
THE TREASURY**

Bradley I. Abelow
State Treasurer

**DIVISION OF PENSIONS
AND BENEFITS**

Frederick J. Beaver
Director



State of New Jersey
DIVISION OF PENSIONS AND BENEFITS
PO Box 295 • Trenton, NJ 08625-0295

**CONSOLIDATED POLICE AND
FIREMEN'S PENSION FUND
OF NEW JERSEY**

COMMISSION
as of June 30, 2005

SPENCER H. SMITH, JR.
Chairperson

FREDERICK J. BEAVER
State Treasurer's Representative

LOUIS J. RISACHER

THOMAS TIGHE

WILLIAM A. NAGY, JR.

WILLIAM H. SCHLUETER

WENDY JAMISON
Secretary

BUCK CONSULTANTS
Actuaries and Consultants

MEDICAL BOARD

David Jenkins, M.D.

William E. Ryan, M.D.

TO THE HONORABLE
JON S. CORZINE
GOVERNOR of the STATE OF NEW JERSEY

Dear Governor Corzine:

The Commission for the

**CONSOLIDATED POLICE AND
FIREMEN'S PENSION FUND**

is pleased to present the Fiscal Year 2005 Annual Report in accordance with the provisions of Chapter 43:16-6.2.

Respectfully submitted,

A handwritten signature in cursive script that reads "Frederick J. Beaver".

FREDERICK J. BEAVER

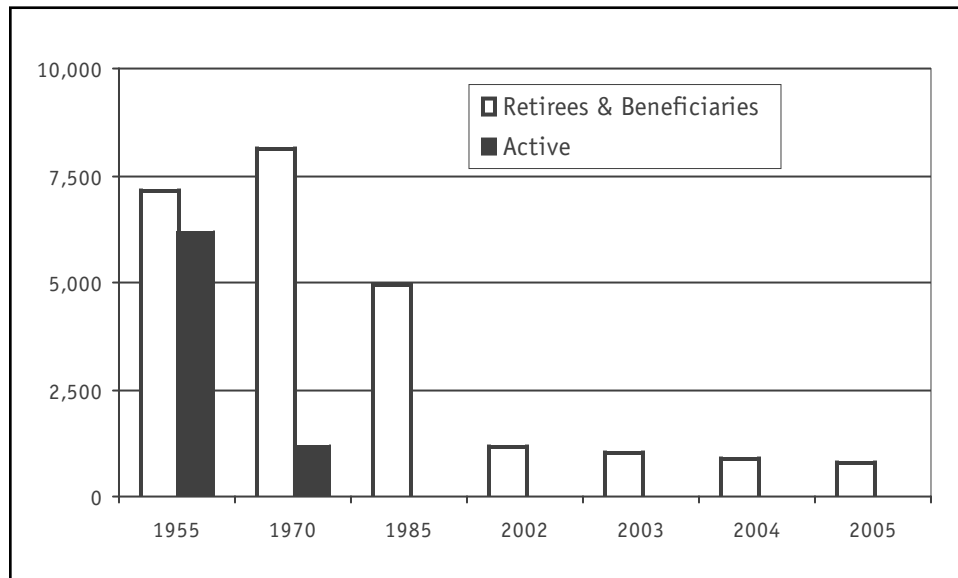
Director

SIGNIFICANT LEGISLATION

There were no significant changes in legislation governing the Consolidated Police and Firemen's Pension Fund of New Jersey during fiscal year 2005.

MEMBERSHIP

- As of June 30, 2005, the active contributing membership of the Fund totaled zero.
- There were 831 retirees and beneficiaries receiving annual pensions totaling \$15,137,682.
- The Fund's assets totaled \$18,057,251 at the close of the fiscal year 2005.



KPMG LLP
New Jersey Headquarters
150 John F. Kennedy Parkway
Short Hills, NJ 07078

Independent Auditors' Report

The Board of Trustees
State of New Jersey
Consolidated Police and Firemen's Pension Fund:

We have audited the accompanying statement of fiduciary net assets of the State of New Jersey Consolidated Police and Firemen's Pension Fund (the Fund) as of June 30, 2005, 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 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 the State of New Jersey Consolidated Police and Firemen's Pension Fund as of June 30, 2005, and the changes in its financial position for the year 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 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 audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the Fund's basic financial statements. The schedule of changes in fiduciary net assets by fund 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

December 14, 2005

**STATE OF NEW JERSEY
CONSOLIDATED POLICE AND FIREMEN'S
PENSION FUND**

Management's Discussion and Analysis

June 30, 2005

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

FINANCIAL HIGHLIGHTS

2005 - 2004

- Net assets held in trust for pension benefits increased by \$1,251,425 as a result of fiscal year 2005's operations from \$15,379,278 to \$16,630,703.
- Additions for the year were \$16,443,601 which are comprised of contributions of \$16,212,252 and net investment income of \$231,349.
- Deductions for the year were \$15,192,176, which are comprised of benefit payments of \$15,137,682 and administrative expenses of \$54,494.

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

This annual report consists of two financial statements: *The Statement of Fiduciary Net Assets* and *The Statement 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 Statement 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 Statement 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.

**STATE OF NEW JERSEY
CONSOLIDATED POLICE AND FIREMEN'S
PENSION FUND**

Management's Discussion and Analysis, Continued

FINANCIAL ANALYSIS

STATEMENT OF FIDUCIARY NET ASSETS

2005 - 2004

	2005	2004	Increase (Decrease)
Assets	\$18,057,251	\$16,723,261	\$1,333,990
Liabilities	1,426,548	1,343,983	82,565
Net Assets	\$16,630,703	\$15,379,278	\$1,251,425

The Fund's assets mainly consist of cash, securities lending collateral, investments, and contributions due from the State. Between fiscal years 2004 and 2005, total assets increased by \$1.3 million or 8.0% due to increase in fair value of investments.

Liabilities mainly consist of pension benefit payments owed to retirees and beneficiaries, and securities lending collateral and rebates payable. Total liabilities increased by 6.1% mainly due to securities lending collateral and rebates payable offset by a reduction in the monthly pension payroll expense. Fewer retirees and beneficiaries are receiving benefits compared to last year.

Net assets held in trust for pension benefits increased by \$1.3 million or 8.1% primarily because State contributions and investment revenues exceeded benefit payments.

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

ADDITIONS TO FIDUCIARY NET ASSETS

2005 - 2004

	2005	2004	Increase (Decrease)
Employer Contributions	\$16,212,252	\$12,055,073	\$4,157,179
Investment & Other	231,349	152,264	79,085
Totals	\$16,443,601	\$12,207,337	\$4,236,264

Additions primarily consist of employer contributions and earnings from investment activities. Employer contributions are made mainly by the State to provide funding for pension benefits. Contributions are also received from the Pension Adjustment Fund to cover the cost-of-living adjustments included in benefit payments. The State contributed \$7.0 million toward the unfunded actuarial accrued liability in fiscal year 2005. Contributions were not required from 1997 through 2001 due to Pension Security legislation passed in 1997.

Investment income decreased by 59.8% due to a low interest rate and unrealized loss on investments.

DEDUCTIONS FROM FIDUCIARY NET ASSETS

2005 - 2004

	2005	2004	Increase (Decrease)
Benefits	\$15,137,682	\$16,829,838	\$(1,692,156)
Administrative Expenses	54,494	28,831	25,663
Totals	\$15,192,176	\$16,858,669	\$(1,666,493)

**STATE OF NEW JERSEY
CONSOLIDATED POLICE AND FIREMEN'S
PENSION FUND**

Management's Discussion and Analysis, Continued

Deductions are mainly comprised of pension benefit payments to retirees and beneficiaries and administrative costs incurred by the Fund. Benefit payments decreased by \$1.7 million or 10.1% due to fewer retirees and beneficiaries. Administrative expenses increased by 89.0% 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 of 62.0% for fiscal year 2005 and 66.7% for 2004 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.

**STATE OF NEW JERSEY
CONSOLIDATED POLICE AND FIREMEN'S
PENSION FUND**

Statement of Fiduciary Net Assets

June 30, 2005

Assets:	
Cash	\$ 132,802
Securities lending collateral	158,152
Investments, at fair value:	
Cash Management Fund	14,813,796
Bonds	88,480
Mortgage Backed Securities	<u>752,339</u>
Total investments	<u>15,654,615</u>
Receivables:	
Accrued interest	4,979
Due from Pension Adjustment Fund	728,842
Other	<u>1,377,861</u>
Total receivables	<u>2,111,682</u>
Total assets	<u>18,057,251</u>
Liabilities:	
Accounts payable and accrued expenses	25,573
Retirement benefits payable	1,242,823
Securities lending collateral and rebates payable	<u>158,152</u>
Total liabilities	<u>1,426,548</u>
Net Assets:	
Held in trust for pension benefits	\$ <u><u>16,630,703</u></u>

See schedule of funding progress on pages 19-20.
See accompanying notes to financial statements.

**STATE OF NEW JERSEY
CONSOLIDATED POLICE AND FIREMEN'S
PENSION FUND**

Statement of Changes in Fiduciary Net Assets

Year ended June 30, 2005

Additions:

Contributions:

Employers	\$	7,074,835
Pension adjustment fund		<u>9,137,417</u>
Total contributions		<u>16,212,252</u>

Investment income:

Net depreciation in fair value of investments		(22,830)
Interest		<u>262,766</u>
		239,936

Less: investment expense

8,587

Net investment income

231,349

Total additions

16,443,601

Deductions:

Benefits		15,137,682
Administrative expenses		<u>54,494</u>

Total deductions

15,192,176

Change in net assets

1,251,425

Net assets - Beginning of year

15,379,278

Net assets - End of year

\$ 16,630,703

See accompanying notes to financial statements.

**STATE OF NEW JERSEY
CONSOLIDATED POLICE AND FIREMEN'S
PENSION FUND**

Notes to Financial Statements

June 30, 2005

(1) DESCRIPTION OF THE FUND

The State of New Jersey Consolidated Police and Firemen's Pension Fund (the Fund; CPFPPF) is a cost-sharing contributory defined benefit plan with a special funding situation which was established as of January 1, 1952, under the provisions of N.J.S.A. 43:16. 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 county and municipal police and firemen who were appointed prior to July 1, 1944. There are no active vested members and 948 pensioners and beneficiaries are receiving benefits as of June 30, 2004, the date of the most recent actuarial valuation. 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. 43:16. The Fund provides retirement as well as death and disability benefits to any active member after 25 years of service. A member may retire at age 60 after 25 years of service. Retirement is mandatory at age 65, except for chiefs of police, who may retire at age 70. Benefits are generally determined to be 60% of final salary, as defined, plus 1% for each creditable year of service, as defined, in excess of 25 years, but not to exceed 30 years. Members are always fully vested in their own contributions.

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

(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 Fund that focuses on total economic resources employs the accrual basis of accounting, which recognizes increases and decreases in economic resources as soon as the underlying event or transaction occurs.

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 payable in accordance with the terms of the Fund.

**STATE OF NEW JERSEY
CONSOLIDATED POLICE AND FIREMEN'S
PENSION FUND**

Notes to Financial Statements, Continued

Adoption of Accounting Standard:

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

Valuation of Investments:

Investments are reported at fair value as follows:

- U.S. Government and Agency, Foreign and Corporate obligations – prices quoted by a major dealer in such securities.
- Common Stock and Equity Funds, Foreign Equity Securities, Forward Foreign Exchange Contracts – closing prices as reported on the primary market or exchange on which they trade.
- Money Market Instruments – amortized cost which approximates fair value.
- Cash Management Fund – closing bid price on the last day of trading during the period as determined by the Transfer Agent.

Investment Transactions:

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

Unit Transactions:

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

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

Securities Lending:

Common Funds A, B and D and several of the direct pension plan portfolios participate in securities lending programs with their custodian banks, whereby securities are loaned to brokers and, in return, the pension funds have rights to the collateral received. All of the securities held in Common Funds A, B and D are eligible for the securities lending program. Collateral received may consist of cash, letters of credit, or government securities having a market value equal to or exceeding 102% (U.S. dollar denominated) or 105% (non-U.S. dollar denominated) of the value of the loaned securities at the time the loan is made. For Common Funds A and B, in the event that the market value of the collateral falls below 101% of the market value of all the outstanding loaned securities, additional collateral shall be transferred by the borrower to the respective funds no later than the close of the next business day so that the market value of such additional collateral, when added to the market value of the other collateral, shall equal 102% of the market value of the loaned securities. For Common Fund D, in the event that the market value of the collateral falls below the collateral requirement of either 102% or 105% of the market value of the outstanding loaned securities, additional collateral shall be transferred in an amount that will increase the aggregate of the borrower's collateral to meet the collateral requirements. As of June 30, 2005, the Common Funds have no aggregate credit risk exposure to brokers because the collateral amount held by the Common Funds exceeded the market value of the securities on loan.

**STATE OF NEW JERSEY
CONSOLIDATED POLICE AND FIREMEN'S
PENSION FUND**

Notes to Financial Statements, Continued

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

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 statement of changes in fiduciary net assets.

(3) INVESTMENTS

The Fund is invested in bonds and mortgage backed securities which represent 0.07% of the investment total of the pension funds.

The pension funds investments as of June 30, 2005 are as follows:

	Amount
Domestic equities	\$ 34,782,276,119
International equities	11,232,483,997
Domestic fixed income	16,521,446,786
International fixed income	2,201,826,936
Domestic floating rate securities	77,922,181
Police and Firemen's mortgages	896,706,544
Net forward foreign exchange contracts	51,900
	\$ 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.

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.

**STATE OF NEW JERSEY
CONSOLIDATED POLICE AND FIREMEN'S
PENSION FUND**

Notes to Financial Statements, Continued

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

<u>Category</u>	<u>Minimum Rating</u>		<u>Limitation</u>	<u>Limitation</u>	<u>Other Limitations</u>
	<u>Moody's</u>	<u>S&P</u>	<u>of Issuer's Outstanding Debt</u>	<u>of Issue</u>	
Corporate obligations	Baa	BBB	25%	25%	—
U.S. finance company debt, bank debentures and NJ state & municipal obligations	A	A	10%	10%	—
Canadian obligations	A	A	10%	10%	Purchase cannot exceed \$10 million
International government and agency obligations	Aa	AA	2%	10%	Not more than 1% of fund assets can be invested in any one issuer
Public Authority revenue obligations	A	A	—	10%	Not more than 2% of fund assets can be invested in any one public authority
Collateralized notes and mortgages	Baa	BBB	—	33.3%	Not more than 2% of fund assets can be invested in any one issuer
Commercial paper	P-1	A-1	—	—	—
Certificates of deposit and Banker's acceptances (rating applies to international)	Aa/P-1	—	—	—	Uncollateralized certificates of deposit and banker's acceptances cannot exceed 10% of issuer's primary capital
Guaranteed income contracts	P-1	—	—	—	A+ rating from A.M. Best for insurance companies
Money market funds	—	—	—	—	Not more than 10% of fund assets can be invested in money market funds; limited to 5% of shares or units outstanding

**STATE OF NEW JERSEY
CONSOLIDATED POLICE AND FIREMEN'S
PENSION FUND**

Notes to Financial Statements, Continued

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

(000's)	Moody's Rating			
	Aaa	Aa	A	Baa
United States Treasury Notes	\$ 1,813,358	—	—	—
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	—
	\$ <u>11,592,839</u>	<u>2,016,439</u>	<u>3,603,667</u>	<u>1,564,707</u>

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.

**STATE OF NEW JERSEY
CONSOLIDATED POLICE AND FIREMEN'S
PENSION FUND**

Notes to Financial Statements, Continued

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

(000's)	Total	Maturities in Years			
		Market Value	Less than 1	1-5	6-10
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	—
	<u>\$ 19,641,853</u>	<u>1,460,544</u>	<u>5,776,536</u>	<u>4,464,069</u>	<u>7,940,704</u>

**STATE OF NEW JERSEY
CONSOLIDATED POLICE AND FIREMEN'S
PENSION FUND**

Notes to Financial Statements, Continued

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 percent of the market value of forward contracts totaling approximately \$650 million at June 30, 2005. At June 30, 2005, the pension funds had the following foreign currency exposure (expressed in U.S. dollars):

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

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.

Net appreciation or depreciation in fair value of investments includes net realized gains and the change in net unrealized gains and losses on investments for the fiscal year ended June 30, 2005. The net realized gain from investment transactions amounted to \$2,729,925,208 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 0.001% of the total market value of the collateral at June 30, 2005.

**STATE OF NEW JERSEY
CONSOLIDATED POLICE AND FIREMEN'S
PENSION FUND**

Notes to Financial Statements, Continued

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:

<u>Category</u>	<u>Minimum Rating</u>		<u>Limitation of Issuer's Outstanding Debt</u>	<u>Limitation of Issue</u>	<u>Other Limitations</u>
	<u>Moody's</u>	<u>S&P</u>			
Corporate obligations	A3	A-	25%	25%	—
U.S. finance company debt and bank debentures	A2	A	10%	10%	—
Collateralized notes and mortgages	Aaa	AAA	—	33.3%	Limited to not more than 10% of the assets of the collateral portfolio
Commercial paper	P-1	A-1	—	—	—
Certificates of deposit/ Banker's acceptances	Aa3/P-1	—	—	—	Uncollateralized cer- tificates of deposit and banker's ac- ceptances' cannot exceed 10% of issuer's primary capital
Guaranteed income contracts	P-1	—	—	—	Limited to 5% of the assets of the col- lateral portfolio; A+ rating from A.M. Best for insurance companies
Money market funds	—	—	—	—	Limited to 10% of the assets of the collateral portfolio; limited to approved money market funds

Maturities of corporate obligations, U.S. finance company debt, bank debentures, collateralized notes and mortgages and guaranteed income contracts must be less than 25 months. Commercial paper maturities cannot exceed 270 days. Repurchase agreement maturities cannot exceed 15 days. Certificates of deposit and banker's acceptances must mature in one year or less.

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

**STATE OF NEW JERSEY
CONSOLIDATED POLICE AND FIREMEN'S
PENSION FUND**

Notes to Financial Statements, Continued

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

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

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

(1) Moody's rating not available

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

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

(000's)	Total Market Value	Maturities	
		Less than one year	One year to 25 months
Corporate Obligations	\$ 6,240,331	4,753,161	1,487,170
Commercial Paper	2,373,183	2,373,183	—
Certificates of 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	—
	<u>\$ 12,122,693</u>	<u>10,535,523</u>	<u>1,587,170</u>

**STATE OF NEW JERSEY
CONSOLIDATED POLICE AND FIREMEN'S
PENSION FUND**

Notes to Financial Statements, Continued

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

(5) CONTRIBUTIONS

The contribution policy is set by N.J.S.A. 43:16 and requires contributions by active members and the State of New Jersey. Plan member and employer contributions may be amended by State of New Jersey legislation. Contributions by active members were based on 7% of their salary. The State of New Jersey, the only contributing employer of the Fund, is required to contribute at an actuarially determined rate.

The State contributed \$7.05 million toward the unfunded actuarial accrued liability of fiscal year 2005.

(6) FUNDS

The Fund maintains the following legally required fund:

Pension Reserve Fund (\$16,630,703)

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

(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.

**STATE OF NEW JERSEY
CONSOLIDATED POLICE AND FIREMEN'S
PENSION FUND**

Required Supplementary Information

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
June 30, 1997	\$70,420,937	\$66,004,245	\$(4,416,692)	106.7%	N/A	N/A
June 30, 1998	62,205,001	59,272,789	(2,932,212)	104.9%	N/A	N/A
June 30, 1999	54,018,660	52,226,208	(1,792,452)	103.4%	N/A	N/A
June 30, 2000	46,078,644	46,544,429	465,785	99.0%	N/A	N/A
June 30, 2001	38,656,261	41,658,355	3,002,094	92.8%	N/A	N/A
June 30, 2002	31,842,796	36,350,384	4,507,588	87.6%	N/A	N/A
June 30, 2003	27,623,585	41,396,376	13,772,791	66.7%	N/A	N/A
June 30, 2004	21,735,396	35,052,202	13,316,806	62.0%	N/A	N/A

**STATE OF NEW JERSEY
CONSOLIDATED POLICE AND FIREMEN'S
PENSION FUND**

Required Supplementary Information, Continued

Schedule of Funding Progress - Additional Actuarial Information

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

Actuarial cost method	Projected unit credit
Asset valuation method	5 year average of market value
Amortization method	Level dollar, closed
Remaining amortization period	1 year
Actuarial assumptions:	
Interest rate	2.00%

**STATE OF NEW JERSEY
CONSOLIDATED POLICE AND FIREMEN'S
PENSION FUND**

Required Supplementary Information, Continued

Schedule of Employer Contributions

YEAR ENDED JUNE 30,	ANNUAL REQUIRED CONTRIBUTION	EMPLOYER CONTRIBUTIONS ⁽¹⁾	PERCENTAGE CONTRIBUTED
1997	\$10,580,991	\$43,995,746 ⁽²⁾	415.8%
1998	—	—	N/A
1999	—	—	N/A
2000	—	—	N/A
2001	—	—	N/A
2002	550,864	506,541	92.0%
2003	3,550,445	2,713,914	76.4%
2004	5,330,714	1,950,425	36.6%
2005	14,329,212	7,046,000	49.2%

Notes to Schedule

- (1) Excludes contributions from local employers to cover administrative expenses of the Fund.
- (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.

**STATE OF NEW JERSEY
CONSOLIDATED POLICE AND FIREMEN'S
PENSION FUND**

Schedule of Changes in Fiduciary Net Assets by Fund

Year ended June 30, 2005

	RETIREMENT RESERVE FUND	PENSION ADJUSTMENT PASS THROUGH	TOTAL
Additions:			
Contributions:			
Employers	\$ 7,074,835	—	7,074,835
Pension Adjustment Fund	—	9,137,417	9,137,417
Total contributions	7,074,835	9,137,417	16,212,252
Distribution of net investment income	231,349	—	231,349
Total additions	7,306,184	9,137,417	16,443,601
Deductions:			
Benefits	6,000,265	9,137,417	15,137,682
Administrative expenses	54,494	—	54,494
Total deductions	6,054,759	9,137,417	15,192,176
Net increase	1,251,425	—	1,251,425
Net assets held in trust for pension benefits:			
Beginning of year	15,379,278	—	15,379,278
End of year	\$ 16,630,703	—	16,630,703

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