

**DEPARTMENT OF  
THE TREASURY**

Bradley I. Abelow  
*State Treasurer*

**DIVISION OF PENSIONS  
AND BENEFITS**

Frederick J. Beaver  
*Director*

**POLICE AND FIREMEN'S  
RETIREMENT SYSTEM  
OF NEW JERSEY**

**BOARD OF TRUSTEES**  
as of June 30, 2005

MARK KANDRAC  
*Chairperson*

FREDERICK J. BEAVER  
*State Treasurer's Representative*

JOSEPH BOUCHER

DENNIS CONNELLY

NICOLE FAVA

VINCENT FOTI

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TOM MURPHY

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WENDY JAMISON

*Secretary*

**BUCK CONSULTANTS**

*Actuaries and Consultants*

**MEDICAL BOARD**

David Jenkins, M.D.  
William E. Ryan, M.D.



*State of New Jersey*

**DIVISION OF PENSIONS AND BENEFITS**  
PO Box 295 • Trenton, NJ 08625-0295

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

Dear Governor Corzine:

The Board of Trustees of the

**POLICE AND FIREMEN'S  
RETIREMENT SYSTEM**

is pleased to present the Fiscal Year 2005 Annual Report in accordance with the provisions of N.J.S.A. 43:16A-13.

Respectfully submitted,

A handwritten signature in cursive script that reads "Mark Kandrak".

MARK KANDRAC  
Chairperson

**Police and Firemen's Retirement System**  
**BOARD OF TRUSTEES**



Mark Kandrac  
*Chairperson,  
Fire Representative*



John Sierchio  
*Police Member*



Joseph Boucher  
*Gubernatorial Appointee*



Frank Leake  
*Gubernatorial Appointee*



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*Gubernatorial Appointee*



Alan C. Levine  
*Gubernatorial Appointee*



Vincent Foti  
*Gubernatorial Appointee*



Thomas Murphy  
*Gubernatorial Appointee*



Frederick J. Beaver  
*State Treasurer's  
Representative*



Susanne Culliton  
*Deputy Attorney General  
Legal Advisor*

*Unavailable for photo:*  
Dennis Connelly  
*Gubernatorial Appointee*  
Richard Mikutsky  
*Gubernatorial Appointee*



Wendy Jamison  
*Board Secretary*



Gail Griffin  
*Support Staff*

## **SIGNIFICANT LEGISLATION**

### **CHAPTER 64, P.L. 2005**

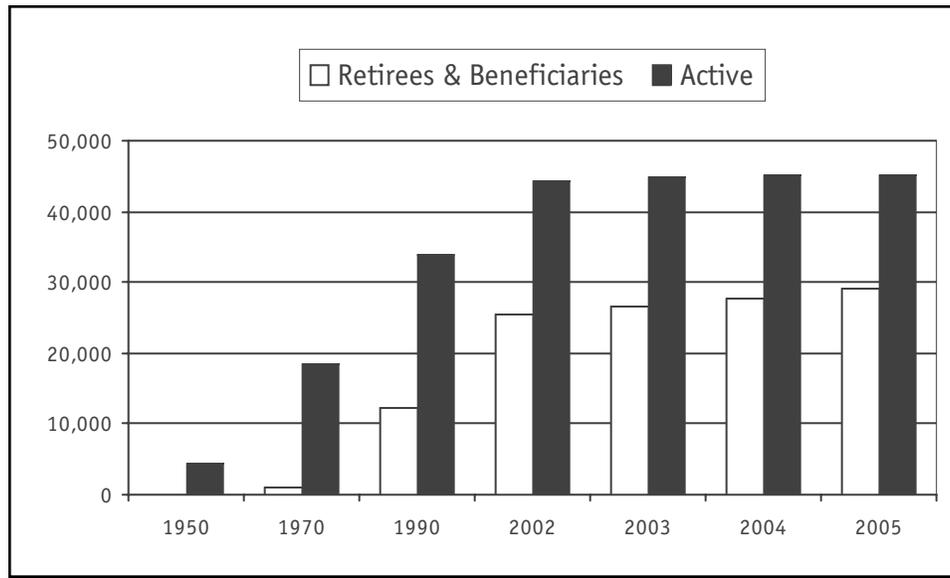
This law amends several statutes to define members of Operations Northern Watch and Southern Watch as veterans for the purposes of civil service hiring preferences, the purchase of service credit and the calculation of veterans benefits in the Public Employees' Retirement System (PERS) and Teachers' Pension and Annuity Fund (TPAF), the purchase of service credit in the Police and Firemen's Retirement System (PFRS), and the receipt of a property tax deduction or exemption.

Operation Northern Watch and Operation Southern Watch are the names given to the missions that monitored and controlled airspace above and below the 33rd parallel in Iraq, otherwise known as "no-fly zones."

The pension-related sections of this law are effective immediately (April 7, 2005).

## MEMBERSHIP

- As of June 30, 2005, the active membership of the System totaled 45,263. There were 2,014 inactive members in the System as of June 30, 2005.
- There were 29,192 retirees and beneficiaries receiving annual pensions totaling \$1,037,521,253. *(Includes benefits paid under the provisions of the Pension Adjustment Act.)*
- The System's assets totaled \$20,082,541,678 at the close of the fiscal year 2005.



## MEMBERSHIP ACTIVITY

During fiscal year 2005, the following transactions were processed by the Division of Pensions and Benefits on behalf of the membership of the Police and Firemen's Retirement System of New Jersey.

- **LOANS** - 20,254 loans were issued to members. The total loans receivable as of June 30, 2005 is \$451,221,016.
- **RETIREMENT** - 1,531 members retired under the following retirement types:

<u>TYPE OF RETIREMENT</u>	
Service	33
Special	1,045
Deferred	8
Ordinary Disability	178
Accidental Disability	133
Accidental Death	2
Active Death	33
Other	99
<div style="display: flex; justify-content: space-between;"> <span><b>TOTAL</b></span> <span style="text-align: right;"><b>1,531</b></span> </div>	

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  
Police and Firemen's Retirement System:

We have audited the accompanying statement of fiduciary net assets of the State of New Jersey Police and Firemen's Retirement System (the System) 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 System'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 System'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 Police and Firemen's Retirement System 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 System'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 System. 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  
POLICE AND FIREMEN'S RETIREMENT SYSTEM**

Management's Discussion and Analysis

June 30, 2005

Our discussion and analysis of the Police and Firemen's Retirement System (the System) financial performance provides an overview of the System'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 \$1,056,783,019 as a result of fiscal year 2005's operations from \$16,353,196,332 to \$17,409,979,351.
- Additions for the year were \$2,132,819,383, which are comprised of member and employer pension contributions of \$749,422,997 and investment income of \$1,383,396,386.
- Deductions for the year were \$1,076,036,364, which are comprised of benefit and refund payments of \$1,070,072,289 and administrative expenses of \$5,964,075.

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

FINANCIAL ANALYSIS

STATEMENT OF FIDUCIARY NET ASSETS

2005 - 2004

	2005	2004	Increase (Decrease)
Assets	\$20,082,541,678	\$18,686,939,642	\$1,395,602,036
Liabilities	2,672,562,327	2,333,743,310	338,819,017
Net Assets	\$17,409,979,351	\$16,353,196,332	\$1,056,783,019

**STATE OF NEW JERSEY  
POLICE AND FIREMEN'S RETIREMENT SYSTEM**

Management's Discussion and Analysis, Continued

The System's assets mainly consist of cash, securities lending collateral, investments, and contributions due from members and participating employers. Between fiscal years 2004 and 2005, total assets increased by \$1.4 billion or 7.5%. The total assets increased due to an increase in contributions receivable from employers and also overall increase in fair value of investments. Employer contributions receivables include contribution receivables from local employers for appropriations due April 1, 2006 and 2007 based on Chapter 108, P.L. 2003 and for early retirement incentive benefits to local employees based on Chapter 130, P.L. 2003. The original June 30, 2003 valuation for local employers was revised due to the change in economic assumptions which would affect the fiscal year 2006 employer contributions.

Liabilities consist of pension and death benefit payments owed to members and beneficiaries, noncontributory group insurance premiums owed to the System's insurance provider, securities lending collateral and rebates payable, and other payables. Total liabilities increased by \$338.8 million or 14.5% over last year. This is mainly due to an increase in retirement benefit payables.

Net assets held in trust for pension benefits increased by \$1.1 billion or 6.5%.

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

ADDITIONS TO FIDUCIARY NET ASSETS  
2005 - 2004

	2005	2004	Increase (Decrease)
Member Contributions	\$276,195,076	\$263,173,065	\$13,022,011
Employer Contributions	473,227,921	264,164,091	209,063,830
Investment & Other	1,383,396,386	1,943,638,309	(560,241,923)
Totals	\$2,132,819,383	\$2,470,975,465	\$(338,156,082)

Additions primarily consist of member and employer contributions and earnings from investment activities. Member contributions rose by \$13.0 million or 5.0% due to increased membership.

Employer contributions increased by \$209.1 million or 79.1%. In fiscal year 2005, employer contributions include accrued appropriations due April 1, 2006 and 2007, based on Chapter 108, P.L. 2003. The original June 30, 2003 valuation for local employers was revised due to the change in economic assumptions which would affect the fiscal year 2006 employer contributions.

The Chapter 108, effective July 1, 2003, provided that local employer PFRS normal and accrued liability contributions will be 60% and 80% of the amount certified by the PFRS for payments due in State fiscal year 2006 and 2007, respectively and thereafter a percentage of the amount certified by the System as the State Treasurer will determine. According to the Appropriation Act of 2003, the State as well is paying pension obligations through a five-year phase-in.

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

Investment & other revenues decreased by \$560.2 million or 28.8% due to decrease in net appreciation in fair value of investments.

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

**STATE OF NEW JERSEY**  
**POLICE AND FIREMEN'S RETIREMENT SYSTEM**

Management's Discussion and Analysis, Continued

DEDUCTIONS FROM FIDUCIARY NET ASSETS  
2005 - 2004

	2005	2004	Increase (Decrease)
Benefits	\$1,064,463,253	\$987,055,680	\$77,407,573
Refunds & Adjustments	5,609,036	7,148,274	(1,539,238)
Administrative Expenses	5,964,075	3,530,770	2,433,305
Totals	\$1,076,036,364	\$997,734,724	\$78,301,640

Deductions are mainly comprised of pension benefit payments to retirees and beneficiaries, refunds of contributions to former members, and administrative costs incurred by the System. Benefit payments increased by \$77.4 million or 7.8% primarily due to an increase in number of retirees receiving benefits. The number of refunds processed decreased by 21.5%. Administrative expenses increased by \$2.4 million or 68.9% mainly due to the reimbursement to the State General Fund for the Special Project Fund Appropriation for the system reengineering project.

RETIREMENT SYSTEM AS A WHOLE

The overall funded ratios of 84.0% for fiscal year 2005 and 89.3% for 2004 indicate that the System 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 System's finances and to show the System'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  
POLICE AND FIREMEN'S RETIREMENT SYSTEM**

Statement of Fiduciary Net Assets

June 30, 2005

<b>Assets:</b>	
Securities lending collateral	\$ 2,578,670,674
Investments, at fair value:	
Cash Management Fund	538,642,642
Bonds	3,052,179
Common Pension Fund A	8,267,954,828
Common Pension Fund B	3,250,307,191
Common Pension Fund D	3,141,068,036
Mortgage Backed Securities	991,411,345
Total investments	16,192,436,221
Receivables:	
Contributions:	
Members	47,861,340
Employers	701,894,418
Accrued interest and dividends	85,743,875
Members' loans	451,221,016
Other	24,714,134
Total receivables	1,311,434,783
Total assets	20,082,541,678
<b>Liabilities:</b>	
Accounts payable and accrued expenses	1,640,149
Retirement benefits payable	88,473,032
NCGI premiums payable	2,227,401
Cash overdraft	1,551,071
Securities lending collateral and rebates payable	2,578,670,674
Total liabilities	2,672,562,327
<b>Net Assets:</b>	
Held in trust for pension benefits	\$ <u><u>17,409,979,351</u></u>

See schedule of funding progress on pages 23-24.  
See accompanying notes to financial statements.

**STATE OF NEW JERSEY  
POLICE AND FIREMEN'S RETIREMENT SYSTEM**

Statement of Changes in Fiduciary Net Assets

Year ended June 30, 2005

**Additions:**

Contributions:

Members	\$	276,195,076
Employers		473,227,921

Total contributions		<u>749,422,997</u>
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Investment income:

Net appreciation in fair value of investments		932,344,545
Interest		285,746,114
Dividends		<u>166,201,533</u>

1,384,292,192

Less: investment expense		<u>895,806</u>
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Net investment income		<u>1,383,396,386</u>
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Total additions		<u>2,132,819,383</u>
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**Deductions:**

Benefits		1,064,463,253
Refunds of contributions		5,609,036
Administrative expenses		<u>5,964,075</u>

Total deductions		<u>1,076,036,364</u>
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Change in net assets		1,056,783,019
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Net Assets - Beginning of year		<u>16,353,196,332</u>
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Net Assets - End of year	\$	<u><u>17,409,979,351</u></u>
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See accompanying notes to financial statements.

**STATE OF NEW JERSEY  
POLICE AND FIREMEN'S RETIREMENT SYSTEM**

Notes to Financial Statements

June 30, 2005

**(1) DESCRIPTION OF THE SYSTEM**

State of New Jersey Police and Firemen's Retirement System (the System; PFRS) is a cost-sharing multiple-employer contributory defined benefit plan which was established as of July 1, 1944, under the provisions of N.J.S.A. 43:16A. The System is included along with other state-administered pension trust and agency funds in the basic financial statements of the State of New Jersey.

At June 30, 2004, the date of the most recent actuarial valuation, participating employers consisted of the following:

	<b><u>Participating employers</u></b>
State of New Jersey	1
Municipalities	<u>585</u>
Total	<u>586</u>

The System's designated purpose is to provide retirement, death and disability benefits to its members. Membership in the System is mandatory for substantially all full-time county and municipal police or firemen, and state firemen or officer employees with police powers appointed after June 30, 1944. The System's Board of Trustees is primarily responsible for its administration.

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

***Vesting and Benefit Provisions:***

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

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

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

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

**STATE OF NEW JERSEY  
POLICE AND FIREMEN'S RETIREMENT SYSTEM**

Notes to Financial Statements, Continued

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

***Significant Legislation:***

Chapter 130, P.L. 2003, effective July 14, 2003, provided employees of local employers with additional retirement benefits through early retirement incentive programs. It also permitted issuance of refunding bonds to fund benefits

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

Chapter 42, P.L. 2002 permitted local government units to issue refunding bonds to retire an unfunded accrued liability resulting from early retirement benefits, effective July 12, 2002.

***Membership:***

Membership in the System consisted of the following at June 30, 2004, the date of the most recent actuarial valuation:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	<u>27,932</u>
Active members:	
Vested	27,386
Non-vested	<u>16,810</u>
Total active members	<u>44,196</u>
Total	<u>72,128</u>

**(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 System is accounted for using an economic resources measurement focus. The System 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 System. 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 System 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 System. Benefits and refunds are recognized when payable in accordance with the terms of the System.

**STATE OF NEW JERSEY  
POLICE AND FIREMEN'S RETIREMENT SYSTEM**

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  
POLICE AND FIREMEN'S RETIREMENT SYSTEM**

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.

***Derivatives:***

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

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

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

	<u>Amount</u>
Forward currency receivable	\$ 745,577,063
Forward currency payable	745,525,163
Net unrealized gain	(51,900)

The net unrealized gain is included in investments at June 30, 2005.

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

***Members' Loans:***

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

**STATE OF NEW JERSEY  
POLICE AND FIREMEN'S RETIREMENT SYSTEM**

Notes to Financial Statements, Continued

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

***Administrative Expenses:***

The System is administered by the State of New Jersey Division of Pensions and Benefits. Administrative expenses are paid by the System 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 System is invested in Common Pension Fund A, Common Pension Fund B, Common Pension Fund D, and other investments, including bonds and mortgage backed securities, which represent 23.24%, 18.58%, 22.95%, and 78.85%, respectively, of each investment total of the pension funds.

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

	<b>Amount</b>
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.

**STATE OF NEW JERSEY  
POLICE AND FIREMEN'S RETIREMENT SYSTEM**

Notes to Financial Statements, Continued

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

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is 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&amp;P</u>	<u>of Issuer's</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  
POLICE AND FIREMEN'S RETIREMENT SYSTEM**

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)	<b>Moody's Rating</b>			
	<b>Aaa</b>	<b>Aa</b>	<b>A</b>	<b>Baa</b>
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  
POLICE AND FIREMEN'S RETIREMENT SYSTEM**

Notes to Financial Statements, Continued

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

(000's)	Fixed Income Investment Type	Total Market Value	Maturities in Years			
			Less than 1	1-5	6-10	More than 10
	United States Treasury Notes	\$ 1,813,358	111,930	795,152	906,276	—
	United States Treasury Tips	598,125	—	—	517,312	80,813
	United States Treasury Bonds	2,193,224	—	—	—	2,193,224
	United States Treasury Strips	42,326	—	—	—	42,326
	Title XI Merchant Marine Notes	3,956	—	—	—	3,956
	Federal Agricultural Mortgage Corp. Notes	101,698	—	101,698	—	—
	Federal Farm Credit Bank Bonds	102,225	49,578	52,647	—	—
	Federal Home Loan Bank Bonds	521,527	49,610	471,917	—	—
	Federal Home Loan Bank Discounted Notes	4,244	—	—	—	4,244
	Federal Home Loan Mortgage Corp. Notes	292,030	—	174,938	117,092	—
	Federal National Mortgage Association Notes	724,402	226,752	315,835	26,078	155,737
	Resolution Funding Corp. Obligations	7,337	—	—	—	7,337
	Floating Rate Notes	77,922	—	67,923	9,999	—
	Corporate Obligations	5,272,466	492,077	1,632,208	1,509,472	1,638,709
	Real Estate Investment Trust Obligations	99,301	—	19,836	79,465	—
	Finance Company Debt	2,138,535	405,222	1,021,737	576,593	134,983
	Supranational Obligations	122,496	25,227	—	—	97,269
	International Bonds and Notes	420,419	54,846	300,229	19,865	45,479
	Foreign Government Obligations	1,654,211	45,065	632,606	567,437	409,103
	Remic/FHLMC	638,865	—	9,872	20,959	608,034
	Remic/ FNMA	73,982	196	4,734	18,358	50,694
	Remic/ GNMA	17,993	—	—	—	17,993
	Police and Firemen's Mortgages	896,707	—	—	—	896,707
	GNMA Mortgage Backed Certificates	112,091	41	1,479	—	110,571
	FHLM Mortgage Backed Certificates	774,802	—	265	4,999	769,538
	FNMA Mortgage Backed Certificates	645,810	—	7,343	29,116	609,351
	Asset Backed Obligations	252,973	—	153,828	34,509	64,636
	Private Export Obligations	34,127	—	12,289	21,838	—
	Convertible Zero Coupon Bonds	4,701	—	—	4,701	—
		<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  
POLICE AND FIREMEN'S RETIREMENT SYSTEM**

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 Common Funds invest in global markets. The Common Funds can invest in securities of companies incorporated in one of thirty countries approved by the Council. The market value of international preferred and common stocks and issues convertible into common stocks, when combined with the market value of international government and agency obligations, cannot exceed 22 percent of the market value of forward contracts totaling approximately \$650 million at June 30, 2005. At June 30, 2005, the Common Funds had the following foreign currency exposure (expressed in U.S. dollars):

<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.

**STATE OF NEW JERSEY  
POLICE AND FIREMEN'S RETIREMENT SYSTEM**

Notes to Financial Statements, Continued

**(4) SECURITIES LENDING COLLATERAL**

The System's share in the securities lending program is 21.3% of the total market value of the collateral at June 30, 2005.

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&amp;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  
POLICE AND FIREMEN'S RETIREMENT SYSTEM**

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>

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. 43:16A and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. Employers are required to contribute at an actuarially determined rate. The annual employer

**STATE OF NEW JERSEY  
POLICE AND FIREMEN'S RETIREMENT SYSTEM**

Notes to Financial Statements, Continued

contributions include funding for basic retirement allowances, cost-of-living adjustments, and noncontributory death benefits. Members contribute at a uniform rate of 8.5% of base salary.

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

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

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

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

**(6) FUNDS**

This System maintains the following legally required funds:

**Members' Annuity Savings Fund (\$2,399,046,135)**

The Members' Annuity Savings Fund (ASF) is credited with all contributions made by active members of the System.

**Pension Accumulation Fund (\$6,213,991,350)**

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

**Retirement Reserve Fund (\$8,481,386,767)**

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

**Special Reserve Fund (\$315,555,099)**

The Special Reserve Fund is a fund to which any excess interest earnings and gains from sales and maturities of investments are transferred and against which any losses from the sales of securities are charged. The maximum limit on the accumulation of this account is 1% of the market value of the investments of the System. Amounts in excess of 1% are credited to the Pension Accumulation Fund.

**(7) INCOME TAX STATUS**

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

**STATE OF NEW JERSEY  
POLICE AND FIREMEN'S RETIREMENT SYSTEM**

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)
<b>State</b>						
June 30, 1997	\$1,183,747,522	\$1,234,959,165	\$51,211,643	95.9%	\$315,690,310	16.2%
June 30, 1998	1,559,131,933	1,377,734,455	(181,397,478) <sup>(1)</sup>	113.2%	346,079,078	(52.4%)
June 30, 1999	1,717,248,151	1,534,470,501	(182,777,650) <sup>(1)</sup>	111.9%	362,949,950	(50.4%)
June 30, 2000	1,884,870,936	1,666,842,906	(218,028,030)	113.1%	363,360,250	(60.0%)
June 30, 2001	1,991,299,968	1,866,140,391	(125,159,577)	106.7%	398,118,379	(31.4%)
June 30, 2002	2,032,977,241	2,046,820,189	13,842,948	99.3%	418,849,259	3.3%
June 30, 2003	1,907,752,767	2,330,909,918	423,157,151	81.8%	447,470,022	94.6%
June 30, 2004	1,940,936,459	2,509,192,584	568,256,125	77.4%	450,406,301	126.2%
<b>Local</b>						
June 30, 1997	10,854,173,290	11,746,169,752	891,996,462	92.4%	1,767,762,346	50.5%
June 30, 1998	13,169,957,658	12,881,842,367	(288,115,291) <sup>(1)</sup>	102.2%	1,870,322,787	(15.4%)
June 30, 1999	14,536,570,357	13,894,951,617	(641,618,740) <sup>(1)</sup>	104.6%	1,971,087,124	(32.6%)
June 30, 2000	15,644,750,281	14,924,699,712	(720,050,569)	104.8%	2,055,781,766	(35.0%)
June 30, 2001	16,083,153,842	16,056,446,646	(26,707,196) <sup>(2)</sup>	100.2%	2,163,590,060	(1.2%)
June 30, 2002	16,392,195,411	17,181,142,310	788,946,899	95.4%	2,275,130,620	34.7%
June 30, 2003	16,447,380,691	18,422,073,072	1,974,692,381 <sup>(3)</sup>	89.3%	2,393,467,444	82.5%
June 30, 2004	16,762,453,668	19,769,046,766	3,006,593,098	84.8%	2,524,859,162	119.1%

**Notes to Schedule**

- (1) Adjusted to reflect the impact of legislation passed in fiscal year 2002 which retroactively affected the June 30, 1999 and 1998 valuations. Chapter 4, P.L. 2001 provides benefit enhancements for certain eligible members who retired prior to December 29, 1989. The unfunded accrued liability attributable to the increased benefits was exactly offset by the recognition of an additional amount of market value of assets in the determination of the actuarial value of assets for the July 1, 1999 valuation.
- (2) Chapter 44, P.L. 2001, referred to in Note 5, reduced the contribution of local employers by \$150 million.
- (3) The original June 30, 2003 valuation was revised due to the change in economic assumptions which would affect the fiscal year 2006 employer contributions and due to the impact of the Appropriation Act for fiscal year 2005 which reduced the State contribution rate from the original 40% to 30% of the statutory required contribution.

**STATE OF NEW JERSEY  
POLICE AND FIREMEN'S RETIREMENT SYSTEM**

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 percent, closed
Remaining amortization period	30 years
Actuarial assumptions:	
Interest rate	8.25%
Salary range	5.95%
Cost-of-living adjustments	1.80%

The actuarial assumptions used in the June 30, 2004 valuation reflect the actuarial assumptions developed from the three year experience investigation for the period ending June 30, 2001.

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

**STATE OF NEW JERSEY  
POLICE AND FIREMEN'S RETIREMENT SYSTEM**

Required Supplementary Information, Continued

Schedule of Employer Contributions

YEAR ENDED JUNE 30,	ANNUAL REQUIRED CONTRIBUTION	EMPLOYER CONTRIBUTIONS <sup>(1)</sup>	PERCENTAGE CONTRIBUTED
<b>State</b>			
1997	\$111,775,028	\$715,344,385 <sup>(2)</sup>	640.0%
1998	84,167,834	73,587,848 <sup>(3)</sup>	87.4%
1999	93,920,617	23,730,087 <sup>(3)</sup>	25.3%
2000	98,974,449	60,521,749 <sup>(3)</sup>	61.1%
2001	95,883,272	— <sup>(3)</sup>	0.0%
2002	103,580,989	— <sup>(3)</sup>	0.0%
2003	104,998,547	— <sup>(3)</sup>	0.0%
2004	118,297,232	22,215,429 <sup>(3)(4)</sup>	18.8%
2005	161,455,508	49,326,846 <sup>(4)</sup>	30.6%
<b>Local</b>			
1997	250,220,580	234,963,865	93.9%
1998	238,002,765	223,491,008	93.9%
1999	273,210,113	256,551,862	93.9%
2000	275,790,739	214,164,848	77.7%
2001	249,746,232	75,670,018	30.3%
2002	248,754,078	185,415 <sup>(3)</sup>	0.1%
2003	259,969,532	364,850 <sup>(3)</sup>	0.1%
2004	316,272,883	53,396,685 <sup>(5)</sup>	16.9%
2005	355,229,715	132,740,650 <sup>(5)</sup>	37.4%

**Notes to Schedule**

- (1) Local employer contributions include contributions made by the State to provide funding for certain benefits payable to local participants.
- (2) For the year ended June 30, 1997, the state portion of employer contributions exceeded the annual required contributions as a result of legislation that was enacted (Chapter 114, P.L. 1997), authorizing the New Jersey Economic Development Authority to issue bonds, notes or other obligations for the purpose of financing, in full or in part, the State of New Jersey's portion of the unfunded accrued liability under the State of New Jersey retirement systems.
- (3) In accordance with Chapter 115, P.L. 1997, all or a portion of the required contribution was funded by available excess valuation assets.
- (4) In accordance with the provisions of the Appropriation Act of 2003, the State fiscal years 2005 and 2004 statutory required contributions of \$164,422,819 and 111,077,147 have been reduced to \$49,326,846 and \$22,215,429, respectively.
- (5) In accordance with Chapter 108, P.L. 2003, the local fiscal years 2005 and 2004 statutory required contribution of \$331,851,624 and \$266,983,423 have been reduced to \$132,740,650 and \$53,396,685, respectively.

**STATE OF NEW JERSEY  
POLICE AND FIREMEN'S RETIREMENT SYSTEM**

Schedule of Changes in Fiduciary Net Assets by Fund

Year ended June 30, 2005

	MEMBERS' ANNUITY SAVINGS FUND	PENSION ACCUMULATION FUND	RETIREMENT RESERVE FUND	SPECIAL RESERVE FUND	TOTAL
<b>Additions:</b>					
Contributions:					
Members	276,195,076	—	—	—	276,195,076
Employers	—	473,227,921	—	—	473,227,921
Total contributions	276,195,076	473,227,921	—	—	749,422,997
Distribution of net investment income	—	525,508,967	696,718,807	161,168,612	1,383,396,386
Total additions	276,195,076	998,736,888	696,718,807	161,168,612	2,132,819,383
<b>Deductions:</b>					
Benefits	—	26,942,000	1,037,521,253	—	1,064,463,253
Refunds of contributions	5,336,735	272,301	—	—	5,609,036
Administrative expenses	—	5,964,075	—	—	5,964,075
Total deductions	5,336,735	33,178,376	1,037,521,253	—	1,076,036,364
Net increase (decrease) before transfers among reserves	270,858,341	965,558,512	(340,802,446)	161,168,612	1,056,783,019
Transfers among reserves:					
Retirements	(142,757,379)	(727,145,079)	869,902,458	—	—
Other	1,488,689	8,725,202	(10,213,891)	—	—
Net increase	129,589,651	247,138,635	518,886,121	161,168,612	1,056,783,019
Net assets held in trust for pension benefits:					
Beginning of year	2,269,456,484	5,966,852,715	7,962,500,646	154,386,487	16,353,196,332
End of year	2,399,046,135	6,213,991,350	8,481,386,767	315,555,099	17,409,979,351

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