



**STATE OF NEW JERSEY
AGENCY FUNDS**

Financial Statement and Schedules

June 30, 2007

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 402
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Princeton, NJ 08540-6227

Independent Auditors' Report

Director, Division of Pension and Benefits
State of New Jersey
Agency Funds:

We have audited the accompanying statement of fiduciary net assets of the State of New Jersey Agency Funds (the Funds) as of June 30, 2007. This financial statement is the responsibility of the Funds' management. Our responsibility is to express an opinion on this financial statement 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 statement is 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 Funds' internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position of the State of New Jersey Agency Funds as of June 30, 2007, in conformity with U.S. generally accepted accounting principles.

As discussed in notes 1 and 5 to the financial statement, the Funds adopted Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans* as of July 1, 2006.

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



Our audit was conducted for the purpose of forming an opinion on the financial statement that collectively comprise the Fund's basic financial statement. The combining schedule of fiduciary net assets information – agency, combining schedule of changes in fiduciary net assets information – agency, combining schedule of fiduciary net assets information – dental, and combining schedule of changes in fiduciary net assets information – dental (schedules 1 through 4) are presented for purposes of additional analysis and are not a required part of the basic financial statement. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statement and, in our opinion, are fairly stated in all material respects, in relation to the basic financial statement taken as a whole.

KPMG LLP

February 29, 2008

**STATE OF NEW JERSEY
AGENCY FUNDS**

Management's Discussion and Analysis

June 30, 2007

Our discussion and analysis of the financial performance of the State of New Jersey Agency Funds, which consist of the Alternate Benefit Program Fund, the Pension Adjustment Fund, and the Dental Expense Program Fund (the Funds), provides an overview of the Funds' financial position as of June 30, 2007. Please read it in conjunction with the basic financial statement and financial statement footnotes, which follow this discussion.

As a result of the implementation of the provisions of Governmental Accounting Standards Board (GASB) Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other than Pension Plans" (OPEB), effective fiscal year 2007, the Dental Expense Program Fund (DEP) is combined with the Alternate Benefit Program Fund (ABP) and the Pension Adjustment Fund (PAF) and reported as agency funds. For comparison purposes, management's discussion and analysis has been updated to reflect these changes by including the DEP 2006 amounts with the agency fund balances.

Financial Highlights

2007 – 2006

- The Funds' total additions are \$261.3 million, consisting of member and employer contributions of \$259.7 million and investment income of \$1.6 million.
- The Funds' total deductions are \$261.3 million, consisting of pension and insurance benefit expenses of \$262.3 million and other expenses of \$(1.0) million.

The Statement of Fiduciary Net Assets

This annual report consists of one financial statement: *The Statement of Fiduciary Net Assets*. This financial statement reports information about the Funds to help you assess whether the Funds, as a whole, have improved or declined as a result of the year's activities. The financial statement was prepared using the accrual basis of accounting, which recognizes increases and decreases in economic resources as soon as the underlying event or transaction occurred.

The Statement of Fiduciary Net Assets shows the balances in all of the assets and liabilities of the Funds at the end of the fiscal year. Liabilities include fiduciary net assets held for the State and the local participating employers to cover pension adjustment costs. The financial statement should be reviewed along with the information contained in the financial statement footnotes to determine whether the Funds are able to meet their financial obligations.

**STATE OF NEW JERSEY
AGENCY FUNDS**

Management's Discussion and Analysis

June 30, 2007

Financial Analysis

Summary of Fiduciary Net Assets

2007 – 2006

	<u>2007</u>	<u>2006</u>	<u>Increase</u>
Assets	\$ 57,415,161	48,172,923	9,242,238
Liabilities	<u>57,415,161</u>	<u>48,172,923</u>	<u>9,242,238</u>
Net assets	<u>\$ —</u>	<u>—</u>	<u>—</u>

The Funds' assets consist of cash, investments and contributions due from the State and local employers. Between fiscal years 2006 and 2007, total assets increased by \$9.2 million or 19.2%. This is attributable due to the growth in the fair value of investments of \$8.1 million and the increase in other contribution receivables of \$2.0 million.

The Funds' liabilities consist of pension reimbursements owed by the State of New Jersey to the state and county colleges in the ABP, outstanding life and long-term disability insurance premiums payable in the ABP, and claims payable in DEP. Between fiscal years 2006 and 2007, total liabilities increased by \$9.2 million or 19.2%. This is attributable to an increase in the State's reimbursement liability to the state and county colleges for the employer share in the ABP of \$3.4 million and the increase by \$5.7 million of DEP claims payable due to DEP membership increases.

Retirement System as a Whole

During the year, the Alternate Benefits Program Fund and the Pension Adjustment Fund received sufficient funding to meet their benefit obligations. The Dental Expense Program received contributions to meet this year's 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 Funds' finances and to show the Funds' 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
AGENCY FUNDS**

Statement of Fiduciary Net Assets

June 30, 2007

Assets:	
Cash and cash equivalents	\$ 692,405
Investments, at fair value:	
Cash Management Fund	<u>26,640,301</u>
Total investments	<u>26,640,301</u>
Receivables:	
State related employer contributions	1,801,378
Other contribution	<u>28,281,077</u>
Total receivables	<u>30,082,455</u>
Total assets	<u>\$ 57,415,161</u>
Liabilities:	
Accounts payable and accrued expenses	\$ 48,369,099
Cash overdraft	1,860,166
Assets held for local contributing employers	3,659,658
Pension adjustment payroll payable	589,500
Due to State of New Jersey	1,890,493
Due to other funds	<u>1,046,245</u>
Total liabilities	<u>\$ 57,415,161</u>

See accompanying independent auditors' report.

STATE OF NEW JERSEY
AGENCY FUNDS

Notes to Financial Statement

June 30, 2007

(1) Description of the Funds

Agency Funds

Pension Adjustment Fund (PAF)
Alternate Benefit Program Fund (ABP)
Dental Expense Program Fund (DEP)

The State of New Jersey Pension Adjustment Fund (PAF) is a pay-as-you-go multiple-employer defined benefit plan which was established in 1958 under the provisions of N.J.S.A. 43:3B. The PAF provides cost-of-living increases in retirement allowances to certain retired public employees and beneficiaries of retired members in the State of New Jersey Consolidated Police and Firemen's Pension Fund, State of New Jersey Prison Officers' Pension Fund, and State of New Jersey Central Pension Fund.

The State of New Jersey Alternate Benefit Program Fund (ABP) was established by legislation in 1965 through 1968 for full-time faculty members of public institutions of higher education. It was later expanded to include certain administrative and professional titles.

The State of New Jersey Dental Expense Program Fund (DEP) was established under the provision of N.J.S.A. 52:14-17.29. State employees and employees of participating employers may choose a traditional indemnity plan called Dental Expense Plan or prepaid dental HMOs called Dental Provider Organizations. Dental coverage is optional. In 2005, dental coverage was made available to State retirees and local retirees. The DEP – State is a single employer defined benefit other than pension plan (OPEB) and the DEP – Local is a multi-employer, cost-sharing defined benefit OPEB plan.

The financial statement of the Funds is included along with other state-administered fiduciary funds in the basic financial statements of the State of New Jersey.

As a result of the implementation of the provisions of Governmental Accounting Standards Board (GASB) Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other than Pension Plans", effective as of July 1, 2006, the Dental Expense Program Fund (DEP) is combined with the Alternate Benefit Program Fund (ABP) and the Pension Adjustment Fund (PAF) and reported as agency funds. See also note 5.

(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. Agency funds do not have a measurement focus, but they employ the accrual basis of accounting, which recognizes increases and decreases in economic resources as soon as the underlying event or transaction occurs.

**STATE OF NEW JERSEY
AGENCY FUNDS**

Notes to Financial Statement

June 30, 2007

The financial statement of the Funds conform to the provisions of Governmental Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contributions Plans*; and No. 43, *Financial Reporting for Post-employment Benefit Plans Other than Pension Plans*. Employer contributions are recognized when payable to the Funds. Benefits and refunds are recognized when due and payable in accordance with the terms of the Funds.

Membership and Contributing Employers:

Membership in the Funds consisted of the following as of June 30, 2007:

	<u>State</u>	<u>Local</u>	<u>Total</u>
Dental Expense Program Fund*	114,157	31,593	145,750
Alternate Benefit Program Fund**	13,751	3,243	16,994
Pension Adjustment Fund	103,560	104,701	208,261

* Active and retired participants

** Including those receiving long-term disability benefits

Valuation of Investments

Cash Management Fund units are stated at fair value using the closing bid price on the last day of trading during the period as determined by the Transfer Agent.

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

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

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

Investments

The Funds' investments as of June 30, 2007 consist of an interest in the Cash Management Funds. The Cash Management Fund is not evidenced by securities that exist in physical or book entry form held by the Funds, and it is unrated.

**STATE OF NEW JERSEY
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Notes to Financial Statement

June 30, 2007

Administrative Expenses

The Funds are administered by the State of New Jersey Division of Pensions and Benefits. Administrative expenses are paid by the State of New Jersey, who is responsible for such costs.

Vesting and Benefit Provisions

Vesting and Benefit Provisions – ABP

The Alternate Benefit Program provides retirement benefits, disability benefits, and group life insurance benefits to eligible participants. Retirement benefits are payable upon separation from service with no age or service requirements. However, distributions under age 55 are limited to employee contributions and accumulations. The remaining employer's contributions and earnings are available for distribution upon attaining age 55. Participants are immediately vested if the participant has an existing retirement account containing employer and employee contributions based on employment in public education, or is an active or vested member of a federal or state retirement system.

Benefit Provisions – PAF

The Pension Adjustment Program covers eligible retirees and survivors of the Consolidated Police and Firemen's Pension Fund, Prison Officers' Pension Fund, and Central Pension Fund. Eligible retirees and/or survivors are those who have been retired at least 24 months.

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

Chapter 4, P.L. 2001, provided increased benefits to certain members of the Consolidated Police and Firemen's Pension Fund who retired prior to December 29, 1989 with at least 25 years of creditable service. The benefit increase was effective November 1, 2001. 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.

As a result of this legislation, cost-of-living benefits payable to eligible retirees also increased. The State, not the local municipalities, is responsible for these costs.

Benefit Provisions – DEP – State and Local

The Program provides coverage to employees and their eligible dependents for dental services performed by a qualified dentist. Employees are eligible for coverage after 60 days of employment.

**STATE OF NEW JERSEY
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Notes to Financial Statement

June 30, 2007

(3) Contributions

Contribution Requirements – PAF

The contribution requirements were established by N.J.S.A. 43:3B-4 and are not actuarially determined. An actuarial valuation is not performed to determine the actuarial implications of the contribution requirements. The State of New Jersey and state-related employers' contributions required to provide the cost-of-living benefits under this program are determined and requested by the Division of Pensions and Benefits annually. The benefits are contributed only if the State of New Jersey appropriates the amount necessary to meet the cost of the increases to eligible retirees. If the State of New Jersey does not appropriate funds, then the cost-of-living portion of benefits to all retirees and beneficiaries of applicable state-administered retirement systems will cease.

The State made a contribution of \$1.49 million for fiscal year 2007.

Contribution Requirements – ABP

Members contribute a mandatory 5% of base or contractual salary that is tax deferred under the 414(h) provisions of the Internal Revenue code. Members are also permitted to make voluntary federal tax-deferred contributions under Internal Revenue Code Section 403(b). The State of New Jersey pays the employer contribution for all State and county employees participating in the plan. The employer contribution is based on 8% of base or contractual salary. The State of New Jersey is also responsible for the cost of noncontributory life insurance coverage and long term disability coverage for its plan members.

The State made a contribution of \$128.96 million for fiscal year 2007.

Contribution Requirements – DEP – State and Local

Contributions to pay for the premiums of participating employees in the Dental Expense Program Fund are collected from the State of New Jersey, local governmental and educational employers, active employees, and former and retired members who have elected to participate under the rules of COBRA. The cost of the premiums is shared by the State of New Jersey and active State employees. Former and retired employees who have chosen to participate under the rules of COBRA pay the full cost of the premium. The employers are billed for the full cost of coverage. The State of New Jersey provides contributions through State appropriations. These appropriations are distributed to the DEP on a biweekly and monthly basis. The active member share of the cost of premiums, which is included in the billing to the employers, is paid to the State on a biweekly and monthly basis. Members participating under COBRA remit their payments on a monthly basis. Retirees pay 100% of the overall dental cost.

The State made a contribution of \$37.94 million for fiscal year 2007.

**STATE OF NEW JERSEY
AGENCY FUNDS**

Notes to Financial Statement

June 30, 2007

(4) Income Tax Status

The Alternate Benefit Program Fund is a qualified plan as described in Section 403(b) of the Internal Revenue Code. The Pension Adjustment Fund is a fund of the State of New Jersey and is tax-exempt.

(5) Dental Expense Program Fund, Net Assets, Beginning of year - Restatement

As discussed in note 1, the Division of Pensions and Benefits implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other than Pension Plans" for the year ended June 30, 2007. As a result of the implementation the Dental Expense Program met the conditions to be reported as an agency fund. The net assets, beginning of year were restated as follows:

	<u>State</u>	<u>Local</u>	<u>Total</u>
July 1, 2006 Net assets (deficit), beginning of year	\$ 5,137,704	(2,827,749)	2,309,955
Liability	<u>(5,137,704)</u>	<u>2,827,749</u>	<u>(2,309,955)</u>
July 1, 2006 Net assets, beginning of year, as restated	<u>\$ —</u>	<u>—</u>	<u>—</u>

STATE OF NEW JERSEY
AGENCY FUNDS

Combining Schedule of Fiduciary Net Assets Information - Agency

June 30, 2007

	<u>Alternate Benefit Program Fund</u>	<u>Pension Adjustment Fund</u>	<u>Dental Expense Program Fund</u>	<u>Total Agency Funds</u>
Assets:				
Cash and cash equivalents	\$ —	692,405	—	692,405
Investments, at fair value:				
Cash Management Fund	<u>3,646,750</u>	<u>3,225,781</u>	<u>19,767,770</u>	<u>26,640,301</u>
Total investments	<u>3,646,750</u>	<u>3,225,781</u>	<u>19,767,770</u>	<u>26,640,301</u>
Receivables:				
State related employer contributions	—	1,801,378	—	1,801,378
Other contribution	<u>26,542,749</u>	<u>10,237</u>	<u>1,728,091</u>	<u>28,281,077</u>
Total receivables	<u>26,542,749</u>	<u>1,811,615</u>	<u>1,728,091</u>	<u>30,082,455</u>
Total assets	<u>\$ 30,189,499</u>	<u>5,729,801</u>	<u>21,495,861</u>	<u>57,415,161</u>
Liabilities:				
Accounts payable and accrued expenses	\$ 27,237,632	—	21,131,467	48,369,099
Cash overdraft	1,495,772	—	364,394	1,860,166
Assets held for local contributing employers	—	3,659,658	—	3,659,658
Pension adjustment payroll payable	—	589,500	—	589,500
Due to State of New Jersey	1,456,095	434,398	—	1,890,493
Due to other funds	<u>—</u>	<u>1,046,245</u>	<u>—</u>	<u>1,046,245</u>
Total liabilities	<u>\$ 30,189,499</u>	<u>5,729,801</u>	<u>21,495,861</u>	<u>57,415,161</u>

**STATE OF NEW JERSEY
AGENCY FUNDS**

Combining Schedule of Changes in Fiduciary Net Assets Information - Agency

Year ended June 30, 2007

	Alternate Benefit Program Fund	Pension Adjustment Fund	Dental Expense Program Fund	Total
Additions:				
Contributions:				
Members	\$ 805,344	—	65,176,517	65,981,861
Employers	145,797,690	8,883,029	39,006,222	193,686,941
Total contributions	<u>146,603,034</u>	<u>8,883,029</u>	<u>104,182,739</u>	<u>259,668,802</u>
Investment income:				
Net depreciation in fair value of investments	(67)	(71)	(411)	(549)
Interest	208,136	420,209	988,272	1,616,617
Total investment income	<u>208,069</u>	<u>420,138</u>	<u>987,861</u>	<u>1,616,068</u>
Total additions	<u>146,811,103</u>	<u>9,303,167</u>	<u>105,170,600</u>	<u>261,284,870</u>
Deductions:				
Benefits	145,347,004	8,519,028	108,474,036	262,340,068
Refunds of contributions and to the General Fund	1,464,099	784,139	(3,303,436)	(1,055,198)
Total deductions	<u>146,811,103</u>	<u>9,303,167</u>	<u>105,170,600</u>	<u>261,284,870</u>
Change in net assets	—	—	—	—
Net assets – Beginning of year	—	—	—	—
Net assets – End of year	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>—</u>

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AGENCY FUNDS**

Combining Schedule of Fiduciary Net Assets Information - Dental

June 30, 2007

	Dental Expense Program Fund State	Dental Expense Program Fund Local	Total Dental Expense Program Fund
	<u> </u>	<u> </u>	<u> </u>
Assets:			
Investments, at fair value:			
Cash Management Fund	\$ 18,463,454	1,304,316	19,767,770
Total investments	<u>18,463,454</u>	<u>1,304,316</u>	<u>19,767,770</u>
Receivables:			
Contributions	<u>1,711,120</u>	<u>16,971</u>	<u>1,728,091</u>
Total receivables	<u>1,711,120</u>	<u>16,971</u>	<u>1,728,091</u>
Total assets	<u>\$ 20,174,574</u>	<u>1,321,287</u>	<u>21,495,861</u>
Liabilities:			
Accounts payable and accrued expenses	\$ 20,150,333	981,134	21,131,467
Cash overdraft	<u>24,241</u>	<u>340,153</u>	<u>364,394</u>
Total liabilities	<u>\$ 20,174,574</u>	<u>1,321,287</u>	<u>21,495,861</u>

**STATE OF NEW JERSEY
AGENCY FUNDS**

Combining Schedule of Changes in Fiduciary Net Assets Information - Dental

Year ended June 30, 2007

	Dental Expense Program Fund State	Dental Expense Program Fund Local	Total Dental Expense Program Fund
Additions:			
Contributions:			
Members	\$ 44,635,094	20,541,423	65,176,517
Employers	37,950,886	1,055,336	39,006,222
Total contributions	<u>82,585,980</u>	<u>21,596,759</u>	<u>104,182,739</u>
Investment income:			
Net appreciation in fair value of investments	(390)	(21)	(411)
Interest	938,858	49,414	988,272
Total investment income	<u>938,468</u>	<u>49,393</u>	<u>987,861</u>
Total additions	<u>83,524,448</u>	<u>21,646,152</u>	<u>105,170,600</u>
Deductions:			
Benefits	87,060,139	21,413,897	108,474,036
Refunds of contributions and to the General Fund	(3,535,691)	232,255	(3,303,436)
Total deductions	<u>83,524,448</u>	<u>21,646,152</u>	<u>105,170,600</u>
Change in net assets	—	—	—
Net assets – Beginning of year, as restated	<u>—</u>	<u>—</u>	<u>—</u>
Net assets – End of year	<u>\$ —</u>	<u>—</u>	<u>—</u>