



**STATE OF NEW JERSEY
CENTRAL PENSION FUND**

Financial Statements

June 30, 2007 and 2006

(With Independent Auditors' Report Thereon)



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

Independent Auditors' Report

New Jersey State House Commission
State of New Jersey
Central Pension Fund:

We have audited the accompanying statements of fiduciary net assets of the State of New Jersey Central Pension Fund (the Fund) as of June 30, 2007 and 2006, and the related statements of changes in fiduciary net assets for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State of New Jersey Central Pension Fund as of June 30, 2007 and 2006, and the changes in its financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

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

KPMG LLP

February 29, 2008

**STATE OF NEW JERSEY
CENTRAL PENSION FUND**

Management's Discussion and Analysis

June 30, 2007 and 2006

Our discussion and analysis of the financial performance of the Central Pension Fund (the Fund) provides an overview of the Fund's financial activities for the fiscal years ended June 30, 2007 and 2006. Please read it in conjunction with the basic financial statements and financial statement footnotes, which follow this discussion.

Financial Highlights

2007 – 2006

- Additions for the year are \$460,569, which are comprised of employer contributions of \$454,305 including contributions from the Pension Adjustment Fund, and investment income of \$6,264.
- Deductions for the year are \$460,569 which represent benefit and refund payments.

2006 – 2005

- Additions for the year were \$455,238, which are comprised of employer contributions of \$450,499 including contributions from the Pension Adjustment Fund, and investment income of \$4,739.
- Deductions for the year were \$455,238 which represent benefit and refund payments.

The Statements of Fiduciary Net Assets and the Statements of Changes in Fiduciary Net Assets

This annual report consists of two financial statements: *The Statements of Fiduciary Net Assets and The Statements of Changes in Fiduciary Net Assets*. These financial statements report information about the Fund and about its activities to help you assess whether the Fund, as a whole, has improved or declined as a result of the year's activities. The financial statements were prepared using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the period they are earned, and expenses are recorded in the year they are incurred, regardless of when cash is received or paid.

The Statements of Fiduciary Net Assets show the balances 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 Statements of Changes in Fiduciary Net Assets* show the results of financial operations for the year. The statements provide an explanation for the change in the Fund's fiduciary net assets since the prior year. These two financial statements should be reviewed along with the information contained in the financial statement footnotes, to determine whether the Fund is becoming financially stronger or weaker.

**STATE OF NEW JERSEY
CENTRAL PENSION FUND**

Management's Discussion and Analysis

June 30, 2007 and 2006

Financial Analysis

Summary of Fiduciary Net Assets

2007 – 2006

	<u>2007</u>	<u>2006</u>	<u>Decrease</u>
Assets	\$ 54,173	74,054	(19,881)
Liabilities	<u>54,173</u>	<u>74,054</u>	<u>(19,881)</u>
Net assets	<u>\$ —</u>	<u>—</u>	<u>—</u>

The Fund's assets mainly consist of cash and investments. Between fiscal years 2006 and 2007, total assets decreased by 26.8% because there were no employer contributions receivable due at the end of the 2007 fiscal year.

Liabilities mainly consist of pension benefit payments owed to retirees and beneficiaries and refunds of unused state appropriations to the general fund. Total liabilities decreased by 26.8% mainly due to fewer retiree and beneficiaries receiving benefits compared to last year.

The Fund has no net assets held in trust for pension benefits.

2006 – 2005

	<u>2006</u>	<u>2005</u>	<u>Increase</u>
Assets	\$ 74,054	55,152	18,902
Liabilities	<u>74,054</u>	<u>55,152</u>	<u>18,902</u>
Net assets	<u>\$ —</u>	<u>—</u>	<u>—</u>

The Fund's assets mainly consist of cash and investments. Between fiscal years 2005 and 2006, total assets increased by 34.3% due to an increase in employer contribution receivables.

Liabilities mainly consist of pension benefit payments owed to retirees and beneficiaries and refunds of unused state appropriations to the general fund. Total liabilities increased by 34.3% mainly due to an increase in unused appropriation funds returned to the State General Fund. Fewer retiree and beneficiaries are receiving benefits compared to last year.

The Fund has no net assets held in trust for pension benefits.

**STATE OF NEW JERSEY
CENTRAL PENSION FUND**

Management's Discussion and Analysis

June 30, 2007 and 2006

Summary of Additions to Fiduciary Net Assets

2007 – 2006

	<u>2007</u>	<u>2006</u>	<u>Increase</u>
Contributions	\$ 454,305	450,499	3,806
Investment income	6,264	4,739	1,525
Totals	<u>\$ 460,569</u>	<u>455,238</u>	<u>5,331</u>

Additions consist of contributions from the State to cover pension benefit payments, contributions from the Pension Adjustment Fund to cover cost-of-living adjustments, and earnings from investment activities. Employer contributions slightly increased by 0.8% between fiscal year 2006 and 2007. Investment income increased by 32.2% due to a higher monthly CMF balance.

2006 – 2005

	<u>2006</u>	<u>2005</u>	<u>Increase (decrease)</u>
Contributions	\$ 450,499	456,126	(5,627)
Investment income	4,739	2,276	2,463
Totals	<u>\$ 455,238</u>	<u>458,402</u>	<u>(3,164)</u>

Additions consist of contributions from the State to cover pension benefit payments, contributions from the Pension Adjustment Fund to cover cost-of-living adjustments, and earnings from investment activities. Total contributions decreased by 0.7% between fiscal year 2005 and 2006. Investment income increased by 108.2% due to a higher return on investments.

Summary of Deductions from Fiduciary Net Assets

2007 – 2006

	<u>2007</u>	<u>2006</u>	<u>Increase (decrease)</u>
Benefits of contributions	\$ 426,800	430,527	(3,727)
Refunds	33,769	24,711	9,058
Totals	<u>\$ 460,569</u>	<u>455,238</u>	<u>5,331</u>

Deductions consist of pension benefit payments to retirees and beneficiaries and refunds of contributions. Benefit expense decreased by 0.9% mainly due to fewer retiree and beneficiaries who are receiving benefits. Refunds, representing the excess of contributions and investment interest over benefit payments, increased by 36.7%.

**STATE OF NEW JERSEY
CENTRAL PENSION FUND**

Management's Discussion and Analysis

June 30, 2007 and 2006

2006 – 2005

	<u>2006</u>	<u>2005</u>	<u>Increase (decrease)</u>
Benefits of contributions	\$ 430,527	443,764	(13,237)
Refunds	24,711	14,638	10,073
Totals	<u>\$ 455,238</u>	<u>458,402</u>	<u>(3,164)</u>

Deductions consist of pension benefit payments to retirees and beneficiaries and refunds of contributions. Benefit expense decreased by 3.0% mainly due to fewer retiree and beneficiaries who are receiving benefits. Refunds, representing the excess of contributions and investment interest over benefit payments, increased by 68.8%.

Retirement System as a Whole

The Fund is maintained on a pay-as-you-go basis. In fiscal year 2007 and 2006, sufficient funding was provided to meet the benefit obligations incurred by the Fund.

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
CENTRAL PENSION FUND**

Statements of Fiduciary Net Assets

June 30, 2007 and 2006

	2007	2006
Assets:		
Cash	\$ 27,172	—
Investments, at fair value:		
Cash Management Fund	26,975	34,926
Receivables:		
Employer	—	39,094
Accrued interest	26	34
	26	39,128
Total receivables		
Total assets	54,173	74,054
Liabilities:		
Accounts payable and accrued expenses	46,587	24,716
Retirement benefits payable	7,586	29,430
Cash overdraft	—	19,908
	54,173	74,054
Total liabilities		
Net assets:		
Held in trust for pension benefits	\$ —	—

See accompanying notes to financial statements.

**STATE OF NEW JERSEY
CENTRAL PENSION FUND**

Statements of Changes in Fiduciary Net Assets

Years ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Additions:		
Contributions:		
Employers	\$ 426,071	424,786
Pension Adjustment Fund	28,234	25,713
Total contributions	<u>454,305</u>	<u>450,499</u>
Investment income:		
Interest	6,264	4,739
Total additions	<u>460,569</u>	<u>455,238</u>
Deductions:		
Benefits	426,800	430,527
Refunds of contributions	33,769	24,711
Total deductions	<u>460,569</u>	<u>455,238</u>
Change in net assets	—	—
Net assets – beginning of year	<u>—</u>	<u>—</u>
Net assets – end of year	<u><u>\$ —</u></u>	<u><u>—</u></u>

See accompanying notes to financial statements.

**STATE OF NEW JERSEY
CENTRAL PENSION FUND**

Notes to Financial Statements

June 30, 2007 and 2006

(1) Description of the Fund

The State of New Jersey Central Pension Fund (the Fund) is a “pay-as-you-go” single-employer defined benefit plan for payment of benefits under the various state statutes. 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 allowances under the following series of noncontributory pension acts:

Veterans Act Pensioners	N.J.S.A. 43:4-1 to 4-6
Heath Pension Act	N.J.S.A. 43:5-1 to 5-4
Pension to Widows of Governors	N.J.S.A. 43:8-2
Disabled Veterans Pension; Surviving Spouse of Veterans	N.J.S.A. 38:18-1 to 18-2 and N.J.S.A. 38:18A-1
Special Act	N.J.S.A. 43:5A to 5A-1

Each of the various statutes comprising the Fund prescribes the condition for payment of such pension and designates the agencies or officers having the authority to grant pensions thereunder.

The New Jersey State House Commission and the New Jersey Department of Defense are responsible for determining who is eligible to participate in the Fund. At June 30, 2007 and 2006, the number of retirees and beneficiaries receiving benefits from the Fund totaled 317 and 325, respectively. There are no active employees covered by the Fund.

Benefit Provisions

Benefits are payable under various State of New Jersey acts in an amount equal to one-half of the compensation received by the participant for his/her service. In the case of Disabled Veterans’ Pensions and Surviving Spouses, the amount is \$62.50 per month.

Pension Adjustment Program

Pursuant to N.J.S.A. 43:3B, Health Act and Veterans Act pensioners 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 and paid from the State of New Jersey Pension Adjustment Fund which is maintained on a “pay-as-you-go” basis by state appropriation. These benefits are not funded through the Central Pension Fund.

**STATE OF NEW JERSEY
CENTRAL PENSION FUND**

Notes to Financial Statements

June 30, 2007 and 2006

(2) Summary of Significant Accounting Policies

Measurement Focus and Basis of Accounting

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

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

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 Fund, through the State Treasurer, and custodian banks as agents for the Fund. State laws and policies set forth the requirements of such agreements and other particulars as to the size of the custodial institutions, amount of the portfolio to be covered by the agreements, and other pertinent matters.

Investments

The Funds' investments as of June 30, 2007 and 2006 consist of an interest in the Cash Management Fund. The Cash Management Fund is not evidenced by securities that exist in physical or book entry form held by the Fund, and it is unrated.

(3) Contributions

The State of New Jersey makes an annual appropriation payment to the Fund to pay current year benefits. The contribution requirements were established by the aforementioned statutes and are not actuarially determined. An actuarial valuation is not performed to determine the actuarial implications of the contribution requirements.

**STATE OF NEW JERSEY
CENTRAL PENSION FUND**

Notes to Financial Statements

June 30, 2007 and 2006

The contribution amount paid by the State of New Jersey for the fiscal years ended June 30, 2007 and 2006 was \$426 thousand and \$425 thousand, respectively.

(4) 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.