



**STATE OF NEW JERSEY  
AGENCY FUNDS**

Financial Statements and Schedules

June 30, 2008 and 2007

(With Independent Auditors' Report Thereon)



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

## **Independent Auditors' Report**

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

We have audited the accompanying statements of fiduciary net assets of the State of New Jersey Agency Funds (the Funds) as of June 30, 2008 and 2007. These financial statements are the responsibility of the Funds' 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 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above presents fairly, in all material respects, the financial position of the State of New Jersey Agency Funds as of June 30, 2008 and 2007, 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.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Funds' basic financial statements. The 2008 combining schedule of balance sheet information – fiduciary funds – agency funds, schedule of changes in fiduciary net assets information – agency funds, combining schedule of balance sheet information – agency fund – dental expense program, and combining schedule of changes in fiduciary net assets information – agency fund – dental expense program (schedules 1 through 4) are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects, in relation to the basic 2008 financial statements taken as a whole.

**KPMG LLP**

April 29, 2009

**STATE OF NEW JERSEY  
AGENCY FUNDS**

Management's Discussion and Analysis

June 30, 2008 and 2007

Our discussion and analysis of the financial performance of the State of New Jersey Agency Funds, which consist of the Alternate Benefit Program (ABP) Fund, the Pension Adjustment Fund (PAF), and the Dental Expense Program (DEP) Fund (the Funds), provides an overview of the Funds' financial position as of June 30, 2008 and 2007. Please read it in conjunction with the basic financial statements and financial statement footnotes, which follow this discussion.

**Financial Highlights**

*2008 – 2007*

- The Funds' total additions are \$275.1 million, consisting of member and employer contributions of \$273.5 million and investment income of \$1.6 million.
- The Funds' total deductions are \$275.1 million, consisting of pension and insurance benefit expenses of \$262.5 million and other expenses of \$12.6 million.

*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 Statements of Fiduciary Net Assets***

This annual report consists of one financial statement: *The Statements 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 Statements 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  
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Management's Discussion and Analysis

June 30, 2008 and 2007

**Financial Analysis**

*Summary of Fiduciary Net Assets*

**2008 – 2007**

	<b>2008</b>	<b>2007</b>	<b>Increase</b>
Assets	\$ 71,337,297	57,415,161	13,922,136
Liabilities	71,337,297	57,415,161	13,922,136
Net assets	\$ —	—	—

The Funds' assets consist of cash, investments and contributions due from the State and local employers. Between fiscal years 2007 and 2008, total assets increased by \$13.9 million or 24.2%. This is mainly attributable to the increase in the amount invested in the Cash Management Fund (CMF) of \$10.7 million and the increase in other contribution receivables of \$3.3 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 insurance premiums payable in the ABP, claims payable in DEP and liabilities of the PAF. Between fiscal years 2007 and 2008, total liabilities increased by \$13.9 million or 24.2%. This is mainly attributable to an increase in the State's reimbursement liability to the state and county colleges for the employer share in the ABP of \$6.9 million and an increase of \$6.7 million of DEP claims payable. These liabilities are classified on the balance sheet as accounts payable and accrued expenses.

**2007 – 2006**

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

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, claims payable in DEP and liabilities of the PAF. 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.

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Management's Discussion and Analysis

June 30, 2008 and 2007

**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**

Statements of Fiduciary Net Assets

June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>Assets:</b>		
Cash and cash equivalents	\$ 1,019,620	692,405
Investments, at fair value:		
Cash Management Fund	<u>37,340,054</u>	<u>26,640,301</u>
Total investments	<u>37,340,054</u>	<u>26,640,301</u>
<b>Receivables:</b>		
State related employer contributions	1,374,460	1,801,378
Other contribution	<u>31,603,163</u>	<u>28,281,077</u>
Total receivables	<u>32,977,623</u>	<u>30,082,455</u>
Total assets	<u>\$ 71,337,297</u>	<u>57,415,161</u>
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 61,974,743	48,369,099
Cash overdraft	407,618	1,860,166
Assets held for local contributing employers	3,427,362	3,659,658
Pension adjustment payroll payable	591,835	589,500
Due to State of New Jersey	4,071,269	1,890,493
Due to other funds	<u>864,470</u>	<u>1,046,245</u>
Total liabilities	<u>\$ 71,337,297</u>	<u>57,415,161</u>

See accompanying notes to financial statements.

**STATE OF NEW JERSEY  
AGENCY FUNDS**

Notes to Financial Statements

June 30, 2008 and 2007

**(1) Description of the Funds**

***Agency Funds***

The Pension Adjustment Fund (PAF), Alternate Benefit Program Fund (ABP), and Dental Expense Program Fund (DEP) (the Funds) are reported as agency funds. The financial statements of the Funds are included along with other state-administered fiduciary funds in the basic financial statements of the State of New Jersey.

The State of New Jersey 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 (CPFPPF), State of New Jersey Prison Officers’ Pension Fund (POPF), and State of New Jersey Central Pension Fund (CPF).

The State of New Jersey 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 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 other post-employment benefit (OPEB) plan and the DEP – Local is a multi-employer, cost-sharing defined OPEB plan.

**(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.

***Membership and Contributing Employers***

Membership in the Funds consisted of the following as of June 30, 2008 and 2007:

	<b>2008</b>		
	<b>State</b>	<b>Local</b>	<b>Total</b>
Dental Expense Program Fund*	114,502	34,723	149,225
Alternate Benefit Program Fund**	13,592	2,954	16,546
Pension Adjustment Fund	108,033	107,487	215,520

\* Active and retired participants

\*\* Including those receiving long-term disability benefits

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	<b>2007</b>		
	<b>State</b>	<b>Local</b>	<b>Total</b>
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, Department of the Treasury, Division of Investment, under the jurisdiction of the State Investment Council, has the investment responsibility for all funds administered by the State of New Jersey Division of Pensions and Benefits. All investments must conform to standards set by state law.

The purchase, sale, receipt of income, and other transactions affecting investments are governed by custodial agreements between the 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, 2008 and 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.

***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.

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***Vesting and Benefit Provisions***

**Vesting and Benefit Provisions – ABP**

ABP 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**

PAF covers eligible retirees and survivors of the CPFPPF, POPF and CPF. 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 31<sup>st</sup> 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 CPFPPF 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 DEP 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.

**(3) Contributions**

***Contribution Requirements – PAF***

The contribution requirements were established by N.J.S.A. 43:3B-4. The State of New Jersey is required to make an annual appropriation payment to fund the cost-of-living increases payable to retirees and beneficiaries of retired members in the CPFPPF, POPF and CPF. Funding is on a pay-as-you-go basis.

The State made a contribution of \$1.49 million for each fiscal year ended June 30, 2008 and 2007.

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June 30, 2008 and 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 non-contributory life insurance coverage and disability coverage for its plan members.

The State made a contribution of \$136.82 million, excluding non-contributory group insurance (NCGI) of \$14.02 million and short-term disability of \$4.62 million for fiscal year 2008. The State made a contribution of \$128.96 million, excluding NCGI of \$13.19 million and short-term disability of \$3.65 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 \$38.16 million, excluding administrative revenue of \$0.01 million for fiscal year 2008. The local contribution was \$1.35 million for fiscal year 2008. The State made a contribution of \$37.94 million, excluding administrative revenue of \$0.01 million for fiscal year 2007. The local contribution was \$1.05 million for fiscal year 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.

**STATE OF NEW JERSEY  
AGENCY FUNDS**

Combining Schedule of Balance Sheet Information - Fiduciary Funds - Agency Funds

June 30, 2008

	<u>Alternate Benefit Program Fund</u>	<u>Pension Adjustment Fund</u>	<u>Dental Expense Program Fund</u>	<u>Total Agency Funds</u>
<b>Assets:</b>				
Cash and cash equivalents	\$ 355,364	664,256	—	1,019,620
Investments, at fair value:				
Cash Management Fund	<u>7,083,286</u>	<u>3,202,059</u>	<u>27,054,709</u>	<u>37,340,054</u>
Total investments	<u>7,083,286</u>	<u>3,202,059</u>	<u>27,054,709</u>	<u>37,340,054</u>
<b>Receivables:</b>				
State related employer contributions	—	1,374,460	—	1,374,460
Other contribution	<u>30,418,863</u>	<u>31,143</u>	<u>1,153,157</u>	<u>31,603,163</u>
Total receivables	<u>30,418,863</u>	<u>1,405,603</u>	<u>1,153,157</u>	<u>32,977,623</u>
Total assets	<u>\$ 37,857,513</u>	<u>5,271,918</u>	<u>28,207,866</u>	<u>71,337,297</u>
<b>Liabilities:</b>				
Accounts payable and accrued expenses	\$ 34,174,495	—	27,800,248	61,974,743
Cash overdraft	—	—	407,618	407,618
Assets held for local contributing employers	—	3,427,362	—	3,427,362
Pension adjustment payroll payable	—	591,835	—	591,835
Due to State of New Jersey	3,683,018	388,251	—	4,071,269
Due to other funds	<u>—</u>	<u>864,470</u>	<u>—</u>	<u>864,470</u>
Total liabilities	<u>\$ 37,857,513</u>	<u>5,271,918</u>	<u>28,207,866</u>	<u>71,337,297</u>

**STATE OF NEW JERSEY  
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Schedule of Changes in Fiduciary Net Assets Information - Agency Funds

Year ended June 30, 2008

	<u>Alternate Benefit Program Fund</u>	<u>Pension Adjustment Fund</u>	<u>Dental Expense Program Fund</u>	<u>Total Agency Funds</u>
Additions:				
Contributions:				
Members	\$ 889,420	—	70,172,381	71,061,801
Employers	<u>155,463,314</u>	<u>7,484,334</u>	<u>39,520,265</u>	<u>202,467,913</u>
Total contributions	<u>156,352,734</u>	<u>7,484,334</u>	<u>109,692,646</u>	<u>273,529,714</u>
Investment income:				
Net appreciation in fair value of investments	98	72	477	647
Interest	<u>250,097</u>	<u>297,041</u>	<u>1,066,815</u>	<u>1,613,953</u>
Total investment income	<u>250,195</u>	<u>297,113</u>	<u>1,067,292</u>	<u>1,614,600</u>
Total additions	<u>156,602,929</u>	<u>7,781,447</u>	<u>110,759,938</u>	<u>275,144,314</u>
Deductions:				
Benefits	152,925,082	7,627,561	101,998,871	262,551,514
Refunds of contributions and to the general fund	<u>3,677,847</u>	<u>153,886</u>	<u>8,761,067</u>	<u>12,592,800</u>
Total deductions	<u>156,602,929</u>	<u>7,781,447</u>	<u>110,759,938</u>	<u>275,144,314</u>
Change in net assets	—	—	—	—
Net assets – Beginning of year	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net assets – End of year	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>—</u>

**STATE OF NEW JERSEY  
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Combining Schedule of Balance Sheet  
Information - Agency Fund - Dental Expense Program

June 30, 2008

	<u>State</u>	<u>Local</u>	<u>Total Agency Fund - Dental Expense Program</u>
<b>Assets:</b>			
Investments, at fair value:			
Cash Management Fund	\$ 24,105,517	2,949,192	27,054,709
Total investments	<u>24,105,517</u>	<u>2,949,192</u>	<u>27,054,709</u>
Receivables:			
Contributions	1,208,287	(55,130)	1,153,157
Total receivables	<u>1,208,287</u>	<u>(55,130)</u>	<u>1,153,157</u>
Total assets	\$ <u>25,313,804</u>	<u>2,894,062</u>	<u>28,207,866</u>
<b>Liabilities:</b>			
Accounts payable and accrued expenses	\$ 25,118,657	2,681,591	27,800,248
Cash overdraft	195,147	212,471	407,618
Total liabilities	\$ <u>25,313,804</u>	<u>2,894,062</u>	<u>28,207,866</u>

**STATE OF NEW JERSEY  
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Combining Schedule of Changes in Fiduciary Net Assets  
Information - Agency Fund - Dental Expense Program

Year ended June 30, 2008

	<u>State</u>	<u>Local</u>	<u>Total Agency Fund - Dental Expense Program</u>
Additions:			
Contributions:			
Members	\$ 45,797,867	24,374,514	70,172,381
Employers	38,165,776	1,354,489	39,520,265
Total contributions	<u>83,963,643</u>	<u>25,729,003</u>	<u>109,692,646</u>
Investment income:			
Net appreciation in fair value of investments	453	24	477
Interest	1,013,474	53,341	1,066,815
Total investment income	<u>1,013,927</u>	<u>53,365</u>	<u>1,067,292</u>
Total additions	<u>84,977,570</u>	<u>25,782,368</u>	<u>110,759,938</u>
Deductions:			
Benefits	78,563,457	23,435,414	101,998,871
Refunds of contributions and to the general fund	6,414,113	2,346,954	8,761,067
Total deductions	<u>84,977,570</u>	<u>25,782,368</u>	<u>110,759,938</u>
Change in net assets	—	—	—
Net assets – Beginning of year	<u>—</u>	<u>—</u>	<u>—</u>
Net assets – End of year	<u>\$ —</u>	<u>—</u>	<u>—</u>