



**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Financial Statements and Schedules

June 30, 2006 and 2005

(With Independent Auditors' Report Thereon)



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

Independent Auditors' Report

State House Commission
State of New Jersey
Judicial Retirement System:

We have audited the accompanying statements of fiduciary net assets of the State of New Jersey Judicial Retirement System (the System) as of June 30, 2006 and 2005, and the related statements of changes in fiduciary net assets for the years 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 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 System'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 Judicial Retirement System as of June 30, 2006 and 2005, 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 and the supplementary information included in the schedule of funding progress and schedule of employer contributions (Schedules 1 and 2) 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 audits were made for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The 2006 schedule of changes in fiduciary net assets by fund (Schedule 3) 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

January 25, 2007

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Management's Discussion and Analysis

June 30, 2006 and 2005

Our discussion and analysis of the Judicial Retirement System (the System) financial performance provides an overview of the System's financial activities for the fiscal years ended June 30, 2006 and 2005. Please read it in conjunction with the basic financial statements and financial statement footnotes which follow this discussion.

FINANCIAL HIGHLIGHTS

2006 - 2005

- Net assets held in trust for pension benefits increased by \$10,693,382 as a result of fiscal year 2006's operations from \$327,598,876 to \$338,292,258.
- Additions for the year were \$42,030,574, which are comprised of member and employer pension contributions of \$9,555,469 and investment income of \$32,475,105.
- Deductions for the year were \$31,337,192, which are comprised of benefit and refund payments of \$31,157,805 and administrative expenses of \$179,387.

2005 - 2004

- Net assets held in trust for pension benefits increased by \$5,218,716 as a result of fiscal year 2005's operations from \$322,380,160 to \$327,598,876.
- Additions for the year were \$34,406,428, which are comprised of member and employer pension contributions of \$7,643,018 and investment income of \$26,763,410.
- Deductions for the year were \$29,187,712, which are comprised of benefit payments of \$29,018,355 and administrative expenses of \$169,357.

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 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 Statements 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 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 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

SCHEDULE OF FIDUCIARY NET ASSETS

2006 - 2005

	2006	2005	Increase (Decrease)
Assets	\$404,262,039	\$382,725,780	\$21,536,259
Liabilities	65,969,781	55,126,904	10,842,877
Net Assets	\$338,292,258	\$327,598,876	\$10,693,382

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Management's Discussion and Analysis

June 30, 2006 and 2005

The System's assets mainly consist of cash, securities lending collateral, investments, and contributions due from members, and accrued investment income. Between fiscal years 2005 and 2006, total assets increased by \$21.5 million or 5.6% due to an increase in fair value of investments and securities lending collateral.

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 \$10.8 million or 19.7% over last year due to an increase in retirement benefits payable to increased number of retirees and also an increase in securities lending collateral and rebates payable.

Net assets held in trust for pension benefits increased by \$10.7 million or 3.3%.

2005 - 2004

	2005	2004	Increase (Decrease)
Assets	\$382,725,780	\$370,795,399	\$11,930,381
Liabilities	55,126,904	48,415,239	6,711,665
Net Assets	\$327,598,876	\$322,380,160	\$5,218,716

Between fiscal years 2004 and 2005, total assets increased by \$11.9 million or 3.2% due to increase in fair value of investments.

Total liabilities increased by \$6.7 million or 13.9% over last year due to increase in retirement benefits payable to increased number of retirees.

Net assets held in trust for pension benefits increased by \$5.2 million or 1.6%.

ADDITIONS TO FIDUCIARY NET ASSETS

2006 - 2005

	2006	2005	Increase (Decrease)
Member Contributions	\$1,583,469	\$1,480,942	\$102,527
Employer Contributions	7,972,000	6,162,076	1,809,924
Investment & Other	32,475,105	26,763,410	5,711,695
Totals	\$42,030,574	\$34,406,428	\$7,624,146

Additions primarily consist of member and employer contributions and earnings from investment activities. Member contributions increased by \$0.1 million or 6.9% due to an increased number of active members.

The State made a required contribution of \$8.0 million to satisfy the actuarially accrued liability in fiscal year 2006.

Investment & other revenues increased by \$5.7 million or 21.3% due to an increase in net appreciation in fair value of investments and a higher rate of return on investments.

The total investment return for all pension funds was estimated to be 9.7% compared to 8.7% in the prior year.

2005 - 2004

	2005	2004	Increase (Decrease)
Member Contributions	\$1,480,942	\$1,795,721	\$(314,779)
Employer Contributions	6,162,076	5,084,315	1,077,761
Investment & Other	26,763,410	43,476,173	(16,712,763)
Totals	\$34,406,428	\$50,356,209	\$(15,949,781)

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Management's Discussion and Analysis

June 30, 2006 and 2005

Member contributions decreased by 17.5% due to a decreased number of active members.

The State made a required contribution of \$6.2 million to satisfy the actuarially accrued liability in fiscal year 2005. Contributions were not required between 1997 and 2002 due to Pension Security legislation passed in 1997.

Investment & other revenues decreased by \$16.7 million or 38.4% due to a decrease in net appreciation in fair value of investments.

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

DEDUCTIONS FROM FIDUCIARY NET ASSETS
2006 - 2005

	2006	2005	Increase (Decrease)
Benefits	\$31,137,599	\$29,018,355	\$2,119,244
Refunds & Adjustments	20,206	0	20,206
Administrative Expenses	179,387	169,357	10,030
Totals	\$31,337,192	\$29,187,712	\$2,149,480

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 \$2.1 million or 7.3% primarily because the increased number of retired members are receiving benefits. Administrative expenses slightly increased by 5.9%.

2005 - 2004

	2005	2004	Increase (Decrease)
Benefits	\$29,018,355	\$27,064,394	\$1,953,961
Refunds & Adjustments	0	139,889	(139,889)
Administrative Expenses	169,357	169,824	(467)
Totals	\$29,187,712	\$27,374,107	\$1,813,605

Benefit payments increased by \$2.0 million or 7.2% primarily because the increased number of retired members are receiving benefits. There were no refunds in fiscal year 2005 because there were no employer benefit transfers to other retirement systems. Administrative expenses slightly decreased by 0.3%.

RETIREMENT SYSTEM AS A WHOLE

The overall funded ratios are 79.3% for fiscal year 2006 and 83.4% for 2005.

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
JUDICIAL RETIREMENT SYSTEM**

Statements of Fiduciary Net Assets

June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Assets:		
Cash	\$ 42,023	33,576
Securities Lending Collateral	64,982,023	52,589,726
Investments, at fair value:		
Cash Management Fund	6,501,851	20,006,810
Common Pension Fund A	165,118,224	167,553,524
Common Pension Fund B	85,653,839	73,835,513
Common Pension Fund D	65,255,311	63,009,709
Common Pension Fund E	11,289,908	—
Mortgage Backed Securities	2,269,255	3,319,369
Total investments	<u>336,088,388</u>	<u>327,724,925</u>
Receivables:		
Contributions:		
Members	71,828	70,225
Employer	42,484	—
Accrued interest and dividends	2,266,896	1,688,575
Members' loans	714,410	618,753
Other	53,987	—
Total receivables	<u>3,149,605</u>	<u>2,377,553</u>
Total assets	<u>404,262,039</u>	<u>382,725,780</u>
Liabilities:		
Accounts payable and accrued expenses	12,520	50,719
Retirement benefits payable	975,238	2,486,459
Securities lending collateral and rebates payable	<u>64,982,023</u>	<u>52,589,726</u>
Total liabilities	<u>65,969,781</u>	<u>55,126,904</u>
Net Assets :		
Held in trust for pension benefits	<u>\$ 338,292,258</u>	<u>327,598,876</u>

See schedule of funding progress on pages 23-24.

See accompanying notes to financial statements.

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Statements of Changes in Fiduciary Net Assets

Years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Additions:		
Contributions:		
Members	\$ 1,583,469	1,480,942
Employers	<u>7,972,000</u>	<u>6,162,076</u>
Total contributions	<u>9,555,469</u>	<u>7,643,018</u>
Investment income:		
Net appreciation (depreciation) in fair value of investments	20,988,912	17,347,395
Interest	8,005,834	6,004,780
Dividends	<u>3,480,824</u>	<u>3,424,124</u>
	32,475,570	26,776,299
Less: investment expense	<u>465</u>	<u>12,889</u>
Net investment income	<u>32,475,105</u>	<u>26,763,410</u>
Total additions	<u>42,030,574</u>	<u>34,406,428</u>
Deductions:		
Benefits	31,137,599	29,018,355
Refunds of contributions	20,206	—
Administrative expenses	<u>179,387</u>	<u>169,357</u>
Total deductions	<u>31,337,192</u>	<u>29,187,712</u>
Change in net assets	10,693,382	5,218,716
Net assets - Beginning of year	<u>327,598,876</u>	<u>322,380,160</u>
Net assets - End of year	<u><u>\$ 338,292,258</u></u>	<u><u>327,598,876</u></u>

See accompanying notes to financial statements.

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Notes to Financial Statements

June 30, 2006 and 2005

(1) DESCRIPTION OF THE SYSTEM

The State of New Jersey Judicial Retirement System (the System; JRS) is a single-employer contributory defined benefit plan which was established as of June 1, 1973, under the provisions of N.J.S.A. 43:6A and amended and supplemented by Chapter 470, P.L. 1981. 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.

The System's designated purpose is to provide retirement, death and disability benefits to its members. Membership in the System is mandatory for all members of the state judiciary in the State of New Jersey. The System's State House Commission 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. 43:6A and amended and supplemented by Chapter 470, P.L. 1981. The System provides retirement benefits as well as death and disability benefits. Retirement benefits for age and years of service are as follows:

<u>Age</u>	<u>Years of Judicial Service</u>	<u>Benefit as a Percentage of Final Salary</u>
70	10	75%
65	15	75
60	20	75

<u>Age</u>	<u>Years of Judicial Service</u>	<u>Years of Public and Judicial Service</u>	<u>Benefit as a Percentage of Final Salary</u>
65	5	15	50%
60	5	20	50

Retirement benefits are also available at age 60 with five years of judicial service plus 15 years in the aggregate of public service, or at age 60 while serving as a judge with the benefit determined to be 2% of final salary, as defined, for each year of public service up to 25 years plus 1% of final salary for each year in excess of 25 years. Deferred and early retirement benefits are also available.

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Notes to Financial Statements

June 30, 2006 and 2005

Membership and Contributing Employers:

Membership in the System consisted of the following at June 30, 2005 and 2004, the dates of the most recent actuarial valuations:

	<u>2005</u>	<u>2004</u>
Retirees and beneficiaries receiving benefits currently and terminated employees entitled to benefits but not yet receiving them	430	421
Active members:		
Vested	219	217
Non-vested	207	216
Total active members	426	433
Total	856	854

The State of New Jersey is the only contributing employer of this System.

(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 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 due and payable in accordance with the terms of the System.

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.
- the Transfer Agent.
- Alternative investments (private equity, real assets and absolute return strategy funds) – estimated fair value provided by the investment manager and reviewed by management. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ significantly from the value that would be used if a ready market for such investments existed. Accordingly, the realized value received upon the sale of the asset may differ from the fair value.

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Notes to Financial Statements

June 30, 2006 and 2005

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 value of Common Funds A, B, D and E (Common Funds) is 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 Fund D, and the income earned on Common Fund D units is reinvested. Income earned per unit is calculated monthly for Common Fund E, and the income earned on Common Fund E units is reinvested.

Securities Lending:

Common Funds A, B and D and several of the directly-held pension plan portfolios participate in securities lending programs, whereby securities are loaned to brokers or to other borrowers and, in return, the pension funds have rights to the collateral received. All of the securities held in Common Funds A, B and D, and certain securities held directly by the pension plans, 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 to an individual borrower, 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 to an individual borrower, 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, 2006 and 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.

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 on the securities while they are on loan. The custodian bank for Common Fund D also indemnifies Common Funds for any loss of principal or interest on the invested collateral. For any losses on the investment collateral in Common Funds A or B or other pension plan portfolios, the lending fee paid to the lending agent shall be reduced by 25% of the amount of such loss, up to an amount not to exceed 75% of the previous six months' securities lending fees. The securities loans can be terminated by notification by either the borrower 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 portfolio 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

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Notes to Financial Statements

June 30, 2006 and 2005

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 held directly by the Common Funds as of June 30, 2006 and 2005 is as follows:

	<u>2006</u>	<u>2005</u>
Forward currency receivable	\$ 1,887,515,323	745,577,063
Forward currency payable	1,902,654,117	745,525,163
Net unrealized loss (gain)	15,138,794	(51,900)

The net unrealized gain or loss is included in investments in the accompanying statements of net assets at June 30, 2006 and 2005.

The Common Funds utilize covered call and put options in an effort to add value to or reduce the risk level in the portfolio. Covered options are agreements that give the owner of the option the right, but not obligation, to buy (in the case of a call option) or to sell (in the case of a put option) a specific amount of an asset for a specific price (called the strike price) on or before a specified expiration date. The writer of call options receives a premium at the outset of the agreement and bears the risk of an unfavorable change in the price of the instrument underlying the option. The Common Funds have written call options on 182,000 shares with a fair value of \$470,032 at June 30, 2006 and 215,400 shares with a fair value of \$548,100 at June 30, 2005 which are reflected as contra-assets to the fair value of the portfolio. The Common Funds own put options on 6,990,800 shares with a fair value of \$1,631,358, which are included in the portfolio at June 30, 2006.

Certain alternative investment funds and partnerships may use derivative instruments to hedge against market risk and to enhance investment returns. At any point during the year, the Common Funds may have additional exposure to derivatives primarily through limited liability vehicles such as limited partnerships and commingled investment funds.

Members' Loans:

Chapter 25, P.L. of 1997 which was enacted on March 7, 1997, allows active contributing members to borrow against their accumulated deductions in the System. Any member who has 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.

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.

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Notes to Financial Statements

June 30, 2006 and 2005

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, Common Pension Fund E, and other investments, including mortgage backed securities, which represent 0.45%, 0.47%, 0.45%, 1.01%, and 0.17%, respectively, of each investment total of the pension funds as of June 30, 2006.

The System was invested in Common Pension Fund A, Common Pension Fund B, Common Pension Fund D, and other investments, including mortgage backed securities, which represent 0.47%, 0.42%, 0.46%, and 0.26%, respectively, of each investment total of the pension funds as of June 30, 2005.

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

	<u>2006</u>	<u>2005</u>
Domestic equities	\$ 36,206,866,148	34,782,276,119
International equities	12,953,297,531	11,232,483,997
Domestic fixed income	16,949,855,296	16,521,446,786
International fixed income	1,187,184,887	2,201,826,936
Domestic floating rate securities	77,882,139	77,922,181
Police and Fireman's mortgages	965,008,210	896,706,544
Private equity	236,208,692	—
Real estate	81,345,789	—
Absolute return strategy funds	260,707,666	—
Net forward foreign exchange contracts	(15,138,794)	51,900
	<u>\$ 68,903,217,564</u>	<u>65,712,714,463</u>

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, private equity, real estate, other real assets and absolute return strategy funds.

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

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 evaluated 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

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Notes to Financial Statements

June 30, 2006 and 2005

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 held directly by the pension funds and limit the amount that can be invested in any one issuer or issue as follows:

Category	Minimum Rating		Limitation of Issuer's	Limitation of Issue	Other Limitations
	Moody's	S&P	Outstanding Debt		
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 greater of 10% of issue or \$10 million; not more than 2% of fund assets can be invested in any one issuer
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
JUDICIAL RETIREMENT SYSTEM**

Notes to Financial Statements

June 30, 2006 and 2005

For securities in the fixed income portfolio, the following tables disclose aggregate market value, by major credit quality rating category at June 30, 2006 and 2005:

June 30, 2006 (000's)	Moody's Rating				
	Aaa	Aa	A	Baa	Ba
United States Treasury Notes	\$ 3,516,004	—	—	—	—
United States Treasury Bills	389,716	—	—	—	—
United States Treasury TIPS	790,555	—	—	—	—
United States Treasury Bonds	1,984,003	—	—	—	—
United States Treasury Strips	37,219	—	—	—	—
Title XI Merchant Marine Notes	3,615	—	—	—	—
Federal Agricultural Mortgage Corp. Notes	95,763	—	—	—	—
Federal Farm Credit Bank Bonds	50,270	—	—	—	—
Federal Home Loan Bank Bonds	466,312	—	—	—	—
Federal Home Loan Bank Discounted Notes	89,894	—	—	—	—
Federal Home Loan Mortgage Corp. Notes	341,897	—	—	—	—
Federal National Mortgage Association Notes	226,193	—	—	—	—
Resolution Funding Corp. Obligations	6,397	—	—	—	—
Floating Rate Notes	25,023	20,020	9,999	22,841	—
Corporate Obligations	509,357	674,474	2,172,927	1,545,710	—
Real Estate Investment Trust Obligations	—	—	—	93,436	—
Finance Company Debt	217,653	623,016	626,864	9,097	55,587
Supranational Obligations	75,512	—	—	—	—
International Bonds and Notes	208,740	99,215	19,539	—	—
Foreign Government Obligations	470,461	313,716	—	—	—
Remic/FHLMC	731,131	—	—	—	—
Remic/FNMA	67,108	—	—	—	—
Remic/GNMA	17,650	—	—	—	—
GNMA Mortgage Backed Certificates	78,051	—	—	—	—
FHLM Mortgage Backed Certificates	598,915	—	—	—	—
FNMA Mortgage Backed Certificates	620,790	—	—	—	—
Asset Backed Obligations	178,119	—	—	—	—
Private Export Obligations	55,971	—	—	—	—
Exchange Traded Securities	—	—	51,735	—	—
	<u>\$ 11,852,319</u>	<u>1,730,441</u>	<u>2,881,064</u>	<u>1,671,084</u>	<u>55,587</u>

The table does not include certain corporate obligations totaling \$24,426,500 which have an S&P rating of A and do not have a Moody's rating. The Police and Firemen's Mortgages and the Cash Management fund are unrated.

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Notes to Financial Statements

June 30, 2006 and 2005

June 30, 2005 (000's)	Moody's Rating			
	Aaa	Aa	A	Baa
United States Treasury Notes	\$ 1,813,358	—	—	—
United States Treasury TIPS	598,125	—	—	—
United States Treasury Bonds	2,193,224	—	—	—
United States Treasury Strips	42,326	—	—	—
Title XI Merchant Marine Notes	3,956	—	—	—
Federal Agricultural Mortgage Corp. Notes	—	101,698	—	—
Federal Farm Credit Bank Bonds	102,225	—	—	—
Federal Home Loan Bank Bonds	521,527	—	—	—
Federal Home Loan Bank Discounted Notes	4,244	—	—	—
Federal Home Loan Mortgage Corp. Notes	265,077	26,953	—	—
Federal National Mortgage Association Notes	698,324	26,078	—	—
Resolution Funding Corp. Obligations	7,337	—	—	—
Floating Rate Notes	25,026	19,983	9,999	22,914
Corporate Obligations	645,239	594,643	2,722,186	1,310,398
Real Estate Investment Trust Obligations	—	—	—	99,301
Finance Company Debt	285,528	963,800	757,113	132,094
Supranational Obligations	122,496	—	—	—
International Bonds and Notes	420,419	—	—	—
Foreign Government Obligations	1,293,765	283,284	58,319	—
Remic/FHLMC	638,865	—	—	—
Remic/FNMA	73,982	—	—	—
Remic/GNMA	17,993	—	—	—
GNMA Mortgage Backed Certificates	112,091	—	—	—
FHLM Mortgage Backed Certificates	774,802	—	—	—
FNMA Mortgage Backed Certificates	645,810	—	—	—
Asset Backed Obligations	252,973	—	—	—
Private Export Obligations	34,127	—	—	—
Exchange Traded Securities	—	—	56,050	—
	<u>\$ 11,592,839</u>	<u>2,016,439</u>	<u>3,603,667</u>	<u>1,564,707</u>

The table does not include certain investments which do not have a Moody's rating which include foreign government obligations totaling \$18,842,884 with an S&P rating of AAA and convertible zero coupon bonds totaling \$4,701,462 with an S&P rating of BBB. The Police and Firemen's Mortgages and the Cash Management Fund are unrated.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Commercial paper must mature within 270 days. Certificates of deposits and bankers acceptances are limited to a term of one year or less. The maturity of repurchase agreements shall not exceed 15 days. The investment in a guaranteed income contract is limited to a term of 10 years or less.

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Notes to Financial Statements

June 30, 2006 and 2005

The following table summarizes the maturities (or, in the case of Remics, Police and Firemen's Mortgages and mortgage-backed securities, the expected average life) of the fixed income portfolio at June 30, 2006 and 2005:

June 30, 2006 (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	\$ 3,516,004	747,277	796,007	1,972,720	—
	United States Treasury Bills	389,716	389,716	—	—	—
	United States Treasury TIPS	790,555	—	60,532	580,319	149,704
	United States Treasury Bonds	1,984,003	—	—	215,305	1,768,698
	United States Treasury Strips	37,219	—	—	—	37,219
	Title XI Merchant Marine Notes	3,615	—	—	—	3,615
	Federal Agricultural Mortgage Corp. Notes	95,763	—	95,763	—	—
	Federal Farm Credit Bank Bonds	50,270	—	50,270	—	—
	Federal Home Loan Bank Bonds	466,312	175,074	268,104	23,134	—
	Federal Home Loan Bank Discounted Notes	89,894	—	—	—	89,894
	Federal Home Loan Mortgage Corp. Notes	341,897	322,470	—	19,427	—
	Federal National Mortgage Association Notes	226,193	129,785	96,408	—	—
	Resolution Funding Corp. Obligations	6,397	—	—	—	6,397
	Floating Rate Notes	77,883	35,021	32,863	9,999	—
	Corporate Obligations	4,926,894	712,831	1,267,070	1,126,601	1,820,392
	Real Estate Investment Trust Obligations	93,436	—	42,914	50,522	—
	Finance Company Debt	1,532,217	380,558	741,111	273,382	137,166
	Supranational Obligations	75,512	—	—	—	75,512
	International Bonds and Notes	327,494	124,499	145,353	18,137	39,505
	Foreign Government Obligations	784,177	22,393	459,160	193,953	108,671
	Remic/FHLMC	731,131	3,383	—	39,299	688,449
	Remic/FNMA	67,108	1,321	—	17,827	47,960
	Remic/GNMA	17,650	—	—	—	17,650
	Police and Firemen's Mortgages	965,008	—	—	—	965,008
	GNMA Mortgage Backed Certificates	78,051	12	637	—	77,402
	FHLM Mortgage Backed Certificates	598,915	—	148	3,698	595,069
	FNMA Mortgage Backed Certificates	620,790	149	9,291	21,177	590,173
	Asset Backed Obligations	178,119	—	118,906	59,213	—
	Private Export Obligations	55,971	—	11,887	44,084	—
		<u>\$ 19,128,194</u>	<u>3,044,489</u>	<u>4,196,424</u>	<u>4,668,797</u>	<u>7,218,484</u>

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Notes to Financial Statements

June 30, 2006 and 2005

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
JUDICIAL RETIREMENT SYSTEM**

Notes to Financial Statements

June 30, 2006 and 2005

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The pension funds invest in global markets. The pension funds can invest in securities of companies incorporated in one of thirty countries approved by the Council. The market value of international preferred and common stocks and issues convertible into common stocks, when combined with the market value of international government and agency obligations, cannot exceed 22% of the market value of the pension funds. Not more than 5% of the value of the assets held by Common Fund D can be invested in companies incorporated in emerging market countries, and not more than 5% of the market value of the emerging market securities can be invested in any one corporation. Council regulations permit the pension funds to enter into foreign exchange contracts for the purpose of hedging the international portfolio. The pension funds held forward contracts totaling approximately \$1.9 billion and \$650 million at June 30, 2006 and 2005, respectively. Common Fund D had the following foreign currency exposure (expressed in U.S. dollars and 000's):

June 30, 2006				Foreign
		Total		Government
Currency		Market Value	Equities	Obligations
Australian dollar	\$	387,324	387,324	—
Canadian dollar		635,640	635,640	—
Danish krone		198,388	198,388	—
Euro		4,789,852	4,286,765	503,087
Hong Kong dollar		130,126	130,126	—
Japanese yen		3,039,675	3,039,675	—
Mexican peso		46,306	46,306	—
New Zealand dollar		18,426	18,426	—
Norwegian krone		269,692	269,692	—
Pound sterling		1,712,822	1,637,310	75,512
Singapore dollar		98,276	98,276	—
South Korean won		121,267	121,267	—
Swedish krona		760,561	682,104	78,457
Swiss franc		1,263,174	1,263,174	—
	\$	<u>13,471,529</u>	<u>12,814,473</u>	<u>657,056</u>

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Notes to Financial Statements

June 30, 2006 and 2005

June 30, 2005

Currency	Total Market Value	Equities	Foreign Government Obligations
Australian dollar	\$ 401,419	272,432	128,987
Canadian dollar	587,693	502,887	84,806
Danish krone	148,396	148,396	—
Euro	4,447,970	3,646,096	801,874
Hong Kong dollar	167,809	167,809	—
Japanese yen	2,218,395	2,213,694	4,701
Mexican peso	40,732	40,732	—
New Zealand dollar	72,766	32,929	39,837
Norwegian krone	198,279	91,284	106,995
Pound sterling	2,181,965	1,957,489	224,476
Singapore dollar	75,678	75,678	—
South Korean won	141,633	141,633	—
Swedish krona	735,391	628,136	107,255
Swiss franc	1,017,524	1,017,524	—
	<u>\$ 12,435,650</u>	<u>10,936,719</u>	<u>1,498,931</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.

The pension funds' interests in alternative investments may contain elements of credit, currency and market risk. Such risks include, but are not limited to, limited liquidity, absence of regulatory oversight, dependence upon key individuals, emphasis on speculative investments (both derivatives and non-marketable investments), and nondisclosure of portfolio composition. Council regulations require that not more than 13 percent of the market value of the pension funds can be invested in alternative investments, with the individual categories of real assets, private equity and absolute return strategy investments limited to 5 percent, 7 percent and 5 percent of the market value, respectively. Not more than 5 percent of the market value of Common Fund E may be committed to any one partnership or investment, without the prior written approval of the Council. Common Fund E cannot own more than 25 percent of any individual investment. The investments in Common Fund E cannot comprise more than 20 percent of any one investment manager's total assets.

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 years ended June 30, 2006 and 2005. The net realized gain from investment transactions amounted to \$3,946,824,420 and the net increase in unrealized gains on investments amounted to \$567,526,008 for the year ended June 30, 2006. 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
JUDICIAL RETIREMENT SYSTEM**

Notes to Financial Statements

June 30, 2006 and 2005

(4) SECURITIES LENDING COLLATERAL

The System's share in the securities lending program is 0.46% and 0.43% of the total market value of the collateral as of June 30, 2006 and 2005, respectively.

The securities lending collateral is subject to various risks. Among these risks are credit risk, concentration of credit risk and interest rate risk. Agreements with the lending agents require minimum credit ratings for certain categories of fixed income obligations and limit the amount that can be invested in any one issuer or issue as follows:

<u>Category</u>	<u>Minimum Rating</u>		<u>Limitation of Issuer's Outstanding Debt</u>	<u>Limitation of Issue</u>	<u>Other Limitations</u>
	<u>Moody's</u>	<u>S&P</u>			
Corporate obligations	A3	A-	25%	25%	—
U.S. finance company debt and bank debentures	A2	A	10%	10%	—
Collateralized notes and mortgages	Aaa	AAA	—	33.3%	Limited to not more than 10% of the assets of the collateral portfolio
Commercial paper	P-1	A-1	—	—	Dollar limits by issuer
Certificates of deposit/ Banker's acceptances (rating applies to international)	Aa3/P-1	—	—	—	Uncollateralized cer- tificates of deposit and banker's acceptances' cannot exceed 10% of issuer's primary capital; dollar limits by issuer
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.

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Notes to Financial Statements

June 30, 2006 and 2005

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

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 tables disclose aggregate market value, by major credit quality rating category at June 30, 2006 and 2005. In those cases where an issuer and/or security have both a long-term and short-term rating, the short-term rating is disclosed.

June 30, 2006

(000's)

	Moody's Rating				
	Aaa	Aa	A	P1	Not rated
Corporate Obligations	\$ 699,376	3,602,027	1,611,461	—	—
Commercial Paper	—	—	—	3,683,532	—
Certificates of Deposit	1,957,748	—	—	—	—
Repurchase Agreements	—	—	—	—	1,609,375
Guaranteed Investment Contracts	—	450,000	—	—	—
Money Market Funds	253,861	—	—	—	101,392
Collateralized Notes	—	135,924	—	—	—
Cash	—	—	—	—	147
	<u>\$ 2,910,985</u>	<u>4,187,951</u>	<u>1,611,461</u>	<u>3,683,532</u>	<u>1,710,914</u>

June 30, 2005

(000's)

	Moody's Rating				S&P Rating (1)
	Aaa	Aa	A	P1	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.

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Notes to Financial Statements

June 30, 2006 and 2005

The following tables summarize the maturities of the collateral portfolio at June 30, 2006 and 2005.

June 30, 2006 (000's)	Total Market Value	Maturities	
		Less than one year	One year to 25 months
Corporate Obligations	\$ 5,912,864	2,301,117	3,611,747
Commercial Paper	3,683,531	3,683,531	—
Certificates of Deposit	1,957,748	1,957,748	—
Repurchase Agreements	1,609,375	1,609,375	—
Guaranteed Investment Contracts	450,000	350,000	100,000
Money Market Funds	355,253	355,253	—
Collateralized Notes	135,924	—	135,924
	<u>\$ 14,104,695</u>	<u>10,257,024</u>	<u>3,847,671</u>

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, 2006, the pension funds had received cash collateral of \$14,115,678,308 for outstanding loaned investment securities having market values of \$13,824,349,093. As of June 30, 2005, the pension 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, 2006, the pension funds loaned investment securities having market values of \$1,471,340, against which it had received non-cash collateral with a current value of \$1,494,859, which is not reflected in the accompanying financial statements. As of June 30, 2005, the pension 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.

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Notes to Financial Statements

June 30, 2006 and 2005

(5) CONTRIBUTIONS

The contribution policy is set by N.J.S.A. 43:6A and requires contributions by active members and the State of New Jersey. Plan member and employer contributions may be amended by State of New Jersey legislation. Members enrolled on January 1, 1996 or after contribute at 3% on their entire base salary. Contributions by active members enrolled prior to January 1, 1996 are based on 3% of the difference between their current salary and the salary of the position on January 18, 1982. The State of New Jersey is required to contribute at an actuarially determined rate. The annual employer contributions include funding for basic retirement allowances, cost-of-living adjustments and noncontributory death benefits.

Legislation passed in 1997 (Chapter 115, P.L. 1997) provided for the use of actuarially determined excess valuation assets to offset the required normal contributions of the State of New Jersey. As a result of this legislation, the State of New Jersey was not required to make a contribution to the System for the years between 1997 and 2002.

The State made a contribution of \$7.97 million to satisfy the actuarially accrued liability in fiscal year 2006.

(6) FUNDS

The System maintains the following legally required funds:

Members' Annuity Savings Fund (2006 - \$30,656,059; 2005 - \$27,758,263)

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

Contingent Reserve Fund (2006 - \$159,132,503; 2005 - \$151,132,055)

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

Retirement Reserve Fund (2006 - \$148,503,696; 2005 - \$148,708,558)

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 together with accumulated interest are transferred to the Retirement Reserve Fund from the Members' ASF. Any additional reserves needed to fund the balance of the retirement benefit are transferred from the Contingent Reserve Fund. Annually, interest as determined by the State Treasurer (8.25% for fiscal year 2006; 8.75% for 2005) is credited to the Retirement Reserve 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
JUDICIAL RETIREMENT SYSTEM**

Required Supplementary Information (Unaudited)

Schedule of Funding Progress

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS (a)	ACTUARIAL ACCRUED LIABILITY (b)	UNFUNDED (OVERFUNDED) ACTUARIAL ACCRUED LIABILITY (b - a)	FUNDED RATIO (a / b)	COVERED PAYROLL (c)	UNFUNDED (OVERFUNDED) ACTUARIAL ACCRUED LIABILITY AS A PERCENTAGE OF COVERED PAYROLL
						(b - a) / c
June 30, 1997	\$317,289,094	\$295,150,638	\$(22,138,456)	107.5%	\$46,912,950	(47.2%)
June 30, 1998	333,437,794	305,779,217	(27,658,577)	109.0%	48,196,350	(57.4%)
June 30, 1999	352,858,160	313,873,659	(38,984,501)	112.4%	48,886,350	(79.7%)
June 30, 2000	374,486,433	350,920,345	(23,566,088)	106.7%	55,514,214	(42.5%)
June 30, 2001	379,592,346	372,760,069	(6,832,277)	101.8%	57,800,334	(11.8%)
June 30, 2002	373,231,198	388,950,803	15,719,605	96.0%	61,873,500	25.4%
June 30, 2003	372,835,265	431,450,218	58,614,953	86.4%	61,600,500	95.2%
June 30, 2004	371,730,163	445,922,358	74,192,195	83.4%	61,576,750	120.5%
June 30, 2005	369,491,366	466,145,912	96,654,546	79.3%	60,506,750	159.7%

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Required Supplementary Information (Unaudited)

Schedule of Funding Progress - Additional Actuarial Information

Significant actuarial methods and assumptions used in the most recent June 30, 2005 and 2004 actuarial valuations included the following:

	June 30, 2005	June 30, 2004
Actuarial cost method	Projected unit credit	Projected unit credit
Asset valuation method	5 year average of market value	5 year average of market value
Amortization method	Level dollar, closed	Level dollar, closed
Remaining amortization period	30 years	30 years
Actuarial assumptions:		
Interest rate	8.25%	8.25%
Salary range	5.45%	4.00%
Cost-of-living adjustments	1.80%	1.80%

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Required Supplementary Information (Unaudited)

Schedule of Employer Contributions

YEAR ENDED JUNE 30,	ANNUAL REQUIRED CONTRIBUTION	EMPLOYER CONTRIBUTIONS⁽¹⁾	PERCENTAGE CONTRIBUTED
1997	\$18,406,865	\$110,483,753 ⁽²⁾	600.2%
1998	14,658,095	13,478,708	92.0%
1999	13,416,851	—	0.0%
2000	13,407,153	—	0.0%
2001	12,816,557	—	0.0%
2002	15,575,602	—	0.0%
2003	16,913,237	8,467,287	50.1%
2004	18,720,233	3,355,438	17.9%
2005	22,525,773	6,162,076	27.4%
2006	23,212,502	7,972,000	34.3%

Notes to Schedule:

- (1) Employer contributions exclude contributions received from other pension funds for certain judges who transferred their eligible prior service credit to the Judicial Retirement System.

In accordance with Chapter 115, P.L. 1997, available excess valuation assets were used to fund the required employer contributions from year 1997 to 2002.

- (2) For the year ended June 30, 1997, the employer contributions exceeded the annual required contributions as a result of legislation that was enacted (Chapter 114, P.L. 1997), authorizing the New Jersey Economic Development Authority to issue bonds, notes or other obligations for the purpose of financing, in full or in part, the State of New Jersey's portion of the unfunded accrued liability under the State of New Jersey retirement systems.

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Schedule of Changes in Fiduciary Net Assets by Fund

Year ended June 30, 2006

	MEMBERS' ANNUITY SAVINGS AND ACCUMULATIVE INTEREST FUND	CONTINGENT RESERVE FUND	RETIREMENT RESERVE FUND	TOTAL
Additions:				
Contributions:				
Members	\$ 1,583,469	—	—	1,583,469
Employers	—	7,972,000	—	7,972,000
Total contributions	1,583,469	7,972,000	—	9,555,469
Distribution of net investment income	2,735,260	17,471,389	12,268,456	32,475,105
Total additions	4,318,729	25,443,389	12,268,456	42,030,574
Deductions:				
Benefits	—	558,286	30,579,313	31,137,599
Refunds of contributions	20,206	—	—	20,206
Administrative expenses	—	179,387	—	179,387
Total deductions	20,206	737,673	30,579,313	31,337,192
Net increase (decrease) before transfers among reserves	4,298,523	24,705,716	(18,310,857)	10,693,382
Transfers among reserves:				
Retirements	(1,400,727)	(16,705,268)	18,105,995	—
Net increase (decrease)	2,897,796	8,000,448	(204,862)	10,693,382
Net assets held in trust for pension benefits:				
Beginning of year	27,758,263	151,132,055	148,708,558	327,598,876
End of year	\$ 30,656,059	159,132,503	148,503,696	338,292,258