STATE OF NEW JERSEY
PRISON OFFICERS' PENSION FUND

Financial Statements and Schedules

June 30, 2006 and 2005

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 402
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Princeton, NJ 08540-6227

Independent Auditors' Report

The Commission
State of New Jersey
Prison Officers' Pension Fund:

We have audited the accompanying statements of fiduciary net assets of the State of New Jersey Prison Officers' Pension Fund (the Fund) 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 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 Prison Officers' Pension Fund 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 Fund'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 Fund. 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
PRISON OFFICERS' PENSION FUND

Management's Discussion and Analysis

June 30, 2006 and 2005

Our discussion and analysis of the Prison Officers' Pension Fund (the Fund) financial performance provides an overview of the Fund'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 decreased by $768,747 as a result of fiscal year 2006's operations from $14,783,465 to 14,014,718.
- Additions for the year were $1,682,105, which are comprised of net investment income of $532,946 and contributions for pension adjustment benefits of $1,149,159.
- Deductions for the year were $2,450,852, which are comprised of benefit payments of $2,443,222 and administrative expenses of $7,630.

2005 - 2004

- Net assets held in trust for pension benefits decreased by $1,100,963 as a result of fiscal year 2005's operations from $15,884,428 to 14,783,465.
- Additions for the year were $1,544,971, which are comprised of net investment income of $325,464 and contributions for pension adjustment benefits of $1,219,507.
- Deductions for the year were $2,645,934, which are comprised of benefit payments of $2,631,732 and administrative expenses of $14,202.

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, including the required supplementary schedules, to determine whether the Fund is becoming financially stronger or weaker.

FINANCIAL ANALYSIS

SCHEDULE OF FIDUCIARY NET ASSETS

2006 - 2005

	2006	2005	Increase (Decrease)
Assets	$14,544,739	$16,075,161	$(1,530,422)
Liabilities	530,021	1,291,696	(761,675)
Net Assets	$14,014,718	$14,783,465	$(768.747)

The Fund's assets mainly consist of cash, securities lending collateral, and investments. Between fiscal years 2005 and 2006, total assets decreased by $1.5 million or 9.5% due to decrease in fair value of investments.

Liabilities mainly consist of pension benefit payments owed to retirees and beneficiaries, and securities lending collateral and rebates payable. Total liabilities decreased by $0.8 million or 59.0% due to fewer retirees and beneficiaries.

Net assets held in trust for pension benefits decreased by $0.8 million or 5.2%. This reduction is due to retirement benefit payments exceeding the net investment gains.

2005 - 2004

	2005	2004	Increase (Decrease)
Assets	$16,075,161	$16,105,439	$(30,278)
Liabilities	1,291,696	221,011	1,070,685
Net Assets	$14,783,465	$15,884,428	$(1,100,963)

Between fiscal years 2004 and 2005, total assets decreased by 0.2%.

Total liabilities increased by $1.1 million or 484.5% due to securities lending collateral and rebates payable.

Net assets held in trust for pension benefits decreased by $1.1 million or 6.9%. This reduction is due to retirement benefit payments exceeding the net investment gains.

ADDITIONS TO FIDUCIARY NET ASSETS
2006 - 2005

	2006	2005	Increase (Decrease)
Employer Contributions	$1,149,159	$1,219,507	$(70,348)
Investment & Other	532,946	325,464	207,482
Totals	$1,682,105	$1,544,971	$137,134

Additions consist of contributions from the Pension Adjustment Fund to cover cost-of-living benefits and earnings from investment activities. Contributions decreased slightly compared to the prior year by 5.8%. Investment earnings increased by 63.7% due to a higher rate of return on Cash Management Fund.

Fiscal year 2006 is the ninth consecutive year that the State has not made a contribution to the Fund. Contributions have not been required due to Pension Security legislation passed in 1997. As of July 1, 2005, the date of the most recent actuarial valuation, the actuarial value of the Fund's assets exceeds the projected value of accrued liabilities by $5.7 million.

2005 - 2004

	2005	2004	Increase (Decrease)
Employer Contributions	$1,219,507	$1,264,147	$(44,640)
Investment & Other	325,464	99,182	226,282
Totals	$1,544,971	$1,363,329	$181,642

Contributions decreased slightly compared to the prior year by 3.5%. Investment earnings increased by 228.2% due to a higher rate of return on Cash Management Fund and a smaller unrealized loss on investments.

(Continued)

Fiscal year 2005 is the eighth consecutive year that the State has not made a contribution to the Fund. Contributions have not been required due to Pension Security legislation passed in 1997. As of July 1, 2004, the date of the most recent actuarial valuation, the actuarial value of the Fund's assets exceeds the projected value of accrued liabilities by $5.8 million.

DEDUCTIONS FROM FIDUCIARY NET ASSETS
2006 - 2005

	2006	2005	Increase (Decrease)
Benefits	$2,443,222	$2,631,732	$(188,510)
Administrative Expenses	7,630	14,202	(6,572)
Totals	$2,450,852	$2,645,934	$(195,082)

Deductions are mainly comprised of pension benefit payments to retirees and beneficiaries and administrative costs incurred by the Fund. Benefit payments decreased by $0.2 million or 7.2% due to fewer retirees and beneficiaries. Likewise, administrative costs decreased by 46.3%.

2005 - 2004

	2005	2004	Increase (Decrease)
Benefits	$2,631,732	$2,750,556	$(118,824)
Administrative Expenses	14,202	6,298	7,904
Totals	$2,645,934	$2,756,854	$(110,920)

Benefit payments decreased by 4.3% due to fewer retirees and beneficiaries. Administrative costs increased by 125.5% mainly due to the reimbursement to the State General Fund of the Special Project Fund Appropriation utilized for the system reengineering project.

RETIREMENT SYSTEM AS A WHOLE

The overall funded ratios of 162.9% for fiscal year 2006 and 157.9% for 2005 indicate that the Fund has sufficient assets to meet its benefit obligations.

CONTACTING SYSTEM FINANCIAL MANAGEMENT

The financial report is designed to provide our members, beneficiaries, investors and other interested parties with a general overview of the 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
PRISON OFFICERS' PENSION FUND

Statements of Fiduciary Net Assets

June 30, 2006 and 2005

	2006	2005
Assets:		
Cash	$ 340,172	277,441
Securities Lending Collateral	353,352	1,055,853
Investments, at fair value:		
Bonds	5,016,400	5,181,450
Mortgage Backed Securities	303,708	431,996
Cash Management Fund	8,460,836	9,057,530
Total investments	13,780,944	14,670,976
Receivables:		
Other	70,271	70,891
Total receivables	70,271	70,891
Total assets	14,544,739	16,075,161
Liabilities:		
Accounts payable and accrued expenses	3,819	5,608
Retirement benefits payable	172,850	230,235
Securities lending collateral and rebates payable	353,352	1,055,853
Total liabilities	530,021	1,291,696
Net Assets :		
Held in trust for pension benefits	$ 14,014,718	14,783,465

See schedule of funding progress on pages 21-22.
See accompanying notes to financial statements.

STATE OF NEW JERSEY
PRISON OFFICERS' PENSION FUND

Statements of Changes in Fiduciary Net Assets

Years ended June 30, 2006 and 2005

	2006	2005
Additions:		
Contributions:		
Pension Adjustment Fund	$ 1,149,159	1,219,507
Total contributions	1,149,159	1,219,507
Investment income:		
Net depreciation in fair value of investments	(176,079)	(250,279)
Interest	711,022	577,547
	534,943	327,268
Less: investment expense	1,997	1,804
Net investment income	532,946	325,464
Total additions	1,682,105	1,544,971
Deductions:		
Benefits	2,443,222	2,631,732
Administrative expenses	7,630	14,202
Total deductions	2,450,852	2,645,934
Change in net assets	(768,747)	(1,100,963)
Net assets - Beginning of year	14,783,465	15,884,428
Net assets - End of year	$ 14,014,718	14,783,465

See accompanying notes to financial statements.

(1) DESCRIPTION OF THE FUND

The Prison Officers' Pension Fund of New Jersey (the Fund; POPF) is a single-employer contributory defined benefit plan which was established as of January 1, 1941, under the provisions of N.J.S.A. 43:7 and closed to new members in January 1960. 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, death and disability benefits to its members. Membership in the Fund is limited to various employees in the state penal institutions who were appointed prior to January 1, 1960. There are no active members and 191 pensioners and beneficiaries are receiving benefits as of June 30, 2005, the date of the most recent actuarial valuation. As of June 30, 2004, there were no active members and 205 pensioners and beneficiaries receiving benefits. The Fund's Board of Trustees is primarily responsible for its administration.

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

Vesting and Benefit Provisions:

The vesting and benefit provisions are set by N.J.S.A. 43:7. The Fund provides retirement, as well as death and disability benefits. Retirement benefits are available after 25 years of service or at age 55 with 20 years of service. The benefit is in the form of a life annuity equal to the greater of (a) 2% of average final compensation up to the 30 years of service, plus 1% of average final compensation for each year of service above 30 and prior to age 65; (b) 50% of final pay; or (c) for members with 25 or more years of service, 2% of average final compensation for each year of service up to 30 years, plus 1% for each year in excess of 30 years. Average final compensation equals the average salary for the final three years of service prior to retirement (or highest three years' compensation if other than the final three years).

Members are always fully vested for their own contributions.

(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:

Investments are reported at fair value as follows:

- U.S. Government and Agency, Foreign and Corporate obligations – prices quoted by a major dealer in such securities.

- Common Stock and Equity Funds, Foreign Equity Securities, Forward Foreign Exchange Contracts – closing prices as reported on the primary market or exchange on which they trade.
- Money Market Instruments – amortized cost which approximates fair value.
- Cash Management Fund – closing bid price on the last day of trading during the period as determined by the Transfer Agent.
- 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.

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.

Administrative Expenses:

The Fund is administered by the State of New Jersey Division of Pensions and Benefits. Administrative expenses are paid by the Fund 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 Fund is invested in bonds and mortgage backed securities which represent 0.40% and 0.45% of the investment total of the pension funds as of June 30, 2006 and 2005, respectively.

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

	2006	2005
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
	$ 68,903,217,564	65,712,714,463

New Jersey state statute provides for a State Investment Council (Council) and a Director. Investment authority is vested in the Director of the Division and the role of the Council is to formulate investment policies. The Council issues regulations which establish guidelines for permissible investments which include domestic and international equities, obligations of the U.S. Treasury, government agencies, corporations, finance companies and banks, international government and agency obligations, Canadian obligations, New Jersey State and Municipal general obligations, public authority revenue obligations, collateralized notes and mortgages, commercial paper, certificates of deposit, repurchase agreements, bankers acceptances, guaranteed income contracts and money market funds, 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.

(Continued)

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 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 Moody's	Minimum Rating S&P	Limitation of Issuer's Outstanding Debt	Limitation of Issue	Other Limitations
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

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	—	—
	$ 11,852,319	1,730,441	2,881,064	1,671,084	55,587

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.

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	—
	$	11,592,839	2,016,439	3,603,667	1,564,707

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.

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	—
	$ 19,128,194	3,044,489	4,196,424	4,668,797	7,218,484

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	—
	$ 19,641,853	1,460,544	5,776,536	4,464,069	7,940,704

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

Currency		Total Market Value	Equities	Foreign Government 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	—
	$	13,471,529	12,814,473	657,056

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	—
	$	12,435,650	10,936,719	1,498,931

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.

(4) SECURITIES LENDING COLLATERAL

The Fund's share in the securities lending program is 0.003% and 0.01% 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:

	Minimum Rating		Limitation of Issuer's Outstanding	Limitation	
Category	**Moody's**	**S&P**	**Debt**	**of Issue**	**Other Limitations**
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 certificates 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 collateral portfolio; A+ rating from A.M. Best for insurance companies
Money market funds	—	—	—	—	Limited to 10% of the assets of the collateral portfolio; limited to approved money market funds

Maturities of corporate obligations, U.S. finance company debt, bank debentures, collateralized notes and mortgages and guaranteed income contracts must be less than 25 months. Commercial paper maturities cannot exceed 270 days. Repurchase agreement maturities cannot exceed 15 days. Certificates of deposit and banker's acceptances must mature in one year or less.

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

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
	$ 2,910,985	4,187,951	1,611,461	3,683,532	1,710,914

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	—	—	—	—
	$ 553,868	5,255,609	2,252,074	2,373,183	97,900

(1) Moody's rating not available

In addition, the collateral portfolio includes money market funds with a current market value of $1,074,355 and repurchase agreements with a current market value of $1,588,984,270 at June 30, 2005 which are not rated.

The following 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**	**Maturities: 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
	$	14,104,695	10,257,024	3,847,671

June 30, 2005 (000's)		**Total Market Value**	**Maturities: Less than one year**	**Maturities: 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	—
	$	12,122,693	10,535,523	1,587,170

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.

(5) CONTRIBUTIONS

The contribution policy is set by N.J.S.A. 43:7 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. Contributions by active members were based on 6% of their salary. The State of New Jersey, the only contributing employer of the Fund, is required to contribute at an actuarially determined rate.

(6) FUNDS

This Fund maintains the following legally required fund:

Retirement Reserve Fund (2006 - $14,014,718; 2005 - $14,783,465)

The Retirement Reserve Fund had been credited with all active member and State of New Jersey contributions and investment income. In addition, all benefits are paid from this account.

(7) 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.

STATE OF NEW JERSEY
PRISON OFFICERS' PENSION FUND

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	$20,977,035	$17,479,545	$(3,497,490)	120.0%	N/A	N/A
June 30, 1998	20,096,072	16,430,313	(3,665,759)	122.3%	N/A	N/A
June 30, 1999	19,137,919	15,292,629	(3,845,290)	125.1%	N/A	N/A
June 30, 2000	18,268,489	14,216,588	(4,051,901)	128.5%	N/A	N/A
June 30, 2001	18,269,899	12,994,567	(5,275,332)	140.6%	N/A	N/A
June 30, 2002	17,908,452	11,781,734	(6,126,718)	152.0%	N/A	N/A
June 30, 2003	17,277,953	10,727,647	(6,550,306)	161.1%	N/A	N/A
June 30, 2004	15,884,428	10,060,710	(5,823,718)	157.9%	N/A	N/A
June 30, 2005	14,783,465	9,077,157	(5,706,308)	162.9%	N/A	N/A

STATE OF NEW JERSEY
PRISON OFFICERS' PENSION FUND

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	Market value	Market value
Amortization method	Level dollar, closed	Level dollar, closed
Remaining amortization period	1 year	1 year
Actuarial assumptions:		
Interest rate	5.00%	5.00%

STATE OF NEW JERSEY
PRISON OFFICERS' PENSION FUND

Required Supplementary Information (Unaudited)

Schedule of Employer Contributions

YEAR ENDED JUNE 30,	ANNUAL REQUIRED CONTRIBUTION	EMPLOYER CONTRIBUTIONS	PERCENTAGE CONTRIBUTED
1997	$2,949,604	$21,688,219	735.3%
1998	—	—	N/A
1999	—	—	N/A
2000	—	—	N/A
2001	—	—	N/A
2002	—	—	N/A
2003	—	—	N/A
2004	—	—	N/A
2005	—	—	N/A
2006	—	—	N/A

Note to Schedule:

(1) 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. For the years 1998 through 2006, contributions were not required.

Schedule 3

STATE OF NEW JERSEY
PRISON OFFICERS' PENSION FUND

Schedule of Changes in Fiduciary Net Assets by Fund

Year ended June 30, 2006

	RETIREMENT RESERVE FUND	PENSION ADJUSTMENT PASS THROUGH	TOTAL
Additions:			
Contributions:			
Pension Adjustment Fund	$ —	1,149,159	1,149,159
Total contributions	—	1,149,159	1,149,159
Distribution of net investment income	532,946	—	532,946
Total additions	532,946	1,149,159	1,682,105
Deductions:			
Benefits	1,294,063	1,149,159	2,443,222
Administrative expenses	7,630	—	7,630
Total deductions	1,301,693	1,149,159	2,450,852
Net decrease	(768,747)	—	(768,747)
Net assets held in trust for pension benefits:			
Beginning of year	14,783,465	—	14,783,465
End of year	$ 14,014,718	—	14,014,718