

**DEPARTMENT OF
THE TREASURY**

R. David Rousseau
State Treasurer

**DIVISION OF PENSIONS
AND BENEFITS**

Frederick J. Beaver
Director

**PRISON OFFICERS'
PENSION FUND
OF NEW JERSEY**

BUCK CONSULTANTS
Actuaries and Consultants



State of New Jersey
DIVISION OF PENSIONS AND BENEFITS
PO Box 295 • Trenton, NJ 08625-0295

TO THE HONORABLE
JON S. CORZINE
GOVERNOR of the STATE OF NEW JERSEY

Dear Governor Corzine:

The Division of Pensions and Benefits is pleased to present the Fiscal Year 2007
Annual Report of the

PRISON OFFICERS' PENSION FUND

in accordance with the provisions of N.J.S.A. 43:7-22.

Respectfully submitted,

A handwritten signature in cursive script that reads 'Frederick J. Beaver'.

FREDERICK J. BEAVER

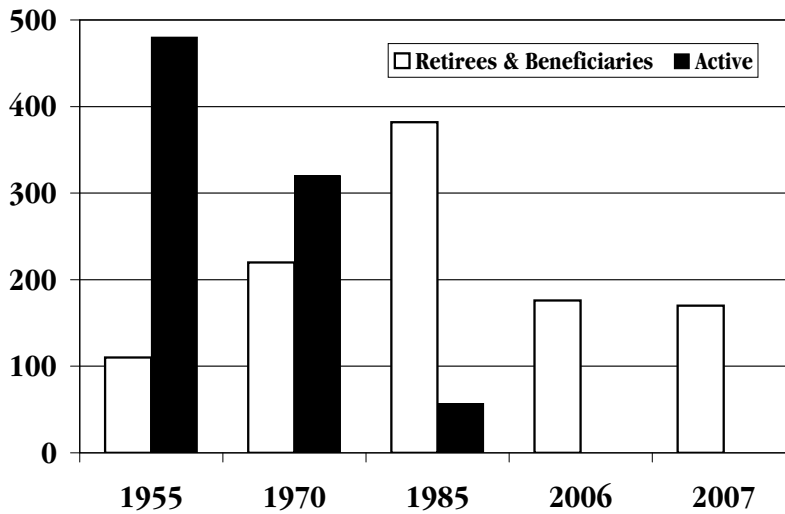
Director

SIGNIFICANT LEGISLATION

There were no significant changes in legislation governing the Prison Officers' Pension Fund of New Jersey during fiscal year 2007.

MEMBERSHIP

- As of June 30, 2007, the active membership of the Fund totaled zero.
- During fiscal year 2007, there were 170 retirees and beneficiaries receiving annual pensions totaling \$2,356,383 .
- The Fund's assets totaled \$13,672,296 at the close of the fiscal year 2007.





KPMG LLP
Suite 402
301 Carnegie Center
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, 2007 and 2006, and the related statements of changes in fiduciary net assets for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

Management's Discussion and Analysis 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 conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Fund's basic financial statements. The 2007 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 2007 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2007 basic financial statements taken as a whole.

KPMG LLP

February 29, 2008

**STATE OF NEW JERSEY
PRISON OFFICERS' PENSION FUND**

Management's Discussion and Analysis

June 30, 2007 and 2006

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

Financial Highlights

2007 - 2006

- Net assets held in trust for pension benefits decreased by \$515,357 as a result of fiscal year 2007's operations from \$14,014,718 to \$13,499,361.
- Additions for the year are \$1,850,323, which are comprised of net investment income of \$712,185 and contributions for pension adjustment benefits of \$1,138,138.
- Deductions for the year are \$2,365,680, which are comprised of benefit payments of \$2,356,383 and administrative expenses of \$9,297.

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.

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.

**STATE OF NEW JERSEY
PRISON OFFICERS' PENSION FUND**

Management's Discussion and Analysis

June 30, 2007 and 2006

Financial Analysis

Summary of Fiduciary Net Assets

2007 – 2006

	2007	2006	Decrease
Assets	\$ 13,672,296	14,544,739	(872,443)
Liabilities	172,935	530,021	(357,086)
Net assets	\$ 13,499,361	14,014,718	(515,357)

The Fund's assets consist of cash, securities lending collateral, and investments. Between fiscal years 2006 and 2007, total assets decreased by \$0.9 million or 6.0% due to a decrease in securities lending collateral, as the majority of the investment portfolio is in the Cash Management Fund.

Liabilities consist of pension benefit payments owed to retirees and beneficiaries, and securities lending collateral and rebates payable. Total liabilities decreased by \$0.4 million or 67.4% due to a decrease in securities lending collateral and rebates payable and also a slight reduction in the number of retirees and beneficiaries receiving benefits.

Net assets held in trust for pension benefits decreased by \$0.5 million or 3.7%.

2006 – 2005

	2006	2005	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 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 a decrease in the fair value of investments.

Liabilities 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%.

**STATE OF NEW JERSEY
PRISON OFFICERS' PENSION FUND**

Management's Discussion and Analysis

June 30, 2007 and 2006

Summary of Additions to Fiduciary Net Assets

2007 – 2006

	<u>2007</u>	<u>2006</u>	<u>Increase (Decrease)</u>
Contributions	\$ 1,138,138	1,149,159	(11,021)
Net investment income	712,185	532,946	179,239
Totals	<u>\$ 1,850,323</u>	<u>1,682,105</u>	<u>168,218</u>

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 1.0%. Investment earnings increased by \$0.2 million or 33.6% due to an increase in the net appreciation in fair value of investments.

Fiscal year 2007 is the tenth consecutive year that the State has not made a contribution to the Fund. As of July 1, 2006, 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.

2006 – 2005

	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease)</u>
Contributions	\$ 1,149,159	1,219,507	(70,348)
Net investment income	532,946	325,464	207,482
Totals	<u>\$ 1,682,105</u>	<u>1,544,971</u>	<u>137,134</u>

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 the 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.

**STATE OF NEW JERSEY
PRISON OFFICERS' PENSION FUND**

Management's Discussion and Analysis

June 30, 2007 and 2006

Summary of Deductions from Fiduciary Net Assets

2007 – 2006

	<u>2007</u>	<u>2006</u>	<u>Increase (Decrease)</u>
Benefits	\$ 2,356,383	2,443,222	(86,839)
Administrative expenses	9,297	7,630	1,667
Totals	<u>\$ 2,365,680</u>	<u>2,450,852</u>	<u>(85,172)</u>

Deductions are mainly comprised of pension benefit payments to retirees and beneficiaries and administrative costs incurred by the Fund. Benefit payments decreased by 3.6% due to fewer retirees and beneficiaries. Administrative costs increased by 21.8%.

2006 – 2005

	<u>2006</u>	<u>2005</u>	<u>Decrease</u>
Benefits	\$ 2,443,222	2,631,732	(188,510)
Administrative expenses	7,630	14,202	(6,572)
Totals	<u>\$ 2,450,852</u>	<u>2,645,934</u>	<u>(195,082)</u>

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. Administrative costs decreased by 46.3%.

Retirement System as a Whole

The overall funded ratios of 170.2% for fiscal year 2007 and 162.9% for 2006 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, 2007 and 2006

	2007	2006
Assets:		
Cash	\$ 340,478	340,172
Securities lending collateral	4,553	353,352
Investments, at fair value:		
Cash Management Fund	13,099,603	8,460,836
Bonds	—	5,016,400
Mortgage backed securities	226,247	303,708
Total investments	13,325,850	13,780,944
Receivables:		
Other	1,415	70,271
Total receivables	1,415	70,271
Total assets	13,672,296	14,544,739
Liabilities:		
Accounts payable and accrued expenses	2,477	3,819
Retirement benefits payable	165,905	172,850
Securities lending collateral and rebates payable	4,553	353,352
Total liabilities	172,935	530,021
Net assets :		
Held in trust for pension benefits	\$ 13,499,361	14,014,718

See schedule of funding progress on pages 28-29.

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, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Additions:		
Contributions:		
Pension adjustment fund	\$ 1,138,138	1,149,159
Total contributions	<u>1,138,138</u>	<u>1,149,159</u>
Investment income:		
Net appreciation (depreciation) in fair value of investments	65,642	(176,079)
Interest	649,096	711,022
	<u>714,738</u>	<u>534,943</u>
Less: investment expense	<u>2,553</u>	<u>1,997</u>
Net investment income	<u>712,185</u>	<u>532,946</u>
Total additions	<u>1,850,323</u>	<u>1,682,105</u>
Deductions:		
Benefits	2,356,383	2,443,222
Administrative expenses	9,297	7,630
Total deductions	<u>2,365,680</u>	<u>2,450,852</u>
Change in net assets	<u>(515,357)</u>	<u>(768,747)</u>
Net assets – Beginning of year	<u>14,014,718</u>	<u>14,783,465</u>
Net assets – End of year	<u>\$ 13,499,361</u>	<u>14,014,718</u>

See accompanying notes to financial statements.

**STATE OF NEW JERSEY
PRISON OFFICERS' PENSION FUND**

Notes to Financial Statements

June 30, 2007 and 2006

(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 184 pensioners and beneficiaries are receiving benefits as of June 30, 2006, the date of the most recent actuarial valuation. As of June 30, 2005, there were no active members and 191 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.

**STATE OF NEW JERSEY
PRISON OFFICERS' PENSION FUND**

Notes to Financial Statements

June 30, 2007 and 2006

Investments

The Division of Investment, Department of the Treasury, State of New Jersey (Division of Investment) manages and invests certain assets of seven of the defined benefit plans (PERS, TPAF, JRS, PFRS, CPFPF, SPRS and POPF). The Division of Investment separately reports the assets, liabilities and net assets of the underlying investment portfolio of the seven defined benefit plans in its Pension Fund report. The Division of Investment accounts included in the Pension Fund report are: Common Fund A, Common Fund B, Common Fund D, Common Fund E, Police and Firemen's Mortgage Program accounts and other investments owned directly by the seven defined benefit pension plans. Common Fund A invests primarily in domestic equity securities. Common Fund B invests primarily in domestic fixed income securities. Common Fund D invests primarily in foreign equity and fixed income securities. Common Fund E invests primarily in alternative investments which includes private equity, real assets and absolute return strategy investments. The Police and Firemen's Retirement System includes a mortgage loan program administered by the New Jersey Housing and Mortgage Finance Agency that provides participants with mortgages from the program at rates which are fixed by formula. The law establishing the program provides that the Fund may not sell the mortgages, and no independent market exists for them.

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.

**STATE OF NEW JERSEY
PRISON OFFICERS' PENSION FUND**

Notes to Financial Statements

June 30, 2007 and 2006

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 Fund has 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% (depending on whether the securities are denominated in U.S. dollars or a foreign currency, respectively) 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, 2007, 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 or other borrowers 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 the 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.

**STATE OF NEW JERSEY
PRISON OFFICERS' PENSION FUND**

Notes to Financial Statements

June 30, 2007 and 2006

(3) Investments

The Fund is invested in mortgage backed securities which represent 0.02% and 0.40% of the investment total of the Pension Fund as of June 30, 2007 and 2006, respectively.

The Pension Fund investments as of June 30 are as follows:

	<u>2007</u>	<u>2006</u>
Domestic equities	\$ 31,474,841,997	36,206,866,148
International equities	17,174,769,178	12,953,297,531
Domestic fixed income	19,648,980,451	17,027,737,435
International fixed income	996,400,682	1,187,184,887
Commodity linked notes	502,393,611	—
Police and Fireman's mortgages	1,109,584,450	965,008,210
Private equity	1,159,903,960	236,208,692
Real estate	1,003,932,926	81,345,789
Absolute return strategy funds	2,340,519,278	260,707,666
Net forward foreign exchange contracts	—	(15,138,794)
	<u>\$ 75,411,326,533</u>	<u>68,903,217,564</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 and exchange traded funds, covered call and put options, equity futures contracts, obligations of the U.S. Treasury, government agencies, corporations, finance companies and banks, obligations of international corporations, governments and agencies, interest rate swap transactions, fixed income exchange traded funds, U.S. Treasury futures contracts, 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, funding agreements, money market funds, private equity, real estate, other real assets and absolute return strategy funds.

The Pension Fund 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), Standard & Poor's Corporation (S&P), and Fitch Ratings (Fitch). 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

**STATE OF NEW JERSEY
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Notes to Financial Statements

June 30, 2007 and 2006

of fixed income obligations held directly by the Pension Fund and limit the amount that can be invested in any one issuer or issue. These limits for the period July 1, 2006 through September 4, 2006 were 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	Baa	BBB	25%	25%	—
U.S. finance company debt, bank debentures and NJ state and 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

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Notes to Financial Statements

June 30, 2007 and 2006

Effective September 5, 2006, the following limits became effective:

Category	Minimum rating			Limitation of issuer's outstanding debt	Limitation of issue	Other limitations
	Moody's	S&P	Fitch			
Corporate obligations	Baa3	BBB-	BBB-	10%	25%	Not more than 5% of fund assets can be invested in one corporation
U.S. finance company debt and bank debentures	Baa3	BBB-	BBB-	10%	25%	Not more than 5% of fund assets can be invested in one corporation
International corporate obligations	Baa3	BBB-	BBB-	10%	25%	Not more than 5% of fund assets can be invested in any one issuer with maturities exceeding 12 months; not more than 10% of fund assets can be invested in this category
International government and agency obligations	Aa3	AA-	AA-	25%	Greater of 25% or \$10 million	Not more than 1% of fund assets can be invested in any one issuer
Collateralized notes and mortgages	Baa3	BBB-	BBB-	—	25%	Not more than 5% of fund assets can be invested in any one issue; not more than 10% of fund assets (or 20% of Fund B assets) can be invested in this category
Commercial paper	P-1	A-1	F1	—	—	—
Certificates of deposit and Banker's acceptances:						Certificates of deposit and banker's acceptances cannot exceed 10% of issuer's primary capital
Domestic	A3/P-1	A-/A-1	A-/F1	—	—	
International	Aa/P-1	AA-/A-1	AA-/F1	—	—	
Guaranteed income contracts and funding agreements	A3	A-	A-	—	—	—
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
PRISON OFFICERS' PENSION FUND**

Notes to Financial Statements

June 30, 2007 and 2006

Category	Minimum rating			Limitation of issuer's outstanding debt	Limitation of issue	Other limitations
	Moody's	S&P	Fitch			
Interest rate swap transactions	A3	A-	A-	—	—	Notional value of net exposure to any one counterparty shall not exceed 10% of fund assets
Repurchase agreements	Aa3	AA-	AA-	—	—	—
NJ state & municipal obligations	A3	A-	A-	10%	10%	Not more than 10% of fund assets can be invested in debt of any one political entity maturing more than 12 months from purchase
Public authority revenue obligations	A3	A-	A-	—	10%	Not more than 2% of fund assets can be invested in any one public authority
Mortgage backed passthrough securities	A3	A-	A-	—	—	Not more than 5% of fund assets can be invested in any one issue
Mortgage backed senior debt securities	—	—	—	—	25%	Not more than 5% of fund assets can be invested in any one issue

Up to 5% of the market value of Common Fund B may be invested in corporate obligations, finance company debt, bank debentures, international corporate obligations, collateralized notes, and mortgages and mortgage backed pass-through securities that do not meet the minimum credit rating requirements set forth above.

**STATE OF NEW JERSEY
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June 30, 2007 and 2006

For securities in the fixed income portfolio, the following tables disclose aggregate market value, by major credit quality rating category at June 30, 2007 and 2006:

(In thousands)	June 30, 2007			
	Moody's rating			
	Aaa	Aa	A	Baa
United States Treasury Notes	\$ 2,038,229	—	—	—
United States Treasury TIPS	1,875,022	—	—	—
United States Treasury Bonds	5,187,546	—	—	—
United States Treasury Strips	39,649	—	—	—
Title XI Merchant Marine Notes	2,786	—	—	—
Federal Agricultural Mortgage Corp. Notes	95,295	—	—	—
Federal Farm Credit Bank Bonds	50,227	—	—	—
Federal Home Loan Bank Bonds	289,167	—	—	—
Federal Home Loan Bank Discounted Notes	96,345	—	—	—
Federal National Mortgage Association Notes	96,355	—	—	—
Resolution Funding Corp. Obligations	6,466	—	—	—
Tennessee Valley Authority Strips	72,610	—	—	—
Floating Rate Notes	9,999	20,038	—	—
Domestic Corporate Obligations	427,646	760,349	2,093,792	2,020,011
International Corporate Obligations	—	—	47,912	35,330
Real Estate Investment Trust Obligations	—	—	—	34,025
Finance Company Debt	293,489	296,882	498,203	9,240
International Bonds and Notes	404,960	64,583	48,200	—
Foreign Government Obligations	302,900	92,516	—	—
Remic/FHLMC	952,817	—	—	—
Remic/FNMA	66,490	—	—	—
Remic/GNMA	17,969	—	—	—
GNMA Mortgage Backed Certificates	64,206	—	—	—
FHLM Mortgage Backed Certificates	939,992	—	—	—
FNMA Mortgage Backed Certificates	839,452	—	—	—
SBA Passthrough Certificates	9,700	—	—	—
Asset Backed Obligations	310,611	—	—	—
Private Export Obligations	56,771	—	—	—
Exchange Traded Securities	—	—	52,290	—
	<u>\$ 14,546,699</u>	<u>1,234,368</u>	<u>2,740,397</u>	<u>2,098,606</u>

The table does not include certain corporate obligations totaling \$25,310,000 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.

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June 30, 2007 and 2006

(In thousands)	June 30, 2006				
	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.

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 requirement for repurchase agreements was 15 days through September 4, 2006; this was revised to 30 days effective September 5, 2006. The investment in guaranteed income contracts and funding agreements is limited to a term of 10 years or less.

**STATE OF NEW JERSEY
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June 30, 2007 and 2006

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, 2007 and 2006:

(In thousands)	June 30, 2007				
	Total	Maturities in years			
Fixed income investment type	market value	Less than 1	1-5	6-10	More than 10
United States Treasury Notes	\$ 2,038,229	148,736	447,759	1,441,734	—
United States Treasury Tips	1,875,022	—	185,141	762,104	927,777
United States Treasury Bonds	5,187,546	—	—	86,215	5,101,331
United States Treasury Strips	39,649	—	—	—	39,649
Title XI Merchant Marine Notes	2,786	—	—	—	2,786
Federal Agricultural Mortgage Corp. Notes	95,295	—	95,295	—	—
Federal Farm Credit Bank Bonds	50,227	20,114	30,113	—	—
Federal Home Loan Bank Bonds	289,167	18,107	250,170	20,890	—
Federal Home Loan Bank Discounted Notes	96,345	—	—	—	96,345
Federal National Mortgage Association Notes	96,355	—	96,355	—	—
Resolution Funding Corp. Obligations	6,466	—	—	—	6,466
Floating Rate Notes	30,037	—	20,038	9,999	—
Tennessee Valley Authority Strips	72,610	—	—	—	72,610
Domestic Corporate Obligations	5,327,108	127,673	850,539	959,663	3,389,233
International Corporate Obligations	83,242	—	—	—	83,242
Real Estate Investment Trust Obligations	34,025	—	19,574	14,451	—
Finance Company Debt	1,097,814	59,175	552,626	243,679	242,334
Foreign Government Obligations	395,416	64,184	244,266	67,973	18,993
International Bonds and Notes	517,743	69,410	128,538	110,541	209,254
Remic/FHLMC	952,817	—	—	39,882	912,935
Remic/FNMA	66,490	—	—	18,036	48,454
Remic/GNMA	17,969	—	—	—	17,969
SBA Passthrough Certificates	9,700	—	—	9,700	—
Police and Firemen's Mortgages	1,109,585	425	839	9,292	1,099,029
GNMA Mortgage Backed Certificates	64,206	131	36	—	64,039
FHLM Mortgage Backed Certificates	939,992	—	68	2,644	937,280
FNMA Mortgage Backed Certificates	839,452	171	5,284	16,137	817,860
Asset Backed Obligations	310,611	—	59,947	59,978	190,686
Private Export Obligations	56,771	—	32,490	24,281	—
	<u>\$ 21,702,675</u>	<u>508,126</u>	<u>3,019,078</u>	<u>3,897,199</u>	<u>14,278,272</u>

**STATE OF NEW JERSEY
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June 30, 2007 and 2006

(In thousands)	June 30, 2006				
	Fixed income investment type	Total market value	Maturities in years		
Less than 1			1-5	6-10	
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 Fireman'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
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Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Pension Fund invests in global markets. 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, previously could not exceed 22% of the market value of the Pension Fund. Effective September 5, 2006, the market value of emerging market securities cannot exceed more than 1.5 times the percentage derived by dividing the total market capitalization of companies included in the Morgan Stanley Capital International (MSCI) Emerging Market Index by the total market capitalization of the companies included in the MSCI All-Country World Ex-United States Index of the total market value of the assets held by Common Fund D. Prior to September 5, 2006, 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. 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 Fund to enter into foreign exchange contracts for the purpose of hedging the international portfolio. The Pension Fund held forward contracts totaling approximately \$1.9 billion (with a \$14 million net exposure) at June 30, 2006. The Pension Fund had the following foreign currency exposure (expressed in U.S. dollars and in thousands):

June 30, 2007				
Currency	Total market value	Equities	Foreign government obligations	Alternative Investments
Australian dollar	\$ 472,778	472,778	—	—
Canadian dollar	700,076	700,076	—	—
Danish krone	236,914	236,914	—	—
Euro	5,777,859	5,466,997	278,743	32,119
Hong Kong dollar	187,292	187,292	—	—
Japanese yen	4,377,681	4,377,681	—	—
Mexican peso	74,710	74,710	—	—
New Zealand dollar	26,505	26,505	—	—
Norwegian krone	426,080	426,080	—	—
Pound sterling	2,077,051	2,051,057	—	25,994
Singapore dollar	151,674	151,674	—	—
South Korean won	175,851	175,851	—	—
Swedish krona	897,683	897,683	—	—
Swiss franc	1,702,575	1,702,575	—	—
	\$ 17,284,729	16,947,873	278,743	58,113

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June 30, 2007 and 2006

<u>Currency</u>	<u>June 30, 2006</u>		
	<u>Total market value</u>	<u>Equities</u>	<u>Foreign government obligations</u>
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>

The Cash Management Fund is not evidenced by securities that exist in physical or book entry form held by the Pension Fund.

The Pension Fund's 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. Effective September 5, 2006, Council regulations require that not more than 18% of the market value of the Pension Fund can be invested in alternative investments, with the individual categories of real estate, real assets, private equity and absolute return strategy investments limited to 7%. Not more than 5% of the market value of Common Fund E, plus outstanding commitments, may be committed to any one partnership or investment, without the prior written approval of the Council. The investments in Common Fund E cannot comprise more than 20% of any one investment manager's total assets.

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Notes to Financial Statements

June 30, 2007 and 2006

(4) Securities Lending Collateral

The Fund's share in the securities lending program is less than 0.001% and 0.003% of the total market value of the collateral as of June 30, 2007 and 2006, 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. These limits are consistent with Council regulations and internal policies for funds managed by the Division. These limits for the period July 1, 2006 through September 4, 2006 were 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 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

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June 30, 2007 and 2006

Effective September 5, 2006, the following limits became effective:

<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>	<u>Fitch</u>			
Corporate obligations	Baa3	BBB-	BBB-	10%	25%	—
U.S. finance company debt and bank debentures	Baa3	BBB-	BBB-	10%	25%	—
Collateralized notes and mortgages	Baa3	BBB-	BBB-	—	25%	Limited to not more than 10% of the assets of the collateral portfolio
Commercial paper	P-1	A-1	F1	—	—	Dollar limits by issuer
Certificates of deposit/ Banker's acceptances:						Certificates of deposit and banker's acceptances' cannot exceed 10% of issuer's primary capital; dollar limits by issuer
Domestic	A3/P-1	A-/A-1	A-/F1	—	—	
International	Aa3/P-1	AA-/A-1	AA-/F1	—	—	
Guaranteed income contracts and funding agreements	A3	A-	A-	—	—	Limited to 5% of the assets of the collateral portfolio
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, guaranteed income contracts, and funding agreements must be less than 25 months. Commercial paper maturities cannot exceed 270 days. Repurchase agreement maturities cannot exceed 30 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, collateralized notes and mortgages and corporate obligations meeting certain minimum rating criteria.

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June 30, 2007 and 2006

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 5% of the shares or units outstanding of said money market fund. For Collateralized Notes and Mortgages, not more than 2% and 5% of the assets of the collateral portfolio shall be invested in the obligations of any one issuer and issue, respectively. For Guaranteed Income Contracts and Funding Agreements, 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%), A (2%), and Baa (1%).

For securities exposed to credit risk in the collateral portfolio, the following table discloses aggregate market value, by major credit quality rating category at June 30, 2007 and 2006. In those cases where an issuer and/or security have both a long-term and short-term rating, the short-term rating is presented.

(In thousands)	June 30, 2007					
	Rating					
	Aaa/AAA	Aa/AA	A/A	Baa/BBB	P1	Not rated
Corporate obligations	\$ 1,142,643	3,199,254	2,712,377	217,479	713,321	—
Commercial paper	—	—	—	—	3,536,172	—
Certificates of deposit	—	99,985	—	—	1,032,601	—
Repurchase agreements	—	—	—	—	—	1,765,830
Funding agreements	—	—	—	—	700,000	—
Money market funds	7,224	1,730,000	500,000	—	—	285,283
Collateralized notes	150,200	2,002	—	—	618,881	—
Cash	—	—	—	—	—	65
	<u>\$ 1,300,067</u>	<u>5,031,241</u>	<u>3,212,377</u>	<u>217,479</u>	<u>6,600,975</u>	<u>2,051,178</u>

(In thousands)	June 30, 2006				
	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>

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PRISON OFFICERS' PENSION FUND**

Notes to Financial Statements

June 30, 2007 and 2006

The following tables summarize the maturities of the collateral portfolio at June 30, 2007 and 2006:

(In thousands)	June 30, 2007		
	Total market value	Maturities	
		Less than one year	One year to 25 months
Corporate obligations	\$ 7,985,074	4,144,639	3,840,435
Commercial paper	3,536,172	3,536,172	—
Certificates of deposit	1,132,586	1,132,586	—
Repurchase agreements	1,765,830	1,765,830	—
Funding agreements	700,000	700,000	—
Money market funds	2,522,507	2,522,507	—
Collateralized notes	771,083	769,081	2,002
	<u>\$ 18,413,252</u>	<u>14,570,815</u>	<u>3,842,437</u>

(In thousands)	June 30, 2006		
	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>

As of June 30, 2007, the Pension Fund had outstanding loaned investment securities with an aggregate market value of \$18,034,823,201 and received cash collateral of \$18,423,399,432 and non-cash collateral of \$4,471,761. As of June 30, 2006, the Pension Fund had outstanding loaned investment securities with an aggregate market value of \$13,824,349,093 and received cash collateral of \$14,115,678,308 and non-cash collateral of \$1,670,223. In accordance with GASB accounting standards, the non-cash collateral is not reflected in the accompanying financial statements.

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Notes to Financial Statements

June 30, 2007 and 2006

(5) Contributions

There are no active members in the POPF. Accordingly, based on actuarial valuation, there is no normal cost or accrued liability contribution required by employers.

(6) Funds

This Fund maintains the following legally required fund:

Retirement Reserve Fund (2007 - \$13,499,361; 2006 - \$14,014,718)

The Retirement Reserve Fund is credited with 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

Schedule of Funding Progress

(Unaudited)

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 (over funded) actuarial accrued liability as a percentage of covered payroll ((b - a) / c)
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
June 30, 2006	14,014,718	8,236,295	(5,778,423)	170.2	N/A	N/A

**STATE OF NEW JERSEY
PRISON OFFICERS' PENSION FUND**

Required Supplementary Information
Schedule of Funding Progress – Additional Actuarial Information
(Unaudited)

Significant actuarial methods and assumptions used in the most recent June 30, 2006 and 2005 actuarial valuations include the following:

	June 30, 2006	June 30, 2005
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
Schedule of Employer Contributions
(Unaudited)

Year ended June 30,	Annual required contribution	Employer contributions	Percentage contributed
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
2007	—	—	N/A

Schedule 3

**STATE OF NEW JERSEY
PRISON OFFICERS' PENSION FUND**

Schedule of Changes in Fiduciary Net Assets by Fund

Year ended June 30, 2007

	Retirement reserve fund	Pension adjustment pass through	Total
Additions:			
Contributions:			
Pension adjustment fund	\$ —	1,138,138	1,138,138
Total contributions	—	1,138,138	1,138,138
Distribution of net investment income	712,185	—	712,185
Total additions	712,185	1,138,138	1,850,323
Deductions:			
Benefits	1,218,245	1,138,138	2,356,383
Administrative expenses	9,297	—	9,297
Total deductions	1,227,542	1,138,138	2,365,680
Net decrease	(515,357)	—	(515,357)
Net assets held in trust for pension benefits:			
Beginning of year	14,014,718	—	14,014,718
End of year	\$ 13,499,361	—	13,499,361