STATE OF NEW JERSEY
POLICE AND FIREMEN'S RETIREMENT SYSTEM

FINANCIAL STATEMENTS AND SCHEDULES
June 30, 2012 and 2011
(With Independent Auditor's Report Thereon)

CliftonLarsonAllen

CliftonLarsonAllen LLP
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Independent Auditor's Report

The Board of Trustees
State of New Jersey
Police and Firemen's Retirement System

We have audited the accompanying statements of fiduciary net assets of the State of New Jersey Police and Firemen's Retirement System (the System) as of June 30, 2012 and 2011, and the related statements of changes in fiduciary net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 Police and Firemen's Retirement System as of June 30, 2012 and 2011, and changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 6 and the schedules of funding progress and employer contributions and related additional actuarial information (schedules 1 and 2) be presented to supplement the basic financial statements, such information although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. 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 basic financial statements taken as a whole. The additional information, the 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. The additional information, the schedule of changes in fiduciary net assets by fund, has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional information, the schedule of changes in fiduciary net assets by fund, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

CliftonLarsonAllen LLP

Mt. Laurel, New Jersey
November 5, 2012

STATE OF NEW JERSEY
POLICE AND FIREMEN'S RETIREMENT SYSTEM

Management's Discussion and Analysis

June 30, 2012 and 2011

Our discussion and analysis of the financial performance of the Police and Firemen's Retirement System (the System or PFRS) provides an overview of the System's financial activities for the fiscal years ended June 30, 2012 and 2011. Please read it in conjunction with the basic financial statements and financial statement footnotes, which follow this discussion.

Financial Highlights

2012 - 2011

- Net assets held in trust for pension benefits decreased by $285,603,319 as a result of fiscal year 2012's operations from $21,292,687,884 to $21,007,084,565.
- Additions for the year are $1,588,269,194, which are comprised of member and employer pension contributions of $1,216,773,022 and net investment income of $371,496,172.
- Deductions for the year are $1,873,872,513, which are comprised of benefit and refund payments of $1,869,953,075 and administrative expenses of $3,919,438.

2011 - 2010

- Net assets held in trust for pension benefits increased by $1,448,550,068 as a result of fiscal year 2011's operations from $19,844,137,816 to $21,292,687,884.
- Additions for the year are $3,181,924,007, which are comprised of member and employer pension contributions of $110,443,152 and net investment income of $3,071,480,855.
- Deductions for the year are $1,733,373,939, which are comprised of benefit and refund payments of $1,729,258,463 and administrative expenses of $4,115,476.

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

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

The Statements of Fiduciary Net Assets show the balances of all of the assets and liabilities of the System at the end of the fiscal year. The difference between assets and liabilities represents the System's fiduciary net assets. Over time, increases or decreases in the System's fiduciary net assets provide one indication of whether the financial health of the System is improving or declining. *The Statements of Changes in Fiduciary Net Assets* show the results of financial operations for the year. The statements provide an explanation for the change in the System's fiduciary net assets since the prior year. These two financial statements should be reviewed along with the information contained in the financial statement footnotes, including the required supplementary schedules, to determine whether the System is becoming financially stronger or weaker.

STATE OF NEW JERSEY
POLICE AND FIREMEN'S RETIREMENT SYSTEM

Management's Discussion and Analysis

June 30, 2012 and 2011

Financial Analysis

Summary of Fiduciary Net Assets

2012 – 2011

		2012	2011	Increase (decrease)
Assets	$	21,494,209,356	21,673,746,646	(179,537,290)
Liabilities		487,124,791	381,058,762	106,066,029
Net assets	$	21,007,084,565	21,292,687,884	(285,603,319)

The System's assets primarily consist of cash, investments, securities lending collateral, contributions due from members and participating employers, accrued investment income and members' loans receivable. Between fiscal years 2011 and 2012, total assets decreased by $179.5 million or 0.8%. This decrease is due to a reduction of $321.8 million in investment holdings that were utilized to pay benefits of the System, an increase in the securities lending collateral of $100.1 million, and a net increase in receivables and cash of $42.2 million. Employer contributions receivables include contribution receivables from local employers for appropriations and early retirement incentive programs due April 1, 2013.

Liabilities consist of retirement benefits payable to retirees and beneficiaries, non-contributory group life insurance premiums payable to the System's insurance provider, securities lending collateral and rebates payable and, classified under accounts payable and accrued expenses, liabilities of PFRS for unclaimed member accounts and checks issued to members that have not been negotiated by the members but remain due and payable. Total liabilities increased by $106.1 million or 27.8% due to an increase in the securities lending collateral and rebates payable of $99.9 million and an increase in retirement benefits payable and other payables of $6.2 million.

Net assets held in trust for pension benefits decreased by $285.6 million or 1.3%.

Summary of Fiduciary Net Assets

2011 – 2010

		2011	2010	Increase
Assets	$	21,673,746,646	19,987,241,043	1,686,505,603
Liabilities		381,058,762	143,103,227	237,955,535
Net assets	$	21,292,687,884	19,844,137,816	1,448,550,068

The System's assets primarily consist of investments, securities lending collateral, contributions due from members and participating employers, accrued investment income and members' loans receivable. Between fiscal years 2010 and 2011, total assets increased by $1.7 billion or 8.4%. The total assets increased due to an increase in investments of $2.6 billion, an increase in the securities lending collateral of $225.2 million, offset by a decrease in receivables of $1.1 billion. Employer contributions receivables include contribution receivables from local employers for appropriations and early retirement incentive programs due April 1, 2012.

Liabilities consist of retirement benefits payable to retirees and beneficiaries, non-contributory group life insurance premiums payable to the System's insurance provider, securities lending collateral and rebates payable and, classified under accounts payable and accrued expenses, liabilities of PFRS for unclaimed member accounts and checks issued to members that have not been negotiated by the members but remain due and payable. Total liabilities increased by $238.0 million or 166.3% due to an increase in the securities lending collateral and rebates payable of $224.9 million and an increase in retirement benefits payable and other payables of $13.1 million.

Net assets held in trust for pension benefits increased by $1.4 billion or 7.3%.

Summary of Changes to Fiduciary Net Assets

2012 – 2011

		2012	2011	Increase (decrease)
Additions:				
Member contributions	$	374,688,168	327,357,244	47,330,924
Employer contributions		842,084,854	(216,914,092)	1,058,998,946
Net investment income		371,496,172	3,071,480,855	(2,699,984,683)
Total additions		1,588,269,194	3,181,924,007	(1,593,654,813)
Deductions:				
Benefits		1,862,401,613	1,721,552,719	140,848,894
Refunds of contributions		7,551,462	7,705,744	(154,282)
Administrative and miscellaneous expenses		3,919,438	4,115,476	(196,038)
Total deductions		1,873,872,513	1,733,373,939	140,498,574
Changes in net assets	$	(285,603,319)	1,448,550,068	(1,734,153,387)

Additions primarily consist of member and employer contributions and earnings from investment activities. Member contributions increased by $47.3 million or 14.5% due to the higher member contribution rate as required in Chapter 78, P.L, 2011.

Chapter 1, P.L. 2010, effective May 21, 2010, required the State to make its full pension contribution, defined as 1/7th of the required amount, beginning in fiscal year 2012. The state made this contribution of $ 53.6 million which is equal to 12.9% of the actuarially determined amount of the Annual Required Contribution (ARC) and 14.3% of the budgetary recommended amount. Also, the State contributed $5.6 million for NCGI and $0.3 million for miscellaneous items due to the System.

The local employers' contribution amounts include the billing for their pension, NCGI, Early Retirement Incentive (ERI) contributions for those who participate in the various ERI programs, and other miscellaneous items that are due to the System. For fiscal year 2012, the amount accrued for the annual appropriation billings due April 1, 2013 is $781.2 million.

The total investment return for all pension funds was estimated to be a gain of 2.52% compared to a gain of 18.03% in the prior year. As a result, net investment income decreased by $2.7 billion or 87.9% due to the lower investment return in fiscal year 2012 as compared to fiscal year 2011.

Deductions are mainly comprised of pension benefit payments to retirees and beneficiaries, refunds of contributions to former members, and administrative costs incurred by the System to run the pension plan. Benefit payments increased by $140.8 million or 8.2% primarily due to an increase in number of retirees receiving benefits. The amount of refunds processed decreased by $0.1 million or 2.0%. Administrative expenses decreased by $0.2 million or 4.8%.

Summary of Changes to Fiduciary Net Assets

2011 – 2010

	2011	2010	Increase (decrease)
Additions:			
Member contributions	$ 327,357,244	330,951,798	(3,594,554)
Employer contributions	(216,914,092)	1,001,223,223	(1,218,137,315)
Net investment income	3,071,480,855	2,008,239,281	1,063,241,574
Total additions	3,181,924,007	3,340,414,302	(158,490,295)
Deductions:			
Benefits	1,721,552,719	1,573,510,855	148,041,864
Refunds of contributions	7,705,744	5,615,160	2,090,584
Administrative and miscellaneous expenses	4,115,476	6,080,086	(1,964,610)
Total deductions	1,733,373,939	1,585,206,101	148,167,838
Changes in net assets	$ 1,448,550,068	1,755,208,201	(306,658,133)

Additions primarily consist of member and employer contributions and earnings from investment activities. Member contributions decreased by $3.6 million or 1.1% due to a decrease in active membership.

Employer contributions decreased by $1.2 billion or 121.7%. In fiscal year 2011, employer contributions include accrued appropriations due April 1, 2012 and early retirement incentive benefits billed to local employers. The State did not make a pension contribution for fiscal year 2011 but did make a contribution of $7.6 million for Non-contributory Group Insurance (NCGI) death benefits. Also included in the employer contributions is the annual billing to local employers for their pension and NCGI contributions and Early Retirement Incentive (ERI) contributions for those who participate in the various ERI programs and other miscellaneous items that were due the System. The amount accrued in fiscal year 2010 and due April 1, 2012 was originally $950.7 million. In fiscal year 2011, the State made a decision to reduce the PFRS lag period between the valuation year and the contribution year from three years to two years which will bring the System in line with the other pension trust funds. This change results in a revised accrual for the bills due April 1, 2012 in the amount of $736.1 million resulting in a reduction of $214.6 million.

Net investment income increased by $1.1 billion or 52.9% due to appreciation of investments.

The total investment return for all pension funds was estimated to be an 18.03% gain compared to a 13.4% gain in the prior year.

Deductions are mainly comprised of pension benefit payments to retirees and beneficiaries, refunds of contributions to former members, and administrative costs incurred by the System. Benefit payments increased by $148.0 million or 9.4% primarily due to an increase in number of retirees receiving benefits. The amount of refunds processed increased by $2.1 million or 37.2%. Administrative expenses decreased by $2.0 million or 32.3% due to a change in the method of calculating the amount reimbursed to the State of New Jersey general fund between fiscal years 2010 and 2011.

Retirement System as a Whole

The overall funded ratios of 75.0% for fiscal year 2012 and 80.2% for fiscal year 2011 indicate that the System is reasonably funded.

Contacting System Financial Management

The financial report is designed to provide our members, beneficiaries, investors and other interested parties with a general overview of the System's finances and to show the System's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295

STATE OF NEW JERSEY
POLICE AND FIREMEN'S RETIREMENT SYSTEM

Statements of Fiduciary Net Assets

June 30, 2012 and 2011

	2012	2011
Assets:		
Cash	$ 156,279,415	3,530,486
Securities lending collateral	329,622,358	229,475,294
Investments, at fair value:		
Cash Management Fund	64,434,348	834,258,381
Common Pension Fund A	5,005,961,988	5,224,187,934
Common Pension Fund B	4,701,599,501	5,000,893,229
Common Pension Fund D	3,861,236,828	4,148,349,248
Common Pension Fund E	4,987,508,401	3,532,122,612
Mortgages	963,899,029	1,166,665,018
Total investments	19,584,640,095	19,906,476,422
Receivables:		
Contributions:		
Members	47,526,660	42,193,912
Employers	984,397,141	976,737,845
Accrued interest and dividends	3,942,398	99,127,632
Members' loans	366,063,933	401,765,399
Securities sold in transit	15,944,787	9,561,663
Other	5,792,569	4,877,993
Total receivables	1,423,667,488	1,534,264,444
Total assets	21,494,209,356	21,673,746,646
Liabilities:		
Accounts payable and accrued expenses	4,142,032	3,585,173
Retirement benefits payable	151,829,114	145,797,941
Non-contributory group insurance premiums payable	2,040,589	2,497,728
Securities lending collateral and rebates payable	329,113,056	229,177,920
Total liabilities	487,124,791	381,058,762
Net assets:		
Held in trust for pension benefits	$ 21,007,084,565	21,292,687,884

See schedule of funding progress on pages 29-30.
See accompanying notes to financial statements.

STATE OF NEW JERSEY
POLICE AND FIREMEN'S RETIREMENT SYSTEM

Statements of Changes in Fiduciary Net Assets

Years ended June 30, 2012 and 2011

		2012	2011
Additions:			
Contributions:			
Members	$	374,688,168	327,357,244
Employers		842,084,854	(216,914,092)
Total contributions		1,216,773,022	110,443,152
Investment income:			
Net appreciation (depreciation) in fair value of investments		(167,607,023)	2,533,138,436
Interest		434,578,261	440,253,971
Dividends		105,876,587	99,455,410
		372,847,825	3,072,847,817
Less investment expense		1,351,653	1,366,962
Net investment income		371,496,172	3,071,480,855
Total additions		1,588,269,194	3,181,924,007
Deductions:			
Benefits		1,862,401,613	1,721,552,719
Refunds of contributions		7,551,462	7,705,744
Administrative and miscellaneous expenses		3,919,438	4,115,476
Total deductions		1,873,872,513	1,733,373,939
Change in net assets		(285,603,319)	1,448,550,068
Net assets – beginning of year		21,292,687,884	19,844,137,816
Net assets – end of year	$	21,007,084,565	21,292,687,884

See accompanying notes to financial statements.

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(1) Description of the System

The State of New Jersey Police and Firemen's Retirement System (the System; PFRS) is a cost-sharing multiple-employer contributory defined benefit plan which was established as of July 1, 1944, under the provisions of N.J.S.A. 43:16A. The System is included along with other state-administered pension trust and agency funds in the basic financial statements of the State of New Jersey.

At July 1, 2011 and 2010, the dates of the most recent actuarial valuations, participating employers consisted of the following:

	2011	2010
State of New Jersey	1	1
Municipalities	585	588
Total	586	589

The System's designated purpose is to provide retirement, death and disability benefits to its members. Membership in the System is mandatory for substantially all full-time county and municipal police or firemen, and state firemen or officer employees with police powers appointed after June 30, 1944. The System's board of trustees is primarily responsible for its administration.

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

Vesting and Benefit Provisions

The vesting and benefit provisions are set by N.J.S.A. 43:16A and 43:3B. The PFRS provides retirement as well as death and disability benefits. All benefits vest after ten years of service, except disability benefits which vest after four years of service. Retirement benefits for age and service are available at age 55 and are generally determined to be 2% of final compensation for each year of creditable service, as defined, up to 30 years plus 1% for each year of service in excess of 30 years. Final compensation equals the compensation for the final year of service prior to retirement. Members may seek special retirement after achieving 25 years of creditable service or they may elect deferred retirement after achieving ten years of service, in which case benefits would begin at age 55 equal to 2% of final compensation for each year of service. The annual benefit under special retirement is 65% of the member's final compensation plus 1% for each year of creditable service over 25 years but not to exceed 30 years. The maximum allowance is therefore 70% of final compensation. Pursuant to the provisions of Chapter 78, P.L. 2011, the annual benefit under special retirement for members enrolled after June 28, 2011 (Tier 3 members), is 60% of the member's final compensation plus 1% for each year of creditable service over 25 years but not to exceed 30 years. The maximum allowance is therefore 65% of final compensation.

Widows and widowers of members retired since December 18, 1967 receive 50% of the retiree's final compensation. The minimum annual widow and widower's benefits of an accidental disability retiree prior to December 18, 1967 and of all retirees since December 18, 1967 is $4,500.

Members are always fully vested for their own contributions. In the case of death before retirement, members' beneficiaries are entitled to full payment of members' contributions providing no survivor death benefits are payable.

Eligible retirees receiving monthly benefits are entitled to cost-of-living (COLA) increases equal to 60% of the change in the average consumer price index for the calendar year in which the pensioner retired, as compared to the average consumer price index for a 12-month period ending with each August 31st immediately preceding the year in which the adjustment becomes payable. The regular retirement allowance is multiplied by the 60% factor as developed and results in the dollar amount of the adjustment payable. Retired members become eligible for pension adjustment benefits after 24 months of retirement. The COLA increases are funded by the retirement system and are included in the annual actuarial calculations of the required state and state-related employer contributions. Pursuant to the provisions of Chapter 78, P.L. 2011, COLA increases are suspended for all current and future retirees of all retirement systems. No further COLA increases will be granted. The law does not reduce any COLA increases that have already been added to retiree benefits.

Pursuant to Chapter 1, P.L. 2010, for new members of PFRS hired after May 21, 2010 (Tier 2 members), this law capped the maximum compensation that can be used to calculate a pension from these plans at the annual wage contribution base for Social Security, and required the pension benefit to be calculated using a three-year average annual compensation instead of the last year's salary.

Membership

Membership in the System consisted of the following at July 1, 2011 and 2010, the dates of the most recent actuarial valuations:

	2011	2010
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	38,091	35,973
Active members:		
Vested	28,817	29,552
Nonvested	13,182	14,652
Total active members	41,999	44,204
Total	80,090	80,177

(2) Summary of Significant Accounting Policies

Measurement Focus and Basis of Accounting

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

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

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 international equity and fixed income securities. Common Fund E invests primarily in alternative investments which includes private equity, real estate, 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 System may not sell the mortgages, and no independent market exists for them.

Investments are reported at fair value as follows:

- U.S. Government and Agency, Sovereign and Corporate obligations – prices quoted by a major dealer in such securities.
- Police and Firemen's Mortgages – estimated market prices obtained from independent brokers.
- Domestic and Foreign Equity Securities, Exchanged Traded Funds, 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 estate, real asset, and absolute return strategy funds) – Fair values for the individual funds are based upon the net asset values for the funds at the closest available reporting date, adjusted for subsequent contributions, distributions, management fees and reserves. The valuation techniques vary based upon investment type and involve a certain degree of expert judgment. The most significant input into the net asset value of an entity is the value of its investment holdings. The net asset value is provided by the general partner and/or investment manager and reviewed by management. The net asset values are audited annually. The strategy of private equity and real estate funds are long term and illiquid in nature which can prevent the

investment from being readily marketable. Hedge funds may be subject to redemption restrictions which can limit distributions and restrict the ability of a limited partner to exit a partnership. For alternative investments, the realized value received upon the sale of these investments in the open market might be different than the fair value reported in the accompanying financial statements.

Investment transactions are accounted for on a trade or investment 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.

Securities Lending

The State Investment Council policies permit Common Funds A, B, D and E and several of the direct pension plan portfolios to participate in securities lending programs, whereby securities are loaned to brokers or other borrowers and, in return, the pension funds have rights to the collateral received. All of the public traded securities held in Common Funds A, B, D and E, 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. Collateral is marked to market daily and adjusted as needed to maintain the required minimum level.

Effective December 2010, for loans of U.S. government securities or sovereign debt issued by non-U.S. governments, in the event that the market value of the collateral falls below 100% of the market value of the outstanding loaned securities to an individual borrower, or the market value of the collateral of all loans of such securities falls below the collateral requirement, 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 together with collateral previously delivered meets the collateral requirements.

For loans of all other types of securities, 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, 2012 and 2011, the Common Funds had no aggregate credit risk exposure to borrowers because the collateral amount held by the Common Funds exceeded the market value of the securities on loan.

The contracts with the Common Funds' securities lending agent require them to indemnify the Common Funds if the brokers or other borrowers fail to return the securities and provides that collateral securities may be sold in the event of a borrower default. The Common Funds are also indemnified for any loss of principal or interest on collateral invested in repurchase agreements. The Common Funds cannot participate in any dividend reinvestment program or vote with respect to any securities that are on loan on the applicable record date. The securities loans can be terminated by notification by either the borrower or the Common Funds. The term to maturity of the securities loans is generally matched with the term to maturity of the investment of the cash collateral.

Derivatives

The Division of Investment, from time to time, utilizes forward foreign currency contracts, a derivative security, as a means to hedge against currency risks in the Common Funds' foreign equity and fixed income portfolios.

Forward foreign currency contracts are agreements to buy or sell a specific amount of a foreign currency at a specified delivery or maturity date for an agreed upon price.

The fair value of foreign forward currency contracts held directly by the Common Funds as of June 30, 2012 and 2011 were as follows:

		2012	**2011**
Forward currency receivable	$	423,267,019	1,285,366,143
Forward currency payable		420,869,210	1,310,308,414
Net unrealized gain (loss)	$	2,397,809	(24,942,271)

The Common Funds utilize covered call and put options in an effort to add value to or reduce the risk level in the portfolio. Options are agreements that give the owner of the option the right, but not obligation, to buy (in the case of a call option) or to sell (in the case of a put option) a specific amount of an asset for a specific price (called the strike price) on or before a specified expiration date. The Common Funds enter into covered calls when it writes (or sells) call options on underlying stocks held by the Common Funds or stock indices. The Common Funds enter into covered put options when it purchases put options on underlying stocks held by the Common Funds or stock indices. The Common Fund enters into put spreads when it purchases put options while simultaneously writing put options on the same underlying securities of indices at a lower strike price. The purchaser of put options pays a premium at the outset of the agreement and stands to gain from an unfavorable change (i.e., a decrease) in the price of the instrument underlying the option. The writer of call options receives a premium at the outset of the agreement and may bear the risk of an unfavorable change (i.e., an increase) in the price of the instrument underlying the option.

The System had written call options on 7,000,000 and 5,375,000 shares, and these options had a fair value of $5,570,000 and $3,822,200 at June 30, 2012 and 2011, respectively. The System owned 12,100 and 11,650 put option contracts with a fair value of $696,600 and $5,505,500 at June 30, 2012 and 2011, respectively.

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

Members' Loans

Members who have at least three years of service in the System may borrow up to 50% of their accumulated member contributions. Repayment of loan balances is deducted from payroll checks and bears a commercially reasonable interest rate as set by the State Treasurer. For 2012 the interest rate is 5.25%, and there is an $8 processing fee per loan. Members who retire with an outstanding loan have the option of paying the loan in full prior to receiving any benefits or continuing their monthly loan payment schedule into retirement.

Administrative Expenses

The System is administered by the State of New Jersey Division of Pensions and Benefits. Administrative expenses are paid by the System to the State of New Jersey, Department of the Treasury and are included in the accompanying financial statements.

Miscellaneous expenses and reimbursements from the System that comprise various adjustments to member and employer accounts are incorporated into the administrative expense amounts included in the accompanying financial statements.

Commitments

The Common Funds are obligated, under certain private equity, real estate and absolute return strategy alternative investment agreements to make additional capital contributions up to contractual levels over the investment period specified for each investment. As of June 30, 2012, the Common Funds had unfunded commitments totaling approximately $7.6 billion.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expense during the reporting period. Actual results could differ from those estimates.

Funded Status and Funding Progress

The required supplementary information regarding the funded status and funding progress is based on actuarial valuations which involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the probability of future events.

The required schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial calculations reflect a long-term perspective and are based on the benefits provided under State statutes in effect at the time of each valuation and also consider the pattern of the sharing of costs between the employer and members at that point in time. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and members in the future.

Actuarial Methods and Assumptions

In the revised July 1, 2011 and 2010 actuarial valuations, the projected unit credit was used as the actuarial cost method, and the five-year average of market value was used as the asset valuation method for the System. The actuarial assumptions included (a) 7.95% and 8.25% for investment rate of return and (b) 6.32% and 7.20% for projected salary increases as of July 1, 2011 and 2010, respectively.

	State		Local	
Actuarial valuation date	July 1, 2011	July 1, 2010	July 1, 2011	July 1, 2010
Actuarial value of assets	$ 2,143,492,414	$ 2,190,654,958	$ 21,027,839,958	$ 20,367,865,987
Actuarial accrued liability	3,926,525,679	3,672,361,258	26,978,632,188	25,601,998,126
Unfunded actuarial accrued liability	1,783,033,265	1,481,706,300	5,950,792,230	5,234,132,139
Funded ratio	54.6%	59.7%	77.9%	79.6%
Covered payroll	$ 526,058,270	$ 530,747,536	$ 3,123,358,027	$ 3,189,786,833
Unfunded actuarial accrued liability as a percentage of covered payroll	338.9%	279.2%	190.5%	164.1%
Actuarial cost method	Projected unit credit	Projected unit credit	Projected unit credit	Projected unit credit
Asset valuation method	5 year average of market value	5 year average of market value	5 year average of market value	5 year average of market value
Amortization method	Level dollar, open	Level dollar, open	Level dollar open	Level dollar, open
Remaining amortization period	30 years	30 years	30 years	30 years
Actuarial assumptions:				
Interest rate	7.95%	8.25%	7.95%	8.25%
Salary range	6.32%	7.20%	6.32%	7.20%
Cost-of-living adjustments	0.00%	0.00%	0.00%	0.00%

(3) Investments

The System is invested in Common Fund A, Common Fund B, Common Fund D, and Common Fund E, which represent 28.1%, 23.7%, 27.4%, and 29.7%, respectively, of each investment total of the pension fund as of June 30, 2012.

The System is invested in Common Fund A, Common Fund B, Common Fund D, Common Fund E, and other investments, including mortgage backed securities, which represent 27.2%, 22.5%, 27.0%, 26.2%, and 95.0%, respectively, of each investment total of the pension fund as of June 30, 2011.

The pension funds' investments as of June 30, 2012 and 2011 were as follows:

	2012	2011
Domestic equities	$ 18,366,219,480	$ 18,794,883,830
International equities	13,686,071,035	14,710,800,731
Domestic fixed income	15,012,944,491	18,023,341,944
International fixed income*	2,877,198,257	2,066,705,578
Bank loan funds	1,364,990,293	1,174,078,860
Police and Firemen's mortgages	963,899,029	1,140,494,077
Private equity funds	5,488,969,238	5,381,612,092
Real estate funds	3,106,708,016	2,731,205,959
Absolute return strategy funds	5,547,000,728	3,902,428,308
Real assets	1,448,241,708	1,191,374,306
Put options	696,600	5,505,500
	$ 67,862,938,875	$ 69,122,431,185

* US dollar denominated securities

New Jersey state statute provides for a State Investment Council (Council) and a Director. Investment authority is vested in the Director of the Division of Investment 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 options and put options, equity futures contracts, obligations of the U.S. Treasury, government agencies, corporations, international governments and agencies, bank loans, interest rate swap transactions, credit default swaps, fixed income exchange traded funds, U.S. Treasury futures contracts, 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 funds, real estate funds, other real assets, absolute return strategy funds, and the State of New Jersey Cash Management Fund (CMF). The CMF is a short-term cash fund and is open to state and certain non-state participants.

The pension funds' investment in the CMF is not evidenced by securities that exist in physical or book entry form held by the pension funds.

Custodial credit risk, as it relates to investments, is the risk that in the event of the failure of the custodian, the pension funds will not be able to recover the value of investments or collateral securities that are in the possession of the third-party. The pension funds' investment securities are not exposed to custodial credit risk as they are held in segregated trust accounts in the name of the pension funds with the custodians.

The System's 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 issuers and debt instruments 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 of fixed income obligations held directly by the pension funds and limit the amount that can be invested in any one issuer or issue.

These credit ratings and limits are as follows:

Category	Minimum rating (1) Moody's	S&P	Fitch	Limitation of issuer's outstanding debt/stock	Limitation of issue	Other limitations
Bank loans	Baa3	BBB-	BBB-	10%	—	Not more than 10% of fund assets can be invested in this category
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	Aa3/P-1	AA-/A-1	AA-/F1	—	—	
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 Common Fund B assets) can be invested in this category
Commercial paper	P-1	A-1	F1	—	—	—
Corporate obligations	Baa3	BBB-	BBB-	10%	25%	Not more than 5% of fund assets can be invested in debt and non-convertible preferred stock of one issuer
Credit default swap transactions	A1	A+	A+	—	—	Nominal value of net exposure to any one counterparty shall not exceed 10% of fund assets
Guaranteed income contracts and funding agreements	A3	A-	A-	—	—	—
Interest rate swap transactions	A1	A+	A+	—	—	Notional value of net exposure to any one counterparty shall not exceed 10% of fund assets
International corporate obligations	Baa3	BBB-	BBB-	10%	25%	Not more than 5% of fund assets can be invested in debt and non-convertible preferred stock of any one issuer; not more than 10% of fund assets can be invested in this category
International government and agency obligations	Baa3	BBB-	BBB-	25%	Greater of 25% or $10 million	—

Category	Minimum rating (1) Moody's	S&P	Fitch	Limitation of issuer's outstanding debt	Limitation of issue	Other limitations
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
Mortgage backed pass-through 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
Non-convertible preferred stocks of US corporations	Baa3	BBB-	BBB-	10%	25%	Not more than 5% of fund assets can be invested in debt and non-convertible stock of any one corporation
Public authority revenue obligations	A3	A-	A-	—	10%	Not more than 2% of fund assets can be invested in any one public authority
Repurchase agreements	Aa3	AA-	AA-	—	—	—
State & municipal obligations	A3	A-	A-	10%	10%	Not more than 2% of fund assets can be invested in debt of any one political entity maturing more than 12 months from purchase

(1) Short term ratings (e.g. P-1, A-1, F1) are used for commercial paper and certificates of deposit.

Up to 5% of the market value of the combined assets of the pension and annuity funds may be invested in corporate obligations, international corporate obligations, collateralized notes and mortgages, bank loans, non-convertible preferred stock, and mortgage backed pass-through securities that do not meet the minimum credit rating requirements set forth above.

For securities in the fixed income portfolio, the following tables disclose aggregate market value by major credit quality rating category as of June 30, 2012. The first table for 2012 includes fixed income securities rated by Moody's. The second table for 2012 discloses S&P and Fitch ratings for fixed income securities not rated by Moody's.

	June 30, 2012								
	Moody's rating (1)								
(In thousands)	**Aaa**	**Aa**	**A**	**Baa**	**Ba**	**B**	**Ca**	**Caa**	**Totals**
Corporate obligations	$ 534,211	912,398	3,287,413	3,719,664	347,686	486,636	835	171,336	$ 9,460,179
United States treasury tips	1,818,164	—	—	—	—	—	—	—	1,818,164
United States treasury bonds	666,630	—	—	—	—	—	—	—	666,630
Foreign government obligations	618,145	1,431,403	54,136	—	—	—	—	—	2,103,684
International corporate obligations	10,468	—	370,672	275,231	39,035	36,056	—	12,450	743,912
Mortgages (FHLMC/FNMA/GNMA)	359,681	—	—	—	—	—	—	—	359,681
United States government strips	583,671	—	—	—	—	—	—	—	583,671
Federal agency obligations	264,056	—	—	—	—	—	—	—	264,056
SBA pass through certificates	158,841	—	—	—	—	—	—	—	158,841
Asset backed obligations	16,628	—	—	—	—	—	—	—	16,628
Other	94,306	797,273	213,720	—	—	—	—	—	1,105,299
	$ 5,124,801	3,141,074	3,925,941	3,994,895	386,721	522,692	835	183,786	$ 17,280,745

(1) Subsequent to June 30, 2011, Standard & Poor's downgraded the United States credit rating to AA+ from its top rank of AAA, for the first time in history.

	June 30, 2012							
	Standard & Poor's							
(In thousands)	**A**	**AA**	**AAA**	**B**	**BB**	**BBB**	**CCC**	**Totals**
Corporate obligations	$ 164,813	86,598	—	12,749	200	92,569	5,165	$ 362,094
International corporate obligations	—	18,091	—	360	—	—	—	18,451
Other	17,653	53,759	56,587	—	—	—	—	127,999
	$ 182,466	158,448	56,587	13,109	200	92,569	5,165	$ 508,544

The 2012 tables do not include certain domestic and international corporate obligations including certain exchange traded funds (ETFs) totaling $100,854,257, which invest in an underlying portfolio of fixed income securities and do not have a Moody's, Standard & Poor's or Fitch rating. The Police and Firemen's Mortgages and the CMF are also unrated.

For securities in the fixed income portfolio, the following tables disclose aggregate market value by major credit quality rating category as of June 30, 2011. The first table for 2011 includes fixed income securities rated by Moody’s. The second table for 2011 discloses S&P and Fitch ratings for fixed income securities not rated by Moody’s.

(In thousands)	June 30, 2011 Moody’s rating (1)								
	Aaa	**Aa**	**A**	**Baa**	**Ba**	**B**	**Ca**	**Caa**	**Totals**
Corporate obligations	$ 579,318	1,240,698	3,767,728	3,703,489	291,148	262,447	3,200	119,424	$ 9,967,452
United States treasury TIPS	2,728,503	—	—	—	—	—	—	—	2,728,503
United States treasury bonds	1,739,541	—	—	—	—	—	—	—	1,739,541
Foreign government obligations	183,511	916,049	26,762		125				1,126,447
International corporate obligations	—	109,077	456,420	284,861	9,170	16,450	714	6,399	883,091
Mortgages (FHLMC/FNMA/GNMA)	630,629	—	—	—	—	—	—	—	630,629
United States government strips	568,556	—	—	—	—	—	—	—	568,556
Federal agency obligations	362,867	—	—	—	—	—	—	—	362,867
SBA pass through certificates	152,640	—	—	—	—	—	—	—	152,640
Asset backed obligations	—	16,786	25,189	43,759	1,519	—	—	623	87,876
Other	97,477	854,064	249,972	—	—	—	—	—	1,201,513
	$ 7,043,042	3,136,674	4,526,071	4,032,109	301,962	278,897	3,914	126,446	$ 19,449,115

(1) Subsequent to June 30, 2011, Standard & Poor’s downgraded the United States credit rating to AA+ from its top rank of AAA, for the first time in history.

(In thousands)	June 30, 2011 Standard & Poor’s & Fitch ratings								
	Standard & Poor's							**Fitch**	
	A	**AA**	**AAA**	**B**	**BB**	**BBB**	**CCC**	**BBB**	**Totals**
Corporate obligations	$ 97,733	69,219	—	11,032	3,981	94,199	5,131	13,234	$ 294,529
International corporate obligations	—	—	—	2,943	618	—	—	—	3,561
Other	50,139	65,320	34,625	—	—	—	—	—	150,084
	$ 147,872	134,539	34,625	13,975	4,599	94,199	5,131	13,234	$ 448,174

The 2011 tables do not include certain domestic and international corporate obligations including certain exchange traded funds (ETFs) totaling $172,869,190, which invest in an underlying portfolio of fixed income securities and do not have a Moody’s, Standard & Poor’s or Fitch rating. The Police and Firemen’s Mortgages and the CMF are also 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. Repurchase agreement must mature within 30 days. The investment in guaranteed income contracts and funding agreements is limited to a term of 10 years or less.

The following tables summarize 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 as of June 30, 2012 and 2011:

(In thousands)	June 30, 2012				
	Maturities in years				
Fixed income investment type	**Less than 1**	**1-5**	**6-10**	**More than 10**	**Total fair value**
Corporate obligations	$ 2,497	815,660	3,772,682	5,269,697	$ 9,860,536
United States treasury inflation index notes	—	56,116	248,107	1,513,941	1,818,164
United States treasury bonds	—	—	—	666,630	666,630
Foreign government obligations	—	156,880	1,136,294	828,601	2,121,775
Police & firemen's mortgage program	43	1,962	6,556	955,338	963,899
International corporate obligations	—	44,736	265,402	445,286	755,424
Mortgages (FHLMC/FNMA/GNMA)	9	2,505	—	357,167	359,681
United States government strips	—	—	—	583,671	583,671
Federal agency obligations	—	7,864	185,783	70,409	264,056
Asset backed obligations	—	—	16,628	51,441	68,069
SBA pass through certificates	—	5,461	153,380	—	158,841
Other	—	—	—	1,233,298	1,233,298
	$ 2,549	1,091,184	5,784,832	11,975,479	$ 18,854,044

(In thousands)	June 30, 2011				
	Maturities in years				
Fixed income investment type	**Less than 1**	**1-5**	**6-10**	**More than 10**	**Total fair value**
Corporate obligations	$ 2,470	788,190	3,826,864	5,683,875	$ 10,301,399
United States treasury inflation index notes	—	—	2,296,801	431,702	2,728,503
United States treasury bonds	—	—	—	1,739,541	1,739,541
Foreign government obligations	—	122,643	447,719	598,498	1,168,860
Police and firemen's mortgage program	1	330	4,726	1,135,437	1,140,494
International corporate obligations	—	131,075	299,110	467,661	897,846
Mortgages (FHLMC/FNMA/GNMA)	—	4,608	6	626,015	630,629
United States government strips	—	—	—	568,556	568,556
Federal agency obligations	—	11,202	211,747	139,918	362,867
Asset backed obligations	—	1,347	17,409	148,962	167,718
SBA pass through certificates	—	—	152,640	—	152,640
Other	—	—	—	1,351,599	1,351,599
	$ 2,471	1,059,395	7,257,022	12,891,764	$ 21,210,652

The pension funds invest in global markets. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The market value of international preferred and common stocks and issues convertible into common stocks, when combined with the market value of international government, agency, and corporate obligations, cannot exceed 30% of the market value of the pension funds. 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. Not more than 10% of the market value of the emerging market securities can be invested in the common and preferred stock of any one corporation. The total amount of stock purchased of any one corporation cannot exceed 5% of its stock classes eligible to vote. 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 contract receivables totaling approximately $423.3 million and payables totaling approximately $420.9 million (with a $2.4 million net gain) as of June 30, 2012. The pension funds held forward contract receivables totaling approximately $1.28 billion and payables totaling approximately $1.31 billion (with a $24.9 million net exposure) as of June 30, 2011. At June 30, 2012, the credit ratings of the counterparties to the forward currency contracts had Moody's credit ratings of no less than A3.

The pension funds had the following foreign currency exposure as of June 30, 2012 and 2011 (expressed in U.S. dollars):

	June 30, 2012		
Currency	**Equities**	**Alternative investments**	**Total fair value**
Australian dollar	$ 404,954,100	—	$ 404,954,100
Brazilian real	172,085,944	—	172,085,944
Canadian dollar	992,370,679	—	992,370,679
Czech koruna	2,569,245	—	2,569,245
Danish krone	98,819,480	—	98,819,480
Egyptian pound	20,394,383	—	20,394,383
Euro	1,689,226,359	360,483,508	2,049,709,867
Hong Kong dollar	538,220,766	—	538,220,766
Hungarian forint	18,229,565	—	18,229,565
Indonesian rupiah	78,278,460	—	78,278,460
Israeli shekel	7,460,574	—	7,460,574
Japanese yen	1,981,574,037	—	1,981,574,037
Malaysian ringgit	37,936,336	—	37,936,336
Mexican peso	42,885,574	—	42,885,574
New Russian ruble	9,029	—	9,029
New Taiwan dollar	13,881,976	—	13,881,976
Norwegian krone	107,748,167	—	107,748,167
Pakistan rupee	7,436,961	—	7,436,961
Philippine peso	29,208,830	—	29,208,830
Polish zloty	19,937,010	—	19,937,010
Pound sterling (U.K.)	1,274,777,605	12,365,673	1,287,143,278
Singapore dollar	219,137,755	—	219,137,755
South African rand	144,895,161	—	144,895,161
South Korean won	303,027,034	—	303,027,034
Swedish krona	357,003,430	—	357,003,430
Swiss franc	712,213,298	—	712,213,298
Thailand baht	65,424,218	—	65,424,218
Turkish lira	77,161,333	—	77,161,333
	$ 9,416,867,309	372,849,181	$ 9,789,716,490

(In thousands)

	June 30, 2011		
Currency	**Equities**	**Alternative Investments**	**Total fair value**
Australian dollar	$ 539,940	—	$ 539,940
Brazilian real	234,906	—	234,906
Canadian dollar	1,424,080	—	1,424,080
Chilean peso	3,700	—	3,700
Czech koruna	16,889	—	16,889
Danish krone	148,033	—	148,033
Egyptian pound	28,329	—	28,329
Euro	2,645,346	325,883	2,971,229
Hong Kong dollar	658,318	—	658,318
Hungarian forint	19,799	—	19,799
Indonesian rupiah	80,706	—	80,706
Israeli shekel	7,614	—	7,614
Japanese yen	2,008,900	—	2,008,900
Malaysian ringgit	52,994	—	52,994
Mexican peso	39,165	—	39,165
New Taiwan dollar	15,699	—	15,699
Norweigian krone	115,985	—	115,985
Pakistan rupee	8,043	—	8,043
Phililippine peso	17,252	—	17,252
Polish zloty	24,996	—	24,996
Pound sterling (U.K.)	1,864,042	11,399	1,875,441
Singapore dollar	260,687	—	260,687
South African rand	152,337	—	152,337
South Korean won	321,936	—	321,936
Swedish krona	584,331	—	584,331
Swiss franc	781,942	—	781,942
Thailand baht	48,799	—	48,799
Turkish lira	57,784	—	57,784
	$ 12,162,552	337,282	$ 12,499,834

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, speculative investments (both derivatives and nonmarketable investments), and nondisclosure of portfolio composition. Effective April 18, 2011, Council regulations provide that not more than 38% of the market value of the pension funds can be invested in alternative investments, with limits on the individual investment categories of real estate (9%), real assets (7%), private equity (12%) and absolute return strategy (15%). Prior to that, the overall limitation was 28% with a 7% limit on each of the individual categories. 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.

At June 30, 2012, Other Receivables includes $299 million related to the secondary sale of certain private equity funds which is due from the purchasers in December 2013.

(4) Securities Lending Collateral

The System's share in the securities lending program was 27.3% and 26.8% of the total market value of the collateral as of June 30, 2012 and 2011, respectively.

The securities lending collateral is subject to various risks. Among these risks are custodial credit risk, credit risk, concentration of credit risk, and interest rate risk. The pension funds did not lend securities from July through December 2010. As of December 2010, securities lending collateral is invested in repurchase agreements, the maturities of which cannot exceed 30 days. 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. Total exposure to any individual issuer is limited consistent with internal policies for funds managed by the Division of Investment.

For securities exposed to credit risk in the collateral portfolio, the following tables disclose aggregate fair value, by major credit quality rating category as of June 30, 2012 and 2011.

	June 30, 2012		
	Rating		
(In thousands)	Aaa/AAA	Not rated	Totals
Repurchase agreements	$ 1,203,274	—	$ 1,203,274
Cash	—	3,889	3,889
Totals	$ 1,203,274	3,889	$ 1,207,163

Custodial credit risk for investments is the risk that in the failure of the counterparty to the transaction, the pension funds will not recover the value of the investments that are in the possession of an outside party. The repurchase agreement's underlying securities are held in the pension funds' name.

As of June 30, 2012, the pension funds had outstanding loaned investment securities with an aggregate market value of $1,202,238,220 and did not hold any non-cash collateral. There were no borrowers or lending agent default losses, and no recoveries or prior period losses during the year.

		June 30, 2011		
		Rating		
(In thousands)	Aaa/AAA	Not rated		Totals
Repurchase agreements	$ 847,919	—	$	847,919
Cash	—	5,686		5,686
Totals	$ 847,919	5,686	$	853,605

As of June 30, 2011, the pension funds had outstanding loaned investment securities with an aggregate market value of $831,618,717. In accordance with GASB accounting standards, the noncash collateral is not reflected in the accompanying financial statements. There were no borrower or lending agent default losses, and no recoveries or prior period losses during the year.

(5) Contributions

The contribution policy is set by N.J.S.A. 43:16A and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. Employers are required to contribute at an actuarially determined rate. The annual employer contributions include funding for basic retirement allowances, cost-of-living adjustments, and non-contributory death benefits. Members contribute at a uniform rate of 8.5% of base salary. Pursuant to the provisions of Chapter 78, P.L. 2011, the active member contribution rate increased from 8.5% to 10% in October 2011.

Chapter 19, P.L. 2009, effective March 17, 2009, provided an option for local employers to contribute 50% of the normal and accrued liability contribution amounts certified by PFRS for payments due in State fiscal year 2009. This law also provided that a local employer may pay 100% of the required contribution. Such an employer will be credited with the full payment and any such amounts will not be included in their unfunded liability. The actuaries for PFRS will determine the unfunded liability of those retirement systems, by employer, for the reduced normal and accrued liability contributions provided under this law. This unfunded liability will be paid by the employer in level annual payments over a period of 15 years beginning with the payments due in the State fiscal year ending June 30, 2012 and will be adjusted by the rate of return on the actuarial value of assets.

Chapter 1, P.L. 2010, effective May 21, 2010, required the State to make its full pension contribution, defined as 1/7th of the required amount, beginning in fiscal year 2012. The State made this contribution of $53.6 million which is equal to 12.9% of the actuarially determined amount of the ARC and 14.3% of the budgetary recommended amount. Also, the State contributed $5.6 million for NCGI and $0.3 million for miscellaneous items due to the System.

The local employers' contribution amounts include the billing for their pension, NCGI, Early Retirement Incentive (ERI) contributions for those who participate in the various ERI programs, and other miscellaneous items that are due to the System. For fiscal year 2012, the amount accrued for the annual appropriation billings due April 1, 2013 is $781.2 million.

The State did not make a pension contribution for fiscal year 2011 but did make a contribution of $7.6 million for NCGI death benefits. Also included in the employer contributions are the annual billing to local employers for their pension and NCGI contributions and Early Retirement Incentive (ERI) contributions for those who participate in the various ERI programs and other miscellaneous items that were due to the System. The amount accrued in fiscal year 2010 and due April 1, 2012 was originally $950.7 million. In fiscal year 2011 the State made a decision to reduce the PFRS lag period between the valuation year and the contribution year from three years to two years which will bring the System in line with the other pension trust funds. This change results in a revised accrual for the bills due April 1, 2012 in the amount of $736.1 million resulting in a reduction of $214.6 million.

(6) Funds

PFRS maintains the following legally required funds as follows:

Members' Annuity Savings Fund (2012 – $3,189,883,103; 2011 – $3,091,655,674)

The Members' Annuity Savings Fund (ASF) is credited with all contributions made by active members of the System. Member withdrawals are paid out of this Fund.

Retirement Reserve Fund (2012 – $19,435,010,181; 2011 – $17,555,267,794)

The Retirement Reserve Fund is the account from which retirement benefits including cost-of-living adjustments are paid. Upon retirement of a member, accumulated contributions are transferred to the Retirement Reserve Fund from the Members' ASF. Any additional reserves needed to fund the balance of the retirement benefit are transferred from the Pension Accumulation Fund. Annually, interest as determined by the State Treasurer (8.25% for fiscal years 2012 and 2011) is credited to the Retirement Reserve Fund.

Pension Accumulation Fund (2012 – $-1,625,791,035; 2011 – $640,920,013)

The Pension Accumulation Fund is credited with the contributions of the State of New Jersey and other employers. Interest earnings, after crediting the Retirement Reserve Fund and the Special Reserve Fund, as required, are credited to this account. Additionally, payments for administrative and miscellaneous expenses are made from this Fund.

Non-contributory Group Insurance Premium Fund – Local (2012 – $7,982,316; 2011 – $4,844,403)

The Non-contributory Group Insurance Premium Fund represents the accumulation of employer group life insurance contributions in excess of premiums disbursed to the insurance carrier since the inception of the non-contributory death benefit program plus reserves held by the insurance carrier. Members are eligible by statute for the non-contributory group life insurance plan in the first year of membership.

(7) Income Tax Status

Based on an Internal Revenue Service determination letter received in June 2012, the System complies with the qualification requirement of the Internal Revenue Code.

Schedule 1

STATE OF NEW JERSEY
POLICE AND FIREMEN'S RETIREMENT SYSTEM

Required Supplementary Information

Schedule of Funding Progress

(Unaudited – See accompanying independent auditor's report)

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)
State:						
July 1, 2006	$ 2,082,930,162	3,082,176,677	999,246,515	67.6%	$ 506,084,434	197.4%
July 1, 2007	2,215,697,407	3,426,631,813	1,210,934,406	64.7	527,556,519	229.5
July 1, 2008	2,316,017,361	3,749,118,910	1,433,101,549	61.8	527,495,741	271.7
July 1, 2009	2,254,766,935	3,993,259,480	1,738,492,545	56.5	525,862,047	330.6
July 1, 2010	2,190,654,958	3,672,361,258	1,481,706,300	59.7	530,747,536	279.2
July 1, 2011	2,143,492,414	3,926,525,679	1,783,033,265	54.6	526,058,270	338.9
Local:						
July 1, 2006	$ 18,281,315,556	22,907,522,660	4,626,207,104	79.8%	$ 2,772,915,465	166.8%
July 1, 2007	19,500,229,156	24,562,195,443	5,061,966,287	79.4	2,932,283,180	172.6
July 1, 2008	20,437,541,909	26,871,106,532	6,433,564,623	76.1	3,068,758,436	209.6
July 1, 2009	20,724,453,343	28,448,841,765	7,724,388,422	72.8	3,147,812,476	245.4
July 1, 2010	20,367,865,987	25,601,998,126	5,234,132,139	79.6	3,189,786,833	164.1
July 1, 2011	21,027,839,958	26,978,632,188	5,950,792,230	77.9	3,123,358,027	190.5

(Continued)

Schedule 1

STATE OF NEW JERSEY
POLICE AND FIREMEN'S RETIREMENT SYSTEM

Required Supplementary Information

Schedule of Funding Progress – Additional Actuarial Information

(Unaudited – See accompanying independent auditor's report)

Significant actuarial methods and assumptions used in the most recent 2011 and 2010 actuarial valuations include the following:

	July 1, 2011	**July 1, 2010**
Actuarial cost method	Projected unit credit	Projected unit credit
Asset valuation method	5 year average of market value	5 year average of market value
Amortization method	Level dollar, open	Level percent, open
Remaining amortization period	30 years	30 years
Actuarial assumptions:		
Interest rate	7.95%	8.25%
Salary range	6.32%	7.20%
Cost-of-living adjustments	—%	—%

The valuations were prepared on the basis of the demographic assumptions that were determined from the July 1, 2007 to June 30, 2010 Experience Study.

Annual covered payroll is an estimate based upon annualizing one quarter's actual payroll.

Schedule 2

STATE OF NEW JERSEY
POLICE AND FIREMEN'S RETIREMENT SYSTEM

Required Supplementary Information

Schedule of Employer Contributions

(Unaudited – See accompanying independent auditor's report)

Year ended June 30,		Annual required contribution	Employer contributions[1][3]		Percentage contributed
State:					
2007	$	216,570,332	128,167,965		59.2%
2008		252,836,330	133,510,475	(4)	52.8
2009		275,205,347	20,014,342	(4)	7.3
2010		343,091,276	7,326,383	(4)	2.1
2011		377,153,530	7,629,519	(4)	2.0
2012		414,290,236	61,707,967		14.9
Local:					
2007	$	584,645,679	422,743,218	(2)	72.3%
2008		708,019,933	647,288,920	(5)	91.4
2009		773,029,316	696,476,702		90.1
2010		818,672,171	751,395,802		91.8
2011		960,271,326	882,095,029	(5)	91.9
2012		823,842,166	763,182,795		92.6

Notes to schedule:

(1) Local employer contributions include contributions made by the State to provide funding for certain benefits payable to local participants.

(2) In accordance with Chapter 108, P.L. 2003, the local statutory required contributions for fiscal years 2004 through 2007 have been reduced.

(3) Differences between the amounts in the employer contribution column in this schedule and the amounts recorded in the financial statements and footnotes are attributed to timing differences between the 2011 actuarial valuations and the actual amounts received in fiscal year 2012. Employer contributions per this schedule represent anticipated contribution amounts determined at the time the actuarial valuations were prepared and finalized prior to the end of fiscal year 2012. The financial statements and footnotes reflect the actual amounts received in 2012.

(4) For State, the fiscal years 2008 through 2011 contributions have been reduced in accordance with the provisions of the Appropriation Act for each respective fiscal year .

(5) For local, the fiscal year 2008 and 2011 contributions have been reduced in accordance with Chapter 108, P.L. 2003.

Schedule 3

STATE OF NEW JERSEY
POLICE AND FIREMEN'S RETIREMENT SYSTEM

Schedule of Changes in Fiduciary Net Assets by Fund

Year ended June 30, 2012

	Members' Annuity savings Fund	Pension Accumulation Fund	Retirement Reserve Fund	Non-Contributory Group Insurance Premium Fund	Total
Additions:					
Contributions:					
Members	$ 374,688,168	—	—	—	374,688,168
Employers	—	805,287,634	—	36,797,220	842,084,854
Total contributions	374,688,168	805,287,634	—	36,797,220	1,216,773,022
Distribution of net investment income	—	(1,079,575,314)	1,450,671,823	399,663	371,496,172
Total additions	374,688,168	(274,287,680)	1,450,671,823	37,196,883	1,588,269,194
Deductions:					
Benefits	—	—	1,828,342,643	34,058,970	1,862,401,613
Refunds of contributions	7,489,977	61,485	—	—	7,551,462
Administrative and miscellaneous expenses	—	3,919,438	—	—	3,919,438
Total deductions	7,489,977	3,980,923	1,828,342,643	34,058,970	1,873,872,513
Net increase (decrease) before transfers among reserves	367,198,191	(278,268,603)	(377,670,820)	3,137,913	(285,603,319)
Transfers among reserves:					
Retirements	(269,841,727)	(1,233,591,154)	1,503,432,881	—	—
Other	870,965	(754,851,291)	753,980,326	—	—
Net increase (decrease)	98,227,429	(2,266,711,048)	1,879,742,387	3,137,913	(285,603,319)
Net assets held in trust for pension benefits:					
Beginning of year	3,091,655,674	640,920,013	17,555,267,794	4,844,403	21,292,687,884
End of year	$ 3,189,883,103	(1,625,791,035)	19,435,010,181	7,982,316	21,007,084,565