

**STATE OF NEW JERSEY  
CONSOLIDATED POLICE AND FIREMEN'S  
PENSION FUND**

**FINANCIAL STATEMENTS AND SCHEDULES**  
**June 30, 2011 and 2010**  
(With Independent Auditor's Report Thereon)

**Clifton  
Gunderson LLP**  
Certified Public Accountants & Consultants

## Independent Auditor's Report

The Board of Trustees  
State of New Jersey  
Consolidated Police and Firemen's Pension Fund

We have audited the accompanying statement of fiduciary net assets of the State of New Jersey Consolidated Police and Firemen's Pension Fund (the Fund) as of June 30, 2011, and the related statement of changes in fiduciary net assets for the year 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. The financial statements of the Fund as of June 30, 2010 were audited by other auditors whose report dated October 27, 2010 expressed an unqualified opinion on those financial statements.

We conducted our audit 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 audit provides 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 State of New Jersey Consolidated Police and Firemen's Pension Fund as of June 30, 2011, and changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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 the accounting principles generally accepted in the United States of America. 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 audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The 2011 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 basic financial statements, and, in our opinion, is presented fairly, in all material respects, in relation to the basic financial statements taken as a whole.

*Clifton Gunderson LLP*

Mt. Laurel, New Jersey  
November 1, 2011

**STATE OF NEW JERSEY  
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Management's Discussion and Analysis

June 30, 2011 and 2010

Our discussion and analysis of the financial performance of the Consolidated Police and Firemen's Pension Fund (the Fund) provides an overview of the Fund's financial activities for the fiscal years ended June 30, 2011 and 2010. Please read it in conjunction with the basic financial statements and financial statement footnotes, which follow this discussion.

**Financial Highlights**

**2011 – 2010**

- Net assets held in trust for pension benefits decreased by \$2,269,056 as a result of fiscal year 2011's operations from \$8,760,735 to \$6,491,679.
- Additions for the year are \$4,058,712, which are comprised of contributions of \$4,041,456 and net investment income of \$17,256.
- Deductions for the year are \$6,327,768, which are comprised of benefit payments of \$6,308,586 and administrative expenses of \$19,182.

**2010 – 2009**

- Net assets held in trust for pension benefits decreased by \$2,624,348 as a result of fiscal year 2010's operations from \$11,385,083 to \$8,760,735.
- Additions for the year are \$4,878,920, which are comprised of contributions of \$4,843,697 and net investment income of \$35,223.
- Deductions for the year are \$7,503,268, which are comprised of benefit payments of \$7,495,068 and administrative expenses of \$8,200.

**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 of 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.

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Management's Discussion and Analysis

June 30, 2011 and 2010

**Financial Analysis**

**Summary of Schedule of Fiduciary Net Assets**

*2011 – 2010*

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>
Assets	\$ 7,382,458	9,421,284	(2,038,826)
Liabilities	<u>890,779</u>	<u>660,549</u>	<u>230,230</u>
Net assets	<u>\$ 6,491,679</u>	<u>8,760,735</u>	<u>(2,269,056)</u>

The Fund's assets mainly consist of cash, investments, and contributions due from other funds. Between fiscal years 2010 and 2011, total assets decreased by \$2.0 million or 21.6% primarily due to a decrease in the amount invested in the Cash Management Fund (CMF) and mortgages and in accounts receivable.

Liabilities mainly consist of pension benefit payments owed to retirees and beneficiaries. Total liabilities increased by \$230.2 thousand or 34.9% due to an increase in various payables of \$351.5 thousand and a decrease of pension payroll payable of \$121.3 thousand as a result of the declining number of retirees and beneficiaries in the fund.

Net assets held in trust for pension benefits decreased by \$2.3 million or 25.9% primarily because benefit payments exceeded the State contribution, which was zero for this fiscal year, and investment revenues as employer contributions to the fund are being reduced as the number of retirees and beneficiaries decline in this closed fund.

**Summary of Schedule of Fiduciary Net Assets**

*2010 – 2009*

	<u>2010</u>	<u>2009</u>	<u>(Decrease)</u>
Assets	\$ 9,421,284	12,131,037	(2,709,753)
Liabilities	<u>660,549</u>	<u>745,954</u>	<u>(85,405)</u>
Net assets	<u>\$ 8,760,735</u>	<u>11,385,083</u>	<u>(2,624,348)</u>

The Fund's assets mainly consist of cash, investments, and contributions due from other funds. Between fiscal years 2009 and 2010, total assets decreased by \$2.7 million or 22.3% primarily due to a decrease in the amount invested in the Cash Management Fund (CMF) and no employer receivable from the State of New Jersey in 2010.

Liabilities mainly consist of pension benefit payments owed to retirees and beneficiaries. Total liabilities decreased by \$85 thousand or 11.4% as a result of the declining number of retirees and beneficiaries in the fund.

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Net assets held in trust for pension benefits decreased by \$2.6 million or 23.1% primarily because benefit payments exceeded the State contribution, which was zero for this fiscal year, and investment revenues as employer contributions to the fund are being reduced as the number of retirees and beneficiaries decline in this closed fund.

**Summary of Changes to Fiduciary Net Assets**

*2011– 2010*

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>
Additions:			
Employer contributions	\$ 4,041,456	4,843,697	(802,241)
Net investment income	17,256	35,223	(17,967)
Total additions	<u>4,058,712</u>	<u>4,878,920</u>	<u>(820,208)</u>
Deductions:			
Benefits	6,308,586	7,495,068	(1,186,482)
Administrative expenses	19,182	8,200	10,982
Total deductions	<u>6,327,768</u>	<u>7,503,268</u>	<u>(1,175,500)</u>
Changes in net assets	<u>\$ (2,269,056)</u>	<u>(2,624,348)</u>	<u>355,292</u>

Additions primarily consist of employer contributions and earnings from investment activities. Employer contributions are made primarily by the State to provide funding for pension benefits. Contributions are also received from the Pension Adjustment Fund to cover the cost-of-living adjustments included in benefit payments. The State did not make a contribution for fiscal year 2011. Local employers contributed \$8.2 thousand representing administrative fees billed to various locations in fiscal year 2011.

Net investment income decreased by 51.0% due to the decline in the net appreciation in the fair value of investments and less income earned on these investments.

Deductions are mainly comprised of pension benefit payments to retirees and beneficiaries and administrative costs incurred by the Fund. Benefit payments decreased by \$1.2 million or 15.8% due to fewer retirees and beneficiaries. Administrative expenses increased by 133.9% 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.

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Management's Discussion and Analysis

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**Summary of Changes to Fiduciary Net Assets**

2010– 2009

	<u>2010</u>	<u>2009</u>	<u>(Decrease)</u>
Additions:			
Employer contributions	\$ 4,843,697	6,918,041	(2,074,344)
Net investment income	35,223	142,184	(106,961)
Total additions	<u>4,878,920</u>	<u>7,060,225</u>	<u>(2,181,305)</u>
Deductions:			
Benefits	7,495,068	8,844,291	(1,349,223)
Administrative expenses	8,200	13,234	(5,034)
Total deductions	<u>7,503,268</u>	<u>8,857,525</u>	<u>(1,354,257)</u>
Changes in net assets	<u>\$ (2,624,348)</u>	<u>(1,797,300)</u>	<u>(827,048)</u>

Additions primarily consist of employer contributions and earnings from investment activities. Employer contributions are made primarily by the State to provide funding for pension benefits. Contributions are also received from the Pension Adjustment Fund to cover the cost-of-living adjustments included in benefit payments. The State did not make a contribution for fiscal year 2010. Local employers contributed \$13.2 thousand representing administrative fees billed to various locations in fiscal year 2010.

Net investment income decreased by \$0.1 million or 75.2% due to the net depreciation in the fair value of investments and less income earned on these investments.

Deductions are mainly comprised of pension benefit payments to retirees and beneficiaries and administrative costs incurred by the Fund. Benefit payments decreased by \$1.3 million or 15.3% due to fewer retirees and beneficiaries. Administrative expenses decreased by 38.0%.

**Retirement System as a Whole**

The overall funded ratios are 89.9% for fiscal year 2011 and 96.4% for fiscal year 2010.

**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.

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Statements of Fiduciary Net Assets

June 30, 2011 and 2010

	<b>2011</b>	<b>2010</b>
Assets:		
Cash	\$ 84,365	152,685
Investments, at fair value:		
Cash Management Fund	6,574,569	8,195,841
Mortgages	68,914	119,390
Total investments	6,643,483	8,315,231
Receivables:		
Accrued interest	404	575
Due from pension adjustment fund	294,471	932,328
Other	359,735	20,465
Total receivables	654,610	953,368
Total assets	7,382,458	9,421,284
Liabilities:		
Accounts payable and accrued expenses	387,602	36,022
Retirement benefits payable	503,177	624,527
Total liabilities	890,779	660,549
Net assets:		
Held in trust for pension benefits	\$ 6,491,679	8,760,735

See schedule of funding progress on pages 12 - 13.

See accompanying notes to financial statements.

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Statements of Changes in Fiduciary Net Assets

Years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Additions:		
Contributions:		
Employers	\$ 8,199	13,236
Pension adjustment fund	4,033,257	4,830,461
Total contributions	<u>4,041,456</u>	<u>4,843,697</u>
Investment income:		
Net appreciation (depreciation) in fair value of investments	(2,808)	557
Interest	26,322	41,540
	<u>23,514</u>	<u>42,097</u>
Less investment expense	<u>6,258</u>	<u>6,874</u>
Net investment income	<u>17,256</u>	<u>35,223</u>
Total additions	<u>4,058,712</u>	<u>4,878,920</u>
Deductions:		
Benefits	6,308,586	7,495,068
Administrative expenses	19,182	8,200
Total deductions	<u>6,327,768</u>	<u>7,503,268</u>
Change in net assets	(2,269,056)	(2,624,348)
Net assets – beginning of year	<u>8,760,735</u>	<u>11,385,083</u>
Net assets – end of year	<u>\$ 6,491,679</u>	<u>8,760,735</u>

See accompanying notes to financial statements.



**STATE OF NEW JERSEY  
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Notes to Financial Statements

June 30, 2011 and 2010

**(1) Description of the Fund**

The State of New Jersey Consolidated Police and Firemen's Pension Fund (the Fund; CPFPPF) is a cost-sharing contributory defined benefit plan with a special funding situation which was established as of January 1, 1952, under the provisions of N.J.S.A. 43:16. 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 county and municipal police and firemen who were appointed prior to July 1, 1944. 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. 43:16. The CPFPPF provides retirement as well as death and disability benefits to any active member after 25 years of service. A member may retire at age 60 after 25 years of service. Retirement is mandatory at age 65, except for chiefs of police, who may retire at age 70. Benefits are generally determined to be 60% of final salary, as defined, plus 1% for each creditable year of service, as defined, in excess of 25 years, but not to exceed 30 years.

Chapter 4, P.L. 2001 provided increased benefits to certain members who retired prior to December 29, 1989 with at least 25 years of creditable service. The maximum amount of the increase was 5% of the retiree's final compensation. For those with 30 or more years of service, the total pension benefit increased from 65% to 70% of final compensation.

***Membership and Contributing Employers***

Membership in the Fund at July 1, 2010 and 2009, the dates of the most recent actuarial valuations, consisted of 396 and 446 retirees and beneficiaries, respectively, receiving benefits currently. Additionally, there were 78 and 82 local employers and the State of New Jersey contributing to the Fund in fiscal year 2011 and 2010, respectively.

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Notes to Financial Statements

June 30, 2011 and 2010

**(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.

***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, CPFPPF, 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.

Investments are reported at fair value as follows:

- Cash Management Fund – closing bid price on the last day of trading during the period as determined by the Transfer Agent.
- Mortgages – priced by a major dealer in such securities and reviewed by management for reasonableness.

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.

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

The State of New Jersey, Department of the Treasury, Division of Investment, issues publicly available financial reports that include the financial statements of the State of New Jersey Cash Management Funds. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Investment, P.O. Box 290, Trenton, New Jersey 08625-0290.

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

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The purchase, sale, receipt of income, and other transactions affecting investments are governed by custodial agreements between the Fund, through the State Treasurer, and custodian banks as agents for the Fund. State laws and policies set forth the requirements of such agreements and other particulars as to the size of the custodial institutions, amount of the portfolio to be covered by the agreements, and other pertinent matters.

***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 financial statements.

***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.

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Notes to Financial Statements

June 30, 2011 and 2010

***Actuarial Methods and Assumptions***

In the July 1, 2010 and 2009 actuarial valuations, the projected unit credit was used as the actuarial cost method, and market value was used as the asset valuation method for the Fund. The actuarial assumptions included 2% for investment rate of return.

	July 1, 2010	July 1, 2009
Actuarial valuation date		
Actuarial value of assets	\$ 10,632,228	\$ 13,515,949
Actuarial accrued liability	11,824,904	14,024,132
Unfunded actuarial accrued liability	1,192,676	508,183
Funded ratio	89.9%	96.4%
Covered payroll	N/A	N/A
Unfunded actuarial accrued liability as a percentage of covered payroll	N/A	N/A
Actuarial cost method	Projected unit credit	Projected unit credit
Asset valuation method	5 year average of market value	5 year average of market value
Amortization method	Level dollar, closed	Level dollar, closed
Remaining amortization period	1 year	1 year
Actuarial assumptions:		
Interest rate	2.00%	2.00%
Salary range	N/A	N/A
Cost-of-living adjustments	N/A	N/A

**(3) Contributions**

There are no active members in the CPFPPF.

The State did not make any contribution for fiscal year 2011. Local employers contributed \$8.2 thousand representing administrative fees billed to various locations in fiscal year 2011. The State did not make any contribution for fiscal year 2010. Local employers contributed \$13.2 thousand representing administrative fees billed to various locations in fiscal year 2010.

**(4) Funds**

CPFPPF maintains the following legally required fund as follows:

***Pension Reserve Fund (2011 – \$6,491,679; 2010 – \$8,760,735)***

The Pension Reserve Fund is credited with the State of New Jersey contributions and investment income.

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Required Supplementary Information

Schedule of Funding Progress

(Unaudited – See accompanying independent auditor's report)

<b>Actuarial valuation date</b>	<b>Actuarial value of assets (a)</b>	<b>Actuarial accrued liability (b)</b>	<b>Unfunded (overfunded) actuarial accrued liability (b – a)</b>	<b>Funded ratio (a / b)</b>	<b>Covered payroll (c)</b>	<b>Unfunded (overfunded) actuarial accrued liability as a percentage of covered payroll ((b – a) / c)</b>
July 1, 2005	\$ 21,886,445	30,031,591	8,145,146	72.9%	N/A	N/A
July 1, 2006	22,453,828	24,749,667	2,295,839	90.7	N/A	N/A
July 1, 2007	19,336,247	21,090,186	1,753,939	91.7	N/A	N/A
July 1, 2008	15,705,984	17,319,488	1,613,504	90.7	N/A	N/A
July 1, 2009	13,515,949	14,024,132	508,183	96.4	N/A	N/A
July 1, 2010	10,632,228	11,824,904	1,192,676	89.9	N/A	N/A

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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 2010 and 2009 actuarial valuations included the following:

	<u>July 1, 2010</u>	<u>July 1, 2009</u>
Actuarial cost method	Projected unit credit	Projected unit credit
Asset valuation method	5 year average of market value	5 year average of market value
Amortization method	Level dollar, closed	Level dollar, closed
Remaining amortization period	1 year	1 year
Actuarial assumptions:		
Interest rate	2.00%	2.00%
Salary range	N/A	N/A
Cost-of-living adjustments	N/A	N/A

**STATE OF NEW JERSEY  
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Required Supplementary Information

Schedule of Employer Contributions

(Unaudited – See accompanying independent auditor's report)

<b>Year ended June 30</b>	<b>Annual required contribution</b>	<b>Employer contributions<sup>(1)(2)</sup></b>	<b>Percentage contributed</b>
2006	\$ 13,854,805	6,397,000	46.2%
2007	8,474,210	1,784,000	21.1
2008	2,388,591	523,000	21.9
2009	1,824,798	1,256,000	68.8
2010	1,678,690	— <sup>(3)</sup>	—
2011	528,714	— <sup>(3)</sup>	—

Notes to schedule:

- (1) Excludes contributions from local employers to cover administrative expenses of the Fund.
- (2) 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 2010 actuarial valuations and the actual amounts received in fiscal year 2011. 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 2011. The financial statements and footnotes reflect the actual amounts received in 2011.
- (3) The fiscal year 2010 and 2011 employer contributions have been reduced in accordance with the provisions of the Appropriation Act for fiscal year 2010 and 2011, respectively.

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Schedule of Changes in Fiduciary Net Assets by Fund

Year ended June 30, 2011

	<b>Pension reserve fund</b>	<b>Pension adjustment pass-through</b>	<b>Total</b>
Additions:			
Contributions:			
Employers	\$ 8,199	—	8,199
Pension adjustment fund	—	4,033,257	4,033,257
Total contributions	8,199	4,033,257	4,041,456
Distribution of net investment income	17,256	—	17,256
Total additions	25,455	4,033,257	4,058,712
Deductions:			
Benefits	2,275,329	4,033,257	6,308,586
Administrative expenses	19,182	—	19,182
Total deductions	2,294,511	4,033,257	6,327,768
Net decrease	(2,269,056)	—	(2,269,056)
Net assets held in trust for pension benefits:			
Beginning of year	8,760,735	—	8,760,735
End of year	\$ 6,491,679	—	6,491,679