STATE OF NEW JERSEY
TEACHERS' PENSION ANNUITY FUND

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
Teachers' Pension and Annuity Fund

We have audited the accompanying statements of fiduciary net assets of the State of New Jersey Teachers' Pension and Annuity Fund (the Fund) 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 Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 Teachers' Pension and Annuity Fund 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
TEACHERS' PENSION AND ANNUITY FUND

Management's Discussion and Analysis

June 30, 2012 and 2011

Our discussion and analysis of the financial performance of the Teachers' Pension and Annuity Fund (the Fund; TPAF) financial performance provides an overview of the Fund'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 $1,941,361,011 as a result of fiscal year 2012 operations from $27,486,197,261 to $25,544,836,250.
- Additions for the year are $1,649,691,331, which are comprised of member and employer pension contributions of $1,008,709,042 and net investment income of $640,982,289.
- Deductions for the year are $3,591,052,342, which are comprised of benefit and refund payments of $3,579,528,945 and administrative expenses of $11,523,397.

2011 – 2010

- Net assets held in trust for pension benefits increased by $1,593,701,428 as a result of fiscal year 2011 operations from $25,892,495,833 to $27,486,197,261.
- Additions for the year are $4,994,093,881, which are comprised of member and employer pension contributions of $629,705,689 and net investment income of $4,364,388,192.
- Deductions for the year are $3,400,392,453, which are comprised of benefit and refund payments of $3,388,071,108 and administrative expenses of $12,321,345.

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.

Financial analysis

Summary of Fiduciary Net Assets

2012 – 2011

		2012	2011	Increase (decrease)
Assets	$	26,333,845,533	28,135,250,425	(1,801,404,892)
Liabilities		789,009,283	649,053,164	139,956,119
Net assets	$	25,544,836,250	27,486,197,261	(1,941,361,011)

The Fund's assets primarily consist of cash, investments, securities lending collateral, contributions due from members and participating employers and members' loans receivable. Between fiscal years 2012 and 2011, total assets decreased by a net $1.8 billion or 6.4% due to a reduction of $2.1 billion in investment holdings that were utilized to pay benefits of the Fund, an increase in the securities lending collateral of $123.0 million, and a net increase in cash and receivables of $136.0 million.

Liabilities consist of retirement benefits payable to retirees and beneficiaries, contributory and non-contributory group life insurance premiums payable to the Fund's insurance provider, securities lending collateral and rebates payable and, classified under accounts payable and accrued expenses, liabilities of TPAF 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 $140.0 million or 21.6% due to an increase in the securities lending collateral and rebates payable of $122.5 million and an increase in retirement benefits payable and other payables of $17.5 million.

Net assets held in trust for pension benefits decreased by $1.9 billion or 7.1%.

Summary of Fiduciary Net Assets

2011 – 2010

		2011	2010	Increase
Assets	$	28,135,250,425	26,192,726,225	1,942,524,200
Liabilities		649,053,164	300,230,392	348,822,772
Net assets	$	27,486,197,261	25,892,495,833	1,593,701,428

The Fund'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 2011 and 2010, total assets increased by a net $1.9 billion or 7.4% due to an increase in investments of $1.6 billion, an increase in the securities lending collateral of $310.0 million, and an increase in receivables of $18.0 million.

Liabilities consist of retirement benefits payable to retirees and beneficiaries, contributory and non-contributory group life insurance premiums payable to the Fund's insurance provider, securities lending collateral and rebates payable and, classified under accounts payable and accrued expenses, liabilities of

TPAF 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 a net $348.8 million or 116.2% due to an increase in the securities lending collateral and rebates payable of $309.7 million and an increase in retirement benefits payable and other payables of $39.1 million.

Net assets held in trust for pension benefits increased by $1.6 billion or 6.2%.

Summary of Changes to Fiduciary Net Assets

2012 – 2011

		2012	2011	Increase (decrease)
Additions:				
Member contributions	$	685,608,357	593,587,972	92,020,385
Employer contributions		323,100,685	36,117,717	286,982,968
Net investment income		640,982,289	4,364,388,192	(3,723,405,903)
Total additions		1,649,691,331	4,994,093,881	(3,344,402,550)
Deductions:				
Benefits		3,538,617,490	3,343,458,692	195,158,798
Refunds of contributions		40,911,455	44,612,416	(3,700,961)
Administrative and miscellaneous expenses		11,523,397	12,321,345	(797,948)
Total deductions		3,591,052,342	3,400,392,453	190,659,889
Changes in net assets	$	(1,941,361,011)	1,593,701,428	(3,535,062,439)

Additions consist of member and employer contributions and earnings from investment activities. Member contributions increased by $92.0 million or 15.5% due to the higher member contribution rate as required in Chapter 78, P.L. 2011.

There was an increase in employer contributions of $287.0 million or 794.6%. 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 a contribution of $287.5 million, excluding the State's contribution of NCGI of $30.8 million, for fiscal year 2012. The amount contributed for fiscal year 2012 is equal to 12.7 % of the actuarially determined statutory amount of the Annual Required Contribution (ARC) and equal to 14.3% of the budgetary recommended contribution amount. Also included in the employer contributions are the amounts due for the various early retirement incentive programs and other miscellaneous items that were due to the fund.

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 $3.7 billion or 85.3% due to the lower investment return in fiscal year 2012 as compared to fiscal year 2011.

Deductions are comprised of pension benefit payments to retirees and beneficiaries, refunds of contributions to former members, and administrative costs incurred by the Fund to run the pension plan. Benefit payments increased by $195.2 million or 5.8% due to an increase in the number of retirees receiving retirement and other benefits. The amount of refunds processed decreased by $3.7 million or 8.3%. Administrative expenses decreased by 6.5%.

Summary of Changes to Fiduciary Net Assets

2011 – 2010

		2011	2010	Increase (decrease)
Additions:				
Member contributions	$	593,587,972	615,862,621	(22,274,649)
Employer contributions		36,117,717	42,850,384	(6,732,667)
Net investment income		4,364,388,192	3,277,424,465	1,086,963,727
Total additions		4,994,093,881	3,936,137,470	1,057,956,411
Deductions:				
Benefits		3,343,458,692	3,028,193,433	315,265,259
Refunds of contributions		44,612,416	41,945,223	2,667,193
Administrative and miscellaneous expenses		12,321,345	12,323,809	(2,464)
Total deductions		3,400,392,453	3,082,462,465	317,929,988
Changes in net assets	$	1,593,701,428	853,675,005	740,026,423

Additions consist of member and employer contributions and earnings from investment activities. Member contributions decreased by $22.3 million or 3.6% due to a decrease in active membership.

Employer contributions decreased by $6.7 million or 15.7% over last year.

The State did not make a pension contribution for fiscal year 2011 but did make a contribution of $30.7 million for Non-contributory Group Insurance (NCGI) death benefits. Also, included in the employer contributions are the amounts due for the various early retirement incentive programs and other miscellaneous items that were due to the fund.

Net investment income increased by $1.1 billion or 33.2% due to appreciation of investments.

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

Deductions are comprised of pension benefit payments to retirees and beneficiaries, refunds of contributions to former members, and administrative costs incurred by the Fund. Benefit payments increased by $315.3 million or 10.4% partly due to an increase in the number of retirees receiving retirement and other benefits. The amount of refunds processed increased by $2.7 million or 6.4%. Administrative expenses slightly decreased.

Retirement System as a Whole

The overall funded ratios are 62.8% for fiscal year 2012 and 67.1% for fiscal year 2011.

Contacting System Financial Management

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

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Statements of Fiduciary Net Assets

June 30, 2012 and 2011

		2012	2011
Assets:			
Cash	$	297,561,120	4,913,028
Securities lending collateral		439,018,848	316,307,624
Investments, at fair value:			
Cash Management Fund		444,248,284	443,275,232
Common Pension Fund A		6,406,663,017	7,160,083,993
Common Pension Fund B		7,376,339,714	8,797,745,448
Common Pension Fund D		5,145,681,772	5,663,605,682
Common Pension Fund E		5,838,953,914	5,177,129,612
Mortgages		—	30,101,255
Total investments		25,211,886,701	27,271,941,222
Receivables:			
Contributions:			
Members		75,493,466	72,286,625
Employers		73,048,240	73,410,726
Accrued interest and dividends		3,196	157,675,754
Members' loans		233,473,666	234,777,773
Other		3,360,296	3,937,673
Total receivables		385,378,864	542,088,551
Total assets		26,333,845,533	28,135,250,425
Liabilities:			
Accounts payable and accrued expenses		52,435,103	46,690,197
Retirement benefits payable		294,555,584	283,384,599
Non-contributory group insurance premiums payable		3,669,847	3,077,835
Securities lending collateral and rebates payable		438,348,749	315,900,533
Total liabilities		789,009,283	649,053,164
Net assets:			
Held in trust for pension benefits	$	25,544,836,250	27,486,197,261

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

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Statements of Changes in Fiduciary Net Assets

Years ended June 30, 2012 and 2011

		2012	2011
Additions:			
Contributions:			
Members	$	685,608,357	593,587,972
Employers		323,100,685	36,117,717
Total contributions		1,008,709,042	629,705,689
Investment income:			
Net appreciation (depreciation) in fair value of investments		(32,213,203)	3,608,405,600
Interest		538,363,291	624,616,275
Dividends		138,815,331	135,410,120
		644,965,419	4,368,431,995
Less investment expense		3,983,130	4,043,803
Net investment income		640,982,289	4,364,388,192
Total additions		1,649,691,331	4,994,093,881
Deductions:			
Benefits		3,538,617,490	3,343,458,692
Refunds of contributions		40,911,455	44,612,416
Administrative and miscellaneous expenses		11,523,397	12,321,345
Total deductions		3,591,052,342	3,400,392,453
Change in net assets		(1,941,361,011)	1,593,701,428
Net assets – beginning of year		27,486,197,261	25,892,495,833
Net assets – end of year	$	25,544,836,250	27,486,197,261

See accompanying notes to financial statements.

(1) Description of the Fund

The State of New Jersey Teachers' Pension and Annuity Fund (the Fund; TPAF) is a cost-sharing contributory defined benefit plan with a special funding situation which was established as of January 1, 1955, under the provisions of N.J.S.A. 18A:66. 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 benefits, death, disability and medical benefits to certain qualified members. Membership in the Fund is mandatory for substantially all teachers or members of the professional staff certified by the State Board of Examiners, and employees of the Department of Education who have titles that are unclassified, professional and certified. The Fund's Board of Trustees is primarily responsible for the administration of the Fund.

According to the 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. 18A:66. The TPAF provides retirement, death and disability benefits. All benefits vest after ten years of service, except for medical benefits, which vest after 25 years of service or under the disability provisions of the Fund.

For Tier 1 members, retirement benefits for age and service are available at age 60 and are generally determined to be 1/55 of final average salary for each year of service credit, as defined. Final average salary equals the average salary for the final three years of service prior to retirement (or highest three years' compensation if other than the final three years). Members may seek early retirement after achieving 25 years service credit, as defined, or they may elect deferred retirement after achieving ten years of service credit, in which case benefits would begin the first day of the month after the member attains normal retirement age.

Members are always fully vested for their own contributions and, after three years of service credit, become vested for 2% of related interest earned on the contributions. In the case of death before retirement, members' beneficiaries are entitled to full interest credited to the members' accounts.

Eligible retirees receiving monthly benefits are entitled to cost-of-living adjustment (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 a dollar amount of the adjustment payable. Retired members become eligible for pension adjustment benefits after 24 months of retirement. 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.

Chapter 103, P.L. 2007 amended the early retirement reduction formula for members hired on or after July 1, 2007 and retiring with 25 years of service to be reduced by 1% for every year between age 55 and 60, plus 3% for every year under age 55. Also, Chapter 103, P.L. 2007 provided that for members hired on or after July 1, 2007, the amount of compensation used for employer and member contributions and benefits under the TPAF cannot exceed the annual maximum wage contribution base for Social Security, pursuant to the Federal Insurance Contributions Act.

Chapter 89, P.L. 2008 increased the TPAF eligibility age for unreduced benefits from age 60 to age 62 for members hired on or after November 1, 2008; increased the minimum annual compensation required for membership eligibility for new members. Also, it amended the early retirement reduction formula for members hired on or after November 1, 2008 and retiring with 25 years of service to 1% for every year between age 55 and 62, plus 3% for every year under age 55.

Chapter 1, P.L. 2010, effective May 21, 2010, changed the membership eligibility criteria for new members of TPAF from the amount of annual compensation to the number of hours worked weekly. Also, it returned the benefit multiplier for new members of TPAF to 1/60 from 1/55, and it provided that new members of TPAF have the retirement allowance calculated using the average annual compensation for the last five years of service instead of the last three years of service. New members of TPAF no longer receive pension service credit from more than one employer. Pension service credit is earned for the highest paid position only.

Chapter 3, P.L. 2010, effective May 21, 2010, replaced the accidental and ordinary disability retirement for new members of TPAF with disability insurance coverage similar to that provided by the State to individuals enrolled in the State's Defined Contribution Retirement Program.

Chapter 78, P.L. 2011, provided that new members of TPAF hired on or after June 28, 2011 (Tier 5 members) need 30 years of creditable service and age 65 for receipt of the early retirement benefit without a reduction of ¼ of 1% for each month that the member is under age 65. Tier 5 members are eligible for a service retirement benefit at age 65.

Membership and Contributing Employers

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

	2011	2010
Retirees and beneficiaries receiving benefits currently and terminated employees entitled to benefits but not yet receiving them	86,332	80,714
Active members:		
Vested	83,178	82,719
Nonvested	67,937	74,304
Total active members	151,115	157,023
Total	237,447	237,737
Contributing employers	29	35

(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, 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 Fund 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.
- 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 Fund 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 Fund 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 Fund 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 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.

Miscellaneous expenses and reimbursements from the Fund 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 Fund. The actuarial assumptions included (a) 7.95% and 8.25% for investment rate of return and (b) 3.90% and 5.91% for projected salary increases as of July 1, 2011 and 2010, respectively.

Actuarial valuation date	July 1, 2011	July 1, 2010
Actuarial value of assets	$ 32,289,888,420	$ 33,265,326,627
Actuarial accrued liability	51,406,540,290	49,543,347,849
Unfunded actuarial accrued liability	19,116,651,870	16,278,021,222
Funded ratio	62.8%	67.1%
Covered payroll	$ 9,682,318,739	$ 10,025,401,658
Unfunded actuarial accrued liability as a percentage of covered payroll	197.4%	162.4%
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 dollar, open
Remaining amortization period	30 years	30 years
Actuarial assumptions:		
Interest rate	7.95%	8.25%
Salary range	3.90%	5.91%
Cost-of-living adjustments	0.00%	0.00%

(3) Investments

The Fund is invested in Common Fund A, Common Fund B, Common Fund D, and Common Fund E., which represent 36.0%, 37.1%, 36.5%, and 34.7%, respectively, of each investment total of the pension fund as of June 30, 2012.

The Fund is invested in Common Fund A, Common Fund B, Common Fund D, Common Fund E, and other investments, including mortgage backed securities, which represent 37.3%, 39.7%, 36.8%, 38.4%, and 2.5%, 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 Fund'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 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)

Currency	June 30, 2011 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 Fund's share in the securities lending program was 36.3% and 37.0% 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. 18A:66 and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. The full normal employee contribution rate became 5.5% of annual compensation, effective July 1, 2007 based on Chapter 103, P.L. 2007. Pursuant to the provisions of Chapter 78, P.L. 2011, the active member contribution rate increased from 5.5% of annual compensation to 6.5% plus an additional 1% phased-in over 7 years beginning in fiscal year 2013. For fiscal year 2012, the member contribution rate increased in October 2011. The phase-in of the additional incremental member contribution rate takes place in July of each subsequent fiscal year. The State of New Jersey contribution amount is based on an actuarially determined rate. The annual employer contributions include funding for basic retirement allowances, cost-of-living adjustments, and non-contributory death benefits.

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 $287.5 million which is equal to 12.7% of the actuarially determined amount of the ARC and 14.3% of the budgetary recommended amount. Also, the State contributed $30.8 million for NCGI, $2.8 million for miscellaneous items due to the system, and $2.0 million for the current year present value of the State's ERI liability. The State did not make a pension contribution for fiscal year 2011 but did make a contribution of $30.7 million for NCGI death benefits. Also included in the fiscal year 2011 employer contributions were the amounts due for the various early retirement incentive programs and other miscellaneous items that were due to the fund.

(6) Funds

TPAF maintains the following legally required funds as follows:

Members' Annuity Savings and Accumulative Interest Fund (2012 – $9,493,983,997; 2011 – $9,065,132,234)

The Members' Annuity Savings Fund (ASF) is credited with all contributions made by active members of the Fund. Interest earned on member contributions is credited to the Accumulative Interest Fund. Member withdrawals are paid out of this Fund.

Contingent Reserve Fund (2012 – $-16,057,130,412; 2011 – $-11,407,484,343)

The Contingent Reserve Fund is credited with the contributions of contributing employers. Interest earnings, after crediting the Accumulative Interest Fund, Retirement Reserve Fund, and Special Reserve Fund, as required, are credited to this account. Additionally, payments for administrative and miscellaneous expenses are made from this Fund.

Retirement Reserve Fund (2012 – $31,971,786,906; 2011 – $29,694,391,981)

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 together with accumulated interest, are transferred to the Retirement Reserve Fund from the Members' ASF and Accumulative Interest Fund. Any additional reserves needed to fund the balance of the retirement benefit are transferred from the Contingent Reserve Fund. Annually, interest as determined by the State Treasurer (8.25% for fiscal years 2012 and 2011) is credited to the Retirement Reserve Fund.

Contributory Group Insurance Premium Fund (2012 – $136,195,759; 2011 – $134,157,389)

The Contributory Group Insurance Premium Fund represents the accumulation of member group life insurance contributions in excess of premiums disbursed to the insurance carrier since the inception of the contributory death benefit program plus reserves held by the insurance carrier. Members are required by statute to participate in the contributory group life insurance plan in the first year of membership and may cancel the contributory coverage thereafter. The current contribution rate for active members is 0.4 of 1% of salary, as defined.

Non-Contributory Group Insurance Premium Fund (2012 – $0; 2011 – $0)

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 January 2012, the Fund complies with the qualification requirement of the Internal Revenue Code.

Schedule 1

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

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)
July 1, 2006	$ 35,531,294,790	46,539,868,653	11,008,573,863	76.3%	$ 8,748,623,186	125.8%
July 1, 2007	36,714,578,745	49,161,247,363	12,446,668,618	74.7	9,077,628,813	137.1
July 1, 2008	36,664,627,629	51,754,814,521	15,090,186,892	70.8	9,419,083,203	160.2
July 1, 2009	34,838,211,259	54,576,061,024	19,737,849,765	63.8	9,747,020,060	202.5
July 1, 2010	33,265,326,627	49,543,347,849	16,278,021,222	67.1	10,025,401,658	162.4
July 1, 2011	32,289,888,420	51,406,540,290	19,116,651,870	62.8	9,682,318,739	197.4

(Continued)

Schedule 1

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

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	3.90%	5.91%
Cost-of-living adjustments	—%	—%

Schedule 2

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Required Supplementary Information

Schedule of Employer Contributions

(Unaudited – See accompanying independent auditor's report)

Year ended June 30	Annual required contribution	Employer contributions[1]		Percentage contributed
2007	$ 1,407,249,580	690,794,259		49.1%
2008	1,550,503,835	695,275,811		44.8
2009	1,601,478,508	95,863,972		6.0
2010	1,796,358,016	33,199,655	(2)	1.8
2011	2,123,175,950	30,655,332	(2)	1.4
2012	2,269,823,968	317,927,358		14.0

Notes to schedule:

(1) 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.

(2) The fiscal year 2010 and 2011 contribution have been reduced in accordance with the provisions of the Appropriation Act for fiscal year 2010 and 2011, respectively.

Schedule 3

STATE OF NEW JERSEY
TEACHERS' PENSION AND ANNUITY FUND

Schedule of Changes in Fiduciary Net Assets by Fund

Year ended June 30, 2012

	Members' annuity savings and accumulative interest fund	Contingent Reserve Fund	Retirement Reserve Fund	Contributory Group Insurance Premium Fund	Non-Contributory Group Insurance Premium Fund	Total
Additions:						
Contributions:						
Members	$ 646,530,465	—	—	39,077,892	—	685,608,357
Employers	—	292,289,242	—	—	30,811,443	323,100,685
Total contributions	646,530,465	292,289,242	—	39,077,892	30,811,443	1,008,709,042
Distribution of net investment income	665,780,634	(2,558,964,835)	2,533,972,989	193,501	—	640,982,289
Total additions	1,312,311,099	(2,266,675,593)	2,533,972,989	39,271,393	30,811,443	1,649,691,331
Deductions:						
Benefits	—	—	3,470,573,024	37,233,023	30,811,443	3,538,617,490
Refunds of contributions	40,118,219	793,236	—	—	—	40,911,455
Administrative and miscellaneous expenses	—	11,523,397	—	—	—	11,523,397
Total deductions	40,118,219	12,316,633	3,470,573,024	37,233,023	30,811,443	3,591,052,342
Net increase (decrease) before transfers among reserves	1,272,192,880	(2,278,992,226)	(936,600,035)	2,038,370	—	(1,941,361,011)
Transfers among reserves:						
Retirements	(843,900,473)	(1,352,098,735)	2,195,999,208	—	—	—
Other	559,356	(1,018,555,108)	1,017,995,752	—	—	—
Net increase (decrease)	428,851,763	(4,649,646,069)	2,277,394,925	2,038,370	—	(1,941,361,011)
Net assets held in trust for pension and post-retirement medical benefits:						
Beginning of year	9,065,132,234	(11,407,484,343)	29,694,391,981	134,157,389	—	27,486,197,261
End of year	$ 9,493,983,997	(16,057,130,412)	31,971,786,906	136,195,759	—	25,544,836,250