

DEPARTMENT OF
THE TREASURY

John E. McCormac, CPA

State Treasurer

DIVISION OF PENSIONS
AND BENEFITS

Frederick J. Beaver

Director

STATE POLICE
RETIREMENT SYSTEM

BOARD OF TRUSTEES

as of June 30, 2004

CAPTAIN FRED BUCCI

Chairperson

PETER GORMAN

State Treasurer's Representative

JAMES GRANT

JOHN M. MITCH

JOHN K. SAYERS

WENDY JAMISON

Secretary

MELLON HUMAN RESOURCES
& INVESTOR SOLUTIONS

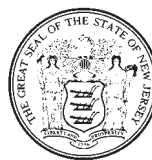
Actuaries and Consultants

MEDICAL BOARD

William Coleman, M.D.

David Jenkins, M.D.

William E. Ryan, M.D.



State of New Jersey

DIVISION OF PENSIONS AND BENEFITS

PO Box 295 • Trenton, NJ 08625-0295

TO THE HONORABLE
JAMES E. MCGREEVEY
GOVERNOR of the STATE OF NEW JERSEY

Dear Governor McGreevey:

The Board of Trustees of the

STATE POLICE RETIREMENT SYSTEM

is pleased to present the Fiscal Year 2004 Annual Report in accordance with the provisions of N.J.S.A. 53:5A-30.

Respectfully submitted,

A handwritten signature in cursive script that reads "Fredrick W. Bucci".

CAPTAIN FRED BUCCI

Chairperson

State Police Retirement System
2004 BOARD OF TRUSTEES



Captain Fred Bucci

Chairperson

State Police Appointment



John K. Sayers

Governor's Appointment



Peter Gorman

Treasurer's Representative



Wendy Jamison

Board Secretary

Unavailable for photo:

John M. Mitch

Governor's Appointment

James Grant

Governor's Appointment

SIGNIFICANT LEGISLATION

Chapter 181, Public Law of 2003

This law provides that the eligibility of a surviving spouse to receive an accidental death benefit under the Police and Firemen's Retirement System (PFRS) or the State Police Retirement System (SPRS) shall not terminate upon remarriage.

Under the PFRS, when a member of the system dies in active service as a result of an accident met in the actual performance of duty, the surviving spouse is eligible to receive a survivorship benefit consisting of (i) a pension equal to 70% of the compensation upon which contributions by the member were based in the last year of creditable service, and (ii) State-paid coverage under the member's employer-sponsored health insurance plan. Under the SPRS, the corresponding accidental death benefit to the surviving spouse is a pension of 70% of the average compensation received by the member in the last 12 months of creditable service prior to death, plus the health benefit coverage.

Prior to the enactment of this law, under both the PFRS and SPRS, the surviving spouse ceased to be eligible for the accidental death benefit if he or she remarried. This law allows these surviving spouses to remarry without losing the benefit.

This law was effective September 12, 2003.

Chapter 246, P.L. 2003

This new law is designated the "Domestic Partnership Act." It creates a mechanism, through the establishment of domestic partnerships, for New Jersey to recognize and support adult individuals in this State who share an important personal, emotional and committed relationship with another adult.

The law provides that two persons who desire to become domestic partners may execute and file an Affidavit of Domestic Partnership with the local registrar upon payment of a fee, in an amount to be determined by the Commissioner of Health and Senior Services, if they meet all of the following requirements:

- Both persons share a common residence in this State, or share the same place to live in another jurisdiction and at least one of them is a member of a State-administered retirement system;
- Both persons are otherwise jointly responsible for each other's common welfare as evidenced by joint financial arrangements or joint ownership of real or personal property, which are to be demonstrated by at least one of the following: a joint deed, mortgage agreement or lease; a joint bank account; designation of one of the persons as a primary beneficiary in the other person's will; designation of one of the persons as a primary beneficiary in the other person's life insurance policy or retirement plan; or joint ownership of a motor vehicle;
- Both persons agree to be jointly responsible for each other's basic living expenses during the domestic partnership;
- Neither person is in a marriage recognized by New Jersey law or a member of another domestic partnership;
- Neither person is related to the other by blood or affinity up to and including the fourth degree of consanguinity;
- Both persons are of the same sex and therefore unable to enter into a marriage with each other that is recognized by New Jersey law, or are each 62 years of age or older and not of the same sex;
- Both persons have chosen to share each other's lives in a committed relationship of mutual caring;
- Both persons are at least 18 years of age;
- Both persons file jointly an Affidavit of Domestic Partnership; and
- Neither person has been a partner in a domestic partnership that was terminated less than 180 days prior to the filing of the current Affidavit of Domestic Partnership, except that this prohibition does not apply if one of the partners died; and, in all cases in which a person registered a prior domestic partnership, the domestic partnership must have been terminated in accordance with the provisions of the law.

SIGNIFICANT LEGISLATION

In the case of domestic partners that are not of the same sex, the domestic partnership will terminate automatically upon the partners' entry into a marriage with each other that is recognized by New Jersey law.

This law accords domestic partners rights and responsibilities that reflect the mutually interdependent and supportive nature of domestic partnership relationships. It provides all domestic partners with:

- statutory protection through the "Law Against Discrimination" (N.J.S.A.10:5-1 et seq.) against various forms of discrimination based on domestic partnership status, including employment, housing and credit discrimination;
- visitation rights for a hospitalized domestic partner and the right to make medical or legal decisions for an incapacitated partner; and
- an additional personal exemption under the "New Jersey Gross Income Tax Act" (N.J.S.A.54A:1-1 et seq.) and an exemption from the New Jersey transfer inheritance tax on the same basis as a spouse.

This law also makes certain health and pension benefits available to dependent domestic partners in the case of domestic partnerships in which both persons are of the same sex and therefore unable to enter into a marriage with each other that is recognized by New Jersey law:

- in the case of State employees, eligibility for dependent coverage under the State Health Benefits Program and dependent benefits under State-administered retirement systems (Public Employees' Retirement System, Police and Firemen's Retirement System, Judicial Retirement System, Teachers' Pension and Annuity Fund, and State Police Retirement System);
- in the case of other public employees, including employees of counties, municipalities and boards of education, eligibility for dependent coverage under the State Health Benefits Program and State-administered retirement systems, if the employer adopts a resolution providing for such coverage; and
- eligibility for dependent coverage under health insurance contracts and policies that commercial health and dental insurers are required to offer to covered persons under the law.

It also provides that two adults who have not filed an Affidavit of Domestic Partnership are to be treated as domestic partners in an emergency medical situation for the purposes of allowing one adult to accompany the other adult who is ill or injured while the latter is being transported to a hospital, or to visit the other adult who is a hospital patient, on the same basis as a member of the latter's immediate family, if both persons, or one of the persons in the event that the other person is legally or medically incapacitated, advise the emergency care provider that the two persons have met the other requirements for establishing a domestic partnership; however, this provision is not to be construed to permit the two adults to be treated as domestic partners for any other purpose prior to their having filed an Affidavit of Domestic Partnership.

Additionally, this law stipulates that, notwithstanding any other provisions of law to the contrary, the following provisions in this law shall not be deemed an unlawful discrimination under the "Law Against Discrimination" (N.J.S.A.10:5-1 et seq.):

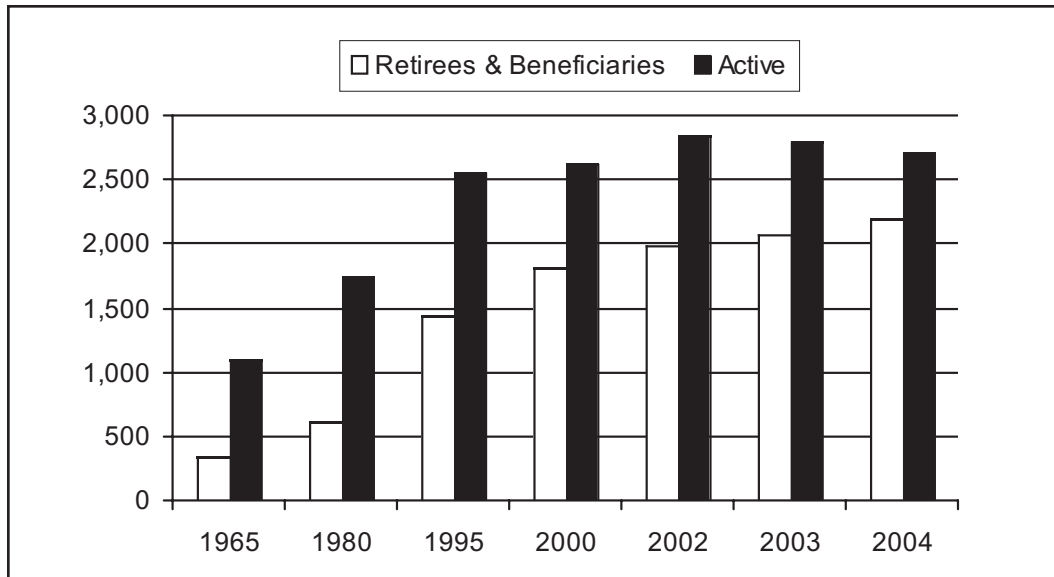
- Section 57, which permits an employer that provides a health benefits plan (as defined in N.J.S.A.26:2S 2) to its employees and their dependents to require that an employee contribute a portion or the full amount of the cost of dependent coverage under the plan for the employee's domestic partner, and
- Section 58, which deals with the distinction between same-sex couples and opposite-sex couples over 62 years of age who establish domestic partnerships with respect to health and pension benefits made available to dependent domestic partners under this law.

The SHBP and State administered pension statutes impacted by this law can be found in Sections 41 through 46 of the law.

This law was effective on July 10, 2004.

MEMBERSHIP

- As of June 30, 2004, the active membership of the System totaled 2,710. There were 35 inactive members as of June 30, 2004.
- There were 2,204 retirees and beneficiaries receiving annual pensions totaling \$88,550,978. *(Includes benefits paid under the provisions of the Pension Adjustment Act.)*
- Beneficiaries of 1 active member and 26 retired members received lump sum death benefits in the amount of \$721,085.
- The System's assets totaled \$1,694,769,733 at the close of the fiscal year 2004.



KPMG LLP
New Jersey Headquarters
150 John F. Kennedy Parkway
Short Hills, NJ 07078

Independent Auditors' Report

The Board of Trustees
State of New Jersey
State Police Retirement System:

We have audited the accompanying statements of fiduciary net assets of the State of New Jersey State Police Retirement System (the System) as of June 30, 2004 and 2003, and the related statements of changes in fiduciary net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State of New Jersey State Police Retirement System as of June 30, 2004 and 2003, and the changes in its financial position for the years 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 are not a required part of the basic financial statements but are supplementary information required by 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 audits were made for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The schedule of changes in fiduciary net assets by fund is presented for purposes of additional analysis and is not a required part of the basic financial statements of the System. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

KPMG LLP

September 24, 2004

**STATE OF NEW JERSEY
STATE POLICE RETIREMENT SYSTEM**

Management's Discussion and Analysis

June 30, 2004 and 2003

Our discussion and analysis of the State Police Retirement System (the System)'s financial performance provides an overview of the System's financial activities for the fiscal year ended June 30, 2004 and 2003. Please read it in conjunction with the basic financial statements and financial statement footnotes which follow this discussion.

FINANCIAL HIGHLIGHTS

2004 - 2003

- Net assets held in trust for pension benefits increased by \$141,346,031 as a result of this year's operations from \$1,545,738,865 to \$1,687,084,896.
- Additions for the year were \$230,936,920, which are comprised of member pension contributions of \$14,682,524, interfund employer transfer \$45,339, and investment and other income of \$216,209,057.
- Deductions for the year were \$89,590,889, which are comprised of benefit and refund payments of \$89,326,031 and administrative expenses of \$264,858.
- The System utilized net assets (excess assets above the required funding level) to meet this year's normal pension contribution requirements.

2003 - 2002

- Net assets held in trust for pension benefits decreased by \$19,562,384 as a result of this year's operations from \$1,565,301,249 to \$1,545,738,865.
- Additions for the year were \$62,822,302, which are comprised of member pension contributions of \$14,198,794, interfund employer transfer \$193,099, and investment and other income of \$48,430,409.
- Deductions for the year were \$82,384,686, which are comprised of benefit and refund payments of \$82,101,379 and administrative expenses of \$283,307.
- The System utilized net assets (excess assets above the required funding level) to meet this year's normal pension contribution requirements.

THE STATEMENTS OF FIDUCIARY NET ASSETS AND THE STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS

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

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

STATE OF NEW JERSEY
STATE POLICE RETIREMENT SYSTEM
 Management's Discussion and Analysis, Continued

FINANCIAL ANALYSIS

STATEMENTS OF FIDUCIARY NET ASSETS

2004 - 2003

	2004	2003	Increase (Decrease)
Assets	\$1,694,769,733	\$1,552,704,181	\$142,065,552
Liabilities	7,684,837	6,965,316	719,521
Net Assets (Deficit)	\$1,687,084,896	\$1,545,738,865	\$141,346,031

The System's assets mainly consist of cash, investments, contributions due from members, accrued investment income, and members' loan receivable. Between fiscal years 2003 and 2004, total assets increased by \$142.1 million or 9.2% due to increase in fair value of investments.

Liabilities consist of pension and death benefit payments owed to members and beneficiaries, noncontributory group insurance premiums owed to the System's insurance provider, and other payables. Total liabilities increased by 10.3% primarily due to increase in retirement benefits payable to increased number of retirees.

Net assets held in trust for pension benefits increased by \$141.3 million or 9.1% primarily due to an increase in fair value of investments.

2003 - 2002

	2003	2002	Increase (Decrease)
Assets	\$1,552,704,181	\$1,572,156,596	\$(19,452,415)
Liabilities	6,965,316	6,855,347	109,969
Net Assets (Deficit)	\$1,545,738,865	\$1,565,301,249	\$(19,562,384)

Between fiscal years 2002 and 2003, total assets decreased by \$19.5 million or 1.2%.

Total liabilities increased by 1.6% over last year.

Net assets held in trust for pension benefits decreased by \$19.6 million or 1.3% primarily due to increase in benefit payments.

STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS

ADDITIONS TO FIDUCIARY NET ASSETS

2004 - 2003

	2004	2003	Increase (Decrease)
Member Contributions	\$14,682,524	\$14,198,794	\$483,730
Employer Contributions	45,339	193,099	(147,760)
Investment & Other	216,209,057	48,430,409	167,778,648
Totals	\$230,936,920	\$62,822,302	\$168,114,618

Additions primarily consist of member and employer contributions and earnings from investment activities. Member contributions rose by 3.4%. There was a decrease in the number of transfers from other retirement systems, which partly accounts for the decrease in employer contributions by 76.5%.

This year is the seventh consecutive year that the State has not been required to make pension contributions to the System. The normal contributions have been funded using net assets (excess assets above the required funding level). Net assets have been available mainly due to Pension Security legislation passed in 1997.

**STATE OF NEW JERSEY
STATE POLICE RETIREMENT SYSTEM**

Management's Discussion and Analysis, Continued

Investment & other revenues increased by \$167.8 million or 346.4% due to an increase in net appreciation in fair value of investments.

The total investment gain for all pension funds was estimated to be 14.2% compared to 3.3% gain in the prior year.

2003 - 2002

	2003	2002	Increase (Decrease)
Member Contributions	\$14,198,794	\$13,758,972	\$439,822
Employer Contributions	193,099	389,092	(195,993)
Investment & Other	48,430,409	(135,318,494)	183,748,903
Totals	\$62,822,302	\$(121,170,430)	\$183,992,732

Member contributions rose by 3.2% due to normal salary increases. There was a decrease in the number of transfers from other retirement systems, which accounts for the decrease in employer contributions.

This year is the sixth consecutive year that the State has not been required to make pension contributions to the System. The normal contributions have been funded using net assets (excess assets above the required funding level). Net assets have been available mainly due to Pension Security legislation passed in 1997.

After the prior two consecutive years of investment losses, the System had investment gains in fiscal year 2003. The total investment gain for all pension funds was estimated to be 3.3% compared to 9.0% loss in the prior year.

DEDUCTIONS FROM FIDUCIARY NET ASSETS

2004 -2003

	2004	2003	Increase (Decrease)
Benefits	\$89,272,063	\$82,072,319	\$7,199,744
Refunds & Adjustments	53,968	29,060	24,908
Administrative Expenses	264,858	283,307	(18,449)
Totals	\$89,590,889	\$82,384,686	\$7,206,203

Deductions are mainly comprised of pension benefit payments to retirees and beneficiaries, refunds of contributions to former members, and administrative costs incurred by the System. Benefit payments increased by \$7.2 million or 8.8% primarily because more members are receiving benefits. There was an increase in the number of withdrawals and transfers to other retirement systems, which accounts for the increase by 85.7% in refunds & adjustments. Administrative expenses decreased by 6.5% mainly due to a decrease in salaries and wages cost over the last year.

2003 -2002

	2003	2002	Increase (Decrease)
Benefits	\$82,072,319	\$74,808,612	\$7,263,707
Refunds & Adjustments	29,060	123,338	(94,278)
Administrative Expenses	283,307	253,999	29,308
Totals	\$82,384,686	\$75,185,949	\$7,198,737

Benefit payments increased by \$7.3 million or 9.7% primarily because more members are receiving benefits. There was a decrease in the number of withdrawals and transfers to other retirement systems, which accounts for the decrease by 76.4% in refunds & adjustments. Administrative expenses have increased mainly due to contractual increases in salaries.

STATE OF NEW JERSEY
STATE POLICE RETIREMENT SYSTEM
Management's Discussion and Analysis, Continued

RETIREMENT SYSTEM AS A WHOLE

The overall funded ratios of 102.7% for fiscal year 2004 and 106.6% for 2003 indicate that the System has assets sufficient to meet its benefit obligations.

CONTACTING SYSTEM FINANCIAL MANAGEMENT

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

**STATE OF NEW JERSEY
STATE POLICE RETIREMENT SYSTEM**

Statements of Fiduciary Net Assets

June 30, 2004 and 2003

	2004	2003
Assets:		
Investments, at fair value:		
Cash Management Fund	\$ 118,684,334	118,411,814
Common Pension Fund A	833,091,311	724,828,258
Common Pension Fund B	363,739,001	341,691,041
Common Pension Fund D	330,338,345	303,650,811
Mortgage Backed Securities	10,553,318	24,127,966
Total investments	1,656,406,309	1,512,709,890
Receivables:		
Contributions:		
Members	902,488	924,340
Accrued interest and dividends	7,279,612	7,380,519
Members' loans	30,179,898	31,689,432
Other	1,426	—
Total receivables	38,363,424	39,994,291
Total assets	1,694,769,733	1,552,704,181
Liabilities:		
Accounts payable and accrued expenses	53,668	142,010
Retirement benefits payable	7,544,671	6,804,058
Cash overdraft	86,498	19,248
Total liabilities	7,684,837	6,965,316
Net Assets:		
Held in trust for pension benefits	\$ 1,687,084,896	1,545,738,865

See schedule of funding progress on page 17.

See accompanying notes to financial statements.

**STATE OF NEW JERSEY
STATE POLICE RETIREMENT SYSTEM**

Statements of Changes in Fiduciary Net Assets

Years ended June 30, 2004 and 2003

	2004	2003
Additions:		
Contributions:		
Members	\$ 14,682,524	14,198,794
Employers	45,339	193,099
Other	66	69
Total contributions	14,727,929	14,391,962
Investment income:		
Net appreciation in fair value of investments	174,220,969	3,858,584
Interest	28,386,214	32,973,670
Dividends	13,694,619	11,713,239
	216,301,802	48,545,493
Less: investment expense	92,811	115,153
Net investment income	216,208,991	48,430,340
Total additions	230,936,920	62,822,302
Deductions:		
Benefits	89,272,063	82,072,319
Refunds of contributions	53,968	29,060
Administrative expenses	264,858	283,307
Total deductions	89,590,889	82,384,686
Change in net assets	141,346,031	(19,562,384)
Net assets - Beginning of year	1,545,738,865	1,565,301,249
Net assets - End of year	\$ 1,687,084,896	1,545,738,865

See accompanying notes to financial statements.

**STATE OF NEW JERSEY
STATE POLICE RETIREMENT SYSTEM**

Notes to Financial Statements

June 30, 2004 and 2003

(1) DESCRIPTION OF THE SYSTEM

The State of New Jersey State Police Retirement System (the System; SPRS) is a single-employer contributory defined benefit plan which was established as of July 1, 1965, under the provisions of N.J.S.A. 53:5A. The System is included along with other state-administered pension trust and agency funds in the basic financial statements of the State of New Jersey.

The System's designated purpose is to provide retirement, death and disability benefits to its members. Membership in the System is mandatory for all uniformed officers and troopers of the Division of State Police of the State of New Jersey. The System's Board of Trustees is primarily responsible for its administration.

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

Vesting and Benefit Provisions:

The vesting and benefit provisions are set by N.J.S.A. 53:5A. The System provides retirement as well as death and disability benefits. All benefits vest after ten years of service (as defined). Retirement benefits are available after 20 years of service (as defined) at any age with mandatory retirement at age 55. The retirement benefit is based upon final compensation, which is defined as salary (as defined) plus maintenance allowance (as defined) during the last 12 months prior to retirement, and is a life annuity equal to the greater of the following: (a) 50% of final compensation; (b) for members retiring due to mandatory retirement, 50% of final compensation, plus 2% for each year of service in excess of 20 years to a maximum of 60% of final compensation; or (c) for members retiring with 25 or more years of service, 65% of final compensation, plus 1% for each year of service in excess of 25 years, to a maximum of 70% of final compensation. Members may elect deferred retirement after ten years of service in which case benefits in the form of life annuity would begin at age 55 equal to 2% of final compensation for each year of service up to 20 years.

Members are always fully vested for their own contributions.

Membership and Contributing Employers:

Membership in the System consisted of the following at June 30:

	2003	2002
Retirees and beneficiaries receiving benefits		
currently and terminated employees entitled to benefits but not yet receiving them	2,080	1,969
Active members:		
Vested	1,790	1,825
Non-vested	903	968
Total active members	2,693	2,793
Total	4,773	4,762

The State of New Jersey is the only contributing employer of this System.

**STATE OF NEW JERSEY
STATE POLICE RETIREMENT SYSTEM**

Notes to Financial Statements, Continued

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus and Basis of Accounting:

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The System is accounted for using an economic resources measurement focus. The System that focuses on total economic resources employs the accrual basis of accounting, which recognizes increases and decreases in economic resources as soon as the underlying event or transaction occurs.

The accrual basis of accounting is used for measuring financial position and changes in fiduciary net assets of the System. Under this method, revenues are recorded in the accounting period in which they are earned, and deductions are recorded at the time the liabilities are incurred. The financial statements of the System conform to the provisions of Governmental Accounting Standards Board (GASB) Statement No. 25, "Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contributions Plans" and No. 26, "Financial Reporting for Post-employment Healthcare Plans Administered by Defined Benefit Pension Plans." Employer contributions are recognized when payable to the System. Benefits and refunds are recognized when payable in accordance with the terms of the System.

Investment Valuation:

Investments, including short-term investments (State of New Jersey Cash Management Funds), are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgage backed securities are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have an established market are reported at estimated fair value.

The State of New Jersey 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.

The State of New Jersey Division of Investment administers three common pension funds which are utilized by the System. A brief description of each common pension fund is as follows:

Common Pension Fund A - The operations of Common Pension Fund A are governed by the provisions of Article 62 of the State of New Jersey Investment Council regulations for the purpose of investing in corporate common stocks, securities convertible into corporate common stocks or covered call options.

Common Pension Fund B - The operations of Common Pension Fund B are governed by the provisions of Article 63 of the State of New Jersey Investment Council regulations for the purpose of investing in fixed income and debt securities.

Common Pension Fund D - The operations of Common Pension Fund D are governed by the provisions of Article 67 of the State of New Jersey Investment Council regulations for the purpose of investing in international debt and equity securities, currencies, currency futures, and options.

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, Common Pension Fund A, Common Pension Fund B and Common Pension Fund D. 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 purchase, sale, receipt of income, and other transactions affecting investments are governed by custodial agreements between the System, through the State Treasurer, and custodian banks as agents for the System. 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.

GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Purchase Agreements*, requires disclosure of the level of custodial risk assumed by the System. Category 1 includes investments that are insured or registered or for which the securities are held by the System or its agent in the System's name. As of June 30, 2004 and 2003, all investments held by the System (other than

**STATE OF NEW JERSEY
STATE POLICE RETIREMENT SYSTEM**

Notes to Financial Statements, Continued

mortgage backed securities and the State of New Jersey Cash Management Funds which are not categorized) are classified as Category 1.

Federal securities are maintained at Federal Reserve Banks in Philadelphia and New York through the custodian banks in trust for the System. A significant portion of corporate equity and debt securities are maintained by the Depository Trust Company (DTC) through the custodian banks in trust for the System. The custodian banks as agents for the System maintain internal accounting records identifying the securities maintained by the Federal Reserve Banks and the DTC as securities owned by or pledged to the System.

Securities not maintained by the Federal Reserve Banks or DTC are in the name of a designated nominee representing the securities of the System, which establishes the System's unconditional right to the securities.

Members' Loans:

Members who have at least three years of service in the System may borrow up to 50% of their accumulated member contributions. Repayment of loan balances is deducted from payroll checks and bears an interest rate of 4%. 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.

Under the new Internal Revenue Service regulations, effective January 1, 2004, the Division changed its pension loan repayment policy: Members who take multiple loans must repay the outstanding balance of the original loan, and all subsequent loans taken before the original loan is completely paid off, within a period not to exceed 5 years from the issuance of the first loan taken after January 1, 2004. Failure to repay the loan within the five-year period will result in the unpaid balance being declared a taxable distribution.

Administrative Expenses:

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

Cash and Cash Equivalents:

GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Purchase Agreements*, also requires that deposits held in financial institutions be categorized to indicate the level of custodial risk assumed by the entity. Category 1 consists of deposits that are insured or collateralized with securities held by the entity or by its agent in the entity's name. Category 2 consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name. Category 3 consists of deposits which are uninsured and uncollateralized.

Based upon aggregate collateral levels maintained for all State bank accounts as a whole, substantially all cash balances maintained in financial institutions as of June 30, 2004 and 2003, which include funding for the July 1, 2004 and 2003 retirement payroll, are designated Category 3.

(3) CONTRIBUTIONS

The contribution policy is set by N.J.S.A. 53:5A-34 and requires contributions by active members and the State of New Jersey. Plan member and employer contributions may be amended by State of New Jersey legislation. Members contribute at a uniform rate of 7.5% of base salary. Employers are required to contribute at an actuarially determined rate. The annual employer contribution includes funding for basic retirement allowances, cost-of-living adjustments and noncontributory death benefits.

Legislation passed in 1997 (Chapter 115, P.L. 1997) provided for the use of actuarially determined excess valuation assets to offset the required normal contributions of the State of New Jersey. As a result of this legislation, the State of New Jersey was not required to make a normal contribution to the System for the years ended June 30, 2004 and 2003. Thereafter, a certain percentage of available excess valuation assets may be used as specified in the legislation.

**STATE OF NEW JERSEY
STATE POLICE RETIREMENT SYSTEM**

Notes to Financial Statements, Continued

(4) FUNDS

This System maintains the following legally required funds:

Members' Annuity Savings Fund (2004 - \$137,630,230; 2003 - \$133,657,431)

The Members' Annuity Savings Fund (ASF) is credited with all contributions made by active members of the System.

Contingent Reserve Fund (2004- \$1,032,820,012; 2003- \$936,731,005)

The Contingent Reserve Fund is credited with the contributions of the State of New Jersey. Interest earnings, after crediting the Members' Annuity Savings Fund and the Retirement Reserve Fund, as required, are credited to this account. Additionally, payments for life insurance premiums are made from this Fund.

Retirement Reserve Fund (2004 - \$516,634,654; 2003 - \$475,350,429)

The Retirement Reserve Fund is the account from which retirement benefits other than life insurance premiums, including cost-of-living benefits, are paid. Upon retirement of a member, accumulated contributions are transferred to the Retirement Reserve Fund from the ASF. 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 (8.75% for 2004 and 2003) is credited to the Retirement Reserve Fund.

(5) INCOME TAX STATUS

Based on a 1986 declaration of the Attorney General of the State of New Jersey, the System is a qualified plan as described in Section 401(a) of the Internal Revenue Code.

**STATE OF NEW JERSEY
STATE POLICE RETIREMENT SYSTEM**

Required Supplementary Information

Schedule of Funding Progress

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS (a)	ACTUARIAL ACCRUED LIABILITY (b)	UNFUNDED (OVERFUNDED) ACTUARIAL ACCRUED LIABILITY (b - a)	FUNDED RATIO (a / b)	COVERED PAYROLL (c)	UNFUNDED (OVERFUNDED) ACTUARIAL ACCRUED LIABILITY AS A PERCENTAGE OF COVERED PAYROLL (b - a) / c)
June 30, 1997	\$1,322,406,703	\$1,272,242,451	\$(50,164,252)	103.9%	\$142,636,260	(35.2%)
June 30, 1998	1,458,600,992	1,369,277,968	(89,323,024)	106.5%	167,145,161	(53.4%)
June 30, 1999	1,600,165,104	1,469,144,146	(131,020,958)	108.9%	178,203,420	(73.5%)
June 30, 2000	1,752,423,441	1,512,909,805	(239,513,636)	115.8%	188,466,237	(127.1%)
June 30, 2001	1,829,414,353	1,626,631,656	(202,782,697)	112.5%	199,727,203	(101.5%)
June 30, 2002	1,853,684,177	1,739,427,739	(114,256,438)	106.6%	215,161,126	(53.1%)
June 30, 2003	1,865,079,083	1,815,725,256	(49,353,827)	102.7%	217,448,864	(22.7%)

**STATE OF NEW JERSEY
STATE POLICE RETIREMENT SYSTEM**

Required Supplementary Information, Continued

Schedule of Funding Progress - Additional Actuarial Information

Significant actuarial methods and assumptions used in the most recent June 30, 2003 and 2002 actuarial valuations included the following:

	June 30, 2003	June 30, 2002
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	30 years	30 years
Actuarial assumptions:		
Interest rate	8.75%	8.75%
Salary range	5.95%	5.95%
Cost-of-living adjustments	2.40%	2.40%

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

STATE OF NEW JERSEY
STATE POLICE RETIREMENT SYSTEM
 Required Supplementary Information, Continued
 Schedule of Employer Contributions

YEAR ENDED JUNE 30,	ANNUAL REQUIRED CONTRIBUTION	EMPLOYER CONTRIBUTIONS⁽¹⁾	PERCENTAGE CONTRIBUTED
1997	\$44,384,679	\$120,308,862 ⁽²⁾	271.1%
1998	33,317,314	—	0.0%
1999	33,116,255	—	0.0%
2000	33,598,843	—	0.0%
2001	35,341,259	—	0.0%
2002	24,990,652	—	0.0%
2003	29,449,164	—	0.0%
2004	37,600,821	—	0.0%

Notes to Schedule

- (1) Employer contributions exclude contributions received primarily from the Police and Firemen's Retirement System of New Jersey for certain members who transferred their eligible prior service credit to the State Police Retirement System.

In accordance with Chapter 115, P.L. 1997, available excess valuation assets were used to fund required employer contributions.

- (2) For the year ended June 30, 1997, the employer contributions exceeded the annual required contributions as a result of legislation that was enacted (Chapter 114, P.L. 1997), authorizing the New Jersey Economic Development Authority to issue bonds, notes or other obligations for the purpose of financing, in full or in part, the State of New Jersey's portion of the unfunded accrued liability under the State of New Jersey retirement systems.

STATE OF NEW JERSEY
STATE POLICE RETIREMENT SYSTEM

Schedule of Changes in Fiduciary Net Assets by Fund

Year ended June 30, 2004

	MEMBERS' ANNUITY SAVINGS FUND	CONTINGENT RESERVE FUND	RETIREMENT RESERVE FUND	TOTAL
Additions:				
Contributions:				
Members	\$ 14,682,524	—	—	14,682,524
Employers	—	45,339	—	45,339
Other	—	66	—	66
Total contributions	14,682,524	45,405	—	14,727,929
Distribution of net investment income	—	174,615,829	41,593,162	216,208,991
Total additions	14,682,524	174,661,234	41,593,162	230,936,920
Deductions:				
Benefits	—	721,085	88,550,978	89,272,063
Refunds of contributions	53,968	—	—	53,968
Administrative expenses	—	264,858	—	264,858
Total deductions	53,968	985,943	88,550,978	89,590,889
Net increase (decrease) before transfers among reserves	14,628,556	173,675,291	(46,957,816)	141,346,031
Transfers among reserves: Retirements	(10,655,757)	(77,586,284)	88,242,041	—
Net increase (decrease)	3,972,799	96,089,007	41,284,225	141,346,031
Net assets held in trust for pension benefits:				
Beginning of year	133,657,431	936,731,005	475,350,429	1,545,738,865
End of year	\$ 137,630,230	1,032,820,012	516,634,654	1,687,084,896