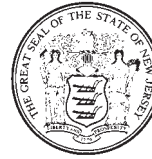


DEPARTMENT OF
THE TREASURY

Peter R. Lawrance
Acting State Treasurer

DIVISION OF PENSIONS
AND BENEFITS

Thomas P. Bryan
Director



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

CONSOLIDATED POLICE AND
FIREMEN'S PENSION FUND
OF NEW JERSEY

COMMISSION
as of June 30, 2001

SPENCER H. SMITH, JR.
Chairperson

JANICE VASIL
State Treasurer's Representative

Louis C. Fiocca

Nancy A. Naughton

Louis J. Risacher

WENDY JAMISON
Secretary

BUCK CONSULTANTS, INC.
Actuaries and Consultants

MEDICAL BOARD

William Coleman, M.D.

David Jenkins, M.D.

William E. Ryan, M.D.

TO THE HONORABLE
DONALD T. DiFRANCESCO
ACTING GOVERNOR of the STATE OF NEW JERSEY

Dear Acting Governor DiFrancesco:

The Commission for the

CONSOLIDATED POLICE AND
FIREMEN'S PENSION FUND

is pleased to present the Fiscal Year 2001 Annual Report in accordance with the provisions of Chapter 43:16-6.2.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Spencer H. Smith, Jr.", written over a horizontal line.

SPENCER H. SMITH, JR.
Chairperson

Consolidated Police and Firemen's Pension Fund

BOARD OF COMMISSIONERS



Louis C. Fiocca
*Retired Police
Representative*



Nancy A. Naughton
*State Investment
Council Representative
Appointed*



Janice Vasil
Treasurer's Appointment

Unavailable for a photograph:
Spencer H. Smith, Jr., *Chairperson*



Wendy Jamison
Board Secretary



Kim Smith
Support Staff

SIGNIFICANT LEGISLATION

CHAPTER 4, PUBLIC LAW OF 2001

This law is intended to establish pension benefit parity for public safety officers who were not impacted by the 5% increase in the "special retirement" allowance provided to Police and Firemen's Retirement System (PFRS) retirees by P.L.1989, c.204.

This law provides for an increase in the pension allowance payable to certain previously retired members of the Consolidated Police and Firemen's Pension Fund (CPFPPF), PFRS members who retired prior to December 29, 1989, the effective date of Chapter 204, and to certain past and prospective law enforcement officer (LEO) retirants under the Public Employees' Retirement System (PERS). To be eligible for the increase, a retirant from any of the specified retirement systems must have rendered at least 25 years of creditable service under the system.

The amount of the increase would be 5% of the retirant's final compensation, or such lesser amount as would provide the retirant with a total pension of 70% of final compensation.

The State is liable for any increased cost to local government employers participating in CPFPPF as a result of the increase. For PFRS and PERS, the amount of the difference between the expected value and the full market value of the assets to be added to the expected value of the assets for the valuation period ending June 30, 1999 will include an additional amount of the market value of the assets sufficient to fund the unfunded accrued liability for the retirement allowances provided by the PFRS and PERS under this law.

This law was approved on January 16, 2001 and was effective on April 16, 2001.

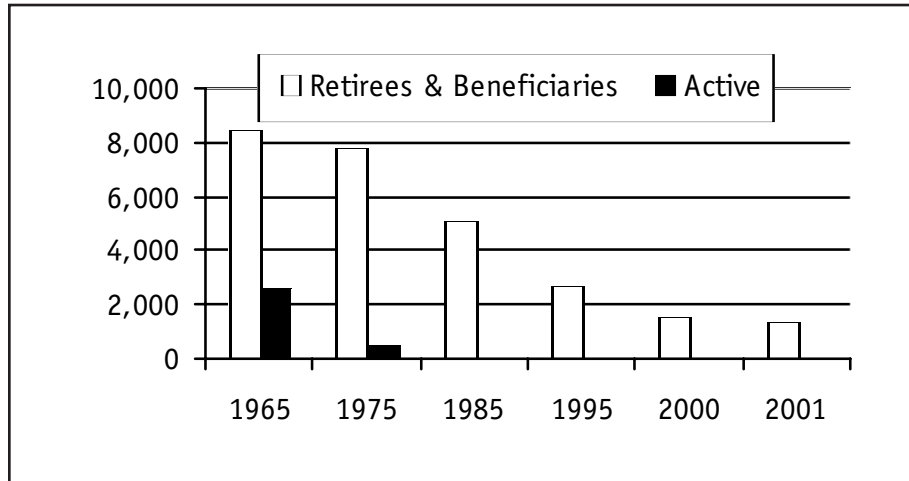
CHAPTER 5, PUBLIC LAW OF 2001

This law revises New Jersey's "Administrative Procedure Act" (APA) to enhance access to the rule-making process. The provisions of the law include additional requirements for agencies involved in the rule-making process. These include the publication of a quarterly calendar of anticipated rule-making activities for the next six months, or in the absence of a calendar, a 60 day comment period instead of 30 days as well as a new "standard of clarity." The new law also requires four forms of notice of proposed rule-making, instead of two. These include a 30-day notice to the news media covering the State House Complex, an electronic notification through the Internet, publication in the New Jersey Register, and one additional means of notification such as an agency newsletter or direct mailing to interested parties.

This law was approved on January 16, 2001 and was effective on July 1, 2001.

MEMBERSHIP

- As of June 30, 2001, the active contributing membership of the Fund totaled zero.
- There were 1,361 retirees and beneficiaries receiving annual pensions totaling \$22,065,871.
- The Fund's assets totaled \$33,546,936 at the close of the fiscal year 2001.



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

Consolidated Police and Firemen's Pension Fund:

We have audited the accompanying statements of plan net assets of the State of New Jersey Consolidated Police and Firemen's Pension Fund as of June 30, 2001 and 2000, and the related statements of changes in plan 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 plan net assets of the State of New Jersey Consolidated Police and Firemen's Pension Fund as of June 30, 2001 and 2000, and the changes in its plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The supplementary information included in the schedule of funding progress and schedule of employer contributions is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The schedule of changes in plan net assets by fund is presented for purposes of additional analysis and is not a required part of the financial statements of the State of New Jersey Consolidated Police and Firemen's Pension Fund. Such information has been subjected to the auditing procedures applied in the audit 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.

September 7, 2001

KPMG LLP

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

Statements of Plan Net Assets

June 30, 2001 and 2000

	2001	2000
Assets:		
Cash	\$ 6,852,942	\$ 2,030,267
Investments, at fair value:		
Cash Management Fund	13,414,478	14,439,348
Bonds	4,676,112	14,866,750
Mortgages	4,950,932	5,509,421
Total investments	23,041,522	34,815,519
Receivables:		
Accrued interest	275,333	249,171
Due from Pension Adjustment Fund	1,019,417	1,093,827
Other	2,357,722	2,330,948
Total receivables	3,652,472	3,673,946
Total assets	33,546,936	40,519,732
Liabilities:		
Accounts payable and accrued expenses	34,149	25,278
Retirement benefits payable	1,928,454	2,109,406
Total liabilities	1,962,603	2,134,684
Net assets held in trust for pension benefits	\$ 31,584,333	\$ 38,385,048

See schedule of funding progress on page 10.

See accompanying notes to financial statements.

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

Statements of Changes in Plan Net Assets

Years ended June 30, 2001 and 2000

	2001	2000
Revenues and additions:		
Contributions:		
Employers	\$ 82,355	\$ 90,137
Pension adjustment fund	12,760,497	13,623,859
Total contributions	12,842,852	13,713,996
Investment income:		
Net appreciation (depreciation) in fair value of investments	479,396	(339,924)
Interest	2,013,756	2,189,918
	2,493,152	1,849,994
Less investment expense	13,597	17,305
Net investment income	2,479,555	1,832,689
Total revenues and additions	15,322,407	15,546,685
Expenditures and deductions:		
Benefits	22,065,871	23,924,227
Administrative expenses	57,251	82,703
Total expenditures and deductions	22,123,122	24,006,930
Net decrease	(6,800,715)	(8,460,245)
Net assets held in trust for pension benefits:		
Beginning of year	38,385,048	46,845,293
End of year	\$ 31,584,333	\$ 38,385,048

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2001 and 2000

(1) DESCRIPTION OF THE FUND

The State of New Jersey Consolidated Police and Firemen's Pension Fund (the Fund) is a cost-sharing contributory defined benefit plan with a special funding situation which was established as of January 1, 1952, under the provisions of N.J.S.A. 43:16. The Fund is included along with other state-administered pension trust and agency funds in the general purpose financial statements of the State of New Jersey.

The Fund's designated purpose is to provide retirement, death and disability benefits to its members. Membership in the Fund is limited to county and municipal police and firemen who were appointed prior to July 1, 1944. There are no active vested members and 1,498 pensioners and beneficiaries are receiving benefits as of June 30, 2000, the date of the most recent actuarial valuation. As of June 30, 1999, there were no active members and 1,657 pensioners and beneficiaries receiving benefits. The Fund's Board of Trustees is primarily responsible for its administration.

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

Vesting and Benefit Provisions

The vesting and benefit provisions are set by N.J.S.A. 43:16. The Fund provides retirement as well as death and disability benefits to any active member after 25 years of service. A member may retire at age 60 after 25 years of service. Retirement is mandatory at age 65, except for chiefs of police, who may retire at age 70. Benefits are generally determined to be 60% of final salary, as defined, plus 1% for each creditable year of service, as defined, in excess of 25 years, but not to exceed 30 years. Members are always fully vested in their own contributions.

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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Fund are prepared on the accrual basis of accounting and conform to the provisions of Governmental Accounting Standards Board (GASB) Statement No. 25, "Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contribution Plans." Plan asset and liabilities are recorded at fair value. 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.

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. Mortgages are valued on the basis of future principal and interest

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

Notes to Financial Statements, Continued

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

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

GASB Statement No. 3 requires disclosure of the level of custodial risk assumed by the Fund. Category 1 includes investments that are insured or registered or for which the securities are held by the Fund or its agent in the Fund's name. As of June 30, 2001 and 2000, all investments held by the Fund (other than mortgages 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 Fund. 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 Fund. The custodian banks as agents for the Fund maintain internal accounting records identifying the securities maintained by the Federal Reserve Banks and the DTC as securities owned by or pledged to the Fund.

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

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 statements of changes in plan net assets.

Cash and Cash Equivalents

GASB Statement No. 3 also requires that deposits held in financial institutions be categorized to indicate the level of 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.

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

Notes to Financial Statements, Continued

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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, 2001, which include funding for the July 1, 2001 retirement payroll, are designated Category 3.

The categorization of cash and cash equivalents for all state funds, including the pension trust funds, can be found in the notes to the general purpose financial statements of the State of New Jersey.

(3) CONTRIBUTIONS

The contribution policy is set by N.J.S.A. 43:16 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. Contributions by active members were based on 7% of their salary. The State of New Jersey, the only contributing employer of the Fund, is required to contribute at an actuarially determined rate.

(4) RESERVES

The Fund maintains the following legally required reserve:

Pension Reserve Fund (2001 - \$31,584,333; 2000 - \$38,385,048)

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

(5) INCOME TAX STATUS

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

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

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, 1995	\$ 50,406,423	\$ 82,101,504	\$ 31,695,081	61.4%	N/A	N/A
June 30, 1996	78,769,717	73,694,514	(5,075,203)	106.9%	N/A	N/A
June 30, 1997	70,420,937	66,004,245	(4,416,692)	106.7%	N/A	N/A
June 30, 1998	62,205,001	59,272,789	(2,932,212)	104.9%	N/A	N/A
June 30, 1999	54,018,660	52,226,208	(1,792,452)	103.4%	N/A	N/A
June 30, 2000	46,078,644	46,544,429	465,785	99.0%	N/A	N/A

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

Required Supplementary Information, Continued
Schedule of Funding Progress - Additional Actuarial Information

Significant actuarial methods and assumptions used in the June 30, 2000 and 1999 actuarial valuations include the following:

	JUNE 30, 2000	JUNE 30, 1999
Actuarial cost method	Projected unit credit	Projected unit credit
Asset valuation method	5 year average of market value	5 year average of market value
Amortization method	Level dollar, closed	Level dollar, closed
Remaining amortization period	1 year	1 year
Actuarial assumptions:		
Interest rate of return	8.75%	8.75%

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

Required Supplementary Information, Continued

Schedule of Employer Contributions

YEAR ENDED JUNE 30,	ANNUAL REQUIRED CONTRIBUTION	EMPLOYER CONTRIBUTIONS⁽¹⁾	PERCENTAGE CONTRIBUTED
1997	\$ 10,580,991	\$ 43,995,746 ⁽²⁾	415.8%
1998	—	—	N/A
1999	—	—	N/A
2000	—	—	N/A
2001	—	—	N/A

Notes to Schedule:

- (1) Excludes contributions from local employers to cover administrative expenses of the Fund.
- (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
CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND

Schedule of Changes in Plan Net Assets by Fund

Year ended June 30, 2001

	RETIREMENT RESERVE FUND	PENSION ADJUSTMENT PASS THROUGH	TOTAL
Additions:			
Contributions:			
Employers	\$ 82,355	—	\$ 82,355
Pension Adjustment Fund	—	12,760,497	12,760,497
Total contributions	82,355	12,760,497	12,842,852
Distribution of net investment income	2,479,555	—	2,479,555
Total additions	2,561,910	12,760,497	15,322,407
Deductions:			
Benefits	9,305,374	12,760,497	22,065,871
Administrative expenses	57,251	—	57,251
Total deductions	9,362,625	12,760,497	22,123,122
Net decrease	(6,800,715)	—	(6,800,715)
Net assets held in trust for pension benefits:			
Beginning of year	38,385,048	—	38,385,048
End of year	\$ 31,584,333	—	\$ 31,584,333