

DEPARTMENT OF
THE TREASURY

John E. McCormac, CPA

State Treasurer

DIVISION OF PENSIONS
AND BENEFITS

Frederick J. Beavaer

Director

PRISON OFFICERS'
PENSION FUND
OF NEW JERSEY

MELLON HUMAN RESOURCES
& INVESTOR SOLUTIONS

Actuaries and Consultants



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 Division of Pensions and Benefits is pleased to present the
Fiscal Year 2004 Annual Report of the

PRISON OFFICERS' PENSION FUND

in accordance with the provisions of N.J.S.A. 43:7-22.

Respectfully submitted,

A handwritten signature in cursive script that reads "Frederick J. Beaver".

FREDERICK J. BEAVER

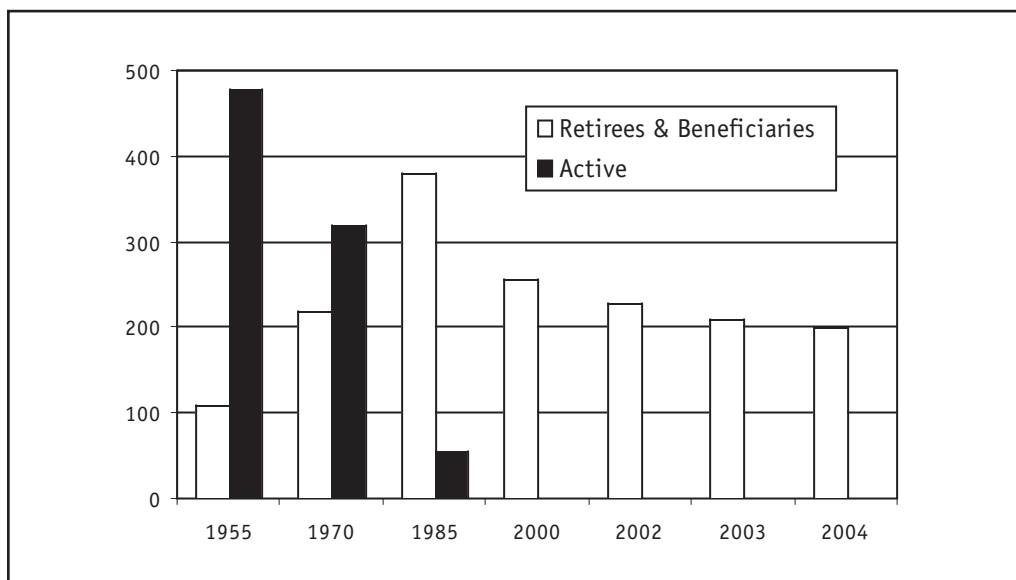
Director

SIGNIFICANT LEGISLATION

There were no significant changes in legislation governing the Prison Officers' Pension Fund of New Jersey during fiscal year 2004.

MEMBERSHIP

- As of June 30, 2004, the active contributing membership of the Fund totaled zero.
- There were 200 retirees and beneficiaries receiving annual pensions totaling \$2,750,556.
- The Fund's assets totaled \$16,105,439 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 Commission
State of New Jersey
Prison Officers' Pension Fund:

We have audited the accompanying statements of fiduciary net assets of the State of New Jersey Prison Officers' Pension Fund (the Fund) 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 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 Prison Officers' Pension Fund 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 Fund'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 Fund. 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
PRISON OFFICERS' PENSION FUND**

Management's Discussion and Analysis

June 30, 2004 and 2003

Our discussion and analysis of the Prison Officers' Pension Fund (the Fund)'s financial performance provides an overview of the Fund'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 decreased by \$1,393,525 as a result of this year's operations from \$17,277,953 to \$15,884,428.
- Additions for the year were \$1,363,329, which are comprised of net investment income of \$99,182 and contributions for pension adjustment benefits of \$1,264,147.
- Deductions for the year were \$2,756,854, which are comprised of benefit payments of \$2,750,556 and administrative expenses of \$6,298.

2003 - 2002

- Net assets held in trust for pension benefits decreased by \$630,499 as a result of this year's operations from \$17,908,452 to \$17,277,953.
- Additions for the year were \$2,223,922, which are comprised of net investment income of \$930,257 and contributions for pension adjustment benefits of \$1,293,665.
- Deductions for the year were \$2,854,421, which are comprised of benefit payments of \$2,843,716 and administrative expenses of \$10,705.

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 in 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.

**STATE OF NEW JERSEY
PRISON OFFICERS' PENSION FUND**

Management's Discussion and Analysis, Continued

FINANCIAL ANALYSIS

STATEMENTS OF FIDUCIARY NET ASSETS

2004 - 2003

	2004	2003	Increase (Decrease)
Assets	\$16,105,439	\$17,505,077	\$(1,399,638)
Liabilities	221,011	227,124	(6,113)
Net Assets (Deficit)	\$15,884,428	\$17,277,953	\$(1,393,525)

The Fund's assets mainly consist of cash and investments. Between fiscal years 2003 and 2004, total assets decreased by \$1.4 million or 8.0%.

Liabilities mainly consist of pension benefit payments owed to retirees and beneficiaries. Total liabilities decreased by 2.7% mainly due to a reduction in the monthly payroll expense. Fewer retirees and beneficiaries are receiving benefits compared to last year.

Net assets held in trust for pension benefits decreased by \$1.4 million or 8.1%. This reduction is due to retirement benefit payments exceeding the net investment gains.

2003 - 2002

	2003	2002	Increase (Decrease)
Assets	\$17,505,077	\$18,163,534	\$(658,457)
Liabilities	227,124	255,082	(27,958)
Net Assets (Deficit)	\$17,277,953	\$17,908,452	\$(630,499)

Between fiscal years 2002 and 2003, total assets decreased by 3.6%.

Total liabilities decreased by 11.0% mainly due to a reduction in the monthly payroll expense. Fewer retiree and beneficiaries are receiving benefits compared to last year.

Net assets held in trust for pension benefits decreased by 3.5%. This reduction is due to retirement benefit payments exceeding the net investment gains.

STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS

ADDITIONS TO FIDUCIARY NET ASSETS

2004 - 2003

	2004	2003	Increase (Decrease)
Employer Contributions	\$1,264,147	\$1,293,665	\$(29,518)
Investment & Other	99,182	930,257	(831,075)
Totals	\$1,363,329	\$2,223,922	\$(860,593)

Additions consist of contributions from the Pension Adjustment Fund to cover cost-of-living benefits and earnings from investment activities. Contributions decreased slightly compared to the prior year by 2.3%. Investment earnings decreased by 89.3% due to unrealized loss on investments.

This year is the seventh consecutive year that the State has not made a contribution to the Fund. Contributions have not been required due to Pension Security legislation passed in 1997. As of July 1, 2003, the date of the most recent

**STATE OF NEW JERSEY
PRISON OFFICERS' PENSION FUND**

Management's Discussion and Analysis, Continued

actuarial valuation, the actuarial value of the Fund's assets exceeds the projected value of accrued liabilities by \$6.6 million.

2003 - 2002

	2003	2002	Increase (Decrease)
Employer Contributions	\$1,293,665	\$1,348,993	\$ (55,328)
Investment & Other	930,257	1,292,601	(362,344)
Totals	\$2,223,922	\$2,641,594	\$(417,672)

Contributions decreased slightly compared to the prior year. Investment earnings decreased by 28.0% due to low interest rates.

This year is the sixth consecutive year that the State has not made a contribution to the Fund. Contributions have not been required due to Pension Security legislation passed in 1997. As of July 1, 2002, the date of the most recent actuarial valuation, the actuarial value of the Fund's assets exceeds the projected value of accrued liabilities by \$6.1 million.

DEDUCTIONS FROM FIDUCIARY NET ASSETS

2004 - 2003

	2004	2003	Increase (Decrease)
Benefits	\$2,750,556	\$2,843,716	\$(93,160)
Administrative Expenses	6,298	10,705	(4,407)
Totals	\$2,756,854	\$2,854,421	\$(97,567)

Deductions are mainly comprised of pension benefit payments to retirees and beneficiaries and administrative costs incurred by the Fund. Benefit payments decreased by 3.3% due to fewer retirees and beneficiaries.

2003 - 2002

	2003	2002	Increase (Decrease)
Benefits	\$2,843,716	\$2,990,730	\$(147,014)
Administrative Expenses	10,705	12,311	(1,606)
Totals	\$2,854,421	\$3,003,041	\$(148,620)

Benefit payments decreased by 4.9% due to fewer retirees and beneficiaries.

RETIREMENT SYSTEM AS A WHOLE

The overall funded ratios of 161.1% for fiscal year 2004 and 152.0% for 2003 indicate that the Fund has assets sufficient to meet its benefit obligations now and in the future.

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
PRISON OFFICERS' PENSION FUND**

Statements of Fiduciary Net Assets

June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Assets:		
Cash	\$ 156,955	52,363
Investments, at fair value:		
Bonds	7,408,780	7,855,300
Mortgage Backed Securities	2,676,720	3,411,743
Cash Management Fund	5,582,517	5,902,985
Total investments	<u>15,668,017</u>	<u>17,170,028</u>
Receivables:		
Other	<u>280,467</u>	<u>282,686</u>
Total receivables	<u>280,467</u>	<u>282,686</u>
Total assets	<u>16,105,439</u>	<u>17,505,077</u>
Liabilities:		
Accounts payable and accrued expenses	980	1,323
Retirement benefits payable	<u>220,031</u>	<u>225,801</u>
Total liabilities	<u>221,011</u>	<u>227,124</u>
Net Assets :		
Held in trust for pension benefits	<u>\$ 15,884,428</u>	<u>17,277,953</u>

See schedule of funding progress on page 12.

See accompanying notes to financial statements.

**STATE OF NEW JERSEY
PRISON OFFICERS' PENSION FUND**

Statements of Changes in Fiduciary Net Assets

Years ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Additions:		
Contributions:		
Pension Adjustment Fund	\$ 1,264,147	1,293,665
Total contributions	<u>1,264,147</u>	<u>1,293,665</u>
Investment income:		
Net appreciation (depreciation) in fair value of investments	(590,765)	134,270
Interest	<u>691,732</u>	<u>798,180</u>
	100,967	932,450
Less: investment expense	<u>1,785</u>	<u>2,193</u>
Net investment income	<u>99,182</u>	<u>930,257</u>
Total additions	<u>1,363,329</u>	<u>2,223,922</u>
Deductions:		
Benefits	2,750,556	2,843,716
Administrative expenses	<u>6,298</u>	<u>10,705</u>
Total deductions	<u>2,756,854</u>	<u>2,854,421</u>
Change in net assets	(1,393,525)	(630,499)
Net assets - Beginning of year	<u>17,277,953</u>	<u>17,908,452</u>
Net assets - End of year	<u>\$ 15,884,428</u>	<u>17,277,953</u>

See accompanying notes to financial statements.

**STATE OF NEW JERSEY
PRISON OFFICERS' PENSION FUND**

Notes to Financial Statements

June 30, 2004 and 2003

(1) DESCRIPTION OF THE FUND

The Prison Officers' Pension Fund of New Jersey (the Fund; POPF) is a single-employer contributory defined benefit plan which was established as of January 1, 1941, under the provisions of N.J.S.A. 43:7 and closed to new members in January 1960. The Fund is included along with other state-administered pension trust and agency funds in the basic financial statements of the State of New Jersey.

The Fund's designated purpose is to provide retirement, death and disability benefits to its members. Membership in the Fund is limited to various employees in the state penal institutions who were appointed prior to January 1, 1960. There are no active members and 214 pensioners and beneficiaries are receiving benefits as of June 30, 2003, the date of the most recent actuarial valuation. As of July 1, 2002, there were no active members and 231 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. 43:7. The Fund provides retirement, as well as death and disability benefits. Retirement benefits are available after 25 years of service or at age 55 with 20 years of service. The benefit is in the form of a life annuity equal to the greater of (a) 2% of average final compensation up to the 30 years of service, plus 1% of average final compensation for each year of service above 30 and prior to age 65; (b) 50% of final pay; or (c) for members with 25 or more years of service, 2% of average final compensation for each year of service up to 30 years, plus 1% for each year in excess of 30 years. Average final compensation 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 are always fully vested for their own contributions.

(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 Fund 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 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" and No. 26, "Financial Reporting for Post-employment Healthcare Plans Administered by Defined Benefit Pension Plans." Employer contributions are recognized when payable to the Fund. Benefits and refunds are recognized when payable in accordance with the terms of the Fund.

**STATE OF NEW JERSEY
PRISON OFFICERS' PENSION FUND**

Notes to Financial Statements, Continued

Investment Valuation:

State of New Jersey Cash Management Fund units and bonds are stated at fair value. Mortgage backed securities are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments.

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, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Purchase Agreements*, requires disclosure of the level of custodial risk assumed by the Funds. Category 1 includes investments that are insured or registered or for which the securities are held by the Funds or its agent in the Funds' name. As of June 30, 2004, all investments held by the Funds (other than 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 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.

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 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.

**STATE OF NEW JERSEY
PRISON OFFICERS' PENSION FUND**

Notes to Financial Statements, Continued

(3) CONTRIBUTIONS

The contribution policy is set by N.J.S.A. 43:7 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 6% 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) FUNDS

This Fund maintains the following legally required fund:

Retirement Reserve Fund (2004 - \$15,884,428; 2003 - \$17,277,953)

The Retirement Reserve Fund had been credited with all active member and State of New Jersey contributions and investment income. In addition, all benefits are paid from this account.

(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.

Schedule 1

**STATE OF NEW JERSEY
PRISON OFFICERS' 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, 1997	\$20,977,035	\$17,479,545	\$(3,497,490)	120.0%	N/A	N/A
June 30, 1998	20,096,072	16,430,313	(3,665,759)	122.3%	N/A	N/A
June 30, 1999	19,137,919	15,292,629	(3,845,290)	125.1%	N/A	N/A
June 30, 2000	18,268,489	14,216,588	(4,051,901)	128.5%	N/A	N/A
June 30, 2001	18,269,899	12,994,567	(5,275,332)	140.6%	N/A	N/A
June 30, 2002	17,908,452	11,781,734	(6,126,718)	152.0%	N/A	N/A
June 30, 2003	17,277,953	10,727,647	(6,550,306)	161.1%	N/A	N/A

Schedule 1, continued

**STATE OF NEW JERSEY
PRISON OFFICERS' PENSION FUND**

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	Market value	Market value
Amortization method	Level dollar, closed	Level dollar, closed
Remaining amortization period	1 year	1 year
Actuarial assumptions:		
Interest rate	5.00%	5.00%

**STATE OF NEW JERSEY
PRISON OFFICERS' PENSION FUND**

Required Supplementary Information, Continued

Schedule of Employer Contributions

YEAR ENDED JUNE 30,	ANNUAL REQUIRED CONTRIBUTION	EMPLOYER CONTRIBUTIONS	PERCENTAGE CONTRIBUTED
1997	\$2,949,604	\$21,688,219	735.3%
1998	—	—	N/A
1999	—	—	N/A
2000	—	—	N/A
2001	—	—	N/A
2002	—	—	N/A
2003	—	—	N/A
2004	—	—	N/A

Note to Schedule:

- (1) 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. For the years 1998 through 2004, contributions were not required.

**STATE OF NEW JERSEY
PRISON OFFICERS' PENSION FUND**

Schedule of Changes in Fiduciary Net Assets by Fund

Year ended June 30, 2004

	RETIREMENT RESERVE FUND	PENSION ADJUSTMENT PASS THROUGH	TOTAL
Additions:			
Contributions:			
Pension Adjustment Fund	\$ —	1,264,147	1,264,147
Total contributions	—	1,264,147	1,264,147
Distribution of net investment income	99,182	—	99,182
Total additions	99,182	1,264,147	1,363,329
Deductions:			
Benefits	1,486,409	1,264,147	2,750,556
Administrative expenses	6,298	—	6,298
Total deductions	1,492,707	1,264,147	2,756,854
Net decrease	(1,393,525)	—	(1,393,525)
Net assets held in trust for pension benefits:			
Beginning of year	17,277,953	—	17,277,953
End of year	\$ 15,884,428	—	15,884,428

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