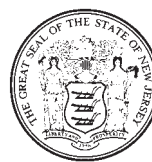


DEPARTMENT OF
THE TREASURY

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

POLICE AND FIREMEN'S
RETIREMENT SYSTEM
OF NEW JERSEY

BOARD OF TRUSTEES
as of June 30, 2001

PETER J. VAN ETTEN
Chairperson

FRANCINE KAPLAN
State Treasurer's Representative

Marty Barrett

Mark Kandrac

Patrick Doherty

Alan C. Levine

Joseph Boucher

Frank Casey

Gina A. Calogero

Kathleen P. Sweeney

Douglas G. Hoffman

John Sandella

REGINA HERZ

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 Board of Trustees of the

POLICE AND FIREMEN'S
RETIREMENT SYSTEM

is pleased to present the Fiscal Year 2001 Annual Report in accordance with the provisions of N.J.S.A. 43:16A-13.

Respectfully submitted,

A handwritten signature in black ink that reads "Peter J. Van ETTEN".

PETER J. VAN ETTEN
Chairperson

Police and Firemen's Retirement System
BOARD OF TRUSTEES



Peter J. VanEtten
Chairperson



Marty Barrett
Police Representative



Mark Kandrac
Fire Representative



John Sandella
Fire Representative



Alan C. Levine
Gubernatorial Appointee



Joseph Boucher
Gubernatorial Appointee



Kathleen P. Sweeney
Gubernatorial Appointee



Frank Casey
Retired Police Representative



Francine Kaplan
Treasurer's Representative

*Unavailable
for photos:
Gina A. Cologero
Douglas G. Hoffman*



Susanne Culliton
*Deputy Attorney General
Legal Advisor*



Regina Herz
Board Secretary



Jackie Bussanich
Support Staff

SIGNIFICANT LEGISLATION

CHAPTER 126, PUBLIC LAW OF 2000

This law revises certain mandates, requirements and procedures that are burdensome on counties, municipalities and school districts. It also resolves certain administrative ambiguities and encourages more business-like practices on the part of local units in order to effectuate cost savings that will benefit property taxpayers. It is an omnibus piece of legislation, much of which is not related to pension coverage. Sections of the law impacting pension and health benefit coverage are as follows:

Section 42: Provides that, notwithstanding the provisions of P.L.1983, c.312, (N.J.S.A. 40A:4-45.19) to the contrary, any municipality that failed to print on a referendum ballot the amount of the cost increase for a PERS to PFRS transfer for police officers could apply to the Director of the Division of Local Government Services in the Department of Community Affairs for permission to include the 1999 budget year amount of the pension appropriation representing the increase due to the switch as an increase in the cap base upon which final appropriations are based.

This law was approved on September 21, 2000 and was effective immediately.

CHAPTER 127, PUBLIC LAW OF 2000

This law gives the Adjutant General of the Department of Military and Veterans' Affairs the responsibility for determining whether an individual meets the criteria to be considered a "veteran" or "disabled veteran" for the purpose of receiving a civil service preference; or as a "veteran" for the purpose of eligibility for a veteran's retirement allowance from the Teachers' Pension and Annuity Fund or the Public Employees' Retirement System, or for the purpose of purchasing military service credit in the Police and Firemen's Retirement System. The Adjutant General would also be responsible for all appeals of the above determinations.

The law also provides that the Adjutant General will adjudicate an appeal from any person disputing a decision of the assessor of a taxing district as to whether the person is to be considered a "veteran" for the purpose of receiving a property tax deduction or as having a "service-connected disability" for the purpose of receiving a property tax exemption.

The law requires the Adjutant General to promptly notify the public entity responsible for administering the relevant law of each determination. The determination will be binding on the public entity responsible for administering the law.

This law was approved on September 21, 2000 and was effective immediately.

CHAPTER 166, PUBLIC LAW OF 2000

This law broadens the scope of the statute providing for continuation or resumption of membership in the Police and Firemen's Retirement System (PFRS) of certain public safety administrators and supervisors.

Previously, only a PFRS covered employee of a municipal police or fire department who, either immediately after or within six months of serving as a member of a municipal police or fire department, was appointed to a position with administrative or supervisory duties over police and firemen with that or any other PFRS-covered municipal police or fire department, was required to remain, or reenroll, as a member of PFRS, even though the new position was covered by a different retirement system. This law extends the requirement of continued PFRS membership to cover an employee of any law enforcement or firefighting unit who, within the sixth-month limitation period, is appointed to a position with administrative or supervisory duties over police officers or firefighters. The requirement would apply regardless of the governmental entity (State, county or municipality) that makes the appointment or that employed the person prior to the appointment.

This law was approved on December 15, 2000 and is retroactive to any person appointed on or after July 1, 1998.

SIGNIFICANT LEGISLATION, Continued

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.

CHAPTER 44, PUBLIC LAW OF 2001

This law reduces by \$150 million the Police and Firemen's Retirement System (PFRS) normal contribution due to be paid by local government employers in April of 2001.

Under previous law, the 2001 PFRS normal contribution for local employers was approximately \$225 million. Very favorable investment returns on pension assets in recent years generated sufficient excess assets to eliminate normal contributions from those employers in 2002. This law allows for the recognition of additional surplus investment returns on pension assets to reduce local employer normal contributions in 2001. The law will reduce the April 2001 local government employer cost of approximately \$225 million by \$150 million. Savings realized by counties and municipalities as a result of the reduction will be required to be used for property tax relief.

This law was approved on March 29, 2001 and was effective immediately.

CHAPTER 86, PUBLIC LAW OF 2001

This law extends the active death benefits provided in N.J.S.A.43:16A-9, as increased under P.L.1999, c.428, to a widow or widower, child or dependent parent, of a member of the Police and Firemen's Retirement System (PFRS)

SIGNIFICANT LEGISLATION, Continued

who died in active duty on or after January 1, 1998 and before January 18, 2000 (the effective date of P.L.1999, c.428). The law requires an eligible beneficiary to apply for the increased benefits within 90 days after the bill's enactment and to return to the system the member's aggregate contributions received under the law prior to P.L.1999, c.428. The benefits provided under the law will be prospective only, and not retroactive to the date of death of the member. The State will be liable for all costs to the retirement system attributable to this law.

This law was approved on May 8, 2001.

CHAPTER 127, PUBLIC LAW OF 2001

This law extends eligibility for certain veterans' benefits to veterans of the Lebanon Crisis of 1958.

Specifically, the law defines as a veteran any person who has served in Lebanon on or after July 1, 1958 or on board any ship actively engaged in patrolling the territorial waters of that nation for a period, continuous or in the aggregate, of at least 14 days commencing on or before November 1, 1958 or the date of termination of that conflict, as proclaimed by the President of the United States or Congress, whichever date of termination is later, in such active service. Any person receiving an actual service-incurred injury or disability shall be classed as a veteran whether or not that person has completed the 14 days' service provided by the law.

The inception and termination dates for the Lebanon Crisis in the law are those recognized by the United States Department of Defense for this operation.

The State shall be liable for any increased pension cost to local employers resulting from this law.

This law was approved on June 28, 2001 and was effective immediately.

CHAPTER 128, PUBLIC LAW OF 2001

This law expands the definition of veteran in the Teachers' Pension and Annuity Fund (TPAF), the Public Employees' Retirement System (PERS) and the Police and Firemen's Retirement System (PFRS) to include persons who served in the armed forces of the United States in peace-keeping operations in Somalia and the Republic of Bosnia and Herzegovina.

The law defines as a veteran any person who served in:

1. Operation "Restore Hope" in Somalia, commencing on or after December 5, 1992, or the date of inception of that operation as proclaimed by the President of the United States or the Congress, whichever date is earlier, and terminating on March 31, 1994, or the date of termination as proclaimed by the President of the United States or the Congress, whichever date is later, for at least 14 days, continuously or in the aggregate, in Somalia or on board any ship actively engaged in patrolling the territorial waters of that nation during the specified period; or
2. Operations "Joint Endeavor" and "Joint Guard" in the Republic of Bosnia and Herzegovina, commencing on or after November 20, 1995 or December 20, 1996, as the case may be, and terminating on December 20, 1996 or on such date as the United States Secretary of Defense may designate, as the case may be, who served in direct support of one or both of the operations for at least 14 days, continuously or in the aggregate, and was deployed in that nation or in another area in the region, or was on board a United States naval vessel operating in the Adriatic Sea, or operated in airspace above the Republic of Bosnia and Herzegovina.

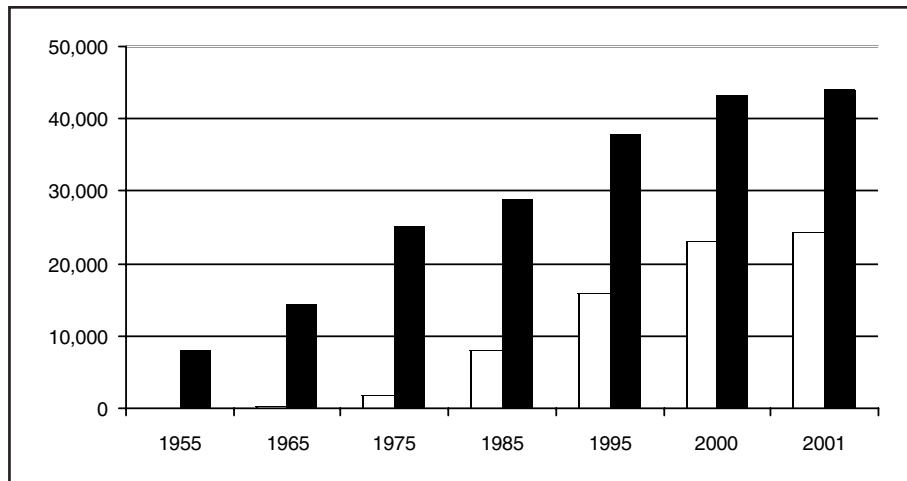
Any person receiving an actual service-incurred injury or disability will be classed as a veteran whether or not that person completed the 14 days service requirement.

The State shall be liable for any increased pension cost to local employers resulting from this law.

This law was approved on June 28, 2001 and was effective immediately.

MEMBERSHIP

- As of June 30, 2001, the active contributing membership of the System totaled 43,938. *There were 1,832 inactive members in the System as of June 30, 2001.*
- There were 24,378 retirees and beneficiaries receiving annual pensions totaling \$744,929,147. *(Includes benefits paid under the provisions of the Pension Adjustment Act.)*
- The System's assets totaled \$16,858,049,999 at the close of the fiscal year 2001.



MEMBERSHIP ACTIVITY

During fiscal year 2001, the following transactions were processed by the Division of Pensions and Benefits on behalf of the membership of the Police and Firemen's Retirement System of New Jersey.

- **LOANS** - 25,543 loans were issued to members. The total loans receivable as of June 30, 2001 is \$442,706,147.
- **RETIREMENT** - 1,415 members retired under the following retirement types:

<u>TYPE OF RETIREMENT</u>	
Service	46
Special	943
Deferred	9
Early	0
Ordinary Disability	191
Accidental Disability	77
Accidental Death	4
TOTAL	1,405

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
Police and Firemen's Retirement System:

We have audited the accompanying statements of plan net assets of the State of New Jersey Police and Firemen's Retirement System 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 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 plan net assets of the State of New Jersey Police and Firemen's Retirement System 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 Police and Firemen's Retirement 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 7, 2001

**STATE OF NEW JERSEY
POLICE AND FIREMEN'S RETIREMENT SYSTEM**

Statements of Plan Net Assets
June 30, 2001 and 2000

	2001	2000
Assets:		
Cash	\$ 55,175,268	\$ 49,222,740
Investments, at fair value:		
Cash Management Fund	751,241,511	774,445,860
Bonds	22,588,163	31,410,507
Common Pension Fund A	7,708,404,822	8,823,106,010
Common Pension Fund B	3,723,401,385	3,484,968,954
Common Pension Fund D	2,545,811,336	3,584,156,569
Mortgages	1,225,056,412	1,416,440,878
Total investments	15,976,503,629	18,114,528,778
Receivables:		
Contributions:		
Members	42,644,881	41,675,873
Employers	247,620,395	479,151,868
Accrued interest and dividends	87,019,545	87,936,802
Members' loans	442,706,147	396,368,364
Other	6,380,135	5,365,006
Total receivables	826,371,103	1,010,497,913
Total assets	16,858,050,000	19,174,249,431
Liabilities:		
Accounts payable and accrued expenses	1,240,076	1,421,988
Retirement benefits payable	65,479,310	58,900,609
NCGI premiums payable	2,002,017	1,774,544
Total liabilities	68,721,403	62,097,141
Net assets held in trust for pension benefits	\$ 16,789,328,597	\$ 19,112,152,290

See schedule of funding progress on page 14.
See accompanying notes to financial statements.

**STATE OF NEW JERSEY
POLICE AND FIREMEN'S RETIREMENT SYSTEM**

Statements of Changes in Plan Net Assets

Years ended June 30, 2001 and 2000

	2001	2000
Revenues and additions:		
Contributions:		
Members	\$ 228,714,281	\$ 213,362,233
Employers	1,295,929	38,053,275
Total contributions	230,010,210	251,415,508
Investment income:		
Net (depreciation) appreciation in fair value of investments	(2,204,644,186)	1,341,354,799
Interest	490,611,889	466,742,046
Dividends	88,348,730	93,416,099
	(1,625,683,567)	1,901,512,944
Less investment expense	1,427,442	1,723,630
Net investment income	(1,627,111,009)	1,899,789,314
Total revenues and additions	(1,397,100,799)	2,151,204,822
Expenditures and deductions:		
Benefits	766,422,862	697,400,285
Refunds of contributions	7,333,445	9,216,064
Adjustment to employer receivable	149,204,122	—
Administrative expenses	2,762,465	5,063,454
Total expenditures and deductions	925,722,894	711,679,803
Net (decrease) increase	(2,322,823,693)	1,439,525,019
Net assets held in trust for pension benefits:		
Beginning of year	19,112,152,290	17,672,627,271
End of year	\$ 16,789,328,597	\$ 19,112,152,290

See accompanying notes to financial statements.

**STATE OF NEW JERSEY
POLICE AND FIREMEN'S RETIREMENT SYSTEM**

Notes to Financial Statements

June 30, 2001 and 2000

(1) DESCRIPTION OF THE SYSTEM

State of New Jersey Police and Firemen's Retirement System (the System) is a cost-sharing multiple-employer contributory defined benefit plan which was established as of July 1, 1944, under the provisions of N.J.S.A. 43:16A. The System is included along with other state-administered pension trust and agency funds in the general purpose financial statements of the State of New Jersey.

At June 30, 2000, the date of the most recent actuarial valuation, and June 30, 1999, participating employers consisted of the following:

	2000	1999
State of New Jersey	1	1
Municipalities	580	576
Total	581	577

The System's designated purpose is to provide retirement, death and disability benefits to its members. Membership in the System is mandatory for substantially all full-time county and municipal police or firemen, and state firemen or officer employees with police powers appointed after June 30, 1944. 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. 43:16A and 43:3B. The System provides retirement as well as death and disability benefits. All benefits vest after ten years of service except disability benefits which vest after four years of service. Retirement benefits for age and service are available at age 55 and are generally determined to be 2% of final average compensation for each year of creditable service, as defined, up to 30 years plus 1% for each year of service in excess of 30 years. Final average compensation equals the average compensation 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 special retirement after achieving 20 or 25 years of creditable service or they may elect deferred retirement after achieving ten years of service, in which case benefits would begin at age 55 equal to 2% of final average compensation for each year of service.

Widow/widowers of members retired since December 18, 1967 receive 50% of the retiree's final compensation. The minimum annual widow/widower's benefits of an accidental disability retiree prior to December 18, 1967 and of all retirees since December 18, 1967 is \$4,500.

Members are always fully vested for their own contributions. In the case of death before retirement, members' beneficiaries are entitled to full payment of members' contributions providing no survivor death benefits are payable.

Eligible retirees receiving monthly benefits are entitled to cost-of-living increases equal to 60% of the change in the average consumer price index for the calendar year in which the pensioner retired as com-

**STATE OF NEW JERSEY
POLICE AND FIREMEN'S RETIREMENT SYSTEM**

Notes to Financial Statements, Continued

(1) DESCRIPTION OF THE SYSTEM, Continued

pared 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 the dollar amount of the adjustment payable. Retired members become eligible for pension adjustment benefits after 24 months of retirement. The cost-of-living increases are funded by the retirement system and are included in the annual actuarial calculations of the required state and state-related employer 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.

Membership

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

	2000	1999
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	23,091	21,834
Active members:		
Vested	25,969	25,307
Non-vested	16,461	17,000
Total active members	42,430	42,307
Total	65,521	64,141

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the System 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 assets and liabilities are recorded at fair value. Employer contributions are recognized when due and payable to the System. Benefits and refunds are recognized when due and 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. Mortgages are valued on the basis of future principal and interest pay-

**STATE OF NEW JERSEY
POLICE AND FIREMEN'S RETIREMENT SYSTEM**

Notes to Financial Statements, Continued

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

ments, 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 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, 2001 and 2000, all investments held by the System (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 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.

**STATE OF NEW JERSEY
POLICE AND FIREMEN'S RETIREMENT SYSTEM**

Notes to Financial Statements, Continued

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Member Loans

Members can borrow up to 50% of their accumulated member contributions. To obtain a loan, a member must have at least three years of service credit in the System. 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 repayment schedule into retirement.

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 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.

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. 43:16A and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. 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. Members contribute at a uniform rate of 8.5% of base salary.

As a result of legislation passed in the current year (Chapter 44, P.L. 2001), local employer contributions payable in FY 2001 were reduced by \$150 million to approximately \$75 million. This legislation requires that the savings realized by counties and municipalities as a result of this reduction be used for property tax relief.

The contribution policy was modified in FY 2000 by legislation (Chapter 8, P.L. 2000) which required that the System's excess valuation assets be used to fund certain benefit enhancements provided under Chapter 428, P.L. 2000. This legislation also required that the calculation of the actuarial value of assets for the June 30, 1998 valuation be based on 100% for the State and up to 57% for local employers of the difference between the expected value of assets in the system and the full-market value of the assets. In addi-

**STATE OF NEW JERSEY
POLICE AND FIREMEN'S RETIREMENT SYSTEM**

Notes to Financial Statements, Continued

(3) CONTRIBUTIONS, Continued

tion, this legislation required the State to fund the additional employer contributions attributable to Chapter 428 should excess assets be insufficient to cover this pension liability. Finally, due to the recognition of the surplus market assets, this legislation eliminated the unfunded accrued liability for local employers, which reduces their required contributions by \$45 million in FY 2000.

Required state contributions were offset by \$99.6 million and \$29.7 million in FY 2001 and 2000, respectively, under Chapter 115, PL 1997, which provides for the use of excess valuation assets to fund required normal pension contributions. Through fiscal year 2002, excess assets may be used to the extent possible to offset normal contributions. Thereafter, a certain percentage of available excess assets may be used as specified in the legislation.

(4) RESERVES

This System maintains the following legally required reserves:

Members' Annuity Savings Fund (2001 - \$1,856,937,300; 2000 - \$1,735,043,435)

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

Pension Accumulation Fund (2001 - \$8,203,828,815; 2000 - \$10,920,051,244)

The Pension Accumulation Fund is credited with the contributions of the State of New Jersey and other employers. Interest earnings, after crediting the ASF 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 (2001 - \$6,728,562,482; 2000 - \$6,275,912,323)

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 Annuity Savings Fund. Any reserves needed to fund the balance of the retirement benefit are transferred from the Pension Accumulation Fund. Annually, interest as determined by the State Treasurer (8.75% for 2001 and 2000) is credited to the Retirement Reserve Fund.

Special Reserve Fund (2001 - \$0; 2000 - \$181,145,288)

The Special Reserve Fund is a fund to which any excess interest earnings and gains from sales and maturities of investments are transferred and against which any losses from the sales of securities are charged. The maximum limit on the accumulation of this account is 1% of the market value of the investments of the System. Amounts in excess of 1% are credited to the Pension Accumulation 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
POLICE AND FIREMEN'S 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, 1994	\$8,102,859,352	\$9,312,668,271	\$1,209,808,919	87.0%	\$1,774,962,741	68.2%
June 30, 1995	10,058,945,352	10,920,667,340	861,721,988	92.1%	1,843,745,932	46.7%
June 30, 1996	10,959,178,731	12,076,365,067	1,117,186,336	90.7%	1,967,863,025	56.8%
State						
June 30, 1997	1,183,747,522	1,234,959,165	51,211,643	95.9%	315,690,310	16.2%
June 30, 1998	1,559,131,933	1,337,734,455	(181,397,478)	113.2%	346,079,078	(52.4%)*
June 30, 1999	1,717,248,151	1,534,470,501	(182,777,650)	111.9%	362,949,950	(50.4%)*
June 30, 2000	1,884,870,936	1,666,842,906	(218,028,030)	113.1%	363,360,250	(60.0%)*
Local						
June 30, 1997	10,854,173,290	11,746,169,752	891,996,462	92.4%	1,767,762,346	50.4%
June 30, 1998	13,169,957,658	12,881,842,367	(288,115,291)	102.2%	1,870,322,787	(15.4%)*
June 30, 1999	14,536,570,357	13,894,951,617	(641,618,740)	104.6%	1,971,087,124	(32.6%)*
June 30, 2000	15,644,750,281	14,924,699,712	(720,050,569)	104.0%	2,055,781,766	(35.0%)*

*Adjusted to reflect the impact of legislation passed in the current year which retroactively affected the June 30, 1999 and 1998 valuations. Chapter 4, P.L. 2001 provides benefit enhancements for certain eligible members who retired prior to December 29, 1989. The unfunded accrued liability attributable to the increased benefits was exactly offset by the recognition of an additional amount of market value of assets in the determination of the actuarial value of assets for the July 1, 1999 valuation. Chapter 44, P.L. 2001, referred to in Note 3, reduced the contribution of local employers by \$150 million.

**STATE OF NEW JERSEY
POLICE AND FIREMEN'S 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, 2000 and 1999 actuarial valuations included 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 percent, closed	Level percent, closed
Remaining amortization period	31 years	32 years
Actuarial assumptions:		
Interest rate	8.75%	8.75%
Salary range	5.95%	5.95%
Cost-of-living adjustments	2.40%	2.40%

The actuarial assumptions used in the June 30, 2000 and 1999 valuations reflect the actuarial assumptions developed from the three year experience investigation for the period ending June 30, 1998.

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

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

STATE			
YEAR ENDED JUNE 30,	ANNUAL REQUIRED CONTRIBUTION	EMPLOYER CONTRIBUTIONS ⁽¹⁾	PERCENTAGE CONTRIBUTED
1997	\$ 111,775,028	\$ 715,344,385 ⁽²⁾	640.0%
1998	84,167,834	73,587,848	87.4%
1999	93,920,617	23,730,087	25.3%
2000	98,974,449	60,521,749	61.1%
2001	95,883,272	—	0.0%

LOCAL			
YEAR ENDED JUNE 30,	ANNUAL REQUIRED CONTRIBUTION	EMPLOYER CONTRIBUTIONS ⁽¹⁾	PERCENTAGE CONTRIBUTED
1997	\$ 250,220,580	\$ 234,963,865 ⁽³⁾	93.9%
1998	238,002,765	223,491,008	93.9%
1999	273,210,113	256,551,862	93.9%
2000	275,790,739	214,164,848	77.7%
2001	249,746,232	75,670,018	30.3%

Notes to Schedule:

- (1) In accordance with Chapter 115, P.L. 1997, a portion of the required contribution of the State was funded by available excess valuation assets.
- (2) For the year ended June 30, 1997, the state portion of 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.
- (3) Represents employer contributions received in the fiscal year determined on a cash basis, not an accrual basis. Local employer contributions include contributions made by the State to provide funding for certain benefits payable to local participants

**POLICE AND FIREMEN'S RETIREMENT SYSTEM
OF NEW JERSEY**

Schedule of Changes in Plan Net Assets by Fund
Year ended June 30, 2001

	MEMBERS' ANNUITY SAVINGS FUND	PENSION ACCUMULATION FUND	RETIREMENT RESERVE FUND	SPECIAL RESERVE FUND	TOTAL
Additions:					
Contributions:					
Members	\$ 228,714,281	—	—	—	\$ 228,714,281
Employers	—	1,295,929	—	—	1,295,929
Total contributions	228,714,281	1,295,929	—	—	230,010,210
Distribution of net investment income	—	(2,176,253,337)	549,142,328	—	(1,627,111,009)
Total additions	228,714,281	(2,174,957,408)	549,142,328	—	(1,397,100,799)
Deductions:					
Benefits	—	21,493,715	744,929,147	—	766,422,862
Refunds of contributions	7,224,989	108,456	—	—	7,333,445
Adjustment to employer receivable	—	149,204,122	—	—	149,204,122
Administrative expenses	—	2,762,465	—	—	2,762,465
Total deductions	7,224,989	173,568,758	744,929,147	—	925,722,894
Net increase (decrease) before transfers among reserves	221,489,292	(2,348,526,166)	(195,786,819)	—	(2,322,823,693)
Transfers among reserves:					
Retirements	(101,809,947)	(560,205,318)	662,015,265	—	—
Other	2,214,520	192,509,055	(13,578,287)	(181,145,288)	—
Net increase (decrease)	121,893,865	(2,716,222,429)	452,650,159	(181,145,288)	(2,322,823,693)
Net assets held in trust for pension benefits:					
Beginning of year	1,735,043,435	10,920,051,244	6,275,912,323	181,145,288	19,112,152,290
End of year	\$ 1,856,937,300	8,203,828,815	6,728,562,482	—	\$ 16,789,328,597