

**DEPARTMENT OF
THE TREASURY**

Peter R. Lawrance
Acting State Treasurer

**DIVISION OF PENSIONS
AND BENEFITS**

Thomas P. Bryan
Director

**STATE POLICE
RETIREMENT SYSTEM**

**BOARD OF TRUSTEES
as of June 30, 2001**

ANTHONY BARTOLOTTA
Chairperson

JANICE VASIL
State Treasurer's Representative

Lieutenant Colonel Barry Roberson

Lieutenant Robert G. Rich

REGINA HERZ
Secretary

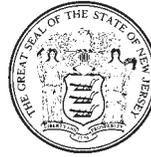
BUCK CONSULTANTS, INC.
Actuaries and Consultants

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

Dear Acting Governor DiFrancesco:

The Board of Trustees of the

STATE POLICE RETIREMENT SYSTEM

is pleased to present the Fiscal Year 2001 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 "Anthony Bartolotta".

ANTHONY BARTOLOTTA
Chairperson

State Police Retirement System
BOARD OF TRUSTEES



Anthony Bartolotta
Chairperson



Lieutenant Colonel
Barry Roberson



Captain
Robert G. Rich



Janice Vasil
Treasurer's Representative



Regina Herz
Board Secretary

SIGNIFICANT LEGISLATION

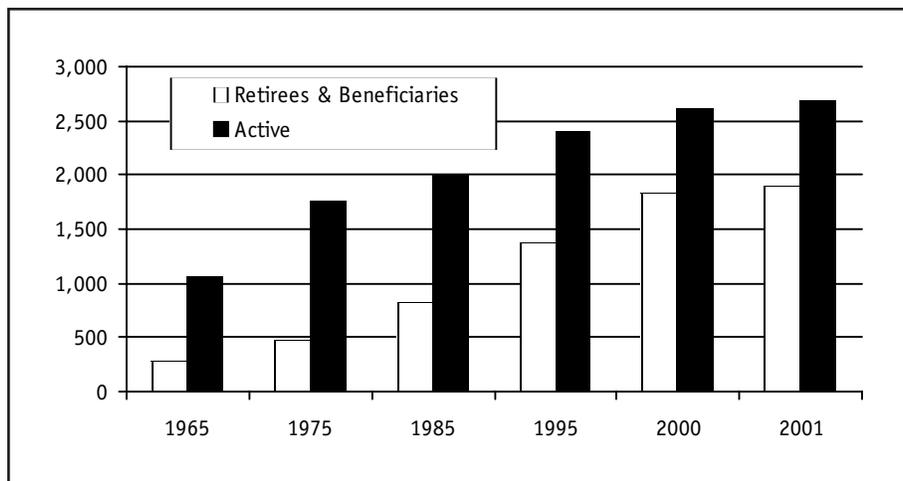
CHAPTER 5, PUBLIC LAW OF 2001

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 System totaled 2,690. *There were 31 inactive members as of June 30, 2001.*
- There were 1,908 retirees and beneficiaries receiving annual pensions totaling \$68,447,794. *(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 \$607,538.
- The System's assets totaled \$1,767,573,028 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
State Police Retirement System:

We have audited the accompanying statements of plan net assets of the State of New Jersey State Police 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 State Police 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 State Police 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
STATE POLICE RETIREMENT SYSTEM**

Statements of Plan Net Assets

June 30, 2001 and 2000

	2001	2000
Assets:		
Cash	\$ 5,032,249	\$ 4,391,056
Investments, at fair value:		
Cash Management Fund	37,219,922	33,300,794
Common Pension Fund A	807,076,329	951,307,978
Common Pension Fund B	477,496,132	460,354,659
Common Pension Fund D	313,383,259	422,846,820
Mortgages	84,000,371	102,640,725
Total investments	1,719,176,013	1,970,450,976
Receivables:		
Contributions:		
Members	1,146,014	871,001
Accrued interest and dividends	10,259,708	10,243,453
Members' loans	31,957,911	29,262,660
Other	1,133	—
Total receivables	43,364,766	40,377,114
Total assets	1,767,573,028	2,015,219,146
Liabilities:		
Accounts payable and accrued expenses	68,954	104,902
Retirement benefits payable	5,846,446	5,364,269
Total liabilities	5,915,400	5,469,171
Net assets held in trust for pension benefits	\$ 1,761,657,628	\$ 2,009,749,975

See schedule of funding progress on page 11.
See accompanying notes to financial statements.

STATE OF NEW JERSEY
STATE POLICE RETIREMENT SYSTEM
 Statements of Changes in Plan Net Assets
 Years ended June 30, 2001 and 2000

	2001	2000
Revenues and additions:		
Contributions:		
Members	\$ 12,796,153	\$ 12,563,753
Employers	99,201	318,326
Other	109	123
Total contributions	12,895,463	12,882,202
Investment income:		
Net (depreciation) appreciation in fair value of investments	(249,742,766)	157,206,591
Interest	49,273,547	46,647,753
Dividends	9,435,208	10,461,145
	(191,034,011)	214,315,489
Less investment expense	141,489	160,079
Net investment income	(191,175,500)	214,155,410
Total revenues and additions	(178,280,037)	227,037,612
Expenditures and deductions:		
Benefits	69,268,248	62,460,782
Refunds of contributions	295,604	49,674
Administrative expenses	248,458	276,171
Total expenditures and deductions	69,812,310	62,786,627
Net (decrease) increase	(248,092,347)	164,250,985
Net assets held in trust for pension benefits:		
Beginning of year	2,009,749,975	1,845,498,990
End of year	\$ 1,761,657,628	\$ 2,009,749,975

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2001 and 2000

(1) DESCRIPTION OF THE SYSTEM

The State of New Jersey State Police Retirement System (the System) 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 general purpose 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:

	2000	1999
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	1,814	1,730
Active members:		
Vested	1,977	2,057
Non-vested	632	641
Total active members	2,609	2,698
Total	4,423	4,428

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

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 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 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.

STATE OF NEW JERSEY
STATE POLICE RETIREMENT SYSTEM
Notes to Financial Statements, Continued

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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.

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.

STATE OF NEW JERSEY
STATE POLICE RETIREMENT SYSTEM
Notes to Financial Statements, Continued

(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 excess valuation assets to offset the required normal contributions of the State of New Jersey and the local participating employers. 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.

As a result of Chapter 115, P.L. 1997, the State of New Jersey was not required to make a contribution to the System for the years ended June 30, 2001 and 2000, as excess valuation assets were available to fund the actuarially determined normal cost.

(4) RESERVES

This System maintains the following legally required reserves:

Members' Annuity Savings Fund (2001 - \$120,781,448; 2000 - \$114,877,044)

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

Contingent Reserve Fund (2001 - \$1,213,905,470; 2000 - \$1,498,399,194)

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 (2001 - \$426,970,710; 2000 - \$396,473,737)

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 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 2001 and 2000) 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, 1995	\$ 940,200,607	\$ 1,130,124,715	\$ 189,924,108	83.2%	\$ 135,971,603	139.7%
June 30, 1996	1,219,615,207	1,187,387,033	(32,228,174)	102.7%	142,390,519	(22.6%)
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%)

**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, 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 dollar, closed	Level dollar, closed
Remaining amortization period	32 years	33 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%

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 Plan Net Assets by Fund

Year ended June 30, 2001

	MEMBERS' ANNUITY SAVINGS FUND	CONTINGENT RESERVE FUND	RETIREMENT RESERVE FUND	TOTAL
Additions:				
Contributions:				
Members	\$ 12,796,153	—	—	\$ 12,796,153
Employers	—	99,201	—	99,201
Other	—	109	—	109
Total contributions	12,796,153	99,310	—	12,895,463
Distribution of net investment income	—	(225,866,952)	34,691,452	(191,175,500)
Total additions	12,796,153	(225,767,642)	34,691,452	(178,280,037)
Deductions:				
Benefits	—	820,454	68,447,794	69,268,248
Refunds of contributions	89,544	206,060	—	295,604
Administrative expenses	—	248,458	—	248,458
Total deductions	89,544	1,274,972	68,447,794	69,812,310
Net increase (decrease) before transfers among reserves	12,706,609	(227,042,614)	(33,756,342)	(248,092,347)
Transfers among reserves:				
Retirements	(6,802,205)	(57,451,110)	64,253,315	—
Net increase (decrease)	5,904,404	(284,493,724)	30,496,973	(248,092,347)
Net assets held in trust for pension benefits:				
Beginning of year	114,877,044	1,498,399,194	396,473,737	2,009,749,975
End of year	\$ 120,781,448	1,213,905,470	426,970,710	\$ 1,761,657,628