

**DEPARTMENT OF
THE TREASURY**
John E. McCormac, CPA
State Treasurer

**DIVISION OF PENSIONS
AND BENEFITS**
Frederick J. Beaver
Director

**STATE POLICE
RETIREMENT SYSTEM**

BOARD OF TRUSTEES
as of June 30, 2003

MAJOR
RANDALL RICHARDSON
Chairperson

PETER GORMAN
State Treasurer's Representative

CAPTAIN FRED BUCCI

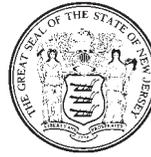
JOHN M. MITCH

JOHN K. SAYERS

WENDY JAMISON
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
JAMES E. MCGREEVEY
GOVERNOR of the STATE OF NEW JERSEY

Dear Governor McGreevey:

The Board of Trustees of the

STATE POLICE RETIREMENT SYSTEM

is pleased to present the Fiscal Year 2003 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 "Randall Richardson".

MAJOR RANDALL RICHARDSON
Chairperson

State Police Retirement System
2003 BOARD OF TRUSTEES



Major Randall Richardson
Chairperson
State Police
Appointment



Captain Fred Bucci
State Police
Appointment



John K. Sayers
Governor's
Appointment



Peter Gorman
Treasurer's Representative



Wendy Jamison
Board Secretary

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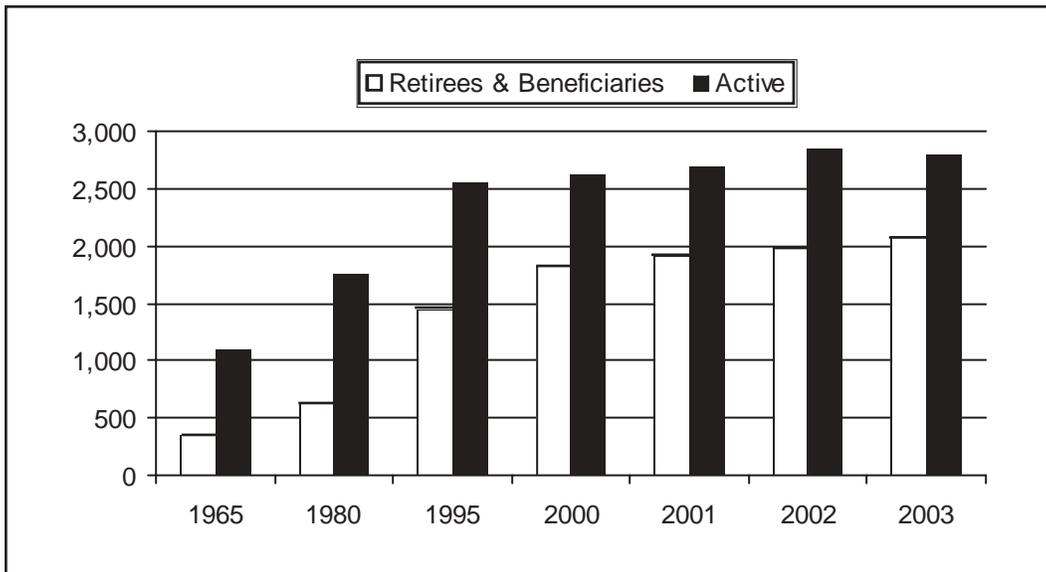
John M. Mitch
Governor's Appointment

SIGNIFICANT LEGISLATION

There were no significant changes in legislation governing the New Jersey State Police Retirement System during fiscal year 2003.

MEMBERSHIP

- As of June 30, 2003, the active membership of the System totaled 2,792. There were 104 inactive members as of June 30, 2003.
- There were 2,792 retirees and beneficiaries receiving annual pensions totaling \$80,407,522. *(Includes benefits paid under the provisions of the Pension Adjustment Act.)*
- Beneficiaries of 3 active members and 29 retired members received lump sum death benefits in the amount of \$1,664,797.
- The System's assets totaled \$1,552,704,181 at the close of the fiscal year 2003.



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

Independent Auditors' Report

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

We have audited the accompanying statements of fiduciary net assets of the State of New Jersey State Police Retirement System (the System) as of June 30, 2003 and 2002, and the related statements of changes in fiduciary net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State of New Jersey State Police Retirement System as of June 30, 2003 and 2002, 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 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 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 fiduciary net assets by fund is presented for purposes of additional analysis and is not a required part of the financial statements of the System. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

KPMG LLP

September 19, 2003

STATE OF NEW JERSEY
STATE POLICE RETIREMENT SYSTEM

Management's Discussion and Analysis

June 30, 2003 and 2002

Our discussion and analysis of the State Police Retirement System (the System)'s financial performance provides an overview of the System's financial activities for the fiscal year ended June 30, 2003 and 2002. Please read it in conjunction with the basic financial statements and financial statement footnotes which follow this discussion.

FINANCIAL HIGHLIGHTS

2003 - 2002

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

2002 - 2001

- Net assets held in trust for pension benefits decreased by \$196,356,379 as a result of the year's operations from \$1,761,657,628 to \$1,565,301,249.
- Additions for the year were (\$121,170,430), which are comprised of member and employer pension contributions of \$14,148,064 and investment losses of (\$135,318,494).
- Deductions for the year were \$75,185,949, which are comprised of benefit and refund payments of \$74,931,950 and administrative expenses of \$253,999.
- The System utilized net assets (excess assets above the required funding level) to meet the year's normal pension contribution requirements.

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

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

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

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Management's Discussion and Analysis, Continued

FINANCIAL ANALYSIS

STATEMENTS OF FIDUCIARY NET ASSETS

2003 - 2002

The System's assets mainly consist of cash, investments and contributions due from members and the participating employer. Between fiscal years 2002 and 2003, total assets decreased by \$19,452,415 or 1.2% from \$1,572,156,596 to \$1,552,704,181.

Liabilities consist of pension and death benefit payments owed to members and beneficiaries, noncontributory group insurance premiums owed to the System's insurance provider, and other payables. Total liabilities increased by \$109,969 or 1.6% over last year from \$6,855,347 to \$6,965,316.

Net assets held in trust for pension benefits decreased by \$19,562,383 or 1.3% primarily due to increase in benefit payments.

2002 - 2001

Between fiscal years 2001 and 2002, total assets decreased by \$195,416,432 or 11% from \$1,767,573,028 to \$1,572,156,596. The decrease in total assets is mainly due to a loss in the fair value of the System's investments and an increase in benefit payments. During the year, the System had an estimated investment loss of 9.0%.

Total liabilities increased by \$939,947 or 15.9% over last year from \$5,915,400 to \$6,855,347. This is mainly due to an increase in retirement and insurance benefit payments. In addition, accruals for insurance benefit payments include three months of premium charges and increased by \$391,333.

Net assets held in trust for pension benefits decreased by \$196,356,379 or 11.2% primarily due to the investment losses realized by the System.

STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS

ADDITIONS TO FIDUCIARY NET ASSETS

2003 - 2002

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

Additions primarily consist of member and employer contributions and earnings from investment activities. Member contributions rose by 3.2% due to normal salary increases. There was a decrease in the number of transfers from other retirement systems, which accounts for the decrease in employer contributions.

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

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

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Management's Discussion and Analysis, Continued

2002 - 2001

	2002	2001	Increase (Decrease)
Member Contributions	\$13,758,972	\$12,796,153	\$962,819
Employer Contributions	389,092	99,201	289,891
Investment & Other	(135,318,494)	(191,175,391)	55,856,897
Totals	\$(121,170,430)	\$(178,280,037)	\$57,109,607

Member contributions rose 7.5% due to normal salary increases and increased membership. There was an increase in the number of transfers from other retirement systems, which accounts for the increase in employer contributions.

Fiscal year 2002 is the fifth consecutive year that the State has not been required to make pension contributions to the System. The normal contributions have been funded using net assets (excess assets above the required funding level). Net assets have been available mainly due to Pension Security legislation passed in 1997. This legislation authorized the New Jersey Economic Development Authority to issue bonds and to use the proceeds from the bond sale to eliminate the State's portion of the unfunded accrued liabilities of the retirement systems. The System received bond proceeds of \$120,308,862 in 1997. This influx of funds, coupled with investment returns in the late 1990s, has produced net excess assets which have been utilized to cover the normal contributions from 1998 through 2002.

In fiscal year 2002, the total investment loss for all pension funds was estimated to be 9.0% compared to 10.4% in the prior year.

DEDUCTIONS FROM FIDUCIARY NET ASSETS
2003 -2002

	2003	2002	Increase (Decrease)
Benefits	\$82,072,319	\$74,808,612	\$7,263,708
Refunds & Adjustments	29,060	123,338	(94,278)
Administrative Expenses	283,307	253,999	29,307
Totals	\$82,384,686	\$75,185,949	\$7,198,737

Deductions are mainly comprised of pension benefit payments to retirees and beneficiaries, refunds of contributions to former members and administrative costs incurred by the System. Benefit payments increased by 9.7% primarily because more members are receiving benefits. There was a decrease in the number of withdrawals and transfers to other retirement systems, which accounts for the decrease by 76% in refunds & adjustments. Administrative expenses have increased mainly due to contractual increases in salaries.

2002 - 2001

	2002	2001	Increase (Decrease)
Benefits	\$74,808,612	\$69,268,248	\$5,540,364
Refunds & Adjustments	123,338	295,604	(172,266)
Administrative Expenses	253,999	248,458	5,541
Totals	\$75,185,949	\$69,812,310	\$5,373,639

Withdrawal refunds remained approximately the same as last year. Benefit payments increased by 8% primarily because more members are receiving benefits. Withdrawal refunds remained approximately the same as last year. Administrative expenses have increased mainly due to contractual increases in salaries and higher fringe benefit costs.

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

RETIREMENT SYSTEM AS A WHOLE

The overall funded ratios of 106.6% for fiscal year 2003 and 112.5% for 2002 indicate that the System has assets sufficient to meet its benefit obligations.

CONTACTING SYSTEM FINANCIAL MANAGEMENT

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

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

Statements of Fiduciary Net Assets

June 30, 2003 and 2002

	2003	2002
Assets:		
Cash	\$ —	20,780
Investments, at fair value:		
Cash Management Fund	118,411,814	64,877,660
Common Pension Fund A	724,828,258	661,178,664
Common Pension Fund B	341,691,041	463,199,968
Common Pension Fund D	303,650,811	292,552,745
Mortgage Backed Securities	24,127,966	47,791,337
Total investments	1,512,709,890	1,529,600,374
Receivables:		
Contributions:		
Members	924,340	934,009
Accrued interest and dividends	7,380,519	9,411,143
Members' loans	31,689,432	32,160,087
Other	—	30,203
Total receivables	39,994,291	42,535,442
Total assets	1,552,704,181	1,572,156,596
Liabilities:		
Accounts payable and accrued expenses	142,010	494,880
Retirement benefits payable	6,804,058	6,360,467
Cash Overdraft	19,248	—
Total liabilities	6,965,316	6,855,347
Net Assets:		
Held in trust for pension benefits	\$ 1,545,738,865	1,565,301,249

See schedule of funding progress on page 15.
See accompanying notes to financial statements.

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

Statements of Changes in Fiduciary Net Assets

Years ended June 30, 2003 and 2002

	2003	2002
Additions:		
Contributions:		
Members	\$ 14,198,794	13,758,972
Employers	193,099	389,092
Other	69	88
Total contributions	14,391,962	14,148,152
Investment income:		
Net (depreciation) appreciation in fair value of investments	3,858,584	(186,296,642)
Interest	32,973,670	41,029,466
Dividends	11,713,239	10,084,248
	48,545,493	(135,182,928)
Less: investment expense	115,153	135,654
Net investment income	48,430,340	(135,318,582)
Total additions	62,822,302	(121,170,430)
Deductions:		
Benefits	82,072,319	74,808,612
Refunds of contributions	29,060	123,338
Administrative expenses	283,307	253,999
Total deductions	82,384,686	75,185,949
Change in net assets	(19,562,384)	(196,356,379)
Net assets - Beginning of year	1,565,301,249	1,761,657,628
Net assets - End of year	\$ 1,545,738,865	1,565,301,249

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2003 and 2002

(1) DESCRIPTION OF THE SYSTEM

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

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

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

Vesting and Benefit Provisions:

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

Members are always fully vested for their own contributions.

Membership and Contributing Employers:

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

	2002	2001
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	1,969	1,906
Active members:		
Vested	1,825	1,889
Non-vested	968	786
Total active members	2,793	2,675
Total	4,762	4,581

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

STATE OF NEW JERSEY
STATE POLICE RETIREMENT SYSTEM

Notes to Financial Statements, Continued

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus and Basis of Accounting:

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

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

Financial Reporting Model:

Effective July 1, 2000, the Division adopted two new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

Statement No. 34 Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments

Statement No. 37 Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus

Statement No. 34 (as amended by Statement No. 37) requires as required supplementary information Management’s Discussion and Analysis which includes an analytical overview of the System’s financial activities.

Investment Valuation:

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

The State of New Jersey Division of Investment, under the jurisdiction of the State Investment Council, has the investment responsibility for all funds administered by the State of New Jersey Division of Pensions and Benefits. All investments must conform to standards set by state law.

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

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

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

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

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

Notes to Financial Statements, Continued

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, 2003 and 2002, all investments held by the System (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 System. A significant portion of corporate equity and debt securities are maintained by the Depository Trust Company (DTC) through the custodian banks in trust for the System. The custodian banks as agents for the System maintain internal accounting records identifying the securities maintained by the Federal Reserve Banks and the DTC as securities owned by or pledged to the System.

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

Members' Loans:

Members 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 fiduciary 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, 2003, which include funding for the July 1, 2003 retirement payroll, are designated Category 3.

(3) CONTRIBUTIONS

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

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

Notes to Financial Statements, Continued

Legislation passed in 1997 (Chapter 115, P.L. 1997) provided for the use of actuarially determined excess valuation assets to offset the required normal contributions of the State of New Jersey. As a result of this legislation, the State of New Jersey was not required to make a normal contribution to the System for the years ended June 30, 2003 and 2002. Thereafter, a certain percentage of available excess valuation assets may be used as specified in the legislation.

(4) FUNDS

This System maintains the following legally required funds:

Members' Annuity Savings Fund (2003 - \$133,657,431; 2002 - \$129,072,531)

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

Contingent Reserve Fund (2003- \$936,731,005; 2002 - \$999,617,201)

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 (2003 - \$475,350,429; 2002 - \$436,611,517)

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 2003 and 2002) is credited to the Retirement Reserve Fund.

(5) INCOME TAX STATUS

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

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

Required Supplementary Information
Schedule of Funding Progress

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

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, 2002 and 2001 actuarial valuations included the following:

	June 30, 2002	June 30, 2001
Actuarial cost method	Projected unit credit	Projected unit credit
Asset valuation method	5 year average of market value	5 year average of market value
Amortization method	Level dollar, closed	Level dollar, closed
Remaining amortization period	30 years	31 years
Actuarial assumptions:		
Interest rate	8.75%	8.75%
Salary range	5.95%	5.95%
Cost-of-living adjustments	2.40%	2.40%

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

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

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

Notes to Schedule

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

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

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

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

Schedule of Changes in Fiduciary Net Assets by Fund

Year ended June 30, 2003

	MEMBERS' ANNUITY SAVINGS FUND	CONTINGENT RESERVE FUND	RETIREMENT RESERVE FUND	TOTAL
Additions:				
Contributions:				
Members	14,198,794	—	—	14,198,794
Employers	—	193,099	—	193,099
Other	—	69	—	69
Total contributions	<u>14,198,794</u>	<u>193,168</u>	<u>—</u>	<u>14,391,962</u>
Distribution of net investment income	—	10,226,832	38,203,508	48,430,340
Total additions	<u>14,198,794</u>	<u>10,420,000</u>	<u>38,203,508</u>	<u>62,822,302</u>
Deductions:				
Benefits	—	1,664,797	80,407,522	82,072,319
Refunds of contributions	27,368	1,692	—	29,060
Administrative expenses	—	283,307	—	283,307
Total deductions	<u>27,368</u>	<u>1,949,796</u>	<u>80,407,522</u>	<u>82,384,686</u>
Net increase (decrease) before transfers among reserves	14,171,426	8,470,204	(42,204,014)	(19,562,384)
Transfers among reserves:				
Retirements	<u>(9,586,526)</u>	<u>(71,356,400)</u>	<u>80,942,926</u>	<u>—</u>
Net increase (decrease)	4,584,900	(62,886,196)	38,738,912	(19,562,384)
Net assets held in trust for pension benefits:				
Beginning of year	<u>129,072,531</u>	<u>999,617,201</u>	<u>436,611,517</u>	<u>1,565,301,249</u>
End of year	<u>\$ 133,657,431</u>	<u>936,731,005</u>	<u>475,350,429</u>	<u>1,545,738,865</u>

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