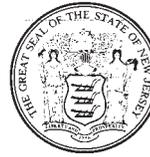


DEPARTMENT OF
THE TREASURY

John E. McCormac, CPA
State Treasurer

DIVISION OF PENSIONS
AND BENEFITS

Frederick J. Beaver
Director



State of New Jersey

DIVISION OF PENSIONS AND BENEFITS
PO Box 295 • Trenton, NJ 08625-0295

CONSOLIDATED POLICE AND
FIREMEN'S PENSION FUND
OF NEW JERSEY

COMMISSION
as of June 30, 2004

SPENCER H. SMITH, JR.
Chairperson

MARY SIBLEY
State Treasurer's Representative

LOUIS J. RISACHER

GEORGE A. CASTRO, II

THOMAS TIGHE

WILLIAM A. HAGY, JR.

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WENDY JAMISON
Secretary

MELLON HUMAN RESOURCES
& INVESTOR SOLUTIONS
Actuaries and Consultants

MEDICAL BOARD

William Coleman, M.D.

David Jenkins, M.D.

William E. Ryan, M.D.

TO THE HONORABLE
JAMES E. MCGREEVEY
GOVERNOR of the STATE OF NEW JERSEY

Dear Governor McGreevey:

The Commission for the

CONSOLIDATED POLICE AND
FIREMEN'S PENSION FUND

is pleased to present the Fiscal Year 2004 Annual Report in accordance with the provisions of Chapter 43:16-6.2.

Respectfully submitted,

A handwritten signature in black ink that reads "Spencer H. Smith, Jr." with a stylized flourish at the end.

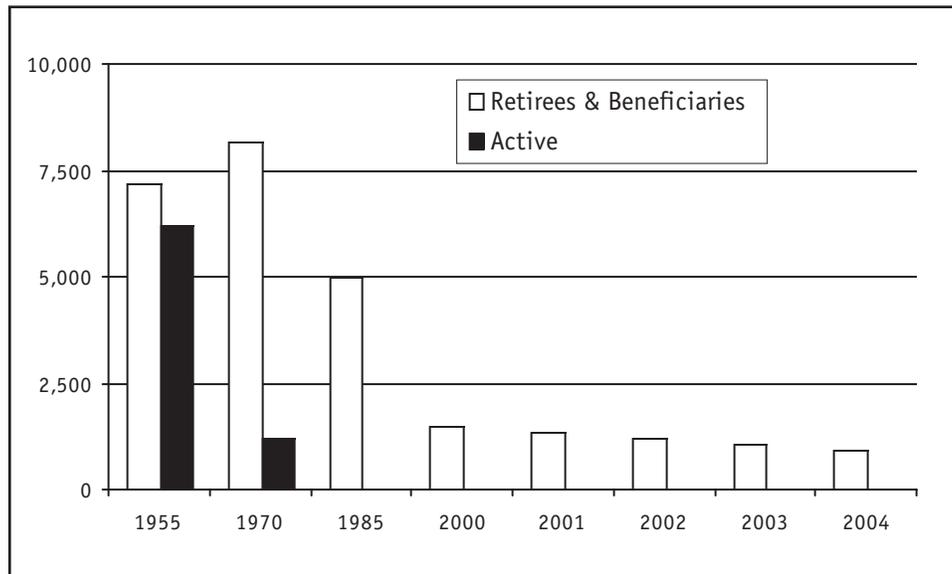
SPENCER H. SMITH, JR.
Chairperson

SIGNIFICANT LEGISLATION

There were no significant changes in legislation governing the Consolidated Police and Firemen's Pension Fund of New Jersey during fiscal year 2004.

MEMBERSHIP

- As of June 30, 2004, the active contributing membership of the Fund totaled zero.
- There were 941 retirees and beneficiaries receiving annual pensions totaling \$16,829,838.
- The Fund's assets totaled \$16,723,261 at the close of the fiscal year 2004.



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

Independent Auditors' Report

The Board of Trustees
State of New Jersey
Consolidated Police and Firemen's Pension Fund:

We have audited the accompanying statements of fiduciary net assets of the State of New Jersey Consolidated Police and Firemen's Pension Fund (the Fund) as of June 30, 2004 and 2003, and the related statements of changes in fiduciary net assets for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State of New Jersey Consolidated Police and Firemen's Pension Fund as of June 30, 2004 and 2003, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and the supplementary information included in the schedule of funding progress and schedule of employer contributions are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the financial statements that collectively comprise the Fund's basic financial statements. The schedule of changes in fiduciary net assets by fund is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Fund. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

September 24, 2004

KPMG LLP

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

Management's Discussion and Analysis

June 30, 2004 and 2003

Our discussion and analysis of the Consolidated Police and Firemen's Pension Fund (the Fund)'s financial performance provides an overview of the Fund's financial activities for the fiscal year ended June 30, 2004 and 2003. Please read it in conjunction with the basic financial statements and financial statement footnotes which follow this discussion.

FINANCIAL HIGHLIGHTS

2004 - 2003

- Net assets held in trust for pension benefits decreased by \$4,651,332 as a result of this year's operations from \$20,030,610 to \$15,379,278.
- Additions for the year were \$12,207,337 which are comprised of contributions of \$12,055,073 and net investment income of \$152,264.
- Deductions for the year were \$16,858,669, which are comprised of benefit payments of \$16,829,838 and administrative expenses of \$28,831.

2003 - 2002

- Net assets held in trust for pension benefits decreased by \$4,514,232 as a result of this year's operations from \$24,544,842 to \$20,030,610.
- Additions for the year were \$14,200,386, which are comprised of contributions of \$13,821,294 and net investment income of \$379,092.
- Deductions for the year were \$18,714,618, which are comprised of benefit payments of \$18,664,638 and administrative expenses of \$49,980.

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

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

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

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

Management's Discussion and Analysis, Continued

FINANCIAL ANALYSIS

STATEMENTS OF FIDUCIARY NET ASSETS

2004 -2003

	2004	2003	Increase (Decrease)
Assets	\$16,723,261	\$21,554,863	\$(4,831,602)
Liabilities	1,343,983	1,524,253	(180,270)
Net Assets (Deficit)	\$15,379,278	\$20,030,610	\$(4,651,332)

The Fund's assets mainly consist of cash, investments and contributions due from the State. Between fiscal years 2003 and 2004, total assets decreased by \$4.8 million or 22.4% because pension benefit payments to retirees and beneficiaries exceeded the revenues received by the Fund.

Liabilities mainly consist of pension benefit payments owed to retirees and beneficiaries. Total liabilities decreased by 11.8% mainly due to a reduction in the monthly pension payroll expense. Fewer retirees and beneficiaries are receiving benefits compared to last year.

Net assets held in trust for pension benefits decreased by \$4.7 million or 23.2% primarily because investment income is down compared to last year and benefit payments exceeded State contributions and investment revenues.

2003 -2002

	2003	2002	Increase (Decrease)
Assets	\$21,554,863	\$26,276,299	\$(4,721,436)
Liabilities	1,524,253	1,731,457	(207,204)
Net Assets (Deficit)	\$20,030,610	\$24,544,842	\$(4,514,232)

Between fiscal years 2002 and 2003, total assets decreased by \$4.7 million or 18.0% because pension benefit payments to retirees and beneficiaries exceeded the revenues received by the Fund.

Total liabilities decreased by 12.0% mainly due to a reduction in the monthly pension payroll expense. Fewer retirees and beneficiaries are receiving benefits compared to last year.

Net assets held in trust for pension benefits decreased by \$4.5 million or 18.4% primarily because investment income is down compared to last year and benefit payments exceeded State contributions and investment revenues.

STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS

ADDITIONS TO FIDUCIARY NET ASSETS

2004 - 2003

	2004	2003	Increase (Decrease)
Employer Contributions	\$12,055,073	\$13,821,294	\$(1,766,221)
Investment & Other	152,264	379,092	(226,828)
Totals	\$12,207,337	\$14,200,386	\$(1,993,049)

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

Management's Discussion and Analysis, Continued

Additions primarily consist of employer contributions and earnings from investment activities. Employer contributions are made mainly by the State to provide funding for pension benefits. Contributions are also received from the Pension Adjustment Fund to cover the cost-of-living adjustments included in benefit payments.

The State made a required contribution of \$1.9 million to satisfy the actuarially accrued liability in fiscal year 2004. Contributions were not required from 1997 through 2001 due to Pension Security legislation passed in 1997.

Investment income decreased by 59.8% due to a low interest rate and unrealized loss on investments.

2003 - 2002

	2003	2002	Increase (Decrease)
Employer Contributions	\$13,821,294	\$12,763,006	\$1,058,288
Investment & Other	379,092	980,795	(601,703)
Totals	\$14,200,386	\$13,743,801	\$456,585

The State made a required contribution of \$2.7 million to satisfy the actuarially accrued liability in fiscal year 2003. Contributions were not required from 1997 through 2001 due to Pension Security legislation passed in 1997.

Investment income decreased by 61.4% due to low interest rates.

DEDUCTIONS FROM FIDUCIARY NET ASSETS

2004 - 2003

	2004	2003	Increase (Decrease)
Benefits	\$16,829,838	\$18,664,638	\$(1,834,800)
Administrative Expenses	28,831	49,980	(21,149)
Totals	\$16,858,669	\$18,714,618	\$(1,855,949)

Deductions are mainly comprised of pension benefit payments to retirees and beneficiaries and administrative costs incurred by the Fund. Benefit payments decreased by \$1.8 million or 9.8% due to fewer retirees and beneficiaries.

2003 - 2002

	2003	2002	Increase (Decrease)
Benefits	\$18,664,638	\$ 20,721,198	\$(2,056,560)
Administrative Expenses	49,980	62,094	(12,114)
Totals	\$18,714,618	\$20,783,292	\$(2,068,674)

Benefit payments decreased by \$2.1 million or 9.9% due to fewer retirees and beneficiaries.

RETIREMENT SYSTEM AS A WHOLE

The overall funded ratios of 66.7% for fiscal year 2004 and 87.6% for 2003 indicate that the Fund 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 Fund's finances and to show the Fund's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295.

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

Statements of Fiduciary Net Assets

June 30, 2004 and 2003

	2004	2003
Assets:		
Cash	\$ 127,592	96,668
Investments, at fair value:		
Cash Management Fund	12,999,536	12,544,944
Bonds	198,015	3,905,498
Mortgage Backed Securities	1,023,691	1,998,006
Total investments	14,221,242	18,448,448
Receivables:		
Accrued interest	6,540	88,099
Due from Pension Adjustment Fund	804,066	882,496
Other	1,563,821	2,039,152
Total receivables	2,374,427	3,009,747
Total assets	16,723,261	21,554,863
Liabilities:		
Accounts payable and accrued expenses	14,836	26,396
Retirement benefits payable	1,329,147	1,497,857
Total liabilities	1,343,983	1,524,253
Net Assets:		
Held in trust for pension benefits	\$ 15,379,278	20,030,610

See schedule of funding progress on page 12.
See accompanying notes to financial statements.

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

Statements of Changes in Fiduciary Net Assets

Years ended June 30, 2004 and 2003

	2004	2003
Additions:		
Contributions:		
Employers	\$ 2,000,402	2,776,011
Pension adjustment fund	10,054,671	11,045,283
Total contributions	12,055,073	13,821,294
Investment income:		
Net appreciation (depreciation) in fair value of investments	(84,541)	(182,817)
Interest	245,771	573,294
	161,230	390,477
Less: investment expense	8,966	11,385
Net investment income	152,264	379,092
Total additions	12,207,337	14,200,386
Deductions:		
Benefits	16,829,838	18,664,638
Administrative expenses	28,831	49,980
Total deductions	16,858,669	18,714,618
Change in net assets	(4,651,332)	(4,514,232)
Net assets - Beginning of year	20,030,610	24,544,842
Net assets - End of year	\$ 15,379,278	20,030,610

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2004 and 2003

(1) DESCRIPTION OF THE FUND

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

The Fund's designated purpose is to provide retirement, death and disability benefits to its members. Membership in the Fund is limited to county and municipal police and firemen who were appointed prior to July 1, 1944. There are no active vested members and 1,062 pensioners and beneficiaries are receiving benefits as of June 30, 2003, the date of the most recent actuarial valuation. As of June 30, 2002, there were no active members and 1,198 pensioners and beneficiaries receiving benefits. The Fund's Board of Trustees is primarily responsible for its administration.

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

Vesting and Benefit Provisions:

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

Chapter 4, P.L. 2001 provided 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 was 5% of the retiree's final compensation. For those with 30 or more years of service, the total pension benefit increased from 65% to 70% of final compensation.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus and Basis of Accounting:

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

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

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

Notes to Financial Statements, Continued

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

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

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

GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Purchase Agreements*, requires disclosure of the level of custodial risk assumed by the Fund. Category 1 includes investments that are insured or registered or for which the securities are held by the Fund or its agent in the Fund's name. As of June 30, 2004 and 2003, all investments held by the Fund (other than mortgage backed securities and the State of New Jersey Cash Management Funds which are not categorized) are classified as Category 1.

Federal securities are maintained at Federal Reserve Banks in Philadelphia and New York through the custodian banks in trust for the Fund. A significant portion of corporate equity and debt securities are maintained by the Depository Trust Company (DTC) through the custodian banks in trust for the Fund. The custodian banks as agents for the Fund maintain internal accounting records identifying the securities maintained by the Federal Reserve Banks and the DTC as securities owned by or pledged to the Fund.

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

Administrative Expenses:

The Fund is administered by the State of New Jersey Division of Pensions and Benefits. Administrative expenses are paid by the Fund to the State of New Jersey, Department of the Treasury and are included in the accompanying statements of changes in fiduciary net assets.

Cash and Cash Equivalents:

GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Purchase Agreements*, also requires that deposits held in financial institutions be categorized to indicate the level of custodial risk assumed by the entity. Category 1 consists of deposits that are insured or collateralized with securities held by the entity or by its agent in the entity's name. Category 2 consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name. Category 3 consists of deposits which are uninsured and uncollateralized.

Based upon aggregate collateral levels maintained for all State bank accounts as a whole, substantially all cash balances maintained in financial institutions as of June 30, 2004 and 2003, which include funding for the July 1, 2004 and 2003 retirement payroll, are designated Category 3.

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

Notes to Financial Statements, Continued

(3) CONTRIBUTIONS

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

The State made a contribution of \$1.95 million to satisfy the actuarially accrued liability in fiscal year 2004.

(4) FUNDS

The Fund maintains the following legally required fund:

Pension Reserve Fund (2004 - \$15,379,278; 2003 - \$20,030,610)

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

(5) INCOME TAX STATUS

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

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

Required Supplementary Information

Schedule of Funding Progress

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS (a)	ACTUARIAL ACCRUED LIABILITY (b)	UNFUNDED (OVERFUNDED) ACTUARIAL ACCRUED LIABILITY (b - a)	FUNDED RATIO (a / b)	COVERED PAYROLL (c)	UNFUNDED (OVERFUNDED) ACTUARIAL ACCRUED LIABILITY AS A PERCENTAGE OF COVERED PAYROLL ((b - a) / c)
June 30, 1997	\$70,420,937	\$66,004,245	\$(4,416,692)	106.7%	N/A	N/A
June 30, 1998	62,205,001	59,272,789	(2,932,212)	104.9%	N/A	N/A
June 30, 1999	54,018,660	52,226,208	(1,792,452)	103.4%	N/A	N/A
June 30, 2000	46,078,644	46,544,429	465,785	99.0%	N/A	N/A
June 30, 2001	38,656,261	41,658,355	3,002,094	92.8%	N/A	N/A
June 30, 2002	31,842,796	36,350,384	4,507,588	87.6%	N/A	N/A
June 30, 2003	27,623,585	41,396,376	13,772,791	66.7%	N/A	N/A

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

Required Supplementary Information, Continued

Schedule of Funding Progress - Additional Actuarial Information

Significant actuarial methods and assumptions used in the most recent June 30, 2003 and 2002 actuarial valuations included the following:

	June 30, 2003	June 30, 2002
Actuarial cost method	Projected unit credit	Projected unit credit
Asset valuation method	5 year average of market value	5 year average of market value
Amortization method	Level dollar, closed	Level dollar, closed
Remaining amortization period	1 year	1 year
Actuarial assumptions:		
Interest rate	2.00%	8.75%

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

Schedule of Changes in Fiduciary Net Assets by Fund

Year ended June 30, 2004

	RETIREMENT RESERVE FUND	PENSION ADJUSTMENT PASS THROUGH	TOTAL
Additions:			
Contributions:			
Employers	\$ 2,000,402	—	2,000,402
Pension Adjustment Fund	—	10,054,671	10,054,671
Total contributions	2,000,402	10,054,671	12,055,073
Distribution of net investment income	152,264	—	152,264
Total additions	2,152,666	10,054,671	12,207,337
Deductions:			
Benefits	6,775,167	10,054,671	16,829,838
Administrative expenses	28,831	—	28,831
Total deductions	6,803,998	10,054,671	16,858,669
Net decrease	(4,651,332)	—	(4,651,332)
Net assets held in trust for pension benefits:			
Beginning of year	20,030,610	—	20,030,610
End of year	\$ 15,379,278	—	15,379,278

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