

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

DIVISION OF PENSIONS
AND BENEFITS
Frederick J. Beaver
Director

CONSOLIDATED POLICE AND
FIREMEN'S PENSION FUND
OF NEW JERSEY

COMMISSION
as of June 30, 2002

SPENCER H. SMITH, JR.
Chairperson

PETER GORMAN
State Treasurer's Representative

Louis C. Fiocca

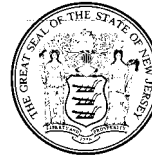
Nancy A. Naughton

Louis J. Risacher

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 Commission for the

CONSOLIDATED POLICE AND
FIREMEN'S PENSION FUND

is pleased to present the Fiscal Year 2002 Annual Report in accordance with the provisions of Chapter 43:16-6.2.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Spencer H. Smith, Jr.".

SPENCER H. SMITH, JR.
Chairperson

Consolidated Police and Firemen's Pension Fund
BOARD OF COMMISSIONERS



Louis C. Fiocca
*Retired Police
Representative*



Nancy A. Naughton
*State Investment
Council Representative
Appointed*



Peter Gorman
*State Treasurer's
Representative*

Unavailable for a photograph:
Spencer H. Smith, Jr., *Chairperson*
Louis J. Risacher



Wendy Jamison
Board Secretary



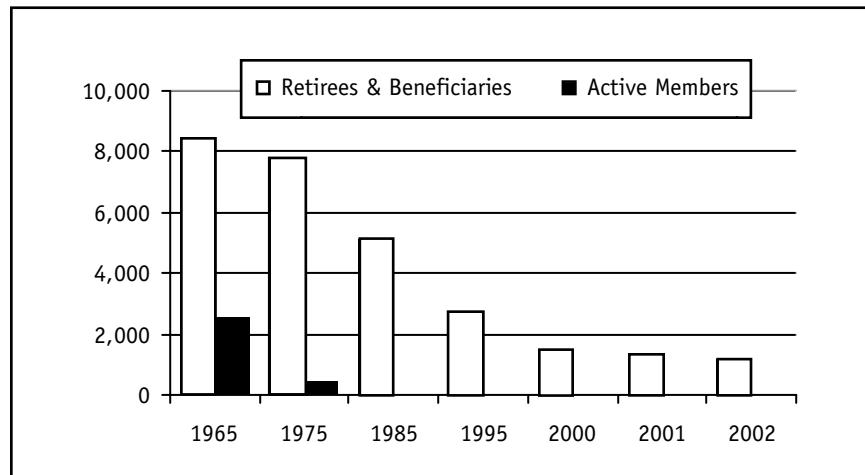
Jackie Bussanich
Support Staff

SIGNIFICANT LEGISLATION

There were no significant changes in legislation governing the Consolidated Police and Firemen's Pension Fund of New Jersey during fiscal year 2002.

MEMBERSHIP

- As of June 30, 2002, the active contributing membership of the Fund totaled zero.
- There were 1,194 retirees and beneficiaries receiving annual pensions totaling \$20,721,198.
- The Fund's assets totaled \$26,276,299 at the close of the fiscal year 2002.



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, 2002 and 2001, 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, 2002 and 2001, 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.

As discussed in Note 2, the Fund adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, as of July 1, 2000.

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 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.

KPMG LLP

September 6, 2002

MANAGEMENT'S DISCUSSION AND ANALYSIS **Consolidated Police and Firemen's Pension Fund**

June 30, 2002 and 2001

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, 2002. Please read it in conjunction with the basic financial statements and financial statement footnotes which follow this discussion.

FINANCIAL HIGHLIGHTS

- Net assets held in trust for pension benefits decreased by \$7,039,491 as a result of this year's operations from \$31,584,333 to \$24,544,842.
- Additions for the year were \$13,743,801, which are comprised of contributions of \$12,763,006 and net investment income of \$980,795.
- Deductions for the year were \$20,783,292, which are comprised of benefit payments of \$20,721,198 and administrative expenses of \$62,094.

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.

FINANCIAL ANALYSIS

STATEMENTS OF FIDUCIARY NET ASSETS

The Fund's assets mainly consist of cash, investments and contributions due from the State. Between fiscal year 2001 and 2002, total assets decreased by \$7,270,637 from \$33,546,936 to \$26,276,299 because pension benefit payments to retirees and beneficiaries exceeded the revenues received by the Fund.

Liabilities mainly consist of pension and death benefit payments owed to retirees and beneficiaries. Total liabilities decreased by \$231,146 or 11.8% from \$1,962,603 to \$1,731,457 mainly due to a reduction in the monthly payroll expense. Fewer retirees and beneficiaries are receiving benefits compared to last year.

Net assets held in trust for pension benefits decreased by \$7,039,491 or 22.3% 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

	2002	2001	Increase(Decrease)
Employer & Pension Adj. Fund	\$ 12,763,006	\$ 12,842,852	\$ (79,846)
Investment & Other	980,795	2,479,555	(1,498,760)
Totals	\$ 13,743,801	\$ 15,322,407	\$ (1,578,606)

Additions primarily consist of employer contributions and earnings from investment activities. Employer contributions are made 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. During the year, total contributions decreased slightly.

The State made a contribution of \$506,541 to satisfy the actuarially accrued liability in fiscal year 2002. This marks the first time since 1996 that the State was required to make a contribution to the Fund. Contributions were not required from 1997 through 2001 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 Fund received bond proceeds of \$43,995,746 in 1997. This influx of funds eliminated the unfunded liabilities and produced net assets till June 30, 1999. Until the valuation prepared as of July 1, 2000, which determined the funding requirement for fiscal year 2002, the overall funding ratio was above 100%.

Investment income decreased by \$1,498,760 or 60.4% due to the market conditions.

DEDUCTIONS FROM FIDUCIARY NET ASSETS

	2002	2001	Increase(Decrease)
Benefits	\$ 20,721,198	\$ 22,065,871	\$ (1,344,673)
Administrative Expenses	62,094	57,251	4,843
Totals	\$ 20,783,292	\$ 22,123,122	\$ (1,339,830)

Deductions are mainly comprised of pension benefit payments to retirees and beneficiaries and administrative costs incurred by the Fund. Since the Fund is a closed system, the number of retirees and beneficiaries drawing benefits has steadily decreased each year, which accounts for the drop in benefit payments.

RETIREMENT SYSTEM AS A WHOLE

The overall funded ratio of 92.8% indicates that the Fund has assets sufficient to meet its benefit obligations now and in the future.

CONTACTING SYSTEM FINANCIAL MANAGEMENT

The financial report is designed to provide our members, customers, 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, 2002 and 2001

	2002	2001
Assets:		
Cash	\$ 156,979	6,852,942
Investments, at fair value:		
Cash Management Fund	14,607,768	13,414,478
Bonds	4,324,304	4,676,112
Mortgages	3,668,821	4,950,932
Total investments	22,600,893	23,041,522
Receivables:		
Accrued interest	98,773	275,333
Due from Pension Adjustment Fund	981,084	1,019,417
Other	2,438,570	2,357,722
Total receivables	3,518,427	3,652,472
Total assets	26,276,299	33,546,936
Liabilities:		
Accounts payable and accrued expenses	41,882	34,149
Retirement benefits payable	1,689,575	1,928,454
Total liabilities	1,731,457	1,962,603
Net assets:		
Held in trust for pension benefits:	\$ 24,544,842	31,584,333

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, 2002 and 2001

	2002	2001
Additions:		
Contributions:		
Employers	\$ 563,793	82,355
Pension adjustment fund	12,199,213	12,760,497
Total contributions	12,763,006	12,842,852
Investment income:		
Net appreciation (depreciation) in fair value of investments	211,560	479,396
Interest	781,895	2,013,756
	993,455	2,493,152
Less investment expense	12,660	13,597
Net investment income	980,795	2,479,555
Total additions	13,743,801	15,322,407
Deductions:		
Benefits	20,721,198	22,065,871
Administrative expenses	62,094	57,251
Total deductions	20,783,292	22,123,122
Change in net assets	(7,039,491)	(6,800,715)
Net assets - Beginning of year	31,584,333	38,385,048
Net assets - End of year	\$ 24,544,842	31,584,333

See accompanying notes to financial statements.

STATE OF NEW JERSEY
CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND
Notes to Financial Statements
June 30, 2002 and 2001

(1) DESCRIPTION OF THE FUND

The State of New Jersey Consolidated Police and Firemen's Pension Fund (the Fund) 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 1,364 pensioners and beneficiaries are receiving benefits as of June 30, 2001, the date of the most recent actuarial valuation. As of June 30, 2000, there were no active members and 1,498 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.

Legislation passed last 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 was 5% of the retiree's final compensation. For those with 30 or more years of service, the total pension 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." Plan assets are recorded at fair value. 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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

New Accounting Standards Adopted:

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 Fund'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. 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, 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 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, 2002 and 2001, all investments held by the Fund (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 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.

STATE OF NEW JERSEY
CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND
Notes to Financial Statements, Continued

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 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, 2002, which include funding for the July 1, 2002 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. 43:16 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.

(4) FUNDS

The Fund maintains the following legally required fund:

Pension Reserve Fund (2002 - \$24,544,842; 2001 - \$31,584,333)

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, 1996	\$ 78,769,717	\$ 73,694,514	\$ (5,075,203)	106.9%	N/A	N/A
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

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, 2001 and 2000 actuarial valuations included the following:

	June 30, 2001	June 30, 2000
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	8.75%	8.75%

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

Required Supplementary Information, Continued
Schedule of Employer Contributions

YEAR ENDED JUNE 30,	ANNUAL REQUIRED CONTRIBUTION	EMPLOYER CONTRIBUTIONS(1)	PERCENTAGE CONTRIBUTED
1997	\$ 10,580,991	\$ 43,995,746 ⁽²⁾	415.8%
1998	—	—	N/A
1999	—	—	N/A
2000	—	—	N/A
2001	—	—	N/A
2002	550,864	506,541	92.0%

Notes to Schedule:

- (1) Excludes contributions from local employers to cover administrative expenses of the Fund.
- (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
CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND
 Schedule of Changes in Fiduciary Net Assets by Fund
 Year ended June 30, 2002

	RETIREMENT RESERVE FUND	PENSION ADJUSTMENT PASS THROUGH	TOTAL
Additions:			
Contributions:			
Employers	\$ 563,793	—	563,793
Pension Adjustment Fund	—	12,199,213	12,199,213
Total contributions	563,793	12,199,213	12,763,006
Distribution of net investment income	980,795	—	980,795
Total additions	1,544,588	12,199,213	13,743,801
Deductions:			
Benefits	8,521,985	12,199,213	20,721,198
Administrative expenses	62,094	—	62,094
Total deductions	8,584,079	12,199,213	20,783,292
Net decrease	(7,039,491)	—	(7,039,491)
Net assets held in trust for pension benefits:			
Beginning of year	31,584,333	—	31,584,333
End of year	\$ 24,544,842	—	24,544,842

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