

Financial Section

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KPMG LLP
New Jersey Headquarters
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Independent Auditor's Report

Office of Legislative Services
Office of the State Auditor
State of New Jersey

We have audited the financial statements of the State of New Jersey Division of Pension and Benefits as listed in the accompanying table of contents. These financial statements are the responsibility of the Division's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Division of Pension and Benefits, State of New Jersey, are intended to present the financial position and plan net assets and changes in plan net assets and fund balances of only that portion of the financial reporting entity of the State that is attributable to the transactions of the Division.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the special revenue funds, enterprise funds, pension trust, expendable trust and agency funds and plan net assets of the State of New Jersey Division of Pension and Benefits as of June 30, 2001, and the changes in its plan net assets and fund equity and cash flows for the year 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, schedule of employer contributions and schedule of loss development information are not a required part of the financial statements but are supplementary information required by the Governmental



Accounting Standards Board. We have applied certain limited procedures, which consist 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 audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The combining schedules and schedule of administrative expenses, schedule of investment expenses, and schedule of expenses for consultants, are presented for purposes of additional analysis and are not a required part of the financial statements of the State of New Jersey Division of Pensions and Benefits. 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 7, 2001

KPMG LLP



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
June 30, 2001

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STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Balance Sheets

June 30, 2001

**LONG
TERM
DEBT
ACCOUNT
GROUP**

TRUST AND AGENCY FUNDS

SPECIAL REVENUE FUNDS ENTERPRISE FUNDS PENSION TRUST FUNDS EXPENDABLE TRUST FUNDS AGENCY FUNDS

Assets and Other Debits

Assets:

Cash and cash equivalents	\$ —	1,760,725	240,982,335	126,512	374,270	—
Investments, at fair value:						
U.S. Treasury notes	—	—	—	118,477,288	—	—
Other notes	—	—	—	40,899,100	—	—
Cash Management Fund	61,050,009	125,427,380	2,590,801,088	190,298,347	16,468,044	—
Bonds	—	—	352,409,224	—	—	—
Common Pension Fund A	—	—	35,259,408,787	—	—	—
Common Pension Fund B	—	—	18,751,084,633	—	—	—
Common Pension Fund D	—	—	11,881,094,278	—	—	—
Common and preferred stocks	—	—	181,354,107	756,326,387	—	—
Mortgages	—	—	3,554,355,297	—	—	—
Total investments	61,050,009	125,427,380	72,570,507,414	1,106,001,122	16,468,044	—

Receivables:

Contributions:

Members	—	—	162,606,799	—	3,248,356	—
Employers	—	—	661,768,839	—	—	—
Accrued interest and dividends	—	—	417,205,259	—	—	—
Members' loans	—	—	1,184,617,815	—	—	—
Other	4,778,064	52,933,115	12,529,563	3,177,114	31,043	—
Due from other funds	51,574,431	7,605,433	—	—	38,196	—
Total receivables	56,352,495	60,538,548	2,438,728,275	3,177,114	3,317,595	—

Other debits:

Amount to be provided	—	—	—	—	—	93,157,600
Total assets and other debits	\$ 117,402,504	187,726,653	75,250,218,024	1,109,304,748	20,159,909	93,157,600



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Balance Sheets, Continued

June 30, 2001

	SPECIAL REVENUE FUNDS	ENTERPRISE FUNDS	TRUST AND AGENCY FUNDS			LONG TERM DEBT ACCOUNT GROUP
			PENSION TRUST FUNDS	EXPENDABLE TRUST FUNDS	AGENCY FUNDS	
Liabilities, net assets and fund equity						
Liabilities:						
Accounts payable and accrued expenses	\$ 45,647,558	187,771,155	22,157,669	846,944	9,355,751	—
Retirement benefits payable	—	—	272,145,110	—	—	—
NCGI premiums payable	—	—	8,000,034	—	—	—
Cash overdraft	—	—	—	—	—	—
Participant distributions payable	—	—	—	3,669,669	3,888,011	—
Pension adjustment payroll payable	—	—	—	—	1,019,417	—
Deferred revenue	915	—	—	—	—	—
Due to State of New Jersey	—	—	—	—	3,701,476	—
Incurred but not reported claims	—	—	—	—	—	93,157,600
Due to other funds	412,032	358,796	—	—	2,195,254	—
Total liabilities	46,060,505	188,129,951	302,302,813	4,516,613	20,159,909	93,157,600
Net assets and fund equity						
Net assets:						
Net assets held in trust	—	—	74,947,915,211	—	—	—
Retained earnings (deficit)	—	(403,298)	—	—	—	—
Fund balances:						
Reserved	71,341,999	—	—	1,104,788,135	—	—
Total net assets and fund equity	71,341,999	(403,298)	74,947,915,211	1,104,788,135	—	—
Total liabilities, net assets and fund equity	\$ 117,402,504	187,726,653	75,250,218,024	1,109,304,748	20,159,909	93,157,600

See accompanying notes to financial statements.



**STATE OF NEW JERSEY
PENSION TRUST FUNDS**

Combining Statement of Plan Net Assets
June 30, 2001

	CENTRAL PENSION FUND	CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND			JUDICIAL RETIREMENT SYSTEM	POLICE AND FIREMEN'S RETIREMENT SYSTEM	PRISON OFFICERS PENSION FUND	PUBLIC EMPLOYEES RETIREMENT SYSTEM
Assets:								
Cash	\$ 45,336	6,852,942	1,500,722	55,175,268	324,772	77,805,428		
Investments, at fair value:								
Cash Management Fund	11,672	13,414,478	4,854,381	751,241,511	4,455,798	597,185,222		
Bonds	—	4,676,112	—	22,588,163	7,400,860	213,624,055		
Common Pension Fund A	—	—	170,161,193	7,708,404,822	—	11,664,301,974		
Common Pension Fund B	—	—	81,463,351	3,723,401,385	—	6,418,642,720		
Common Pension Fund D	—	—	66,915,289	2,545,811,336	—	3,703,700,588		
Common and Preferred Stocks	—	—	—	—	—	—		
Mortgages	—	4,950,932	30,791,492	1,225,056,412	6,184,626	964,026,898		
Total investments	11,672	23,041,522	354,185,706	15,976,503,629	18,041,284	23,561,481,457		
Receivables:								
Contributions:								
Members	—	—	59,959	42,644,881	—	49,768,723		
Employers	—	—	—	247,620,395	—	201,630,725		
Accrued interest and dividends	35	275,333	1,936,623	87,019,545	—	142,180,843		
Members' loans	—	—	621,744	442,706,147	—	451,164,387		
Other	—	3,377,139	167,884	6,380,135	194,889	2,051,489		
Total receivables	35	3,652,472	2,786,210	826,371,103	194,889	846,796,167		
Total assets	57,043	33,546,936	358,472,638	16,858,050,000	18,560,945	24,486,083,052		
Liabilities:								
Accounts payable and accrued expenses	20,239	34,149	263,380	1,240,076	1,243	12,809,653		
Retirement benefits payable	36,804	1,928,454	1,918,904	65,479,310	289,803	87,941,736		
NCGI premiums payable	—	—	—	2,002,017	—	3,812,373		
Total liabilities	57,043	1,962,603	2,182,284	68,721,403	291,046	104,563,762		
Net assets held in trust for pension benefits	\$ —	31,584,333	356,290,354	16,789,328,597	18,269,899	24,381,519,290		

See accompanying notes to financial statements.



**STATE OF NEW JERSEY
PENSION TRUST FUNDS**

Combining Statement of Plan Net Assets, Continued
June 30, 2001

	PERS POST RETIREMENT MEDICAL FUND	STATE POLICE RETIREMENT SYSTEM	SUPPLEMENTAL ANNUITY COLLECTIVE TRUST	TEACHERS PENSION AND ANNUITY FUND	TPAF POST RETIREMENT MEDICAL FUND	TOTAL
Assets:						
Cash	—	5,032,249	203,599	94,042,019	—	\$ 240,982,335
Investments, at fair value:						
Cash Management Fund	3,084,577	37,219,922	3,743,135	1,166,423,523	9,166,869	2,590,801,088
Bonds	1,525,524	—	—	101,485,351	1,109,159	352,409,224
Common Pension Fund A	83,585,336	807,076,329	—	14,665,931,942	159,947,191	35,259,408,787
Common Pension Fund B	46,000,434	477,496,132	—	7,917,729,354	86,351,257	18,751,084,633
Common Pension Fund D	26,537,422	313,383,259	—	5,168,375,030	56,371,354	11,881,094,278
Common and Preferred Stocks	—	—	181,354,107	—	—	181,354,107
Mortgages	6,906,771	84,000,371	—	1,219,160,514	13,277,281	3,554,355,297
Total investments	167,640,064	1,719,176,013	185,097,242	30,239,105,714	326,223,111	72,570,507,414
Receivables:						
Contributions:						
Members	—	1,146,014	485,522	68,501,700	—	162,606,799
Employers	—	—	—	212,517,719	—	661,768,839
Accrued interest and dividends	—	10,259,708	127,069	175,406,103	—	417,205,259
Members' loans	—	31,957,911	—	258,167,626	—	1,184,617,815
Other	—	1,133	—	356,894	—	12,529,563
Total receivables	—	43,364,766	612,591	714,950,042	—	2,438,728,275
Total assets	167,640,064	1,767,573,028	185,913,432	31,048,097,775	326,223,111	75,250,218,024
Liabilities:						
Accounts payable and accrued expenses	—	68,954	210,780	7,509,195	—	22,157,669
Retirement benefits payable	—	5,846,446	529,213	108,174,440	—	272,145,110
NCGI premiums payable	—	—	—	2,185,644	—	8,000,034
Total liabilities	—	5,915,400	739,993	117,869,279	—	302,302,813
Net assets held in trust for pension benefits	167,640,064	1,761,657,628	185,173,439	30,930,228,496	326,223,111	\$ 74,947,915,211

See accompanying notes to financial statements.



**STATE OF NEW JERSEY
PENSION TRUST FUNDS**

Combining Statement of Changes in Plan Net Assets

Year Ended June 30, 2001

	CENTRAL PENSION FUND	CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND	JUDICIAL RETIREMENT SYSTEM	POLICE AND FIREMEN'S RETIREMENT SYSTEM	PRISON OFFICERS PENSION FUND	PUBLIC EMPLOYEES RETIREMENT SYSTEM
Additions:						
Contributions:						
Members	\$ —	—	1,818,915	228,714,281	—	314,235,958
Employers	419,938	82,355	173,556	1,295,929	—	658,027
Other	24,785	12,760,497	—	—	1,401,416	7,553
Total contributions	444,723	12,842,852	1,992,471	230,010,210	1,401,416	314,901,538
Investment income:						
Net appreciation (depreciation) in fair value of investments	—	479,396	(52,329,714)	(2,204,644,186)	651,753	(3,389,756,119)
Interest	4,680	2,013,756	9,985,036	490,611,889	1,143,571	697,664,009
Dividends	—	—	1,980,716	88,348,730	—	138,065,495
Less investment expense	4,680	2,493,152	(40,363,962)	(1,625,683,567)	1,795,324	(2,554,026,615)
Net investment income	4,680	2,479,555	(40,392,369)	(1,627,111,009)	1,792,985	(2,558,672,168)
Total additions	449,403	15,322,407	(38,399,898)	(1,397,100,799)	3,194,401	(2,243,770,630)
Deductions:						
Benefits	429,170	22,065,871	22,869,542	766,422,862	3,175,985	1,117,905,183
Refunds of contributions	20,233	—	10,715	7,333,445	—	74,428,304
Adjustment to employer receivable	—	—	—	149,204,122	—	—
Administrative expenses	—	57,251	33,078	2,762,465	17,006	16,233,802
Total deductions	449,403	22,123,122	22,913,335	925,722,894	3,192,991	1,208,567,289
Net increase (decrease) before transfers among reserves	—	(6,800,715)	(61,313,233)	(2,322,823,693)	1,410	(3,452,337,919)
Transfers among reserves:						
Other	—	—	—	—	—	(61,923,485)
Net assets held in trust for pension benefits:						
Beginning of year	—	38,385,048	417,603,587	19,112,152,290	18,268,489	27,895,780,694
End of year	\$ —	31,584,333	356,290,354	16,789,328,597	18,269,899	24,381,519,290

See accompanying notes to financial statements.



**STATE OF NEW JERSEY
PENSION TRUST FUNDS**

Combining Statement of Changes in Plan Net Assets, Continued

Year Ended June 30, 2001

	PERS POST RETIREMENT MEDICAL FUND	STATE POLICE RETIREMENT SYSTEM	SUPPLEMENTAL ANNUITY COLLECTIVE TRUST	TEACHERS PENSION AND ANNUITY FUND	TPAF POST RETIREMENT MEDICAL FUND	TOTAL
Additions:						
Contributions:						
Members	—	12,796,153	7,735,592	371,618,136	—	\$ 936,919,035
Employers	85,441,000	99,201	—	1,984,203	175,558,000	265,712,209
Other	—	109	—	1,475	—	14,195,835
Total contributions	85,441,000	12,895,463	7,735,592	373,603,814	175,558,000	1,216,827,079
Investment income:						
Net appreciation (depreciation) in fair value of investments	(10,872,141)	(249,742,766)	(20,788,415)	(4,426,011,126)	(27,515,577)	(10,380,528,895)
Interest	—	49,273,547	197,860	889,672,402	—	2,140,566,750
Dividends	—	9,435,208	2,349,896	172,570,738	—	412,750,783
	(10,872,141)	(191,034,011)	(18,240,659)	(3,363,767,986)	(27,515,577)	(7,827,211,362)
Less investment expense	—	141,489	—	3,372,858	—	9,631,685
Net investment income	(10,872,141)	(191,175,500)	(18,240,659)	(3,367,140,844)	(27,515,577)	(7,836,843,047)
Total additions	74,568,859	(178,280,037)	(10,505,067)	(2,993,537,030)	148,042,423	(6,620,015,968)
Deductions:						
Benefits	73,392,100	69,268,248	—	1,330,171,296	209,247,505	3,614,947,762
Refunds of contributions	—	295,604	22,861,679	23,730,536	—	128,680,516
Adjustment to employer receivable	—	—	—	—	—	149,204,122
Administrative expenses	—	248,458	—	7,923,827	—	27,275,887
Total deductions	73,392,100	69,812,310	22,861,679	1,361,825,659	209,247,505	3,920,108,287
Net increase (decrease) before transfers among reserves	1,176,759	(248,092,347)	(33,366,746)	(4,355,362,689)	(61,205,082)	(10,540,124,255)
Transfers among reserves:						
Other	61,923,485	—	—	(122,855,335)	122,855,335	—
Net assets held in trust for pension benefits:						
Beginning of year	104,539,820	2,009,749,975	218,540,185	35,408,446,520	264,572,858	85,488,039,466
End of year	167,640,064	1,761,657,628	185,173,439	30,930,228,496	326,223,111	\$ 74,947,915,211

See accompanying notes to financial statements.



**STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS**

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Special Revenue/Expendable Trust Funds
Year Ended June 30, 2001

	SPECIAL REVENUE FUNDS	EXPENDABLE TRUST FUNDS
Revenues:		
Contributions:		
Members	\$ 87,163,245	\$ 111,782,107
Employers	724,707,205	1,250,000
Total contributions	811,870,450	113,032,107
Investment income:		
Net appreciation (depreciation) in fair value of investments	33,467	(129,884,592)
Interest and dividends	6,557,359	27,086,242
Total investment income	6,590,826	(102,798,350)
Less investment expense	—	147,596
Net investment income (loss)	6,590,826	(102,945,946)
Total revenues	818,461,276	10,086,161
Expenditures:		
Benefits	755,792,348	44,376,013
Administrative expense	4,073,026	731,027
Total expenditures	759,865,374	45,107,040
Net increase (decrease)	58,595,902	(35,020,879)
Fund balances:		
Beginning of year	12,746,097	1,139,809,014
End of year	\$ 71,341,999	\$ 1,104,788,135

See accompanying notes to financial statements.



**STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS**

Combined Statement of Revenues, Expenses, and Changes in Retained Earnings

Enterprise Funds

Year Ended June 30, 2001

Revenues:

Contributions:	
Members	\$ 54,016,936
Employers	918,328,713
<hr/>	
Total revenues	972,345,649

Expenses:

Benefits	1,029,378,583
Administrative expense	4,718,163
<hr/>	
Total expenses	1,034,096,746
<hr/>	
Operating income (loss)	(61,751,097)

Non-operating revenue:

Investment income:	
Net appreciation (depreciation) in fair value of investments	40,464
Interest	8,599,016
<hr/>	
Total non-operating revenue	8,639,480
<hr/>	
Net income (loss)	(53,111,617)

Retained earnings (deficit):

Beginning of year	52,708,319
<hr/>	
End of Year	\$ (403,298)

See accompanying notes to financial statements.



**STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS**

Combined Statement of Cash Flows

Enterprise Funds

Year Ended June 30, 2001

Cash flows from operating activities:	
Operating income (loss)	\$ (61,751,097)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Change in assets and liabilities:	
Increase in accounts receivable	(11,604,845)
Increase in interfund receivable	(7,382,148)
Increase in accounts payable	33,496,230
Increase in due to other funds	358,796
Net cash used by operating activities	(46,883,064)
Cash flows from noncapital financing activities:	
Investment income	8,639,480
Decrease in investments	39,985,999
Net cash provided by noncapital financing activities	48,625,479
Net increase (decrease) in cash and cash equivalents	1,742,415
Cash and cash equivalents beginning of year	18,310
Cash and cash equivalents end of year	\$ 1,760,725

See accompanying notes to financial statements.



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Notes to Financial Statements

June 30, 2001

(1) DESCRIPTION OF THE FUNDS

The State of New Jersey sponsors and administers the following funds, systems, and trusts which have been included in the combined financial statements of the State of New Jersey Division of Pensions and Benefits:

Special revenue funds:

- State Health Benefits Program Fund (SHBP) - State
- Dental Expense Program Fund (DEPF)
- Prescription Drug Program Fund (PDPF) - State

Enterprise funds:

- State Health Benefits Program Fund (SHBP) - Local
- Prescription Drug Program Fund (PDPF) - Local

Pension trust funds:

- Consolidated Police and Firemen's Pension Fund (CPFPF)
- Judicial Retirement System (JRS)
- Police and Firemen's Retirement System (PFRS)
- Prison Officers' Pension Fund (POPF)
- Public Employees' Retirement System (PERS)
- State Police Retirement System (SPRS)
- Teachers' Pension and Annuity Fund (TPAF)
- Supplemental Annuity Collective Trust Fund (SACT)
- Central Pension Fund (CPF)

Expendable trust funds:

- Alternate Benefit Long-Term Disability Fund (ABPLTD)
- New Jersey State Employees' Deferred Compensation Plan (NJSEDCP)

Agency funds:

- Pension Adjustment Fund (PAF)
- Alternate Benefit Program Fund (ABP)

All Pension Trust Funds are single-employer plans, except for the PERS and PFRS, which are cost-sharing multiple-employer plans and the TPAF and CPFPF, which are cost-sharing plans with a special funding situation.

The financial statements of the State of New Jersey Division of Pensions and Benefits (the Division) have been prepared in conformity with generally accepted accounting principles in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Division's accounting policies are described below:

Reporting entity:

The financial statements include all funds which are administered by the Division over which operating con-



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Notes to Financial Statements, Continued
June 30, 2001

(1) DESCRIPTION OF THE FUNDS, Continued

trols are with the individual funds, systems, or trusts governing Boards and/or the State of New Jersey. The financial statements of the funds, systems, and trusts are included in the financial statement of the State of New Jersey; however, the accompanying financial statements are intended to present the funds administered by the Division and not the State of New Jersey as a whole.

Fund accounting:

The accounts of the Division are maintained in accordance with the principles of fund accounting to ensure observance of limitations and restrictions on the resources available. The principles of fund accounting require that the resources be classified for accounting and reporting purposes into funds in accordance with activities or objectives specified for the resources. Each fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types".

Special revenue funds:

Special revenue funds account for proceeds of specific revenue sources that are legally restricted for expenditure for specified purposes.

Enterprise funds:

Enterprise funds account for operations that are financed and operated in a manner similar to business enterprises where the intent is that the costs of providing services on a continuing basis be financed or recovered primarily through user charges.

Trust and Agency Funds:

Pension trust funds - Account for monies received for, expenses incurred by and the net assets available for plan benefits of the various public employee systems.

Expendable trust funds - Account for assets held by the State as a legal trustee when both principal and interest may be expended for the designated purpose.

Agency funds - Agency funds are used to account for the assets that the Division holds on behalf of others as their agent. Agency funds are custodial in nature and do not involve measurement of results of operations.

Long term debt account group:

General Long-Term Debt Account Group: Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group, not in the governmental funds. This includes the non-current portion for the liability for incurred but not reported claims of the Special Revenue Funds.



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Notes to Financial Statements, Continued
June 30, 2001

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases, i.e., revenues and other financing additions, and decreases, i.e., expenditures and other deductions, in net assets.

The modified accrual basis of accounting is used for measuring financial position and changes in financial position for special revenue funds. Under this method, revenues are recognized when measurable and available and expenditures are recognized when incurred and measurable.

The accrual basis of accounting is used for measuring financial position and changes in net assets of pension trust funds. 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 focus of enterprise funds measurement is upon determination of net income, financial position and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector.

The modified accrual basis is used for measuring financial position and changes in financial position for expendable trust funds. Revenues are recognized when measurable and available and expenditures are recognized when incurred and measurable.

Agency Funds - Agency funds are used to account for the assets that the Division holds on behalf of others as their agent. Agency funds are custodial in nature and do not involve measurement of results of operations.

Fixed Assets

Fixed assets utilized by the Division include equipment which is owned by the State of New Jersey and is included in the general fixed asset account group of the State of New Jersey.

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 values.

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 Fund. A brief description of each common pension fund is as follows:



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DIVISION OF PENSIONS AND BENEFITS
Notes to Financial Statements, Continued
June 30, 2001

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 Fund, 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 Funds, through the State Treasurer, and custodian banks as agents for the Funds. 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.

In 2001, the Board of Trustees approved that the Post-Retirement Medical Funds earn a rate of return consistent with the Pension Funds. In prior years, the Post-Retirement Medical Funds earned a statutorily determined rate of return.

GASB Statement No. 3 requires disclosure of the level of custodial risk assumed by the Funds. Category 1 includes investments that are insured or registered or for which the securities are held by the Funds or its agent in the Funds' name. As of June 30, 2001, all investments held by the Funds (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 Funds. 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 Funds. The custodian banks as agents for the Funds maintain internal accounting records identifying the securities maintained by the Federal Reserve Banks and the DTC as securities owned by or pledged to the Funds.

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

Membership and Contributing Employers

Membership and contributing employers of the Pension Trust Funds consisted of the following at 6/30/00,



STATE OF NEW JERSEY
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(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

the date of the most recent actuarial valuations (6/30/01 for SACT and CPF):

	JRS	PFRS	PERS	SPRS	TPAF	POPF	CPFPF	SACT	CPF
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	362	23,091	104,200	1,814	52,605	258	1,498	720	367
Active members:									
Vested	196	25,969	139,165	1,977	77,994	-	-	4,551	-
Nonvested	218	16,461	130,777	632	51,993	-	-	-	-
Total active members	414	42,430	269,942	2,609	129,987	-	-	4,551	-
Total	776	65,521	374,142	4,423	182,592	258	1,498	5,271	367
Contributing Employers	1	581	1,642	1	122	1	1	-	1

Membership in the other funds, systems, and trusts administered by the Division consisted of the following as of June 30, 2001:

	STATE	LOCAL	TOTAL
Health Benefits Program Fund*	131,595	190,999	322,594
Prescription Drug Program Fund	104,267	19,991	124,258
Dental Expense Program Fund	92,012	-	92,012
State Employees' Deferred Compensation Plan*	32,134	-	32,134
Alternate Benefit Program Fund**	14,198	2,840	17,038
Pension Adjustment Fund	251	1,364	1,615

* active and retired participants

** including those receiving long-term disability benefits

Member Loans

Members of JRS, PFRS, SPRS, PERS and TPAF who have at least three years of service in the Funds may borrow up to 50% of their accumulated member contributions. 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 payment schedule into retirement.

Administrative Expenses

Administrative expenses are paid by the funds, systems, and trusts to the State of New Jersey, Department of the Treasury and are included in the accompanying statements of changes in net assets and fund balances, except for administrative expenses of the CPF which are expensed by the State of New Jersey, who is responsible for such costs.

Income Tax Status

Based on a 1986 declaration of the Attorney General of the State of New Jersey, the funds, systems, and trusts are qualified plans as described in Section 401(a) of the Internal Revenue Code.



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Notes to Financial Statements, Continued
June 30, 2001

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 institutions 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 includes funding for the July 1, 2001 retirement payroll, are designated category 3.

The categorization of cash and cash equivalents for all State funds, including the pension trust funds, can be found in the notes to the general purpose financial statements of the State of New Jersey.

(3) CONTRIBUTIONS

Contribution Requirements - JRS

The contribution policy is set by N.J.S.A. 43:6A 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 enrolled on January 1, 1996 or after contribute at 3% on their entire base salary. Contributions by active members enrolled prior to January 1, 1996 are based on 3% of the difference between their current salary and the salary of the position on January 18, 1982. The State of New Jersey is 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.

Contribution Requirements - CPFPP

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 are based on 7% of their salary. Employers are required to contribute at an actuarially determined rate.

Contribution Requirements - PFRS

The contribution policy is set by N.J.S.A. 43:16A and requires contributions by active members and contributing employers. Members contribute at a uniform rate of 8.5% of base salary. Plan member and employer contributions may be amended by State of New Jersey legislation. Employers are required to contribute at an actuarially determined rate. The annual employer contribution includes funding for basic retirement allowances, cost-of-living adjustments and noncontributory death benefits.

Contribution Requirements - POPF

The contribution policy is set by N.J.S.A. 43:7 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 are based on 6% of their salary. Employers are required to contribute at an actuarially determined rate.



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Notes to Financial Statements, Continued
June 30, 2001

(3) CONTRIBUTIONS, Continued

Contribution Requirements - PERS

The contribution policy is set by N.J.S.A. 43:15A and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. Members contribute at a uniform rate. From July 1, 1999 to December 31, 1999, the contribution rate was 4.5% of base salary. In accordance with Chapter 415, P.L. 1999, referred to below, the member rate was lowered to 3.0% effective January 1, 2000. 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. The State of New Jersey's contribution also includes funding for the cost of medical premiums after retirement for qualified retirees. In accordance with Chapter 62, P.L. 1994, post-retirement medical benefits are funded on a pay-as-you-go basis plus an additional contribution that will ensure an increase in the Post-Retirement Medical Reserve Fund equal to 1/2 of 1% of the salary of active State employees.

Contribution Requirements - SPRS

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.

Contribution Requirements - TPAF

The contribution policy is set by N.J.S.A. 18:66 and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. Members contribute at a uniform rate. In accordance with Chapter 115, P.L. 1997, referred to below, the current employee contribution rate is 4.5%. 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. The State of New Jersey's contribution also includes funding for the cost of medical premiums after retirement for qualified retirees. In accordance with Chapter 62, P.L. 1994, post-retirement medical benefits are funded on a pay-as-you-go basis plus an additional contribution that will ensure an increase in the Post-Retirement Medical Reserve Fund equal to 1/2 of 1% of the salary of active employees.

Chapter 133, referred to in Note 1, provides for a reduction in the member contribution rate to 3% for calendar year 2002. Reductions in the employee rate will be permitted after 2002 providing excess assets are being utilized to reduce normal contributions of the State.

Contribution Requirements - SACT

Participants contribute through payroll deductions and may contribute from 1% to 10% of their base salary, as defined. Contributions are voluntary and may be suspended at the beginning of any quarter. Contributions under the Tax Sheltered Supplemental Annuity Plan are subject to Federal law limitations and qualify for tax-sheltered treatment permitted under Section 403(b) of the Internal Revenue Code. Participants are always fully vested for the accumulated units in their accounts.



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Notes to Financial Statements, Continued
June 30, 2001

(3) CONTRIBUTIONS, Continued

Contribution Requirements - CPF

The State of New Jersey makes an annual appropriation payment to the Fund to pay current year benefits. The contribution requirements were established by the aforementioned statutes and are not actuarially determined. An actuarial valuation is not performed to determine the actuarial implications of the contribution requirements.

The contribution amount required and paid by the State of New Jersey for the fiscal year ended June 30, 2001 was \$419,937.

Contribution Requirements - SHBP - State and Local

Contributions to pay for the health premiums of participating employees in the State Health Benefits Program (SHBP) are collected from the State of New Jersey, participating local employers, active members, retired members, the Public Employees' Retirement System (PERS), and the Teachers' Pension and Annuity Fund (TPAF). The State of New Jersey provides contributions for State employees through State appropriations. These appropriations are generally distributed to the SHBP on a monthly basis. Local employer payments, active and retired member contributions, and payments from the PERS and TPAF are generally received on a monthly basis. Certain State employees share in the cost of their premiums, as provided by Chapter 8, P.L. 1996.

Under the provisions of Chapter 8, P.L. 1996, the SHBP implemented premium sharing for employees covered under the State component of the program. Chapter 8 authorizes the State to negotiate premium sharing in the collective bargaining agreements governing employment of State employees. Premium sharing also applies to Retired group coverage for employees who attain 25 years of creditable pension service after July 1, 1997 or who retire on a Disability retirement after that same date. Those employees not represented by any bargaining unit premium share in accordance with rules established by the State Health Benefits Commission. Local group employees are not affected by the premium sharing provisions of Chapter 8, P.L. 1996.

Contribution Requirements - PDPF - State and Local

Contributions to pay for the premiums of participating employees in the Prescription Drug Plan are collected from the State of New Jersey, participating local employers, and former active and retired members who have elected to participate under the rules of COBRA. The State of New Jersey provides contributions for State employees through State appropriations. These appropriations are distributed to the Prescription Drug Plan on a monthly basis. Local employer payments as well as COBRA contributions are also received on a monthly basis.

Contribution Requirements - DEPF

Contributions to pay for the premiums of participating employees in the State Employee Dental Program are collected from the State of New Jersey, active employees, and former and retired members who have elected to participate under the rules of COBRA. The cost of the premiums is shared equally by the State of New Jersey and active State employees. Former and retired employees who have chosen to participate under the rules of COBRA pay the full cost of the premium. The State of New Jersey provides contributions



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Notes to Financial Statements, Continued
June 30, 2001

(3) CONTRIBUTIONS, Continued

through State appropriations. These appropriations are distributed to the SHBP on a biweekly and monthly basis. The active member share of the cost of premiums is paid to the State on a biweekly and monthly basis. Members participating under COBRA remit their payments on a monthly basis.

Contribution Requirements - NJSEDCP

Members may defer between 2% and 25% of their salary or \$8,500 annually, whichever is less. Under the limited "catch-up" provision, a participant may be eligible to defer up to a maximum of \$15,000 annually in the three years immediately preceding retirement. The employer does not make contributions to the Plan.

Contribution Requirements - ABPLTD

The State of New Jersey makes an annual contribution to the ABPLTD, as required, toward the cost of long-term disability benefits which extend beyond the calendar year following the year in which the disability benefits commence for those with a benefit commencement date on or after October 1, 1986.

Contribution Requirements - ABP

Members contribute a mandatory 5% of base or contractual salary that is tax deferred under the 414(h) provisions of the Internal Revenue code. Members are also permitted to make voluntary federal tax-deferred contributions under Internal Revenue Code Section 403(b). The State of New Jersey pays the employer contribution for all State and county employees participating in the plan. The employer contribution is based on 8% of base or contractual salary. The State of New Jersey is also responsible for the cost of noncontributory life insurance coverage and long term disability coverage for its plan members.

Contribution Requirements - PAF

The contribution requirements were established by N.J.S.A. 43:3B-4. The State of New Jersey is required to make an annual appropriation payment to fund the cost-of-living increases payable to retirees and beneficiaries of retired members in the Consolidated Police and Firemen's Pension Fund, Prison Officers' Pension Fund and the Central Pension Fund. Funding is on a pay-as-you-go basis.

(4) VESTING AND BENEFIT PROVISIONS

Vesting and Benefit Provisions - JRS

The vesting and benefit provisions are set by N.J.S.A. 43:6A and amended and supplemented by Chapter 470, P.L. 1981. The System provides retirement benefits as well as death and disability benefits. Retirement benefits for age and years of service are as follows:

AGE	YEARS OF JUDICIAL SERVICE	BENEFIT AS PERCENTAGE OF FINAL SALARY
70	10	75%
65	15	75
60	20	75



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Notes to Financial Statements, Continued
June 30, 2001

(4) VESTING AND BENEFIT PROVISIONS, Continued

AGE	YEARS OF JUDICIAL SERVICE	YEARS OF PUBLIC AND JUDICIAL SERVICE	BENEFIT AS A PERCENTAGE OF FINAL SALARY
65	5	15	50%
60	5	20	50

Retirement benefits are also available at age 60 with five years of judicial service and 15 years in the aggregate of public service, or at age 60 while serving as a judge with the benefit determined to be 2% of final salary, as defined, for each year of public service up to 25 years plus 1% of final salary for each year in excess of 25 years. Deferred and early retirement benefits are also available.

Vesting and Benefit Provisions - CPFPF

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 during the year (Chapter 4, P.L. 2001) provides increased benefits to certain members who retired prior to December 29, 1989 with at least 25 years of creditable service. The maximum amount of the increase is 5% of the retiree's final compensation. For those with 30 or more years of service, the total pension would increase from 65% to 70% of final compensation.

Vesting and Benefit Provisions - PFRS

The vesting and benefit provisions are set by N.J.S.A. 43:16A and 43:3B. The System provides retirement as well as death and disability benefits. All benefits vest after ten years of service, except disability benefits which vest after four years of service. Retirement benefits for age and service are available at age 55 and are generally determined to be 2% of final average compensation for each year of creditable service, as defined, up to 30 years plus 1% for each year of service in excess of 30 years. Final average compensation equals the average compensation for the final three years of service prior to retirement (or highest three years' compensation if other than the final three years). Members may seek special retirement after achieving 20 or 25 years of creditable service or they may elect deferred retirement after achieving ten years of service, in which case benefits would begin at age 55 equal to 2% of final average compensation for each year of service.

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

Members are always fully vested for their own contributions. In the case of death before retirement, members' beneficiaries are entitled to full payment of members' contributions.



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Notes to Financial Statements, Continued
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(4) VESTING AND BENEFIT PROVISIONS, Continued

Eligible retirees receiving monthly benefits are entitled to cost-of-living increases equal to 60% of the change in the average consumer price index for the calendar year in which the pensioner retired as compared to the average consumer price index for a 12-month period ending with each August 31st immediately preceding the year in which the adjustment becomes payable. The regular retirement allowance is multiplied by the 60% factor as developed and results in the dollar amount of the adjustment payable. Retired members become eligible for pension adjustment benefits after 24 months of retirement. The cost-of-living increases are funded by the retirement system and are included in the annual actuarial calculations of the required state and state-related employer contributions.

Legislation passed during the year (Chapter 4, P.L. 2001) provides increased benefits to certain members who retired prior to December 29, 1989 with at least 25 years of creditable service. The maximum amount of the increase is 5% of the retiree's final compensation. For those with 30 or more years of service, the total pension would increase from 65% to 70% of final compensation.

Vesting and Benefit Provisions - POPF

The vesting and benefit provisions are set by N.J.S.A. 43:7. The Fund provides retirement, as well as death and disability benefits. Retirement benefits are available after 25 years of service or at age 55 with 20 years of service. The benefit is in the form of a life annuity equal to the greater of (a) 2% of average final compensation up to the 30 years of service, plus 1% of average final compensation for each year of service above 30 and prior to age 65; (b) 50% of final pay; or (c) for members with 25 or more years of service, 2% of average final compensation for each year of service up to 30 years, plus 1% for each year in excess of 30 years. Average final compensation equals the average salary for the final three years of service prior to retirement (or highest three years' compensation if other than the final three years).

Members are always fully vested for their own contributions.

Vesting and Benefit Provisions - PERS

The vesting and benefit provisions are set by N.J.S.A. 43:15A and 43:3B. The System provides retirement, death and disability benefits, as well as medical benefits for certain qualified members. All benefits vest after eight to ten years of service, except for medical benefits which vest after 25 years of service. Retirement benefits for age and service are available at age 60 and are generally determined to be 1/60 of final average salary for each year of service credit (as defined). Final average salary equals the average salary for the final three years of service prior to retirement (or highest three years' compensation if other than the final three years). Members may seek early retirement after achieving 25 years of service credit or they may elect deferred retirement after achieving eight to ten years of service in which case benefits would begin the first day of the month after the member attains normal retirement age.

The System provides specified medical benefits for members who retire after achieving 25 years of qualified service, as defined, or under the disability provisions of the System.

Members are always fully vested for their own contributions and, after three years of service credit, become vested for earnings on their contributions at 2% per annum. In the case of death before retirement, members' beneficiaries are entitled to full interest credited to the members' accounts.



STATE OF NEW JERSEY
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Notes to Financial Statements, Continued
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(4) VESTING AND BENEFIT PROVISIONS, Continued

Eligible retirees receiving monthly benefits are entitled to cost-of-living increases equal to 60% of the change in the average consumer price index for the calendar year in which the pensioner retired as compared to the average consumer price index for a 12-month period ending with each August 31st immediately preceding the year in which the adjustment becomes payable. The regular retirement allowance is multiplied by the 60% factor as developed and results in the dollar amount of the adjustment payable. Retired members become eligible for pension adjustment benefits after 24 months of retirement.

Two pieces of legislation passed during the year having a significant impact on the System's benefit provisions. Chapter 133, Public Law of 2001, increases retirement benefits for service, deferred and early retirement by changing the formula from 1/60 to 1/55 of final compensation for each year of service. This legislation also increases the retirement benefit for veteran members with 35 or more years of service and reduces the age qualification from 60 to 55. The legislation further provides that existing retirees and beneficiaries would also receive a comparable percentage increase in their retirement allowance. The benefit enhancements are effective with the November 1, 2001 benefit checks. Chapter 120, Public Law of 2001, establishes an additional retirement option for plan members. Under the new option, a retiree's actuarially reduced allowance (to provide a benefit to the retiree's beneficiary upon the retiree's death) would "pop-up" to the maximum retirement allowance if the beneficiary predeceases the retiree.

Vesting and Benefit Provisions - SPRS

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.

Vesting and Benefit Provisions - TPAF

The vesting and benefit provisions are set by N.J.S.A. 18A:66. The Fund provides retirement, death and disability benefits, as well as medical benefits for certain qualified members. All benefits vest after ten years of service, except for medical benefits, which vest after 25 years of service. Retirement benefits for age and service are available at age 60 and are generally determined to be 1/60 of final average salary for each year of service credit, as defined. Final average salary equals the average salary for the final three years of service prior to retirement (or highest three years' compensation if other than the final three years). Members may seek early retirement after achieving 25 years service credit, as defined, or they may elect



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Notes to Financial Statements, Continued
June 30, 2001

(4) VESTING AND BENEFIT PROVISIONS, Continued

deferred retirement after achieving ten years of service credit, in which case benefits would begin the first day of the month after the member attains normal retirement age.

The Fund provides specific medical benefits for members who retire after 25 years of qualified service, as defined, or under the disability provisions of the Fund.

Members are always fully vested for their own contributions and, after three years of service credit, become vested for 2% of related interest earned on the contributions. In the case of death before retirement, members' beneficiaries are entitled to full interest credited to the members' accounts.

Eligible retirees receiving monthly benefits are entitled to cost-of-living increases equal to 60% of the change in the average consumer price index for the calendar year in which the pensioner retired as compared to the average consumer price index for a 12-month period ending with each August 31st immediately preceding the year in which the adjustment becomes payable. The regular retirement allowance is multiplied by the 60% factor as developed and results in a dollar amount of the adjustment payable. Retired members become eligible for pension adjustment benefits (COLA) after 24 months of retirement.

Two pieces of legislation passed during the year having a significant impact on the Fund's benefit provisions. Chapter 133, Public Law of 2001, increases retirement benefits for service, deferred and early retirement by changing the formula from 1/60 to 1/55 of final compensation for each year of service. This legislation also increases the retirement benefit for veteran members with 35 or more years of service and reduces the age qualification from 60 to 55. The legislation further provides that existing retirees and beneficiaries would also receive a comparable percentage increase in their retirement allowance. The benefit enhancements are effective with the November 1, 2001 benefit checks. Chapter 120, Public Law of 2001, establishes an additional retirement option for plan members. Under the new option, a retiree's actuarially reduced allowance (to provide a benefit to the retiree's beneficiary upon the retiree's death) would "pop-up" to the maximum retirement allowance if the beneficiary predeceases the retiree.

Chapter 133 also provides for a reduction in the member contribution rate to 3% for calendar year 2002. Reductions in the employee rate will be permitted after 2002 providing excess assets are being utilized to reduce normal contributions of the State.

Vesting and Benefit Provisions - SACT

Upon retirement, a participant is paid a single cash payment or may elect various forms of monthly annuities or reduced annuity payments with a beneficiary provision based on the value of the participant's account in the month of retirement. Upon the death of a participant, the designated beneficiary may elect to receive a lump sum equal to the account value or an annuity under any of the settlement options which a retiree could elect under the Trust. Upon termination of employment and withdrawal from the basic retirement systems, a participant must also withdraw his account under the Trust as a lump-sum settlement.

Benefit Provisions - CPF

Benefits are payable under various State of New Jersey acts in an amount equal to one-half of the compensation received by the participant for his/her service. In the case of Disabled Veterans' Pensions and Surviving Spouses the amount is \$62.50 per month.



STATE OF NEW JERSEY
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Notes to Financial Statements, Continued
June 30, 2001

(4) VESTING AND BENEFIT PROVISIONS, Continued

Vesting and Benefit Provisions - SHBP - State and Local

The Program provides medical coverage to qualified active and retired participants. Under Chapter 136, P.L. 1977, the State of New Jersey pays for the health insurance coverage of all enrolled retired State employees (regardless of age) whose pensions are based upon 25 years or more of credited service or a disability retirement regardless of years of service. The State of New Jersey also provides free coverage to members of the Public Employees' Retirement System, Teachers' Pension and Annuity Fund, and the Alternate Benefit Program who retire from a board of education or county college with 25 years of service or on a disability retirement. Partially funded benefits are also provided to local police officers and firefighters who retire with 25 years of service (or on disability) from an employer who does not provide coverage. Retirees who are not eligible for employer paid health coverage at retirement can continue in the program by paying the cost of the insurance for themselves and their covered dependents.

Benefit Provisions - PDPF - State and Local

The Program provides coverage to employees and their eligible dependents for drugs which under federal or State law may be dispensed only upon a prescription written by a physician. State and local employees are eligible for coverage after 60 days of employment.

Benefit Provisions - DEPF

The Program provides coverage to employees and their eligible dependents for dental services performed by a qualified dentist. State employees are eligible for coverage after 60 days of employment.

Vesting and Benefit Provisions - NJSEDCP

Assets in the Plan are held in trust for the exclusive benefit of Plan members and their beneficiaries as required in Government Accounting Standards Board Statement No. 32. Plan members are fully vested for the current valuation of their account from the date of enrollment in the Plan. Benefits are payable upon separation from service with the State of New Jersey.

Benefit Provisions - ABPLTD

Members who are totally disabled due to an occupational or non-occupational condition are eligible to receive a regular monthly benefit equal to 60% of the base salary earned over the 12 month period preceding the onset of the disability. The long-term disability benefits continue until such time as the member retires or attains the age of 70, whichever comes first.

Vesting and Benefit Provisions - ABP

The Alternate Benefit Program provides retirement benefits, disability benefits, and group life insurance benefits to eligible participants. Retirement benefits are payable upon separation from service with no age or service requirements. However, distributions under age 55 are limited to employee contributions and accumulations. The remaining employer's contributions and earnings are available for distribution upon attaining age 55. Participants are immediately vested if the participant has an existing retirement account containing employer and employee contributions based on employment in public education, or is an active or vested member of a federal or state retirement system.



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Notes to Financial Statements, Continued
June 30, 2001

(4) VESTING AND BENEFIT PROVISIONS, Continued

Benefit Provisions - PAF

The pension adjustment program covers eligible retirees and survivors of the Consolidated Police and Firemen's Pension Fund, Prison Officers' Pension Fund, and Central Pension Fund. Eligible retirees and/or survivors are those who have been retired at least 24 months.

Those eligible for benefits are entitled to cost-of-living increases equal to 60% of the change in the average consumer price index for the calendar year in which the pensioner retired as compared to the average consumer price index for a 12-month period ending with each August 31st immediately preceding the year in which the adjustment becomes payable. The regular retirement allowance is multiplied by the 60% factor as developed and results in a dollar amount of the adjustment payable. Retired members become eligible for pension adjustment benefits after 24 months of retirement.

Legislation passed during the year (Chapter 4, P.L. 2001) provides increased benefits to certain members of the Consolidated Police and Firemen's Pension Fund who retired prior to December 29, 1989 with at least 25 years of creditable service. The benefit increase is effective November 1, 2001. The maximum amount of the increase is 5% of the retiree's final compensation. For those with 30 or more years of service, the total pension would increase from 65% to 70% of final compensation.

As a result of this legislation, cost-of-living benefits payable to eligible retirees will also increase. The State, not the local municipalities, will be responsible for these costs.

(5) RESERVES

The Funds maintain the following legally required reserves as follows:

Members' Annuity Savings Fund - JRS (\$17,485,352), TPAF (\$5,431,880,738),
PERS (\$5,745,676,091), PFRS (\$1,856,937,300), SPRS (\$120,781,448)

The Members' Annuity Savings Fund is credited with all contributions made by active members of the Funds.

Contingent Reserve Fund - JRS (\$218,719,193), TPAF (\$12,374,096,154),
PERS (\$9,246,598,990), SPRS (\$1,213,905,470)

The Contingent Reserve Fund is credited with the contributions of contributing employers other than post-retirement medical contributions. Interest earnings, after crediting the Accumulated Interest Fund, Retirement Reserve Fund, and Special Reserve Fund, as required, are credited to this account. Additionally, payments for life insurance premiums are made from this Fund.

Retirement Reserve Fund - JRS (\$120,085,809), TPAF (\$13,047,201,732),
PERS (\$9,247,794,308), PFRS (\$6,728,562,482), SPRS (\$426,970,710)

The Retirement Reserve Fund is the account from which retirement benefits other than life insurance premiums, contributory group insurance premiums, and post-retirement medical premiums, including cost-of-living benefits, are paid. Upon retirement of a member, accumulated contributions together with accumu-



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Notes to Financial Statements, Continued
June 30, 2001

(5) RESERVES, Continued

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

Retirement Reserve Fund - POPF (\$18,269,899)

The Retirement Reserve Fund is credited with all active member and State of New Jersey contributions and investment income. In addition, all benefits are paid from this account.

Special Reserve Fund - TPAF (\$0), PERS (\$0), PFRS (\$0)

The Special Reserve Fund is a fund to which any excess interest earnings and gains from sales and maturities of investments are transferred and against which any losses from the sales of securities are charged. The maximum limit on the accumulation of this account is 1% of the market value of the investments allocated to the System, excluding Cash Management Fund investments and bonds allocated to the Contributory Group Insurance Premium Fund. Amounts in excess of 1% are credited to the Contingent Reserve Fund.

Contributory Group Insurance Premium Fund - TPAF (\$77,049,872), PERS (\$141,449,901)

The Contributory Group Insurance Premium Fund represents the accumulation of member group insurance contributions in excess of premiums disbursed to the insurance carrier since the inception of the contributory death benefit program plus reserves held by the insurance carriers. Members are required by statute to participate in the contributory group insurance plan in the first year of membership and may cancel the contributory coverage thereafter. The current contribution rate for active members is 0.4 of 1% of salary for TPAF and 0.5 of 1% of salary for PERS, as defined.

Pension Accumulation Fund - PFRS (\$8,203,828,815)

The Pension Accumulation Fund is credited with the contributions of the State of New Jersey and other employers. Interest earnings, after crediting the ASF and the Retirement Reserve Fund, as required, are credited to this account. Additionally, payments for life insurance premiums are made from this Fund.

Pension Reserve Fund - CPFPPF (\$31,584,333)

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

Reserve Fund - SHBP-State (\$54,229,706), PDPF-State (\$4,881,803) and DEPF (\$12,230,490)

The fund balance of the SHBP-State, PDPF-State, and DEPF are available to pay claims of future periods. These reserves are maintained by the Funds to stabilize rates and to meet unexpected increases in claims. Since these funds are classified as special revenue funds, IBNR claims as of June 30, 2001 are reported in the State's general long-term debt account group.

Reserve Fund - SHBP-Local (-\$2,176,330), PDPF-Local (\$1,773,032)

The SHBP-Local has a fund deficit of \$2,176,330 as of June 30, 2001. The deficit is expected to be made up by some further rate action.



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
Notes to Financial Statements, Continued
June 30, 2001

(5) RESERVES, Continued

The PDPF-Local has retained earnings that are now available to pay claims of future periods and stabilize rates.

Reserve Fund - Alternate Benefit - Long Term Disability (\$3,373,969)

The fund balance of the ABPLTD is available for future payments to participants.

Post-Retirement Medical Fund - TPAF (\$326,223,111), PERS (\$167,640,064)

The Post-Retirement Medical Fund is credited with employer contributions for post-retirement medical benefits, interest earnings on post-retirement medical reserves, and from which post-retirement medical premiums are paid.

(6) UNPAID CLAIMS LIABILITIES

As discussed in Note 2, the Fund establishes a liability for both reported and unreported claims, which includes estimates of future payments of claims and related claim adjustment expenses. The following represent changes in those aggregate liabilities for the Funds during the year:

<u>Local</u>	<u>Health Benefits Program Fund</u>	<u>Prescription Drug Program Fund</u>
Unpaid claims at beginning of year	\$ 152,907,925	\$ 1,367,000
Incurred claims:		
Provision for insured events of current year	1,001,997,519	27,381,065
Payments	969,379,304	26,503,050
Unpaid claims at end of year	<u>\$ 185,526,140</u>	<u>\$ 2,245,015</u>



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

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)
JUDICIAL RETIREMENT SYSTEM (JRS)						
June 30, 1995	\$ 163,907,007	\$ 255,572,086	\$ 91,665,079	64.1%	\$ 40,041,000	228.9%
June 30, 1996	283,199,734	283,199,734	—	100.0%	47,587,950	0.0%
June 30, 1997	317,289,094	295,150,638	(22,138,456)	107.5%	46,912,950	(47.2%)
June 30, 1998	333,437,794	305,779,217	(27,658,577)	109.0%	48,196,350	(57.4%)
June 30, 1999	352,858,160	313,873,659	(38,984,501)	112.4%	48,886,350	(79.7%)
June 30, 2000	374,486,433	350,920,345	(23,566,088)	106.7%	55,514,214	(42.5%)
CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND (CPFPF)						
June 30, 1995	\$ 50,406,423	\$ 82,101,504	\$ 31,695,081	61.4%	N/A	N/A
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
POLICE AND FIREMEN'S RETIREMENT SYSTEM (PFRS)						
June 30, 1994	\$ 8,102,859,352	\$ 9,312,668,271	\$ 1,209,808,919	87.0%	\$ 1,774,962,741	68.2%
June 30, 1995	10,058,945,352	10,920,667,340	861,721,988	92.1%	1,843,745,932	46.7%
June 30, 1996	10,959,178,731	12,076,365,067	1,117,186,336	90.7%	1,967,863,025	56.8%
State						
June 30, 1997	1,183,747,522	1,234,959,165	\$ 51,211,643	95.9%	315,690,310	16.2%
June 30, 1998	1,559,131,933	1,377,734,455	(181,397,478)	113.2%	346,079,078	(52.4%)
June 30, 1999	1,717,248,151	1,534,470,501	(182,777,650)	111.9%	362,949,950	(50.4%)
June 30, 2000	1,884,870,936	1,666,842,906	(218,028,030)	113.1%	363,360,250	(60.0%)
Local						
June 30, 1997	10,854,173,290	11,746,169,752	\$891,996,462	92.4%	1,767,762,346	50.4%
June 30, 1998	13,169,957,658	12,881,842,367	(288,115,291)	102.2%	1,870,322,787	(15.4%)
June 30, 1999	14,536,570,357	13,894,951,617	(641,618,740)	104.6%	1,971,087,124	(32.6%)
June 30, 2000	15,644,750,281	14,924,699,712	(720,050,569)	104.8%	2,055,781,766	(35.0%)
PRISON OFFICER'S PENSION FUND (POPF)						
June 30, 1995	\$ 3,339,376	\$ 19,594,151	\$ 16,254,775	17.0%	N/A	N/A
June 30, 1996	18,654,334	18,654,334	—	100.0%	N/A	N/A
June 30, 1997	20,977,035	17,479,545	(3,497,490)	120.0%	N/A	N/A
June 30, 1998	20,096,072	16,430,313	(3,665,759)	122.3%	N/A	N/A
June 30, 1999	19,137,919	15,292,629	(3,845,290)	125.1%	N/A	N/A
June 30, 2000	18,268,489	14,216,588	(4,051,901)	128.5%	N/A	N/A



**STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS**

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)
PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)						
State						
March 31, 1995	\$ 5,499,850,766	\$ 5,921,281,646	\$ 421,430,880	92.9%	\$ 2,830,000,937	14.9%
March 31, 1996	6,565,471,539	6,225,818,232	(339,653,307)	105.5%	2,762,479,385	(12.3%)
March 31, 1997	6,987,217,172	6,606,707,924	(380,509,248)	105.8%	2,714,991,457	(14.0%)
March 31, 1998	7,600,621,930	7,155,035,122	(445,586,808)	106.2%	2,805,791,909	(15.9%)
June 30, 1999	8,879,920,323	7,823,576,056	(1,056,344,267)	113.5%	2,928,470,790	(36.1%)
June 30, 2000	9,743,727,383	8,538,685,222	(1,205,042,161)	114.1%	3,094,280,664	(38.9%)
Local						
March 31, 1995	8,629,411,069	8,433,456,163	(195,954,906)	102.3%	4,191,703,372	(4.7%)
March 31, 1996	9,919,779,257	8,960,275,181	(959,504,076)	110.7%	4,301,404,278	(22.3%)
March 31, 1997	10,523,061,499	9,599,816,842	(923,244,657)	109.6%	4,407,751,955	(20.9%)
March 31, 1998	11,486,495,310	10,286,532,879	(1,199,962,431)	111.7%	4,513,357,772	(26.6%)
June 30, 1999	13,171,311,650	11,163,283,877	(2,008,027,773)	118.0%	4,655,241,261	(43.1%)
June 30, 2000	14,380,511,913	12,007,160,806	(2,373,351,107)	119.8%	4,910,962,708	(48.3%)
STATE POLICE RETIREMENT SYSTEM (SPRS)						
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 31, 1997	1,322,406,703	1,272,242,451	(50,164,252)	103.9%	142,636,260	(35.2%)
June 31, 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%)
TEACHERS' PENSION AND ANNUITY FUND (TPAF)						
March 31, 1995	\$ 16,942,637,259	\$ 18,410,393,538	\$ 1,467,756,279	92.0%	\$ 5,358,893,876	27.4%
March 31, 1996	20,843,247,418	19,828,428,735	(1,014,818,683)	105.1%	5,594,150,132	(18.1%)
March 31, 1997	22,045,481,579	21,224,484,588	(820,996,991)	103.9%	5,771,763,164	(14.2%)
March 31, 1998	24,478,860,383	23,484,403,450	(994,456,933)	104.2%	5,989,748,156	(16.6%)
June 30, 1999	27,457,451,678	25,546,083,289	(1,911,368,389)	107.5%	6,254,198,406	(30.6%)
June 30, 2000	30,203,205,322	27,404,618,051	(2,798,587,271)	110.2%	6,571,641,181	(42.6%)



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
 Required Supplementary Information, Continued
 Schedule of Funding Progress - Additional Actuarial Information

Significant actuarial methods and assumptions used in the most recent 2000 actuarial valuations include the following:

	JRS	CPFPF
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	1 year
Actuarial assumptions:		
Interest rate	8.75%	8.75%
Salary range	5.95%	—
Cost-of-living adjustments	2.40%	—
Valuation date	June 30, 2000	June 30, 2000
	PFRS	POPF
Actuarial cost method	Projected unit credit	Projected unit credit
Asset valuation method	5 year average of market value	Market value
Amortization method	Level percent, closed	Level dollar, closed
Remaining amortization period	31 years	2 years
Actuarial assumptions:		
Interest rate	8.75%	5.00%
Salary range	5.95%	—
Cost-of-living adjustments	2.40%	—
Valuation date	June 30, 2000	June 30, 2000



**STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS**

Required Supplementary Information, Continued

Schedule of Funding Progress - Additional Actuarial Information

	PERS	SPRS
Actuarial cost method	Projected unit credit	Projected unit credit
Asset valuation method	5 year average of market value	5 year average of market value
Amortization method	Level percent, closed	Level dollar, closed
Payroll growth rate for amortization	5.00%	—
Remaining amortization period	32 years	32 years
Actuarial assumptions:		
Interest rate	8.75%	8.75%
Salary range	5.95%	5.95%
Cost-of-living adjustments	2.40%	2.40%
Valuation date	June 30, 2000	June 30, 2000
TPAF		
Actuarial cost method	Projected unit credit	
Asset valuation method	5 year average of market value	
Amortization method	Level percent, closed	
Payroll growth rate for amortization	5.00%	
Remaining amortization period	8 years	
Actuarial assumptions:		
Interest rate	8.75%	
Salary range	5.95%	
Cost-of-living adjustments	2.40%	
Valuation date	June 30, 2000	



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
 Required Supplementary Information, Continued
 Schedule of Employer Contributions

YEAR ENDED JUNE 30,	ANNUAL REQUIRED CONTRIBUTION	EMPLOYER CONTRIBUTIONS	PERCENTAGE CONTRIBUTED	
JUDICIAL RETIREMENT SYSTEM				
1997	\$ 18,406,865	\$ 110,483,753	600.2%	
1998	14,658,095	13,478,708	92.0%	
1999	13,416,851	—	0.0%	
2000	13,407,153	—	0.0%	
2001	12,816,557	—	0.0%	
CONSOLIDATED POLICE AND FIREMEN'S PENSION FUND				
1997	\$ 10,580,991	\$ 43,995,746	415.8%	
1998	—	—	N/A	
1999	—	—	N/A	
2000	—	—	N/A	
2001	—	—	N/A	
POLICE AND FIREMEN'S RETIREMENT SYSTEM				
State:	1997	\$ 111,775,028	\$ 715,344,385	640.0%
	1998	84,167,834	73,587,848	87.4%
	1999	93,920,617	23,730,087	25.3%
	2000	98,974,449	60,521,749	61.1%
	2001	95,883,272	—	0.0%
Local:	1997	250,220,580	234,963,865	93.9%
	1998	238,002,765	223,491,008	93.9%
	1999	273,210,113	256,551,862	93.9%
	2000	275,790,739	214,164,848	77.7%
	2001	249,746,232	75,670,018	30.3%
PRISON OFFICERS' PENSION FUND				
	1997	\$ 2,949,604	\$ 21,688,219	735.3%
	1998	—	—	N/A
	1999	—	—	N/A
	2000	—	—	N/A
	2001	—	—	N/A



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
 Required Supplementary Information, Continued
 Schedule of Employer Contributions

	YEAR ENDED JUNE 30,	ANNUAL REQUIRED CONTRIBUTION	EMPLOYER CONTRIBUTIONS	PERCENTAGE CONTRIBUTED
PUBLIC EMPLOYEES' RETIREMENT SYSTEM				
State:	1997	\$ 134,878,582	\$ 241,106,642	178.8%
	1998	78,833,287	—	0.0%
	1999	86,945,810	—	0.0%
	2000	103,033,425	—	0.0%
	2001	85,078,620	—	0.0%
Local:	1997	142,672,255	67,476,771	47.3%
	1998	84,639,988	19,034,673	22.5%
	1999	111,886,040	19,599,153	17.5%
	2000	112,800,127	20,541,177	18.2%
	2001	88,717,727	21,670,774	24.4%
STATE POLICE RETIREMENT SYSTEM				
	1997	\$ 44,384,679	\$ 120,308,862	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%
TEACHERS' PENSION AND ANNUITY FUND				
	1997	\$ 372,060,546	\$ 1,601,688,633	430.5%
	1998	297,219,462	—	0.0%
	1999	314,671,482	258,816,649	82.2%
	2000	368,904,564	—	0.0%
	2001	—	—	N/A

Notes to schedule:

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.

For the years ended June 30, 2001 and 2000, State and local employer contributions were funded, in full or in part, by excess valuation assets in accordance with Chapter 115, P.L. 1997.

The local employer contribution to the PERS from 1998 to 2001 represents required contributions under the early retirement incentive programs.



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
 Required Supplementary Information -
 Schedule of Loss Development Information
 June 30, 2001

HEALTH BENEFITS PROGRAM FUND - LOCAL	FISCAL YEAR ENDED JUNE 30 2001
Premiums and investment revenue Earned	\$ 942,990,925
Estimated losses and expenses	1,006,715,682
PRESCRIPTION DRUG PROGRAM FUND - LOCAL	FISCAL YEAR ENDED JUNE 30 2001
Premiums and investment revenue Earned	\$ 29,354,724
Estimated losses and expenses	27,381,064

See independent auditors' report.



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS
 Schedule of Administrative Expenses
 Year Ended June 30, 2001

	PERS	TPAF	PFRS	CPFPF	POPF	SPRS	JRS	TOTAL
Personnel Services								
Salaries & Wages	\$6,090,882	\$3,041,630	\$936,597	\$20,031	\$4,980	\$92,702	\$11,652	\$10,198,474
Employee Benefits	1,537,934	768,060	236,393	5,159	1,346	23,557	2,988	2,575,437
Total Personnel Services	7,628,816	3,809,690	1,172,990	25,190	6,326	116,259	14,640	12,773,911
Professional Services								
Actuarial Services	515,284	150,404	245,974	5,268	1,316	24,322	3,069	945,637
Data Processing	1,362,254	680,324	209,390	4,570	1,192	20,866	2,647	2,281,243
Information Systems	1,634,884	816,478	251,295	5,703	1,431	25,042	3,177	2,738,010
Other Professional**	1,353,796	676,100	208,090	4,541	1,185	2,074	2,630	2,248,416
Medical Review*	187,344	33,351	107,514	—	—	4,575	—	332,784
Elections*	100,128	—	—	—	—	—	—	100,128
Internal Audit & Legal	405,290	202,406	62,296	1,359	355	6,208	787	678,701
Total Professional Services	5,558,980	2,559,063	1,084,559	21,441	5,479	83,087	12,310	9,324,919
Communication								
Travel	2,717	17,662	3,864	93	—	45	—	24,381
Telephone	117,969	58,915	18,133	396	103	1,807	229	197,552
Postage	493,976	246,697	75,928	1,657	432	7,566	960	827,216
Motor Pool	16,322	8,152	2,509	55	144	250	32	27,334
Printing & Office	310,601	155,118	47,742	1,042	272	4,758	604	520,137
Total Communication	941,585	486,544	148,176	3,243	821	14,426	1,825	1,596,620
Miscellaneous								
Office Space	1,200,790	599,687	184,572	4,028	1,051	18,393	2,333	2,010,854
Maintenance	786,660	392,687	120,916	2,639	689	12,050	1,529	1,317,170
Equipment	79,393	39,650	12,203	266	69	1,216	154	132,951
Other Services & Charges	37,578	36,506	39,049	444	2,571	3,027	287	119,462
Total Miscellaneous	2,104,421	1,068,530	356,740	7,377	4,380	34,686	4,303	3,580,437
Total Administrative Expense	\$16,233,802	\$7,923,827	\$2,762,465	\$57,251	\$17,006	\$248,458	\$33,078	\$27,275,887

* Consulting

**Portion of Consulting



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Schedule of Investment Expense

Year Ended June 30, 2001

	PERS	TPAF	PFRS	CPFPF	POPF	SPRS	JRS	TOTAL
Investment Expense	\$ 3,438,461	\$ 1,681,454	\$ 602,690	\$ 13,597	\$ 2,339	\$ 40,320	\$ 6,971	\$ 5,785,832
Global Custody, Fees	1,207,092	1,691,404	824,752	—	—	101,169	21,436	3,845,853
Total Investment Expense	\$ 4,645,553	\$ 3,372,858	\$ 1,427,442	\$ 13,597	\$ 2,339	\$ 141,489	\$ 28,407	\$ 9,631,685

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Schedule of Expenses for Consultants

Year Ended June 30, 2001

	PERS	TPAF	PFRS	CPFPF	POPF	SPRS	JRS	TOTAL
Actuarial								
Buck Consultants	\$ 515,284	—	\$ 245,974	\$ 5,268	\$ 1,316	\$ 24,322	\$ 3,069	\$ 795,233
Miliman & Robertson	—	150,404	—	—	—	—	—	150,404
Exams/Hearings	187,344	33,351	107,514	—	—	4,575	—	332,784
Death Matching Services								
Pension Benefit Info	2,428	1,172	431	13	2	29	5	4,080
Unemployment Contract								
Gates McDonald	26,506	12,717	4,680	—	—	319	58	44,280
Elections								
Corporate Marketing	100,128	—	—	—	—	—	—	100,128
Total Expenses for Consultants	\$ 831,690	\$ 197,644	\$ 358,599	\$ 5,281	\$ 1,318	\$ 29,245	\$ 3,132	\$ 1,426,909



**STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS**

Combining Balance Sheet

Special Revenue Funds

June 30, 2001

	HEALTH BENEFITS PROGRAM FUND STATE	DENTAL EXPENSE PROGRAM FUND	PRESCRIPTION DRUG PROGRAM FUND STATE	TOTAL
Assets				
Cash and cash equivalents	\$ —	—	—	\$ —
Investments, at fair value:				
U.S. Treasury notes	—	—	—	—
Cash Management Fund	46,127,438	12,225,556	2,697,015	61,050,009
Total investments	46,127,438	12,225,556	2,697,015	61,050,009
Receivables:				
Other	4,520,852	230,107	27,105	4,778,064
Due from other funds	35,599,885	4,236,659	11,737,887	51,574,431
Total receivables	40,120,737	4,466,766	11,764,992	56,352,495
Total assets	86,248,175	16,692,322	14,462,007	117,402,504
Liabilities and fund balances				
Liabilities:				
Accounts payable and accrued expenses	31,863,784	4,453,774	9,330,000	45,647,558
Deferred revenue	915	—	—	915
Due to other funds	153,770	8,058	250,204	412,032
Total liabilities	32,018,469	4,461,832	9,580,204	46,060,505
Fund balances:				
Reserved	54,229,706	12,230,490	4,881,803	71,341,999
Total liabilities and fund balances	\$ 86,248,175	16,692,322	14,462,007	\$ 117,402,504

See accompanying notes to financial statements.



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Special Revenue Funds
Year Ended June 30, 2001

	HEALTH BENEFITS PROGRAM FUND STATE	DENTAL EXPENSE PROGRAM FUND	PRESCRIPTION DRUG PROGRAM FUND STATE	TOTAL
Revenues:				
Contributions:				
Members	\$ 58,217,339	28,065,508	880,398	\$ 87,163,245
Employers	550,562,673	26,957,864	147,186,668	724,707,205
Total contributions	608,780,012	55,023,372	148,067,066	811,870,450
Investment income:				
Net appreciation (depreciation) in fair value of investments	27,101	4,847	1,519	33,467
Interest	5,339,545	593,486	624,328	6,557,359
Total investment income	5,366,646	598,333	625,847	6,590,826
Total revenues	614,146,658	55,621,705	148,692,913	818,461,276
Expenditures:				
Benefits	565,896,393	47,649,172	142,246,783	755,792,348
Administrative expense	2,048,841	2,024,185	—	4,073,026
Total expenditures	567,945,234	49,673,357	142,246,783	759,865,374
Net increase (decrease)	46,201,424	5,948,348	6,446,130	58,595,902
Fund balances (deficit):				
Beginning of year	8,028,282	6,282,142	(1,564,327)	12,746,097
End of year	\$ 54,229,706	12,230,490	4,881,803	\$ 71,341,999

See accompanying notes to financial statements.



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Combining Balance Sheet

Enterprise Funds

June 30, 2001

	HEALTH BENEFITS PROGRAM FUND LOCAL	PRESCRIPTION DRUG PROGRAM FUND LOCAL	TOTAL
Assets			
Cash and cash equivalents	\$ 1,760,725	—	\$ 1,760,725
Investments, at fair value:			
Cash Management Fund	123,509,929	1,917,451	125,427,380
Total investments	123,509,929	1,917,451	125,427,380
Receivables:			
Other	50,832,519	2,100,596	52,933,115
Due from other funds	7,605,433	—	7,605,433
Total receivables	58,437,952	2,100,596	60,538,548
Total assets	183,708,606	4,018,047	187,726,653
Liabilities and fund equity			
Liabilities:			
Accounts payable and accrued expenses	185,526,140	2,245,015	187,771,155
Due to other funds	358,796	—	358,796
Total liabilities	185,884,936	2,245,015	188,129,951
Fund equity:			
Retained earnings (deficit)	(2,176,330)	1,773,032	(403,298)
Total liabilities and fund equity	\$ 183,708,606	4,018,047	\$ 187,726,653



**STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS**

Combining Statement of Revenues, Expenses, and Changes in Retained Earnings
Enterprise Funds
Year Ended June 30, 2001

	HEALTH BENEFITS PROGRAM FUND LOCAL	PRESCRIPTION DRUG PROGRAM FUND LOCAL	TOTAL
Revenues:			
Contributions:			
Members	\$ 53,823,657	193,279	\$ 54,016,936
Employers	889,167,268	29,161,445	918,328,713
Total revenues	942,990,925	29,354,724	972,345,649
Expenses:			
Benefits	1,001,997,519	27,381,064	1,029,378,583
Administrative expense	4,718,163	—	4,718,163
Total expenses	1,006,715,682	27,381,064	1,034,096,746
Operating income (loss)	(63,724,757)	1,973,660	(61,751,097)
Non operating revenue:			
Investment income:			
Net appreciation (depreciation) in fair value of investments	40,153	311	40,464
Interest	8,471,142	127,874	8,599,016
Total non-operating revenue	8,511,295	128,185	8,639,480
Net income (loss)	(55,213,462)	2,101,845	(53,111,617)
Retained earnings (deficit):			
Beginning of year	53,037,132	(328,813)	52,708,319
End of year	\$ (2,176,330)	1,773,032	\$ (403,298)

See accompanying notes to financial statements.



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Combining Statement of Cash Flows

Enterprise Funds

Year Ended June 30, 2001

	HEALTH BENEFITS PROGRAM FUND LOCAL	PRESCRIPTION DRUG PROGRAM FUND LOCAL	TOTALS
Cash flows from operating activities:			
Operating income (loss)	\$ (63,724,757)	1,973,660	\$ (61,751,097)
Adjustments to reconcile operating loss to net cash used by operating activities:			
Change in assets and liabilities:			
Increase in accounts receivable	(9,984,286)	(1,620,559)	(11,604,845)
Increase in interfund receivable	(7,382,148)	—	(7,382,148)
Increase in accounts payable	32,618,215	878,015	33,496,230
Increase in due to other funds	358,796	—	358,796
Net cash used by operating activities	(48,114,180)	1,231,116	(46,883,064)
Cash flows from noncapital financing activities:			
Investment income	8,511,295	128,185	8,639,480
(increase) decrease in investments	41,363,610	(1,377,611)	39,985,999
Net cash provided by noncapital financing activities	49,874,905	(1,249,426)	48,625,479
Net increase (decrease) in cash and cash equivalents	1,760,725	(18,310)	1,742,415
Cash and cash equivalents beginning of year	—	18,310	18,310
Cash and cash equivalents end of year	\$ 1,760,725	—	\$ 1,760,725

See accompanying notes to financial statements.



**STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS**

Combining Balance Sheet

Expendable Trust Funds

June 30, 2001

	STATE OF NEW JERSEY EMPLOYEES' DEFERRED COMPENSATION PLAN	ALTERNATE BENEFIT LONG TERM DISABILITY FUND	TOTAL
Assets			
Cash and cash equivalents	\$ 126,512	—	\$ 126,512
Investments, at fair value:			
U.S. Treasury notes	118,477,288	—	118,477,288
Other notes	40,899,100	—	40,899,100
Common and preferred stocks	756,326,387	—	756,326,387
State of New Jersey Cash Management Fund	186,924,378	3,373,969	190,298,347
Total investments	1,102,627,153	3,373,969	1,106,001,122
Receivables:			
Other	3,177,114	—	3,177,114
Due from other funds	—	—	—
Total receivables	3,177,114	—	3,177,114
Total assets	1,105,930,779	3,373,969	1,109,304,748
Liabilities and fund balances			
Liabilities:			
Accounts payable and accrued expenses	846,944	—	846,944
Participant distributions payable	3,669,669	—	3,669,669
Deferred revenue	—	—	—
Due to other funds	—	—	—
Total liabilities	4,516,613	—	4,516,613
Fund balances:			
Reserved	1,101,414,166	3,373,969	1,104,788,135
Total liabilities and fund balances	\$ 1,105,930,779	3,373,969	\$ 1,109,304,748



**STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS**

Combining Statement of Changes in Revenues, Expenditures, and Changes in Fund Balances
Expendable Trust Funds
Year Ended June 30, 2001

	STATE OF NEW JERSEY EMPLOYEES' DEFERRED COMPENSATION PLAN	ALTERNATE BENEFIT LONG TERM DISABILITY FUND	TOTAL
Revenues:			
Contributions:			
Members	\$ 111,782,107	—	\$ 111,782,107
Employers	—	1,250,000	1,250,000
Total contributions	111,782,107	1,250,000	113,032,107
Investment income:			
Net appreciation/(depreciation) in fair value of investments	(129,886,198)	1,606	(129,884,592)
Interest	18,480,417	259,018	18,739,435
Dividends	8,346,807	—	8,346,807
	(103,058,974)	260,624	(102,798,350)
Less investment expense	147,596	—	147,596
Net investment income	(103,206,570)	260,624	(102,945,946)
Total revenues	8,575,537	1,510,624	10,086,161
Expenditures:			
Benefits	43,063,635	1,312,378	44,376,013
Administrative expense	731,027	—	731,027
Total expenditures	43,794,662	1,312,378	45,107,040
Net increase (decrease)	(35,219,125)	198,246	(35,020,879)
Fund balances:			
Beginning of year	1,136,633,291	3,175,723	1,139,809,014
End of year	\$ 1,101,414,166	3,373,969	\$ 1,104,788,135



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Combining Balance Sheet

Agency Funds

June 30, 2001

	ALTERNATE BENEFIT PROGRAM FUND	PENSION ADJUSTMENT FUND	TOTAL
Assets			
Cash and cash equivalents	\$ 324,624	49,646	\$ 374,270
Investments, at fair value:			
Cash Management Fund	12,101,225	4,366,819	16,468,044
Total investments	12,101,225	4,366,819	16,468,044
Receivables:			
State related employer contributions	—	3,248,356	3,248,356
Other	31,043	—	31,043
Due from other funds	11,384	26,812	38,196
Total receivables	42,427	3,275,168	3,317,595
Total assets	12,468,276	7,691,633	20,159,909
Liabilities			
Accounts payable and accrued expenses	9,355,751	—	9,355,751
Assets held for state-related employers	—	3,888,011	3,888,011
Pension adjustment payroll payable	—	1,019,417	1,019,417
Due to State of New Jersey	3,112,525	588,951	3,701,476
Due to other funds	—	2,195,254	2,195,254
Total liabilities	\$ 12,468,276	7,691,633	\$ 20,159,909



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Combining Statement of Changes in Assets and Liabilities

Agency Funds

Year Ended June 30, 2001

ALTERNATE BENEFIT PROGRAM FUND

	BALANCE JULY 1, 2000	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2001
Assets				
Cash and cash equivalents	\$ 25,641	1,846,065	1,547,082	\$ 324,624
Investments, at fair value:				
Cash Management Fund	5,680,302	118,411,594	111,990,671	12,101,225
Total investments	5,680,302	118,411,594	111,990,671	12,101,225
Receivables:				
Other	22,530	71,195	62,682	31,043
Due from State of New Jersey	7,120,952	11,383	7,120,951	11,384
Total receivables	7,143,482	82,578	7,183,633	42,427
Total assets	12,849,425	120,340,237	120,721,386	12,468,276
Liabilities				
Accounts payable	11,411,106	10,041,130	12,096,485	9,355,751
Due to State of New Jersey	1,438,319	3,113,767	1,439,561	3,112,525
Total liabilities	\$ 12,849,425	13,154,897	13,536,046	\$ 12,468,276

See page 87.



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Combining Statement of Changes in Assets and Liabilities
Agency Funds
Year Ended June 30, 2001

PENSION ADJUSTMENT FUND

	BALANCE JULY 1, 2000	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2001
Assets				
Cash and cash equivalents	\$ 27,602	14,985,977	14,963,933	\$ 49,646
Investments, at fair value:				
Cash Management Fund	4,686,773	16,495,369	16,815,323	4,366,819
Total investments	4,686,773	16,495,369	16,815,323	4,366,819
Receivables:				
State related employer contributions	3,648,270	15,509,574	15,909,488	3,248,356
Due from other funds	16,580	185,851	175,619	26,812
Total receivables	3,664,850	15,695,425	16,085,107	3,275,168
Total assets	8,379,225	47,176,771	47,864,363	7,691,633
Liabilities				
Assets held for state-related employers	4,486,157	—	598,146	3,888,011
Pension adjustment payroll payable	1,093,827	13,079,337	13,153,747	1,019,417
Due to State of New Jersey	571,144	588,951	571,144	588,951
Due to other funds	2,228,097	13,011,978	13,044,821	2,195,254
Total liabilities	\$ 8,379,225	26,680,266	27,367,858	\$ 7,691,633

See page 87.



STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Combining Statement of Changes in Assets and Liabilities
Agency Funds
Year Ended June 30, 2001

	BALANCE JULY 1, 2000	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2001
Assets				
Cash and cash equivalents	\$ 53,243	16,832,042	16,511,015	\$ 374,270
Investments, at fair value:				
Cash Management Fund	10,367,075	134,906,963	128,805,994	16,468,044
Total investments	10,367,075	134,906,963	128,805,994	16,468,044
Receivables:				
State related employer contributions	3,648,270	15,509,574	15,909,488	3,248,356
Other	22,530	71,195	62,682	31,043
Due from other funds	7,137,532	197,234	7,296,570	38,196
Total receivables	10,808,332	15,778,003	23,268,740	3,317,595
Total assets	21,228,650	167,517,008	168,585,749	20,159,909
Liabilities				
Accounts payable and accrued expenses	11,411,106	10,041,130	12,096,485	9,355,751
Assets held for state-related employers	4,486,157	—	598,146	3,888,011
Pension adjustment payroll payable	1,093,827	13,079,337	13,153,747	1,019,417
Due to State of New Jersey	2,009,463	3,702,718	2,010,705	3,701,476
Due to other funds	2,228,097	13,011,978	13,044,821	2,195,254
Total liabilities	\$ 21,228,650	39,835,163	40,903,904	\$ 20,159,909

See pages 85 and 86.



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