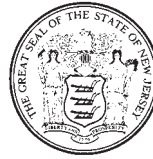


DEPARTMENT OF
THE TREASURY
Peter R. Lawrance
Acting State Treasurer

DIVISION OF PENSIONS
AND BENEFITS
Thomas P. Bryan
Director

PRISON OFFICERS'
PENSION FUND
OF NEW JERSEY
BUCK CONSULTANTS, INC.
Actuaries and Consultants



State of New Jersey
DIVISION OF PENSIONS AND BENEFITS
PO Box 295 • Trenton, NJ 08625-0295

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


Dear Acting Governor DiFrancesco:

The Division of Pensions and Benefits is pleased to present the
Fiscal Year 2001 Annual Report of the

PRISON OFFICERS' PENSION FUND

in accordance with the provisions of N.J.S.A. 43:7-22.

Respectfully submitted,


THOMAS P. BRYAN
Director

SIGNIFICANT LEGISLATION

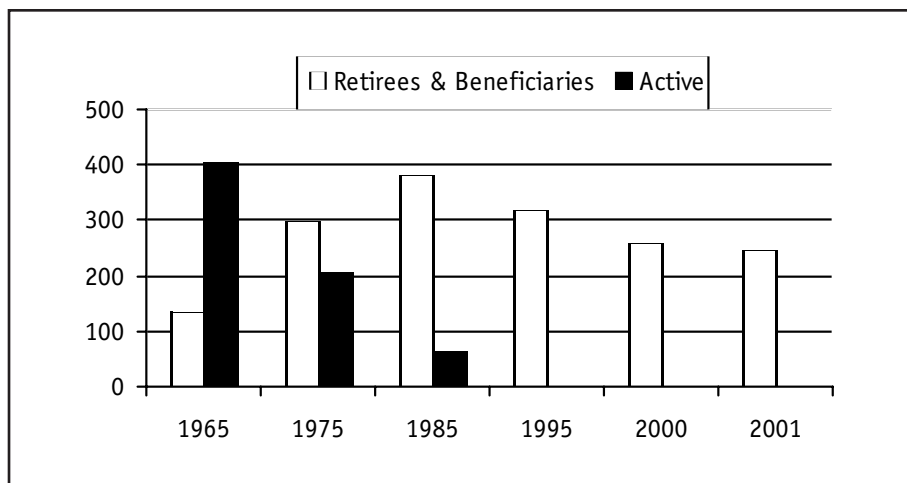
CHAPTER 5, PUBLIC LAW OF 2001

This law revises New Jersey's "Administrative Procedure Act" (APA) to enhance access to the rule-making process. The provisions of the law include additional requirements for agencies involved in the rule-making process. These include the publication of a quarterly calendar of anticipated rule-making activities for the next six months, or in the absence of a calendar, a 60 day comment period instead of 30 days as well as a new "standard of clarity." The new law also requires four forms of notice of proposed rule-making, instead of two. These include a 30-day notice to the news media covering the State House Complex, an electronic notification through the Internet, publication in the New Jersey Register, and one additional means of notification such as an agency newsletter or direct mailing to interested parties.

This law was approved on January 16, 2001 and was effective on July 1, 2001.

MEMBERSHIP

- As of June 30, 2001, the active contributing membership of the system totaled zero.
- There were 247 retirees and beneficiaries receiving annual pensions totaling \$3,175,985.
- The Fund's assets totaled \$18,560,945 at the close of the fiscal year 2001.



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

Independent Auditors' Report

The Commission
State of New Jersey
Prison Officers' Pension Fund:

We have audited the accompanying statements of plan net assets of the State of New Jersey Prison Officers' Pension Fund as of June 30, 2001 and 2000, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the State of New Jersey Prison Officers' Pension Fund as of June 30, 2001 and 2000, and the changes in its plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The supplementary information included in the schedule of funding progress and schedule of employer contributions is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The schedule of changes in plan net assets by fund is presented for purposes of additional analysis and is not a required part of the financial statements of the State of New Jersey Prison Officers' Pension Fund. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

KPMG LLP

September 7, 2001

**STATE OF NEW JERSEY
PRISON OFFICERS' PENSION FUND**

Statements of Plan Net Assets

June 30, 2001 and 2000

	2001	2000
Assets:		
Cash	\$ 324,772	\$ 454,254
Investments, at fair value:		
Bonds	7,400,860	—
Mortgages	6,184,626	—
Cash Management Fund	4,455,798	17,911,929
Total investments	18,041,284	17,911,929
Receivables:		
Other	194,889	200,447
Total receivables	194,889	200,447
Total assets	18,560,945	18,566,630
Liabilities:		
Accounts payable and accrued expenses	1,243	1,539
Retirement benefits payable	289,803	296,602
Total liabilities	291,046	298,141
Net assets held in trust for pension benefits	\$ 18,269,899	\$ 18,268,489

See schedule of funding progress on page 9.

See accompanying notes to financial statements.

**STATE OF NEW JERSEY
PRISON OFFICERS' PENSION FUND**

Statements of Changes in Plan Net Assets
Years ended June 30, 2001 and 2000

	2001	2000
Revenues and additions:		
Contributions:		
Pension Adjustment Fund	\$ 1,401,416	\$ 1,422,687
Total contributions	1,401,416	1,422,687
Investment income:		
Net appreciation (depreciation) in fair value of investments	651,753	(116,937)
Interest	1,143,571	1,131,860
	1,795,324	1,014,923
Less investment expense	2,339	2,792
Net investment income	1,792,985	1,012,131
Total revenues and additions	3,194,401	2,434,818
Expenditures and deductions:		
Benefits	3,175,985	3,285,303
Administrative expenses	17,006	18,945
Total expenditures and deductions	3,192,991	3,304,248
Net increase (decrease)	1,410	(869,430)
Net assets held in trust for pension benefits:		
Beginning of year	18,268,489	19,137,919
End of year	\$ 18,269,899	\$ 18,268,489

See accompanying notes to financial statements.

**STATE OF NEW JERSEY
PRISON OFFICERS' PENSION FUND**

Notes to Financial Statements

June 30, 2001 and 2000

(1) DESCRIPTION OF THE FUND

The Prison Officers' Pension Fund of New Jersey (the Fund) is a single-employer contributory defined benefit plan which was established as of January 1, 1941, under the provisions of N.J.S.A. 43:7 and closed to new members in January 1960. The Fund is included along with other state-administered pension trust and agency funds in the general purpose financial statements of the State of New Jersey.

The Fund's designated purpose is to provide retirement, death and disability benefits to its members. Membership in the Fund is limited to various employees in the state penal institutions who were appointed prior to January 1, 1960. There are no active members and 258 pensioners and beneficiaries are receiving benefits as of June 30, 2000, the date of the most recent actuarial valuation. As of July 1, 1999, there were no active members and 268 pensioners and beneficiaries receiving benefits. The Fund's Board of Trustees is primarily responsible for its administration.

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

Vesting and Benefit Provisions

The vesting and benefit provisions are set by N.J.S.A. 43:7. 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.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Fund are prepared on the accrual basis of accounting and conform to the provisions of Governmental Accounting Standards Board (GASB) Statement No. 25, "Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contribution Plans". Plan assets and liabilities are recorded at fair value. Employer contributions are recognized when payable to the Fund. Benefits and refunds are recognized when due and payable in accordance with the terms of the Fund.

Investment Valuation

State of New Jersey Cash Management Fund units are stated at fair value. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments.

**STATE OF NEW JERSEY
PRISON OFFICERS' PENSION FUND**

Notes to Financial Statements, Continued

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

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

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

No investments held by the Fund are subject to GASB Statement No. 3, which requires that investments be categorized to indicate the level of risk assumed by the Fund.

Administrative Expenses

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

Cash and Cash Equivalents

GASB Statement No. 3 also requires that deposits held in financial institutions be categorized to indicate the level of risk assumed by the entity. Category 1 consists of deposits that are insured or collateralized with securities held by the entity or by its agent in the entity's name. Category 2 consists of deposits collateralized with securities held by the pledging financial institutions trust department or agent in the entity's name. Category 3 consists of deposits which are 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

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 were based on 6% of their salary. The State of New Jersey, the only contributing employer of the Fund, is required to contribute at an actuarially determined rate.

STATE OF NEW JERSEY
PRISON OFFICERS' PENSION FUND
Notes to Financial Statements, Continued

(4) RESERVES

This Fund maintains the following legally required reserve, which is fully funded:

Retirement Reserve Fund (2001 - \$18,269,899; 2000 - \$18,268,489)

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

(5) INCOME TAX STATUS

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

STATE OF NEW JERSEY
PRISON OFFICERS' PENSION FUND
 Required Supplementary Information
 Schedule of Funding Progress

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS (a)	ACTUARIAL ACCRUED LIABILITY (b)	UNFUNDED (OVERFUNDED) ACTUARIAL ACCRUED LIABILITY (b - a)	FUNDED RATIO (a / b)	COVERED PAYROLL (c)	UNFUNDED (OVERFUNDED) ACTUARIAL ACCRUED LIABILITY AS A PERCENTAGE OF COVERED PAYROLL ((b - a) / c)
June 30, 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
PRISON OFFICERS' PENSION FUND**

Required Supplementary Information, Continued
Schedule of Funding Progress - Additional Actuarial Information

Significant actuarial methods and assumptions used in the most recent June 30, 2000 and 1999 actuarial valuations included the following:

	June 30, 2000	June 30, 1999
Actuarial cost method	Projected unit credit	Projected unit credit
Asset valuation method	Market value	Market value
Amortization method	Level dollar, closed	Level dollar, closed
Remaining amortization period	2 years	3 years
Actuarial assumptions:		
Interest rate	5.00%	5.00%

STATE OF NEW JERSEY
PRISON OFFICERS' PENSION FUND
 Required Supplementary Information, Continued
 Schedule of Employer Contributions

YEAR ENDED JUNE 30,	ANNUAL REQUIRED CONTRIBUTION	EMPLOYER CONTRIBUTIONS ⁽¹⁾	PERCENTAGE CONTRIBUTED
1997	\$ 2,949,604	\$ 21,688,219 ⁽¹⁾	735.3%
1998	—	—	N/A
1999	—	—	N/A
2000	—	—	N/A
2001	—	—	N/A

Note to Schedule:

- (1) 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 1998 through 2001, contributions were not required.

**STATE OF NEW JERSEY
PRISON OFFICERS' PENSION FUND**

Schedule of Changes in Plan Net Assets by Fund

Year ended June 30, 2001

	RETIREMENT RESERVE FUND	PENSION ADJUSTMENT PASS THROUGH	TOTAL
Additions:			
Contributions:			
Pension Adjustment Fund	\$ —	1,401,416	\$ 1,401,416
Total contributions	—	1,401,416	1,401,416
Distribution of net investment income	1,792,985	—	1,792,985
Total additions	1,792,985	1,401,416	3,194,401
Deductions:			
Benefits	1,774,569	1,401,416	3,175,985
Administrative expenses	17,006	—	17,006
Total deductions	1,791,575	1,401,416	3,192,991
Net increase	1,410	—	1,410
Net assets held in trust for pension benefits:			
Beginning of year	18,268,489	—	18,268,489
End of year	\$ 18,269,899	—	\$ 18,269,899