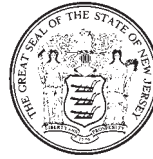


DEPARTMENT OF
THE TREASURY
John E. McCormac, CPA
State Treasurer

DIVISION OF PENSIONS
AND BENEFITS
Frederick J. Beavaer
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
JAMES E. MCGREEVEY
GOVERNOR of the STATE OF NEW JERSEY

Dear Governor McGreevey:

The Division of Pensions and Benefits is pleased to present the
Fiscal Year 2002 Annual Report of the

PRISON OFFICERS' PENSION FUND

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

Respectfully submitted,

A handwritten signature in cursive script that reads "Frederick J. Beavaer".

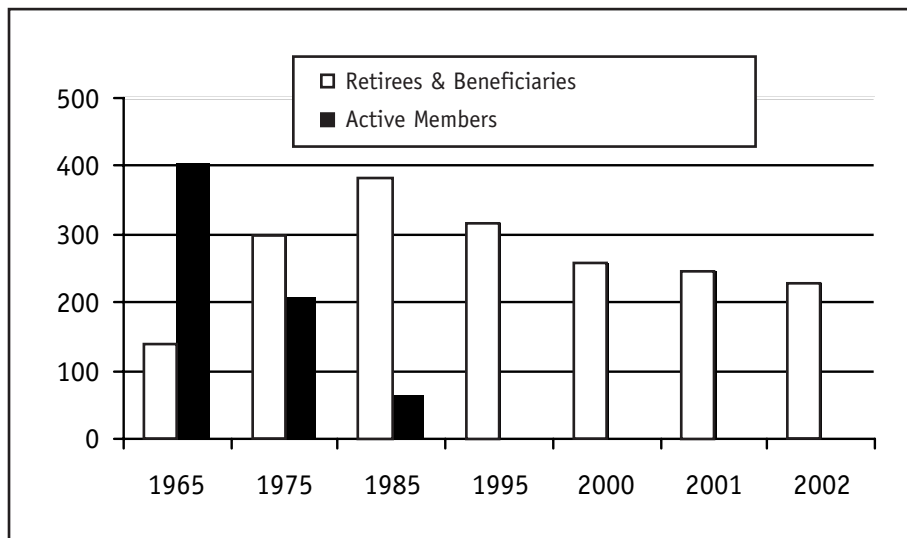
FREDERICK J. BEAVER
Director

SIGNIFICANT LEGISLATION

There were no significant changes in legislation governing the Prison Officers' Pension Fund of New Jersey during fiscal year 2002.

MEMBERSHIP

- As of June 30, 2002, the active contributing membership of the Fund totaled zero.
- There were 230 retirees and beneficiaries receiving annual pensions totaling \$1,641,736.
- The Fund's assets totaled \$18,163,535 at the close of the fiscal year 2002.



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

Independent Auditors' Report

The Commission
State of New Jersey

Prison Officers' Pension Fund:

We have audited the accompanying statements of fiduciary net assets of the State of New Jersey Prison Officers' Pension Fund (the Fund) as of June 30, 2002 and 2001, and the related statements of changes in fiduciary net assets for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State of New Jersey Prison Officers' Pension Fund as of June 30, 2002 and 2001, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The schedule of changes in fiduciary net assets by fund is presented for purposes of additional analysis and is not a required part of the financial statements of the Fund. Such information has been subjected to the auditing procedures applied in the 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 6, 2002

MANAGEMENT'S DISCUSSION AND ANALYSIS

Prison Officers' Pension Fund

June 30, 2002 and 2001

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

FINANCIAL HIGHLIGHTS

- Net assets held in trust for pension benefits decreased by \$361,447 as a result of this year's operations from \$18,269,899 to \$17,908,452.
- Additions for the year were \$2,641,594, which are comprised of net investment income of \$1,292,601 and contributions for pension adjustment benefits of \$1,348,993.
- Deductions for the year were \$3,003,041, which are comprised of benefit payments of \$2,990,730 and administrative expenses of \$12,311.

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

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

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

FINANCIAL ANALYSIS

STATEMENTS OF FIDUCIARY NET ASSETS

The Fund's assets mainly consist of cash and investments. Between fiscal year 2001 and 2002, total assets decreased by \$397,411 or 2.1% from \$18,560,945 to \$18,163,534.

Liabilities mainly consist of pension and death benefit payments owed to retirees and beneficiaries. Total liabilities decreased by \$35,964 or 12.4% from \$291,046 to \$255,082 mainly due to a reduction in the monthly payroll expense. Fewer retiree and beneficiaries are receiving benefits compared to last year.

Net assets held in trust for pension benefits decreased by \$361,447 or 2.0%. This reduction is due to retirement benefit payments exceeding the net investment gains.

STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS

ADDITIONS TO FIDUCIARY NET ASSETS

	2002	2001	Increase(Decrease)
Employer & Pension Adj. Fund	\$ 1,348,993	\$ 1,401,416	\$ (52,423)
Investment & Other	1,292,601	1,792,985	(500,384)
Totals	\$ 2,641,594	\$ 3,194,401	\$ (552,807)

Additions consist of contributions from the Pension Adjustment Fund to cover cost-of-living benefits and earnings from investment activities. Contributions decreased slightly compared to the prior year. Investment earnings decreased by \$500,384 or 27.9% due to the poor market conditions.

This year is the fifth consecutive year that the State has not made a contribution to the Fund. Contributions have not been required due to Pension Security legislation passed in 1997. This legislation authorized the New Jersey Economic Development Authority to issue bonds and to use the proceeds from the bond sale to eliminate the State's portion of the unfunded accrued liabilities of the retirement systems. The Fund received bond proceeds of \$18,879,072 in 1997. This influx of funds eliminated the unfunded liabilities and produced fiduciary net assets. As of July 1, 2001, the date of the most recent actuarial valuation, the actuarial value of the Fund's assets exceeds the projected value of accrued liabilities by \$5,275,332.

DEDUCTIONS FROM FIDUCIARY NET ASSETS

	2002	2001	Increase(Decrease)
Benefits	\$ 2,990,730	\$ 3,175,985	\$ (185,255)
Administrative Expenses	12,311	17,006	(4,695)
Totals	\$ 3,003,041	\$ 3,192,991	\$ (189,950)

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

RETIREMENT SYSTEM AS A WHOLE

The overall funded ratio of 140.6% indicates that the Fund has assets sufficient to meet its benefit obligations now and in the future.

CONTACTING SYSTEM FINANCIAL MANAGEMENT

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

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

Statements of Fiduciary Net Assets

June 30, 2002 and 2001

	2002	2001
Assets:		
Cash	\$ 42,332	324,772
Investments, at fair value:		
Bonds	7,629,700	7,400,860
Mortgages	4,844,551	6,184,626
Cash Management Fund	5,352,431	4,455,798
Total investments	17,826,682	18,041,284
Receivables:		
Other	294,520	194,889
Total receivables	294,520	194,889
Total assets	18,163,534	18,560,945
Liabilities:		
Accounts payable and accrued expenses	1,445	1,243
Retirement benefits payable	253,637	289,803
Total liabilities	255,082	291,046
Net assets:		
Held in trust for pension benefits	\$17,908,452	18,269,899

See schedule of funding progress on page 11.

See accompanying notes to financial statements.

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

Statements of Changes in Fiduciary Net Assets
Years ended June 30, 2002 and 2001

	2002	2001
Additions:		
Contributions:		
Pension Adjustment Fund	\$ 1,348,993	1,401,416
Total contributions	1,348,993	1,401,416
Investment income:		
Net appreciation (depreciation) in fair value of investments	354,049	651,753
Interest	940,850	1,143,571
	1,294,899	1,795,324
Less investment expense	2,298	2,339
Net investment income	1,292,601	1,792,985
Total additions	2,641,594	3,194,401
Deductions:		
Benefits	2,990,730	3,175,985
Administrative expenses	12,311	17,006
Total deductions	3,003,041	3,192,991
Change in net assets	(361,447)	1,410
Net assets - Beginning of year	18,269,899	18,268,489
Net assets - End of year	\$ 17,908,452	18,269,899

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2002 and 2001

(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 basic financial statements of the State of New Jersey.

The Fund's designated purpose is to provide retirement, death and disability benefits to its members. Membership in the Fund is limited to various employees in the state penal institutions who were appointed prior to January 1, 1960. There are no active members and 249 pensioners and beneficiaries are receiving benefits as of June 30, 2001, the date of the most recent actuarial valuation. As of July 1, 2000, there were no active members and 258 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

Measurement Focus and Basis of Accounting:

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

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

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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

to the Fund. Benefits and refunds are recognized when payable in accordance with the terms of the Fund.

New Accounting Standards Adopted:

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

Statement No. 34 *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*

Statement No. 37 *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*

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

Investment Valuation:

State of New Jersey Cash Management Fund units and bonds 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.

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 fiduciary net assets.

Cash and Cash Equivalents:

GASB Statement No. 3 also requires that deposits held in financial institutions be categorized to indicate

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

Notes to Financial Statements, Continued

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

the level of risk assumed by the entity. Category 1 consists of deposits that are insured or collateralized with securities held by the entity or by its agent in the entity's name. Category 2 consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name. Category 3 consists of deposits which are uninsured and uncollateralized.

Based upon aggregate collateral levels maintained for all state bank accounts as a whole, substantially all cash balances maintained in financial institutions as of June 30, 2002, which include funding for the July 1, 2002 retirement payroll, are designated Category 3.

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

(3) CONTRIBUTIONS

The contribution policy is set by N.J.S.A. 43:7 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.

(4) FUNDS

This Fund maintains the following legally required fund:

Retirement Reserve Fund (2002 - \$17,908,452; 2001 - \$18,269,899)

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, 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
June 30, 2001	18,269,899	12,994,567	(5,275,332)	140.6%	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, 2001 and 2000 actuarial valuations included the following:

	June 30, 2001	June 30, 2000
Actuarial cost method	Projected unit credit	Projected unit credit
Asset valuation method	Market value	Market value
Amortization method	Level dollar, closed	Level dollar, closed
Remaining amortization period	1 year	2 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	PERCENTAGE CONTRIBUTED
1997	\$ 2,949,604	\$ 21,688,219 ⁽¹⁾	735.3%
1998	—	—	N/A
1999	—	—	N/A
2000	—	—	N/A
2001	—	—	N/A
2002	—	—	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 2002, contributions were not required.

STATE OF NEW JERSEY
PRISON OFFICERS' PENSION FUND

Schedule of Changes in Fiduciary Net Assets by Fund
Year ended June 30, 2002

	RETIREMENT RESERVE FUND	PENSION ADJUSTMENT PASS THROUGH	TOTAL
Additions:			
Contributions:			
Pension Adjustment Fund	\$ —	1,348,993	1,348,993
Total contributions	—	1,348,993	1,348,993
Distribution of net investment income	1,292,601	—	1,292,601
Total additions	1,292,601	1,348,993	2,641,594
Deductions:			
Benefits	1,641,737	1,348,993	2,990,730
Administrative expenses	12,311	—	12,311
Total deductions	1,654,048	1,348,993	3,003,041
Net decrease	(361,447)	—	(361,447)
Net assets held in trust for pension benefits:			
Beginning of year	18,269,899	—	18,269,899
End of year	\$ 17,908,452	—	17,908,452

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