



**STATE OF NEW JERSEY
SUPPLEMENTAL ANNUITY COLLECTIVE TRUST**

Financial Statements

June 30, 2007 and 2006

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 402
301 Carnegie Center
Princeton, NJ 08540-6227

Independent Auditors' Report

The Council
Supplemental Annuity Collective
Trust of New Jersey:

We have audited the accompanying statements of fiduciary net assets of the State of New Jersey Supplemental Annuity Collective Trust (the Trust) as of June 30, 2007 and 2006, and the related statements of changes in fiduciary net assets for the years then ended. These financial statements are the responsibility of the Trust'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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control over financial reporting. Accordingly, we express no such opinion. 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 Supplemental Annuity Collective Trust as of June 30, 2007 and 2006, and the changes in its financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

February 29, 2008

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Management's Discussion and Analysis

June 30, 2007 and 2006

Our discussion and analysis of the financial performance Supplemental Annuity Collective Trust (the Trust) provides an overview of the Trust's financial activities for the fiscal years ended June 30, 2007 and 2006. Please read it in conjunction with the basic financial statements and financial statement footnotes, which follow this discussion.

Financial Highlights

2007 – 2006

- Fiduciary net assets increased by \$19,657,824 as a result of fiscal year 2007's operations from \$161,572,826 to \$181,230,650
- Additions for the year are \$40,328,539, which are comprised of member contributions of \$7,764,788 and investment revenues of \$32,563,751.
- Deductions for the year are \$20,670,715, which are comprised entirely of benefit payments.

2006 – 2005

- Fiduciary net assets increased by \$10,495,632 as a result of fiscal year 2006's operations from \$151,077,194 to \$161,572,826.
- Additions for the year were \$23,673,962, which are comprised of member contributions of \$7,601,807 and investment revenues of \$16,072,155.
- Deductions for the year were \$13,178,330, which are comprised entirely of benefit payments.

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 Trust and about its activities to help you assess whether the Trust, 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 Trust at the end of the fiscal year. The difference between assets and liabilities represents the Trust's fiduciary net assets. Over time, increases or decreases in the Trust's fiduciary net assets provide one indication of whether the financial health of the Trust 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 Trust'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 and the included supplementary schedule, to determine whether the Trust is becoming financially stronger or weaker.

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Management's Discussion and Analysis

June 30, 2007 and 2006

Financial Analysis

Summary of Fiduciary Net Assets

2007 – 2006

	<u>2007</u>	<u>2006</u>	<u>Increase</u>
Assets	\$ 184,554,581	162,574,240	21,980,341
Liabilities	<u>3,323,931</u>	<u>1,001,414</u>	<u>2,322,517</u>
Net assets	<u>\$ 181,230,650</u>	<u>161,572,826</u>	<u>19,657,824</u>

Total assets increased by \$22.0 million or 13.5% between fiscal years 2006 and 2007 primarily due to the growth in the fair value of investments.

Total liabilities increased by \$2.3 million or 231.9% due to an increase in benefits payable and cash overdraft liabilities.

Net assets increased by \$19.7 million or 12.2%.

2006 – 2005

	<u>2006</u>	<u>2005</u>	<u>Increase (decrease)</u>
Assets	\$ 162,574,240	152,933,129	9,641,111
Liabilities	<u>1,001,414</u>	<u>1,855,935</u>	<u>(854,521)</u>
Net assets	<u>\$ 161,572,826</u>	<u>151,077,194</u>	<u>10,495,632</u>

Total assets increased by \$9.6 million or 6.3% between fiscal years 2005 and 2006 primarily due to the growth in the fair value of investments.

Total liabilities decreased by \$0.9 million or 46.0% primarily due to a decrease in benefits payable.

Net assets increased by \$10.5 million or 7.0%.

Summary of Additions to Fiduciary Net Assets

2007 – 2006

	<u>2007</u>	<u>2006</u>	<u>Increase</u>
Member contributions	\$ 7,764,788	7,601,807	162,981
Investment income	<u>32,563,751</u>	<u>16,072,155</u>	<u>16,491,596</u>
Totals	<u>\$ 40,328,539</u>	<u>23,673,962</u>	<u>16,654,577</u>

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Additions primarily consist of member contributions and earnings from investment activities. Member contributions increased by \$0.2 million or 2.1%. Total additions increased by \$16.7 million or 70.3% between fiscal year 2006 and 2007 due to an increase in the net appreciation in fair value of investments.

The total investment return for the Trust is estimated to be 22.5% compared to 10.4% in the prior year.

2006 – 2005

	<u>2006</u>	<u>2005</u>	<u>Increase</u>
Member contributions	\$ 7,601,807	7,368,235	233,572
Investment income	16,072,155	14,246,700	1,825,455
Totals	<u>\$ 23,673,962</u>	<u>21,614,935</u>	<u>2,059,027</u>

Member contributions increased by 3.2% due to higher salaries. Total additions increased by \$2.1 million or 9.5% between fiscal year 2005 and 2006 due to an increase in the net appreciation in fair value of investments.

The total investment return for the Trust is estimated to be 10.4% compared to 10.2% in the prior year.

Summary of Deductions from Fiduciary Net Assets

2007 – 2006

	<u>2007</u>	<u>2006</u>	<u>Increase</u>
Benefits	\$ 20,670,715	13,178,330	7,492,385

Deductions consist entirely of retirement and withdrawal payments made during the year. Total deductions increased by \$7.5 million or 56.9% between fiscal year 2006 and 2007 due to an increase in the amounts of retirement and withdrawal payments received by retirees from the prior year.

2006 – 2005

	<u>2006</u>	<u>2005</u>	<u>Decrease</u>
Benefits	\$ 13,178,330	15,578,830	(2,400,500)

Deductions consist entirely of retirement and withdrawal payments made during the year. Total deductions decreased by \$2.4 million or 15.4% between fiscal year 2005 and 2006 due to a decrease in the number of retirees receiving retirement and withdrawal payment from the prior year.

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Management's Discussion and Analysis

June 30, 2007 and 2006

Contacting System Financial Management

The financial report is designed to provide our members, beneficiaries, investors and other interested parties with a general overview of the Trust's finances and to show the Trust'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.

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Statements of Fiduciary Net Assets

June 30, 2007 and 2006

	2007	2006
Assets:		
Investments, at fair value:		
Cash Management Fund	\$ 7,122,664	5,056,945
Common stocks	176,685,426	156,812,862
Total investments	183,808,090	161,869,807
Receivables:		
Member contributions	210,956	487,245
Accrued dividends	519,092	200,970
Other	16,443	16,218
Total assets	184,554,581	162,574,240
Liabilities:		
Accounts payable and accrued expenses	36,759	(72,505)
Retirement benefits payable	1,291,428	10,804
Cash overdraft	1,995,744	912,448
Withholdings payable	—	18,955
Unclaimed accounts	—	131,712
Total liabilities	3,323,931	1,001,414
Net Assets:		
Held in trust for benefits	\$ 181,230,650	161,572,826

See accompanying notes to financial statements.

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Statements of Changes in Fiduciary Net Assets

Years ended June 30, 2007 and 2006

	2007	2006
Additions:		
Contributions:		
Members	\$ 7,764,788	7,601,807
Investment income:		
Net appreciation in fair value of investments	29,171,768	12,797,524
Interest	355,615	479,135
Dividends	3,036,368	2,795,496
	32,563,751	16,072,155
Total investment income		
Total additions	40,328,539	23,673,962
Deductions:		
Benefits	20,670,715	13,178,330
	19,657,824	10,495,632
Change in net assets		
Net assets – Beginning of year	161,572,826	151,077,194
Net assets – End of year	\$ 181,230,650	161,572,826

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2007 and 2006

(1) Summary Of Significant Accounting Policies

Basis of Accounting

The financial statements of the Supplemental Annuity Collective Trust of New Jersey (the Trust) have been prepared using the accrual basis of accounting and conform to the provisions of Government Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*.

Investments

The Division of Investment, Department of the Treasury, State of New Jersey (the Division) manages and invests certain assets of various divisions, agencies and employees of the State of New Jersey in various groups of funds, which includes the Supplemental Annuity Collective Trust Fund.

The accompanying statements of net assets Investments are reported at fair value as follows:

- Common Stocks – closing prices as reported on the primary market or exchange on which they trade.
- Cash Management Fund – closing bid price on the last day of trading during the period as determined by the Transfer Agent.

Investment transactions are accounted for on a trade date basis. Interest and dividend income and any related receivables are recorded on the accrual basis, with dividends accruing on the ex-dividend date.

Administrative Expenses

All expenses incurred in administering the Trust are borne by the State of New Jersey.

Unit Valuation

Participants' net asset value per unit is determined on a monthly basis. Net asset value per unit is computed on the total value at the end of the month of the Trust's net assets divided by the total outstanding units of the Trust.

(2) Description of The Trust

The following description of the Trust provides only general information. Participants should refer to the Trust's pamphlet, "Supplemental Annuities and Tax Sheltered Annuities for New Jersey Public Employees," for a more complete description of the Trust's provisions.

Organization

The Trust, a single-employer defined contribution plan, was established by Chapter 123, P.L. 1963 and amended by Chapter 90, P.L. 1965 and is available to active members of several state-administered retirement systems to provide specific benefits to supplement the guaranteed benefits that are provided by their basic retirement systems. Membership totaled 4,401 and 4,536 as of June 30, 2007 and 2006, respectively. Of that total, members receiving a monthly annuity benefit from the Trust were 578 and 603

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Notes to Financial Statements

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as of June 30, 2007 and 2006, respectively. The Trust is administered by the State of New Jersey Division of Pensions and Benefits. The Trust is included along with other state-administered pension trust and agency funds in the financial statements of the State of New Jersey. There are two active plans within the Supplemental Annuity System; the Regular Supplemental Annuity Plan that applies to all eligible employees and does not reduce the participant's taxable compensation, and the Tax Sheltered Supplemental Annuity Plan that pertains to eligible employees of public education institutions and reduces the participant's taxable income.

Benefits

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.

Contributions

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.

Actuarial Valuation

The act governing the Trust provides for an actuarial review of the Trust at least once in every three-year period. As of June 30, 2003, the date of the most recent actuarial valuation, there was a deficit of \$163,445 in the Variable Benefit Account to which annuity payments are charged. The deficit is primarily due to experience losses during the three-year period since the prior valuation. The 1983 Individual Annuity Tables projected to 1993 were used in valuing the present value of benefits payable for service annuitants and dependent beneficiaries.

Significant assumptions underlying the actuarial computation include: (a) assumed rate of return on investments of 4%; (b) assets valued at market; and (c) mortality, vesting, retirement age, and retirement estimates based on tables furnished by the actuary.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

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Notes to Financial Statements

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(3) Summary of Custodial and Credit

The Trust's investments as of June 30, 2007 and 2006 consist of domestic equity securities and an interest in the Cash Management Fund. The Cash Management Fund is not evidenced by securities that exist in physical or book entry form held by the Trust, and is unrated.

Not more than 10% of the market value of the Trust can be invested in the common stock and convertible securities of any one corporation.

(4) Income Tax Status

Based on a 1986 declaration of the Attorney General of the State of New Jersey, the Trust is a qualified plan as described in Section 401(a) of the Internal Revenue Code. The Trust operates within the terms of the Trust and remains eligible under the applicable provisions of the Internal Revenue Code.