



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

Financial Statements

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)



KPMG LLP
New Jersey Headquarters
51 John F. Kennedy Parkway
Short Hills, NJ 07078-2702

Independent Auditor's Report

The Council
Supplemental Annuity Collective
Trust of New Jersey:

Report on the Financial Statements

We have audited the accompanying statements of fiduciary net position of the State of New Jersey Supplemental Annuity Collective Trust (the Trust) as of June 30, 2013, the statements of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net position of the State of New Jersey Supplemental Annuity Collective Trust, as of June 30, 2013, and the respective changes in plan net position thereof for the year then ended in accordance with U.S. generally accepted accounting principles.



Other Matters

Predecessor Auditors' Opinion

The accompanying financial statements, and the related notes to the financial statements, of the Trust as of and for the year ended June 30, 2012, were audited by other auditors whose report thereon dated November 5, 2012, expressed an unmodified opinion on those financial statements and the related notes to those financial statements.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3–6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

Short Hills, New Jersey
November 20, 2013

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Management's Discussion and Analysis

June 30, 2013 and 2012

Our discussion and analysis of the financial performance of the State of New Jersey Supplemental Annuity Collective Trust (the Trust) provides an overview of the Trust's financial activities for the fiscal years ended June 30, 2013 and 2012. Please read it in conjunction with the basic financial statements and related notes to the financial statements, which follow this discussion.

Financial Highlights

2013 – 2012

- Fiduciary net position increased by \$25.4 million as a result of fiscal year 2013's operations from \$152.9 million to \$178.3 million.
- Additions for the year are \$37.6 million which are comprised of member contributions of \$6.6 million and investment income of \$31.0 million.
- Deductions for the year are \$12.2 million, which are comprised entirely of benefit and withdrawal payments.

2012 – 2011

- Fiduciary net position decreased by \$5.6 million as a result of fiscal year 2012's operations from \$158.5 million to \$152.9 million.
- Additions for the year are \$12.3 million, which are comprised of member contributions of \$6.4 million and investment income of \$5.9 million.
- Deductions for the year are \$17.9 million, which are comprised entirely of benefit and withdrawal payments.

The Statements of Fiduciary Net Position and the Statements of Changes in Fiduciary Net Position

This annual report consists of two financial statements: *The Statements of Fiduciary Net Position* and *The Statements of Changes in Fiduciary Net Position*. 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 fiscal 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 Position shows 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 position. Over time, increases or decreases in the Trust's fiduciary net position provide one indication of whether the financial health of the Trust is improving or declining. *The Statements of Changes in Fiduciary Net Position* shows the results of financial operations for the year. The statements provide an explanation for the change in the Trust's fiduciary net position since the prior year. These two financial statements should be reviewed along with the information contained in the financial statement footnotes, to determine whether the Trust is becoming financially stronger or weaker.

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Management's Discussion and Analysis

June 30, 2013 and 2012

Notes to the Financial Statement

The notes to the financial statement provide additional information that is essential to a full understanding of the data provided in the basic financial statement and includes a description of the fiduciary funds.

Financial Analysis

Summary of Fiduciary Net Position

2013 – 2012

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>
Assets	\$ 180,708,213	155,647,322	25,060,891
Liabilities	<u>2,446,199</u>	<u>2,770,954</u>	<u>(324,755)</u>
Net position	<u>\$ 178,262,014</u>	<u>152,876,368</u>	<u>25,385,646</u>

Total assets increased by \$25.1 million or 16.1% between fiscal years 2012 and 2013 due to an increase in the investment holdings of \$25.3 million that were utilized to pay the benefits of the trust and a net decrease in receivables and cash of \$0.2 million.

Total liabilities decreased by \$0.3 million or 11.7% primarily due to a decrease in the retirement benefits payable.

Net position increased by \$25.4 million or 16.6%.

Financial Analysis

Summary of Fiduciary Net Position

2012 – 2011

	<u>2012</u>	<u>2011</u>	<u>Decrease</u>
Assets	\$ 155,647,322	161,845,058	(6,197,736)
Liabilities	<u>2,770,954</u>	<u>3,366,599</u>	<u>(595,645)</u>
Net position	<u>\$ 152,876,368</u>	<u>158,478,459</u>	<u>(5,602,091)</u>

Total assets decreased by \$6.2 million or 3.8% between fiscal years 2011 and 2012 due to a decrease in the investment holdings of \$6.6 million that were utilized to pay the benefits of the trust and a net increase in receivables and cash of \$0.4 million.

Total liabilities decreased by \$0.6 million or 17.7% primarily due to a decrease in the retirement benefits payable.

Net position decreased by \$5.6 million or 3.5%.

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Summary of Changes in Fiduciary Net Position

2013 – 2012

	<u>2013</u>	<u>2012</u>	<u>Increase (decrease)</u>
Additions:			
Member contributions	\$ 6,635,320	6,346,823	288,497
Investment income	30,989,256	5,941,424	25,047,832
Total additions	<u>37,624,576</u>	<u>12,288,247</u>	<u>25,336,329</u>
Deductions:			
Benefits	12,238,930	17,890,338	(5,651,408)
Total deductions	<u>12,238,930</u>	<u>17,890,338</u>	<u>(5,651,408)</u>
Change in net position	<u>\$ 25,385,646</u>	<u>(5,602,091)</u>	<u>30,987,737</u>

Additions consist of member contributions and earnings from investment activities. Member contributions increased slightly by \$288.5 thousand or 4.5%.

The total investment return for the Trust is a 20.85% gain compared to a 4.34% gain in the prior year. As a result, net investment income increased by \$25.0 million or 421.6% due to the higher investment return.

Deductions consist entirely of benefit and withdrawal payments made during the year. Total deductions decreased by \$5.6 million or 31.6% between fiscal year 2012 and 2013 due to reduced withdrawals from the fund.

Summary of Changes in Fiduciary Net Position

2012 – 2011

	<u>2012</u>	<u>2011</u>	<u>Increase (decrease)</u>
Additions:			
Member contributions	\$ 6,346,823	5,882,012	464,811
Investment income	5,941,424	34,723,580	(28,782,156)
Total additions	<u>12,288,247</u>	<u>40,605,592</u>	<u>(28,317,345)</u>
Deductions:			
Benefits	17,890,338	18,312,488	(422,150)
Total deductions	<u>17,890,338</u>	<u>18,312,488</u>	<u>(422,150)</u>
Change in net position	<u>\$ (5,602,091)</u>	<u>22,293,104</u>	<u>(27,895,195)</u>

Additions consist of member contributions and earnings from investment activities. Member contributions increased slightly by \$464 thousand or 7.9%

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The total investment return for the Trust is estimated to be a 4.34% gain compared to a 25.88% gain in the prior year. As a result, net investment income decreased by \$28.8 million or 82.9% due to the lower investment return in fiscal year 2012 as compared to fiscal year 2011.

Deductions consist entirely of benefit and withdrawal payments made during the year. Total deductions decreased by \$0.4 million or 2.3% between fiscal year 2011 and 2012 due to reduced withdrawals from the fund.

Retirement System as a Whole

Members are 100% vested in the present value of their contributions.

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. This report is available on the Division of Pensions and Benefits website at www.state.nj.us/treasury/pensions. 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 Position

June 30, 2013 and 2012

	2013	2012
Assets:		
Cash	\$ 292,328	721,528
Investments, at fair value:		
Cash Management Fund	2,338,735	2,125,512
Common stocks	177,323,777	152,251,163
Total investments	179,662,512	154,376,675
Receivables:		
Member contributions	517,555	269,583
Accrued interest and dividends	235,818	279,536
Total receivables	753,373	549,119
Total assets	180,708,213	155,647,322
Liabilities:		
Accounts payable and accrued expenses	115,938	242,138
Retirement benefits payable	2,330,261	2,528,816
Total liabilities	2,446,199	2,770,954
Net Position:		
Held in trust for benefits	\$ 178,262,014	152,876,368

See accompanying notes to financial statements.

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Statements of Changes in Fiduciary Net Position

Years ended June 30, 2013 and 2012

	2013	2012
Additions:		
Contributions:		
Members	\$ 6,635,320	6,346,823
Investment income:		
Net appreciation in fair value of investments	27,063,319	2,432,656
Interest	2,753	6,637
Dividends	3,923,184	3,502,131
Total investment income	30,989,256	5,941,424
Total additions	37,624,576	12,288,247
Deductions:		
Benefits	12,238,930	17,890,338
Change in net position	25,385,646	(5,602,091)
Net position – beginning of year	152,876,368	158,478,459
Net position – end of year	\$ 178,262,014	152,876,368

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2013 and 2012

(1) Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the State of New Jersey Supplemental Annuity Collective Trust (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 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 Trust.

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 net position on the last day of trading during the period as determined by the Transfer Agent.

Investment transactions are accounted for on a trade or investment date basis. Gains and losses from investment transactions are determined by the average cost method. Interest and dividend income and any related receivables are recorded on the accrual basis, with dividends accruing on the ex-dividend date.

Administrative Expenses

The Trust is administered by the State of New Jersey Division of Pensions and Benefits. Administrative expenses are paid by the State of New Jersey, who is responsible for such costs.

Unit Valuation

Participants' net position per unit is determined on a monthly basis. Net position per unit is computed on the total value at the end of the month of the Trust's net position 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 3,454 and 3,558 as of June 30, 2013 and 2012,

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Notes to Financial Statements

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respectively. Of that total, members receiving a monthly annuity benefit from the Trust were 432 and 454 as of June 30, 2013 and 2012, respectively. 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 Trust; 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 receives a life annuity benefit or may elect to receive a benefit paid as a single cash payment or various forms of monthly 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 100% 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 (IRC). 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 July 1, 2012, the date of the most recent actuarial valuation, there was a surplus of \$3,707,577 in the Variable Benefits Reserve Account to which annuity payments are charged. The change is attributable to mortality experience gains during the three-year period since the prior valuation.

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 accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expense during the reporting period. Actual results could differ from those estimates.

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(3) Summary of Custodial and Credit Risk

The Trust's investments as of June 30, 2013 and 2012 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. The Cash Management Fund is a short-term cash fund, managed by the Division of Investment, Department of the Treasury, State of New Jersey, and open to state and certain non-state participants.

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. The total amount of stock purchased or acquired of any one corporation shall not exceed 5% of the common stock, or any other class of stock which entitles the holder thereof to vote at all the elections of directors of such corporation. The Trust can only invest in common stocks and securities which are convertible into common stocks which are listed on a securities exchange in the United States.

Custodial credit risk, as it relates to investments, is the risk that in the event of the failure of the custodian, the Trust will not be able to recover the value of investments that are in the possession of the third party. The Trust's investment securities are not exposed to custodial credit risk as they are held in a segregated trust account in the name of the Trust with the custodian.

(4) Income Tax Status

The Trust is a qualified plan as described in the IRC Section 401(a).