



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

Financial Statements

June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

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

Financial Statements
June 30, 2016 and 2015

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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 activities of the State of New Jersey Supplemental Annuity Collective Trust (the Trust) as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements as listed in the table of contents.

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 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 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 financial position of the fiduciary activities of the State of New Jersey Supplemental Annuity Collective Trust, as of June 30, 2016 and 2015, and the respective changes in financial position thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

Adoption of New Accounting Pronouncement

As discussed in note 2(f) to the basic financial statements, as of July 1, 2014, the Trust adopted Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that U.S. generally accepted accounting principles require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

KPMG LLP

Short Hills, New Jersey
July 13, 2017

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

Statements of Fiduciary Net Position

June 30, 2016 and 2015

	2016	2015
Assets:		
Cash	\$ 103,078	—
Receivables:		
Member contributions	394,026	369,116
Accrued interest and dividends	252,171	278,972
Total receivables	646,197	648,088
Investments, at fair value:		
Cash Management Fund	879,755	905,810
Common stocks	200,221,891	210,119,031
Total investments	201,101,646	211,024,841
Total assets	201,850,921	211,672,929
Liabilities:		
Accounts payable and accrued expenses	292,294	135,687
Retirement benefits payable	254,393	609,981
Cash overdraft	—	424,213
Total liabilities	546,687	1,169,881
Net position:		
Restricted for pensions	\$ 201,304,234	210,503,048

See accompanying notes to financial statements.

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Statements of Changes in Fiduciary Net Position

Years ended June 30, 2016 and 2015

	2016	2015
Additions:		
Contributions:		
Members	\$ 5,814,213	6,003,908
Investment income:		
Net increase in fair value of investments	772,851	11,940,482
Interest	2,496	1,119
Dividends	4,554,575	4,514,440
Total investment income	5,329,922	16,456,041
Total additions	11,144,135	22,459,949
Deductions:		
Benefits	20,342,949	20,710,344
Change in net position	(9,198,814)	1,749,605
Net position restricted for pensions – beginning of year	210,503,048	208,753,443
Net position restricted for pensions – end of year	\$ 201,304,234	210,503,048

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2016 and 2015

(1) Description of the Trust

(a) Organization

The State of New Jersey, Division of Pensions and Benefits (the Division) was created and exists pursuant to N.J.S.A. 52:18A to oversee and administer the pension trust and other postemployment benefit plans sponsored by the State of New Jersey (the State), including the State of New Jersey Supplemental Annuity Collective Trust (the Trust).

The Trust, a multiple-employer defined contribution pension 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 system. Membership totaled 3,081 and 3,193 as of June 30, 2016 and 2015, 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.

(b) 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 do not direct the investment of their contributions, however all investments are pooled and managed by the Division of Investments, Department of Treasury, State of New Jersey (Division of Investment). Participants are always fully vested for the accumulated units in their accounts.

There are no employer or non-employer entities that are required to contribute to the Plan.

(c) 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.

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Notes to Financial Statements

June 30, 2016 and 2015

(2) Summary of Significant Accounting Policies

(a) *Measurement Focus and Basis of Accounting*

The accompanying financial statements were prepared in accordance with U.S. generally accepted accounting principles as applicable to governmental organizations. In doing so, the Trust adheres to reporting requirements established by the Governmental Accounting Standards Board (GASB).

The accrual basis of accounting is used for measuring financial position and changes in net position of the Trust. Under this method, contributions are recorded in the accounting period in which they are collected from the member, and deductions are recorded at the time the liabilities are due and payable in accordance with the terms of the Trust. The Trust is accounted for using an economic resources measurement focus.

(b) *Investments*

The Division of Investment 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.

In addition, the Division of Investment manages the State of New Jersey Cash Management Fund (CMF), which is available on a voluntary basis for investment by State and certain non-State participants. CMF is considered to be an investment trust fund as defined in GASB Statement No. 31, *Certain Investments and External Investment Pools*. Units of ownership in CMF may be purchased or redeemed on any given business day (excluding State holidays) at the unit cost or value of \$1.00. CMF values participant shares on a fair value basis. For additional information about CMF, refer to the audited financial statements, which can be obtained at <http://www.state.nj.us/treasury/doinvest/cmF/FinancialStatementsFiscal2016.pdf>.

Investment transactions are accounted for on a trade or investment date basis. Interest and dividend income and any related receivables are recorded on the accrual basis, with dividends accruing on the ex-dividend date. Net increase in the fair value of investments includes the net realized and unrealized gains (losses) on investments.

(c) *Administrative Expenses*

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

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.

(d) *Income Tax Status*

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

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(e) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(f) New Accounting Standards Adopted

In State fiscal year 2016, the Trust adopted GASB Statement No. 72, *Fair Value Measurement and Application* (GASB 72). The statement addresses accounting and financial reporting issues related to fair value measurements of assets and liabilities. GASB 72 identifies various approaches to measuring fair value and levels of inputs based on the objectivity of the data used to measure fair value. It provides additional fair value application guidance and requires enhanced disclosures about fair value measurements. As a result of the adoption of GASB 72, the Trust added note 4 to the financial statements.

(3) Summary of Custodial and Credit Risk

The Trust's investments as of June 30, 2016 and 2015 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 and open to state and certain non-state participants.

The Trust can only invest in equity securities denominated in U.S. dollars that are traded on a securities exchange in the United States or over-the-counter market. Not more than 10% of the market value of the fund can be invested in the equity of any one issuer and affiliated entities. The total amount of shares directly purchased or acquired of any one exchange-traded fund shall not exceed 5% of the total shares outstanding of such fund. The total amount of a particular class of stock directly purchased or acquired of any one entity shall not exceed 5% of that class of stock outstanding.

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.

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(4) Fair Value Measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between independent market participants at the measurement date. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The three levels of the fair value hierarchy are as follows:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs are unobservable for the investment and inputs into the determination of fair value require significant management judgment or estimation, including assumptions about risk.

Investments are reported at fair value as follows:

- Domestic equity securities are valued using closing sales prices reported on recognized securities exchanges on which the securities are principally traded. These securities are classified as Level 1 in the fair value hierarchy.

The Cash Management Fund is considered a local government investment pool and does not meet the leveling definitions as described above, therefore is excluded from the fair value hierarchy.

(5) Contingencies

The Trust is a party to various legal actions arising in the ordinary course of its operations. While it is not feasible to predict the ultimate outcome of these actions, it is the opinion of management that the resolution of these matters will not have a material adverse effect on the Trust's financial statements.