



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

Financial Statements

June 30, 2015 and 2014

(With Independent Auditors' Report Thereon)

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

Financial Statements  
June 30, 2015 and 2014

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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, 2015 and 2014, 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, 2015 and 2014, and the respective changes in financial position thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

***Other Matters***

***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 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  
July 1, 2016

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

Management's Discussion and Analysis

(Unaudited)

June 30, 2015 and 2014

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, 2015 and 2014. Please read it in conjunction with the basic financial statements and related notes to the financial statements, which follow this discussion.

**Financial Highlights**

***2015 – 2014***

- Fiduciary net position increased by \$1.7 million as a result of fiscal year 2015's operations from \$208.8 million to \$210.5 million.
- Additions for the year are \$22.5 million which are comprised of member contributions of \$6.0 million and investment income of \$16.5 million.
- Deductions for the year are \$20.7 million, which are comprised entirely of benefit and withdrawal payments.

***2014 – 2013***

- Fiduciary net position increased by \$30.5 million as a result of fiscal year 2014's operations from \$178.3 million to \$208.8 million.
- Additions for the year are \$48.1 million which are comprised of member contributions of \$5.9 million and investment income of \$42.2 million.
- Deductions for the year are \$17.6 million, which are comprised entirely of benefit and withdrawal payments.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of two components: 1) fiduciary financial statements and 2) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements.

**Fiduciary Financial Statements**

The statement of fiduciary net position presents the Trust's assets and liabilities by major categories and may serve over time as a useful indicator of the Trust's financial position. The difference between assets and liabilities represents the net position restricted for pension benefits.

The statement of changes in fiduciary net position provides information on the change in the Trust's net position during the current year. Additions are comprised of investment income and member contributions. Deductions include retirement benefit payments.

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

Management's Discussion and Analysis

(Unaudited)

June 30, 2015 and 2014

**Notes to the Financial Statements**

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

**Financial Analysis**

**Summary of Fiduciary Net Position**

*2015 – 2014*

	<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>
Assets	\$ 211,672,929	210,012,611	1,660,318
Liabilities	<u>1,169,881</u>	<u>1,259,168</u>	<u>(89,287)</u>
Net position	<u>\$ 210,503,048</u>	<u>208,753,443</u>	<u>1,749,605</u>

Total assets increased by \$1.7 million or 0.8% between fiscal years 2014 and 2015 due to an increase in the investment holdings of \$1.9 million that were utilized to pay the benefits of the Trust and a decrease in cash of \$0.2 million.

Total liabilities decreased by \$89.3 thousand or 7.1% due to a decrease in withdrawals payable of \$532.6 thousand offset by an increase of \$443.3 thousand in cash overdraft and accounts payable.

Net position increased by \$1.7 million or 0.8%.

**Financial Analysis**

**Summary of Fiduciary Net Position**

*2014 – 2013*

	<u>2014</u>	<u>2013</u>	<u>Increase (Decrease)</u>
Assets	\$ 210,012,611	180,708,213	29,304,398
Liabilities	<u>1,259,168</u>	<u>2,446,199</u>	<u>(1,187,031)</u>
Net position	<u>\$ 208,753,443</u>	<u>178,262,014</u>	<u>30,491,429</u>

Total assets increased by \$29.3 million or 16.2% between fiscal years 2013 and 2014 due to an increase in the investment holdings of \$29.4 million that were utilized to pay the benefits of the Trust and a net decrease in receivables and cash of \$0.1 million.

Total liabilities decreased by \$1.2 million or 48.5% due to a decrease in withdrawals payable.

Net position increased by \$30.5 million or 17.1%

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Management's Discussion and Analysis

(Unaudited)

June 30, 2015 and 2014

**Summary of Changes in Fiduciary Net Position**

*2015 – 2014*

	<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>
Additions:			
Member contributions	\$ 6,003,908	5,907,412	96,496
Investment income	16,456,041	42,222,601	(25,766,560)
Total additions	<u>22,459,949</u>	<u>48,130,013</u>	<u>(25,670,064)</u>
Deductions:			
Benefits	20,710,344	17,638,584	3,071,760
Total deductions	<u>20,710,344</u>	<u>17,638,584</u>	<u>3,071,760</u>
Change in net position	<u>\$ 1,749,605</u>	<u>30,491,429</u>	<u>(28,741,824)</u>

Additions consist of member contributions and earnings from investment activities. Member contributions increased slightly by \$96.5 thousand or 1.6%.

The total investment return for the Trust was a 9.63% gain compared to a 23.58% gain in the prior year. As a result, net investment income decreased by \$25.8 million or 61.0% due to the lower investment return.

Deductions consist entirely of benefit and withdrawal payments made during the year. Total deductions increased by \$3.1 million or 17.4% between fiscal year 2014 and 2015 due to an increase of \$3.0 million in withdrawals from the Trust and \$0.1 million in payroll benefit expense.

**Summary of Changes in Fiduciary Net Position**

*2014 – 2013*

	<u>2014</u>	<u>2013</u>	<u>Increase (Decrease)</u>
Additions:			
Member contributions	\$ 5,907,412	6,635,320	(727,908)
Investment income	42,222,601	30,989,256	11,233,345
Total additions	<u>48,130,013</u>	<u>37,624,576</u>	<u>10,505,437</u>
Deductions:			
Benefits	17,638,584	12,238,930	5,399,654
Total deductions	<u>17,638,584</u>	<u>12,238,930</u>	<u>5,399,654</u>
Change in net position	<u>\$ 30,491,429</u>	<u>25,385,646</u>	<u>5,105,783</u>

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Management's Discussion and Analysis

(Unaudited)

June 30, 2015 and 2014

Additions consist of member contributions and earnings from investment activities. Member contributions decreased slightly by \$727.9 thousand or 11.0%.

The total investment return for the Trust was a 23.58% gain compared to a 20.85% gain in the prior year. As a result, net investment income increased by \$11.2 million or 36.2% due to the higher investment return.

Deductions consist entirely of benefit and withdrawal payments made during the year. Total deductions increased by \$5.4 million or 44.1% between fiscal year 2013 and 2014 due to an increase of \$5.0 million in withdrawals from the Trust and \$0.4 million in payroll benefit expense.

**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](http://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.

**STATE OF NEW JERSEY  
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Statements of Fiduciary Net Position

June 30, 2015 and 2014

	<b>2015</b>	<b>2014</b>
Assets:		
Cash	\$ —	280,714
Receivables:		
Member contributions	369,116	399,369
Accrued interest and dividends	278,972	241,056
Total receivables	648,088	640,425
Investments, at fair value:		
Cash Management Fund	905,810	576,519
Common stocks	210,119,031	208,514,953
Total investments	211,024,841	209,091,472
Total assets	211,672,929	210,012,611
Liabilities:		
Accounts payable and accrued expenses	135,687	116,554
Retirement benefits payable	609,981	1,142,614
Cash overdraft	424,213	—
Total liabilities	1,169,881	1,259,168
Net position:		
Held in trust for benefits	\$ 210,503,048	208,753,443

See accompanying notes to financial statements.

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Statements of Changes in Fiduciary Net Position

Years ended June 30, 2015 and 2014

	<b>2015</b>	<b>2014</b>
Additions:		
Contributions:		
Members	\$ 6,003,908	5,907,412
Investment income:		
Net appreciation in fair value of investments	11,940,482	38,003,941
Interest	1,119	1,483
Dividends	4,514,440	4,217,177
Total investment income	16,456,041	42,222,601
Total additions	22,459,949	48,130,013
Deductions:		
Benefits	20,710,344	17,638,584
Change in net position	1,749,605	30,491,429
Net position – beginning of year	208,753,443	178,262,014
Net position – end of year	\$ 210,503,048	208,753,443

See accompanying notes to financial statements.

**STATE OF NEW JERSEY  
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Notes to Financial Statements

June 30, 2015 and 2014

**(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 3,193 and 3,300 as of June 30, 2015 and 2014, 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 Investments). 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, 2015 and 2014

**(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.

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. 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.

**(d) *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.

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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.

**(e) *Income Tax Status***

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

**(f) *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.

**(3) *Summary of Custodial and Credit Risk***

The Trust's investments as of June 30, 2015 and 2014 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 and fixed income obligations 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.

**(4) *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.