

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

FINANCIAL STATEMENTS AND SCHEDULES
June 30, 2011 and 2010
(With Independent Auditor's Report Thereon)



**Clifton
Gunderson LLP**
Certified Public Accountants & Consultants

Independent Auditor's Report

The Council
Supplemental Annuity Collective
Trust of New Jersey

We have audited the accompanying statement of fiduciary net assets of the State of New Jersey Supplemental Annuity Collective Trust (the Trust) as of June 30, 2011, and the related statement of changes in fiduciary net assets for the year 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. The financial statements of the Trust as of June 30, 2010 were audited by other auditors whose report dated October 27, 2010 expressed an unqualified opinion on those financial statements.

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 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 audit provides 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 State of New Jersey Supplemental Annuity Collective Trust as of June 30, 2011, and changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Clifton Gunderson LLP

Mt. Laurel, New Jersey
November 1, 2011

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Management's Discussion and Analysis

June 30, 2011 and 2010

Our discussion and analysis of the financial performance of the Supplemental Annuity Collective Trust (the Trust) provides an overview of the Trust's financial activities for the fiscal years ended June 30, 2011 and 2010. Please read it in conjunction with the basic financial statements and financial statement footnotes, which follow this discussion.

Financial Highlights

2011 – 2010

- Fiduciary net assets increased by \$22,293,104 as a result of fiscal year 2011's operations from \$136,185,355 to \$158,478,459.
- Additions for the year are \$40,605,592, which are comprised of member contributions of \$5,882,012 and investment income of \$34,723,580.
- Deductions for the year are \$18,312,488, which are comprised entirely of benefit payments.

2010 – 2009

- Fiduciary net assets increased by \$13,224,839 as a result of fiscal year 2010's operations from \$122,960,516 to \$136,185,355.
- Additions for the year are \$23,180,756, which are comprised of member contributions of \$7,119,188 and investment income of \$16,061,568.
- Deductions for the year are \$9,955,917, 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, to determine whether the Trust is becoming financially stronger or weaker.

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Management's Discussion and Analysis

June 30, 2011 and 2010

Financial Analysis

Summary of Fiduciary Net Assets

2011 – 2010

	<u>2011</u>	<u>2010</u>	<u>Increase</u>
Assets	\$ 161,845,058	136,868,341	24,976,717
Liabilities	<u>3,366,599</u>	<u>682,986</u>	<u>2,683,613</u>
Net assets	<u>\$ 158,478,459</u>	<u>136,185,355</u>	<u>22,293,104</u>

Total assets increased by \$25.0 million or 18.2% between fiscal years 2010 and 2011 due to an increase in the fair value of investments of \$24.8 million and an increase in receivables and cash of \$0.2 million.

Total liabilities increased by \$2.7 million or 392.9% primarily due to an increase in the retirement benefits payable.

Net assets increased by \$22.3 million or 16.4%.

Summary of Fiduciary Net Assets

2010 – 2009

	<u>2010</u>	<u>2009</u>	<u>Increase (decrease)</u>
Assets	\$ 136,868,341	124,057,272	12,811,069
Liabilities	<u>682,986</u>	<u>1,096,756</u>	<u>(413,770)</u>
Net assets	<u>\$ 136,185,355</u>	<u>122,960,516</u>	<u>13,224,839</u>

Total assets increased by \$12.8 million or 10.3% between fiscal years 2009 and 2010 due to an increase in the fair value of investments of \$14.9 million and a decrease in cash of \$2.1 million.

Total liabilities decreased by \$0.4 million or 37.7% primarily due to a decrease in the retirement benefits payable.

Net assets increased by \$13.2 million or 10.8%.

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Management's Discussion and Analysis

June 30, 2011 and 2010

Summary of Changes to Fiduciary Net Assets

2011 – 2010

	<u>2011</u>	<u>2010</u>	<u>Increase (decrease)</u>
Additions:			
Member contributions	\$ 5,882,012	7,119,188	(1,237,176)
Investment income	<u>34,723,580</u>	<u>16,061,568</u>	<u>18,662,012</u>
Total additions	<u>40,605,592</u>	<u>23,180,756</u>	<u>17,424,836</u>
Deductions:			
Benefits	<u>18,312,488</u>	<u>9,955,917</u>	<u>8,356,571</u>
Total deductions	<u>18,312,488</u>	<u>9,955,917</u>	<u>8,356,571</u>
Change in net assets	<u>\$ 22,293,104</u>	<u>13,224,839</u>	<u>9,068,265</u>

Additions consist of member contributions and earnings from investment activities. Total additions increased by \$17.4 million or 75.2% between fiscal years 2010 and 2011 primarily due to the appreciation in investments from 2010 to 2011.

The total investment return for the Trust is estimated to be a 25.88% gain compared to a 12.5% gain in the prior year.

Deductions consist entirely of retirement and withdrawal payments made during the year. Total deductions increased by \$8.4 million or 83.9% between fiscal year 2010 and 2011 due to increased withdrawals from the fund.

The change in net assets of \$9.1 million was primarily a result of the appreciation in investments from 2010 to 2011.

Summary of Changes to Fiduciary Net Assets

2010 – 2009

	<u>2010</u>	<u>2009</u>	<u>Increase (decrease)</u>
Additions:			
Member contributions	\$ 7,119,188	7,866,241	(747,053)
Investment income (loss)	<u>16,061,568</u>	<u>(33,470,754)</u>	<u>49,532,322</u>
Total additions	<u>23,180,756</u>	<u>(25,604,513)</u>	<u>48,785,269</u>
Deductions:			
Benefits	<u>9,955,917</u>	<u>10,330,455</u>	<u>(374,538)</u>
Total deductions	<u>9,955,917</u>	<u>10,330,455</u>	<u>(374,538)</u>
Change in net assets	<u>\$ 13,224,839</u>	<u>(35,934,968)</u>	<u>49,159,807</u>

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Additions consist of member contributions and earnings from investment activities. Total additions increased by \$48.8 million or 190.5% between fiscal years 2009 and 2010 primarily due to the appreciation in investments from 2009 to 2010.

The total investment return for the Trust is estimated to be a 12.5% gain compared to a 29.4% loss in the prior year.

Deductions consist entirely of retirement and withdrawal payments made during the year. Total deductions decreased by \$0.4 million or 3.6% between fiscal year 2009 and 2010 due to a decrease in number of retirees and members who received these payments.

The change in net assets of \$49.2 million was primarily a result of the appreciation in investments from 2009 to 2010.

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, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Assets:		
Cash	\$ 148,057	7,675
Investments, at fair value:		
Cash Management Fund	11,979,054	18,418,296
Common stocks	<u>148,997,525</u>	<u>117,742,419</u>
Total investments	<u>160,976,579</u>	<u>136,160,715</u>
Receivables:		
Member contributions	425,711	432,762
Accrued dividends	278,910	251,388
Other	<u>15,801</u>	<u>15,801</u>
Total assets	<u>161,845,058</u>	<u>136,868,341</u>
Liabilities:		
Accounts payable and accrued expenses	164,584	117,350
Retirement benefits payable	<u>3,202,015</u>	<u>565,636</u>
Total liabilities	<u>3,366,599</u>	<u>682,986</u>
Net Assets:		
Held in trust for benefits	<u>\$ 158,478,459</u>	<u>136,185,355</u>

See accompanying notes to financial statements.

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Statements of Changes in Fiduciary Net Assets

Years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Additions:		
Contributions:		
Members	\$ 5,882,012	7,119,188
Investment income:		
Net appreciation in fair value of investments	31,638,476	13,150,932
Interest	45,266	68,928
Dividends	3,039,838	2,841,708
Total investment income	<u>34,723,580</u>	<u>16,061,568</u>
Total additions	<u>40,605,592</u>	<u>23,180,756</u>
Deductions:		
Benefits	<u>18,312,488</u>	<u>9,955,917</u>
Change in net assets	22,293,104	13,224,839
Net assets – beginning of year	<u>136,185,355</u>	<u>122,960,516</u>
Net assets – end of year	<u>\$ 158,478,459</u>	<u>136,185,355</u>

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2011 and 2010

(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 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 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

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 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 3,806 and 4,030 as of June 30, 2011 and 2010, respectively. Of that total, members receiving a monthly annuity benefit from the Trust were 478 and 499

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Notes to Financial Statements

June 30, 2011 and 2010

as of June 30, 2011 and 2010, 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 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. 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, 2009, the date of the most recent actuarial valuation, there was a surplus of \$3,544,120 in the Variable Benefit 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 U.S. generally accepted accounting principles 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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Notes to Financial Statements

June 30, 2011 and 2010

(3) Summary of Custodial and Credit

The Trust's investments as of June 30, 2011 and 2010 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 Section 401(a) of the Internal Revenue Code.