KPMG

STATE OF NEW JERSEY
DEFERRED COMPENSATION PLAN

Financial Statements

June 30, 2013

(With Independent Auditors' Report Thereon)

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

Independent Auditor's Report

New Jersey State Employees Deferred
Compensation Plan Board
New Jersey State Employees Deferred
Compensation Plan

Report on the Financial Statements

We have audited the accompanying statement of fiduciary net position of the New Jersey State Employees Deferred Compensation Plan (the Plan) as of June 30, 2013, the statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, which collectively comprise the Plan'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 New Jersey State Employees Deferred Compensation Plan, 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

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3–5, respectively, 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

STATE OF NEW JERSEY
NEW JERSEY STATE EMPLOYEES
DEFERRED COMPENSATION PLAN

Management's Discussion and Analysis

June 30, 2013

Our discussion and analysis of the financial performance of the New Jersey State Employees Deferred Compensation Plan (the Plan) provides an overview of the Plan's financial activities for the fiscal year ended June 30, 2013. 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

- Net position increased by $354.9 million as a result of fiscal year 2013's operations from $2,586.0 million to $2,940.9 million.
- Additions for the year are $479.4 million, which are comprised of member contributions of $177.3 million and net investment income of $302.1 million.
- Deductions for the year are $124.5 million, which are comprised of benefit payments of $124.1 million and administrative expenses of $0.4 million.

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

This annual report consists of two financial statements: *The Statement of Fiduciary Net Position* and *The Statement of Changes in Fiduciary Net Position*. These financial statements report information about the Plan and about its activities to help you assess whether the Plan, 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 Statement of Fiduciary Net Position shows the balances of the assets and liabilities at the end of the fiscal year. The difference between assets and liabilities represents the Plan's fiduciary net position. Over time, increases or decreases in the Plan's fiduciary net position provide one indication of whether the financial health of the Plan is improving or declining. *The Statement of Changes in Fiduciary Net Position* show the results of financial operations for the year. The statement provides an explanation for the change in the Plan's fiduciary net position since the prior year. These financial statements should be reviewed along with the information contained in the related notes to the financial statements to determine whether the Plan is becoming financially stronger or weaker.

Financial Analysis

Summary of Fiduciary Net Position

2013-2012

	2013	2012	Increase
Assets	$ 2,942,790,370	2,586,890,545	355,899,825
Liabilities	1,897,356	846,662	1,050,694
Net position	$ 2,940,893,014	2,586,043,883	354,849,131

Total assets increased by $355.9 million, or 13.8%, between fiscal years 2012 and 2013 due to an increase in the investment holdings.

Total liabilities increased by $1.0 million, or 124.1%, due to an increase in administrative fees payable and a cash overdraft.

Net position increased by $354.9 million, or 13.7%.

Summary of Changes in Fiduciary Net Position

2013 – 2012

		2013	2012	Increase (Decrease)
Additions:				
Member contributions	$	177,296,365	178,243,724	(947,359)
Net investment income		302,069,484	19,834,685	282,234,799
Total additions		479,365,849	198,078,409	281,287,440
Deductions:				
Benefits		124,062,368	118,211,742	5,850,626
Administrative expenses		454,350	465,127	(10,777)
Total deductions		124,516,718	118,676,869	5,839,849
Change in net position	$	354,849,131	79,401,540	275,447,591

Additions consist of member contributions and earnings from investment activities. Total additions increased by $281.3 million, or 142.0%, between fiscal years 2012 and 2013 due to the higher investment return in fiscal year 2013 as compared to fiscal year 2012.

Deductions consist of benefit payments made during the year and administrative expenses. Benefit payments increased by $5.8 million, or 4.9%, between fiscal years 2012 and 2013. This increase is the result of improving financial markets and the resulting gain in assets held in members' accounts. Participants requesting full or partial distributions during the year did so from accounts that had increased in value from June 30, 2012, providing these participants with access to an increased total dollar amount for these distributions.

Retirement System as a Whole

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

(Continued)

STATE OF NEW JERSEY
NEW JERSEY STATE EMPLOYEES
DEFERRED COMPENSATION PLAN

Management's Discussion and Analysis

June 30, 2013

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 Plan's finances and to show the Plan'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.

STATE OF NEW JERSEY
NEW JERSEY STATE EMPLOYEES
DEFERRED COMPENSATION PLAN

Statement of Fiduciary Net Position

June 30, 2013

Assets:	
Investments, at fair value:	
Cash Management Fund	$ 54,634,315
U.S. government obligations	399,045,275
Domestic equities	1,308,850,841
International equities	269,977,576
Other fixed income securities	909,186,823
Total investments	2,941,694,830
Receivables:	
Accrued interest and dividends	1,095,540
Total receivables	1,095,540
Total assets	2,942,790,370
Liabilities:	
Accounts payable and accrued expenses	1,258,014
Cash overdraft	639,342
Total liabilities	1,897,356
Net position:	
Held in trust for benefits	$ 2,940,893,014

See accompanying notes to financial statements.

STATE OF NEW JERSEY
NEW JERSEY STATE EMPLOYEES
DEFERRED COMPENSATION PLAN

Statement of Changes in Fiduciary Net Position

Year ended June 30, 2013

Additions:		
Member contributions	$	177,296,365
Investment income:		
Net appreciation in fair value of investments		290,569,604
Interest		2,444,034
Dividends		9,308,591
		302,322,229
Less investment expense		252,745
Net investment income		302,069,484
Total additions		479,365,849
Deductions:		
Benefits		124,062,368
Administrative expenses		454,350
Total deductions		124,516,718
Change in net position		354,849,131
Net position – beginning of year		2,586,043,883
Net position – end of year	$	2,940,893,014

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the New Jersey State Employees Deferred Compensation Plan (the Plan or NJSEDCP) 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*, and Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*.

Investments

The Division of Investment, Department of the Treasury, State of New Jersey (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 Plan.

Prudential Retirement is the third-party administrator for the NJSEDCP. Prudential Retirement provides recordkeeping, administration services and access to 22 investments through a combination of their separate account product offerings and retail branded mutual funds. The four state-managed investments options (DCP Equity Fund, DCP Small Capitalization Equity Fund, DCP Fixed Income Fund, DCP Cash Management Fund) are closed to new investments. The Division of Investment is the fiduciary for the investments of the Plan. The Division of Pensions and Benefits maintains its administrative oversight functions for the Plan.

Investments are reported at fair value as follows:

- U.S. Government obligations and other fixed income securities – prices quoted by a major dealer in such securities.
- Domestic and international equities – 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 is recorded on the accrual basis, with dividends accruing on the ex-dividend date.

Administrative Expenses

Expenses associated with the Plan, which include but are not limited to administrative and investment costs, are charged against the Plan's net position as determined by the action of the New Jersey State Employees Deferred Compensation Board (the Board). The fee is charged to participants' accounts on a monthly basis. Amounts charged against the net position by the Plan to date have exceeded the payments made, the excess of which has been recorded as administrative fees payable.

Unit Valuation

Participants' net asset value per unit is determined on a daily basis for each of the Plan's 22 investment fund options. Net asset value per unit is computed on the total fair value at the end of the day of the Plan's net position divided by the total outstanding units of the Plan.

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.

(2) Description of the Plan

The following description of the Plan provides only general information. Participants should refer to the Plan information statement, which is available from the State of New Jersey, Division of Pensions and Benefits, for a more complete description of the Plan's provisions.

General

The Plan was established by Chapter 39, P.L. 1978, which became effective June 19, 1978, amended by Chapter 449, P.L. 1985, effective January 14, 1986, and by Chapter 116, P.L. 1997, effective June 6, 1997, and is available to any state employee who is a member of a state-administered retirement system or an employee of an eligible state agency, authority, commission or instrumentality of state government provided the employee has at least 12 continuous months of employment, and any individual employed through a Governor's appointment. The Plan's membership was 46,283 at June 30, 2013.

The assets of the Plan are being held in trust for the exclusive benefit of Plan members and their beneficiaries as required by Section 457 of Internal Revenue Code (IRC).

Contributions

Participants may defer between 1% and 100% of their salary, as defined, and less any IRC Section 414(h) reductions or $17,500 annually. Under the limited "catch-up" provision, a participant may be eligible to defer up to a maximum of twice the annual maximum in the three years immediately preceding the retirement age at which no reduction in benefits would be applicable. Participants must defer at least 1% of their annual salary but no less than $10 biweekly or $20 monthly. Federal income taxes are not due on deferred amounts or on any accumulated earnings until the participant receives a distribution of assets. Participants may elect to invest their contributions in multiples of 1% in any of the 22 investment fund options, and may increase, decrease or suspend their deferrals once a month. Compensation amounts deferred and accumulated earnings thereon, while in trust for the exclusive benefit of the participants, remain the property of the State of New Jersey until distributed to participants. Participants are always fully vested for the accumulated units in their accounts. Participation in the Plan ceases at retirement, termination of service, disability or death. The employer does not make contributions to the Plan.

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Participants' Accounts

The administrator maintains a bookkeeping account for each participant that is credited as of the date at which the participant's compensation is deferred.

The account is also credited with any increase or charged with any decrease related to the transactions of the Plan.

The State of New Jersey is only under a contractual obligation to make payments under this Plan in accordance with the provisions of the applicable statute as payments become due. The State of New Jersey is not a guarantor of the Plan.

Distribution of Assets

A participant of the Plan or beneficiary may receive a distribution of assets under the Plan upon the participant's retirement, termination of service, disability, or death. Distribution of the participant's account will be made in a single lump-sum payment within two months after the administrator is notified of the event for all accounts unless the participant elects to delay distribution from the Plan. In all cases, distribution must commence no later than 90 days following the close of the calendar year in which the participant retired, terminated service, became disabled, died or attained age 70½, whichever is later. If the value of the participant's account is at least $5,000, the participant may choose distribution as a lump-sum payment or, in substantially equal installments over a period not to exceed fifteen years. Additionally, the participant may select a combination payment consisting of an initial lump-sum payment followed by installments over a period not to exceed fifteen years if the balance in the account following the initial lump-sum payment is at least $5,000. Accounts are valued for distribution purposes as of the end of the month immediately preceding distribution.

Distribution is also permitted in the case of an unforeseen emergency, as defined by IRC 457 regulations. A participant may also elect to receive an in-service distribution if the participant has not made deferrals into the Plan for 24 consecutive months and the total value of the participant's account does not exceed $5,000.

Termination of the Plan

The Board, in accordance with the provisions of Chapter 39, P.L. 1978, has the authority to terminate this Plan or to substitute a new plan consistent with the requirements of the United States Internal Revenue Service.

Upon termination, each participant shall be deemed to have withdrawn from the Plan as of the date of such termination; the participant's full compensation on a nondeferred basis will be restored; and the administrator shall treat such participants as if they had termination of service on the date of such termination and pay such deferred compensation in accordance with provisions of the Plan.

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Any substitute of a new plan, consistent with the requirements of the United States Internal Revenue Service, shall provide for the retention by the employer of the amounts already deferred under the prior plan and for the distribution of said amounts in accordance with the irrevocable written elections made pursuant to the Plan.

Vesting and Benefit Provisions

Assets in the Plan are held in trust for the exclusive benefit of Plan members and their beneficiaries in accordance with GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Plan members are fully vested for the current valuation of their account from the date of enrollment in the Plan. Benefits are payable upon separation from service with the State of New Jersey.

(3) Investments

The Plan's investments as of June 30, 2013 are as follows:

		2013
Cash management fund	$	54,634,315
Domestic equities		1,308,850,841
International equities		269,977,576
U.S. governmental obligations		399,045,275
Other fixed income securities(1)		909,186,823
	$	2,941,694,830

(1) Includes $863,800,701 of domestic fixed income obligations and $45,386,122 of international foreign fixed income.

New Jersey state statute provides for a State Investment Council (Council) and a Director of the Division of Investment. The role of the Council is to formulate investment policies. The Council issues regulations which establish guidelines for permissible investments. The regulations provide that at the election of the participants, moneys from salary deductions may be deposited in funds managed by the Division of Investment, or in approved investment options offered and managed by outside vendors.

The four funds managed by the Division of Investment are the DCP Equity Fund ("Equity Fund"), the DCP Small Capitalization Equity Fund ("Small Cap Equity Fund"), the DCP Fixed Income Fund and DCP Cash Management Fund. The DCP Fixed Income Fund ("Fixed Income Fund") is invested in fixed income securities having a maturity of one year or more. The Equity Fund and the Small Cap Equity Fund are invested in common stocks and issues convertible into common stocks that trade on a securities exchange in the United States or the over-the-counter market. The DCP Cash Management Fund is invested in the State of New Jersey Cash Management Fund ("CMF") or in such other fixed income securities maturing in less than one year as permitted by the Council regulations. The Fixed Income Fund, the Equity Fund and

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the Small Cap Equity Fund may hold up to 25 percent of their assets either in short-term fixed income securities, as permitted by the Council regulations, or in CMF. The CMF is a short-term cash fund and is open to State and certain non-State participants.

The outside funds may be organized as mutual funds registered with the Securities and Exchange Commission (SEC), SEC-registered separate accounts of an insurance company licensed to transact business in the State, commingled trust accounts of a trust bank authorized to transact business in the State, or any other legal structure deemed acceptable to the Director of the Division of Investment. Outside funds may also include a synthetic guaranteed investment contract issued by an insurance company licensed to transact business in the State ("stable value" fund). The outside funds are selected by the Director of the Division of Investment in consultation with the New Jersey State Employees Deferred Compensation Board.

Regarding Prudential Retirement, the NJSEDCP is a participant directed program offering a range of diversified investment alternatives. The options that include bond investments are diversified by sector and number of securities held, mitigating undue concentration of both credit and foreign currency risks as well as interest rate risk.

The NJSEDCP's investments are subject to various risks. Among these risks are custodial credit risk, credit risk, concentration of credit risk and interest rate risk. Each one of these risks is discussed in more detail below.

Custodial credit risk, as it relates to investments, is the risk that in the event of the failure of the custodian, the NJSEDCP will not be able to recover the value of investments that are in the possession of the third party. The Common Fund's investment securities are not exposed to custodial credit risk as they are held in segregated trust accounts in the name of the Fund with the custodians. The investments in CMF held by the Common Funds are not evidenced by securities that exist in physical or book entry form.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of issuers and debt instruments is measured by nationally recognized statistical rating agencies such as Moody's Investors Service, Inc. (Moody's), Standard & Poor's Corporation (S&P) or Fitch Ratings (Fitch). Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. With respect to equities, not more than 10 percent of the market value of the Equity or Small Cap Equity Fund can be invested in any one corporation. The total amount of stock purchased of any one corporation cannot exceed 5% of its stock classes eligible to vote. There are no restrictions in the amount that can be invested in United States treasury and government agency obligations. Not more than 10% of the market value of the Fixed Income Fund can be invested in the debt of any one corporation, and not more than 25% of any one issue may be purchased at the time of issue.

Council regulations require minimum credit ratings for certain categories of fixed income obligations held directly by the funds. For corporate obligations within the Fixed Income Fund, the minimum ratings are Baa3, BBB-, and BBB- as measured by Moody's, S&P, and Fitch, respectively.

For securities exposed to credit risk in the Fixed Income Fund, the following table discloses aggregate fair value, by major credit quality rating category at June 30, 2013:

		June 30, 2013										
		Moody's rating										
(In thousands)		**Aaa**	**Aa**	**A**	**Baa**	**Ba**	**B**	**C**	**Ca**	**Caa**	**Unrated**	**Totals**
U.S. governmental obligations	$	399,045	—	—	—	—	—	—	—	—	—	399,045
Other fixed income securities		286,179	58,614	183,889	138,738	1,923	287	—	51	222	239,283	909,186
Total	$	685,224	58,614	183,889	138,738	1,923	287	—	51	222	239,283	1,308,231

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The following table summarizes the maturities of the Fixed Income Fund at June 30, 2013:

		June 30, 2013					
(In thousands)			Maturities in years				
Fixed income investment type		**Total fair value**	**Less than 1**	**1 – 5**	**6 – 10**	**More than 10**	**Unknown**
U.S. governmental obligations	$	399,045	—	274,463	43,073	81,509	—
Other fixed income securities		909,186	13,894	129,056	275,284	490,661	291
Total	$	1,308,231	13,894	403,519	318,357	572,170	291

(4) Income Tax Status

The Plan is an eligible plan as described in the IRC Section 457. The Plan operates within the terms of the Plan and remains eligible under the applicable provisions of the Internal Revenue Code.