



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

Financial Statements and Schedule

June 30, 2006 and 2005

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 402
301 Carnegie Center
Princeton, NJ 08540-6227

Independent Auditors' Report

The Council
Supplemental Annuity Collective
Trust of New Jersey:

We have audited the accompanying statements of fiduciary net assets of the State of New Jersey Supplemental Annuity Collective Trust (the Trust) as of June 30, 2006 and 2005, and the related statements of changes in fiduciary net assets for the years 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.

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 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 the Supplemental Annuity Collective Trust of New Jersey as of June 30, 2006 and 2005, and the changes in its financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. 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.

Our audits were made for the purpose of forming an opinion on the financial statements that collectively comprise the Trust's basic financial statements. The supplementary information included in the 2006 schedule of portfolio of investment securities (Schedule A) is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Trust. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

KPMG LLP

January 25, 2007

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

Management's Discussion and Analysis

June 30, 2006 and 2005

Our discussion and analysis of the Supplemental Annuity Collective Trust (the Trust) financial performance provides an overview of the Trust's financial activities for the fiscal years ended June 30, 2006 and 2005. Please read it in conjunction with the basic financial statements and financial statement footnotes that follow this discussion.

FINANCIAL HIGHLIGHTS

2006 - 2005

- Fiduciary net assets increased by \$10,495,632 as a result of fiscal year 2006's operations from \$151,077,194 to \$161,572,826.
- Additions for the year were \$23,673,962, which are comprised of member contributions of \$7,601,807 and investment revenues of \$16,072,155.
- Deductions for the year were \$13,178,330, which are comprised entirely of benefit payments.

2005 - 2004

- Fiduciary net assets increased by \$6,036,105 as a result of fiscal year 2005's operations from \$145,041,089 to \$151,077,194.
- Additions for the year were \$21,614,935, which are comprised of member contributions of \$7,368,235 and investment revenues of \$14,246,700.
- Deductions for the year were \$15,578,830, 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, including the required supplementary schedules, to determine whether the Trust is becoming financially stronger or weaker.

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

Management's Discussion and Analysis

June 30, 2006 and 2005

FINANCIAL ANALYSIS

SCHEDULE OF FIDUCIARY NET ASSETS

2006 - 2005

	2006	2005	Increase (Decrease)
Assets	\$162,574,240	\$152,933,129	\$9,641,111
Liabilities	1,001,414	1,855,935	(854,521)
Net Assets	\$161,572,826	\$151,077,194	\$10,495,632

Total assets increased by \$9.6 million or 6.3% between fiscal years 2005 and 2006 primarily due to an increase in fair value of equities.

Total liabilities decreased by \$0.9 million or 46.0% primarily due to a decrease in benefits payable.

Net assets increased by \$10.5 million or 7.0%.

2005 - 2004

	2005	2004	Increase (Decrease)
Assets	\$152,933,129	\$146,587,112	\$6,346,017
Liabilities	1,855,935	1,546,023	309,912
Net Assets	\$151,077,194	\$145,041,089	\$6,036,105

Total assets increased by \$6.3 million or 4.3% between fiscal years 2004 and 2005 primarily due to an increase in fair value of equities.

Total liabilities increased by \$0.3 million or 20.1% as a result of the timing of payments.

Net assets increased by \$6.0 million or 4.2%.

ADDITIONS TO FIDUCIARY NET ASSETS

2006 - 2005

	2006	2005	Increase (Decrease)
Member Contributions	\$7,601,807	\$7,368,235	\$233,572
Investment & Other	16,072,155	14,246,700	1,825,455
Totals	\$23,673,962	\$21,614,935	\$2,059,027

Additions primarily consist of member contributions and earnings from investment activities. Member contributions increased by 3.2%. Total revenues increased by \$2.1 million or 9.5% between fiscal year 2005 and 2006 due to an increase in net appreciation in fair value of investments.

During fiscal year 2006, the overall investment return for the Trust was a 10.4% gain. The investment return was a 10.2% gain in the prior year.

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

Management's Discussion and Analysis

June 30, 2006 and 2005

2005 - 2004

	2005	2004	Increase (Decrease)
Member Contributions	\$7,368,235	\$7,217,751	\$150,484
Investment & Other	14,246,700	23,708,269	(9,461,569)
Totals	\$21,614,935	\$30,926,020	\$(9,311,085)

Member contributions increased by 2.1%. Total revenues decreased by \$9.3 million or 30.1% between fiscal year 2004 and 2005 due to decrease in net appreciation in fair value of investments.

During fiscal year 2005, the overall investment return for the Trust was a 10.2% gain. The investment return was a 17.6% gain in the prior year.

DEDUCTIONS FROM FIDUCIARY NET ASSETS

2006 - 2005

	2006	2005	Increase (Decrease)
Benefits	\$13,178,330	\$15,578,830	\$(2,400,500)

Deductions consist entirely of retirement and other benefit payments made during the year. Total expenses decreased by \$2.4 million or 15.4% between fiscal year 2005 and 2006. There was a decrease in number of retirees receiving retirement benefits.

2005 - 2004

	2005	2004	Increase (Decrease)
Benefits	\$15,578,830	\$14,651,852	\$926,978

Deductions consist entirely of retirement and other benefit payments made during the year. Total expenses increased by \$1.0 million or 6.3% between fiscal year 2004 and 2005. There was a decrease in number of retirees receiving retirement benefits.

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.

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

Statements of Fiduciary Net Assets

June 30, 2006 and 2005

	2006	2005
Assets:		
Investments, at fair value:		
Cash Management Fund	\$ 5,056,945	3,275,078
Common stocks	156,812,862	147,954,767
Total investments	161,869,807	151,229,845
Receivables:		
Accrued dividends	200,970	205,262
Participant contributions	487,245	427,494
Other	16,218	1,070,528
Total assets	162,574,240	152,933,129
Liabilities:		
Accounts payable and accrued expenses	(72,505)	78,882
Cash overdraft	912,448	1,097,773
Withholdings payable	18,955	23,307
Benefits payable	10,804	524,261
Unclaimed accounts	131,712	131,712
Total liabilities	1,001,414	1,855,935
Net Assets:		
Held in trust for pension benefits	\$ 161,572,826	151,077,194

See accompanying notes to financial statements.

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

Statements of Changes in Fiduciary Net Assets

Years ended June 30, 2006 and 2005

	2006	2005
Additions:		
Contributions:		
Members	\$ 7,601,807	7,368,235
Investment income:		
Net appreciation (depreciation) in fair value of investments	12,797,524	11,573,953
Interest	479,135	42,199
Dividends	2,795,496	2,630,548
Total additions	23,673,962	21,614,935
Deductions:		
Benefits	13,178,330	15,578,830
Change in net assets	10,495,632	6,036,105
 Net assets - Beginning of year	 151,077,194	 145,041,089
Net assets - End of year	\$ 161,572,826	151,077,194

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2006 and 2005

(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".

Valuation of Investments

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

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

All expenses incurred in administering the Trust are borne by the State of New Jersey.

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 4,536 and 4,582 as of June 30, 2006 and 2005, respectively. Of that total, members receiving a monthly annuity benefit from the Trust were 603 and 626 as of June 30, 2006 and 2005, 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.

**STATE OF NEW JERSEY
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Notes to Financial Statements

June 30, 2006 and 2005

Benefits

Upon retirement, a participant is paid a single cash payment or may elect various forms of monthly annuities or reduced 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 10% 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 June 30, 2003, the date of the most recent actuarial valuation, there was a deficit of \$163,445 in the Variable Benefit Account to which annuity payments are charged. The deficit is primarily due to experience losses during the three-year period since the prior valuation. The 1983 Individual Annuity Tables projected to 1993 were used in valuing the present value of benefits payable for service annuitants and dependent beneficiaries.

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 generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

(3) SUMMARY OF CUSTODIAL AND CREDIT

The Trust's investments as of June 30, 2006 and 2005 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.

Not more than 10 percent of the market value of the Trust can be invested in the common stock and convertible securities of any one corporation.

(4) INCOME TAX STATUS

Based on a 1986 declaration of the Attorney General of the State of New Jersey, the Trust is a qualified plan as described in Section 401(a) of the Internal Revenue Code. The Trust operates within the terms of the Trust and remains eligible under the applicable provisions of the Internal Revenue Code.

STATE OF NEW JERSEY
SUPPLEMENTAL ANNUITY COLLECTIVE TRUST

Portfolio of Investment Securities

June 30, 2006

<u>Description</u>	<u>Number of Shares or Units</u>	<u>Cost</u>	<u>Fair Value</u>
Abbott Laboratories	30,000	\$ 393,548	\$ 1,308,300
Advanced Micro Devices, Inc.	25,000	239,514	610,500
Agilent Technologies, Inc.	14,111	159,275	445,343
Alcoa, Inc.	20,000	702,900	647,200
Alliant Techsystems, Inc.	7,500	409,552	572,625
Allstate Corp. (The)	10,000	549,937	547,300
Alltel Corp.	20,000	1,010,442	1,276,600
Altria Group, Inc.	35,000	940,666	2,570,050
American Axle & Manufacturing, Inc.	13,000	316,755	222,430
American International Group, Inc.	40,696	394,541	2,403,099
American Tower Corp.	70,000	766,743	2,178,400
Anadarko Petroleum Corp.	34,000	486,475	1,621,460
Analog Devices, Inc.	10,000	746,812	321,400
Archer Daniels Midland Co.	53,603	610,852	2,212,732
Bank Of America Corp.	33,956	601,037	1,633,284
Bank Of New York Co., Inc. (The)	35,000	238,337	1,127,000
Bausch & Lomb, Inc.	22,000	1,035,935	1,078,880
Baxter International, Inc.	30,000	1,258,907	1,102,800
Berkshire Hathaway, Inc.	315	336,300	958,545
Best Buy Co., Inc.	22,500	503,425	1,233,900
Boeing Company (The)	9,000	292,295	737,190
Bristol-Myers Squibb Co.	40,000	850,670	1,034,400
Burlington Northern Santa Fe Corp.	15,000	203,822	1,188,750
CA, Inc.	20,095	741,804	412,952
Cadence Design Systems, Inc.	58,500	270,400	1,001,520
Cendant Corp.	49,515	968,674	806,599
Centex Corp.	18,000	98,055	905,400
Chevron Corp.	68,494	1,642,917	4,250,738
Chubb Corp. (The)	20,000	476,978	998,000
Citigroup, Inc.	103,534	1,085,054	4,995,516
Clear Channel Communications, Inc.	8,930	585,552	276,383
Coca-Cola Co. (The)	50,000	1,044,000	2,151,000
Crown Castle International Corp.	90,000	1,092,730	3,108,600
Cypress Semiconductor	70,000	979,531	1,017,800
Danaher Corp.	4,000	89,100	257,280
Darden Restaurants, Inc.	21,750	116,968	856,950
Disney (Walt) Co. (The)	43,723	1,084,118	1,311,690
Dominion Resources, Inc.	21,028	674,095	1,572,684
Dover Corp.	20,000	165,334	988,600

STATE OF NEW JERSEY
SUPPLEMENTAL ANNUITY COLLECTIVE TRUST
Portfolio of Investment Securities

<u>Description</u>	<u>Number of Shares or Units</u>	<u>Cost</u>	<u>Fair Value</u>
Duke Energy Corp.	15,200	\$ 267,406	\$ 446,424
Dun & Bradstreet Corp. (The)	5,000	48,930	348,400
Eaton Corp.	24,000	435,350	1,809,600
Embarq Corp.	3,000	101,591	122,970
EMC Corp / Mass	81,000	1,749,217	888,570
Equity Residential Property Trust	22,000	511,900	984,060
ESCO Technologies, Inc.	9,000	76,685	481,050
Exelon Corp.	15,600	207,146	886,548
Exxon Mobil Corp.	110,806	916,664	6,797,948
Fannie Mae	14,000	499,742	673,400
Fedex Corp.	6,000	193,650	701,160
FMC Corp.	5,000	114,585	321,950
Freddie Mac	23,000	1,273,146	1,311,230
Gallagher (Arthur J.) & Co.	25,000	786,880	633,500
Genentech, Inc.	18,000	402,102	1,472,400
General Electric Co.	152,400	3,783,766	5,023,104
General Mills, Inc.	29,000	535,095	1,498,140
Genuine Parts Co.	10,000	323,209	416,600
Goldman Sachs Group, Inc. (The)	10,000	824,281	1,504,300
Goodrich Corp.	7,500	255,027	302,175
Harley-Davidson, Inc.	20,000	112,277	1,097,800
Harris Corp.	36,000	571,550	1,494,360
Hartford Financial Services Group	5,000	295,250	423,000
HCA, Inc.	15,000	518,289	647,250
Hercules, Inc.	20,000	352,967	305,200
Hewlett-Packard Co.	44,000	338,989	1,393,920
Home Depot, Inc. (The)	42,125	369,267	1,507,654
Honeywell International, Inc.	11,250	378,425	453,375
Illinois Tool Works, Inc.	20,000	436,500	950,000
IMS Health, Inc.	15,777	156,595	423,612
International Business Machines, Corp.	35,000	817,575	2,688,700
J.P. Morgan Chase & Co.	29,500	335,196	1,239,000
Johnson & Johnson	37,000	1,482,775	2,217,040
Johnson Controls, Inc.	20,000	261,474	1,644,400
Kerr-Mcgee Corp.	10,618	231,897	736,358
Kohls Corp.	15,000	200,344	886,800
L-3 Communications Holdings, Inc.	16,000	681,260	1,206,720
Lilly (Eli) & Co.	12,964	419,420	716,520
Live Nation, Inc.	1,116	25,673	22,722
Lowes Companies, Inc.	30,000	611,180	1,820,100

STATE OF NEW JERSEY
SUPPLEMENTAL ANNUITY COLLECTIVE TRUST
Portfolio of Investment Securities

<u>Description</u>	<u>Number of Shares or Units</u>	<u>Cost</u>	<u>Fair Value</u>
McDonald's Corp.	30,000	\$ 229,912	\$ 1,008,000
McGraw-Hill Companies, Inc. (The)	40,000	343,925	2,009,200
Medtronic, Inc.	34,000	154,785	1,595,280
Mellon Financial Corp.	11,000	275,619	378,730
Merk & Co., Inc.	33,000	406,798	1,202,190
Merrill Lynch & Co., Inc.	40,000	205,664	2,782,400
Metlife, Inc.	20,000	630,900	1,024,200
MSC Software Corp.	50,000	419,206	895,000
National Semiconductor Corp.	24,000	675,444	572,400
New Jersey Resources Corp.	15,000	585,533	701,700
News Corp. CL A	60,000	1,126,050	1,150,800
Norfolk Southern Corp.	31,500	402,532	1,676,430
Northrop Gruman Corp.	10,714	322,101	686,339
Occidental Petroleum Corp.	35,000	938,746	3,589,250
Pepsico, Inc.	28,000	473,664	1,681,120
Pfizer, Inc.	70,990	924,678	1,666,135
PG&E Corp.	37,000	1,075,700	1,453,360
PPG Industries, Inc.	14,000	427,642	924,000
Procter & Gamble Co. (The)	30,000	275,575	1,668,000
Prudential Financial, Inc.	10,000	445,350	777,000
Public Service Enterprise Group, Inc.	20,000	582,363	1,322,400
Raytheon Co.	12,000	390,432	534,840
Robert Half International, Inc.	20,000	133,917	840,000
Rohm & Haas Co.	5,531	87,599	277,214
Sara Lee Corp.	21,500	202,860	344,430
Schering-Plough Corp.	100,000	1,972,045	1,903,000
Southern Co.	22,500	265,706	721,125
Sprint Nextel Corp.	60,000	991,741	1,199,400
SPX Corp.	14,000	230,880	783,300
St. Jude Medical	30,000	1,003,212	972,600
St. Paul Travelers Cos, Inc. (The)	18,529	623,941	826,023
State Street Corp.	4,600	114,396	267,214
Symbol Technologies, Inc.	22,780	62,925	245,796
Sysco Corp.	52,000	268,386	1,589,120
Target Corp.	16,000	371,025	781,920
Texas Instruments, Inc.	57,400	233,475	1,738,646
Timco Aviation Services, Inc.	216	624	713
Timco Aviation Ser Wt 02/27/07	1,376	-	-
Time Warner, Inc.	165,000	2,321,751	2,854,500
Tronox, Inc. CL B	1,070	8,637	14,092

STATE OF NEW JERSEY
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Portfolio of Investment Securities

<u>Description</u>	<u>Number of Shares or Units</u>	<u>Cost</u>	<u>Fair Value</u>
Tyco International, LTD	41,834	\$ 1,014,748	\$ 1,150,435
Union Pacific Corp.	8,500	246,497	790,160
Unitedhealth Group, Inc.	29,000	154,851	1,298,620
Unumprovident Corp.	20,000	441,984	362,600
Viacom Inc. CL B	14,613	364,670	523,730
Wachovia Corp.	20,000	924,800	1,081,600
Wal-Mart Stores, Inc.	50,000	608,125	2,408,500
Wells Fargo & Co.	25,000	1,028,750	1,677,000
Wendy's International, Inc.	24,000	314,018	1,398,960
Wyeth	23,000	919,278	1,021,430
		<hr/>	<hr/>
Total Common Stock		72,290,785	156,812,862
State of New Jersey Cash Management Fund		<hr/> 5,003,796	<hr/> 5,056,945
		<hr/>	<hr/>
Total fund		<u>\$ 77,294,581</u>	<u>\$ 161,869,807</u>