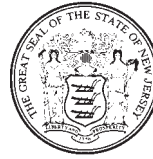


DEPARTMENT OF  
THE TREASURY

Peter R. Lawrance  
*Acting State Treasurer*

DIVISION OF PENSIONS  
AND BENEFITS

Thomas P. Bryan  
*Director*



State of New Jersey  
DIVISION OF PENSIONS AND BENEFITS  
PO Box 295 • Trenton, NJ 08625-0295

SUPPLEMENTAL  
ANNUITY  
COLLECTIVE TRUST  
OF NEW JERSEY

COMMISSION  
as of June 30, 2001

Peter R. Lawrance  
*Acting State Treasurer, Chairperson*

Karen L. Suter  
Commissioner, Department  
of Banking and Insurance

Charlene Holzbaur  
Director & State Comptroller,  
Office of Management  
& Budget, Department  
of the Treasury

THOMAS P. BRYAN  
*Secretary*

TO THE HONORABLE  
DONALD T. DiFRANCESCO  
ACTING GOVERNOR of the STATE OF NEW JERSEY

Dear Acting Governor DiFrancesco:

The Council for the

**SUPPLEMENTAL ANNUITY COLLECTIVE TRUST**

is pleased to present the Fiscal Year 2001 Annual Report in accordance with the provisions of N.J.S.A. 52:18A-111.

Respectfully submitted,

A handwritten signature in black ink that reads "Thomas P. Bryan".

THOMAS P. BRYAN  
Secretary

## SIGNIFICANT LEGISLATION

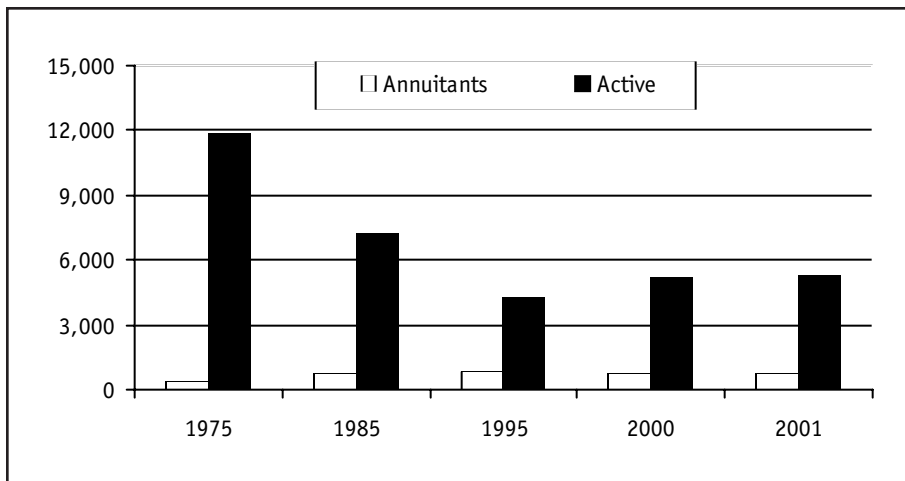
### CHAPTER 5, PUBLIC LAW OF 2001

This law revises New Jersey's "Administrative Procedure Act" (APA) to enhance access to the rule-making process. The provisions of the law include additional requirements for agencies involved in the rule-making process. These include the publication of a quarterly calendar of anticipated rule-making activities for the next six months, or in the absence of a calendar, a 60 day comment period instead of 30 days as well as a new "standard of clarity." The new law also requires four forms of notice of proposed rule-making, instead of two. These include a 30-day notice to the news media covering the State House Complex, an electronic notification through the Internet, publication in the New Jersey Register, and one additional means of notification such as an agency newsletter or direct mailing to interested parties.

This law was approved on January 16, 2001 and was effective on July 1, 2001.

### MEMBERSHIP

- As of June 30, 2001, the active contributing membership of the system totaled 5,271.
- The unit value was \$65.5161, a decrease of \$8.5355 from the June 30, 2000 value of \$74.0516.
- There were 720 annuitants.
- The Fund's assets totaled \$185,170,474 at the close of the fiscal year 2001.



KPMG LLP  
New Jersey Headquarters  
150 John F. Kennedy Parkway  
Short Hills, NJ 07078

### **Independent Auditors' Report**

Board of Trustees  
Supplemental Annuity Collective  
Trust of New Jersey:

We have audited the accompanying statements of net assets of the State of New Jersey Supplemental Annuity Collective Trust as of June 30, 2001 and 2000, and the related statements of changes in 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 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Supplemental Annuity Collective Trust of New Jersey as of June 30, 2001 and 2000, and the changes in its plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information included in Schedule A is presented for purposes of additional analysis and is not a required part of the financial statements of the Supplemental Annuity Collective Trust of New Jersey. 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**

September 7, 2001

**SUPPLEMENTAL ANNUITY COLLECTIVE  
TRUST OF NEW JERSEY**

Statements of Net Assets

June 30, 2001 and 2000

	<b>2001</b>	<b>2000</b>
<b>Assets:</b>		
Cash	\$ 203,599	\$ —
Investments, at fair value:		
State of New Jersey Cash Management Fund	3,743,135	3,805,822
Common stocks	181,354,107	215,155,105
Total investments	185,097,242	218,960,927
Receivables:		
Accrued dividends	127,069	179,613
Participant contributions	485,522	456,329
Total assets	185,913,432	219,596,869
<b>Liabilities:</b>		
Accounts payable and accrued expenses	175,505	179,403
Cash overdraft	—	268,177
Withholdings payable	35,275	44,505
Benefits payable	397,500	432,886
Unclaimed accounts	131,713	131,713
Total liabilities	739,993	1,056,684
Net assets	\$ 185,173,439	\$ 218,540,185

See accompanying notes to financial statements.

**SUPPLEMENTAL ANNUITY COLLECTIVE  
TRUST OF NEW JERSEY**

Statements of Changes in Net Assets  
Years ended June 30, 2001 and 2000

	<b>2001</b>	<b>2000</b>
<b>Revenues and additions:</b>		
Contributions:		
Members	\$ 7,735,592	\$ 6,970,845
Investment income:		
Net (depreciation) appreciation in fair value of investments	(20,788,415)	8,176,689
Interest	197,860	178,098
Dividends	2,349,896	2,647,284
Total revenues and additions	(10,505,067)	17,972,916
<b>Expenditures and deductions:</b>		
Benefits	22,861,679	30,020,232
Decrease in net assets	(33,366,746)	(12,047,316)
Net assets:		
Beginning of year	218,540,185	230,587,501
End of year	\$ 185,173,439	\$ 218,540,185

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2001 and 2000

**(1) 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 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 5,276 and 5,214 as of June 30, 2001 and 2000, respectively. Of that total, members receiving a monthly annuity benefit from the Trust were 772 and 725 as of June 30, 2001 and 2000, 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 general purpose 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 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, 2000, the date of the most recent actuarial valuation, there was a surplus of \$1,069,350 in the Variable Benefit Account to which annuity payments are charged. The surplus represents the overfunded amount of the Variable Benefit Account in comparison to the present value of benefits payable. 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

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

Notes to Financial Statements, Continued

**(1) DESCRIPTION OF THE TRUST, Continued**

based on tables furnished by the actuary.

***Use of estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

**(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of accounting***

The financial statements of the State of New Jersey Supplemental Annuity Collective Trust (the Trust) are prepared using the accrual basis of accounting and conform to the provisions of Governmental Accounting Standards Board (GASB) Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans." Plan assets and liabilities are stated at fair value.

***Investment valuation***

Investments, including short-term investments (State of New Jersey Cash Management Fund) are reported at fair value. Common stock investments that are traded on a national securities exchange are stated at the last reported sales price on the day of valuation. Other listed securities for which no sale was reported on that date are stated at the last quoted bid price.

Investment income is recognized when earned and is distributed daily on the basis of units of ownership.

Investment transactions and related investment income

Investment transactions are accounted for on a trade-date basis. Realized gains and losses from investment transactions are determined using the average cost method and recognized as investment income when they occur. Interest and dividend income is recorded on the accrual basis with dividends accruing on the ex-dividend date. Net appreciation (depreciation) in fair value of investments is the change in market value of the investments.

***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.

**(3) CASH AND CASH EQUIVALENTS**

GASB Statement No. 3 requires the bank balances of deposits to be categorized to indicate the level of risk assumed by the entity. Category 1 consists of deposits that are insured or collateralized with securities held by the entity or by its agent in the entity's name. Category 2 consists of deposits collateralized with securities

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

Notes to Financial Statements, Continued

**(3) CASH AND CASH EQUIVALENTS, Continued**

held by the pledging financial institution's trust department or agent in the entity's name. Category 3 consists of deposits which are uninsured and uncollateralized.

Based upon aggregate collateral levels maintained for all state bank accounts as a whole, substantially all cash balances maintained in financial institutions as of June 30, 2001 are designated Category 3.

**(4) INVESTMENTS**

The investment responsibility of the Trust is assigned to the State Investment Council (the Council) through the State of New Jersey, Department of the Treasury, Division of Investment (the Division), which issues publicly available financial reports that include the financial statements of the State of New Jersey Cash Management Fund. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Investment, P.O. Box 290, Trenton, New Jersey 08625-0290. All investments under the supervision of the Council must conform to standards of prudence set by State of New Jersey law, which mandate that the Division make investments in which fiduciaries of trust estates may legally invest.

The purchases, sales, receipts of income, and other transactions affecting investments are governed by custodial agreements between the Trust through the State Treasurer and custodian banks as agents for the Trust. State of New Jersey laws and policies set forth the requirements of the agreements and other particulars as to the size of the custodial institution, amount of the portfolio to be covered by the agreements and other pertinent matters.

Governmental Accounting Standards Board Statement No. 3 requires disclosure of the level of risk assumed by the Trust as of June 30, 2001 and 2000. Category 1 includes investments that are insured or registered or for which the securities are held by the Trust or its agent in the Trust's name. As of June 30, 2001 and 2000, all investments held by the Trust (other than State of New Jersey Cash Management Funds, which are not categorized) are classified as Category 1.

The Trust's portfolio of corporate equity and debt securities is maintained by the Depository Trust Company (DTC) through the custodian banks in trust for the Trust. The custodian banks as agents for the state funds maintain internal accounting records identifying the securities maintained by the DTC as securities owned by the Trust.

Securities not maintained by the DTC are held in the name of a designated nominee representing the securities of the Trust that establishes the Trust's unconditional right to the securities.

**(5) 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.



## Supplemental Annuity Collective Trust of New Jersey

Portfolio of Investment Securities

June 30, 2001

DESCRIPTION	PAR VALUE OR NUMBER OF UNITS	COST	FAIR VALUE
Common stock:			
Abbott Laboratories	30,000	\$ 420,750	\$ 1,440,000
Advanced Micro Devices, Inc.	30,000	287,417	867,000
Agilent Technologies Inc.	14,111	159,274	458,607
Albertson's, Inc.	10,000	206,606	299,900
Alltel Corp.	14,632	332,513	896,356
Amer Tower Sys	32,000	921,988	661,440
American Intl. Group, Inc.	61,696	598,132	5,244,777
American Power Conversion Corp.	5,000	49,137	78,750
American Water Works Co., Inc.	5,000	115,250	164,850
Anadarko Petroleum Corp.	17,000	486,475	916,470
Analog Devices, Inc.	10,000	746,813	432,500
AOL Time Warner Inc.	195,000	2,457,415	10,335,000
Archer-Daniels-Midland Co.	51,051	610,852	666,216
AT&T Corp.	31,454	627,398	691,988
AT&T Wireless	66,991	1,512,417	1,095,303
Avnet Inc.	1,305	42,075	29,258
Avon Products	6,000	213,227	277,680
Axcelis Tech. Inc.	14,148	45,625	209,390
Bank New York (The) Co.	65,000	442,626	3,120,000
Bausch & Lomb, Inc.	12,000	543,171	434,880
Bellsouth Corp.	60,000	866,675	2,416,200
Berkshire Hathaway Inc.	315	336,300	724,500
Best Buy	10,000	503,425	635,200
Boeing (The) Co.	9,000	292,295	500,400
Bristol-Myers Squibb Co.	24,000	355,338	1,255,200
Burlington Northern Santa Fe Corp.	15,000	203,822	454,500
Cablevision	6,000	407,829	351,000
Cablevision Rainbow	3,000	72,283	77,400
Cadence Design Systems, Inc.	58,500	270,400	1,089,855
Capital One Finl.	12,000	554,541	721,800
Cendant Corp.	49,515	1,016,138	965,542
Centex Corp.	20,000	244,313	815,000
Chevron Corp.	30,000	1,359,000	2,715,000
Chubb Corp.	4,000	145,237	309,720
Citigroup Inc.	144,534	1,741,361	7,637,177
Clear Channel Comm.	8,930	611,225	559,911
Coachmen Industries, Inc.	10,000	190,000	132,500
Coca Cola (The) Co.	50,000	1,044,000	2,250,000
Computer Associates Intl., Inc.	20,000	741,804	720,000
Computer Sciences Corp.	3,000	158,400	103,800
Convergys Corp.	4,000	67,954	121,000
Corning Inc.	25,000	1,126,319	417,750
Cypress Semiconductor Corp.	2,000	28,850	47,700
Dana Corp.	10,000	300,300	233,400
Danaher Corp.	2,000	89,100	112,000
Darden Restaurants, Inc.	14,500	116,968	404,550
Delphi Automotive Systems	19,570	183,519	311,750

## Supplemental Annuity Collective Trust of New Jersey

Portfolio of Investment Securities

June 30, 2001

DESCRIPTION	PAR VALUE OR NUMBER OF UNITS	COST	FAIR VALUE
Common stock, Continued:			
Dime Bancorp.	20,000	341,226	745,000
Dime Bancorp. Warrant LTW	20,000	-	5,600
Disney, Walt (The) Co.	78,723	1,951,948	2,274,307
Dominion Resources, Inc.	21,028	674,095	1,264,414
Dover Corp.	20,000	165,334	753,000
Duke Energy Corp.	15,200	267,406	592,952
Dun & Bradstreet Corp.	5,000	48,930	141,000
Eaton Corp.	12,000	435,350	841,200
El Paso Corp.	15,000	458,250	788,100
EMC Corp. Mass	66,000	1,424,467	1,930,500
Equity Residential PPTY Trust	11,000	511,900	622,050
ESCO Tech. Inc.	4,500	76,685	135,675
Exelon Corp.	7,800	207,146	500,136
ExxonMobil Corp.	70,403	1,164,845	6,149,702
Federal Home Loan Mtg. Corp.	23,000	1,273,146	1,565,150
Federal National Mortgage Assoc.	8,000	90,122	681,200
FEDEX Corp.	6,000	193,650	241,200
Fleet Boston Finl. Corp.	62,376	991,613	2,460,733
FMC Corp.	5,000	218,379	342,800
Genentech Inc.	10,000	520,400	551,000
General Electric Co.	177,400	4,404,462	8,648,250
General Mills, Inc.	29,000	535,095	1,269,620
General Motors Corp.	21,250	663,688	1,367,437
Goldman Sachs Group Inc.	10,000	530,000	858,000
Goodrich (B.F.) (The) Co.	7,500	264,775	284,850
Halliburton Co.	23,000	498,525	818,800
Harley-Davidson, Inc.	20,000	112,277	941,600
Harris Corp.	18,000	571,550	489,780
Hartford Financial Services	5,000	295,250	342,000
HCA Healthcare Co.	15,000	518,289	677,850
Hercules, Inc.	20,000	352,967	226,000
Hewlett Packard Co.	74,000	570,119	2,116,400
Home Depot (The), Inc.	67,125	588,417	3,124,669
Honeywell Intl. Inc.	11,250	378,425	393,638
Houghton Mifflin Co.	3,000	92,825	179,790
Household International, Inc.	15,000	201,275	1,000,500
IBM Corp.	56,000	1,308,120	6,328,000
Illinois Tool Works, Inc.	10,000	436,500	633,000
IMS Health	20,000	198,511	570,000
Interpublic Group Companies, Inc.	7,500	85,538	220,125
J.P. Morgan Chase & Co.	59,500	676,073	2,653,700
Johnson & Johnson	37,000	1,482,775	1,850,000
Johnson Controls., Inc.	10,000	261,474	724,700
Kerr-Mcgee Corp.	8,000	362,454	530,160
Kohls Corp.	20,000	267,125	1,254,600
Lilly (Eli) & Co.	7,964	128,330	589,336
Lockheed Martin Corp.	1,083	19,529	40,125

## Supplemental Annuity Collective Trust of New Jersey

Portfolio of Investment Securities

June 30, 2001

DESCRIPTION	PAR VALUE OR NUMBER OF UNITS	COST	FAIR VALUE
Common stock, Continued:			
Lowes Cos.	20,000	814,907	1,451,000
LSI Logic	19,000	834,650	357,200
Lucent Technologies, Inc.	77,740	597,455	482,765
Mattel, Inc.	24,375	404,430	461,175
McData Corp. Class A	1,325	10,108	23,254
McDonald's Corp.	30,000	229,912	811,800
McGraw-Hill (The) Companies, Inc.	20,000	343,925	1,323,000
Medtronic, Inc.	32,000	327,780	3,312,720
Mellon Finl Corp.	11,000	275,619	492,910
Memc Electronic Materials Inc.	2,000	54,245	15,300
Merck & Co., Inc.	60,000	781,475	3,834,600
Merrill Lynch & Co., Inc.	60,000	308,497	3,555,000
Mirant Corp.	8,946	168,404	307,742
Montana Power	4,000	113,600	46,400
Motorola, Inc.	87,900	546,392	1,455,623
MSC Software Corp.	50,000	419,206	937,500
National Semiconductor Corp.	12,000	675,444	349,440
Norfolk Southern Corp.	31,500	402,532	653,625
Nortel Networks Corp.	20,000	511,125	180,600
Opus 360 Corp.	500	5,000	50
Paxson Communications Corp.	10,000	78,000	134,000
PepsiCo, Inc.	60,000	1,014,994	2,652,000
Pfizer, Inc.	123,750	917,924	4,956,186
PG&E Corp.	37,000	1,075,700	414,400
Pharmacia Corp.	32,850	995,300	1,509,458
Philip Morris Companies, Inc.	35,000	940,667	1,776,250
PPG Industries, Inc.	14,000	427,642	735,980
Proctor & Gamble (The) Co.	31,000	573,944	1,977,800
Public Service Enterprise Group, Inc.	20,000	582,363	978,000
Qwest Comm.	30,000	1,296,232	956,100
Robert Half International, Inc.	20,000	133,917	497,800
Rohm & Haas Co.	5,531	87,599	181,970
Safeguard SCI	30,000	748,106	154,200
Sara Lee Corp.	21,500	202,860	407,210
SBC Communications, Inc.	59,010	1,792,288	2,363,941
Schering-Plough	20,000	724,753	724,800
Scientific-Atlanta, Inc.	15,000	729,681	609,000
Solelectron Corp.	32,000	148,240	585,600
Southern Co.	22,500	265,706	523,125
Sprint Corp. PCS Group	25,000	59,860	603,750
Sprint Corp.	50,000	462,809	1,068,000
SPX Corp.	7,000	230,880	876,260
State Street Corp.	4,600	114,396	227,654
Symbol Technologies, Inc.	22,780	62,925	505,716
Sysco Corp.	52,000	268,386	1,411,800
Target Corp.	16,000	371,025	553,600
Texas Instruments, Inc.	141,400	575,145	4,510,660

## Supplemental Annuity Collective Trust of New Jersey

Portfolio of Investment Securities

June 30, 2001

DESCRIPTION	PAR VALUE OR NUMBER OF UNITS	COST	FAIR VALUE
Common stock, Continued:			
TRW, Inc.	10,000	322,101	410,000
Tyco International Ltd	41,834	1,014,748	2,280,371
Union Pacific Corp.	8,500	246,497	466,735
Unitedhealth Group Inc.	16,000	341,740	988,000
Univision Communications	4,000	66,475	171,120
Unocal Corp.	4,500	155,196	153,675
Unumprovident Corp.	20,000	441,984	642,400
USA Networks Inc.	1,800	9,060	50,400
Veritas Software Co.	2,232	160,085	148,495
Verizon Communications	55,900	1,843,171	2,990,650
Viacom, Inc., Class B	32,269	648,258	1,669,921
Vishay Intertechnology, Inc.	4,339	54,725	99,797
Wal-Mart Stores, Inc.	50,000	608,125	2,440,000
Wells Fargo & Co.	25,000	1,028,750	1,160,750
Wendy's International, Inc.	24,000	314,018	612,960
Total common stock		80,626,798	181,354,107
State of New Jersey Cash Management Fund	3,741,651	3,741,651	3,743,135
Total fund		\$ 84,368,449	\$ 185,097,242