

STATE OF CONNECTICUT

OFFICE OF THE TREASURER

2006

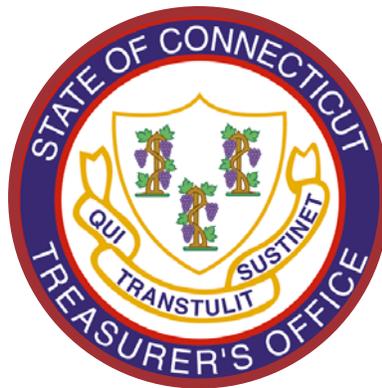


SHORT-TERM INVESTMENT FUND COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the fiscal year ended June 30, 2006

STATE OF CONNECTICUT

Office of the State Treasurer



The State Motto "Qui Transtulit Sustinet," (He Who Transplanted Still Sustains), has been associated with the various versions of the state seal from the creation of the Saybrook Colony Seal.

STATE OF CONNECTICUT

OFFICE OF THE TREASURER

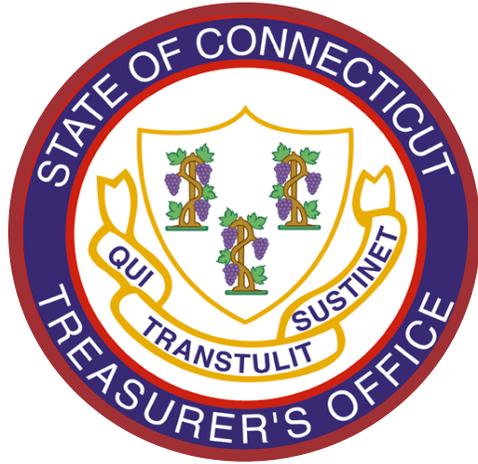
2006



SHORT-TERM INVESTMENT FUNDS COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the fiscal year ended June 30, 2006

Prepared by: State of Connecticut
Office of the Treasurer
55 Elm Street
Hartford, CT 06106-1773



SHORT-TERM INVESTMENT FUND
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR FISCAL YEAR ENDED JUNE 30, 2006

Table of Contents

INTRODUCTORY SECTION

Letter from the Treasurer	3
Management's Report	6
Certificate of Achievement For Excellence in Financial Reporting	7
Connecticut State Treasurer's Office	8
Fund Administration	9
List of Principal Officials	10

FINANCIAL SECTION

Report of Auditors of Public Accounts	11
Management's Discussion and Analysis	12

BASIC FINANCIAL STATEMENTS

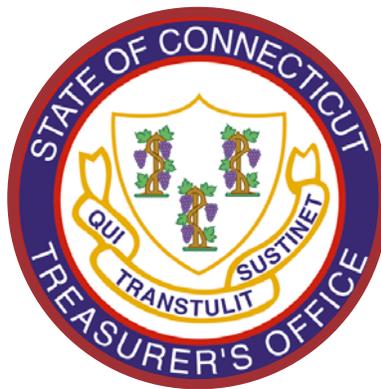
Statement of Net Assets	15
Statements of Changes in Net Assets	16
Notes to Financial Statements	17

INVESTMENT SECTION

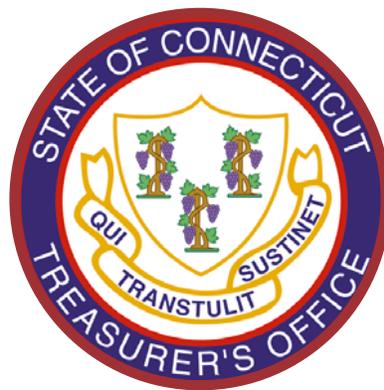
Investment Results Review	23
Description of the Fund	23
Risk Profile	24
Portfolio Composition	24
Performance Summary	24
Economic Report	25
Outlook	25
List of Investments at June 30, 2006	28
Schedule of Management Fees at June 30, 2006	31
Schedule of Participants by Concentration at June 30, 2006	32
STIF Investment Policy	33
Glossary of Terms	40

STATISTICAL SECTION

Overview	43
Independent Accountants' Report - Schedules of Rates of Return	44
Schedule of Annual Rates of Return	45
Schedule of Quarterly Rates of Return	46
Notes to Schedules of Rates of Return	47
STIF Growth of Participant Units Under Management	49
STIF Monthly Comparative Yields	50
STIF Annual Comparative Yields	50
STIF Changes in Net Assets Last Ten Fiscal Years	51
STIF Distributions to Participants	52



Introductory
Section





State of Connecticut
Office of the Treasurer

DENISE L. NAPPIER
TREASURER

HOWARD G. RIFKIN
DEPUTY TREASURER

January 22, 2007

To the State of Connecticut Short-Term Investment Fund Participants:

I am pleased to submit this Comprehensive Annual Financial Report for the State of Connecticut Short-Term Investment Fund (STIF) for the fiscal year ended June 30, 2006, which reflects a year of solid performance, exceeding the Fund benchmark and providing substantial savings for municipalities and, ultimately, their taxpayers.

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the Office of the Treasurer. To the best of our knowledge, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of STIF.

The Short-Term Investment Fund, created by legislation in 1972, is a State and local government investment pool managed by the Treasurer of the State of Connecticut. Investors in the Fund include the State, State agencies and authorities, municipalities, and other political subdivisions of the State. The primary objective of the Fund is to provide the greatest possible return while protecting principal and providing liquidity for investors. The Fund's Investment Policy ensures strong asset diversification by security type and issuer, comprised of high-quality, very liquid securities with a relatively short average maturity. In addition, the Fund maintains a Designated Surplus Reserve, which approximates one percent of Fund assets, to protect against security defaults or the erosion of security values due to any significant unforeseen market changes. The Fund has never drawn against this reserve. (See Investment Policy, page 33.)

The 2006 Comprehensive Annual Financial Report is presented in four sections.

- ◆ Introductory Section contains this letter of transmittal, Management's Report, and identification of the Fund's administrative organization.
- ◆ Financial Section contains the opinion of the independent auditors, management's discussion & analysis (MD&A), and basic financial statements.
- ◆ The Investment Section contains investment information and a list of investments.
- ◆ The Statistical Section contains tables of significant data pertaining to the Fund.

Management's Discussion and Analysis

The MD&A beginning on page 12 provides an overview and analysis of the Fund's basic financial statements. This letter of transmittal is intended to complement the MD&A and should be read in conjunction with

it. We are confident that the data is presented in a manner that fairly reflects the financial position and results of operations as measured by the financial activity of the fund. To this end, audited financial statements and all disclosures necessary to enable the reader to gain an understanding of the Short-Term Investment Fund financial activities have been included herein for your review.

Economic Condition and Outlook

The economic condition of the Fund is based primarily upon investment earnings. With \$5.4 billion in assets as of June 30, 2006, STIF produced an annual total return of 4.38 percent, net of operating expenses and allocation to fund reserves. STIF exceeded its primary benchmark by 37 basis points, resulting in \$18.4 million in additional interest income for the State, State agencies and local governments.

STIF's calendar year 2005 performance ranked first in the country among 47 government investment pools reported by TRACS Financial Research, an independent firm that monitors the performance of government investment pools on a monthly basis.

The Federal Open Market Committee (FOMC) of the Federal Reserve in fiscal year 2006 raised interest rates in order to ward against over stimulation resulting from robust growth. The Fed Funds rate was increased throughout the fiscal year from 3.25 percent to 5.25 percent as of June 30, 2006.

For the first time in over two years and 17 consecutive rate hikes, the Fed did not increase the Federal Funds rate at the August 2006 FOMC meeting.

The Fund's Rates of Return were examined by UHY, Certified Public Accountants, as presented on page 44 of this report.

Financial Information

Management is responsible for maintaining a system of adequate internal accounting controls designed to provide reasonable assurance that transactions are executed in accordance with management's general or specific authorization, and are recorded as necessary to maintain accountability for assets and to permit preparation of financial statements in accordance with generally accepted accounting principles. This system includes written policies and procedures. Discussion and analysis of net assets and related additions and deductions is presented in the MD&A beginning on page 12.

STIF has attained the highest money fund rating, AAAm, from Standard & Poor's (S&P), the leading rating agency of money market funds and government investment pools. The rating is based on an analysis of the pool's management, investment guidelines, portfolio holdings and market price exposure. This AAAm rating, in S&P's view, signifies that "safety is excellent, and it possesses superior capacity to maintain principal value and limit exposure to loss." In addition, S&P monitors STIF's portfolio on a weekly basis to ensure that we maintain the safety and liquidity its investors deserve.

The Investment Advisory Council and the Treasurer's Cash Management Advisory Board also review STIF's portfolio periodically throughout the year.

As of June 30, 2006, STIF administered 1,006 accounts for 62 State agencies and authorities, and 259 municipalities and local entities reflecting the continued confidence in the Fund as a solid investment vehicle for Connecticut communities.

Independent Audit

In this report, you will find a level of disclosure consistent with the highest standards of financial reporting in conformity with generally accepted accounting principles (GAAP). The State of Connecticut's independent

LETTER FROM THE TREASURER

Auditors of Public Accounts conducted an annual audit of this Comprehensive Annual Financial Report in accordance with generally accepted auditing standards. The auditors' report on the basic financial statements is included in the Financial Section of this report.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded the Fund a Certificate of Achievement for Excellence in Financial Reporting for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2005. The Certificate is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

Additional Information

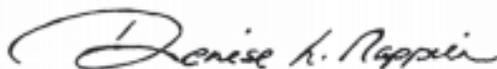
We will remain vigilant in safeguarding and prudently investing the operating cash of the State, its agencies and authorities, municipalities, and other political subdivisions of the State. Moreover, we will continue to seek the highest level of income possible within prudent parameters established to protect principal and provide liquidity to meet investors' daily cash flow requirements.

Our new, secure on-line investor system — called STIF Express — allows investors to view account balances, transaction histories and income distributions, and gives investors the ability to initiate deposits and withdrawals via the Internet.

In addition, a section of the Treasury website is dedicated to STIF investors. At the STIF home page you will find helpful information on STIF, including the current daily rate and historical data. You also will find links to annual and quarterly reports, STIF Express, and forms for opening new STIF accounts and for enrolling in the special services, such as Grant Express, Debt Service Express, and Clean Water Fund Express, that we offer investors. The STIF site may be accessed through the Treasury website, www.state.ct.us/ott.

This Annual Report and the annual STIF investor meeting, which is part of the Treasury's Public Finance Outlook Conference, are offered to provide a more comprehensive understanding of the STIF investment record. We appreciate your participation in the Short-Term Investment Fund, and hope that the information provided here will prove to be both interesting and helpful.

Sincerely,



Denise L. Nappier
Treasurer
State of Connecticut

MANAGEMENT'S REPORT



State of Connecticut Office of the Treasurer

DENISE L. NAPIER
TREASURER

HOWARD G. RIFKIN
DEPUTY TREASURER

Connecticut State Treasury
Hartford, Connecticut
December 22, 2006

The Office of the Treasurer assumes the daily responsibility of managing the assets of the Short-Term Investment Fund (STIF) pool. State Street Bank and Trust Company serves as custodian for the pool. All investments must be made in instruments authorized by Connecticut General Statutes (CGS) 3-27c - 3-27f. The most recent guidelines under which the pool operates were adopted and approved by the State Treasurer on August 21, 1996. It is our belief that the contents of this Annual Report make evident the State of Connecticut Treasurer's Office support of the safe custody and conscientious stewardship of the Short-Term Investment Fund.

While STIF's financial statements and the related financial data contained in this Annual Report have been prepared in conformity with generally accepted accounting principles as a "2a7-like" pool, and such financial statements are audited annually by the State Auditors of Public Accounts, the ultimate accuracy and validity of this information is the responsibility of the management of the State Treasurer's Office. To carry out this responsibility, the Treasury maintains financial policies, procedures, accounting systems and internal controls which management believes provide reasonable, but not absolute, assurance that accurate financial records are maintained and investments and other assets are safeguarded.

In management's opinion, STIF's internal control structure is adequate to ensure that the financial information in this report presents fairly STIF's operation and financial condition.

Sincerely,

A handwritten signature in black ink, appearing to read "H. Rifkin", with a long horizontal flourish extending to the right.

Howard G. Rifkin
Deputy Treasurer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Connecticut State Treasurer's Short-Term Investment Fund

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Carla E. Perry

President

Jeffrey R. Emer

Executive Director

Mission Statement

To serve as the premier State Treasurer’s Office in the nation through effective management of public resources, high standards of professionalism and integrity, and expansion of opportunity for the citizens and businesses of Connecticut.

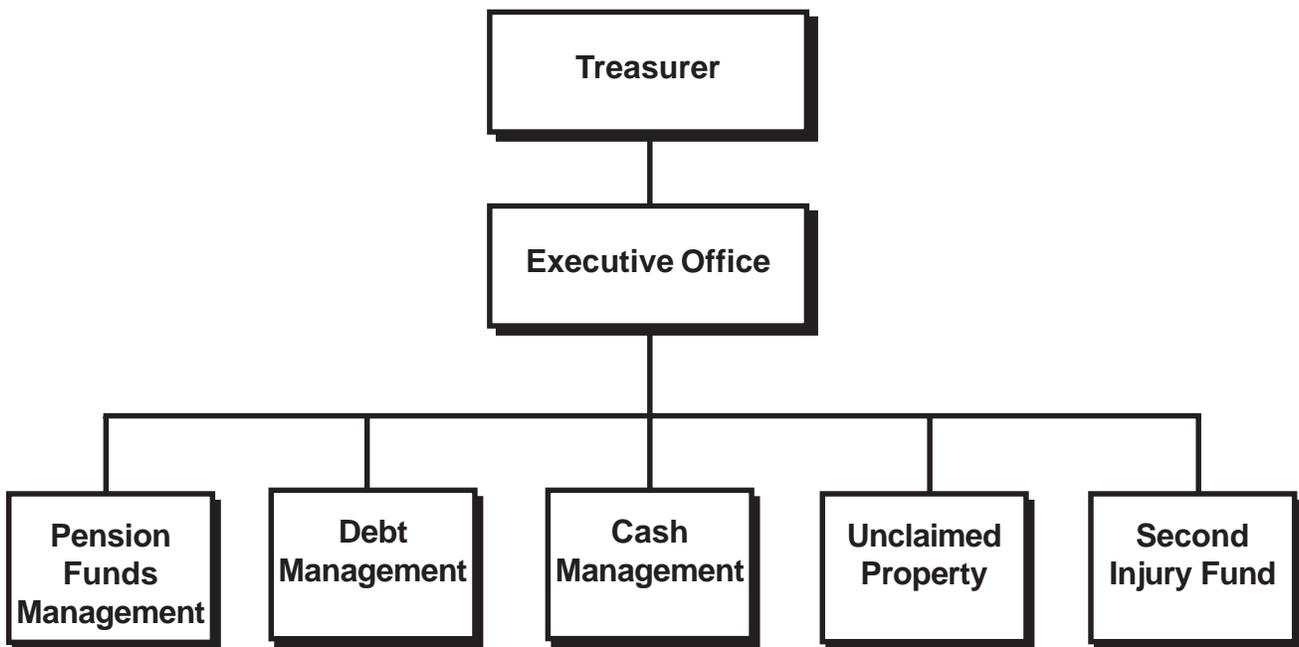
Statutory Responsibility

The Office of the Treasurer was established following the adoption of the fundamental orders of Connecticut in 1638. The Treasurer shall receive all funds belonging to the State and disburse the same only as may be directed by law, as described in Article Fourth, Section 22 of the Connecticut Constitution and in Title 3 of the Connecticut General Statutes.

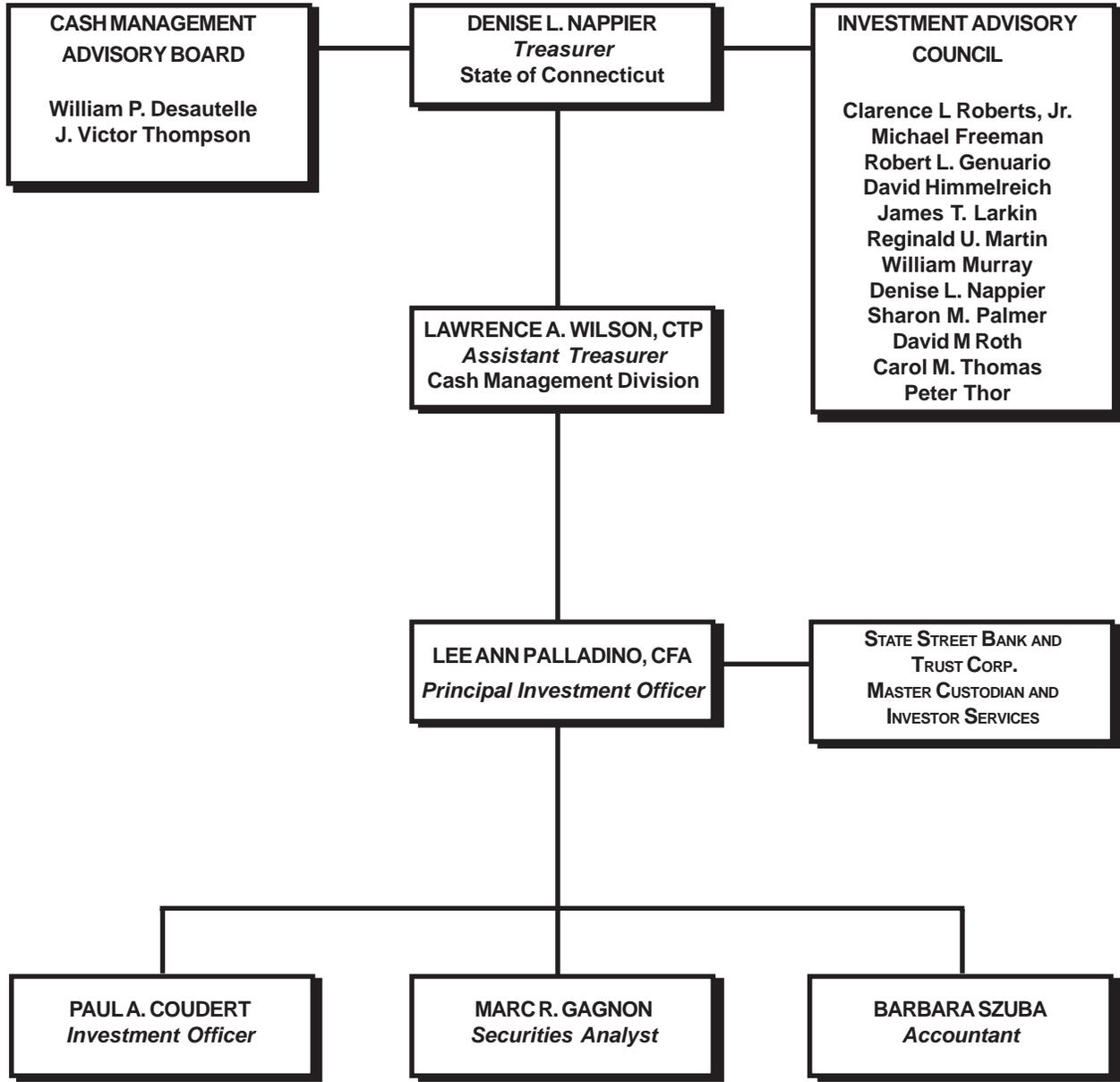
The Treasurer, as Chief Fiscal Officer for the State, oversees the prudent preservation and management of State funds, including the administration of a \$22.9 billion portfolio of pension assets and a \$5.4 billion short-term investment fund.

Public Service

The Office of the Treasurer includes an Executive Office as well as five divisions, each with specific responsibilities: Pension Funds Management, Cash Management, Debt Management, Unclaimed Property, and the Second Injury Fund.



SHORT-TERM INVESTMENT FUND ADMINISTRATION



As of October 15, 2006.

LIST OF PRINCIPAL OFFICIALS

SHORT-TERM INVESTMENT FUND

55 Elm Street
6th Floor
Hartford, CT. 06106-2773
Telephone: (860) 702-3118
Facsimile: (860) 702-3048
World Wide Web:
www.state.ct.us/ott

Treasurer, State of Connecticut
DENISE L. NAPPIER (860) 702-3001

Deputy Treasurer, State of Connecticut
HOWARD G. RIFKIN (860) 702-3292

Assistant Treasurer, Cash Management
LAWRENCE A. WILSON, CTP (860) 702-3126

STIF INVESTMENT MANAGEMENT

Principal Investment Officer
LEE ANN PALLADINO, CFA (860) 702-3255

Investment Officer
PAULA. COUDERT (860) 702-3254

Securities Analyst
MARC R. GAGNON (860) 702-3158

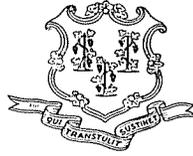
STIF INVESTOR SERVICES
Accountant
BARBARA SZUBA (860) 702-3118

CUSTODIAN AND INVESTOR SERVICES
STATE STREET BANK AND TRUST CORPORATION
1-800-754-8430

Financial
Section



STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

KEVIN P. JOHNSTON

STATE CAPITOL
210 CAPITOL AVENUE
HARTFORD, CONNECTICUT 06106-1559

ROBERT G. JAEKLE

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying statement of net assets of the Short-Term Investment Fund, including the list of investments, as of June 30, 2006, and the statements of changes in net assets for the fiscal years ended June 30, 2006, and 2005. These financial statements are the responsibility of the management of the State Treasury. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.

Our procedures included confirmation of securities owned as of June 30, 2006, by correspondence with the custodian. 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 the Short-Term Investment Fund as of June 30, 2006, and the results of its operations and changes in net assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the financial statements of the Short-Term Investment Fund taken as a whole. The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the Management's Discussion and Analysis and express no opinion on it. The Statistical Section contained herein is presented for purposes of additional analysis and is not a required part of the financial statements of the Short-Term Investment Fund. Except as noted below, such information has been subjected to the auditing procedures applied in the audit of the financial statements of the Short-Term Investment Fund and, in our opinion, is fairly presented in all material respects in relation to the financial statements of the Short-Term Investment Fund taken as a whole. We did not audit the information contained in the Introductory and Investment Sections of this Short-Term Investment Fund annual report, or the Schedules of Rates of Return contained in the Statistical Section.


Kevin P. Johnston
Auditor of Public Accounts


Robert G. Jaekle
Auditor of Public Accounts

December 29, 2006
State Capitol
Hartford, Connecticut

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents Management's Discussion and Analysis (MD&A) of the Comprehensive Annual Financial Report (CAFR) of the State of Connecticut's Office of the Treasurer Short-Term Investment Fund (STIF) financial position and performance for the fiscal year ended June 30, 2006. It is presented as a narrative overview and analysis. Management of the State of Connecticut's Office of the Treasurer encourage readers to review it in conjunction with the transmittal letter included in the Introductory Section at the front of this report and the financial statements in the Financial Section that follow.

The Short-Term Investment Fund serves as an investment vehicle for the operating cash of the State Treasury, State agencies and authorities, and municipalities, and other political subdivisions of the State. STIF represents an investment pool of short-term money market instruments and is managed for the sole benefit of the participants. All income is distributed monthly after deducting operating costs of approximately 3 basis points and an allocation to the Fund's Designated Surplus Reserve of 10 basis points (until the reserve reaches one percent of fund assets). The Treasurer's Short-Term Investment Fund is a AAAM rated investment pool of high-quality, short-term money market instruments.

The STIF financial statements reported by the Treasurer's Office for which the Treasurer has fiduciary responsibility for the investment thereof begin on page 15 and provide detailed information about the Fund.

FINANCIAL HIGHLIGHTS Condensed Financial Information

Short Term Investment Fund Net Assets and Changes in Net Assets

Net Assets - The net assets held in trust for participants under management in the Short-Term Investment Fund at the close of the fiscal year were \$5.4 billion, an increase of \$1.1 billion from the previous year. The principal reasons for the increase was an overall increase of \$933 million in State Agencies and Authorities investments and an increase of \$179 million in investments in the Fund from its municipal and local customers. During fiscal year 2006, revenues for the State and Connecticut Municipalities grew in tandem with the strong economic growth experienced in Connecticut. As government revenues grew, these entities utilized STIF as an investment vehicle for short-term cash.

The net assets under management in the Short-Term Investment Fund at the close of the 2005 fiscal year were \$4.31 billion, an increase of \$0.48 billion from the prior year. The principal reasons for the increase was an overall increase of \$552 million from State Agencies and Authorities and a decline of \$68 million in investments in the Fund from its municipal and local customers.

Operating Income - General financial market conditions produced an annual total return of 4.38%, net of operating expenses and allocations to Fund reserves, compared to an annual total return of 2.32%, net of operating expenses and allocations to Fund reserves in the previous fiscal year. The annual total return exceeded that achieved by its benchmark, which equaled 4.01%, by 37 basis points, resulting in \$18.4 million in additional interest income for Connecticut governments and their taxpayers. During fiscal year 2006, the Federal Funds rate increased 200 basis points. STIF maintained a short weighted average maturity during this time frame, and as a result its return to investors increased in tandem with short-term rates.

General financial market conditions produced an annual total return of 2.32%, net of operating expenses and allocations to Fund reserves in fiscal 2005, compared to an annual total return of 1.16%, net of operating expenses and allocations to Fund reserves in the previous fiscal year. The annual total return exceeded that achieved by its benchmark, which equaled 1.91%, by 41 basis points, resulting in \$16.9 million in additional interest income for Connecticut governments and their taxpayers.

Designated Surplus Reserve - In order to support the creditworthiness of the Fund and provide some additional protection against potential credit losses, a designated surplus reserve (reserve) is maintained. The amount transferred to the reserve is equal to 0.1 percent of the end of day investment balances. No transfer is made if the reserve account is equal to or greater than 1.0 percent of the daily investment balance. The fund operated most of

MANAGEMENT'S DISCUSSION AND ANALYSIS

the year in a reserve transfer position due to the high level of assets. During the fiscal year, \$3.9 million was transferred to the reserve bringing the total reserve to \$47.4 million

During fiscal year 2005 \$1.7 million was transferred to the reserve bringing the total reserve to \$43.5 million.

Table 1 - Net Assets

Assets	2006	Increase (Decrease)	2005	Increase (Decrease)	2004
Investments in Securities, at Amortized Cost	\$5,442,474,476	\$1,123,058,856	\$4,319,415,620	\$490,302,328	\$3,829,113,292
Receivables and Other	9,989,261	5,001,585	4,987,676	744,469	4,243,207
Total Assets	5,452,463,737	1,128,060,441	4,324,403,296	491,046,797	3,833,356,499
Liabilities	(22,297,185)	(11,797,726)	(10,539,459)	(6,438,967)	(4,100,492)
Net Assets	\$5,430,166,552	\$1,116,302,715	\$4,313,863,837	\$484,607,830	\$3,829,256,007

Table 2 - Changes in Net Assets

Assets	2006	Increase (Decrease)	2005	Increase (Decrease)	2004
Net Interest Income	\$217,863,278	\$121,249,587	\$96,613,691	\$51,519,585	\$45,094,106
Net Realized Gains	53,034	53,034	-	(176,116)	176,116
Total Investment Income	217,916,312	121,302,621	96,613,691	51,343,469	45,270,222
Purchase of Units by Participants	13,308,206,427	451,051,159	12,857,155,268	82,435,186	12,774,720,082
Total Additions	13,526,122,739	572,353,780	12,953,768,959	133,778,655	12,819,990,304
Deductions					
Distribution of Income to Participants	212,646,678	(118,818,443)	93,828,235	\$0,453,438	43,374,797
Redemption of Units by Participants	12,195,842,433	178,406,500	12,374,248,933	151,740,687	12,222,508,246
Operating Expenses	1,330,913	(246,952)	1,083,961	153,887	930,074
Total Deductions	12,409,820,024	59,341,105	12,469,161,129	202,348,012	12,266,813,117
Change in Net Assets	1,116,302,715	631,694,885	\$484,607,830	\$(68,569,357)	\$553,177,187
Total net assets – beginning	4,313,863,837	484,607,830	\$3,829,256,007	\$553,177,187	\$3,276,078,820
Total net assets - ending	\$5,430,166,552	\$1,116,302,715	\$4,313,863,837	\$484,607,830	\$3,829,256,007

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the Office of the Treasurer's Short-Term Investment Fund basic financial statements, which are comprised of: 1) Statement of Net Assets, 2) Statement of Changes in Net Assets and 3) Notes to the Financial Statements.

The Statement of Net Assets and the Statement of Changes in Net Assets are two financial statements that report information about the Short-Term Investment Fund. These statements include all assets and liabilities using the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets (page 15) presents all of the Short-Term Investment Fund's assets and liabilities, with the difference between the two reported as "net assets".

The Statement of Changes in Net Assets (page 16) presents information showing how the Short-Term Investment Fund's net assets changed during the most recent year. All changes in net assets are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows.

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the Short-Term Investment Fund's financial statements. The notes can be found on pages 17-20 of this report.

ECONOMIC CONDITIONS AND OUTLOOK

After three years of strong economic performance, U.S. economic growth peaked just as Fiscal Year 2006 (FY 2006) began. Throughout the year, however, economic growth began to moderate. One of the main factors that contributed to slower growth was energy prices. Higher energy prices decreased consumer discretionary spending and contributed to the trend of slower economic growth.

Inflation concerns began to surface early in the fiscal year. As the fiscal year began with economic growth at full speed, demand expanded to a point where consumers were willing to tolerate higher prices. As inflation rose and the economy continued to show positive growth, albeit at a slower pace, both short and long-term interest rates rose. The overnight Federal Funds rate rose from 3.25 percent as of June 30, 2005 to 5.25 percent as of June 29, 2006. For the first time in over two-years and after 17 consecutive rate hikes, the Fed did not increase the Federal Funds rate at the August 2006 Federal Open Market Committee (FOMC) meeting.

On the positive side, consumer spending was supported by a strong employment picture. Employment grew by 1.9 million jobs as the unemployment rate fell from 5.1 percent to 4.6 percent. For FY 2006, consumer purchases were the major contributor to growth in the economy with Gross Domestic Product (GDP) growing by 3.5 percent on a year-over-year basis.

As we enter fiscal year 2007, the U.S. economy appears to be in a period of transition characterized by the unenviable position of slowing growth and increasing inflation. It is likely that the Federal Reserve will hold interest rates steady throughout the fiscal year. Federal funds futures show that the most likely case is for interest rates to remain at the current 5.25 percent level for the first half of this fiscal year. During the second half of FY 2007, fed funds futures predict a 25 basis point easing to 5.00 percent as the economy slows further.

CONTACTING THE OFFICE OF THE TREASURER

This financial report is designed to provide a general overview of the Office of the Treasurer's finances and to show the Office's accountability for the money it receives. Questions about this report or requests for additional information should be addressed to:

Connecticut State Treasury
55 Elm Street
Hartford, CT 06106-1773
Telephone (860) 702-3000
www.state.ct.us/ott

CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND

**STATEMENT OF NET ASSETS
JUNE 30, 2006**

	<u>June 30, 2006</u>
ASSETS	
Investment in Securities, at Amortized Cost (Note 8)	\$ 5,442,474,476
Accrued Interest and Other Receivables	9,954,696
Prepaid Assets	34,565
TOTAL ASSETS	<u>\$ 5,452,463,737</u>
LIABILITIES	
Distribution Payable	22,283,125
Payable to Transfer Agent (Note 6)	10,969
Interest Payable	3,091
TOTAL LIABILITIES	<u>\$ 22,297,185</u>
NET ASSETS	<u>\$ 5,430,166,552</u>

See accompanying Notes to the Financial Statements.

CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND

**STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2006 AND JUNE 30, 2005**

	For the Year Ended June 30,	
	2006	2005
ADDITIONS		
Operations		
Interest Income	\$ 217,863,278	\$ 96,613,691
Net Investment Income	217,863,278	96,613,691
Net Realized Gains	53,034	-
Net Increase in Net Assets Resulting from Operations	217,916,312	96,613,691
Share Transactions at Net Asset Value of \$1.00 per Share		
Purchase of Units	13,308,206,427	12,857,155,268
TOTAL ADDITIONS	13,526,122,739	12,953,768,959
DEDUCTIONS		
Distribution to Participants (Notes 2 & 7)		
Distributions to Participants	(212,646,678)	(93,828,235)
Total Distributions Paid and Payable	(212,646,678)	(93,828,235)
Share Transactions at Net Asset Value of \$1.00 per Share		
Redemption of Units	(12,195,842,433)	(12,374,248,933)
Operations		
Operating Expenses	(1,330,913)	(1,083,961)
TOTAL DEDUCTIONS	(12,409,820,024)	(12,469,161,129)
CHANGE IN NET ASSETS	1,116,302,715	484,607,830
Net Assets		
Beginning of Year	4,313,863,837	3,829,256,007
End of Year	\$ 5,430,166,552	\$ 4,313,863,837

See accompanying Notes to the Financial Statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1: INTRODUCTION AND BASIS OF PRESENTATION

The Short-Term Investment Fund ("STIF" or the "Fund") is a money market investment pool managed by the Treasurer of the State of Connecticut. Section 3-27 of the Connecticut General Statutes (CGS) created STIF. Pursuant to CGS 3-27a - 3-27f, the State, municipal entities, and political subdivisions of the State are eligible to invest in the Fund. The State Treasurer is authorized to invest monies of STIF in United States government and agency obligations, certificates of deposit, commercial paper, corporate bonds, saving accounts, bankers' acceptances, repurchase agreements, asset-backed securities, and student loans. STIF is authorized to issue an unlimited number of units.

For State of Connecticut financial reporting purposes, STIF is considered to be a mixed investment pool – a pool having external and internal portions. The internal portion (i.e., the portion that belongs to investors that are part of the State's financial reporting entity) is not displayed in the State's basic financial statements. Instead, each fund type's investment in STIF is reported as "cash equivalents" in the statement of net assets. The external portion (i.e., the portion that belongs to investors which are not part of the State's financial reporting entity) is recorded in an investment trust fund in the basic financial statements.

The Fund is considered a "2a7-like" pool and, as such, reports its investments at amortized cost (which approximates fair value). A 2a7-like pool is not necessarily registered with the Securities and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940 that allows money market mutual funds to use amortized cost to report net assets.

Related Party Transactions.

STIF had no related party transactions during the fiscal year with the State of Connecticut and its component units including leasing arrangements, the performance of administrative services and the execution of securities transactions.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***Financial Reporting Entity.***

The Fund is a Fiduciary Investment Trust Fund. A fiduciary fund is used to account for governmental activities that are similar to those found in the private sector where the determination of net income is necessary or useful to sound financial administration. The generally accepted accounting principles ("GAAP") used for fiduciary funds are generally those applicable to similar businesses in the private sector. The Fund uses the accrual basis of accounting.

Security Valuation of Financial Instruments.

The assets of the Fund are carried at amortized cost (which approximates fair value). All premiums and discounts on securities are amortized or accreted on a straight line basis.

Security Transactions.

Purchases and sales of investments are recorded on a trade date basis. Gains and losses on investments are realized at the time of the sales and are calculated on the basis of an identified block or blocks of securities having an identified amortized cost. Bond cost is determined by identified lot.

Interest Income.

Interest income, which includes amortization of premiums and accretion of discounts, is accrued as earned.

Expenses.

Operating and interest expenses of STIF are accrued as incurred.

Fiscal Year.

The fiscal year of STIF ends on June 30. Prior to fiscal year 1997, STIF's fiscal year ended on May 31.

NOTES TO FINANCIAL STATEMENTS (Continued)

Distributions to Investors.

Distributions to investors are earned on units outstanding from date of purchase to date of redemption. Income is calculated daily based upon the actual earnings of the Fund net of administrative expenses and, if applicable, an allocation to the Designated Surplus Reserve. Distributions are paid monthly within two business days of the end of the month, and are based upon actual number of days in a year. Shares are sold and redeemed at a constant \$1.00 net asset value per share, which is consistent with the per share net asset value of the Fund, excluding the Designated Surplus Reserve.

Designated Surplus Reserve.

While STIF is managed prudently to protect against losses from credit and market changes, the Fund is not insured or guaranteed by any government. Therefore, the maintenance of capital cannot be fully assured. In order to provide some protection to the shareholders of STIF from potential credit and market risks, the Treasurer has designated that a portion of each day's net earnings be transferred to the Designated Surplus Reserve (Reserve). Such amounts are restricted in nature and are not available for distribution to shareholders. The amount transferred daily to the Designated Surplus Reserve is equal to 0.1 percent of end of day investment balance divided by the actual number of days in the year. No transfer is to be made if the reserve account is equal to or greater than 1.0 percent of the daily investment balance. If net losses significant to the aggregate portfolio are realized, the Treasurer is authorized to transfer funds from the Reserve to Participant Units Outstanding.

As of June 30, 2006, the balance in the Designated Surplus Reserve was \$47,424,832, an increase of \$3,938,721 from the June 30, 2005 balance of \$43,486,111.

Estimates.

The preparation of the financial statements in conformity with (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities in the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Pronouncements

The financial statements and corresponding footnotes include the application of GASB 44, "Economic Condition Reporting." This Statement amends the portions of NCGA Statement 1 which guides the preparation of the statistical section. This amendment now requires that the statistics section include ten-year trend information that assist users in utilizing the basic financial statement, notes to basic financial statements, and required supplementary information to assess the economic condition of a government. The provisions of this Statement are effective for statistical sections prepared for periods beginning after June 15, 2005.

NOTE 3: DEPOSIT AND INVESTMENT DISCLOSURES

STIF's investment practice is to invest all cash balances; as such, there was no uninvested cash at June 30, 2006. All securities of STIF are registered under the State Street Bank nominee name, Pond, Tide & Co., for the State of Connecticut nominee name, Conn. STIF & Co., and held by a designated agent of the State.

Custodial Credit Risk – Deposits

The custodial credit risk for deposits is the risk that in the event of a bank failure, the STIF's deposits may not be recovered. The STIF follows policy parameters that limit deposits in any one entity to a maximum of ten percent of total assets. Further, the certificates of deposits must be issued from commercial banks whose short-term debt is rated at least A-1 by Standard and Poor's and F-1 by Fitch and whose long-term debt is rated at least A and its issuer rating is at least "C".

Certificates of Deposit in banks are insured up to \$100,000, any amount above this limit is considered uninsured. Additionally, state banking regulation requires all financial institutions that accept State of Connecticut public deposits to segregate collateral against these deposits in an amount equal to ten percent of the outstanding deposit. As of fiscal year-end, certificates of deposit in the Short-Term Investment Fund totaled \$1.64 billion. Of that amount, \$1,479,400,000 was exposed to custodial credit risk representing the portion that was uninsured and uncollateralized.

CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND

NOTES TO FINANCIAL STATEMENTS (Continued)

Interest Rate Risk – Investments

Interest rate risk is the risk that changes in the general level of interest rates will adversely affect the fair value of an investment. The STIF's policy for managing interest rate is to limit investments to a very short weighted average maturity, not to exceed 90-days, and to comply with Standard and Poor's requirement that the weighted average maturity not exceed 60 days. The weighted-average maturity is calculated daily, and reported to Standard and Poor's weekly to ensure compliance. As of June 30, 2006 the weighted average maturity of the STIF was 39 days. The breakdown of the STIF's maturity profile is outlined below.

<u>Investments</u>	<u>Amortized Cost</u>	<u>Investment Maturity in Years</u>	
		<u>Less than One</u>	<u>One - Five</u>
Certificates of Deposit:			
Fixed	\$1,620,000,000	\$1,620,000,000	
Callable-Fixed	20,000,000	20,000,000	
Commercial Paper	249,880,000	249,880,000	
Asset Backed CP:			
Multi-Seller	414,737,994	414,737,994	
Secured Liquidity Notes	1,807,041,320	1,807,041,320	
Securities backed	750,042,861	750,042,861	
Federal Agency Securities:			
Floating	25,000,000	25,000,000	
Callable-Fixed	10,000,000		10,000,000
Floating Rate Bonds	445,772,053	445,772,053	
Repurchase Agreements	100,000,000	100,000,000	
LMCS	248	248	
Total	\$5,442,474,476	\$5,432,474,476	\$10,000,000

Additionally, STIF is allowed by policy to invest in floating-rate debt securities. Further investment in floating-rate securities with maturities greater than two years is limited to no more than 20 percent of the overall portfolio. For purposes of the weighted average maturity calculation and classification in the chart above, variable-rate securities are calculated using their interest rate reset date. Because these securities reprice frequently to prevailing market rates, interest rate risk is substantially reduced. As of fiscal year-end, the STIF portfolio held \$470.8 million in variable rate securities.

Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The STIF manages its credit risk by investment only in debt securities that fall within the highest short-term or long-term rating categories by nationally recognized rating organizations.

<u>Investments</u>	<u>Amortized Cost</u>	<u>A-1+</u>	<u>A-1</u>	<u>AAA</u>	<u>AA</u>
Certificates of Deposit:					
Fixed	\$1,620,000,000	\$1,570,000,000	\$50,000,000		
Callable-Fixed	20,000,000	20,000,000			
Commercial Paper	249,880,000	249,880,000			
Asset Backed CP:					
Multi-Seller	414,737,994	414,737,994			
Secured Liquidity Notes	1,807,041,320	1,807,041,320			
Securities backed	750,042,861	565,477,705	184,565,156		
Federal Agency Securities:					
Floating	25,000,000			\$25,000,000	
Callable-Fixed	10,000,000			10,000,000	
Floating Rate Bonds	445,772,053			257,947,152	\$187,824,901
Repurchase Agreements	100,000,000			100,000,000	
LMCS	248	248			
Total	\$5,442,474,476	\$4,627,137,267	\$234,565,156	\$392,947,152	\$187,824,901

* Repurchase Agreements by rating of underlying collateral

Concentration of Credit Risk

The Short-Term Investment Fund limits the amount it may invest in any one issuer to an amount not to exceed 10 percent. As of June 30, 2006, the table below lists issuers with concentrations of greater than 5 percent but less than 10 percent of the total portfolio.

CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND

NOTES TO FINANCIAL STATEMENTS (Continued)

<u>Issuer</u>	<u>Fair Value</u>	<u>Percent of Total Portfolio</u>
Citizens Bank	525,000,000	9.6%
JP Morgan Chase Bank	500,000,000	9.2%
Ocala Funding	356,497,216	6.6%
Tasman Funding	344,241,805	6.3%
Wachovia Bank	525,000,000	9.6%

NOTE 4: CUSTODIAN

State Street Bank was appointed as custodian for STIF effective February 1, 1996. STIF pays fees to the custodian for transactions and accounting services at a fixed annual rate of \$110,000.

NOTE 5: ADMINISTRATION

STIF is managed and administered by employees of the State of Connecticut Treasury. Salaries and fringe benefit costs as well as operating expenses are charged directly to the Fund.

NOTE 6: RECEIVABLE FROM OR PAYABLE TO TRANSFER AGENT

In an effort to invest all cash balances each day, estimates of investor purchase and sale activity are made. Occasionally, the timing of cash movements by investors may not exactly match the net activity of purchases and sales, resulting in a difference between investments held in securities relative to investors' net account value. As of June 30, 2006, STIF recorded a liability of \$10,969, payable to the transfer agent, for investments purchased which did not match actual movements of cash by investors into the Fund.

NOTE 7: DISTRIBUTIONS TO INVESTORS

The components of the distributions to investors are as follows for the income earned during the twelve months ended:

<u>Distributions:</u>	<u>2006</u>	<u>2005</u>
July	\$12,263,547	\$4,488,148
August	14,624,900	5,455,631
September	15,299,129	6,113,181
October	15,278,679	6,591,446
November	14,525,210	6,268,350
December	14,839,019	6,750,839
January	17,249,274	8,060,413
February	17,972,835	8,336,789
March	21,840,530	9,919,350
April	22,581,575	10,410,745
May	23,888,854	11,009,094
June (Payable at June 30)	22,283,125	10,424,248
Total Distribution Paid & Payable	<u>\$212,646,678</u>	<u>\$93,828,235</u>

NOTE 8: INVESTMENTS IN SECURITIES

The following is a summary of investments in securities, at amortized cost and fair value as of June 30, 2006:

<u>Investment</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Commercial Paper	\$ 249,880,000	\$ 249,880,000
Deposit Instruments	1,640,000,000	1,639,887,900
Asset-Backed Commercial Paper	2,971,822,175	2,971,822,175
Floating Rate Notes	445,772,053	445,768,259

CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND

NOTES TO FINANCIAL STATEMENTS (Continued)

Money Market Funds	248	248
Repurchase Agreements	100,000,000	100,000,000
Federal Agency Securities	35,000,000	34,977,650
TOTAL	<u>\$5,442,474,476</u>	<u>\$5,442,336,232</u>

Repurchase agreements are agreements to purchase securities from an entity for a specified amount of cash and to resell the securities to the entity at an agreed upon price and time. They are used to enhance returns with minimal risk on overnight cash deposits of the Fund. Such transactions are only entered into with primary government securities dealers who report directly to the Federal Reserve Bank of New York and commercial banks that meet certain quality standards. All repurchase agreements are collateralized at between 100 percent and 102 percent of the securities' value.

In an effort to improve disclosures associated with derivative contracts, the Government Accounting Standards Board (GASB) issued GASB Technical Bulletin No. 2003-1 (TB2003-1), *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*, effective for the periods ending after June 15, 2003, superseding Technical Bulletin 94-1. TB 2003-1 clarifies guidance on derivative disclosures that are not reported at fair value on the statement of net assets and defines a derivative instrument as a financial instrument or other contract with all three of the following characteristics: a) it has (1) one or more underlyings (a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates or other variable) and (2) one or more notional amounts (a number of currency units, shares, bushels, pounds, or other units specified in the contract) b) it requires no initial investment or smaller than would be required for other types of contracts c) its terms require or permit net settlement, it can readily be settled net by a means outside the contract, or it provides for delivery of an asset that puts the recipient in a position not substantially different from net settlement.

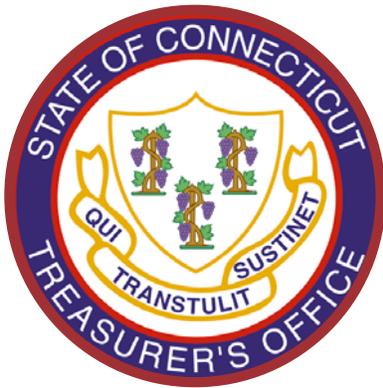
For the fiscal year ended June 30, 2006, the Short-Term Investment Fund held adjustable-rate corporate notes, U.S. government agencies and bank notes whose interest rates vary directly with short-term money market indices and are reset either daily, monthly or quarterly. Such securities allow the Fund to earn higher interest rates as market rates increase, thereby increasing fund yields and protecting against the erosion of market values from rising interest rates. These adjustable rate securities have similar exposures to credit and legal risks as fixed-rate securities from the same issuers.

NOTE 9: CREDIT RATING OF THE FUND

Throughout the year ended June 30, 2006, STIF was rated AAAM, its highest rating, by Standard and Poor's Corporation ("S&P"). In May 2006, following a review of the portfolio and STIF's investment policies, management and procedures, S&P reaffirmed STIF's AAAM rating. In order to maintain an AAAM rating, STIF adheres to the following guidelines:

- Weekly portfolio and market value calculations;
- Maintenance of credit quality standards for portfolio securities with at least 75% of such securities rated A-1+ or invested in overnight repurchase agreements with dealers or banks rated A-1;
- Ensuring adequate portfolio diversification standards with no more than 5% of the portfolio invested in an individual security and no more than 10% invested in an individual issuer, excluding one and two day repurchase agreements and U.S. government agency securities; and
- A limit on the overall portfolio weighted average maturity, (currently no more than 60 days).

It is the Treasurer's intention to take any and all such actions as are needed from time to time to maintain the AAAM rating.



Investment
Section



2006 short-term investment fund

Fund Facts at June 30, 2006

Investment Strategy/Goals: To provide a safe, liquid and effective investment vehicle for the operating cash of the State, municipalities and other Connecticut political subdivisions.

Performance Objective: As high a level of current income as is consistent with, first, the safety of principal and, second, the provision of liquidity.

Benchmarks: iMoneyNet's First Tier Institutional-only Rated Money Fund Report Averages™ – Index (MFR Index), Federal Reserve Three-Month CD, Federal Reserve Three-Month T-Bill.

Date of Inception: 1972

Total Net Assets: \$5.4 billion

Internally Managed

External Management Fees: None

Expense Ratio: Less than 3 basis points (includes internal management and personnel salaries)

Description of the Fund

The Treasurer's Short-Term Investment Fund ("STIF" or the "Fund") is an AAAM rated investment pool of high-quality, short-term money market instruments managed by the Treasurer's Cash Management Division. Created in 1972, it serves as an investment vehicle for the operating cash of the State Treasury, State agencies and authorities, municipalities, and other political subdivisions of the State. (See figure 11-1.) STIF's objective is to provide as high a level of current income as is consistent with, first, the safety of principal and, second, the provision of liquidity to meet participants' daily cash flow requirements. During the 2006 fiscal year, STIF's portfolio averaged \$5.0 billion.

STIF employs a top-down approach to developing its investment strategy for the management of its assets. Starting with the objectives of the Fund, STIF considers constraints outlined in its investment policy, which include among other parameters: liquidity management, limitations on the portfolio's weighted average maturity (see figure 11-2), and permissible investment types. Next, an asset allocation is developed to identify securities that are expected to perform well in the current market environment. Over the long-term, STIF continually analyzes expectations of future interest rate movements and changes in the shape of the yield curve to ensure the most prudent and effective short-term money management for its clients. Ongoing credit analysis enables STIF to enhance its yield by identifying high-quality credits in undervalued sectors of the economy.

STIF pays interest monthly based on the daily earnings of the Fund less Fund expenses and an allocation to the Fund's Designated Surplus Reserve. The daily reserve allocations equal one-tenth of one percent of the Fund's daily balances divided by the number of days in the year, until the reserve totals one percent of the Fund's daily balance. This reserve, currently almost \$47.5 million, contributes significantly to STIF's low risk profile.

To help the Fund and its investors evaluate performance, STIF compares its returns to three benchmarks. The first is iMoneyNet's First Tier, Institutional-only Rated Money Fund Report Averages™ – Index ("MFR Index"). This index represents an average of institutional money market mutual funds rated AAAM that invest primarily in first-tier (securities rated A-1, P-1) taxable securities. While STIF's investment policy allows for somewhat greater flexibility than these SEC-registered funds, the MFR Index is the most appropriate benchmark against which to judge STIF's performance.

STIF's yields are also compared to the average Federal Reserve three-month T-Bill rate and the Federal Reserve three-month CD rate. The former benchmark is used to measure STIF's effectiveness in achieving yields in excess of a "risk-free" investment. The latter is shown for the benefit of STIF investors, many of whom invest in bank certificates of deposit. In viewing these benchmarks, it is important to keep in mind that yields of the CD index will exceed those of the T-Bill index due to a CD's slightly higher risk profile and comparatively lower liquidity. Additionally, it is important to note that the 90-day benchmarks exceed STIF's shorter average maturity. In order to maintain its AAAM rating, the STIF cannot exceed a 60-day weighted average maturity (WAM) limit. Furthermore, these benchmarks are "unmanaged" and are not affected by management fees or operating expenses. (See figure 11-3.)

Among the Fund's several achievements during the 2006 fiscal year was the reaffirmation of its AAAM rating by Standard & Poor's in May 2006. This rating is S&P's highest for money market funds and investment pools and

signifies its conclusion that the Fund has extremely strong capacity to maintain principal stability and to limit exposure to principal losses.

Risk Profile

STIF is considered extremely low risk for several reasons. First, its portfolio is comprised of high-quality, highly liquid securities, which insulate the Fund from default and liquidity risk. (See figure 11-4.) Second, its relatively short average maturity reduces the Fund's price sensitivity to changes in market interest rates. Third, STIF has a strong degree of asset diversification by security type and issuer, as required by its investment policy, strengthening its overall risk profile. And finally, STIF's reserve, which totals almost one percent of Fund assets, is available to protect against security defaults or the erosion of security values due to dramatic and unforeseen market changes. While this reserve has never been drawn upon since STIF's inception in 1972, this added layer of security preserves the Fund's low risk profile. As the chosen short-term investment vehicle for the operating cash of the State, STIF has the ultimate confidence of the State government.

While STIF is managed diligently to protect against losses from credit and market changes, the Fund is not insured or guaranteed by any government. Therefore, the maintenance of capital cannot be fully assured.

Portfolio Composition

Throughout the year, STIF closely monitored the activities of the Federal Reserve (Fed) and economic indicators, adjusting the Fund's portfolio and characteristics as required. At the beginning of the fiscal year, STIF's weighted average maturity equaled 32 days. During the year the Fund's average maturity ranged from 32 to 59 days as market interest rates rose. At the end of the 2006 fiscal year, the average maturity was 39 days. As the Federal Reserve aggressively increased interest rates during the last fiscal year, the portfolio was managed to place maturities around each Federal Reserve meeting that reviewed interest rates to ensure that its performance kept pace with the movements in short-term rates.

STIF's assets continued to be well diversified across the spectrum of available short-term securities throughout the year. The Fund ended the year with a 94 percent concentration in investments rated A-1+ or AAA (the highest ratings of Standard & Poor's) or overnight repurchase agreements. Sixty-six percent of the Fund was invested in securities with maturities, or interest rate reset dates for adjustable rate securities, of less than 30 days, versus the 74 percent at the previous year-end. The Fund's three largest security weightings included secured liquidity notes (33.2 percent), deposit instruments (30.1 percent), and security-backed, asset-backed commercial paper (13.8 percent) respectively. (See figure 11-5.)

Performance Summary

For the one-year period ending June 30, 2006, STIF reported an annual total return of 4.38 percent, net of operating expenses and allocations to Fund reserves. Annual total return measures the total investment income a participant would earn with monthly compounding at the Fund's monthly net earned rate during the year. This figure exceeded that achieved by its benchmark, the MFR Index, which equaled 4.01 percent, by 37 basis points. Additionally, the performance was competitive compared to three-month T-Bills, which yielded 4.15 percent and three-month CDs, which yielded 4.46 percent. It is important to note that while the STIF underperformed the 90-day CD benchmark, there are technical differences in the calculation of the benchmark that explain the underperformance. First, the performance of the STIF is measured by an annual total return measure as outlined above and is constrained by a 60-day WAM. The 90-day CD benchmark, however, is an average of the daily posted spot rates, which implies the ability to buy a three-month security daily and to sell the previous day's purchase without gain or loss. During a rising interest rate environment, which was experienced during FY 2006, any benchmark that is an average of daily spot rates would overstate performance relative to a portfolio of investments made up of securities purchased during previous weeks and months when rates were lower.

Principal reasons for STIF's strong performance include low overall expenses, its effective security selection, and successful fluctuations to the portfolio's average life in response to the changing interest rate environment. Over the long-term, STIF has performed exceptionally well. For the trailing three-, five-, seven-, and ten-year periods, STIF's compounded annual total return was 2.61 percent, 2.42 percent, 3.44 percent, and 4.09 percent, net of operating expenses and contributions to reserves, exceeding returns of each of its benchmarks for all time periods. Viewed on a dollar-for-dollar basis, had one invested \$10 million in STIF ten years ago, that investment would have

been worth \$14.9 million at June 30, 2006, versus \$14.4 million for a hypothetical investment in the MFR Index. (See figure 11-6.)

Economic Report for Fiscal Year 2006

After three years of strong economic performance, U.S. economic growth peaked just as Fiscal Year 2006 (FY 2006) began. Throughout the year, however, economic growth began to moderate. One of the main factors that contributed to slower growth was energy prices. At the beginning of FY 2006 energy prices were beginning to trend upward due to strong global demand for oil. Shortly after the beginning of FY 2006 a powerful hurricane season wrecked havoc with the energy markets. Throughout the balance of the fiscal year, Middle East tensions sent oil prices to an all time record high of just over \$78 a barrel and oil ended the fiscal year at \$73 a barrel, 28 percent higher than a year earlier. Higher energy prices decreased consumer discretionary spending and contributed to the trend of slower economic growth.

Inflation concerns began to surface early in the fiscal year. As the fiscal year began with economic growth at full speed, demand expanded to a point where consumers were willing to tolerate higher prices. The result was upward pressure on inflation. The Consumer Price Index (CPI) rose by 3.5 percent on a year-over-year basis as of June 2006, and the Personal Consumption Index, the Fed's preferred measure of core consumption prices, rose by 2.4 percent. These levels are outside of the Fed's upper tolerance limits for inflation.

As inflation rose and the economy continued to show positive growth, albeit at a slower pace, both short and long-term interest rates rose. The Federal Reserve, with its new Chairman, Ben Bernanke, at the helm since February 2006, steadily increased interest rates to ward against over stimulation. The overnight Federal Funds rate rose from 3.25 percent as of June 30, 2005 to 5.25 percent as of June 29, 2006. For the first time in over two-years and after 17 consecutive rate hikes, the Fed did not increase the Federal Funds rate at the August 2006 Federal Open Market Committee (FOMC) meeting

Along the yield curve for FY 2006, rates for short-term securities, U.S. Treasury Bills one-year and under, increased just over 180 basis points, while rates for longer maturities over ten years, rose close to 100 basis points. The housing market, highly correlated to interest rates and economic performance, held up well during FY 2006 with housing values increasing 12.5 percent from March 2005 to March 2006. Recent economic indicators, particularly housing starts and building permits, which fell 2.5 percent and 6.5 percent in July 2006, respectively, show that the housing market is slowing.

The combination of higher energy prices and higher interest rates slowed the increase in consumer purchases to 3.0 percent for all of FY 2006, versus a pace of 3.8 percent for FY 2005. On the positive side consumer spending was supported by a strong employment picture. Employment grew by 1.9 million jobs as the unemployment rate fell from 5.1 percent to 4.6 percent. For FY 2006, consumer purchases were the major contributor to growth in the economy with Gross Domestic Product (GDP) growing by 3.5 percent on a year-over-year basis.

Outlook for Fiscal Year 2007

The U.S. economy appears to be in a period of transition characterized by the unenviable position of slowing growth and increasing inflation.

As FY 2007 got underway, the economy's condition was best summarized by an excerpt of the August 8, 2006 text of the Fed's Federal Open Market Committee meeting, which stated that "Economic growth has moderated from its quite strong pace earlier this year, partly reflecting a gradual cooling of the housing market and the lagged effects of increases in interest rates and energy prices." The FOMC statement went on to note that inflation pressures seemed likely to moderate over time, reflecting the affect of the cumulative increases in the Federal Funds rate over the past two years.

As we enter FY 2007 with near-record fuel prices, slowing economic growth and concerns about future inflation, it is likely that the Federal Reserve will hold interest rates roughly steady throughout the fiscal year. Federal funds futures show that the most likely case is for interest rates to remain at the current 5.25 percent

level for the first half of this fiscal year. During the second half of FY 2007, fed funds futures predict a 25 basis point easing to 5.00 percent as the economy slows further.

The yield curve is currently inverted. This type of yield curve is predictive of falling longer-term rates.

The main downside pressures on growth will include a continued weakening housing sector and the detrimental effect of high energy prices on discretionary consumer spending.

Periods of economic transition are often volatile and economic trends are not reliable indicators of future expectations. At present, the official risk assessment stance of the FOMC is "data dependent," meaning that during the economic transition period the performance of the economy can produce mixed results making it uncertain as to the future direction of short-term interest rates.

CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND

Figure 11-1

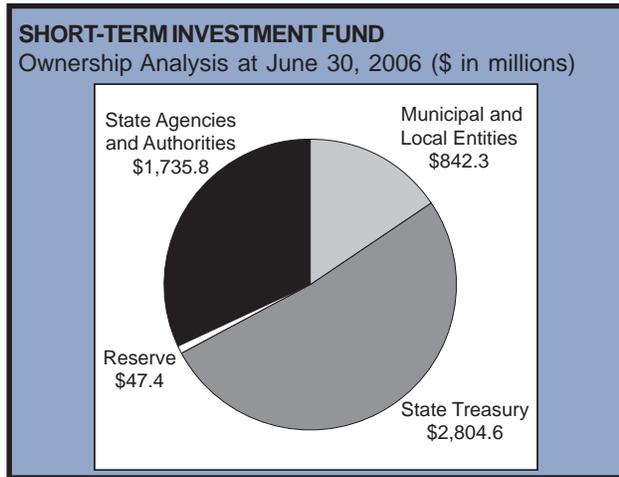


Figure 11-2

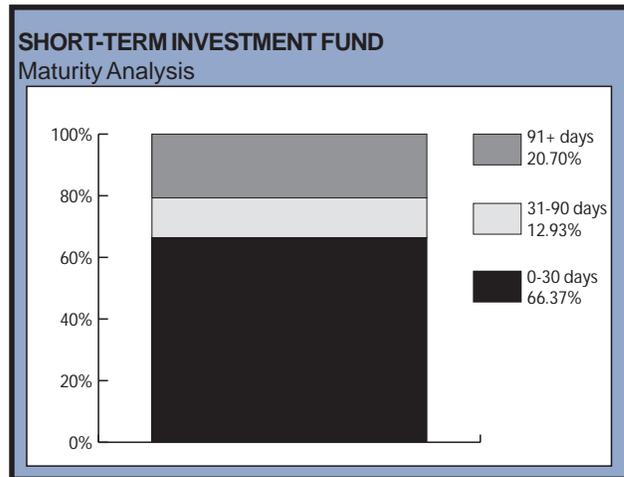


Figure 11-3

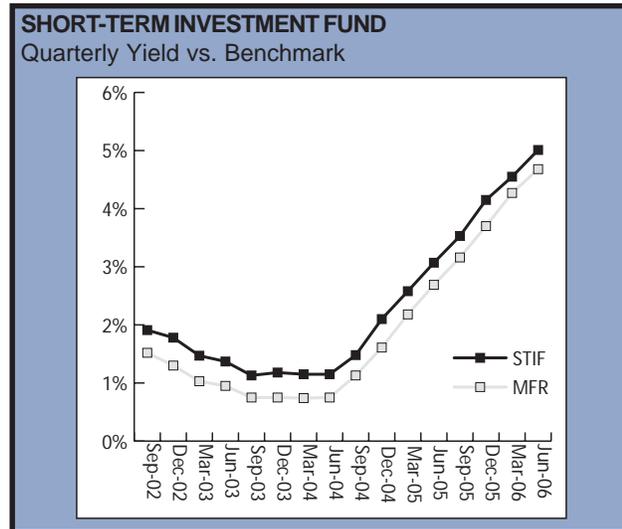


Figure 11-4

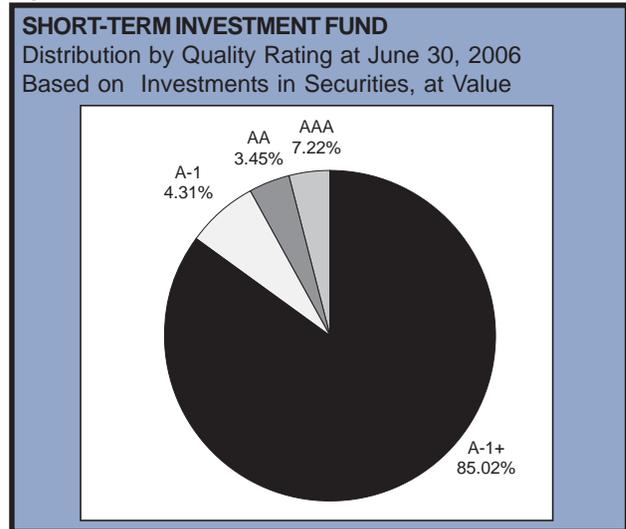


Figure 11-5

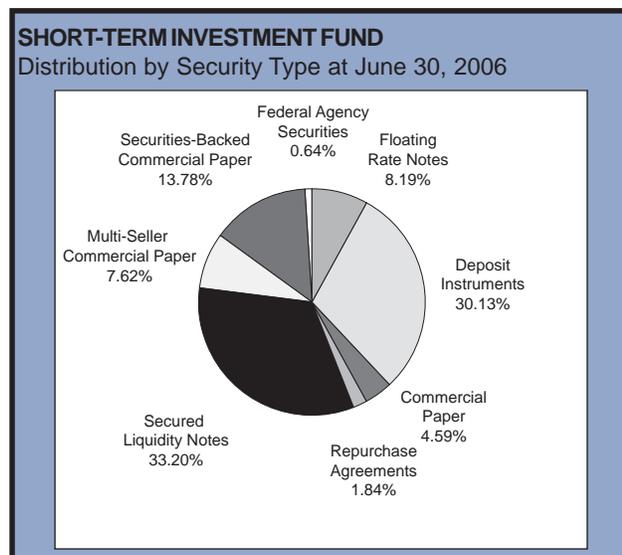


Figure 11-6

SHORT-TERM INVESTMENT FUND
Period ending June 30, 2006

	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs
Compounded Annual Total Return (%)					
STIF	4.38	2.61	2.42	3.44	4.09
MFR Index*	4.01	2.21	2.01	3.04	3.70
Fed. Three-Month T-Bill	4.15	2.45	2.17	3.06	3.63
Fed. Three-Month CD	4.46	2.67	2.33	3.31	3.96
Cumulative Total Return (%)					
STIF	4.38	8.04	12.68	26.75	49.33
MFR Index*	4.01	6.79	10.47	23.34	43.86
Fed. Three-Month T-Bill	4.15	7.53	11.31	23.46	42.82
Fed. Three-Month CD	4.46	8.23	12.21	25.64	47.39

*Represents iMoneyNet's First Tier Institutional-only Rated Money Fund Report Averages™ - (MFR) Index.

CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND

LIST OF INVESTMENTS AT JUNE 30, 2006 (Continued)

Par Value	Security (Coupon, Maturity or Reset Date)	Yield %	Amortized Cost	Fair Value	Asset ID	Quality Rating
FLOATING RATE NOTES (8.19%)						
\$ 14,535,000	ALLSTATE LIFE GLOBAL 5.06, 4/2/07	5.46	\$ 14,538,894	\$ 14,544,157	02003EAG7	AA
1,550,000	ALLSTATE LIFE GLOBAL 5.27, 5/25/07	5.46	1,550,615	1,550,387	02003MAB0	AA
20,000,000	ASIF GLOB XXXI 5.194, 2/23/07	5.45	19,997,372	19,994,400	00209YAA2	AA
50,000,000	BETA FINANCE 5.209, 8/15/07	5.31	49,991,676	50,013,000	08658AJH9	AAA
3,000,000	CITIGROUP 5.209, 11/1/07	5.47	3,001,736	3,001,740	172967CR0	AA
50,000,000	FIVE FINANCE 5.29, 6/12/08	5.48	49,981,445	49,971,500	33828WCC2	AAA
6,900,000	GE CAPITAL CORP 5.373, 3/9/07	5.44	6,903,966	6,903,312	36962GE91	AAA
1,100,000	MBIA GLOBAL FUNDING 5.24, 1/11/08	5.33	1,100,810	1,101,089	55266LCB0	AAA
50,000,000	MBIA GLOBAL FUNDING 5.174, 3/14/08	5.33	49,991,788	49,988,500	55266LDD5	AAA
25,000,000	NEW YORK LIFE GF 5.351, 3/28/08	5.34	25,000,000	25,000,000	649486AA5	AA
11,800,000	PRINCIPAL LIFE GROUP 5.178, 1/12/07	5.46	11,806,247	11,806,018	7425A0BG4	AA
26,900,000	PRINCIPAL LIFE GROUP 5.266, 12/7/07	5.48	26,904,304	26,897,848	74254PGC0	AA
1,018,000	PRINCIPAL LIFE INC 5.155, 2/14/07	5.46	1,017,800	1,017,593	74254PEH1	AA
4,700,000	ROYAL BANK OF SCOTLAND 5.038, 4/11/08	5.48	4,700,469	4,700,047	78010JCD2	AA
50,000,000	ROYAL BANK OF SCOTLAND 5.085, 4/21/06	5.48	50,000,000	49,998,500	78010JCH3	AA
10,000,000	ROYAL BANK OF SCOTLAND 5.269, 4/21/10	5.34	10,000,000	9,997,600	78010JAB8	AA
50,000,000	SIGMA FINANCE 5.37, 2/4/08	5.36	49,992,300	50,005,500	8265Q0NH1	AAA
50,000,000	SIGMA FINANCE 5.20, 2/27/08	5.48	49,985,168	49,969,000	8265Q0NX6	AAA
300,000	SOUTHTRUST 5.456, 3/19/07	5.46	300,090	300,108	8447HACJ1	AA
15,000,000	SOUTHTRUST 5.456, 3/19/07	5.46	15,006,089	15,005,400	8447HACJ1	AA
2,000,000	WELLS FARGO 5.509, 3/23/07	5.44	2,000,632	2,001,280	949746FR7	AA
2,000,000	WELLS FARGO 5.509, 3/23/07	5.44	2,000,654	2,001,280	949746FR7	AA
\$ 445,803,000			\$ 445,772,053	\$ 445,768,259		
SECURED LIQUIDITY NOTES (33.20%)						
\$ 53,000,000	ALBIS CAPITAL CORP 5.05, 12/29/06*	5.05	\$ 52,985,131	\$ 52,985,131	N/A	A-1+
20,000,000	ALBIS CAPITAL CORP 5.055, 1/2/07*	5.06	19,985,958	19,985,958	N/A	A-1+
28,000,000	ALBIS CAPITAL CORP 5.07, 1/8/07*	5.08	27,956,623	27,956,623	N/A	A-1+
15,000,000	ALBIS CAPITAL CORP 5.5.135, 1/29/07*	5.16	14,931,533	14,931,533	N/A	A-1+
30,000,000	ALBIS CAPITAL CORP 5.135, 1/30/07*	5.16	29,858,788	29,858,788	N/A	A-1+
15,000,000	ALBIS CAPITAL CORP 5.135, 2/2/07*	5.16	14,918,696	14,918,696	N/A	A-1+
50,000,000	ALBIS CAPITAL CORP 5.16, 2/6/06*	5.19	49,713,333	49,713,333	N/A	A-1+
38,955,000	ALBIS CAPITAL CORP 5.21, 2/14/06*	5.25	38,684,393	38,684,393	N/A	A-1+
50,712,000	FREEDOM PARK 5.28, 7/17/06	5.29	50,592,996	50,592,996	N/A	A-1+
70,750,000	FREEDOM PARK 5.32, 7/21/06	5.34	70,540,894	70,540,894	N/A	A-1+
64,274,000	FREEDOM PARK 5.36, 7/28/06	5.38	64,015,619	64,015,619	N/A	A-1+
100,000,000	GEORGETOWN FUNDING 5.33, 8/24/06*	5.35	99,615,056	99,615,056	N/A	A-1+
50,000,000	GEORGETOWN FUNDING 5.35, 8/24/06*	5.37	49,806,806	49,806,806	N/A	A-1+
50,000,000	HARWOOD STREET I 5.15, 7/13/06	5.16	49,914,167	49,914,167	N/A	A-1+
50,000,000	HARWOOD STREET I 5.33, 8/3/06	5.36	49,755,708	49,755,708	N/A	A-1+
100,000,000	HARWOOD STREET I 5.35, 8/4/06	5.38	99,494,722	99,494,722	N/A	A-1+
100,000,000	MAIN STREET WAREHOUSE 5.30, 7/5/06	5.30	99,941,111	99,941,111	N/A	A-1+
49,000,000	MAIN STREET WAREHOUSE 5.35, 7/28/06	5.37	48,803,388	48,803,388	N/A	A-1+
45,000,000	NORTH LAKE FUNDING 5.22, 9/5/06*	5.22	44,960,850	44,960,850	N/A	A-1+
50,000,000	NORTH LAKE FUNDING 5.20, 9/8/06*	5.21	49,935,000	49,935,000	N/A	A-1+
50,000,000	NORTH LAKE FUNDING 5.21, 9/11/06*	5.22	49,913,167	49,913,167	N/A	A-1+
25,000,000	NORTH LAKE FUNDING 5.33, 9/15/06*	5.34	24,940,778	24,940,778	N/A	A-1+
75,000,000	OCALA FUNDING 5.205, 11/8/06*	5.21	74,891,563	74,891,563	N/A	A-1+
100,000,000	OCALA FUNDING 5.04, 11/10/06*	5.05	99,818,000	99,818,000	N/A	A-1+
75,000,000	OCALA FUNDING 5.03, 11/10/06*	5.04	74,863,771	74,863,771	N/A	A-1+
53,957,000	OCALA FUNDING 5.29, 11/16/06*	5.30	53,814,284	53,814,284	N/A	A-1+
53,390,000	OCALA FUNDING 5.11, 12/5/06*	5.14	53,109,599	53,109,599	N/A	A-1+
100,000,000	PARK SIENNA 5.09, 8/8/06	5.12	99,462,722	99,462,722	N/A	A-1+
50,000,000	VON KARMAN FUNDING 5.32, 7/6/06	5.32	49,963,056	49,963,056	N/A	A-1+
200,000,000	VON KARMAN FUNDING 5.27, 7/6/06	5.27	199,853,611	199,853,611	N/A	A-1+
\$ 1,812,038,000			\$ 1,807,041,320	\$ 1,807,041,320		
SECURITIES-BACKED COMMERCIAL PAPER (13.78%)						
\$ 59,450,000	ALTIUS FUNDING 4.96, 7/7/06	4.96	\$ 59,400,855	\$ 59,400,855	N/A	A-1+
76,000,000	ALTIUS FUNDING 5.33, 7/13/06	5.34	75,864,973	75,864,973	N/A	A-1+
100,000,000	ALTIUS FUNDING 5.04	5.05	99,734,000	99,734,000	N/A	A-1+
35,300,000	BELLE HAVEN 5.09, 7/21/06	5.10	35,200,179	35,200,179	N/A	A-1+
50,000,000	BELLE HAVEN 5.36, 8/4/06	5.39	49,746,889	49,746,889	N/A	A-1+

CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND

LIST OF INVESTMENTS AT JUNE 30, 2006 (Continued)

Par Value	Security (Coupon, Maturity or Reset Date)	Yield %	Amortized Cost	Fair Value	Asset ID	Quality Rating
50,000,000	BELLE HAVEN 5.16 8/23/06	5.20	49,620,167	49,620,167	N/A	A-1+
100,000,000	CHESHAM FINANCE 5.20, 7/5/06	5.32	99,940,889	99,940,889	N/A	A-1+
16,550,000	EBURY FINANCE 4.95, 7/5/06	4.95	16,540,898	16,540,898	N/A	A-1
68,677,000	EBURY FINANCE 5.35, 7/27/06	5.37	68,410,648	68,410,648	N/A	A-1
100,000,000	EBURY FINANCE 5.37, 7/27/06	5.39	99,613,611	99,613,611	N/A	A-1
50,000,000	LAGUNA 5.17, 7/13/06	5.18	49,913,833	49,913,833	N/A	A-1+
21,000,000	LAGUNA 5.31, 7/27/06	5.33	20,919,465	20,919,465	N/A	A-1+
25,200,000	PINNACLE POINT 5.34, 7/18/06	5.35	25,136,454	25,136,454	N/A	A-1+
\$ 752,177,000			\$ 750,042,861	\$ 750,042,861		
REPURCHASE AGREEMENTS (1.84%)						
\$ 100,000,000	BEAR STEARNS 5.30, 7/3/06	5.30	\$ 100,000,000	\$ 100,000,000	N/A	A-1
\$ 100,000,000			\$ 100,000,000	\$ 100,000,000		
MONEY MARKET FUND (0.00%)						
\$ 248	LIQUIDITY MNGT SYSTEM 4.50, 7/3/06	4.50	\$ 248	\$ 248	N/A	A-1+
\$ 248			\$ 248	\$ 248		
\$5,450,751,248	TOTAL INVESTMENT IN SECURITIES		\$ 5,442,474,476	\$ 5,442,336,232		

CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND

SCHEDULE OF MANAGEMENT FEES AT JUNE 30, 2006

<u>Category</u>	<u>Amount</u>
Internal Management Fees	\$1,263,411
External Management Fees	<u>67,502</u>
Total:	<u><u>\$1,330,913</u></u>

Internal management fees include payroll, lease service, subscriptions, supplies, telephone and other. External professional fees include Independent Accountant fees and custodian and investor services.

CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND**SCHEDULE OF PARTICIPANTS BY CONCENTRATION AT JUNE 30, 2006**

Type	Number of Accounts	Value
Municipal and Local Entities	542	\$ 842,346,535
State Treasury	58	2,804,568,870
State Agencies and Authorities	<u>406</u>	<u>1,735,826,315</u>
Total	<u>1,006</u>	<u>\$5,382,741,720</u>

Participant Net Asset Value, Offering Price and Redemption Price per
Share (\$5,382,741,720 in Net Assets divided by 5,382,741,720 shares) \$ 1.00

Investment Policy

As adopted August 21, 1996

A. Background

The Treasurer's Short-Term Investment Fund (STIF) is an investment pool of high-quality, short-term money market instruments for state and local governments. Operating since 1972 in a manner similar to a money market mutual fund, STIF's purpose is to provide a safe, liquid and effective investment vehicle for the operating cash of the State Treasury, state agencies and authorities, municipalities, and other political subdivisions of the state.

All State, local and political subdivisions of the State are authorized to invest in STIF by (CGS) 3-27a and 3-27b.

B. Purpose

The purpose of this document is to specify the policies and guidelines that provide for the systematic management of STIF and the prudent and productive investment of funds.

C. Investment Objectives

STIF seeks as high a level of current income as is consistent with, first, the safety of principal invested by the State, municipalities and others, and, second, the provision of liquidity to meet participants' daily cash flow requirements.

D. Safety of Principal

Safety of principal, STIF's primary objective, shall be pursued in a number of ways.

1. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio by protecting against credit risks (from security defaults) and the erosion of market prices (from rising interest rates).
2. The Fund's investments shall be made in conformance with prudent guidelines for allowable instruments, credit quality and maturities. See Section H.
3. STIF shall maintain adequate diversification of instruments, issuers, industries and maturities to protect against significant losses from credit risks and market changes. See Section H.
4. All securities shall be held by a third-party custodian.
5. All transactions shall be handled on the basis of delivery vs. payment to a custodian bank.
6. All repurchase agreements shall be fully collateralized, with a custodian bank receiving delivery of the collateral.
7. Reverse repurchase agreements may be used only to meet temporary liquidity requirements of the Fund and may not exceed five percent of total Fund assets. See Section H.
8. STIF shall maintain a designated surplus reserve to provide an added layer of security. For the period June through November 1996 a pro-rated allocation to the reserve will be paid from investment returns that will equal, on an annualized basis, one-tenth of one percent of the fund's total investments until the reserve equals one percent of investments. Effective December 1, 1996, daily allocations to the designated surplus reserve will be paid from investment returns and will equal, on an annualized basis, one-tenth of one percent of the fund's investments until the reserve equals one percent of investments. If net losses significant to the aggregate portfolio are realized, they shall be charged against the designated surplus reserve, as discussed in Section Q. This reserve has never been drawn upon in STIF's 24-year history.

While STIF — which consists predominantly of funds for which the Treasurer is sole trustee — is managed diligently to protect against losses from credit and market changes, and though deposits are backed by high-quality and highly-liquid short-term securities, the Fund is not insured or guaranteed by any government and the maintenance of capital cannot be fully assured.

E. Liquidity

The portfolio shall be structured through sufficient investments in overnight and highly-marketable securities to allow complete liquidity for participants. In addition, reverse repurchase agreements totaling up to five percent of Fund assets may be used to meet temporary liquidity requirements.

Participants have full and quick access to all of their funds. Participants may make same-day (up to 10:30 a.m.) deposits and withdrawals of any size. Withdrawals generally are sent via Fed wire, thus funds are available for use on the day of withdrawal.

In addition, deposits and withdrawals may be made through the ACH system on a next-day basis, deposits may be made by check through the mail, and withdrawals may be made by check. No transaction fees are charged on deposits or withdrawals by wire or ACH. Withdrawals by check are charged a fee, as specified in the participant manual.

F. Yield

STIF's investment portfolio shall be designed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account investment risk constraints and the liquidity requirements of the Fund.

The portfolio shall be managed with the objective of exceeding the average of three-month U.S. Treasury Bill rates for the equivalent period. This index is considered a benchmark for near-riskless investment transactions and, therefore, comprises a minimum standard for the portfolio's rate of return. The investment program shall seek to augment returns above this threshold, consistent with stated risk limitations and prudent investment principles.

While STIF shall not make investments for the purpose of trading or speculating as the dominant criterion, STIF shall seek to enhance total portfolio return through active portfolio management. The prohibition on speculative investments precludes pursuit of gain or profit through unusual risk. Trading in response to changes in market value or market direction, however, is warranted under active portfolio management.

G. Prudence

Investments shall be made with the care, skill, prudence, and diligence — under circumstances then prevailing — that prudent persons acting in like capacities and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

The standard of prudence to be used by STIF's investment officials shall be the "prudent expert" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion in writing and appropriate action is taken to control adverse developments.

H. Investment Guidelines

All investments must be made in instruments authorized by CGS 3-27c - 3-27e. In addition, the Treasurer has adopted the investment guidelines that follow. Unless otherwise indicated, references to credit ratings are to those of Standard & Poor's.

1. STIF may invest in the following securities:
 - a. U.S. government and federal agency securities.

CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND

- b. Certificates of deposit of commercial banks in the United States whose short-term debt is rated at least A-1 and TBW-1 (by Thomson Bank Watch) and whose long-term debt is rated at least A- and C (by Thomson Bank Watch).
 - c. Certificates of deposit of U.S. branches of foreign banks with short-term debt ratings of at least A-1 and TBW-1 and long-term debt ratings of at least A and B/C (by Thomson Bank Watch).
 - d. Bankers' acceptances of those banks meeting the criteria in b. and c. above.
 - e. Fully-collateralized repurchase agreements with primary dealers of the Federal Reserve with short-term debt ratings of at least A-1, or qualified domestic commercial banks meeting the criteria in b. above, with possession of collateral by a custodian bank.
 - f. Commercial paper of companies that have short-term debt rated at least A-1 and P-1 (by Moody's) and long-term debt rated at least AA- and Aa3 (by Moody's).
 - g. Corporate or asset-backed securities rated at least A-1/P-1 and AA-/Aa3.
 - h. Asset-backed securities with maturities of under one year rated at least A-1/P-1.
 - i. Money market mutual funds or similar investment pools, comprised of securities permitted under this investment policy and managed to maintain a constant share value, rated AAAm.
 - j. A line of credit of up to \$100 million with the Connecticut Student Loan Foundation. Any resulting loans shall be fully collateralized (at 102 percent) by student loans with interest and principal 98 percent federally guaranteed.
 - k. The portfolio currently includes securities issued by the State of Israel, which mature in less than six years, and which, in the aggregate, total less than .5 percent of the portfolio value. These notes' interest rates are reset semi-annually at the prime rate minus 50 basis points. These securities, as currently structured, will not be purchased in the future.
2. Reverse repurchase agreements, in the aggregate, may not exceed five percent of net assets at the time of execution. While any reverse repurchase agreement is outstanding, new investments must match the maturity of the shortest-term outstanding reverse repurchase agreement. Reverse repurchase agreements are to be used only to meet temporary liquidity requirements of the Fund.
 3. No investments may be made in "derivative" securities such as futures, swaps, options, interest-only and principal-only mortgage-backed securities, inverse floaters, CMT floaters, leveraged floaters, dual index floaters, COFI floaters, and range floaters. These types of securities can experience high price volatility with changing market conditions, and their market values may not return to par even at the time of an interest rate adjustment.

Investments may be made in adjustable rate securities whose interest rates move in the same direction and in the same amount as standard short-term money market interest rate benchmarks, such as Fed Funds, LIBOR, Treasury bills, one-month CDs, one-month commercial paper and the prime rate, and conform with STIF's other credit and maturity standards. Interest rate reset periods may not exceed six months. The values of these securities tend to return to par upon the scheduled adjustment of interest rates. Some parties in the financial services industry consider these types of adjustable rate securities to be derivatives, others do not.

U.S. Treasury Separate Trading of Registered Interest and Principal Securities ("STRIPS") are not considered derivatives and may be purchased. These instruments are subject to the same interest rate risks as U.S. Treasury securities of the same duration. STRIPS are fundamentally different from mortgage-backed and other interest-only or principal-only securities that are subject to unscheduled prepayments of principal.

4. All investments must be made in U.S. dollar-denominated securities.
5. The dollar-weighted average portfolio maturity (including interest rate reset periods) may not exceed 90 days. Individual maturities may not exceed five years.
6. STIF shall diversify its investments to avoid incurring unreasonable risks inherent in overinvesting in specific instruments, industry segments, individual issuers or maturities. Diversification strategies shall include:
 - a. At the time of purchase, no more than five percent of the overall portfolio may be invested in an individual security, other than overnight or two-business-day repurchase agreements and U.S. government and agency securities.
 - b. At the time of purchase, no more than 10 percent of the overall portfolio may be invested in securities of a single bank or corporation, other than overnight or two-business-day repurchase agreements and U.S. government and agency securities.
 - c. There is no limitation on the percentage of assets that may be invested in securities of the United States government, its agencies or instrumentalities, or in overnight or two-business-day repurchase agreements.
 - d. At the time of purchase, no more than 25 percent of the overall portfolio may be invested in any industry other than the financial services industry.
 - e. At the time of purchase, no more than 50 percent of the overall portfolio may be invested in the combined total of commercial paper and non-asset-backed corporate notes.
 - f. At the time of purchase, no more than 20 percent of the overall portfolio may be invested in floating rate securities with final maturities in excess of two years.
 - g. At the time of purchase, no more than five percent of the overall portfolio may be invested in an individual money market mutual fund or similar investment pool.
 - h. At the time of purchase, no more than 10 percent of the overall portfolio may be invested in money market mutual funds and similar investment pools.
 - i. At the time of purchase, investments in securities that are not readily marketable, other than securities that mature within seven days, may not exceed 10 percent of the fund's overall portfolio.
 - j. At least 75 percent of the overall portfolio shall be invested in securities rated A-1+ or in overnight repurchase agreements with dealers or banks rated A-1.
7. The Treasurer intends to operate STIF in such a manner as to maintain its AAAM credit rating from Standard & Poor's, or a similar rating from another nationally-recognized credit rating service recognized by the State Banking Commissioner.
8. Investment decisions shall be based on the relative and varying yields and risks of individual securities and the Fund's liquidity requirements.

I. Interest Payments

Until December 1, 1996:

STIF pays interest quarterly based on monthly guaranteed rates that are set on or before the first day of each month by the Treasury based on STIF's portfolio and market conditions. In addition, participants will be paid a bonus distribution — based on actual earnings less guaranteed interest payments, expenses and the payment to the reserve for losses — for the period of June through November. All rates are calculated and quoted on the basis of the actual number of days in a year (an "actual-over-actual" basis).

Effective December 1, 1996:

STIF declares and accrues investor interest daily based on actual STIF earnings (including gains and losses), less expenses and transfers to the designated surplus reserve. Interest is paid monthly through direct distribution or reinvestment. Earned rates are available on a next-day basis. All rates are calculated and quoted on the basis of the actual number of days in a year (an "actual-over-actual" basis) and reported in accordance with guidelines of the Association for Investment Management and Research (AIMR).

J. Administrative Costs

STIF is provided to participants without sales or management fees. Administrative costs are paid from investment earnings, and all STIF participants (including the state and local entities) share in covering the Fund's expenses in proportion to the size of their investments. Costs have run at between two and three basis points (or \$2-3 per \$10,000 invested).

K. Delegation of Authority

The Short-Term Investment Unit within the Treasury's Cash Management Division manages STIF's investments. Deposits, withdrawals, participant record-keeping and the distribution of interest are handled by State Street Bank and Trust under the supervision of the STIF Administration Unit within the Treasury's Cash Management Division.

L. Daily Confirmations

Confirmations of daily deposits and withdrawals are sent the day after the transaction.

M. Monthly Statements

Monthly statements of balances, account activity, and paid interest are mailed to participants by the 10th day of each month.

N. Reports

Quarterly and annual reports describing STIF's yields, performance relative to its primary benchmark (IBC First Tier Institutions-Only Rated Money Fund Index), and investments shall be provided to all participants. A detailed portfolio listing, data on 90-day Treasury bills and 90-day certificates of deposit, and commentary on economic conditions shall be provided with each report. The reports are available on the World Wide Web at: <http://www.state.ct.us/ott>

O. Participant Manual

A manual describing STIF's operating procedures, instructions for opening and closing accounts and making deposits and withdrawals, and methods of distributing interest, is provided to all participants. There currently are no restrictions on the size or number of accounts or transactions.

P. Audit

The Auditors of Public Accounts audit STIF's financial statements and operating procedures annually. Copies of audit opinions and reports will be provided to all participants.

Q. Portfolio Valuation

STIF's values and yields are accounted for on an amortized-cost basis. Market values of all securities, except for those securities listed in Sections H.1.j and H.1.k, above, are calculated on a weekly basis. Significant deviations of market values to amortized costs shall be reported as follows:

1. First Level Notification. If the market value of the overall investment portfolio, based on reports from the custodian, drops below 99.75 percent of the amortized cost value of the overall investment portfolio, or if the ratio of the market value of the overall portfolio to the outstanding participant units drops below 100.50 percent, the Principal Investment Officer would notify the Assistant Treasurer for Cash Management, the Assistant Treasurer for Pension Funds Management, and the Treasurer's Investment Committee at the first weekly meeting following such determination.
2. Second Level Notification. If the market value of the overall investment portfolio, based on reports from the custodian, drops below 99.50 percent of the amortized cost value of the overall investment

portfolio, or if the ratio of the market value of the overall portfolio to the outstanding participant units drops below 100.25 percent, the Principal Investment Officer would notify, as soon as practical, the Treasurer, Deputy Treasurer, Assistant Treasurer - Chief of Staff, Assistant Treasurer for Cash Management, Assistant Treasurer for Pension Funds Management, and the Treasurer's Investment Committee. The Treasurer's Investment Committee would then meet in special session to review the circumstances surrounding the fall in one or both ratios, and it would review every security held by the fund. If this second level notification resulted from a significant increase in fund size that resulted in a proportionate decrease in the relative size of the designated surplus reserve, then portfolio or other changes may not be required. If this second level notification resulted from the decline in market values of securities, then the Investment Committee would consider selling securities that had fallen in value and making use of the designated surplus reserve.

3. Investor Notification. If the ratio of the market value of the overall portfolio to the outstanding participant units drops below 99.75 percent, the Treasurer would notify all STIF investors of the situation and the actions being undertaken to protect against further reductions.

R. Internal Controls

The Treasury shall establish and maintain a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed by the Auditors of Public Accounts. The controls shall be designed to prevent and control losses of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees and officers.

S. Cash Management Advisory Board

STIF's investment practices and performance, including the documentation discussed in Section N, shall be reviewed on a quarterly basis by the Treasurer's Cash Management Advisory Board.

T. Financial Dealers and Institutions

The STIF Investment Officer shall develop criteria for selecting brokers and dealers. All repurchase agreement transactions will be conducted through primary dealers of the Federal Reserve Bank of New York rated at least A-1 and qualified banks (as defined in Sections H.1.b and H.1.c) which have executed master repurchase agreements with the Treasury.

U. Ethics

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose in writing to the Treasurer, or the Treasurer's compliance officer, any material financial interests in financial institutions that conduct business with STIF, and they shall further disclose any large personal financial/investment positions that could be related to the performance of STIF's portfolio, particularly with regard to the time of purchases and sales.

V. Bond Proceeds

Bond proceeds may be deposited in STIF. Accounting and arbitrage rebate calculations are the responsibility of participants. STIF's investment program is not designed to restrict yield in order to avoid arbitrage rebates.

W. Conformance with Guidelines

A nationally-recognized credit rating service recognized by the State Banking Commissioner shall monitor the STIF portfolio on a weekly basis to determine compliance with this policy. The Auditors of Public Accounts review compliance annually.

X. Conformance with National Standards

These guidelines, together with the participant manual, were designed to meet the July 1995 guidelines of the National Association of State Treasurers for local government investment pools.

Y. Investment Guideline Revisions

These guidelines may be revised by the Treasurer due to market changes or regulatory, legislative or internal administrative initiatives. Attempts will be made to provide all STIF investors with at least 30 days of notice before any changes to the investment policy become effective.

The Treasurer reserves the right to make changes immediately to respond to market conditions. In such circumstances, revisions will be sent to all STIF investors within two business days of the revision.

GLOSSARY OF TERMS

- Agency Securities** - Securities issued by U.S. Government agencies, such as the Federal Home Loan Bank. These securities have high credit ratings but are not backed by the full faith and credit of the U.S. Government.
- Asset Backed Notes** - Financial instruments collateralized by one or more types of assets including real property, mortgages, and receivables.
- Banker's Acceptance (BA)** - A high-quality, short-term negotiable discount note, drawn on and accepted by banks which are obligated to pay the face amount at maturity.
- Basis Point (bp)** - The smallest measure used in quoting yields or returns. One basis point is 0.01% of yield, 100 basis points equals 1%. A yield that changed from 8.75% to 9.50% increased by 75 basis points.
- Benchmark** - A standard unit used as the basis of comparison; a universal unit that is identified with sufficient detail so that other similar classifications can be compared as being above, below, or comparable to the benchmark.
- Capital Gain(Loss)** - Also known as capital appreciation(depreciation), capital gain(loss) measures the increase(decrease) in value of an asset over time.
- Certificates of Deposit (CDs)** - A debt instrument issued by banks, usually paying interest, with maturities ranging from seven days to several years.
- Commercial Paper** - Short-term obligations with maturities ranging from 1 to 270 days. They are issued by banks, corporations, and other borrowers to investors with temporarily idle cash.
- Compounded Annual Total Return** - Compounded annual total return measures the implicit annual percentage change in value of an investment, assuming reinvestment of dividends, interest, and realized capital gains, including those attributable to currency fluctuations. In effect, compounded annual total return "smoothes" fluctuations in long-term investment returns to derive an implied year-to-year annual return.
- Consumer Price Index (CPI)** - A measure of change in consumer prices, as determined by a monthly survey of the U.S. Bureau of Labor Statistics. Components of the CPI include housing costs, food, transportation, electricity, etc.
- Cumulative Rate of Return** - A measure of the total return earned for a particular time period. This calculation measures the absolute percentage change in value of an investment over a specified period, assuming reinvestment of dividends, interest income, and realized capital gains. For example, if a \$100 investment grew to \$120 in a two-year period, the cumulative rate of return would be 20%.
- Derivative** - Derivatives are generally defined as contracts whose value depends on, or derives from, the value of an underlying asset, reference rate, or index. For example, an option is a derivative instrument because its value derives from an underlying stock, stock index, or future.
- Discount Rate** - The interest rate that the Federal Reserve charges banks for loans, using government securities or eligible paper as collateral.
- Expense Ratio** - The amount, expressed as a percentage of total investment, that shareholders pay for mutual fund operating expenses and management fees.
- Federal Funds Rate** - The interest rate charged by banks with excess reserves at a Federal Reserve district bank to banks needing overnight loans to meet reserve requirements. The federal funds rate is one of the most sensitive indicators of the direction of interest rates since it is set daily by the market.
- Federal Reserve Board** - The governing body of the Federal Reserve System (12 regional Federal banks monitoring the commercial and savings banks in their regions). The board establishes FRS policies on such key matters as reserve requirements and other regulations, sets the discount rate, and tightens or loosens the availability of credit in the economy.
- Gross Domestic Product** - Total final value of goods and services produced in the United States over a particular period or time, usually one year. The GDP growth rate is the primary indicator of the health of the economy.

GLOSSARY OF TERMS

Index - A benchmark used in executing investment strategy which is viewed as an independent representation of market performance. An index implicitly assumes cost-free transactions; some assume reinvestment of income. Example: S&P 500 index.

Inflation - A measure of the rise in price of goods and services, as happens when spending increases relative to the supply of goods on the market, i.e. too much money chasing too few goods.

Investment Income - The equity dividends, bond interest, and/or cash interest paid on an investment.

Liability - The claim on the assets of a company or individual - excluding ownership equity. The obligation to make a payment to another.

Market Value - The price at which buyers and sellers trade similar items in an open marketplace. Stocks are considered liquid and are therefore valued at a market price. Real estate is illiquid and valued on an appraised basis.

Master Custodian - An entity, usually a bank, used as a place for safekeeping of securities and other assets. The bank is also responsible for many other functions which include accounting, performance measurement, and securities lending.

Maturity Date - The date on which the principal amount of a bond or other debt instrument becomes payable or due.

MFR Index (Formerly IBC) - An index which represents an average of the returns of institutional money market mutual funds that invest primarily in first-tier (securities rated A-1, P-1) taxable securities.

Money Market Fund - An open-ended mutual fund that invests in commercial paper, bankers' acceptances, repurchase agreements, government securities, certificates of deposit, and other highly liquid and safe securities and pays money market rates of interest. The fund's net asset value remains a constant \$1 per share - only the interest rate goes up or down.

Moody's (Moody's Investors Service) - A financial services company which is one of the best known bond rating agencies in the country. Moody's investment grade ratings are assigned to certain municipal short-term debt securities, classified as MIG-1, 2, 3, and 4 to signify best, high, favorable, and adequate quality, respectively. All four are investment grade or bank quality.

Net Asset Value (NAV) - The total assets minus liabilities, including any valuation gains or losses on investments or currencies, and any accrued income or expense. NAV is similar to Shareholders' Equity.

Par Value - The stated or face value of a stock or bond. It has little significance for common stocks, however, for bonds it specifies the payment amount at maturity.

Principal - Face value of an obligation, such as a bond or a loan, that must be repaid at maturity.

Prudent Expert Rule - The standard adopted by some entities to guide those fiduciaries with responsibility for investing money of others. Such fiduciaries must act as a prudent expert would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investment. This is a higher standard than the "prudent person" rule.

Realized Gain (Loss) - A gain (loss) that has occurred financially. The difference between the principal amount received and the cost basis of an asset realized at sale.

Relative Volatility - A ratio of the standard deviation of the Fund to the standard deviation of its selected benchmark. A relative volatility greater than 1.0 suggests comparatively more volatility in Fund returns than those of the benchmark.

Repurchase Agreements ("Repos") - An agreement to purchase securities from an entity for a specified amount of cash and to resell the securities to the entity at an agreed upon price and time. Repos are widely used as a money market instrument.

Reverse Repurchase Agreements ("Reverse Repos") - An agreement to sell securities to an entity for a specified amount of cash and to repurchase the securities from the entity at an agreed upon price and time.

GLOSSARY OF TERMS

S&P Ratings -

AAA - Debt having the highest rating assigned by Standard & Poor's. It has the highest capacity to pay interest and its ability to repay principal is extremely strong.

AA - Debt having a very strong capacity to pay interest and repay principal. AA rated debt differs from the higher rated issues by only a small degree.

A - Debt which has a strong capacity to pay interest and repay principal although it is somewhat more susceptible to the adverse effects of change in circumstances and economic conditions than debt in higher rated categories.

BBB - Debt regarded as having an adequate capacity to pay interest and repay principal. BBB is the lowest rating assignable to investment grade securities. Although debt rated BBB normally exhibits adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to weakened capacity to pay interest and repay principal for debt in this category than in higher rated categories.

BB, B, CCC, and CC - These ratings are regarded, on balance, as predominantly speculative with respect to capacity to pay interest and repay principal in accordance to the terms of the obligation.

C - These ratings are reserved for income bonds on which no interest is being paid.

D - These ratings are for debt which is in default. No interest or repayment of principal is being paid.

Soft Dollars - The value of research or other services that brokerage houses and other service entities provide to a client "free of charge" in exchange for the client's business.

Standard Deviation - A statistical measure showing the deviation of an individual value in a probability distributed from the mean (average) of the distribution. The greater the degree of dispersion from the mean rate of return, the higher the standard deviation; therefore, the higher the risk.

Treasury Bill (T-Bill) - Short-term, highly liquid government securities issued at a discount from the face value and returning the face amount at maturity.

Treasury Bond or Note - Debt obligations of the Federal government that make semiannual coupon payments and are sold at or near par value in denominations of \$1,000 or more.

Turnover - The minimum of security purchases or sales divided by the fiscal year's beginning and ending market values for a given portfolio.

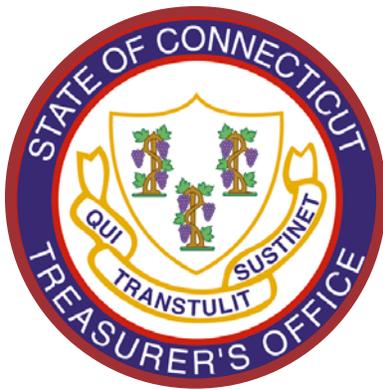
Unrealized Gain (Loss) - A profit (loss) that has not been realized through the sale of a security. The gain (loss) is realized when a security or futures contract is actually sold or settled.

Variable Rate Note - Floating rate notes with a coupon rate adjusted at set intervals, such as daily, weekly, or monthly, based on different interest rate indices, such as LIBOR, Fed Funds, and Treasury Bills.

Volatility - A statistical measure of the tendency of a market price or yield to vary over time. Volatility is said to be high if the price, yield, or return typically changes dramatically in a short period of time.

Yield - The return on an investor's capital investment.

**Statistical
Section**



STATISTICAL SECTION

This part of the Short-Term Investment Fund's (STIF's) comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial schedules and other supplementary information say about the overall financial health of STIF. The schedules within this statistical section comply with the requirements of GASB 44.

Financial Trends

These schedules contain the Global Investment Performance Standards (GIPs) and ten-year trend information on the financial performance of STIF.

<u>Schedule</u>	<u>Pages</u>
o Schedule of rates of return	45-48

Revenue Capacity

Revenue capacity is not applicable to STIF.

Borrowing Capacity

Section H 2. of the Short-Term Investment Fund's Investment Policy allow the fund to utilize reverse repurchase agreements to meet temporary liquidity requirements of the fund. The following statistics outline STIF's borrowing capacity as of June 30, 2006.

<u>Description</u>	<u>Amount</u>
Outstanding borrowing	\$0
Maximum borrowing amount	Five percent of total assets
Collateral requirement	Must be collateralized at a minimum of 100 percent

Demographic and Economic Information

These schedules show the breakdown between state and municipal funds, growth of the fund and rate information.

<u>Schedule</u>	<u>Page</u>
o Growth of participant units	49
o Monthly and annual comparative yields	50

Operating Information

The summary of operations schedule outlines the expenses, additions and deductions associated with the management of STIF.

<u>Schedule</u>	<u>Page</u>
o Changes in Net Assets	51
o Distributions to participants	52

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. STIF implemented Statement 34 in fiscal year 2005.



REPORT OF INDEPENDENT ACCOUNTANTS

Treasurer of the State of Connecticut
Hartford, Connecticut

We have examined the Office of the Treasurer Short - Term Investment Fund's (the Fund) (1) compliance with all the composite construction requirements of the Global Investment Performance Standards (GIPS® standards) on a firm-wide basis for each of the one year periods ended July 1, 2001 through June 30, 2006 and (2) design of its processes and procedures to calculate and present performance results in compliance with the GIPS standards as of June 30, 2006. We have also examined the Performance Presentation of the Fund's Composite for the periods from July 1, 2001 through June 30, 2006 presented on pages F39 through F42. The Fund's management is responsible for compliance with the GIPS standards and the design of its processes and procedures and for the Performance Presentation for its Short - Term Investment Fund. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the Company's compliance with the above-mentioned requirements; evaluating the design of the Company's processes and procedures referred to above; examining, on a test basis, evidence supporting the accompanying composite performance presentation; and performing the procedures for a verification and a performance examination set forth by the GIPS standards and such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the Office of the Treasurer Short-Term Investment fund has, in all material respects:

- Complied with all the composite construction requirements of the GIPS standards on a firm-wide basis for the one year periods ended June 30, 2002 through June 30, 2006; and
- Designed its processes and procedures to calculate and present performance results in compliance with the GIPS standards as of June 30, 2006.

Also, in our opinion, the accompanying Short - Term Investment Fund performance presentation for the periods from July 1, 2001, through June 30, 2006, is presented, in all materials respects, in conformity with the GIPS standards.

The periods from July 1, 1996 to June 30, 2001 were examined by other independent auditors whose report, dated September 24, 2001, expressed an unqualified opinion thereon.

A stylized, handwritten-style signature of "UHY LLP" in black ink.

Hartford, Connecticut
October 6, 2006

CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND

SCHEDULE OF ANNUAL RATES OF RETURN

	Year Ended June 30,									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
STIF Total Rate of Return (%)	4.38	2.32	1.16	1.64	2.61	6.11	6.01	5.37	5.82	5.66
First Tier Institutional-only Rated Money Fund Report Averages™ (MFR) Index (%) (1)	4.01	1.91	0.75	1.20	2.22	5.74	5.58	5.04	5.49	5.27
Total Assets in STIF, End of Period (\$ - Millions)	5,430	4,314	3,829	3,280	3,546	4,565	3,701	3,646	3,190	2,527
Percent of State Assets in Fund	84	84	81	69	67	71	71	71	70	73
Number of Participant Accounts in Composite, End of Year (2)										
State Treasury	58	84	124	115	112	55	55	54	n/a	n/a
Municipal and Local Entities	542	548	556	551	544	496	433	415	n/a	n/a
State Agencies and Authorities	406	446	474	440	428	346	312	313	n/a	n/a
Total	1,006	1,078	1,154	1,106	1,084	897	800	782	654	644

(1) Represents iMoneyNet's First Tier Institutional-only Rated Money Fund Report Averages™ - (MFR) Index. These Index rates have been taken from published sources and have not been examined by UHY LLP (formerly Scillia Dowling & Natarelli LLC) or Deloitte & Touche LLP.

(2) In 2006, inactive accounts were closed and only active accounts were included in the total number of participant accounts.

See Notes to Schedules of Rates of Return.

CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND

SCHEDULE OF QUARTERLY RATES OF RETURN

FISCAL YEAR	Rate of Return(%)	Institutional-only Rated Money Fund Report Averages™ (MFR) Index(%)⁽¹⁾	FISCAL YEAR	Rate of Return(%)	Institutional-only Rated Money Fund Report Averages™ (MFR) Index(%)⁽¹⁾
2006			2001		
Sep-05	.89	.80	Sep-00	1.69	1.58
Dec-05	1.05	.93	Dec-00	1.70	1.58
Mar-06	1.12	1.05	Mar-01	1.45	1.39
Jun-06	1.25	1.17	Jun-01	1.14	1.06
YEAR	4.38	4.01	YEAR	6.11	5.74
2005			2000		
Sep-04	.38	.29	Sep-99	1.33	1.23
Dec-04	.53	.41	Dec-99	1.46	1.33
Mar-05	.64	.54	Mar-00	1.48	1.40
Jun-05	.77	.67	Jun-00	1.60	1.51
YEAR	2.32	1.91	YEAR	6.01	5.58
2004			1999		
Sep-03	.28	.19	Sep-98	1.42	1.34
Dec-03	.30	.19	Dec-98	1.37	1.26
Mar-04	.29	.19	Mar-99	1.24	1.19
Jun-04	.29	.18	Jun-99	1.23	1.16
YEAR	1.16	0.75	YEAR	5.37	5.04
2003			1998		
Sep-02	.48	.38	Sep-97	1.43	1.34
Dec-02	.45	.32	Dec-97	1.45	1.36
Mar-03	.36	.26	Mar-98	1.41	1.35
Jun-03	.35	.24	Jun-98	1.40	1.34
YEAR	1.64	1.20	YEAR	5.82	5.49
2002			1997		
Sep-01	.95	.85	Sep-96	1.40	1.28
Dec-01	.66	.55	Dec-96	1.36	1.28
Mar-02	.48	.41	Mar-97	1.37	1.28
Jun-02	.49	.39	Jun-97	1.40	1.33
YEAR	2.61	2.22	YEAR	5.66	5.27

(1) Represents iMoneyNet's First Tier Institutional-only Rated Money Fund Report Averages™ - (MFR) Index. These Index rates have been taken from published sources and have not been examined by UHY LLP (formerly Scillia Dowling & Natarelli LLC) or Deloitte & Touche LLP.

See the accompanying Notes to the Schedules of Rates of Return.

CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND

NOTES TO SCHEDULES OF RATES OF RETURN FOR THE 10 YEAR INVESTMENT PERIOD JULY 1, 1996 THROUGH JUNE 30, 2006

NOTE 1: ORGANIZATION

The Connecticut State Treasury Short-Term Investment Fund ("STIF" or the "Fund") was created by Sec. 3-27 of the Connecticut General Statutes as an investment vehicle restricted for use by the State, State agencies and authorities, State municipalities and other political subdivisions of the State. STIF is a fully discretionary money market investment pool managed by the Connecticut State Treasury ("Treasury") as a single composite. STIF's objective is to provide as high a level of current income as is consistent with safety of principal and liquidity to meet participants' daily cash flow requirements. During the 2006 fiscal year, STIF's portfolio averaged \$5.0 billion.

NOTE 2: PERFORMANCE RESULTS

STIF has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS) for the period July 1, 1996 through June 30, 2006. The performance presentation for the period July 1, 1996 through June 30, 2006 has been subject to a verification in accordance with GIPS standards by an independent public accounting firm whose report is included herein. For the purposes of compliance with GIPS standards for the Short-Term Investment Fund, the Treasury has defined the "Firm" as the funds under the control of the State Treasurer, State agencies and State authorities for which the Treasurer has direct investment management responsibility within the Short-Term Investment Fund.

Results are net of all operating expenses, and as STIF is managed by employees of the Treasury, no advisory fees are paid.

NOTE 3: CALCULATION OF RATES OF RETURN

STIF uses a time-weighted linked rate of return formula to calculate rates of return. This method is in accordance with the acceptable methods set forth by the Association for Investment Management and Research. Other methods may produce different results and the results for individual participants and different periods may vary. The current rates of return may not be indicative of future rates of return.

The time-weighted linked rate of return formula used by STIF is as follows: Monthly returns are calculated by taking the sum of daily income earned on an accrual basis, after deduction for all operating expenses and a transfer to the Designated Surplus Reserve, divided by the average daily participant balance for the month.

The rates of return presented herein are those earned by the Fund during the periods presented as described above.

NOTE 4: DESIGNATED SURPLUS RESERVE

In order to provide some protection to the shareholders of STIF from potential credit and market risks, the Treasurer has designated that a portion of each day's net earnings be transferred to the Designated Surplus Reserve (Reserve). Such amounts are restricted in nature and are not available for current distribution to shareholders. Beginning December 1, 1996, the amount transferred daily to the Designated Surplus Reserve is equal to 0.1 percent of end of day investment balance divided by the actual number of days in the year. As of June 30, 2006, the balance in the Designated Surplus Reserve was \$47,424,832, an increase of \$3,938,421 from the June 30, 2005 balance of \$43,486,411.

No transfer is to be made if the reserve account is equal to or greater than 1.0 percent of the daily investment balance. If net losses significant to the aggregate portfolio are realized, the Treasurer is authorized to transfer funds from the Reserve to Participant Units Outstanding. There have been no charges against this reserve during the 34 year history of the Fund.

CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND

**NOTES TO SCHEDULES OF RATES OF RETURN (Continued)
FOR THE 10 YEAR INVESTMENT PERIOD JULY 1, 1995 THROUGH JUNE 30, 2005**

NOTE 5: ADDITIONAL DISCLOSURES

These results solely reflect the performance of STIF. The Fund's principal investment officer was hired in February 2005, and has been responsible for the management of the Fund since that time. The previous principal investment officer had been the portfolio manager since 1983.

Benchmark information presented in the Schedules of Rates of Return was obtained from published sources which are believed to be reliable. Such information is supplemental and is not covered by the independent accountants' report.

STIF does not make significant use of leverage. The only leverage employed by the Fund is the occasional use of reverse repurchase agreements. These agreements, which are limited by policy to no more than 5 percent of total Fund assets, are used only to meet temporary liquidity requirements of the Fund.

The Fund has accounted for all security purchases and sales on a trade date basis. Because the Fund purchases short term investments whose market values do not fluctuate significantly and since all investments are accounted for on an amortized cost basis, the difference between the trade and settlement date basis has no significant impact on the performance reported herein.

CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND

GROWTH OF PARTICIPANT UNITS UNDER MANAGEMENT

<u>Date</u>	<u>Municipal</u>	<u>State</u>	<u>Total</u>	<u>Annual Growth</u>
6/2006	\$842,346,535	\$4,540,395,185	\$5,382,741,720	26.05%
6/2005	\$662,638,019	\$3,607,739,707	\$4,270,377,726	12.75%
6/2004	730,794,748	3,056,676,643	3,787,471,391	17.07
6/2003	992,782,295	2,242,477,260	3,235,259,555	-7.58
6/2002	1,152,346,474	2,348,084,089	3,500,430,563	-22.43
6/2001	1,294,266,155	3,218,210,906	4,512,477,061	23.63
6/2000	1,041,887,596	2,608,041,137	3,649,928,733	1.35
6/1999	856,142,725	2,745,166,342	3,601,309,067	14.43
6/1998	934,295,960	2,213,009,736	3,147,305,696	26.34
6/1997	683,631,474	1,807,440,011	2,491,071,485	25.56
6/1996	647,150,970	1,336,757,530	1,983,908,500	35.19

CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND

MONTHLY COMPARATIVE YIELDS

	STIF	Benchmarks^(b)		
		First Tier Institutional -only Rated Money Fund Report AveragesTM MFR Index	Fed. Reserve Three Mo. T-Bill	Fed. Reserve Three Mo. CD
	Earned Rate^(a)			
06/2006	5.12%	4.80%	4.90%	5.33%
05/2006	5.01	4.65	4.82	5.12
04/2006	4.85	4.50	4.71	5.01
03/2006	4.64	4.34	4.62	4.86
02/2006	4.58	4.20	4.54	4.70
01/2006	4.39	4.04	4.31	4.54
12/2005	4.37	3.94	3.97	4.43
11/2005	4.20	3.71	3.96	4.28
10/2005	3.85	3.52	3.76	4.09
09/2005	3.67	3.36	3.48	3.84
08/2005	3.52	3.15	3.50	3.74
07/2005	3.39	3.02	3.27	3.55

ANNUAL COMPARATIVE YIELDS

	STIF	Benchmarks^(b)		
		First Tier Institutional -only Rated Money Fund Report AveragesTM MFR Index	Fed. Reserve Three Mo. T-Bill	Fed. Reserve Three Mo. CD
	Earned Rate^(a)			
2006	4.38%	4.01%	4.15%	4.46%
2005	2.32	1.91	2.25	2.48
2004	1.16	0.75	0.97	1.11
2003	1.64	1.20	1.31	1.40
2002	2.61	2.22	2.17	2.24
2001	6.11	5.74	5.26	5.64
2000	6.01	5.58	5.37	5.99
1999	5.37	5.04	4.59	5.16
1998	5.82	5.49	5.17	5.62
1997	5.66	5.27	5.17	5.51

(a) Actual earnings less expenses.

(b) Represents iMoneyNet's First Tier Institutional-only Rated Money Fund Report AveragesTM - (MFR) Index. These Index rates have been taken from published sources and have not been examined by UHY LLP (formerly Scillia Dowling & Natarelli LLC) or Deloitte & Touche LLP.

CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND
CHANGES IN NET ASSETS LAST TEN FISCAL YEARS (dollars in millions)

	Fiscal Year									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Additions										
Net Investment income*	\$217.9	\$96.6	\$45.1	\$60.9	\$111.2	\$255.0	\$213.8	\$198.3	\$175.1	\$145.0
Net Realized gain	0.0	0.0	0.2	0.4	0.7	0.2	0.5	0.0	0.0	0.5
Purchase of units by participants	13,308.2	12,857.1	12,774.7	12,353.9	11,573.4	12,278.4	10,664.2	10,090.6	8,978.8	8,565.7
Total additions to net assets	13,526.1	12,953.7	12,820.0	12,415.2	11,685.3	12,533.6	10,878.5	10,288.9	9,153.9	8,711.2
Deductions										
Operating expenses	(1.3)	(1.1)	(0.9)	(0.9)	(0.8)	(0.9)	(1.0)	(0.8)	(1.0)	(0.5)
Income distributed to investors	(212.7)	(93.8)	(43.4)	(59.7)	(108.7)	(250.4)	(210.1)	(193.8)	(171.4)	(143.0)
Redemption of units by participants	(12,195.8)	(12,374.2)	(12,222.5)	(12,619.0)	(12,585.4)	(11,415.8)	(10,615.6)	(9,636.6)	(8,322.5)	(8,058.5)
Total deductions from net assets	(12,409.8)	(12,469.1)	(12,266.8)	(12,679.6)	(12,694.9)	(11,667.1)	(10,826.7)	(9,831.2)	(8,494.9)	(8,202.0)
Change in net assets	\$1,116.3	\$484.6	\$553.2	(\$264.4)	(\$1,009.6)	\$866.5	\$51.8	\$457.7	\$659.0	\$509.2
Net Assets - Beginning of Period	\$4,313.9	\$3,829.3	\$3,276.1	\$3,540.5	\$4,550.1	\$3,683.6	\$3,631.8	\$3,174.1	\$2,515.1	\$2,005.9
Net Assets - End of Period	\$5,430.2	\$4,313.9	\$3,829.3	\$3,276.1	\$3,540.5	\$4,550.1	\$3,683.6	\$3,631.8	\$3,174.1	\$2,515.1
Designated Surplus Reserve Transfer	\$3.9	\$1.7	\$1.0	\$0.9	\$2.3	\$3.9	\$3.2	\$3.7	\$2.8	\$2.8
Designated Surplus Reserve Transfer Balance	\$47.4	\$43.5	\$41.8	\$40.8	\$39.9	\$37.6	\$33.7	\$30.5	\$26.8	\$24.0

* Net of designated reserve transfer contributions

CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND

DISTRIBUTIONS TO PARTICIPANTS

Distributions:	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
July	\$12,263,547	\$4,488,148	\$3,459,841	\$5,630,151	\$14,892,482	\$21,068,172	\$15,369,550	\$14,869,926	\$11,627,464	
August	14,624,900	5,455,631	3,999,517	6,319,460	15,859,392	25,325,394	18,626,337	17,980,323	14,766,430	\$28,640,118
Elimination for Month of June										(8,128,594)
September	15,299,129	6,113,181	3,696,228	6,481,756	14,497,488	24,965,829	18,327,219	17,448,280	15,326,081	
October	15,278,679	6,591,446	3,507,310	6,212,452	11,674,472	24,109,511	17,962,446	17,360,524	14,524,350	
November	14,525,210	6,268,350	3,246,255	4,919,008	8,037,557	20,453,180	16,080,280	16,212,546	13,355,190	33,745,391
Special Distribution (November 30 and May 31)										3,557,194
December	14,839,019	6,750,839	3,139,363	4,678,374	6,640,090	19,429,983	16,350,536	15,438,709	12,869,933	11,076,907
January	17,249,274	8,060,413	3,614,655	4,669,456	6,785,539	22,627,719	17,113,994	16,389,685	14,211,351	12,001,405
February	17,972,835	8,336,789	3,686,284	4,285,455	5,878,246	20,656,552	18,204,877	16,298,605	14,531,780	12,199,283
March	21,840,530	9,919,350	3,712,929	4,290,218	6,247,456	20,629,174	18,276,157	16,745,275	15,109,256	12,896,596
April	22,581,575	10,410,745	3,703,840	4,125,914	5,953,400	18,723,246	17,371,981	15,542,275	15,048,742	12,687,061
May	23,888,854	11,009,094	3,943,286	4,345,137	6,492,416	17,658,291	18,674,115	15,817,450	15,931,207	12,900,761
June	22,283,125	10,424,248	3,665,289	3,672,707	5,777,864	14,741,778	17,784,976	13,688,661	14,138,433	11,467,608
Total Distribution to Participants	\$212,646,678	\$93,828,235	\$43,374,797	\$59,630,088	\$108,736,391	\$250,388,829	\$210,142,470	\$193,792,259	\$171,440,217	\$143,043,730

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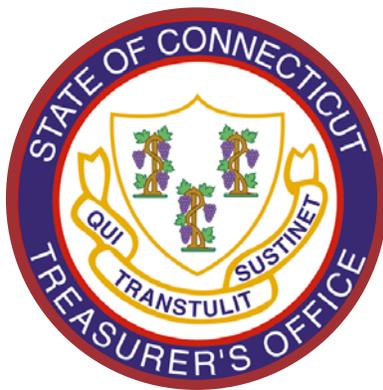
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