SHORT-TERM INVESTMENT FUND
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR FISCAL YEAR ENDED JUNE 30, 2002

Table of Contents

INTRODUCTORY SECTION

FINANCIAL SECTION

INVESTMENT SECTION

STATISTICAL SECTION

State of Connecticut

Office of the Treasurer

Denise L. Nappier
Treasurer

Howard G. Rifkin
Deputy Treasurer

December 4, 2001

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

I am pleased to submit this Comprehensive Annual Financial Report (CAFR) of the State of Connecticut Office of the Treasurer Short-Term Investment Fund (STIF) for the fiscal year ended June 30, 2002.

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) and audited in accordance with generally accepted auditing standards by the State of Connecticut's independent Auditors of Public Accounts.

For the first time this year, this report incorporates the reporting requirements of the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34. Implementation of this new reporting standard is consistent with the Treasurer's commitment to both comprehensive and accurate disclosure of financial information. 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.

State of Connecticut Short-Term Investment Fund

The Short-Term Investment Fund, created in 1972, is a state and local government investment fund with approximately $3.5 billion in assets as of June 30, 2002. Investors in the Fund include the Office of the State Treasurer, State agencies and authorities, municipalities, and other political subdivisions of the State. STIF's FY 2002 total annual return of 2.61 percent exceeded its primary benchmark by 39 basis points, resulting in $16 million in additional interest income for the state, municipalities, other units of local government and their taxpayers.

The primary objective of the Fund is to provide the greatest possible return while protecting principal and providing liquidity for STIF 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 32.)

As of June 30, 2002, STIF administered 1,084 STIF accounts for 60 State agencies and authorities and 251 municipalities and local entities. This includes an increase of 41 local government STIF accounts with $37 million of assets in fiscal year 2002, reflecting the continued confidence in the Fund as a solid investment vehicle for Connecticut communities.

Additionally, we have continued to make financial information readily accessible to investors by providing monthly STIF yields and quarterly reports on the Internet. This Annual Report, and an annual meeting scheduled for January 23, 2003, is offered to provide a more comprehensive understanding of the STIF investment record. Access to this report will be made available through the Internet at www.state.ct.us/ott.

55 Elm Street, Hartford, Connecticut 06106-1773, Telephone: (860) 702-3000
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Outside Reviews

STIF's AAAm rating by Standard & Poor's (S&P), the leading rating agency of money market funds and local government investment pools, was reaffirmed in December 2001. The AAAm rating, Standard & Poor's highest money fund rating, is based on an analysis of the pool's management, investment guidelines, portfolio holdings and market price exposure. This rating, in S&P's view, "signifies that safety of invested principal is excellent and there is a superior capacity to maintain a $1 per share net asset value at all times." In addition, S&P monitors our portfolio on a weekly basis to ensure that we maintain the safety and liquidity you deserve.

STIF's portfolio is also reviewed by the Investment Advisory Council and the Treasurer's Cash Management Advisory Board periodically throughout the year.

In addition, we once again received a Certificate of Achievement for Excellence in Financial Reporting for our Comprehensive Annual Financial Report from the Government Finance Officers Association of the United States and Canada (GFOA).

Report Contents

This report was prepared in its entirety by the Connecticut State Treasurer's Office and we take full responsibility for the accuracy of the data and the completeness and fairness of the presentation of the financial statements, supporting schedules, investment performance information, and the statistical tables in it. The report contains four sections:

- The Introductory Section contains the Letter of Transmittal, the GFOA certificate, an organizational chart, and a list of principal officials.

- The Financial Section contains the opinion of the State of Connecticut Auditors of Public Accounts on our financial statements, management's discussion and analysis, the Management Report, and the financial statements of STIF and notes to the financial statements.

- The Investment Section contains a comprehensive discussion of the Fund's investment performance and operations including:
    - Historical data on performance, portfolio characteristics, and asset growth;
    - Performance comparisons to the Fund's money market mutual fund benchmark, as well as to the Three-Month Treasury Bill (T-Bill) and Three-Month Certificates of Deposit (CD) benchmarks;
    - Analysis of the fiscal year's economic conditions and their impact on STIF's performance;
    - Questions and answers on topical issues related to STIF;
    - The investment portfolio of STIF as of June 30, 2002; and
    - The Fund's investment policy statement.

- The Statistical Section includes a historical table of STIF assets under management and asset growth rate, a historical table of STIF earned rates, a comprehensive glossary of investment terms, a performance presentation compiled in conformance with the standards established by the Association of Investment Management & Research (AIMR), and the Level II Verification Report of Scillia Dowling & Natarelli, LLC on the performance presentation.

The performance presentation formats and disclosures contained in this report are a synthesis of techniques used by public and private sector reporting entities as well as recommendations from the GFOA. Similarly, the financial statements and disclosures reflect a comprehensive effort by Treasury staff to integrate all appropriate accounting and disclosure standards, as well as the newest disclosures required by generally accepted accounting principles (GAAP).

We will remain vigilant in safeguarding and prudently investing the operating cash of the State Treasury, state agencies and authorities, municipalities, and other political subdivisions of the State, which invest in STIF pursuant to CGS 3-27a - 3-27f. Moreover, we will continue to seek the highest level of income possible within prudent parameters established to protect principal and to provide liquidity to meet investors' daily cash flow requirements.

Finally, we will endeavor to develop new ways to further expand and improve the level and quality of the services we provide. For example, during the next year we plan to continue to explore ways in which we can communicate with our investors through e-mail and the Internet.

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

Denise L. Nappier
Treasurer
State of Connecticut

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, 2001

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.

President

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.

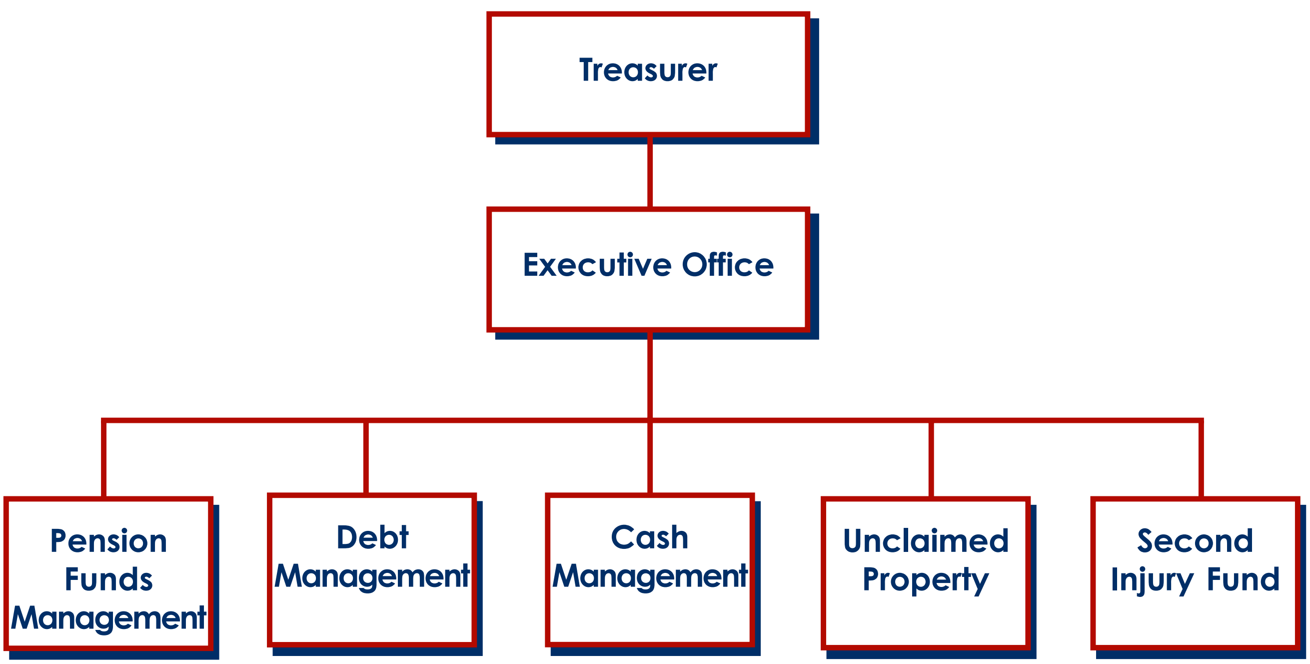
Statutory Responsibility

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 is the Chief Fiscal Officer for the State government, overseeing a wide variety of activities regarding the prudent preservation and management of State funds. This includes the administration of a portfolio of pension assets of more than $18 billion and a short-term investment fund of approximately $3 billion.

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.



CASH MANAGEMENT ADVISORY BOARD

Barbara A. Czaplicki
William P. Desautelle
J. Victor Thompson

DENISE L. NAPPIER
Treasurer
State of Connecticut

INVESTMENT ADVISORY COUNCIL

Steven W. Hart
Clare H. Barnett
Reginald U. Martin
George H. Mason
Jeffrey H. Mockler
Denise L. Nappier
Sharon M. Palmer
Henry E. Parker
Clarence L Roberts., Jr.
Marc S. Ryan
Rosalyn B. Schoonmaker
Carol M. Thomas

LAWRENCE A. WILSON, CCM
Assistant Treasurer
Cash Management Division

HAROLD W. JOHNSON, CFA
Principal Investment Officer

STATE STREET BANK AND TRUST CORP.
MASTER CUSTODIAN AND INVESTOR SERVICES

PAUL A. COUDERT
Investment Officer

MARC R. GAGNON
Securities Analyst

BARBARA SZUBA
Accountant

As of October 15, 2002.

SHORT-TERM INVESTMENT FUND

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Hartford, CT. 06106-2773
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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, CCM (860) 702-3126

STIF INVESTMENT MANAGEMENT

Principal Investment Officer
HAROLD W. JOHNSON, JR. CFA (860) 702-3255

Investment Officer
PAUL A. 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

STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS

KEVIN P. JOHNSTON | STATE CAPITOL | ROBERT G. JAEKLE
210 CAPITOL AVENUE
HARTFORD, CONNECTICUT 06106-1559

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, 2002, and the statements of changes in net assets for the fiscal years ended June 30, 2002, and 2001. 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, 2002, 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, 2002, 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

October 15, 2002
State Capitol
Hartford, Connecticut

This *Management's Discussion and Analysis (MD&A)* of the Comprehensive Annual Financial Report (CAFR) of the State of Connecticut Office of the Treasurer Short-Term Investment Fund (STIF) is a narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2002. The management of the State of Connecticut's Office of the Treasurer provides this MD&A, and we encourage readers to review it in conjunction with the transmittal letter at the front of this report and with the financial statements, which follow this section.

The Office of the Treasurer is implementing this new reporting standard and the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34 for the first time with this report.

The Short-Term Investment Fund financial statements reported by the Treasurer's Office for which the Treasurer has fiduciary responsibility for the investment thereof begin on page 16 and provide detailed information about the Fund.

FINANCIAL HIGHLIGHTS & ANALYSIS OF THE FUND

The Short-Term Investment Fund represents an investment pool of short-term money market instruments serving the State and State agencies, authorities, municipalities and other public subdivisions of the State. The Fund is managed for the sole benefit of the participants. All income is distributed monthly after deducting operating costs of 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.

Net Assets - The net assets under management in the Short-Term Investment Fund at the close of the fiscal year were $3.5 billion, a decline of $1.0 billion from the previous year. The change in net assets resulted from interest income and net realized gains on investments of $111 million, which were offset by cash outflows of $1.1 billion. The principal reasons for this decline were an overall decrease of $870 million in State STIF investments and a decline of $140 million in investments in the Fund from its municipal and local customers.

Operating Income – General financial market conditions produced an annual total return of 2.61%, net of operating expenses and allocations to Fund reserves, compared to an annual total return of 6.11%, net of operating expenses and allocations to Fund reserves in the previous fiscal year. The lower return resulted from reductions in market interest rates due to the national economic downturn.

The annual total return exceeded that achieved by its benchmark, which equaled 2.22%, by 39 basis points, resulting in $16 million in additional interest income for Connecticut governments and their taxpayers.

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 16) 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 17) 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 18-22 of this report.

Net Assets held in trust for Participants

A summary of the net assets held in trust for participants is presented below.

Condensed Statement of Net Assets
Fiscal Year Ended June 30,

	2002	2001	Increase / (Decrease) Amount	%
Assets				
Investments in Securities, at Amortized Cost	$3,543,556,206	$4,558,496,679	$(1,014,940,473)	(22.3)%
Receivables and Other	2,932,264	6,956,863	(4,024,599)	(57.8)%
Total Assets	3,546,488,470	4,565,453,542	(1,018,965,072)	(22.3)%
Liabilities	(6,010,768)	(15,340,034)	9,329,266	(60.8)%
Net Assets	$3,540,477,702	$4,550,113,508	$(1,009,635,806)	(22.2)%

The Summary of Operations below presents information on interest income and expense, net investment income and operating expenses.

Summary of Operations
Fiscal Year Ended June 30,

	2002	2001	Increase / (Decrease) Amount
Investment Income			
Net Interest Income	$111,212,255	$255,048,687	$(143,836,432)
Net Realized Gains	718,104	249,860	468,244
Total Investment Income	111,930,359	255,298,547	(143,368,188)
Expenses			
Operating Costs	(783,275)	(934,013)	150,738
Net Increase in Net Assets Resulting from Operations	$111,147,084	$254,364,534	$(143,217,450)

The Statement of Changes in Net Assets (page 17) presents information showing how the Short-Term Investment Fund's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. interest income).

Condensed Statement of Changes in Net Assets
Fiscal Year Ended June 30,

	2002	2001	Increase / (Decrease) Amount
Net Increase in Net Assets Resulting From			
Operations	$111,147,084	$254,364,534	$(143,217,450)
Distributions to participants	108,736,391	250,388,829	(141,652,438)
Net Increase after Distributions	2,410,693	3,975,705	(1,565,012)
Purchase of Units	11,573,361,781	12,278,364,281	(705,002,500)
Redemption of Units	(12,585,408,280)	(11,415,815,952)	(1,169,592,328)
Net Increase (Decrease) in Net Assets	$(1,009,635,806)	$866,524,034	$(1,876,159,840)

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 18 through 22 of this report.

REQUIRED SUPPLEMENTARY INFORMATION

The Office of the Treasurer's Comprehensive Annual Financial Report for the Short-Term Investment Fund does not separately report required supplementary information that contains budgetary comparison schedules or schedules presenting infrastructure assets. This information is recorded by the State of Connecticut and as such, compliance with GASB Statement 34 is not applicable.

ECONOMIC CONDITIONS AND OUTLOOK

Fiscal year 2002 began with economic indicators reflecting an overall leveling or temporary cooling in the national and state economies. America now finds itself in the midst of an economic recession exacerbated by the tragedies of September 11, 2001, that contrasts sharply with the preceding decade of growth and prosperity. Connecticut has not been immune to these events. The U.S. economic recession that began in March 2001 ended the longest recorded economic expansion of ten years. As a result, investment returns for fiscal year 2002 have been below prior years levels.

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

State of Connecticut

Office of the Treasurer

Denise L. Nappier
Treasurer

Howard G. Rifkin
Deputy Treasurer

Connecticut State Treasury
Hartford, Connecticut
October 15, 2002

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,

Howard G. Rifkin
Deputy Treasurer

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STATEMENT OF NET ASSETS
JUNE 30, 2002

	June 30, 2002
ASSETS	
Investment in Securities, at Amortized Cost (Note 8)	$3,543,556,206
Accrued Interest and Other Receivables	2,912,450
Prepaid Assets	19,814
TOTAL ASSETS	3,546,488,470
LIABILITIES	
Distribution Payable	5,777,864
Payable to Transfer Agent (Note 6)	137,890
Interest Payable	81,993
Other Liabilities	13,021
TOTAL LIABILITIES	6,010,768
NET ASSETS	$3,540,477,702
NET ASSETS CONSIST OF:	
Participant Units Outstanding($1.00 Par)	$3,500,430,563
Designated Surplus Reserve (Note 2)	40,047,139
TOTAL NET ASSETS	$3,540,477,702
Participant Net Asset Value, Offering Price and Redemption Price per share ($3,500,430,563 in Net Assets divided by 3,500,430,563 shares)	$ 1.00

See accompanying Notes to the Financial Statements.

STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2002 AND JUNE 30, 2001

	For the Year Ended June 30, 2002	2001
Operations		
Interest Income	$ 111,294,584	$ 255,114,298
Interest Expense on Reverse Repurchase Agreements	(82,329)	(65,611)
Operating Expenses	(783,275)	(934,013)
Net Investment Income	110,428,980	254,114,674
Net Realized Gains	718,104	249,860
Net Increase in Net Assets Resulting from Operations	111,147,084	254,364,534
Distribution to Participants (Notes 2 & 7)		
Distributions to Participants	(108,736,391)	(250,388,829)
Total Distributions Paid and Payable	(108,736,391)	(250,388,829)
Share Transactions at Net Asset Value of $1.00 per Share		
Purchase of Units	11,573,361,781	12,278,364,281
Redemption of Units	(12,585,408,280)	(11,415,815,952)
Net Increase in Net Assets and Shares Resulting from Share Transactions	(1,012,046,499)	862,548,329
Total Increase in Net Assets	(1,009,635,806)	866,524,034
Net Assets		
Beginning of Year	4,550,113,508	3,683,589,474
End of Year	$3,540,477,702	$4,550,113,508

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. Sec. 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 participants that are part of the State's financial reporting entity) is not displayed in the State's combined financial statements. Instead, each fund type's investment in STIF is reported as "cash equivalents" in the combined balance sheet. The external portion (i.e., the portion that belongs to participants which are not part of the State's financial reporting entity) is recorded in an investment trust fund in the combined 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 it's 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 proprietary fund type. A proprietary 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 proprietary funds are generally those applicable to similar businesses in the private sector. The Fund uses the accrual basis of accounting.

In accordance with Government Accounting Standards Board ("GASB") Statement Number 20 "Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities that use Proprietary Fund Accounting", the Treasurer has elected to apply all GASB pronouncements as well as all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB's), except those that conflict with GASB pronouncements. During fiscal year 1998, the Fund adopted the financial statement presentation and disclosure requirements of GASB 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools".

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.

NOTES TO FINANCIAL STATEMENTS (Continued)

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.

Distributions to Participants.

Distributions to participants 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. Prior to December 1, 1996 distributions were based upon the actual number of days in the year at an interest rate established by the Treasurer on or before the first date of the month ("the guaranteed rate"). The interest distributions earned by participants were distributed within fifteen business days after the close of the periods ending on the last day of August and November.

Earnings Subject to Special Distribution.

In December 1996, a special distribution was paid to participants based upon net earnings of STIF less previously distributed quarterly payments and an allocation to the Designated Surplus Reserve. This special distribution was paid out in proportion to the total interest paid on the guaranteed rates since June 1, 1996. Following this special distribution, the method for computing distributions to participants after November 30, 1996 was changed, thereby eliminating future special distributions.

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. In December 1996, a transfer was made to the Designated Surplus Reserve at the annualized rate of 0.1 percent of the average month-end investment balances for June through November 1996. 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. 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, 2002, the balance in the Designated Surplus Reserve was $40,047,139, an increase of $2,410,693 from the June 30, 2001 balance of $37,636,446.

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.

NOTE 3: INVESTMENT RISK CLASSIFICATION

STIF's investment practice is to invest all cash balances; as such, there was no uninvested cash at June 30, 2002. All certificates of deposit within the portfolio are considered negotiable instruments. The certificates of deposit and all other 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.

All investments of STIF are classified in category 1 of the custodial credit risk defined by GASB Statement No. 3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements". Classification in category 1 means that the exposure of deposits or investments to potential custodial credit risk is low.

Category 1 includes investments which are insured or registered or for which the Treasurer or his agent in the Treasurer's name holds securities.

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 $43,000.

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 participant purchase and sale activity are made. Occasionally, the timing of cash movements by participants may not exactly match the net activity of purchases and sales, resulting in a difference between investments held in securities relative to participants' net account value. As of June 30, 2002, STIF recorded a liability of $137,890, payable to the transfer agent, for investments purchased which did not match actual movements of cash by participants into the Fund.

NOTE 7: DISTRIBUTIONS TO PARTICIPANTS

The components of the distributions to participants are as follows for the income earned during the twelve months ended June 30:

Distributions:	2002	2001
July	$ 14,892,482	$ 21,068,172
August	15,859,392	25,325,394
September	14,497,488	24,965,829
October	11,674,462	24,109,511
November	8,037,557	20,453,180
December	6,640,090	19,429,983
January	6,785,539	22,627,719
February	5,878,246	20,656,552
March	6,247,456	20,629,174
April	5,953,400	18,723,246
May	6,492,416	17,658,291
June (Payable at June 30)	5,777,864	14,741,778
Total Distribution Paid & Payable	**$108,736,391**	**$250,388,829**

NOTE 8: INVESTMENTS IN SECURITIES

The following is a summary of investments in securities, at amortized cost and fair value as of June 30, 2002:

Investment	Amortized Cost	Fair Value
Securities-Backed Commercial Paper	$1,046,026,800	$1,046,124,358
Fully Supported Commercial Paper	578,586,156	578,588,448
Bank Notes	363,706,676	364,012,511
Extendable Commercial Notes	348,770,179	348,770,179
Corporate Notes	311,687,868	311,806,552
Repurchase Agreements	200,000,000	200,000,000
Multi-Backed Commercial Paper	181,356,848	181,408,514
Receivable-Backed Commercial Paper	146,262,461	146,262,461
Federal Agency Securities	124,556,713	125,148,540
Commercial Paper	103,689,000	103,689,000
Certificates of Deposit	100,000,000	100,000,000
Banker's Acceptances	38,913,385	39,048,204
Liqudity Management Control System	120	120
TOTAL	**$3,543,556,206**	**$3,544,858,888**

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.

GASB Technical Bulletin Number 94-1 "Disclosures about Derivatives and Similar Debt and Investment Transactions" states that derivatives are generally defined as contracts whose value depends on, or derives from, the value of an underlying asset, reference rate, or index. At June 30, 2002, STIF held adjustable-rate federal agency, corporate notes and bank notes whose interest rates vary directly with short-term money market indices and are reset daily, weekly, monthly, quarterly or semi-annually. According to GASB Technical Bulletin Number 94-1, these securities are derivatives. 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. The adjustable-rate federal agency securities are rated AAA by a nationally-recognized credit rating agency. The bank notes are rated either A-1+ or A-1. All of the 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, 2002, STIF was rated AAAm, its highest rating, by Standard and Poor's Corporation ("S&P"). In December 2001, 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.

short-term investment fund

Fund Facts at June 30, 2002

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: First Tier Institutions-Only Rated Money Fund Report™ (MFR) Index, Federal Reserve Three-Month CD, Fedeal Reserve Three-Month T-Bill.

Date of Inception: 1972

Total Net Assets: $3,540,477,702

Internally Managed

External Management Fees: None

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

Investment Results Review

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 2002 fiscal year, STIF's portfolio averaged $4.1 billion.

STIF employs the basic strategy of buying on market weakness. For example, when interest rates rise, STIF is in the market taking advantage of higher yields. To ensure sufficient liquidity to fund unexpected participant withdrawals, STIF closely monitors its "average maturity," based upon time to maturity or interest rate reset date of all securities in the portfolio. (See figure 11-2.) 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 just over $40 million, contributes significantly to STIF's low risk profile.

To help the Fund and its customers evaluate performance, STIF compares its returns to a set of three indices. The first index is the First Tier Institutions-Only Rated Money Fund Report™ Index ("MFR Index"). This index represents an average of institutional money market mutual funds rated AAA or AA 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 Federal Reserve three-month T-Bill rate and the Federal Reserve three-month CD rate. The former index 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 indices, 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. Furthermore, indices are "unmanaged" and are not affected by management fees or operating expenses. (See figure 11-3.)

Among the Fund's several achievements during the 2002 fiscal year was the continuation of an AAAm rating by Standard & Poor's in December 2001. This rating is S&P's highest for money market funds and investment pools and signifies its conclusion that the Fund's safety of investors' principal is excellent and that superior capacity exists to maintain a $1 per share net asset value at all times. (See figure 11-4.)

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. 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 approximately 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 during STIF's 30-year history, 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 and other economic indicators, adjusting the Fund's portfolio and characteristics as required. At the beginning of the fiscal year, STIF's weighted average maturity equaled 29 days. During the year the funds average maturity ranged from 24 to 61 days as market rates fluctuated. At the end of the 2002 fiscal year, the average maturity was 29 days, since there was little incentive to extend as the yield curve flattened.

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 an 75 percent concentration in investments rated A-1+ or AAA (the highest ratings of Standard & Poor's) or overnight repurchase agreements. Fifty-seven 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 66 percent at the previous year-end. The Fund's three largest security weightings included securities-backed commercial paper (29.5 percent), fully-supported commercial paper (16.3 percent) and bank notes (10.3 percent), respectively. (See figure 11-5.)

Performance Summary

For the one-year period ended June 30, 2002, STIF reported an annual total return of 2.61 percent, net of operating expenses and allocations to Fund reserves.(1) 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 2.22 percent, by 39 basis points, as well as three-month T-Bills, which yielded 2.17 percent and three-month CDs, which yielded 2.24 percent. Principal reasons for STIF's strong performance include low overall expenses, its effective security selection and fluctuating 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 4.90 percent, 5.18 percent, 5.36 percent, and 5.07 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

(1) The rates of return were calculated in conformance with the performance standards of the Association for Investment Management and Research and verfied with a Level II report by an independent public accounting firm. (See Notes 2 and 3 on page 38.)

invested $10 million in STIF ten years ago, that investment would have been worth $16.4 million at June 30, 2002, versus $15.7 million for a hypothetical investment in the MFR Index. (See figure 11-6.)

Beyond management's effective security selection, STIF's extremely low cost structure contributed significantly to these returns. While STIF's operating expenses stand at three basis points, or 0.03 percent of average net assets, the average rated institutional money market mutual fund charges its investors approximately 40 basis points. Reducing costs is the most prudent and safest way to increase yield. Thus, STIF has a risk-free advantage, shared by all its investors, of 27 basis points after deducting three basis points of operating expenses and the 10 basis points annual allocation to Fund's Designated Surplus Reserve.

During the fiscal year, STIF assets under management declined from $4.55 billion to $3.54 billion, a decrease of $1.01 billion. The principal reasons for this decline were an overall decrease of $870 million in State STIF investments and a decline of $140 million in investments in the Fund from its municipal and local customers.

Economic Report for Fiscal Year 2002

Fiscal year (FY) 2002 exemplified the true meaning of the ancient curse: "May you live in interesting times." The fiscal year began with the Federal Reserve (Fed) lowering interest rates in response to a slowing economy in order to avoid a recession. It ended with short-term interest rates the lowest in 40 years and on hold, but with some market participants forecasting further Fed easings to prevent a double-dip recession. During the year, the country and the economy were hit with the worst terrorist attack in our history, creating economic disruption and fear among the American people. Accounting scandals by large and previously respected U.S. companies eroded investor trust in corporate America, creating declining values in the American equity markets. Some of the American economy's stellar performance in the 90's appeared to be illusory (most of the fabulous growth, however, was real).

The Fed lowered the Fed Funds rate (the rate at which banks lend to each other) by 200 basis points (BP) during the first half of FY2002, from 3.75 percent to 1.75 percent, resulting in the lowest Fed Funds rate since the Kennedy administration. Of the decline, 175 BP occurred after the terrorist attacks of September 11, with the last reduction at the Fed's December 11, 2001 meeting. At its March meeting, the Fed changed its outlook from a weak bias to one of neutrality, which it maintained through the rest of the fiscal year. The financial markets immediately began to expect future Fed tightenings as early as its May 7, 2002 meeting, but weaker-than-expected economic releases, accounting scandals and a weak stock market caused the market to turn 180 degrees. By the end of FY2002, most market participants expected the Fed to lower interest rates in FY2003.

Inflation during FY2002 was low. The Consumer Price Index (CPI) rose only one percent. The Gross Domestic Product (GDP) Deflator, the broadest measure of inflation, also experienced an increase of only one percent during the year. The Producer Price Index (PPI) was even better, showing costs actually declining by two percent during the fiscal year. Inflation was not only low in FY2002, it was significantly lower than it was in FY2001, when, as originally reported, the CPI increased by 3.2 percent, the GDP deflator rose by 2.3 percent, and the PPI grew by 2.6 percent.

Interest rates on short-term securities declined dramatically during the year. Rates on one-month Certificates of Deposit (CD's) declined from approximately 3.75 percent in the beginning of FY2002 to 1.79 percent at year-end. One month CD yields went as low as 1.585 percent in January 2002. Three month CD's followed an almost identical pattern, with yields declining from 3.75 percent on July 2, 2001, to 1.82 percent at the end of the fiscal year and reaching a low of 1.585 percent in January 2002.

In addition to the well-documented accounting scandals, the market is also concerned about the stock market bubble, especially in tech stocks, and how it will affect the economy through the resultant decline in consumer wealth. For example, a Wall Street Journal article on Charles P. Kindleberger's book Manias, Panics, and Crashes; A History of Financial Crisis, describes how a bubble and subsequent problems evolve. Typically, you have a fundamental change in the real world that creates a new opportunity for profit in some sectors, causing investment to expand.

Before long the investments become speculation, which eventually leads to a crash. Some crashes, such as the one following the nineteenth-century railroad boom, lead to a recession. Though Fed Chairman Alan Greenspan has done a masterful job handling previous crises, Professor Kindleberger is not convinced that the Fed will be to handle this one, because the bubble was so big and consumers are heavily indebted.

There is a question of how much the wealth effect drives the American economy. During the high-flying 90's, economists used the rule of thumb that consumers spent about four percent of their gains from the stock market. Now that investors have lost trillions of dollars as the stock market fell, there is a concern by some economists that consumers will correspondingly decrease their spending, thereby hurting the economy. Yet, despite the decline in the stock market, consumer spending has so far held up. Part of the reason could be that the value of housing has increased almost as much as the stock market has declined. Moreover, according to many, the wealth effect pales in importance to earned income in determining consumer spending. In FY2002, personal income increased by a strong 3.4 percent. This increase, combined with the increased home values of most homeowners, helps explain why consumer spending remained strong, despite the decline in the equity markets in FY02. Of course, this does not guarantee that consumer spending will remain strong in FY03.

Outlook for Fiscal Year 2003

At the very end of FY2002 and in the beginning of FY2003, the strong U.S. dollar finally began to weaken against other major international currencies, as the American economy showed continued signs of weakness. This should help the U.S. economy by making its exports more competitive abroad and making imports more expensive, helping domestic oriented industries as well. A cheaper dollar is a double edge sword, since it also increases inflation, decreasing the amount of goods American consumers can buy. Inflation in the beginning of FY2003, however, was extremely tame and presented no immediate concern for the Fed or the economy.

In its first meeting in FY2003, the Fed left the Fed Funds rate at 1.75 percent, but changed from a neutral bias to one of weakness due to the free falling stock market, accounting irregularities and declining consumer and business confidence. The market began to immediately expect further cuts in the Fed Funds rate as early as the Fed's September 24 meeting.

At its September 24, 2002 meeting, the Fed again left the Fed Funds rate unchanged. For the first time since May 1998, two members — who wanted the Fed Funds rate cut immediately — dissented. In addition, the Board's September statement stressed the uncertainties in the economy and referred to heightened geopolitical risks, while its statement after the August meeting gave a more upbeat evaluation of the U.S. economy.

At its November 6 meeting, the Fed surprised the market by lowering the Fed Funds rate by 50 BP, to its lowest level in over 40 years. The Fed also changed its bias to neutral, signifying that unless economic conditions deteriorate, the Fed has most likely ceased easing interest rates this economic cycle. The change in bias may have comforted the market, which might have been concerned about why the Fed reduced interest rates by such a large amount. The Fed lowered the Fed Funds rate as a precaution, just in case the "soft spot," that Fed Chairman Alan Greenspan alluded to in testimony before the Congress, turns out to be more serious than expected.

In the beginning of FY2003 the yield curve in the short-term area was inverted and with STIF's management's forecast that the Fed would most likely not ease, the fund stayed short. After a strong durable goods number for July was released on August 27, yields rose and STIF began to extend its maturities. In mid-December, STIF's management was purchasing securities maturing from Mid-January to March 2003.

Figure 11-1

SHORT-TERM INVESTMENT FUND
Ownership Analysis at June 30, 2002 ($ in millions)

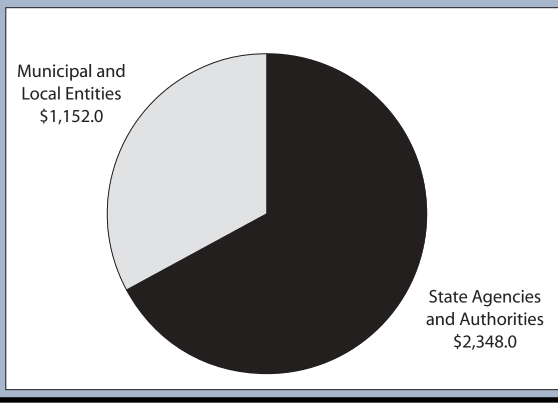

Figure 11-2

SHORT-TERM INVESTMENT FUND
Maturity Analysis

Figure 11-3

SHORT-TERM INVESTMENT FUND
Quarterly Yield vs. Benchmark

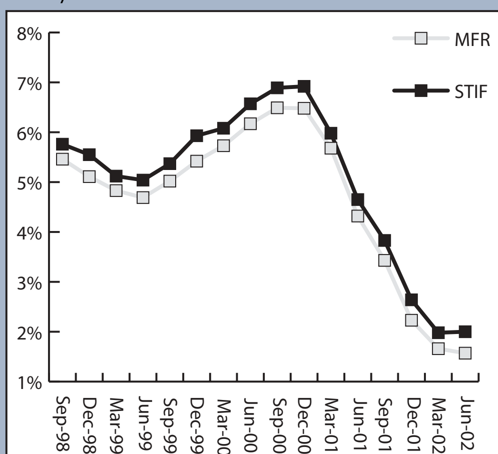

Figure 11-4

SHORT-TERM INVESTMENT FUND
Distribution by Quality Rating at June 30, 2002
Based on Investments in Securities, at Value

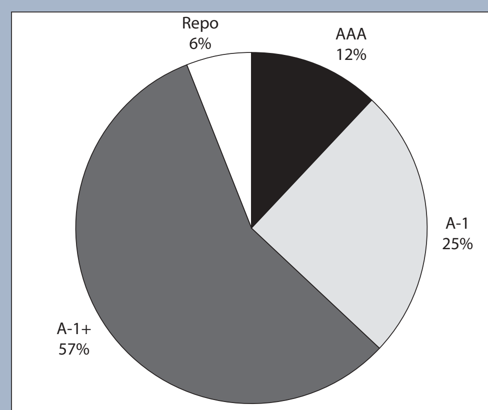

Figure 11-5

SHORT-TERM INVESTMENT FUND
Distribution by Security Type at June 30, 2002

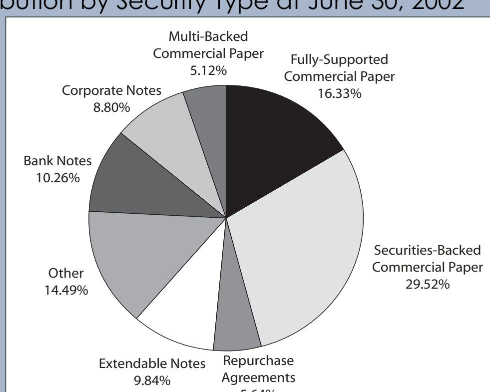

Figure 11-6

SHORT-TERM INVESTMENT FUND
Period ending June 30, 2002

	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs
Compounded Annual Total Return (%)					
STIF	2.61	4.90	5.18	5.36	5.07
MFR Index*	2.22	4.50	4.80	4.96	4.61
Fed. Three-Month T-Bill	2.17	4.26	4.51	4.71	4.48
Fed. Three-Month CD	2.24	4.61	4.92	5.13	4.82
Cumulative Total Return (%)					
STIF	2.61	15.42	28.70	44.09	63.93
MFR Index*	2.22	14.12	26.45	40.36	56.99
Fed. Three-Month T-Bill	2.17	13.33	24.65	38.02	55.05
Fed. Three-Month CD	2.24	14.48	27.14	41.91	60.12

**Represents First Tier Institutions-only Money Fund Report™ (MFR) Index prior to December 31, 1995 and First Tier Institutions-only Rated Money Fund Report™ (MFR) Index through June 30, 2002.*

Q. What is the Fed Funds rate?

A. The Fed Funds rate is the interest rate at which banks lend reserves to each other. Reports of Federal Reserve (Fed) interest rate targets generally refer to the Fed Funds rate.

Q. Why is the Fed Funds rate important?

A. The Fed Funds rate is a market rate set by the supply and demand for reserves in the U.S. financial system. For this reason it is monitored closely by the Fed. If the rate is higher than the Fed targets, it will add reserves by either buying securities outright or doing a customer or system repurchase agreement (repo). If the rate is lower than the Fed wants, it will take money out of the system by either selling securities or by match sales (reverse repo). In addition, the Fed Funds rate is used by many parties in the financial services sector in calculating short-term interest rates throughout the financial system.

Q. Why is STIF's yield so low?

A. STIF is an AAA-rated money fund that must invest in highly rated securities with fairly short maturities. These securities are generally priced off the Fed Funds rate. STIF's yield is directly affected by the Fed Funds rate. When the economy is sluggish and the Fed is lowering the Fed Funds rate to stimulate it, yields on the securities that STIF purchases decline, usually in lock step with the Fed's interest rate reductions, thereby lowering the fund's overall yield. Since the beginning of FY02, the Fed has been trying to stimulate the American economy through low interest rates. This in turn has brought down the yield of STIF and all other short-term funds.

Q. How do indicators of consumer confidence influence STIF's yield?

A. Consumers make up two-thirds of the U.S. economy and they have been the main pillars holding up the American economy this cycle. Any release of economic data that indicates that consumers might decrease or increase their consumption affects: first, expectations of economic decline or growth, then second, expectations of Fed actions to stimulate or restrain the economy, and then third, expectations of interest rate declines or increases. For example, on October 29, 2002, the consumer confidence indicator released by the Conference Board plunged to 79.4, a nine-year low, and far below the 90 expected by most economists. Short-term yields immediately dropped. STIF had purchased, on October 25, 2002, an A-1+ asset-backed commercial paper program with maturities in February 2003, at a 1.85 percent discount rate. By October 31, 2002, these securities were trading at 1.67 percent.

CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND

LIST OF INVESTMENTS AT JUNE 30, 2002

Par Value	Security (Coupon, Maturity or Reset Date)	Yield %		Amortized Cost		Fair Value	Asset ID	Quality Rating
BANKERS' ACCEPTANCES (1.10% of total investments)								
$ 1,997,000	FLEET BANK 2.14, 9/9/02	1.81	$	1,988,690	$	1,990,011	3390M1J97	A-1
1,228,800	FLEET BANK 2.01, 10/30/02	1.98		1,220,498		1,220,664	3390M1KW4	A-1
15,884,057	WACHOVIA 1.85, 8/27/02	1.86		15,837,530		15,837,530	9297M1HT6	A-1
20,000,000	WACHOVIA 2.00, 10/29/02	2.00		19,866,667		20,000,000	9297M1KV7	A-1
$ 39,109,857			**$**	**38,913,385**	**$**	**39,048,204**		
CERTIFICATES OF DEPOSIT (2.82% of total investments)								
$ 80,000,000	FIRST UNION 2.371, 3/6/03	2.37	$	80,000,000	$	80,000,000	32099S004	A-1
20,000,000	FIRST UNION 2.371, 3/6/03	2.37		20,000,000		20,000,000	32099S004	A-1
$ 100,000,000			**$**	**100,000,000**	**$**	**100,000,000**		
COMMERCIAL PAPER (2.93% of total investments)								
$ 53,689,000	GE CAPITAL CORP 1.98, 7/1/02	1.98	$	53,689,000	$	53,689,000	36965EPX8	A-1+
50,000,000	GE CAPITAL CORP 2.00, 7/1/02	2.00		50,000,000		50,000,000	3615T3G16	A-1+
$ 103,689,000			**$**	**103,689,000**	**$**	**103,689,000**		
BANK NOTES (10.26% of total investments)								
$ 50,000,000	BANC ONE 1.94, 3/11/04	1.93	$	49,966,366	$	50,008,500	06423ENL5	A-1
50,000,000	BANC ONE 2.12, 5/10/04	1.93		50,000,000		50,175,500	06423EMD4	A-1
50,000,000	BAYERISCHE LANDES BANK 1.92, 3/8/04	1.91		49,966,536		50,008,000	0727M5WU2	A-1+
3,755,000	FLEET BANK 1.98, 7/31/02	1.98		3,754,865		3,755,451	33901MMV1	A-1
10,100,000	NATIONAL CITY BANK 2.00, 1/13/02	1.89		10,103,775		10,106,060	634906AM3	A-1
50,000,000	NATIONAL CITY BANK 1.91, 1/15/04	1.93		49,988,536		49,984,500	634906BP5	A-1
50,000,000	NATIONAL CITY BANK 1.93, 2/23/04	1.94		49,975,533		49,991,500	634906BS9	A-1
50,000,000	NATIONAL CITY BANK 1.93, 2/23/04	1.94		49,975,533		49,991,500	634906BS9	A-1
50,000,000	NATIONAL CITY BANK 1.93, 2/23/04	1.94		49,975,533		49,991,500	634906BS9	A-1
$ 363,855,000			**$**	**363,706,676**	**$**	**364,012,511**		
FULLY-SUPPORTED COMMERCIAL PAPER (16.33% of total investments)								
$ 50,000,000	ARIES ONE 1.85, 7/8/02	1.85	$	49,982,014	$	49,982,014	04037MG87	A-1
13,985,000	ARIES ONE 1.85, 7/8/02	1.85		13,979,969		13,979,969	04037MG87	A-1
40,000,000	ARIES ONE 1.85, 7/10/02	1.85		39,981,500		39,981,500	04037MGA2	A-1
40,000,000	ARIES ONE 1.85, 7/10/02	1.85		39,981,500		39,981,500	04037MGA2	A-1
20,354,000	ARIES ONE 1.85, 7/10/02	1.85		20,344,586		20,344,586	04037MGA2	A-1
50,000,000	BUNGEE ASSET 1.85, 7/10/02	1.85		49,976,875		49,976,875	12056UGA3	A-1
89,984,000	BUNGEE ASSET 1.85, 7/10/02	1.85		89,937,758		89,937,758	12056UGB1	A-1
24,000,000	EXELSIOR FINANCE 2.00, 7/3/02	2.00		23,997,333		23,997,333	30161UG33	A-1+
17,000,000	EXELSIOR FINANCE 1.85, 7/18/02	1.85		16,985,149		16,985,149	30161UGJ8	A-1+
19,000,000	EXELSIOR FINANCE 1.86, 7/19/02	1.86		18,982,330		18,982,330	30161UGK5	A-1+
30,000,000	EXELSIOR FINANCE 1.85, 7/24/02	1.85		29,964,542		29,964,542	30161UGQ2	A-1+
50,000,000	FOUNTAIN SQUARE 2.02, 7/1/02	2.02		50,000,000		50,000,000	35075SG16	A-1+
2,371,000	FOUNTAIN SQUARE 2.05, 10/25/02	1.76		2,355,338		2,357,630	35075SKR4	A-1+
30,648,000	INTREPID FUNDING 1.90, 7/10/02	1.90		30,633,442		30,633,442	4611W3009	A-1+
50,163,000	TULIP FUNDING 1.90, 7/8/02	1.90		50,144,468		50,144,468	89929UG81	A-1+
51,451,000	ULLSWATER 1.86, 8/12/02	1.86		51,339,351		51,339,351	90374MHC7	A-1
$ 578,956,000			**$**	**578,586,156**	**$**	**578,588,448**		
MULTI-BACKED COMMERCIAL PAPER (5.12% of total investments)								
$ 10,016,000	BEST FUNDING 1.85, 7/19/02	1.85	$	10,006,735	$	10,006,735	08652MGK5	A-1+
10,716,000	BEST FUNDING 1.85, 7/24/02	1.85		10,703,334		10,703,334	08652MGQ2	A-1+
23,705,000	BEST FUNDING 1.85, 7/29/02	1.85		23,670,891		23,670,891	08652MG61	A-1+
50,000,000	FOUR WINDS 2.05, 10/29/02	1.75		49,658,333		49,710,000	35103MKV4	A-1
10,676,000	GIRO MULTI FUNDING 1.86, 7/8/02	1.86		10,672,139		10,672,139	3763K3G88	A-1+
3,003,000	GIRO MULTI FUNDING 1.91, 7/18/02	1.91		3,000,291		3,000,291	3763K3GJ4	A-1+
15,602,000	TASMAN FUNDING 1.86, 7/11/02	1.86		15,593,939		15,593,939	87651UGB2	A-1+
9,223,000	TASMAN FUNDING 1.85, 7/16/02	1.85		9,215,891		9,215,891	87651UGG1	A-1+
15,000,000	TASMAN FUNDING 1.85, 7/22/02	1.85		14,983,813		14,983,813	87651UGN6	A-1+
6,217,000	TASMAN FUNDING 1.85, 7/22/02	1.85		6,210,291		6,210,291	87651UGN6	A-1+
27,697,000	TASMAN FUNDING 1.86, 8/9/02	1.86		27,641,191		27,641,191	87651UH96	A-1+
$ 181,855,000			**$**	**181,356,848**	**$**	**181,408,514**		
RECEIVABLE-BACKED COMMERCIAL PAPER (4.13% of total investments)								
$ 62,416,000	ABSC 1.85, 7/8/02	1.85	$	62,393,548	$	62,393,548	0007T3G84	A-1+
12,789,000	ABSC 1.86, 7/12/02	1.86		12,781,732		12,781,732	0007T3GC5	A-1+

CONNECTICUT STATE TREASURER'S SHORT-TERM INVESTMENT FUND

LIST OF INVESTMENTS AT JUNE 30, 2002 (Continued)

Par Value	Security (Coupon, Maturity or Reset Date)	Yield %	Amortized Cost	Fair Value	Asset ID	Quality Rating
4,385,000	EAGLE FUNDING 2.15, 8/12/02	2.16	4,374,001	4,374,001	27003LHC0	A-1
50,000,000	EDISON ASSET SECURITIZATION 2.00, 7/1/02	2.00	50,000,000	50,000,000	28100MG13	A-1+
11,275,000	SUPERIOR FUNDING 1.85, 7/29/02	1.85	11,258,777	11,258,777	86816KGV4	A-1+
5,471,000	SYDNEY CAPITAL 1.95, 8/26/02	1.96	5,454,405	5,454,405	87123MH52	A-1+
$ 146,336,000			**$ 146,262,461**	**$ 146,262,461**		
SECURITIES-BACKED COMMERCIAL PAPER (29.52% of total investments)						
$ 7,474,000	AELTUS CBO V 1.85, 7/11/02	1.85	$ 7,470,159	$ 7,470,159	0076A3GB2	A-1+
13,365,000	AELTUS CBO V 1.85, 8/22/02	1.85	13,329,286	13,329,286	0076A3HN0	A-1+
27,000,000	AELTUS CBO V 1.85, 8/23/02	1.86	26,926,463	26,926,463	0076A3HP0	A-1+
61,011,000	AMSTEL FUNDING 2.015, 10/25/02	1.75	60,614,869	60,668,930	03218SKR0	A-1+
33,023,000	DECLARATION FUNDING 1.865, 8/15/02	1.87	32,946,015	32,946,015	24357MHF0	A-1
50,000,000	MORIARTY LIMITED 2.01, 10/25/02	1.75	49,676,167	49,719,665	61761UKR4	A-1+
5,000,000	TRAINER WORTHAM 1.87, 7/15/02	1.87	4,996,364	4,996,364	89288MGF8	A-1+
35,000,000	TRAINER WORTHAM 1.85, 8/8/02	1.85	34,931,653	34,931,653	89288MH83	A-1+
50,000,000	TRAINER WORTHAM 1.97, 8/19/02	1.98	49,865,931	49,865,931	89288MHK6	A-1+
12,500,000	TRAINER WORTHAM 1.97, 8/19/02	1.98	12,466,483	12,466,483	89288MHK6	A-1+
15,000,000	WESTWAY FUNDING I 1.95, 8/6/02	1.95	14,970,750	14,970,750	96168VH67	A-1+
3,000,000	WESTWAY FUNDING I 2.00, 8/7/02	2.00	2,993,833	2,993,833	96168VH75	A-1+
48,070,000	WESTWAY FUNDING I 1.955, 8/14/02	1.96	47,955,139	47,955,139	96168VHE0	A-1+
33,000,000	WESTWAY FUNDING I 1.86, 8/28/02	1.87	32,901,110	32,901,110	96168VHU4	A-1+
13,986,000	WESTWAY FUNDING II 1.95, 8/6/02	1.95	13,958,727	13,958,727	96169MH66	A-1+
50,000,000	WESTWAY FUNDING II 1.85, 8/14/02	1.85	49,886,944	49,886,944	96169MHE9	A-1+
14,318,000	WESTWAY FUNDING II 1.85, 8/14/02	1.85	14,285,625	14,285,625	96169MHE9	A-1+
50,000,000	WESTWAY FUNDING III 2.00, 8/6/02	2.00	49,900,000	49,900,000	9616W3H62	A-1+
31,174,000	WESTWAY FUNDING III 1.95, 8/6/02	1.95	31,113,211	31,113,211	9616W3H62	A-1+
11,815,000	WESTWAY FUNDING III 1.95, 8/6/02	1.95	11,791,961	11,791,961	9616W3H62	A-1+
7,012,000	WESTWAY FUNDING III 2.00, 8/6/02	2.00	6,997,976	6,997,976	9616W3H62	A-1+
7,000,000	WESTWAY FUNDING III 1.95, 8/7/02	1.95	6,985,971	6,985,971	9616W3H70	A-1+
50,000,000	WESTWAY FUNDING III 1.845, 8/14/02	1.85	49,887,250	49,887,250	9616W3HE5	A-1+
3,750,000	WESTWAY FUNDING III 1.845, 8/14/02	1.85	3,741,544	3,741,544	9616W3HE5	A-1+
5,000,000	WESTWAY FUNDING III 1.86, 8/20/02	1.86	4,987,083	4,987,083	9616W3HL9	A-1+
48,588,000	WESTWAY FUNDING IV 2.03, 8/6/02	2.03	48,489,366	48,489,366	9616R3H68	A-1+
3,917,000	WESTWAY FUNDING IV 1.95, 8/6/02	1.95	3,909,362	3,909,362	9616R3H68	A-1+
47,208,000	WESTWAY FUNDING IV 2.00, 8/7/02	2.00	47,110,961	47,110,961	9616R3H76	A-1+
50,000,000	WESTWAY FUNDING IV 1.95, 8/8/02	1.95	49,897,083	49,897,083	9616R3H84	A-1+
23,000,000	WESTWAY FUNDING IV 1.95, 8/8/02	1.95	22,952,658	22,952,658	9616R3H84	A-1+
38,474,000	WESTWAY FUNDING IV 2.00, 8/13/02	2.00	38,382,090	38,382,090	9616R3HD3	A-1+
25,000,000	WESTWAY FUNDING IV 2.00, 8/13/02	2.00	24,940,278	24,940,278	9616R3HD3	A-1+
21,002,000	WESTWAY FUNDING IV 1.95, 8/14/02	1.95	20,951,945	20,951,945	9616R3HE1	A-1+
6,115,000	WESTWAY FUNDING IV 1.85, 8/14/02	1.85	6,101,173	6,101,173	9616R3HE1	A-1+
45,000,000	WESTWAY FUNDING IV 1.955, 8/15/02	1.96	44,890,031	44,890,031	9616R3HF8	A-1+
38,000,000	WESTWAY FUNDING V, 1.92, 7/1/02	1.92	38,000,000	38,000,000	9616X3G13	A-1+
15,000,000	WESTWAY FUNDING V 1.87, 8/7/02	1.87	14,971,171	14,971,171	9616X3H79	A-1+
50,000,000	WESTWAY FUNDING V 1.86, 8/28/02	1.87	49,850,167	49,850,167	9616X3HU8	A-1+
$1,048,802,000			**$ 1,046,026,800**	**$ 1,046,124,358**		
FEDERAL AGENCY SECURITIES (3.51% of total investments)						
$ 20,000,000	Sallie Mae 2.23, 3/28/03	1.79	$ 19,998,580	$ 20,065,800	86387SBF6	AAA
50,000,000	Sallie Mae 2.23, 3/28/03	1.79	49,996,451	50,164,500	86387SBF6	AAA
24,500,000	Sallie Mae 2.23, 4/26/04	1.82	24,524,072	24,684,240	86387SBJ8	AAA
30,000,000	Sallie Mae 2.24, 4/27/02	1.81	30,037,609	30,234,000	86387SBP4	AAA
$ 124,500,000			**$ 124,556,713**	**$ 125,148,540**		
Corporate Notes (8.80% of total investments)						
$ 6,000,000	GE CAPITAL CORP 6.52, 10/8/02	1.85	$ 6,071,395	$ 6,074,940	36962GUH5	AAA
50,000,000	GE CAPITAL CORP 1.84, 1/28/04	1.95	49,913,838	49,918,000	36962GXJ8	AAA
10,000,000	GE CAPITAL CORP 1.84, 1/28/04	1.95	9,982,756	9,983,600	36962GXJ8	AAA
15,000,000	GE CAPITAL CORP 2.06, 3/25/04	2.05	14,994,748	15,002,550	369622FY6	AAA
35,000,000	GE CAPITAL CORP 2.05, 4/22/02	2.07	34,985,304	34,989,500	36962GYF5	AAA
10,000,000	GE CAPITAL CORP 2.25, 5/14/04	2.24	10,000,000	10,001,800	36962GYQ1	AAA
50,000,000	GE CAPITAL CORP 2.25, 5/14/04	2.24	50,000,000	50,009,000	36962GYQ1	AAA
40,000,000	GE CAPITAL CORP 1.96, 5/20/04	1.98	39,969,988	39,984,800	36962GYS7	AAA
11,040,000	GE CAPITAL CORP 1.47, 6/26/05	2.17	10,769,839	10,750,862	36962F2H8	AAA
35,000,000	MERIDIAN FUNDING 2.14, 12/20/05	2.09	35,000,000	35,059,500	58962FAL4	AAA

LIST OF INVESTMENTS AT JUNE 30, 2002 (Continued)

Par Value	Security (Coupon, Maturity or Reset Date)	Yield %	Amortized Cost	Fair Value	Asset ID	Quality Rating
50,000,000	SIGMA FINANCE 2.02, 2/11/05	1.99	50,000,000	50,032,000	EC5204069	AAA
$ 312,040,000			**$ 311,687,868**	**$ 311,806,552**		
EXTENDABLE COMMERCIAL NOTES (9.84% of total investments)						
$ 50,000,000	ASAP FUNDING 1.88, 8/13/02	1.88	$ 49,887,722	$ 49,887,722	04341E4B2	A-1+
50,000,000	ASAP FUNDING 1.88, 8/13/02	1.88	49,887,722	49,887,722	04341E4B2	A-1+
50,000,000	ASAP FUNDING 1.88, 8/13/02	1.88	49,887,722	49,887,722	04341E4B2	A-1+
20,075,000	CPI FUNDING CORP 1.92, 7/26/02	1.92	20,048,233	20,048,233	1261M6UA5	A-1+
45,147,000	CPI FUNDING CORP 1.90, 8/12/02	1.90	45,046,924	45,046,924	1261M6VA4	A-1+
44,117,000	CPI FUNDING CORP 1.95, 8/14/02	1.95	44,011,854	44,011,854	1261M6TY5	A-1+
50,000,000	HARWOOD STREET I 2.10, 7/1/02	2.10	50,000,000	50,000,000	41801HEC7	A-1+
40,000,000	HARWOOD STREET I 2.10, 7/1/02	2.10	40,000,000	40,000,000	41801HEC7	A-1+
$ 349,339,000			**$ 348,770,179**	**$ 348,770,179**		
REPURCHASE AGREEMENTS (5.64% of total investments)						
$ 200,000,000	BANC ONE CAPITAL MARKETS 2.06, 7/1/02	2.06	$ 200,000,000	$ 200,000,000	05999U006	A-1
$ 200,000,000			**$ 200,000,000**	**$ 200,000,000**		
LIQUIDITY MANAGEMENT CONTROL SYSTEM (0.00% of total investments)						
$ 120	LIQUIDITY MGMT SYSTEM 0.85, 7/1/02	0.85	$ 120	$ 120	536991003	A-1
$ 120			**$ 120**	**$ 120**		
$3,548,481,977	**TOTAL INVESTMENT IN SECURITIES**		**$ 3,543,556,206**	**$3,544,858,888**		

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.

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.

INDEPENDENT ACCOUNTANTS' REPORT

SCILLIA DOWLING & NATARELLI LLC

Treasurer of the State of Connecticut
Hartford, Connecticut

We have examined the accompanying Schedules of Rates of Return for the Connecticut State Treasurer's Short-Term Investment Fund (the "Schedules") appearing on pages 40 to 43 of the State of Connecticut Fiscal Year 2002 Short-Term Investment Fund Comprehensive Annual Financial Report managed by the Treasurer of the State of Connecticut for each of the quarterly and annual investment periods from July 1, 2001 through June 30, 2002. The Schedules are the responsibility of the Connecticut State Treasurer's Short-Term Investment Fund's management. Our responsibility is to express an opinion on the Schedules based on our examinations.

Our examinations were conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, include examining on a test basis, evidence supporting the Schedules and performing such procedures as we considered necessary in the circumstances (for a Level II verification as defined under the AIMR-PPS). We believe that our examinations provide a reasonable basis for our opinion.

In our opinion, such Schedules present fairly the rates of return for the composite of the Connecticut State Treasurer's Short-Term Investment Fund managed by the Treasurer of the State of Connecticut for each of the quarterly and the annual investment period from July 1, 2001 to June 30, 2002, in all material respects, in accordance with the measurement and disclosure criteria set forth in Notes 2 and 3 to the Schedules.

The periods from July 1, 1992 to June 30, 2001 were examined by other independent accountants whose report, dated September 24, 2001, expressed an unqualified opinion thereon.

Scillia Dowling & Natarelli LLC

Hartford, Connecticut
October 4, 2002

Certified Public Accountants and Consultants
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SCHEDULE OF ANNUAL RATES OF RETURN

	Year Ended June 30,									
	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
STIF Total Rate of Return (%)	2.61	6.11	6.01	5.37	5.82	5.66	5.95	5.62	3.63	3.95
First Tier Institutions-Only Money Fund Report™ (MFR) Index (%) (1)	2.22	5.74	5.58	5.04	5.49	5.27	5.44	5.31	3.08	3.03
Total Assets in STIF, End of Period ($ - Millions)	3,546	4,565	3.701	3,646	3,190	2,527	2,014	1,495	1,830	1,787
Percent of Firm Assets	67	71	71	71	70	73	68	58	67	66
Number of Participant Accounts in Composite, End of Year	1,084	897	800	782	654	644	590	563	510	424

(1) Represents First Tier Institutions-Only Money Fund Report™ (MFR) Index prior to December 31, 1995 and First Tier Institutions-Only Rated Money Fund Report™ (MFR) Index for the period January 1, 1996 through June 30, 2002. These Index rates have been taken from published sources and have not been examined by Scillia Dowling & Natarelli LLC or Deloitte & Touche LLP.

See Notes to Schedules of Rates of Return.

SCHEDULE OF QUARTERLY RATES OF RETURN

FISCAL YEAR	Rate of Return(%)	First Tier Institutions-Only Rated Money Fund Report Index(%)(1)
2002		
Sep-01	.95	.85
Dec-01	.66	.55
Mar-02	.48	.41
Jun-02	.49	.39
YEAR	**2.61**	**2.22**
2001		
Sep-00	1.69	1.58
Dec-00	1.70	1.58
Mar-01	1.45	1.39
Jun-01	1.14	1.06
YEAR	**6.11**	**5.74**
2000		
Sep-99	1.33	1.23
Dec-99	1.46	1.33
Mar-00	1.48	1.40
Jun-00	1.60	1.51
YEAR	**6.01**	**5.58**
1999		
Sep-98	1.42	1.34
Dec-98	1.37	1.26
Mar-99	1.24	1.19
Jun-99	1.23	1.16
YEAR	**5.37**	**5.04**
1998		
Sep-97	1.43	1.34
Dec-97	1.45	1.36
Mar-98	1.41	1.35
Jun-98	1.40	1.34
YEAR	**5.82**	**5.49**

FISCAL YEAR	Rate of Return(%)	First Tier Institutions-Only Rated Money Fund Report Index(%)(1)
1997		
Sep-96	1.40	1.28
Dec-96	1.36	1.28
Mar-97	1.37	1.28
Jun-97	1.40	1.33
YEAR	**5.66**	**5.27**
1996		
Sep-95	1.54	1.40
Dec-95	1.54	1.38
Mar-96	1.42	1.29
Jun-96(2)	1.33	1.26
YEAR	**5.95**	**5.44**
1995		
Sep-94	1.16	1.07
Dec-94	1.31	1.25
Mar-95	1.58	1.43
Jun-95(2)	1.46	1.46
YEAR	**5.62**	**5.31**
1994		
Sep-93	0.86	0.71
Dec-93	0.90	0.72
Mar-94	0.95	0.74
Jun-94(2)	0.87	0.88
YEAR	**3.63**	**3.08**
1993		
Sep-92	1.09	0.81
Dec-92	0.97	0.75
Mar-93	0.96	0.73
Jun-93(2)	0.87	0.70
YEAR	**3.95**	**3.03**

(1) Represents First Tier Institutions-Only Money Fund Report™ (MFR) Index prior to December 31, 1995 and First Tier Institutions-Only Rated Money Fund Report™ (MFR) Index for the period January 1, 1996 through June 30, 2001. These Index rates have been taken from published sources and have not been examined by Scillia Dowling & Natarelli LLC or Deloitte & Touche LLP.

(2) Includes the annual allocation to the Designated Surplus Reserve (See Note 4).

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

NOTES TO SCHEDULES OF RATES OF RETURN
FOR THE 10 YEAR INVESTMENT PERIOD JULY 1, 1992 THROUGH JUNE 30, 2002

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 2002 fiscal year, STIF's portfolio averaged $4.1 billion.

NOTE 2: PERFORMANCE RESULTS

STIF has prepared and presented this report in compliance with the Performance Presentation Standards of the Association for Investment Management and Research (AIMR-PPS) for the period July 1, 1992 through June 30, 2002. AIMR has not been involved with the preparation or review of this report. The performance presentation for the period July 1, 1993 through June 30, 2002 has been subject to a Level II verification in accordance with AIMR standards by an independent public accounting firm whose report is included herein. For the purposes of compliance with AIMR performance presentation 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: After December 1, 1996 monthly returns were 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. From July through November 1996, monthly income earned on an accrual basis, after deduction for all operating expenses, was divided by the average daily participant balance for the month multiplied by the actual number of days in the year divided by the actual number of days in the month. In addition, income reported in November was reduced by a transfer to the Designated Surplus Reserve which impacted November's monthly return. The monthly returns for the entire quarter and fiscal year were linked to calculate the respective rates of return.

Prior to July 1, 1996, the same methodology as described for July through November 1996 was used with the exception of the transfer to the Designated Surplus Reserve, which affected May returns. Prior to fiscal year ended June 30, 1995, 360 days rather than actual days in the year was used. Each of the monthly composite rates of returns were then linked to compute the quarterly rate of return and the quarterly rates of return were linked to calculate the annual rate of return.

The changes, as described above, had no significant impact on the quarterly and annual rates of return reported herein.

The rates of return presented herein are those earned by the Fund during the periods presented as described above. Actual distributions to participants through November 30, 1996 were made on a quarterly basis based upon specific guaranteed rates as periodically determined by the Treasury.

NOTES TO SCHEDULES OF RATES OF RETURN (Continued)
FOR THE 10 YEAR INVESTMENT PERIOD JULY 1, 1991 THROUGH JUNE 30, 2001

Any excess earnings over the previously distributed amounts and the required allocation to the Designated Surplus Reserve were distributed as a special distribution (See Earnings Subject to Special Distribution in STIF Notes to Financial Statements).

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. In December 1996, a transfer was made to the Designated Surplus Reserve at the annualized rate of 0.1 percent of the average month-end investment balances for June through November 1996. 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, 2002, the balance in the Designated Surplus Reserve was $40,047,139, an increase of $2,410,693 from the June 30, 2001 balance of $37,636,446.

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 30 year history of the Fund.

NOTE 5: ADDITIONAL DISCLOSURES

These results solely reflect the performance of STIF. The Fund's principal investment officer has been the portfolio manager since 1983 encompassing the entire investment period presented.

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.

STIF had accounted for security purchases and sales on a settlement date basis for periods prior to February 1, 1996. Since that date, 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 bases has no significant impact on the performance reported herein.

GROWTH OF PARTICIPANT UNITS UNDER MANAGEMENT

Date	Municipal	State	Total	Annual Growth
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
6/1995	533,141,029	934,316,358	1,467,457,387	-12.10
6/1994	453,442,000	1,215,968,463	1,669,410,463	-5.50
6/1993	389,000,000	1,377,523,963	1,766,523,963	4.60
6/1992	371,586,000	1,317,309,451	1,688,895,451	60.54

MONTHLY COMPARATIVE YIELDS

	STIF	Benchmarks (b)		
	Earned Rate (a)	IBC First Tier Inst Only	Fed. Reserve Three Mo. T-Bill	Fed. Reserve Three Mo. CD
6/2002	2.01%	1.54%	1.72%	1.80%
5/2002	1.95	1.56	1.75	1.81
4/2002	1.98	1.59	1.74	1.88
3/2002	1.95	1.62	1.81	1.89
2/2002	1.87	1.62	1.75	1.79
1/2002	2.05	1.70	1.68	1.69
12/2001	2.23	1.88	1.72	1.80
11/2001	2.53	2.14	1.90	2.00
10/2001	3.06	2.59	2.19	2.27
9/2001	3.65	3.09	2.80	2.87
8/2001	3.70	3.42	3.44	3.45
7/2001	3.93	3.61	3.58	3.64
6/2001	4.16	3.85	3.55	3.73

ANNUAL COMPARATIVE YIELDS

	STIF	Benchmarks (b)		
	Earned Rate (a)	IBC First Tier Inst Only MFR Index	Fed. Reserve Three Mo. T-Bill	Fed. Reserve Three Mo. CD
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
1996	5.95	5.44	5.29	5.55
1995	5.62	5.31	5.41	5.72
1994	3.63	3.08	3.39	3.60
1993	3.95	3.03	3.08	3.31

(a) Actual earnings less expenses.

(b) Represents First Tier Institutions-Only Money Fund Report™ (MFR) Index prior to December 31, 1995 and First Tier Institutions-Only Rated Money Fund Report™ (MFR) Index for the period January 1, 1996 through June 30, 2002. These Index rates have been taken from published sources and have not been examined by Scillia Dowling & Natarelli LLC or Deloitte & Touche LLP.

ANNUAL INVESTMENT INCOME (1)

2002	$110,428,980
2001	254,364,534
2000	213,303,177
1999	197,527,014
1998	174,202,633
1997	145,052,967
1996	115,912,522
1995	100,970,869
1994	72,886,245
1993	76,542,800
1992	96,031,346

(1) Investment income, including net realized gains, less Fund operating expenses.

SUMMARY OF OPERATIONS

($ in 000s)	6/30/02	6/30/01	6/30/00	6/30/99	6/30/98	6/30/97	6/30/96	6/30/95	6/30/94	6/30/93
Interest Income	$111,294.6	$255,114.3	$213,761.0	$198,420.9	$175,111.4	$145,044.9	$116,374.7	$101,555.3	$73,856.9	$76,714.0
Expenses:										
Operating Expenses	783.3	934.0	951.6	812.6	986.6	520.0	553.1	478.2	496.5	546.3
Interest on Reverse Repurchase Agreements	82.3	65.6	0.0	141.0	0.0	0.0	0.0	432.9	922.2	1,142.5
Total Expenses	865.6	999.6	951.6	953.6	986.6	520.0	553.1	911.1	1,418.7	1,688.8
Net Investment Income	110,429.0	254,114.7	212,809.4	197,467.3	174,124.8	144,524.9	115,821.6	100,644.2	72,438.2	75,025.2
Net Realized Gains	718.1	249.8	493.8	59.7	77.8	528.1	90.9	326.7	448.0	1,517.6
Net Increase in Net Assets from Operations	$111,147.1	$254,364.5	$213,303.2	$197,527.0	$174,202.6	$145,053.0	$115,912.5	$100,970.9	$72,886.2	$76,542.8

DISTRIBUTIONS TO PARTICIPANTS

Distributions:	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
July	$14,892,482	$21,068,172	$15,369,550	$14,869,926	$11,627,464					
August	15,859,392	25,325,394	18,626,337	17,980,323	14,766,430	$28,640,118	$23,352,411	$18,507,496	$15,116,790	$17,645,385
Elimination for Month of June						(8,128,594)	(7,076,062)	(5,651,963)	(4,244,974)	(5,618,495)
September	14,497,488	24,965,829	18,327,219	17,448,280	15,326,081		8,128,594	7,076,062	5,651,963	4,244,974
October	11,674,472	24,109,511	17,962,446	17,360,524	14,524,350					
November	8,037,557	20,453,180	16,080,280	16,212,546	13,355,190	33,745,391	28,253,412	23,137,816	17,872,513	16,607,883
Special Distribution (November 30 and May 31)						3,557,194	4,781,490	5,033,033	4,351,354	13,373,583
December	6,640,090	19,429,983	16,350,536	15,438,709	12,869,933	11,076,907				
January	6,785,539	22,627,719	17,113,994	16,389,685	14,211,351	12,001,405				
February	5,878,246	20,656,552	18,204,877	16,298,605	14,531,780	12,199,283	27,823,064	23,297,281	14,621,989	15,416,786
March	6,247,456	20,629,174	18,276,157	16,745,275	15,109,256	12,896,596				
April	5,953,400	18,723,246	17,371,981	15,542,275	15,048,742	12,687,061				
May	6,492,416	17,658,291	18,674,115	15,817,450	15,931,207	12,900,761	28,430,144	26,680,419	17,797,713	14,361,196
June	5,777,864	14,741,778	17,784,976	13,688,661	14,138,433	11,467,608				
Total Distribution to Participants	$108,736,391	$250,388,829	$210,142,470	$193,792,259	$171,440,217	$143,043,730	$113,693,053	$98,080,144	$71,167,348	$76,031,312

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.

GLOSSARY OF TERMS

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.

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.

GLOSSARY OF TERMS

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.

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.