

# STATE OF CONNECTICUT OFFICE OF THE TREASURER

# 2008



## SHORT-TERM INVESTMENT FUND COMPREHENSIVE ANNUAL FINANCIAL REPORT

*For the fiscal year ended June 30, 2008*

# STATE OF CONNECTICUT

## Office of the State Treasurer



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

# STATE OF CONNECTICUT OFFICE OF THE TREASURER

# 2008



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*For the fiscal year ended June 30, 2008*

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



**SHORT-TERM INVESTMENT FUND**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR FISCAL YEAR ENDED JUNE 30, 2008**

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**Introductory  
Section**





**State of Connecticut**  
**Office of the Treasurer**

DENISE L. NAPPIER  
TREASURER

HOWARD G. RIFKIN  
DEPUTY TREASURER

December 31, 2008

Comprehensive Annual Financial Report (CAFR)  
for the State of Connecticut's Short-Term Investment Fund (STIF) for the fiscal year ended June 30, 2008

Responsibility for both the accuracy of the data and the completeness and fairness of this report rests with management. All disclosures necessary and required to enable fellow beneficiaries and the financial community to gain an understanding of STIF's financial activities have been included. We believe the enclosed financial statements and data are presently fairly in all material respects and are reported in a manner designed to present the financial position and results of STIF's operations accurately.

STIF was created by legislation enacted in 1972, and is a state and local government investment pool managed by the Treasurer of the State of Connecticut. Investors in the Fund include the State, state agencies and authorities, municipalities, and other political subdivisions of the State. The primary objective of the Fund is to provide the greatest possible return while, first, protecting principal and, second, providing liquidity for investors. The Fund's Investment Policy ensures strong asset diversification by security type and issuer, comprising high-quality, very liquid securities with a relatively short average maturity. In addition, the Fund maintains a Designated Surplus Reserve to protect against security defaults or the erosion of security values due to any significant unforeseen market changes.

STIF's return for fiscal year 2008 of 4.13% outperformed its benchmark by 6 basis points -- resulting in \$3 million in additional interest income for the State, state agencies and municipalities, while contributing \$1.9 million to reserves. STIF's reserves are an important pillar of our investment pool, and STIF is one of the few government investment pools to contain a reserve. STIF's \$1.00 per share net asset value has been maintained during one of the worst market crisis in U.S. history. Moreover, by virtue of the overall soundness of STIF, Standard & Poor's (S&P) has affirmed and maintained STIF's AAAM rating, which represents the highest rating issued by S&P for money market funds and investment pools.

At the end of Fiscal Year 2008, STIF had \$5.0 billion in assets under management and with municipalities opening 59 new STIF accounts the total number of municipal accounts now stands at 637.

Beginning in the Spring of 2007, concerns over sub-prime mortgage delinquencies and foreclosures and the health of related securities began to develop. During the Summer and Fall of 2007, those concerns turned into full-fledged credit market disruptions. As the difficulties of the subprime mortgage industry led to a wide-scale credit crunch inside and outside the U.S. In response to these market issues, we adjusted our investment strategy to reduce exposure to mortgage-related and other corporate securities, increase liquidity, and reduce average portfolio maturity.

The credit market dislocations resulted in difficulties for many AAA-rated securities, including, as we have often reported to investors of STIF, Cheyne Finance, which was part of STIF's portfolio. Cheyne was placed under the control of receivers in September 2007 and stopped payments to investors in October 2007. In July 2008, the notes were restructured for senior creditors such as STIF and we converted our Cheyne position into unrated Gryphon funding notes that give STIF a pro rata share, along with other senior creditors, of ownership of the portfolio of securities that was underlying the Cheyne notes. This report values the Cheyne (now Gryphon) notes at a level that represents a recovery value of approximately 76 percent of the original \$100 million investment. Cash distributions beginning in April 2008 have totaled \$28.5 million. We have transferred \$24 million from STIF's reserves to cover the reduction in market value. As of December 15, 2008 our remaining reserves total

## LETTER FROM THE TREASURER

\$31.4 million, or 0.8 percent of fund assets. The reserves are being rebuilt daily at the annual rate of 10 basis points until they reach one percent of total assets. We are quite confident that STIF remains a secure and good investment both for the State and for its participating units of local government.

Management is responsible for maintaining a system of adequate internal accounting controls designed to provide reasonable assurance that transactions are executed in accordance with management's general or specific authorization, and are recorded as necessary to maintain accountability for assets and to permit preparation of financial statements in accordance with generally accepted accounting principles. We believe the internal controls in effect during the fiscal year ended June 30, 2008, adequately safeguard STIF's assets and provide reasonable assurance regarding the proper recording of financial transactions. In addition, S&P monitors our portfolio on a weekly basis to ensure that we maintain the safety and liquidity investors expect. During the past several months of market unrest, S&P has been monitoring STIF daily.

In addition, the Investment Advisory Council and the Treasurer's Cash Management Advisory Board review STIF's portfolio periodically throughout the year, and the Fund's Rates of Return were examined by UHY, Certified Public Accountants, as presented in this report.

As of June 30, 2008, STIF administered 1,094 accounts including 39 for the State Treasury, 418 for state agencies and authorities, and 637 for municipalities and local entities. This level of participation reflects, we believe, the continued confidence in the Fund as a solid investment vehicle for Connecticut communities.

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

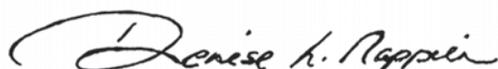
The Government Accounting Standards Board requires that STIF provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal overview is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found in the Financial Section immediately following the report of the independent auditors.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded the Fund a Certificate of Achievement for Excellence in Financial Reporting for its Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2007. The Certificate is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

STIF Express, a secure on-line investor system, allows investors to view account balances, transaction histories and income distributions, and gives investors the ability to initiate deposits and withdrawals via the Internet. In addition, a section of the Treasury website is dedicated to STIF investors, and features helpful information such as the current daily rate, historical data, and links to annual and quarterly reports. In addition, there are forms for enrolling in special services such as Grant Express, Debt Service Express, and Clean Water Fund Express. The STIF site and copies of this Report may be accessed through the Treasury's website, [www.state.ct.us/ott](http://www.state.ct.us/ott).

We appreciate your participation in STIF, and hope that the information we have provided will prove both interesting and useful. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Treasurer, 55 Elm Street, Hartford, Connecticut 06106-1773 or by telephone to (860) 702-3000.

Sincerely,



Denise L. Nappier  
Treasurer  
State of Connecticut



**State of Connecticut**  
**Office of the Treasurer**

DENISE L. NAPIER  
TREASURER

HOWARD G. RIFKIN  
DEPUTY TREASURER

Connecticut State Treasury  
Hartford, Connecticut  
December 31, 2008

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

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

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

Sincerely,

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

Howard G. Rifkin  
Deputy Treasurer

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Connecticut State Treasurer's Short-Term Investment Fund

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2007

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.



Handwritten signature of Oliver S. Cox in black ink.

President

Handwritten signature of Jeffrey R. Emer in black ink.

Executive Director

**Mission Statement**

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

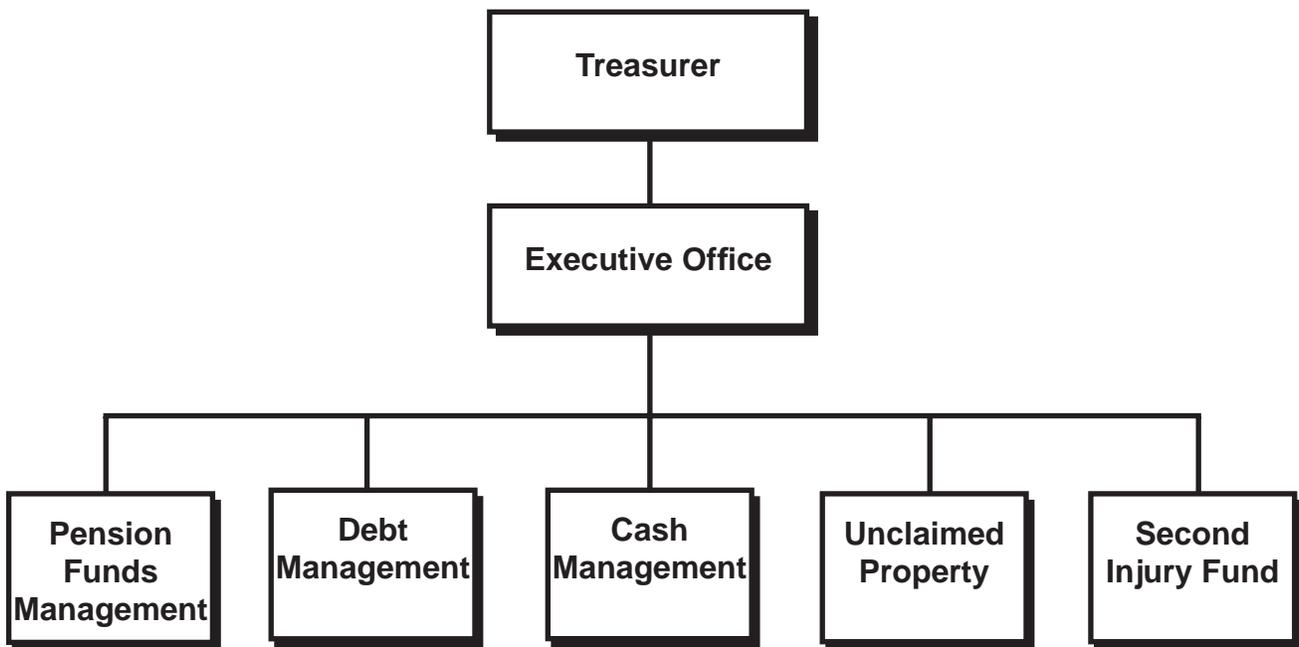
**Statutory Responsibility**

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

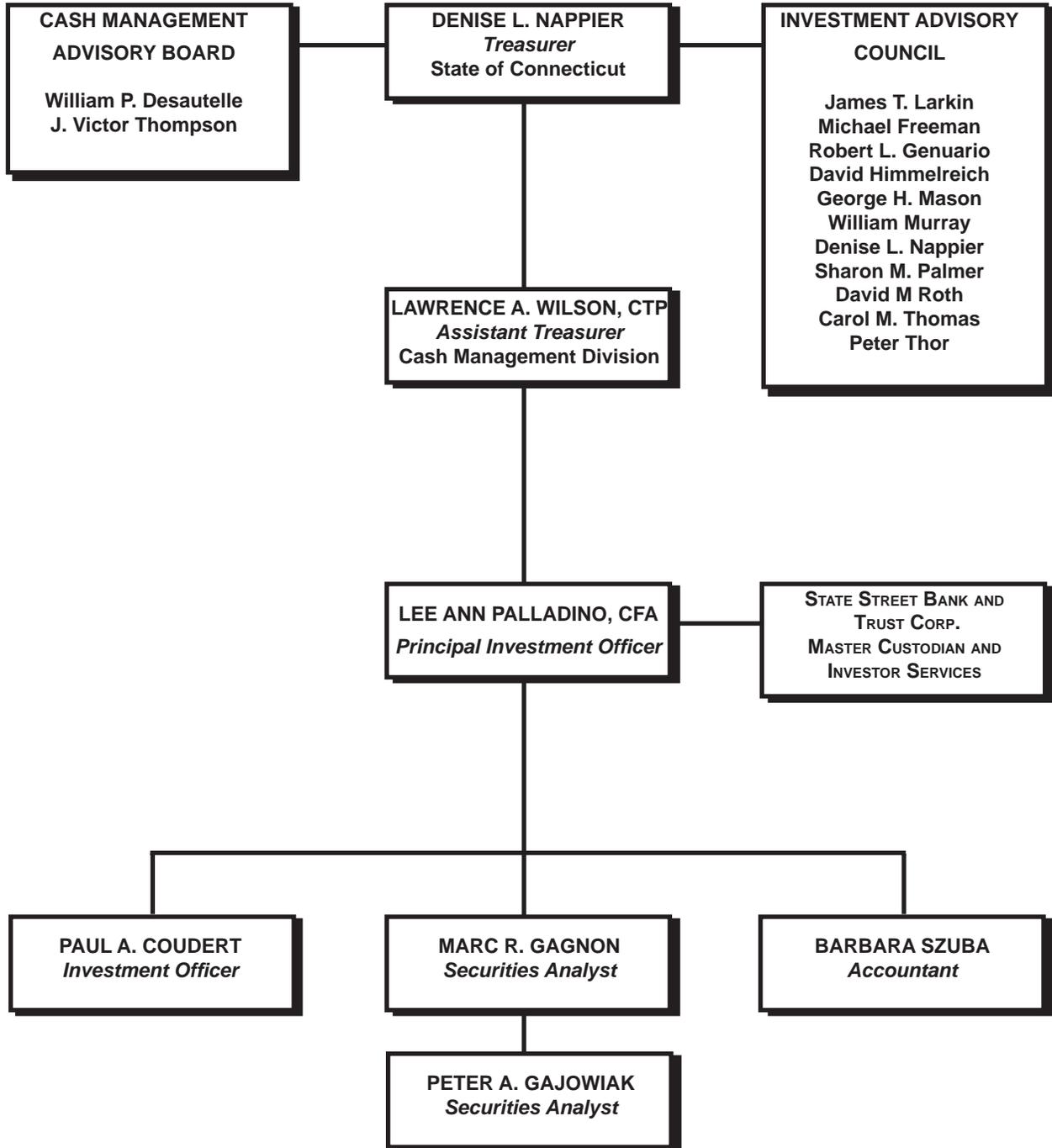
The Treasurer, as Chief Fiscal Officer for the State, oversees the prudent preservation and management of State funds, including the administration of a \$25.9 billion portfolio of pension assets and over \$5.7 billion in total State, local short-term, and other investments.

**Public Service**

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



**SHORT-TERM INVESTMENT FUND ADMINISTRATION**



**As of October 15, 2008.**

## LIST OF PRINCIPAL OFFICIALS

### SHORT-TERM INVESTMENT FUND

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

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

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

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

### STIF INVESTMENT MANAGEMENT

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

Investment Officer  
PAUL A. COUDERT (860) 702-3254

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

Securities Analyst  
PETER A. GAJOWIAK (860) 702-3124

### STIF INVESTOR SERVICES

Accountant  
BARBARA SZUBA (860) 702-3118

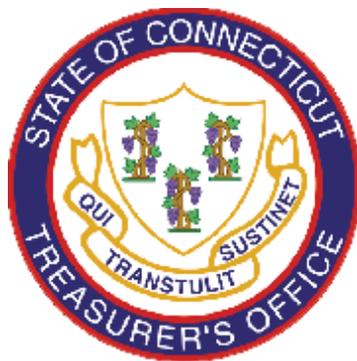
CUSTODIAN AND INVESTOR SERVICES  
STATE STREET BANK AND TRUST CORPORATION  
1-800-754-8430



**Financial**  

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**Section**



STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

KEVIN P. JOHNSTON

STATE CAPITOL  
210 CAPITOL AVENUE  
HARTFORD, CONNECTICUT 06106-1559

ROBERT G. JAEKLE

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying statement of net assets of the Short-Term Investment Fund, as of June 30, 2008, and the related statements of changes in net assets for the fiscal years ended June 30, 2008, and 2007. 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, 2008, 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, 2008, 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 List of Investments at June 30, 2008, contained in the Investment Section, is presented for purposes of additional analysis and is not a required part of the financial statements of the Short-Term Investment Fund. 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 Schedules of Rates of Return contained in the Statistical Section which were examined by other auditors whose report thereon has been included in the Statistical Section. 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 Introductory Section, Investment Section and Statistical Section have not been audited except as specifically noted in this auditors' opinion.

Handwritten signature of Kevin P. Johnston in cursive.

Kevin P. Johnston  
Auditor of Public Accounts

Handwritten signature of Robert G. Jaekle in cursive.

Robert G. Jaekle  
Auditor of Public Accounts

December 31, 2008  
State Capitol  
Hartford, Connecticut

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents Management's Discussion and Analysis (MD&A) of the Comprehensive Annual Financial Report (CAFR) of the State of Connecticut's Office of the Treasurer Short-Term Investment Fund (STIF) financial position and performance for the fiscal year ended June 30, 2008. It is presented as a narrative overview and analysis. Management of the State of Connecticut's Office of the Treasurer encourage readers to review it in conjunction with the transmittal letter included in the Introductory Section at the front of this report and the financial statements in the Financial Section that follow.

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

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

### FINANCIAL HIGHLIGHTS Condensed Financial Information

#### Short Term Investment Fund Net Assets and Changes in Net Assets

**Net Assets** - The net assets held in trust for participants under management in the Short-Term Investment Fund at the close of the fiscal year were \$5.0 billion, an increase of \$0.050 billion from the previous year. The principal reasons for the increase was an overall increase of \$0.227 billion in State Treasury and State Agencies and Authorities investments partly offset by decreases of \$0.155 billion in investments in the Fund from its Municipal and Local customers. In addition, net assets reflect a December 5, 2008 transaction recognizing a \$24 million reduction in the value of our Cheyne (Gryphon) securities.

The net assets under management in the Short-Term Investment Fund at the close of the 2007 fiscal year were \$5.0 billion, a decrease of \$0.4 billion from the prior year. The principal reasons for the decrease was an overall decrease of \$0.596 billion in State Treasury and State Agencies and Authorities investments and an increase of \$0.166 billion in investments in the Fund from its Municipal and Local customers.

**Operating Income** - General financial market conditions produced an annual total return of 4.13%, net of operating expenses and allocations to Fund reserves, compared to an annual total return of 5.54%, net of operating expenses and allocations to Fund reserves in the previous fiscal year. The annual total return exceeded that achieved by its benchmark, which equaled 4.07%, by 6 basis points, resulting in \$3 million in additional interest income for Connecticut governments and their taxpayers. During fiscal year 2008, the Federal Funds target rate was reduced by 325 basis points from 5.25 percent to 2.00 percent. STIF decreased its weighted average maturity during this time frame from 50 days at the end of Fiscal Year 2007 to 19 days at the end of Fiscal Year 2008.

General financial market conditions produced an annual total return of 5.54%, net of operating expenses and allocations to Fund reserves in fiscal 2007, compared to an annual total return of 4.38%, net of operating expenses and allocations to Fund reserves in the previous fiscal year. The annual total return exceeded that achieved by its benchmark, which equaled 5.14%, by 40 basis points, resulting in \$21 million in additional interest income for Connecticut governments and their taxpayers.

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





















**Investment**  

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**Section**







































**Statistical**  

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**Section**























*Office of the State Treasurer*  
LIST OF PRINCIPAL OFFICIALS AND PHONE NUMBERS

**Denise L. Nappier**  
Treasurer, State of Connecticut  
Tel: (860) 702-3001  
Fax: (860) 702-3043

**Howard G. Rifkin**  
Deputy Treasurer  
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Assistant Deputy Treasurer and Chief of Staff  
Tel: (860) 702-3012  
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**Maria M. Greenslade**  
Assistant Deputy Treasurer  
Second Injury Fund and Unclaimed Property  
Tel: (860) 702-3125  
Fax: (860) 702-3021

**Meredith A. Miller**  
Assistant Treasurer  
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**Lee Ann Palladino**  
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Pension Funds Management  
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Fax: (860) 702-3042

**Sarah K. Sanders**  
Assistant Treasurer  
Debt Management  
Tel: (860) 702-3288  
Fax: (860) 702-3034

**Lawrence A. Wilson**  
Assistant Treasurer  
Cash Management  
Tel: (860) 702-3126  
Fax: (860) 702-3041



**CONNECTICUT STATE TREASURY**

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