



STAROhio

State Treasury Asset Reserve of Ohio

STAROhio

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STAR Ohio

30 E. Broad St.

Columbus, Ohio 43215-3461

www.ohiotreasurer.gov

Annual Report

June 30, 2007



RICHARD CORDRAY
OHIO TREASURER of STATE



Mary Taylor, CPA
Auditor of State

The Honorable Richard Cordray
STAR Ohio
30 East Broad Street, 9th Floor
Columbus, Ohio 43215

We have reviewed the *Independent Auditors' Report* of the STAR Ohio, Franklin County, prepared by Cohen & Company, for the audit period July 1, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The STAR Ohio is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

October 16, 2007

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A Message from Ohio Treasurer of State Richard Cordray



Dear Public Funds Managers,

As a former county treasurer, I recognize the serious responsibility of local financial officials to be good stewards of public resources.

Our communities expect us — and rightly so — to be accountable, transparent, and competent. They also expect us to be resourceful and thrifty.

Fortunately, our local government investment pool, STAR Ohio, gives public funds managers a proven tool for handling taxpayers' money as if it was their own, making sure that funds are safe and accessible while earning a profit.

STAR Ohio's fiscal year 2007 performance satisfied all of those goals and continues to provide a sound value for more than 1,600 shareholders in the Pool, which represent public funds managers from local school districts to state universities, villages and townships to state custodial accounts.

STAR Ohio's portfolio increased by approximately \$669 million, or 16 percent, in fiscal year 2007 primarily due to steadily growing deposits, solid returns and a consistent federal funds rate. The fund experienced a 44 percent increase in net income and a 27 percent increase in total return. That translates into a 5.16 percent total return for the 1,647 participants.

I am gratified that STAR Ohio continues to be a dependable option for public investors, some quite large and some very small, in each of the state's 88 counties. Through pooling our resources all investors can benefit from the service as well as the returns that a much larger client might demand. I look forward to continuing to serve you as STAR Ohio shareholders and work with you to find ways to expand the portfolio to include investments in local communities.

If you have any questions or concerns, or would like to discuss the ways STAR Ohio or the Ohio Treasurer's office can be of assistance to your community, please feel free to contact me at 614-466-2160 or treasurer@tos.ohio.gov

I look forward to working together.

Thank you.

A handwritten signature in black ink that reads "Richard Cordray". The signature is written in a cursive, flowing style.

Richard Cordray
Ohio Treasurer of State

MANAGEMENT’S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION (UNAUDITED)

Background

The State Treasury Asset Reserve of Ohio (STAR Ohio or “the Pool”) is a statewide investment pool managed and administered by the Treasurer of the State of Ohio. Participation is offered to Ohio political subdivisions as a means to invest in a portfolio of short-term investment securities. The investment objective of STAR Ohio is to seek as high a level of current income as is consistent with prudent investment management, the preservation of capital and the maintenance of liquidity. STAR Ohio seeks to achieve this objective by investing only in certain high-grade investment instruments. STAR Ohio is similar in concept to a registered investment company using redeemable securities, commonly called a “money market mutual fund.” Our discussion and analysis below is based upon currently known facts and conditions that we judge to have had a material effect on STAR Ohio’s financial condition and results of operations.

Overview of Financial Condition

STAR Ohio’s portfolio increased in fiscal year 2007 by approximately \$669 million, or 16 percent. The Pool continued to maintain its AAA rating from Standard & Poor’s, the highest rating possible for a Government Investment Pool.

Overview of Operations

The Pool experienced a 44 percent increase in net income and a 27 percent increase in total return for fiscal year 2007, due to an increase in the portfolio as shareholders deposited funds into the Pool and the Federal Funds rate remaining steady at 5.25 percent. This translates into a 5.16 percent total return for the Pool participants.

STATE TREASURY ASSET RESERVE OF OHIO FINANCIAL HIGHLIGHTS

Data for each share outstanding throughout the year

	Year ended June 30,				
	2007	2006	2005	2004	2003
Net asset value, beginning of year	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00
Net investment income0516	.0407	.0197	.0100	.0144
Distributions from net investment income.	(.0516)	(.0407)	(.0197)	(.0100)	(.0144)
Net asset value, end of year	<u>\$1.00</u>	<u>\$1.00</u>	<u>\$1.00</u>	<u>\$1.00</u>	<u>\$1.00</u>
Total return	5.16%	4.07%	1.97%	1.00%	1.44%
Ratios/Supplemental Information					
Expenses as a percentage of average net assets(1)097%	.102%	.099%	.082%	.077%
Net investment income as a percentage of average net assets(1).	5.16%	4.07%	1.97%	1.00%	1.44%
Net assets, at end of year	\$4,821,138,575	\$4,151,966,416	\$3,843,599,547	\$5,055,228,202	\$6,477,198,143

(1) These percentages should not be construed as representative of the yield or expenses related to further investments in the Pool.



SCHEDULE OF INVESTMENTS

June 30, 2007

Principal Amount		Maturity Date (2007, unless otherwise noted)	Value (Note B)
	FEDERAL AGENCY ISSUES — 75.1%		
\$ 54,700,000	Federal Farm Credit Bank Funding Corporation, 5.14%	7/16 - 7/17	\$ 54,578,650
816,657,000	Federal Home Loan Bank Discount Notes, 5.12-5.15%	7/5 - 8/24	814,122,577
1,372,748,000	Federal Home Loan Mortgage Corp. Discount Notes, 5.12- 5.15%	7/2 - 9/24	1,363,802,434
1,399,853,000	Federal National Mortgage Association Discount Notes, 5.11- 5.15%	7/3 - 9/26	<u>1,390,357,339</u>
	Total Federal Agency Issues		<u><u>3,622,861,000</u></u>
	COMMERCIAL PAPER — 24.3%		
90,000,000	Abbey National North America LLC, 5.24%	7/10 - 8/14	89,678,322
45,000,000	ABN Amro North America Finance Inc., 5.23%	8/2	44,791,000
90,000,000	American Express Credit Corporation, 5.22-5.23%	7/12 - 7/24	89,777,863
50,000,000	American General Finance Corp., 5.24%	8/7	49,730,979
90,000,000	Bank of America Corp., 5.23-5.24%	7/26 - 8/3	89,614,738
40,000,000	Bear Stearns Companies, 5.25%	8/9	39,772,500
90,000,000	CBA Delaware Finance Inc., 5.24%	7/10 - 7/31	89,729,525
90,000,000	Citigroup Funding Incorporated, 5.22-5.24%	7/17 - 8/9	89,656,933
90,000,000	Dexia Delaware LLC, 5.23-5.24%	7/26 - 7/31	89,636,875
50,000,000	General Electric Capital Services, 5.23%	8/2	49,767,556
90,000,000	HSBC Finance Corporation, 5.22-5.24%	7/24 - 8/16	89,565,428
90,000,000	ING (US) Funding, LLC, 5.23-5.24%	7/11 - 8/16	89,598,686
40,000,000	Merrill Lynch & Company, Inc., 5.22-5.23%	7/19	39,895,550
50,000,000	Prudential Funding Corporation, 5.24%	7/19	49,869,000
90,000,000	Societe Generale North America Inc., 5.24-5.25%	7/5 - 8/21	89,673,672
90,000,000	UBS Finance Delaware LLC, 5.25%	8/6 - 8/21	<u>89,447,570</u>
	Total Commercial Paper		<u><u>1,170,206,197</u></u>
	DAILY REPURCHASE AGREEMENT — .6%		
29,053,519	Fifth Third Bank, Cincinnati, 4.80% collateralized by \$30,260,000 Federal Home Loan Bank Corporation Note, 4.38% due 3/17/2010, market value \$29,996,801 (repurchase proceeds \$29,065,140)		
	Total Daily Repurchase Agreement	7/2	<u><u>29,053,519</u></u>
	TOTAL INVESTMENTS — 100%		4,822,120,716
	Liabilities in excess of other assets		<u>(982,141)</u>
	NET ASSETS — 100% — equivalent to \$1.00 per share for 4,821,138,575 outstanding shares of the Pool.		<u><u>\$4,821,138,575</u></u>

See Accompanying Notes to Financial Statements.



STATEMENT OF ASSETS & LIABILITIES

JUNE 30, 2007

ASSETS

Investments	
Federal Agency Issues	\$3,622,861,000
Commercial Paper	1,170,206,197
Daily Repurchase Agreement	<u>29,053,519</u>
Total Investments	4,822,120,716
Receivable for Fund Shares Purchased	<u>291,000</u>
Total Assets	<u><u>4,822,411,716</u></u>

LIABILITIES

Payable for Fund Shares Redeemed	848,662
Accrued Custodian and Transfer Agent Fees	130,454
Accrued Management Fees	129,198
Accrued Co-Administrator Fees	110,959
Other Liabilities	<u>53,868</u>
Total Liabilities	<u>1,273,141</u>

NET ASSETS

\$4,821,138,575

Participant Net Asset Value, Price Per Unit \$ 1.00

See Accompanying Notes to Financial Statements.



STATEMENTS OF OPERATIONS

	Year ended June 30,	
	2007	2006
INVESTMENT INCOME		
Interest Income	\$250,120,808	\$175,131,800
Securities Lending Income	0	20,576
Total Investment Income	250,120,808	175,152,376
EXPENSES		
Management Fees	1,537,596	1,611,871
Custodian and Transfer Agent Fees	1,535,423	944,512
Co-administrator Fees	1,350,000	1,462,603
Postage and Printing Fees	41,975	48,065
S & P Analytical Fees	33,000	33,000
Audit Fees	29,000	39,600
Telephone Response Fees	26,350	31,715
Security Lending Fees	0	1,978
Miscellaneous	82,074	96,126
Total Expenses	4,635,418	4,269,470
NET INVESTMENT INCOME	\$245,485,390	\$170,882,906

STATEMENTS OF CHANGES IN NET ASSETS

	Year ended June 30,	
	2007	2006
INCREASE IN NET ASSETS		
Operations		
Net Investment Income	\$ 245,485,390	\$ 170,882,906
Distributions to Shareholders from		
Net Investment Income	(245,485,390)	(170,882,906)
Capital Share Transactions Net Increase — Note E		
	669,172,159	308,366,869
Increase in Net Assets	669,172,159	308,366,869
Net assets		
Beginning of Year	4,151,966,416	3,843,599,547
End of Year	\$4,821,138,575	\$4,151,966,416

See Accompanying Notes to Financial Statements.



NOTES TO FINANCIAL STATEMENTS

NOTE A — SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Section 135.45 of the Ohio Revised Code permits the state's political subdivisions to pool their public funds into an investment fund managed by the State Treasurer and the State Treasurer's staff of portfolio managers. The State Treasury Asset Reserve of Ohio (STAR Ohio or "the Pool") provides units of local government with an alternative investment option for their public funds.

STAR Ohio is a statewide investment pool managed by the Treasurer of the State of Ohio. Participation is offered to Ohio political subdivisions as defined in Section 135.45(F)(2)(a) of the Ohio Revised Code. STAR Ohio offers these subdivisions a means of investing in a portfolio of investment instruments. STAR Ohio seeks to obtain as high a level of current income as is consistent with prudent investment management, the preservation of capital, and maintenance of liquidity. There can be no guarantee that this will be achieved.

State Treasurer, Richard Cordray, through the Investment Department, 30 East Broad Street, 9th Floor, Columbus, Ohio 43215-3461, serves as investment advisor and administrator to STAR Ohio. The advisor manages the investment and reinvestment of STAR Ohio's assets in accordance with STAR Ohio's investment objectives and policies, subject to the general limitations of Section 135.143 of the Ohio Revised Code. In addition, the advisor is responsible for the overall management of STAR Ohio's business affairs. STAR Ohio compensates the advisor with a flat management fee of \$500,000 per year.

Carnegie Capital Management Company, Cleveland, Ohio is the co-administrator and provides certain clerical and administrative services for STAR Ohio. Compensation to the co-administrator is based on a flat fee of \$1,350,000 per year.

National City Bank, Cleveland, Ohio is the dividend and transfer agent for STAR Ohio and also serves as custodian of its portfolio. Compensation is based on a percentage of daily net assets.

United American Capital Corporation, Worthington, Ohio is the investment consultant for STAR Ohio. The investment consulting fees are reflected in the management fees in the Statements of Operations. Compensation is based on a percentage of daily net assets.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions of assets, liabilities, and disclosure of both contingent assets and liabilities as well as amounts of income and expenses. Actual results could differ from those estimates.

Pursuant to the Government Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, STAR Ohio follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements.

NOTE B — INVESTMENT SECURITIES

Investment securities are valued according to the amortized cost method (which approximates fair value) whereby a security is valued at cost adjusted for the amortization of any premiums or accretion of any discounts over the period until maturity.

Security transactions are accounted for on the trade date (day the order to buy or sell is executed). Interest income is determined on an accrual basis with earned discounts (including original issue and market discount) accreted and paid premiums amortized. Any realized gains or losses on sales of securities are calculated on the identified cost basis.

STAR Ohio is permitted to invest in commercial paper, but shall not exceed 25 percent of the average net assets on an annualized basis. As of June 30, 2007, commercial paper holdings represented 24.3 percent of the net assets.

All repurchase agreements are fully collateralized by United States Government or Federal Agency securities, pursuant to Section 135.143 of the Ohio Revised Code, and such collateral is in the possession of STAR Ohio's custodian on a daily basis. STAR Ohio evaluates collateral daily to ensure its market value plus accrued interest exceeds the delivery value of the repurchase agreement at maturity. STAR Ohio does not enter into reverse repurchase (borrowing) agreements.

The Pool maintains a stable net asset value per share by using the amortized cost method of portfolio valuation. The Pool has established procedures to stabilize the net asset value per share, as computed for the purpose of purchase and redemption, at a single value of \$1.00. The mark-to-market of the portfolio is used to monitor the appropriateness of the amortized cost method and is calculated using available market quotations.

As of June 30, 2007, STAR Ohio had the following investments and maturities:

<u>Investment Type</u>	<u>Amortized Cost</u>	<u>(in Years)> Less than 1</u>
Commercial Paper	\$1,170,206,197	\$1,170,206,197
Repurchase Agreement.	29,053,519	29,053,519
Federal Agency Issues	3,622,861,000	3,622,861,000
	<u>\$4,822,120,716</u>	<u>\$4,822,120,716</u>

Interest Rate Risk. Through its investment policy, STAR Ohio manages its exposure to fair value losses arising from increasing interest rates by limiting the final stated maturity on any investment to 397 days and limiting the weighted average maturity of the portfolio to 60 days.

Credit Risk. STAR Ohio's investment policy requires all securities held by STAR Ohio be rated the equivalent of A-1+ or A-1 and at least 50% of the Total Average Portfolio be rated A-1+ or better. As of June 30, 2007, STAR Ohio's investments in U.S. Agencies were rated AAA by Standard & Poor's and Aaa by Moody's Investor Services. Of the commercial paper, \$1,000,760,284 was rated A-1+/P-1 and the remaining \$169,445,913 was rated A-1/P-1.

Concentration of Credit Risk. STAR Ohio through its investment policy limits the amount invested in any single issuer to 2 percent of STAR Ohio's Total Average Portfolio, with the following exceptions: U.S. Treasury Obligations (100 percent maximum), U.S. Agencies Obligations (33 percent maximum), Repurchase Agreement Counterparties (10 percent or \$500 million, whichever is less), and Mutual Funds (10 percent maximum). As of June 30, 2007, STAR Ohio had more than 5 percent of its investments in the Federal Home Loan Bank, the Federal Home Loan Mortgage Corporation, and the Federal National Mortgage Association. These investments are 17, 28, and 29 percent, respectively, of the Pool's total investments.

Foreign Currency Risk. STAR Ohio does not have exposure to foreign exchange risk.

Custodial Credit Risk. STAR Ohio's investments are not exposed to custodial credit risk, as defined by Statement No. 40. Securities in STAR Ohio are either insured, registered, held by STAR Ohio, or held by an agent in the name of STAR Ohio.

NOTE C — SECURITIES LENDING

Pursuant to Section 135.143 of the Ohio Revised Code, the Pool may lend up to 25 percent of its securities to any eligible financial institution that is a member of the Federal Reserve System or any recognized United States government securities dealer. Under the terms of the lending agreement, STAR Ohio lends securities, while the eligible financial institution, or the primary dealer, agrees to simultaneously exchange similar securities or cash. STAR Ohio may not pledge or sell the securities received in exchange. STAR Ohio receives payments from borrowers equivalent to the interest that would have been earned on lent securities, while simultaneously seeking to earn interest on the investment of cash collateral. The income from this program is distributed daily. Also, on a daily basis STAR Ohio calculates a mark-to-market review of collateral to ensure market value is at least 100 percent of the underlying securities lent.

The Pool follows strict levels of collateralization governed by daily mark-to-market analysis, a review of the credit worthiness of securities dealers and banks, and strict monitoring of their respective credit limits. This is done to control exposure due to possible credit loss resulting from a reduction in the underlying collateral value or non-performance by a security dealer or bank. Either the Pool or the borrower can terminate all security loans on demand.

For the fiscal year ended June 30, 2007, STAR Ohio did not participate in security lending transactions.

NOTE D — INCOME DISTRIBUTIONS

Each business day STAR Ohio declares a distribution of its net investment income and realized capital gains, if any. All such distributions are automatically reinvested in additional shares of the Pool.

NOTE E — CAPITAL SHARES

Transactions in capital shares (all at \$1.00 per share) were as follows:

	<u>Year ended June 30,</u>	
	<u>2007</u>	<u>2006</u>
Shares Sold	15,479,476,872	14,472,102,246
Shares Issued for Reinvestment of Distributions	245,485,340	170,882,906
	<u>15,724,962,212</u>	<u>14,642,985,152</u>
Shares Redeemed	(15,055,790,053)	(14,334,618,283)
Capital Shares Transactions Net Increase	<u>669,172,159</u>	<u>308,366,869</u>

The Honorable Mary Taylor
Ohio Auditor of State

The Honorable Richard Cordray
Ohio Treasurer of State

Independent Auditors' Report

We have audited the statement of assets and liabilities, including the schedule of investments, of the State Treasury Asset Reserve of Ohio ("STAR Ohio") as of June 30, 2007, and the related statements of operations, changes in net assets and the financial highlights for each of the two years in the period then ended. These financial statements and financial highlights are the responsibility of STAR Ohio's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits. The financial highlights for the periods indicated prior to June 30, 2006 were audited by other auditors, who expressed unqualified opinions on those financial highlights.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of STAR Ohio as of June 30, 2007, and the results of its operations, changes in net assets and the financial highlights for each of the two years in the period then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on Page 2 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 14, 2007, on our consideration of STAR Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Cohen & Company, Ltd.
Cleveland, Ohio
August 14, 2007

The Honorable Mary Taylor
Ohio Auditor of State

The Honorable Richard Cordray
Ohio Treasurer of State

**Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards**

We have audited the statement of assets and liabilities, including the schedule of investments, of the State Treasury Asset Reserve of Ohio (“STAR Ohio”) as of June 30, 2007, and the related statements of operations and changes in net assets and the financial highlights for each of the two years in the period then ended and have issued our report thereon dated August 14, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered STAR Ohio’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization’s internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity’s financial statements that is more than inconsequential will not be prevented or detected by the entity’s internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity’s internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether STAR Ohio’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those

provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Ohio Auditor of State and Ohio Treasurer of State and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Cohen & Company".

Cohen & Company, Ltd.
Cleveland, Ohio
August 14, 2007



APPENDIX

STANDARD & POOR'S RATING OF STAR OHIO

Standard & Poor's has assigned an AAAm money market rating, its highest rating, to STAR Ohio. By obtaining a triple-A rating, STAR Ohio is considered to have a superior capacity to maintain principal (\$1.00 per share value) and limit exposure to loss. The rating is based on an analysis of the Pool's management, investment guidelines, portfolio holdings and market price exposure.

SUMMARY OF INVESTMENT OBJECTIVES & ALL PERMITTED & ELIGIBLE INVESTMENTS

The investment objective of STAR Ohio is to seek as high a level of current income as is consistent with prudent investment management, the preservation of capital and maintenance of liquidity. STAR Ohio seeks to achieve this objective by investing only in certain high-grade short-term investment instruments, which are authorized for investment by the State of Ohio as specified in Section 135.143 of the Ohio Revised Code. Instruments in which STAR Ohio may invest include:

(1) United States Treasury bills, notes, bonds, or any other obligations or securities issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

(2) Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality;

(3)(a) Written repurchase agreements with any eligible Ohio financial institution that is a member of the Federal Reserve System or Federal Home Loan Bank or any recognized United States government securities dealer, under the terms of which agreement the Treasurer of State purchases and the eligible financial institution or dealer agrees unconditionally to repurchase any of the securities that are listed in items (1) or (2) above and that will mature or are redeemable within ten years from the date of purchase. The market value of securities subject to these transactions must exceed the principal value of the repurchase agreement by an amount specified by the Treasurer of State, and the securities must be delivered into the custody of the Treasurer of State or the qualified trustee or agent designated by the Treasurer of State. The agreement shall contain the requirement that for each transaction pursuant to the agreement, the participating institution or dealer shall provide all of the following information:

(i) The par value of the securities;

(ii) The type, rate, and maturity date of the securities;

(iii) A numerical identifier generally accepted in the securities industry that designates the securities.

(b) STAR Ohio does not invest in reverse repurchase agreements, which are securities sold to a broker-dealer under the provision that they will be bought back at a predetermined date for a specified price.

(4) The Treasurer of State also may sell any securities, listed in items (1) or (2) above, regardless of maturity or time of redemption of the securities, under the same terms and conditions for repurchase, provided that the securities have been fully paid for and are owned by the Treasurer of State at the time of the sale.

(5) Securities lending agreements with any eligible financial institution that is a member of the Federal Reserve System or Federal Home Loan Bank or any recognized United States government securities dealer, under the terms of which agreement the Treasurer of State lends securities and the eligible financial institution or dealer agrees to simultaneously exchange similar securities or cash, equal value for equal value;

(6) Various forms of commercial paper, maturing in 180 days or less, issued by any corporation that is incorporated under the laws of the United States or a state, which such notes are rated in the two highest categories by two nationally recognized rating agencies, provided that the total amount invested in commercial paper at any time shall not exceed 25 percent of the average net assets on an annualized basis, as determined and calculated by the Treasurer of State;

(7) Banker's acceptances, maturing in 270 days or less, which are eligible for purchase by the Federal Reserve System, provided that the total amount invested in banker's acceptances at any time shall not exceed 10 percent of the total average net assets, as determined and calculated by the Treasurer of State;

(8) Certificates of deposit in eligible institutions applying for interim monies as provided in Section 135.08 of the Ohio Revised Code.

(9) No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) of this section and commercial paper and repurchase agreements secured by such obligations.

STAR[★]Ohio

State Treasury Asset Reserve of Ohio

Investment Advisor and Administrator

Richard Cordray
Ohio Treasurer of State

Co-Administrator

Carnegie Capital Management Company
Cleveland, OH

Custodian and Transfer Agent

National City Bank
Cleveland, OH

Investment Agent

United American Capital Corporation
Worthington, OH

For more information, current yields or assistance in
opening a STAR account call toll free:
1-800-648-7827 (STAR).

Additional information regarding STAR Ohio and other
Treasurer of State Programs may be accessed through
www.ohiotreasurer.gov

The Office of the State Treasurer, Carnegie Capital Management Company,
National City Bank, and United American Capital Corporation are Equal
Opportunity Employers and Service Providers.

STATE TREASURY ASSET RESERVE OF OHIO
INVESTMENT TRUST FUND

INDEPENDENT AUDITORS' REPORT

JUNE 30, 2007

STATE TREASURY ASSET RESERVE OF OHIO
INVESTMENT TRUST FUND

JUNE 30, 2007

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The Honorable Mary Taylor
Ohio Auditor of State

The Honorable Richard Cordray
Ohio Treasurer of State

Independent Auditors' Report

We have audited the statement of assets and liabilities of the State Treasury Asset Reserve of Ohio Investment Trust Fund ("Trust Fund") as of June 30, 2007, and the related statements of operations and changes in net assets for each of the two years in the period then ended. These financial statements are the responsibility of The Trust Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the State Treasury Asset Reserve of Ohio Investment Trust Fund and are not intended to present fairly the financial position of the State Treasury Asset Reserve of Ohio, and the results of its operations and changes in net assets in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trust Fund as of June 30, 2007, and the results of its operations, and the changes in net assets for each of the two years in the period then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on Page 3 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

This report is intended solely for the information and use of the Treasurer of the State of Ohio, the Auditor of the State of Ohio, and the Ohio Office of Budget and Management and is not intended to be and should not be used by anyone other than those specified parties.

Cohen & Company

Cleveland, Ohio
September 13, 2007

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS
OF OPERATIONS
(UNAUDITED)**

BACKGROUND

The State Treasury Asset Reserve of Ohio ("STAR Ohio" or "the Pool") is a statewide investment pool managed and administered by the Treasurer of the State of Ohio. Participation is offered to Ohio political subdivisions as a means to invest in a portfolio of short-term investment securities. The investment objective of STAR Ohio is to seek as high a level of current income as is consistent with prudent investment management, the preservation of capital and the maintenance of liquidity. STAR Ohio seeks to achieve this objective by investing only in certain high-grade investment instruments. STAR Ohio is similar in concept to a registered investment company using redeemable securities, commonly called a "money market mutual fund".

The external portion of STAR Ohio, the State Treasury Asset Reserve of Ohio Investment Trust Fund ("Trust Fund"), is the portion that belongs to legally separate entities that are not part of the State of Ohio's financial reporting entity. STAR Ohio does not have separate investments or activities for the external portion of the Pool. As a result, the financial condition and results of operations of the Trust Fund have been prepared by prorating the assets and liabilities related to the external portion. Additionally, the Statement of Operations and Changes in Net Assets are prepared by prorating investment income and expenses related to the external portion using average daily balances. Our discussion and analysis below is based upon currently known facts and conditions that we judge to have had a material effect on the Trust Fund's financial condition and results of operations.

OVERVIEW OF FINANCIAL CONDITION

STAR Ohio's portfolio increased in fiscal year 2007 by approximately \$669 million, or 16 percent. The Pool continued to maintain its AAA rating from Standard & Poor's, the highest rating possible for a Government Investment Pool.

OVERVIEW OF OPERATIONS

The Pool experienced a 44 percent increase in net income and a 27 percent increase in total return for fiscal year 2007, due to an increase in the portfolio as shareholders deposited funds into the Pool and the Federal Fund rate remaining steady at 5.25 percent. This translated into a 5.16 percent total return for the Pool participants in 2007 as compared to 4.07 percent in 2006.

STATEMENT OF ASSETS AND LIABILITIES

JUNE 30, 2007

ASSETS	
Investments	
Federal Agency Issues	\$2,945,414,976
Commercial Paper	951,387,000
Repurchase Agreement	<u>23,620,743</u>
Total Investments	3,920,422,719
Receivable for Fund Shares Purchased	<u>236,585</u>
TOTAL ASSETS	<u>3,920,659,304</u>
LIABILITIES	
Payable for Fund Shares Redeemed	689,968
Accrued Management Fees	105,039
Accrued Co-Administrator Fees	90,211
Accrued Custodian and Transfer Agent Fees	106,060
Other Liabilities	<u>45,338</u>
TOTAL LIABILITIES	<u>1,036,616</u>
NET ASSETS	<u>\$3,919,622,688</u>
Participant Net Asset Value, Price Per Unit	<u>\$ 1.00</u>

The accompanying notes are an integral part of these statements.

STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
STATEMENT OF OPERATIONS		
Investment income		
Interest income	\$ 202,885,563	\$ 141,757,478
Securities lending income		<u>17,056</u>
Total investment income	<u>202,885,563</u>	<u>141,774,534</u>
Investment expenses		
Management fees	1,247,117	1,304,779
Co-administrator fees	1,094,843	1,183,424
Custodian and transfer agent fees	1,245,421	764,960
Postage and printing fees	34,042	38,805
Audit fees	23,647	32,036
Standard & Poor's analytical fees	26,763	26,707
Telephone response fees	21,303	25,663
Security lending fees		1,640
Miscellaneous	<u>65,926</u>	<u>77,853</u>
Total investment expense	<u>3,759,062</u>	<u>3,455,867</u>
NET INVESTMENT INCOME	<u>\$ 199,126,501</u>	<u>\$ 138,318,667</u>
STATEMENT OF CHANGES IN NET ASSETS		
OPERATIONS – Net investment income	\$ 199,126,501	\$ 138,318,667
DISTRIBUTIONS TO SHAREHOLDERS -		
Dividends to shareholders from net investment income	(199,126,501)	(138,318,667)
CAPITAL SHARE TRANSACTIONS – Net	<u>545,616,592</u>	<u>227,971,658</u>
Increase in net assets	<u>545,616,592</u>	<u>227,971,658</u>
NET ASSETS		
Beginning of year	<u>3,374,006,096</u>	<u>3,146,034,438</u>
End of year	<u>\$3,919,622,688</u>	<u>\$3,374,006,096</u>

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF ORGANIZATION

Description of Fund

The State Treasury Asset Reserve of Ohio ("STAR Ohio" or "Pool") is a statewide investment pool managed by the Treasurer of the State of Ohio. Participation is offered to Ohio political subdivisions as defined in Section 135.45(F)(2)(a) of the Ohio Revised Code. STAR Ohio offers these subdivisions a means of investing in a portfolio of investment instruments. STAR Ohio seeks to obtain as high a level of current income as is consistent with prudent investment management, the preservation of capital, and maintenance of liquidity. There can be no guarantee that this will be achieved.

In accordance with Governmental Accounting Standards Board ("GASB") Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the State of Ohio ("State") reports the external portion of STAR Ohio as a separate investment trust fund. The external portion of STAR Ohio ("Trust Fund") is the portion that belongs to legally separate entities that are not part of the State's financial reporting entity. The STAR Ohio investment pool does not have separate investments or activities for the external portion. The Statement of Assets and Liabilities of the Trust Fund has been prepared by prorating the assets and liabilities related to the external portion. Additionally, the Statements of Operations and Changes in Net Assets were prepared by prorating investment income and expenses related to the external portion using average daily balances.

Legal Authority

Section 135.45 of the Ohio Revised Code permits the State's political subdivisions to pool their public funds into an investment fund managed by the State Treasurer and the State Treasurer's staff of portfolio managers. STAR Ohio provides units of local government with an alternative investment option for their public funds.

Investment Advisor and Administrator

State Treasurer Richard Cordray, through the Investment Department, 30 East Board Street, Ninth Floor, Columbus, Ohio 43215-3461, serves as investment advisor and administrator to STAR Ohio. The advisor manages the investment and reinvestment of STAR Ohio's assets in accordance with STAR Ohio's investment objectives and policies, subject to the general limitations of Section 135.143 of the Ohio Revised Code. In addition, the advisor is responsible for the overall management of STAR Ohio's business affairs. STAR Ohio compensates the advisor with a flat management fee of \$500,000 per year.

Co-Administrator

Carnegie Capital Management Company, Cleveland, Ohio, is the co-administrator and provides certain clerical and administrative services for STAR Ohio. Compensation for the year was a flat fee of \$1,350,000.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF ORGANIZATION (continued)

Custodian, Transfer Agent and Investment Consultant

National City Bank, Cleveland, Ohio is the dividend and transfer agent for STAR Ohio and also serves as custodian of its portfolio. All securities are held in the name of STAR Ohio on behalf of the Fund. United American Capital Corporation, Worthington, Ohio provided the investment consulting services. The investment consulting fees are reflected in the management fees in the Statement of Operations. Compensation for both entities is based on a percentage of daily net assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the Trust Fund follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

Security Valuations

Investment securities are valued using the amortized cost method (which approximates fair value) whereby a security is valued at cost adjusted for the amortization of any premiums or accretion of any discounts over the period until maturity.

Security Transactions and Related Investment Income

Security transactions are accounted for on the trade date (day the order to buy or sell is executed). Interest income is determined on an accrual basis with earned discounts (including original issue and market discount) accreted and paid premiums amortized. Any realized gains and losses on sales of securities are calculated on the identified cost basis.

Mark-to-Market Procedures

The Pool maintains a stable net asset value per share by using the amortized cost method of portfolio valuation. The Pool has established procedures to stabilize the net asset value per share, as computed for the purpose of purchase and redemption, at a single value of \$1.00. The mark-to-market of the portfolio is used to monitor the appropriateness of the amortized cost method and is calculated using available market quotations.

Federal Income Taxes

STAR Ohio is not subject to income taxes.

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of both contingent assets and liabilities as well as amounts of income and expenses. Actual results could differ from those estimates.

3. INVESTMENT SECURITIES

Repurchase Agreements and Commercial Paper

STAR Ohio is permitted to invest in commercial paper, but shall not exceed 25 percent of the average net assets on an annualized basis. Commercial paper holdings when purchased represent 25 percent or less of the average net assets on an annualized basis. As of June 30, 2007, commercial paper holdings represented 24.3 percent of the net assets.

All repurchase agreements are fully collateralized by United States Government or Federal Agency securities, pursuant to Section 135.143 of the Ohio Revised Code, and such collateral is in the possession of STAR Ohio's custodian. STAR Ohio evaluates collateral daily to ensure its market value plus accrued interest exceeds the delivery value of the repurchase agreements at maturity. STAR Ohio does not enter into reverse (borrowing) repurchase agreements.

As of June 30, 2007, the Trust Fund had the following share of investments and maturities:

Investment Type	Amortized Cost	Investment Maturities (in Years) Less Than 1
Commercial paper	\$ 951,387,000	\$ 951,387,000
Repurchase Agreements	23,620,743	23,620,743
U.S. Agencies Obligations	<u>2,945,414,976</u>	<u>2,945,414,976</u>
Total	<u>\$3,920,422,719</u>	<u>\$3,920,422,719</u>

Interest Rate Risk

Through its investment policy, STAR Ohio manages its exposure to fair value losses arising from increasing interest rates by limiting the final stated maturity on any investment to not exceed 397 days or that will cause the weighted average maturity of the portfolio to exceed 60 days.

Credit Risk

STAR Ohio's Investment Policy requires all securities held by STAR Ohio be rated the equivalent of A-1+ or A-1 and at least 50% of the Total Average Portfolio be rated A-1+ or better. As of June 30, 2007, STAR Ohio's investments in U.S. Agencies were rated AAA by Standard & Poor's and Aaa by Moody's Investor Services. Of the commercial paper \$813,626,117 was rated A-1+/P-1 and the remaining \$137,760,883 was rated A-1/P-1.

NOTES TO THE FINANCIAL STATEMENTS

3. INVESTMENT SECURITIES (continued)

Concentration of Credit Risk

STAR Ohio through its investment policy limits the amount invested in any single issuer to 2 percent of STAR Ohio's Total Average Portfolio, with the following exceptions: U.S. Treasury Obligations (100% maximum), U.S. Agencies Obligations (33% maximum), Repurchase Agreement Counterparties (10% or \$500 million, whichever is less), and Mutual Funds (10% maximum). As of June 30, 2007, STAR Ohio had more than 5% of the investments in the Federal Home Loan Bank, the Federal Home Loan Mortgage Corporation, and the Federal National Mortgage Association. These investments are 17, 28, and 29 percent, respectively, of the Pool's total investments.

Foreign Currency Risk

STAR Ohio does not have exposure to foreign exchange risk.

Custodial Credit Risk

STAR Ohio's investments are not exposed to custodial credit risk, as defined by GASB Statement No. 40, Deposit and Investment Risk Disclosures. Securities in STAR Ohio are either insured, registered, held by STAR Ohio, or held by an agent in the name of STAR Ohio.

4. SECURITIES LENDING

Pursuant to Section 135.143 of the Ohio Revised Code, the Pool may lend up to 25 percent of its securities to any eligible financial institution that is a member of the Federal Reserve System or any recognized United States government securities dealer. The eligible financial institution or primary dealer agrees to simultaneously exchange similar securities or cash for the lent securities. STAR Ohio may not pledge or sell the securities received in exchange. STAR Ohio receives payments from borrowers equivalent to the interest that would have been earned on securities lent while simultaneously seeking to earn interest on the investment of cash collateral. The income from this program is distributed daily. STAR Ohio calculates a mark-to-market review of collateral daily to ensure its market value is at least 100 percent of the underlying securities lent.

The Pool follows strict levels of collateralization governed by daily mark-to-market analysis, a review of the credit worthiness of securities dealers and banks, and strict monitoring of their respective credit limits. This is done to control exposure due to possible credit loss resulting from a reduction in the underlying collateral value or non-performance by a security dealer or bank. Either the Pool or the borrower can terminate all security loans on demand.

For the fiscal year ended June 30, 2007, STAR Ohio did not participate in security lending transactions.

5. INCOME DISTRIBUTIONS

STAR Ohio declares a distribution each business day to distribute its net investment income and realized capital gains, if any. All such distributions are automatically reinvested in additional shares of the Pool.

NOTES TO THE FINANCIAL STATEMENTS

6. CAPITAL SHARES

Transactions in capital shares (all at \$1.00 per share) were as follows:

	Year Ended June 30	
	2007	2006
Shares sold	13,532,956,497	12,569,017,547
Shares issued for reinvestment of distributions	<u>199,126,501</u>	<u>138,318,667</u>
Shares redeemed and other transactions	<u>13,732,082,998</u> <u>(13,186,466,406)</u>	<u>12,707,336,214</u> <u>(12,479,364,556)</u>
Capital share transactions – net increase	<u><u>545,616,592</u></u>	<u><u>227,971,658</u></u>



Mary Taylor, CPA
Auditor of State

STAR OHIO

FRANKLIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 8, 2007**