

**“Rock Solid Safety,  
Entrepreneurial Liquidity,  
and Wealth-Building Yield”**



# Annual Report

June 30, 2000

**Joseph T. Deters**  
Treasurer of State



**Investing Ohio's Money in Ohio.**



**STATE OF OHIO**  
**OFFICE OF THE AUDITOR**

JIM PETRO, AUDITOR OF STATE

35 North Fourth Street, 1<sup>st</sup> Floor  
Columbus, Ohio 43215

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The Honorable Joseph T. Deters  
Treasurer of State

We have reviewed the Independent Auditor's Report of the State Treasury Asset Reserve of Ohio and the State Treasury Asset Reserve of Ohio Investment Trust Fund, Franklin County, prepared by KPMG LLP for the audit period July 1, 1999 through June 30, 2000. 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 State Treasury Asset Reserve of Ohio and the State Treasury Asset Reserve of Ohio Investment Trust Fund are responsible for compliance with these laws and regulations.

JIM PETRO  
Auditor of State

December 8, 2000

## A Message From Treasurer of State Joseph T. Deters

Dear Shareholder:

It is a pleasure to present to you the STAR Ohio annual report for the fiscal year ending June 30, 2000.

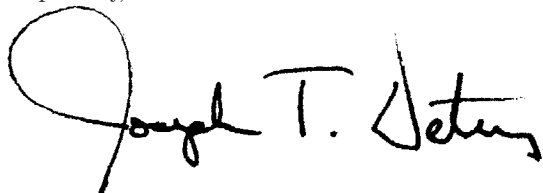
With its 14th year now complete, STAR Ohio remains a key investment tool for Ohio's public funds managers, providing them with outstanding safety, liquidity, and yield. That fact was underscored in the results of a survey our office conducted last September of STAR Ohio shareholders. The survey also provided us with valuable insights on how to make this outstanding program even better.

This year, we are seriously exploring ways to expand investment options for our shareholders. As an example, I am pleased to report that the STAR Ohio website, [www.starohio.com](http://www.starohio.com), is now available. Chief among its new features will be the ability for STAR Ohio investors to access information online.

As we move forward with ways to change and improve STAR Ohio, we will maintain our commitment to the same risk-averse policies that have made it such a successful and dependable local government investment pool.

Thank you for your continued support and cooperation.

Respectfully,



Joseph T. Deters  
Treasurer of State



## STATE TREASURY ASSET RESERVE OF OHIO FINANCIAL HIGHLIGHTS

Data for each share outstanding throughout the period

	Year ended June 30,		Six months ended June 30 1998(2)	Year ended December 31,		
	2000	1999		1997	1996	1995
Net asset value, beginning of period	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00
<b>Income from Investment Operations:</b>						
Net investment income	.0557	.0503	.0271	.0542	.0529	.0567
Total from Investment Operations	.0557	.0503	.0271	.0542	.0529	.0567
<b>Less Distributions:</b>						
Distributions from Net Investment Income	(.0557)	(.0503)	(.0271)	(.0542)	(.0529)	(.0567)
Total Distributions	(.0557)	(.0503)	(.0271)	(.0542)	(.0529)	(.0567)
Net Asset Value, End of Period	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00
<b>Ratios/Supplemental Information</b>						
Expenses as a percentage of average daily net assets(1)	.054%	.057%	.058%(3)	.058%	.061%	.061%
Net investment income as a percentage of average daily net assets(1)	5.57%	5.03%	5.42%(3)	5.42%	5.29%	5.67%
Net Assets at end of period	\$5,769,461,746	\$5,986,857,403	\$5,096,679,772	\$4,476,823,366	\$4,139,184,195	\$3,781,163,110

- (1) These percentages should not be construed as representative of the yield or expenses related to further investments in the Pool.  
 (2) Represents new fiscal year end.  
 (3) Annualized.



## STATEMENT OF INVESTMENTS

June 30, 2000

Principal Amount		Maturity Date (2000)	Value (Note A)
	<b>U.S. TREASURY ISSUES — 6.9%</b>		
\$ 400,000,000	U.S. Treasury Notes, 4.00-6.25% . . . . .	7/31-11/15	\$ 398,874,054
	<b>Total U.S. Treasury Issues . . . . .</b>		398,874,054
	<b>FEDERAL AGENCY ISSUES — 89.7%</b>		
175,000,000	Federal Agriculture Mortgage Corp. Discount Notes, 6.36-6.41% . . . . .	7/7-8/2	174,373,688
742,300,000	Federal Farm Credit Bank Bonds, 5.92-6.85% .	7/3-1/2	742,300,000
12,941,000	Federal Farm Credit Bank Discount Notes, 6.56% . . . . .	8/3	12,864,724
794,650,000	Federal Home Loan Bank Discount Notes, 6.38-6.44% . . . . .	7/10-8/30	790,283,497
1,726,997,000	Federal Home Loan Mortgage Corp. Discount Notes, 6.35-6.45% . . . . .	7/5-8/22	1,718,469,398
1,278,878,000	Federal National Mortgage Association Discount Notes, 6.33-6.58% . . . . .	7/6-8/24	1,274,266,713
300,000,000	Student Loan Marketing Association Floating Rate Notes, 5.99-6.37% . . . . .	7/20-12/21	300,000,000
25,000,000	Student Loan Marketing Association Medium Term Note, 5.90% . . . . .	12/1	24,939,856
140,000,000	Tennessee Valley Authority Discount Notes, 6.36-6.40% . . . . .	7/25-7/28	139,366,333
	<b>Total Federal Agency Issues . . . . .</b>		5,176,864,209
	<b>Total U.S. Treasury Issues and Federal Agency Issues — 96.6% . . . . .</b>		5,575,738,263
	<b>COMMERCIAL PAPER — 5.3%</b>		
25,000,000	American Express Credit Corp., 6.47% . . . . .	7/5	24,982,028
25,000,000	American General Finance Corp., 6.55% . . . . .	8/11	24,813,507
25,000,000	Associates Corporation of North America, 6.54% . . . . .	8/15	24,795,625
25,000,000	Bank One Corporation, 6.54% . . . . .	8/18	24,782,000
25,000,000	Deere & Company, 6.56% . . . . .	7/21	24,908,889
25,000,000	Ford Motor Credit Company, 6.54% . . . . .	7/13	24,945,500
5,000,000	Fountain Square Commercial Funding Corp., 6.65% . . . . .	8/15	4,958,438



**STATEMENT OF INVESTMENTS (continued)**  
**June 30, 2000**

<u>Principal Amount</u>		<u>Maturity Date (2000)</u>	<u>Value (Note A)</u>
\$ 25,000,000	General Electric Capital Corporation, 6.56% .	7/10	\$ 24,959,000
25,000,000	General Motors Acceptance Corporation, 6.55% . . . . .	8/16	24,790,764
25,000,000	Household Finance Corporation, 6.54% . . . .	8/14	24,800,166
25,000,000	Morgan Stanley, Dean Witter & Co., 6.56% . . .	8/10	24,817,778
25,000,000	National City Credit Corporation, 6.53% . . . .	7/24	24,895,701
25,000,000	Prudential Funding Corporation, 6.51% . . . . .	7/31	24,864,375
	<b>Total Commercial Paper . . . . .</b>		<u>303,313,771</u>
	<b>REPURCHASE AGREEMENT — .4%</b>		
23,044,708	Fifth Third Bank, Cincinnati, 6.57%, collateralized by \$24,042,000 Federal National Mortgage Association Medium Term Note, 7.66%, due 9/08/09, market value \$24,087,130(repurchase proceeds \$23,057,325) . . . . .	7/3	<u>23,044,708</u>
	<b>Total Repurchase Agreement . . . . .</b>		<u>23,044,708</u>
	<b>TOTAL INVESTMENTS — 102.3% . . . . .</b>		5,902,096,742
	<b>Other Assets Less Liabilities — (2.3%) . . . . .</b>		<u>(132,634,996)</u>
	<b>NET ASSETS — 100% — equivalent to \$1.00 per share for 5,769,461,746 outstanding shares of the Pool . . . . .</b>		<u>\$5,769,461,746</u>

See Accompanying Notes to Financial Statements.



**STATEMENT OF ASSETS & LIABILITIES**  
**JUNE 30, 2000**

**ASSETS**

Investments	
U.S. Treasury and Federal Agency Issues .....	\$5,575,738,263
Commercial Paper .....	303,313,771
Repurchase Agreement .....	23,044,708
Total Investments .....	<u>5,902,096,742</u>
Interest Receivable .....	17,773,391
Collateral on Securities Lent .....	<u>1,231,686,000</u>
Total Assets .....	<u>7,151,556,133</u>

**LIABILITIES**

Obligation Under Security Lending .....	1,231,686,000
Payable for Securities Purchased .....	150,000,000
Deferred Securities Lending Income .....	132,212
Accrued Co-Administrator fees .....	110,031
Accrued Custodian fees .....	88,638
Investment Advisory fees .....	40,984
Other Liabilities .....	36,522
Total Liabilities .....	<u>1,382,094,387</u>

<b>NET ASSETS</b> .....	<u><u>\$5,769,461,746</u></u>
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See Accompanying Notes to Financial Statements.



## STATEMENT OF OPERATIONS

	Year ended June 30,	
	2000	1999
<b>INCOME — Note A</b>		
Interest income .....	\$ 341,769,678	\$ 316,319,903
Securities lending income .....	3,326,001	3,221,947
Total income .....	345,095,679	319,541,850
<b>EXPENSES — Note A</b>		
Co-administrator fees .....	1,407,464	1,596,396
Custodian and transfer agent fees .....	1,130,896	1,155,566
Security lending fees .....	999,923	985,803
Management fees .....	500,000	499,999
Postage and printing fees .....	40,310	45,400
Audit fees .....	31,290	68,420
S & P analytical fees .....	29,850	28,105
Telephone response fees .....	21,730	34,730
Miscellaneous .....	138,705	138,700
	4,300,168	4,553,119
<b>NET INVESTMENT INCOME</b> .....	<b>\$ 340,795,511</b>	<b>\$ 314,988,731</b>

## STATEMENTS OF CHANGES IN NET ASSETS

	Year ended June 30,	
	2000	1999
<b>(DECREASE) INCREASE IN NET ASSETS</b>		
<b>Operations</b>		
Net investment income .....	\$ 340,795,511	\$ 314,988,731
<b>Distributions to shareholders from</b>		
Net investment income .....	(340,795,511)	(314,988,731)
<b>Capital share transactions net decrease — Note B</b> .....		
(Decrease) increase in net assets .....	(217,395,657)	890,177,631
<b>Net assets</b>		
Beginning of year .....	5,986,857,403	5,096,679,772
End of year .....	<b>\$5,769,461,746</b>	<b>\$5,986,857,403</b>

See Accompanying Notes to Financial Statements.



## NOTES TO FINANCIAL STATEMENTS

### NOTE A — SIGNIFICANT POLICIES

#### SUMMARY

Section 135.45 of the Ohio Revised Code (“ORC”) 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.

The State Treasury Asset Reserve of Ohio (“STAR Ohio” or “the 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.

State Treasurer Joseph T. Deters, through the Investment Department, 30 East Broad Street, 9th Floor, Columbus, Ohio 43266-0421, serves as investment adviser and administrator to STAR Ohio. The adviser 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 adviser is responsible for the overall management of STAR Ohio’s business affairs. STAR Ohio compensates the adviser with a flat management fee.

Carnegie Capital Management Company, Cleveland, Ohio, is the co-administrator and provides certain clerical and administrative services for STAR Ohio. Compensation is based on a percentage of net assets.

Provident Bank, Cincinnati, 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 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 that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### INVESTMENT SECURITIES

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 are accounted for on the trade date (date order to buy or sell is executed). Interest income is determined on an accrual basis with discounts earned (including original issue and market discount) and premiums paid being amortized. Realized gains and losses, if any, on sales of securities are calculated on the identified cost basis.

STAR Ohio is permitted to invest in commercial paper, but shall not exceed 5 percent of the total portfolio on an annualized basis. At June 30, 2000, commercial paper holdings represented 5.3 percent of the total portfolio due to the decline in net assets by year-end.

All repurchase agreements are fully collateralized by United States Government and 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 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, reasonably designed, taking into account current market quotations, 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.

Pursuant to ORC 135.143, the Pool may lend its securities to any eligible financial institution that is a member of the Federal Reserve System or any recognized primary United States government securities dealer. Under the terms of the lending agreement, STAR Ohio lends securities and the eligible financial institution or primary dealer agrees to simultaneously exchange similar securities or cash. If securities are received in



exchange, STAR Ohio may not pledge or sell these securities. Cash reinvested due to securities lending transactions is subject to the same investment restrictions of STAR Ohio. 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 102% of the delivery value. At year-end the Pool has no credit risk exposure to the borrowers because the amounts the Pool owes the borrower exceeds the amounts the borrowers owe the Pool.

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, strict monitoring of their respective credit limits, 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.

As of June 30, 2000, the amortized cost and fair value of securities available for securities lending were \$5,100,756,169 and \$5,102,104,722, respectively, of which the following were actually lent:

	<u>Amortized Cost</u>	<u>Fair Value</u>
Federal Farm Credit Bank Bonds . . . . .	\$ 507,250,000	\$ 506,984,690
Federal Home Loan Bank . . . . .	298,360,764	298,445,000
U.S. Treasury Notes . . . . .	392,427,901	392,441,432
	<u>\$1,198,038,665</u>	<u>\$1,197,871,122</u>

The collateral at year-end and throughout the year for lent securities were U.S. Treasury Notes, agency issues and repurchase agreements. No losses were incurred during the year on the Pool's securities lending transactions from the default of a borrower or lending agent.

All cash and investments, including cash and securities received in securities lending transactions, are held by the custodian or sub custodian in STAR Ohio's name.

### 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.

STAR Ohio is not subject to income taxes.

### NOTE B — CAPITAL SHARES

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

	<u>Year ended June 30,</u>	
	<u>2000</u>	<u>1999</u>
Shares sold . . . . .	21,938,243,816	22,549,573,678
Shares issued on reinvestment of distributions . . . . .	340,795,511	314,988,731
	<u>22,279,039,327</u>	<u>22,864,562,409</u>
Shares redeemed . . . . .	<u>(22,496,434,984)</u>	<u>(21,974,384,778)</u>
Capital shares transactions net (decrease) increase . . . . .	<u>(217,395,657)</u>	<u>890,177,631</u>

## Independent Auditors' Report

The Honorable Jim Petro  
Auditor of State

The Honorable Joseph T. Deters  
Treasurer of State:

We have audited the statement of assets and liabilities, including the statement of investments, of the State Treasury Asset Reserve of Ohio (STAR Ohio) as of June 30, 2000, and the related statements of operations and changes in net assets for the years ended June 30, 2000 and 1999, and the financial highlights for the years ended June 30, 2000 and 1999, for the six months ended June 30, 1998, and for the years ended December 31, 1997, 1996, and 1995. These financial statements are the responsibility of the management of STAR Ohio. Our responsibility is to express an opinion on these financial statements based on our audit.

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 referred to above present fairly, in all material respects, the financial position of STAR Ohio as of June 30, 2000, and the results of its operations and the changes in its net assets for the years ended June 30, 2000 and 1999, and the financial highlights for the years ended June 30, 2000 and 1999, for the six months ended June 30, 1998, and for the years ended December 31, 1997, 1996, and 1995 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 21, 2000 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 grants.

**KPMG LLP**

July 21, 2000



## APPENDIX

### STANDARD & POOR'S RATING OF STAR

Standard & Poor's has assigned an AAAM money market rating, its highest rating, to STAR. 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 & 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 five percent of the total average portfolio, 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 ten percent of the total average portfolio, as determined and calculated by the Treasurer of State;

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

## **Certificates of Deposit**

Under Ohio law, financial institutions, which issue certificates of deposit to the state, must be eligible state depositories. An institution, which desires to be an eligible depository, must make an application therefore, in writing, to the State Board of Deposit, every two years in the even numbered years.

The State Board of Deposit consists of the Treasurer of State, as chairperson, the Auditor of State, and the Attorney General. The application shall specify the maximum amount of money which the applicant desires to receive and have on deposit and shall be accompanied by a financial statement of the applicant, under oath of an officer, in such detail as to show the capital funds of the applicant, as of the date of its latest report to the superintendent of banks, superintendent of savings and loan associations, office of thrift supervision, or comptroller of the currency. It is the responsibility of the financial institution to ensure that it shall not receive or have on deposit at any one time public moneys in excess of 30 percent of its total assets.

Certificates of deposit as described in item (7) above, must be fully collateralized for principal amounts in excess of the amount insured by the Federal Deposit Insurance Corporation or by any agency or instrumentality of the federal government. The Treasurer of State will strictly adhere to the provisions of Section 135.18 of the Ohio Revised Code, regarding the security for repayment of public deposits.



1900 E. Ninth St.  
Cleveland, OH 44114

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**Independent Auditors' Report on Compliance and Internal Control  
Over Financial Reporting Based on an Audit of Financial Statements  
Performed in Accordance With *Government Auditing Standards***

The Honorable Jim Petro  
Auditor of State

and

The Honorable Joseph T. Deters  
Treasurer of State:

We have audited the financial statements of the State Treasury Asset Reserve of Ohio (STAR Ohio) as of and for the year ended June 30, 2000, and have issued our report thereon dated July 21, 2000. 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.

**Compliance**

As part of obtaining reasonable assurance about whether the STAR Ohio's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered STAR Ohio's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

KPMG LLP

July 21, 2000

**STATE TREASURY ASSET RESERVE OF OHIO  
STAR Ohio**

30 East Broad Street  
Columbus, Ohio 43266-0421  
<http://www.starohio.com>

**INVESTMENT ADVISOR AND ADMINISTRATOR**

Joseph T. Deters  
Treasurer of State

**Co-Administrator**

Carnegie Capital Management Company  
Cleveland, Ohio

**Custodian and Transfer Agent**

Provident Bank  
Cincinnati, Ohio

**For further 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 the  
Treasury Web Site at:  
<http://www.state.oh.us/treasurer/>  
and  
[www.starohio.com](http://www.starohio.com)

The Office of the Treasurer of State, Carnegie Capital Management Company,  
and Provident Bank are equal opportunity employers and service providers.



**STATE TREASURY ASSET RESERVE OF OHIO  
INVESTMENT TRUST FUND**

Financial Statements

June 30, 2000

(With Independent Auditors' Report Thereon)



**STATE TREASURY ASSET RESERVE OF OHIO  
INVESTMENT TRUST FUND**

**Table of Contents**

	<b>Page</b>
Independent Auditors' Report	1
Statement of Assets and Liabilities, June 30, 2000	2
Statement of Changes in Net Assets, For the year ended June 30, 2000	3
Notes to Financial Statements	4



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## **Independent Auditors' Report**

To the Treasurer of the State of Ohio:

We have audited the accompanying financial statements of the State Treasury Asset Reserve of Ohio Investment Trust Fund (Trust Fund), as of and for the year ended June 30, 2000, as listed in the table of contents. 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 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. 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.

As discussed in note 1(a), 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 State Treasury Asset Reserve of Ohio Investment Trust Fund, as of June 30, 2000, and the results of its changes in its assets and liabilities for the year then ended in conformity with accounting principles generally accepted in the United States of America.

This report is intended for the information and use of the Treasurer of the State of Ohio, 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.

**KPMG LLP**

August 15, 2000

**STATE TREASURY ASSET RESERVE OF OHIO  
INVESTMENT TRUST FUND**

Statement of Assets and Liabilities

June 30, 2000

Assets:

Investments:

U.S. Treasury and Federal Agency issues	\$ 5,074,384,606
Commercial paper	276,040,707
Repurchase agreements	<u>20,972,597</u>

Total investments 5,371,397,910

Collateral on lent securities	1,120,936,490
Interest receivable	<u>16,175,261</u>

Total assets 6,508,509,661

Liabilities:

Obligation under security lending	1,120,936,490
Payable for securities purchased	136,512,450
Accrued co-administrator fees	100,137
Accrued custodian fees	80,668
Deferred securities lending fees	120,324
Investment advisory fee	37,299
Other liabilities	<u>33,239</u>

Total liabilities 1,257,820,607

Net assets \$ 5,250,689,054

See accompanying notes to financial statements.

**STATE TREASURY ASSET RESERVE OF OHIO  
INVESTMENT TRUST FUND**

Statement of Changes in Net Assets

For the year ended June 30, 2000

Operations:	
Investment income:	
Interest	\$ 306,631,872
Other investment income, including securities lending income	<u>2,982,324</u>
	<u>309,614,196</u>
Investment expenses:	
Co-administrator fees	1,262,613
Custodian and transfer agent fees	1,014,498
Security lending fees	896,567
Management fees	448,437
Telephone response fees	19,477
S&P analytical fees	26,773
Postage and printing fees	36,166
Audit fees	28,019
Miscellaneous	<u>124,382</u>
	<u>3,856,932</u>
Net investment income	<u>305,757,264</u>
Dividends to shareholders from net investment income	(305,757,264)
Capital share transactions (dollar amounts and numbers of shares are the same):	
Shares sold	18,884,917,471
Shares issued on reinvestment of distributions	305,757,264
Shares redeemed	<u>(19,275,431,445)</u>
Increase from capital share transactions and total decrease in net assets	(84,756,710)
Net assets held in trust for pool participants:	
July 1, 1999	<u>5,335,445,764</u>
June 30, 2000	<u>\$ 5,250,689,054</u>

See accompanying notes to financial statements.

**STATE TREASURY ASSET RESERVE OF OHIO  
INVESTMENT TRUST FUND**

Notes to Financial Statements

June 30, 2000

**(1) Background Information and Policies**

**(a) Summary**

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.

On January 1, 1997 STAR Ohio adopted Statement No. 31 of the Governmental Accounting Standards Board (GASB No. 31), *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. This statement establishes financial reporting standards for all investments held by governmental external investment pools. GASB No. 31 requires the State of Ohio (State) to report 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 have been prepared by prorating the assets and liabilities related to the external portion. Additionally, the Statement of Changes in Net Assets was prepared by prorating investment income and expenses related to the external portion using average daily balances.

**(b) 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.

**(c) Investment Adviser and Administrator**

State Treasurer Joseph T. Deters, through the Investment Department, 30 East Broad Street, 9th Floor, Columbus, Ohio 43266-0421, serves as investment adviser and administrator to STAR Ohio. The adviser 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 adviser is responsible for the overall management of STAR Ohio's business affairs. STAR Ohio compensates the adviser with a flat management fee.

**(d) Co-administrator**

Carnegie Capital Management Company, Cleveland, Ohio, is the co-administrator and provides certain clerical and administrative services for STAR Ohio. Compensation is based on a percentage of net assets.

**STATE TREASURY ASSET RESERVE OF OHIO  
INVESTMENT TRUST FUND**

Notes to Financial Statements

June 30, 2000

***(e) Custodian and Transfer Agent***

Provident Bank, Cincinnati, Ohio, is 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. Compensation is based on a percentage of net assets.

***(f) Repurchase Agreements and Commercial Paper***

All repurchase agreements are fully collateralized by United States government and 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 exceeds the delivery value of the repurchase agreement at maturity. STAR Ohio does not enter into reverse repurchase (borrowing) agreements. STAR Ohio is permitted to invest in commercial paper but it shall not exceed 5% of the total portfolio. At June 30, 2000, commercial paper holdings represented 5.3% of the total portfolio.

***(g) Distributions to Shareholders***

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.

***(h) Security Lending***

Pursuant to Section 135.143 of the Ohio Revised Code, the Pool may lend its securities to any eligible financial institution that is a member of the Federal Reserve System or any recognized primary United States government securities dealer. Under the terms of the lending agreement, STAR Ohio lends securities and the eligible financial institution or primary dealer agrees to simultaneously exchange similar securities or cash. If securities are received in exchange, STAR Ohio may not pledge or sell these securities. Cash reinvested due to securities lending transactions is subject to the same investment restrictions of STAR Ohio. 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 102% of the delivery value. At year-end the Pool has no credit risk exposure to the borrowers because the amounts the pool owes the borrower exceeds the amounts the borrower's owe the pool.

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 to control exposure due to possible credit loss resulting from a reduction in the underlying collateral value or nonperformance by a security dealer or bank. Either the Pool or the borrower can terminate all security loans on demand.

**STATE TREASURY ASSET RESERVE OF OHIO  
INVESTMENT TRUST FUND**

Notes to Financial Statements

June 30, 2000

As of June 30, 2000, the amortized cost and fair value of securities available for securities lending allocated to the Trust Fund were \$4,642,111,477 and \$4,643,338,772, respectively, of which the following were actually lent:

	<b>Amortized cost</b>	<b>Fair value</b>
Federal Home Loan Bank	\$ 271,533,059	271,609,721
Federal Farm Credit Bank bonds	461,639,602	461,398,148
U.S. Treasury notes	357,141,961	357,154,276
	\$ 1,090,314,622	1,090,162,145

The cash collateral at year-end and throughout the year for lent securities was invested in U.S. treasury notes, agency issues and repurchase agreements which had maturities that generally matched the maturities of the securities lent. No losses were incurred during the year on the Pool's securities lending transactions from the default of a borrower or lending agent.

All cash and investments, including cash and securities received in securities lending transactions, are held by the custodian or subcustodian in STAR Ohio's name.

**(2) Significant Accounting Policies**

**(a) 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.

**(b) Security Transactions and Related Investment Income**

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

**(c) 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, reasonably designed, taking into account current market quotations, 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.

**STATE TREASURY ASSET RESERVE OF OHIO  
INVESTMENT TRUST FUND**

Notes to Financial Statements

June 30, 2000

**(d) Federal Income Taxes**

STAR Ohio is not subject to income taxes.

**(e) Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**(3) Capital Shares**

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

	<b>Year ended June 30, 2000</b>
Shares sold	\$ 18,884,917,471
Shares issued on reinvestment of distributions	305,757,264
Shares redeemed	<u>(19,275,431,445)</u>
Capital share transactions net decrease	<u>\$ (84,756,710)</u>





STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

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**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  
DECEMBER 21, 2000**