

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



Annual Report

June 30, 2002

*Joseph T. Deters
Treasurer of State*



Investing Ohio's Money in Ohio.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
Columbus, Ohio 43215

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The Honorable Joseph T. Deters
Treasurer of State
30 East Broad St.
Columbus, Ohio 43266-0421

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 Deloitte & Touche, LLP, for the audit period July 1, 2001 to June 30, 2002. 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 is responsible for compliance with these laws and regulations.

A handwritten signature in black ink, appearing to read "Jim Petro".

JIM PETRO
Auditor of State

September 20, 2002

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A Message From Treasurer of State Joseph T. Deters



Dear Shareholders:

It is a pleasure to present to you the STAR Ohio Annual Report for the fiscal year ended June 30, 2002.

With its 16th year now complete, STAR Ohio remains a key investment tool for Ohio's public funds managers, providing the same outstanding safety, liquidity, and yield that have been the program's hallmarks.

The tragic events of September 11th, along with uncertainties in the state and national economies, made FY02 a most challenging year. Through it all, STAR Ohio remained rock-solid. In fact, the program was back up and running last September 12th, underscoring both the strength and resiliency of our collective spirit and our institutions.

Looking ahead, we are resolved to maintain our commitment to the same risk-averse policies that have made STAR Ohio such a successful, dependable local government investment pool. Thank you for your continued support and cooperation.

Respectfully,

A handwritten signature in black ink that reads "Joseph T. Deters". The signature is written in a cursive style with a large, looping initial "J".

Joseph T. Deters
Treasurer of State

MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Background

The State Treasury Asset Reserve of Ohio ("STAR Ohio") 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 these objectives 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

During the year ended June 30, 2002, the Federal Reserve Bank lowered interest rates five times, resulting in a reduction of the overnight federal funds rate to 1.81% at June 30, 2002 from 3.95% at June 30, 2001. The decline in interest rates and general economic conditions experienced by STAR Ohio participants during the year resulted in an approximate \$2.3 billion reduction in the investment portfolio.

Overview of Operations

Net investment income as a percentage of average daily net assets declined to 2.59% in 2002 from 5.66% in 2001, resulting primarily from declining interest rates. The weighted average yield of STAR Ohio's investment portfolio was 1.92% and 4.07% at June 30, 2002 and 2001, respectively. Expenses as a percentage of average daily net assets increased to .073% in 2002 from .05% in 2001, due to STAR Ohio expanding the role of Provident Bank in providing portfolio investment management advice in assisting the Treasurer's staff in managing STAR Ohio's assets.

STATE TREASURY ASSET RESERVE OF OHIO FINANCIAL HIGHLIGHTS

Data for each share outstanding throughout the period

	Year ended June 30,				Six months ended	Year ended
	2002	2001	2000	1999	June 30 1998(2)	December 31, 1997
Net asset value, beginning of period ..	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00
Net investment income .....	.0259	.0566	.0557	.0503	.0271	.0542
Total from Investment Operations: Distributions from Net Investment Income .....	.0259	.0566	.0557	.0503	.0271	.0542
	(.0259)	(.0566)	(.0557)	(.0503)	(.0271)	(.0542)
Total Distributions	(.0259)	(.0566)	(.0557)	(.0503)	(.0271)	(.0542)
Net asset value, end of period	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00
Ratios/Supplemental Information						
Expenses as a percentage of average net assets(1) .....	.073%	.050%	.054%	.057%	.058%(3)	.058%
Net investment income as a percentage of average net assets(1)	2.59%	5.66%	5.57%	5.03%	5.43%(3)	5.42%
Net assets, at end of period	\$7,197,975,497	\$9,358,311,989	\$5,769,461,746	\$5,986,857,403	\$5,096,679,772	\$4,476,823,366

(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.



SCHEDULE OF INVESTMENTS

June 30, 2002

Principal Amount		Maturity Date (2002, unless otherwise noted)	Value (Note A)
FEDERAL AGENCY ISSUES — 94%			
\$ 410,725,000	Federal Agriculture Mortgage Corp. Discount Notes, 1.72-2.12%	7/2 - 10/2	\$ 410,029,427
175,000,000	Federal Farm Credit Bank Bonds, 1.68-1.71%	7/8 - 9/5	174,851,917
1,829,573,000	Federal Home Loan Bank Discount Notes, 1.65-2.00%	7/2 - 11/29	1,825,249,506
2,042,760,000	Federal Home Loan Mortgage Corp. Discount Notes, 1.60-3.56%	7/1 - 6/19/03	2,035,422,066
50,000,000	Federal National Mortgage Association Debenture, 2.55%	11/5	50,000,000
1,810,360,000	Federal National Mortgage Association Discount Notes, 1.65-3.56%	7/1 - 5/30/03	1,803,981,275
475,668,000	Student Loan Marketing Association Discount Notes, 1.74-2.24%	7/1 - 2/7/03	473,992,627
	Total Federal Agency Issues		6,773,526,818
COMMERCIAL PAPER — 6%			
65,000,000	American Express Credit Corp., 1.75%	8/12 - 8/27	64,845,417
100,000,000	American General Finance Corp., 1.76-1.84%	7/19 - 9/25	99,695,004
25,000,000	CitiCorp, 1.76%	7/22	24,974,333
145,000,000	General Electric Capital Corporation, 1.86-1.99% ..	7/8 - 11/8	144,576,208
35,000,000	International Business Machines Credit Corp., 1.80%	7/10	34,984,250
20,000,000	National City Credit Corporation, 1.76%	7/24	19,977,511
35,000,000	Prudential Funding Corporation, 1.91%	7/2	34,998,144
	Total Commercial Paper		424,050,867
DAILY REPURCHASE AGREEMENT — 0%			
686,574	Fifth Third Bank, Cincinnati, 1.87%, collateralized by \$685,000 Federal Home Loan Mortgage Corporation Note, 5.63%, due 3/15/11, market value \$712,079 (repurchase proceeds \$686,681)	7/1	686,574
	Total Daily Repurchase Agreement		686,574
	TOTAL INVESTMENTS — 100%		7,198,264,259
	Other Assets Less Liabilities		288,762
	NET ASSETS — 100% — equivalent to \$1.00 per share for 7,197,975,497 outstanding shares of the Pool		\$7,197,975,497

See Accompanying Notes to Financial Statements.



STATEMENT OF ASSETS & LIABILITIES

JUNE 30, 2002

ASSETS

Investments	
Federal Agency Issues	\$6,773,526,818
Commercial Paper	424,050,867
Daily Repurchase Agreement	686,574
Total Investments	7,198,264,259
Interest Receivable	197,493
Collateral on Securities Lent	512,495,134
Total Assets	7,710,956,886

LIABILITIES

Obligation Under Security Lending	512,495,134
Accrued Management fees	193,521
Accrued Co-Administrator fees	121,262
Accrued Custodian fees	107,238
Other Liabilities	64,234
Total Liabilities	512,981,389

NET ASSETS	\$7,197,975,497
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See Accompanying Notes to Financial Statements.



STATEMENTS OF OPERATIONS

	Year ended June 30,	
	2002	2001
INVESTMENT INCOME		
Interest income	\$222,402,202	\$412,817,021
Securities lending income	1,333,450	2,253,700
Total investment income	223,735,652	415,070,721
EXPENSES		
Management fees	2,599,659	500,000
Co-administrator fees	1,759,199	1,501,962
Custodian and transfer agent fees	1,517,274	1,317,987
Security lending fees	381,509	630,423
Postage and printing fees	53,415	52,815
Audit fees	31,051	30,000
S & P analytical fees	30,000	30,000
Telephone response fees	29,525	42,410
Miscellaneous	75,460	145,741
Total expenses	6,477,092	4,251,338
NET INVESTMENT INCOME	\$217,258,560	\$410,819,383

STATEMENTS OF CHANGES IN NET ASSETS

	Year ended June 30,	
	2002	2001
(DECREASE) INCREASE IN NET ASSETS		
Operations		
Net investment income	\$ 217,258,560	\$ 410,819,383
Distributions to shareholders from		
Net investment income	(217,258,560)	(410,819,383)
Capital share transactions net (decrease) increase		
— Note B	(2,160,336,492)	3,588,850,243
(Decrease) increase in net assets	(2,160,336,492)	3,588,850,243
Net assets		
Beginning of year	9,358,311,989	5,769,461,746
End of year	\$ 7,197,975,497	\$9,358,311,989

See Accompanying Notes to Financial Statements.



NOTES TO FINANCIAL STATEMENTS

NOTE A — ORGANIZATION AND 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. 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 Joseph T. Deters, 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.

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 daily net assets.

Provident Bank, Cincinnati, Ohio, is the dividend and transfer agent for STAR Ohio and also serves as investment consultant and custodian of its portfolio. Provident Bank was appointed investment consultant on July 1, 2001. United American Capital Corporation, Worthington, Ohio, and Meeder Asset Management Inc., Dublin, Ohio assist Provident Bank with investment consulting services. The investment consulting fees are reflected in the management fees in the Statement 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 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 income and expenses during the reporting period. 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. During 2002, STAR Ohio adopted GASB Statement No. 34, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments* as amended by GASB Statement No. 37, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus*. The adoption of these statements has no impact on STAR Ohio’s financial condition or results of operations, but does require the presentation of management’s discussion and analysis, an analytical overview of the Pool’s financial activities, as required supplemental information (see page 2).

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) being accreted 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 average net assets on an annualized basis. For the year-ended June 30, 2002, commercial paper holdings represented 5.0 percent of the average 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 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 up to 25% of 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. At June 30, 2002, collateral on securities lent consisted of securities purchased from cash collateral received. If securities are received in exchange, STAR Ohio may not pledge or sell these securities. 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% of the underlying securities lent. 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, 2002, the amortized cost and fair value of securities available for securities lending were \$636,935,834 and \$637,597,500 respectively, of which the following were actually lent:

	<u>Amortized Cost</u>	<u>Fair Value</u>
Federal Home Loan Mortgage Corp. Discount Notes	\$386,283,419	\$386,681,250
Federal National Mortgage Association Discount Notes	<u>124,172,962</u>	<u>124,282,500</u>
	<u>\$510,456,381</u>	<u>\$510,963,750</u>

The collateral at year-end for the lent securities were commercial paper, money market mutual funds, and repurchase agreements; the fair market values were \$24,937,500, \$25,000,000, and \$462,499,000, respectively. No losses were incurred during the year on the Pool's securities lending transactions from the default of a borrower or lending agent.

In accordance with GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, STAR Ohio is required to classify its investments into categories of custodial risk. Category 1 includes investments that are insured or registered for which the securities are held by STAR Ohio or by its agent in the name of STAR Ohio.

Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the name of STAR Ohio. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in STAR Ohio's name. All investments of STAR Ohio, including collateral on securities lent, meet the criteria of Category 1, except securities on loan, which by their nature are not required to be so categorized.

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>2002</u>	<u>2001</u>
Shares sold	30,436,274,381	27,077,039,924
Shares issued for reinvestment of distributions	217,258,560	410,819,383
	<u>30,653,532,941</u>	<u>27,487,859,307</u>
Shares redeemed	<u>(32,813,869,433)</u>	<u>(23,899,009,064)</u>
Capital shares transactions net (decrease) increase	<u>(2,160,336,492)</u>	<u>3,588,850,243</u>

Independent Auditors' Report

The Honorable Jim Petro
Auditor of State

The Honorable Joseph T. Deters
Treasurer of State:

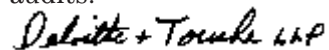
We have audited the statement of assets and liabilities, including the schedule of investments, of the State Treasury Asset Reserve of Ohio ("STAR Ohio") as of June 30, 2002, and the related statements of operations, changes in net assets and the financial highlights for the years ended June 30, 2002 and 2001. These financial statements are the responsibility of the management of STAR Ohio. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits. STAR Ohio's financial statements and financial highlights for the periods prior to the year ended June 30, 2001 were audited by other auditors whose report, dated July 21, 2000, expressed an unqualified opinion on those statements.

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, such financial statements and financial highlights present fairly, in all material respects, the financial position of STAR Ohio as of June 30, 2002 and the results of its operations, the changes in its net assets and the financial highlights for the years ended June 30, 2002 and 2001 in conformity with accounting principles generally accepted in the United States of America.

As described in Note A to the financial statements, for the year ended June 30, 2002, STAR Ohio adopted Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments* as amended by GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*. Management's Discussion and Analysis on page 2 is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the presentation of the 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 July 19, 2002, on our consideration of STAR Ohio's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.


Cleveland, Ohio
July 19, 2002



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 & 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 average net assets, 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.

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

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.

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Joseph T. Deters
Treasurer of State

The Honorable Jim Petro
Auditor 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, 2002, and have issued our report thereon dated July 19, 2002. 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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 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 these specified parties.

Deloitte & Touche LLP

July 19, 2002

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

30 East Broad Street, 9th Floor
Columbus, Ohio 43215-3461
<http://www.starohio.org>

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

Investment Consultant

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.ohiotreasurer.org>
and
www.starohio.org

The Office of the State Treasurer, Carnegie Capital Management Company and Provident Bank
are Equal Opportunity Employers and Service Providers.



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

*Financial Statements
as of June 30, 2002 and
for the Years Ended
June 30, 2002 and 2001
and Independent Auditors' Report*

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STATE TREASURY ASSET RESERVE OF OHIO INVESTMENT TRUST FUND

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INDEPENDENT AUDITORS' REPORT

To the Treasurer of the State of Ohio:

We have audited the accompanying statements of asset and liabilities of the State Treasury Asset Reserve of Ohio Investment Trust Fund ("Trust Fund") as of June 30, 2002, and the related statements of operations and changes in net assets for the years ended June 30, 2002 and 2001. 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, such financial statements present fairly, in all material respects, the financial position of the State Treasury Asset Reserve of Ohio Investment Trust Fund as of June 30, 2002, and the results of its operations and changes in its net assets for the years ended June 30, 2002 and 2001 in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, for the year ended June 30, 2002, the Trust Fund adopted Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* as amended by GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*.

Management's Discussion and Analysis on page 3 is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the presentation of the 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.

Deloitte & Touche LLP

July 19, 2002

STATE TREASURY ASSET RESERVE OF OHIO INVESTMENT TRUST FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Background

The State Treasury Asset Reserve of Ohio ("STAR Ohio") 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 these objectives 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 investment 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. 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

During the year ended June 30, 2002, the Federal Reserve Bank lowered interest rates five times, resulting in a reduction of the overnight federal funds rate to 1.81% at June 30, 2002 from 3.95% at June 30, 2001. The decline in interest rates and general economic conditions experienced by STAR Ohio participants during the year resulted in an approximate \$2.2 billion reduction in the Trust Fund's investment portfolio.

Overview of Operations

Net investment income as a percentage of average daily net assets declined to 2.59 percent in 2002 from 5.66 percent in 2001, resulting primarily from declining interest rates. The weighted average yield of STAR Ohio's investment portfolio was 1.92 percent and 4.07 percent at June 30, 2002 and 2001, respectively. Expenses as a percentage of average daily net assets increased to .073 percent in 2002 from .05 percent in 2001, due to STAR Ohio expanding the role of Provident Bank in providing portfolio investment management advice in assisting the Treasurer's staff in managing STAR Ohio's assets.

STATE TREASURY ASSET RESERVE OF OHIO INVESTMENT TRUST FUND

STATEMENT OF ASSETS AND LIABILITIES JUNE 30, 2002

ASSETS:

Investments:

Federal Agency issues	\$ 5,911,439,739
Commercial paper	370,080,641
Daily repurchase agreement	<u>599,192</u>
Total investments	6,282,119,572
Collateral on securities lent	447,268,341
Interest receivable	<u>172,357</u>

Total assets 6,729,560,270

LIABILITIES:

Obligation under security lending	447,268,341
Accrued management fees	168,891
Accrued co-administrator fees	105,828
Accrued custodian fees	93,590
Other liabilities	<u>52,966</u>

Total liabilities 447,689,616

NET ASSETS \$ 6,281,870,654

See accompanying notes to financial statements.

STATE TREASURY ASSET RESERVE OF OHIO INVESTMENT TRUST FUND

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

	2002	2001
STATEMENT OF OPERATIONS:		
Investment income:		
Interest	\$ 194,526,211	\$ 373,723,975
Securities lending income	<u>1,167,455</u>	<u>2,042,198</u>
Total investment income	<u>195,693,666</u>	<u>375,766,173</u>
Investment expenses:		
Management fees	2,268,602	452,553
Co-administrator fees	1,535,974	1,358,523
Custodian and transfer agent fees	1,324,633	1,192,220
Security lending fees	333,971	570,678
Postage and printing fees	46,532	47,754
Audit fees	27,097	27,187
Standard & Poor's analytical fees	26,178	27,152
Telephone response fees	25,743	38,384
Miscellaneous	<u>65,814</u>	<u>131,792</u>
Total investment expense	<u>5,654,544</u>	<u>3,846,243</u>
 NET INVESTMENT INCOME	 <u>\$ 190,039,122</u>	 <u>\$ 371,919,930</u>
 STATEMENT OF CHANGES IN NET ASSETS:		
OPERATIONS:		
Net investment income	\$ 190,039,122	\$ 371,919,930
DISTRIBUTIONS TO SHAREHOLDERS:		
Dividends to shareholders from net investment income	(190,039,122)	(371,919,930)
CAPITAL SHARE TRANSACTIONS, NET	<u>(2,115,791,892)</u>	<u>3,146,973,492</u>
(Decrease) increase in net assets	(2,115,791,892)	3,146,973,492
NET ASSETS:		
Beginning of year	<u>8,397,662,546</u>	<u>5,250,689,054</u>
End of year	<u>\$ 6,281,870,654</u>	<u>\$ 8,397,662,546</u>

See accompanying notes to financial statements.

STATE TREASURY ASSET RESERVE OF OHIO INVESTMENT TRUST FUND

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2002 AND FOR THE YEARS ENDED JUNE 30, 2002 AND 2001

1. BACKGROUND INFORMATION AND POLICIES

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 ("ORC"). 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 have been prepared by prorating the assets and liabilities related to the external portion. Additionally, the Statements of Operations and Changes in Net Assets was 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 Adviser and Administrator - State Treasurer Joseph T. Deters, through the Investment Department, 30 East Broad Street, Ninth Floor, Columbus, Ohio 43215-3461, 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 advisor is responsible for the overall management of STAR Ohio's business affairs. STAR Ohio compensates the advisor with a flat management fee.

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.

Custodian, Transfer Agent and Investment Consultant - Provident Bank, Cincinnati, 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. Compensation is based on a percentage of net assets. Provident Bank was appointed investment consultant on July 1, 2001. United American Capital Corporation, Worthington, Ohio, and Meeder Asset Management Inc., Dublin, Ohio assists Provident Bank with investment consulting services. The investment consulting fees are reflected in the management fees in the Statement of Operations. Compensation is based on a percentage of daily net assets.

Repurchase Agreements and Commercial Paper - STAR Ohio is permitted to invest in commercial paper, but shall not exceed 5 percent of the average net assets on an annualized basis. For the year ended June 30, 2002, commercial paper holdings represented 5.0 percent of the average 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 agreement at maturity. STAR Ohio does not enter into reverse repurchase (borrowing) agreements.

Distribution 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.

Security 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 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. At June 30, 2002, collateral on securities lent consisted of securities purchased from cash collateral received. If securities are received in exchange, STAR Ohio may not pledge or sell these securities. 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. 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, 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.

As of June 30, 2002, the amortized cost and fair value of securities available for securities lending allocated to the Trust Fund were \$555,871,100 and \$556,448,553, respectively, of which the following were actually lent:

	Amortized Cost	Fair Value
Federal Home Loan Mortgage Corp. Discount Notes	\$ 337,119,969	\$ 337,467,167
Federal National Mortgage Association Discount Notes	<u>108,369,097</u>	<u>108,464,693</u>
Total	<u>\$445,489,066</u>	<u>\$445,931,860</u>

The collateral at year end for the lent securities were commercial paper, money market mutual funds, and repurchase agreements; the Trust Fund's fair market values were approximately \$21,763,630, \$21,818,175, and \$403,635,365, respectively. No losses were incurred during the year on the Pool's securities lending transactions from the default of a borrower or lending agent.

In accordance with GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, STAR Ohio is required to classify its investments into categories of custodial risk. Category 1 includes investments that are insured or registered for which the securities are held by STAR Ohio or by its agent in the name of STAR Ohio. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the name of STAR Ohio. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in STAR Ohio's name. All investments of STAR Ohio, including collateral on securities lent, meet the criteria of Category 1, except securities on loan, which by their nature are not required to be so categorized.

2. SIGNIFICANT ACCOUNTING POLICIES

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 (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) being accreted and premiums paid being amortized. Realized gains and losses, if any, 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, 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.

Federal Income Taxes - STAR Ohio is not subject to income taxes.

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 income and expenses during the reporting period. Actual results could differ from those estimates.

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. During 2002, STAR Ohio adopted GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* as amended by GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*. The adoption of these statements has no impact on the Trust Fund's financial condition or results of operations, but does require the presentation of management's discussion and analysis, an analytical overview of the Trust Fund's financial activities, as required supplemental information (see page 3).

3. CAPITAL SHARES

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

	<u>Year Ended June 30,</u>	
	<u>2002</u>	<u>2001</u>
Shares sold	\$ 22,247,041,680	\$ 22,982,889,045
Shares issued on reinvestment of distributions	<u>190,039,122</u>	<u>371,919,930</u>
	22,437,080,802	23,354,808,975
Shares redeemed	<u>(24,552,872,694)</u>	<u>(20,207,835,483)</u>
Net (decrease) increase from capital share transactions	<u>\$ (2,115,791,892)</u>	<u>\$ 3,146,973,492</u>

* * * * *



STATE OF OHIO
OFFICE OF THE AUDITOR

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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 3, 2002**