

STATE TREASURY ASSET RESERVE OF OHIO
INVESTMENT TRUST FUND

INDEPENDENT AUDITORS' REPORT

JUNE 30, 2006



Mary Taylor, CPA
Auditor of State

The Honorable Richard Cordray
Ohio Treasurer of State
30 East Broad Street, 9th Floor
Columbus, OH 43215-0421

We have reviewed the *Independent Auditor's Report* of STAR Ohio, Franklin County, prepared by Cohen & Company, Ltd, for the audit period July 1, 2005 to June 30, 2006. 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. STAR Ohio is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 12, 2007

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STATE TREASURY ASSET RESERVE OF OHIO
INVESTMENT TRUST FUND

JUNE 30, 2006

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The Honorable Betty Montgomery
Ohio Auditor of State

The Honorable Jennette B. Bradley
Ohio Treasurer of State

Independent Auditors' Report

We have audited the statement of assets and liabilities of the State Treasury Asset Reserve of Ohio Investment Trust Fund ("Trust Fund") as of June 30, 2006, and the related statements of operations and changes in net assets for the year then ended. These financial statements are the responsibility of the Trust Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit. The statements of operations and changes in net assets for the year ended June 30, 2005 were audited by other auditors, whose report dated August 9, 2005 expressed an unqualified opinion on those statements. As discussed in Note 2, the Trust Fund has restated its 2005 financial statements during the current year due to a change in the reporting entity. The other auditors reported on the 2005 financial statements before the restatement.

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, 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, or the results of its operations and changes in its net assets in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trust Fund as of June 30, 2006, and the results of its operations and the changes in net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We also audited the adjustments described in Note 2 that were applied to restate the 2005 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

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

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

Cohen & Company

July 25, 2006
Cleveland, Ohio

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

BACKGROUND

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

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

OVERVIEW OF FINANCIAL CONDITION

The targeted overnight federal rate increased eight times for a total of 2.00% during the fiscal year ended June 30, 2006. Increasing interest rates and general economic conditions experienced by STAR Ohio participants during the year resulted in an approximate \$308 million addition in the investment portfolio due to an increase in net assets as shareholders deposited funds.

OVERVIEW OF OPERATIONS

Net investment income as a percentage of average daily net assets increased to 4.07% in fiscal year 2006 from 1.97% in fiscal year 2005, resulting primarily from the federal funds targeted rate increasing 2.00% during the fiscal year. The weighted average yield of STAR Ohio's investment portfolio was 5.02% and 3.17% at June 30, 2006 and 2005, respectively.

STATEMENT OF ASSETS AND LIABILITIES

JUNE 30, 2006

ASSETS	
INVESTMENTS	
Federal Agency issues	\$2,540,582,469
Commercial paper	830,870,704
Daily repurchase agreement	<u>2,408,572</u>
Total investments	3,373,861,745
RECEIVABLE FOR FUND SHARES PURCHASED	<u>879,751</u>
Total assets	<u>3,374,741,496</u>
LIABILITIES	
PAYABLE FOR FUND SHARES REDEEMED	427,498
ACCRUED MANAGEMENT FEES	101,927
ACCRUED CO-ADMINISTRATOR FEES	87,346
ACCRUED CUSTODIAN FEES	63,040
OTHER LIABILITIES	<u>55,589</u>
Total liabilities	<u>735,400</u>
NET ASSETS	<u>\$3,374,006,096</u>

The accompanying notes are an integral part of these statements.

STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005*</u>
STATEMENT OF OPERATIONS		
Investment income		
Interest income	\$ 141,757,478	\$ 76,803,274
Securities lending income	<u>17,056</u>	<u>485,520</u>
Total investment income	<u>141,774,534</u>	<u>77,288,794</u>
Investment expenses		
Management fees	1,304,779	1,593,751
Co-administrator fees	1,183,424	1,109,297
Custodian and transfer agent fees	764,960	756,861
Postage and printing fees	38,805	157,192
Audit fees	32,036	31,202
Standard & Poor's analytical fees	26,707	29,051
Telephone response fees	25,663	23,667
Security lending fees	1,640	26,631
Miscellaneous	<u>77,853</u>	<u>96,357</u>
Total investment expense	<u>3,455,867</u>	<u>3,824,009</u>
NET INVESTMENT INCOME	<u>\$ 138,318,667</u>	<u>\$ 73,464,785</u>
STATEMENT OF CHANGES IN NET ASSETS		
OPERATIONS – Net investment income	\$ 138,318,667	\$ 73,464,785
DISTRIBUTIONS TO SHAREHOLDERS -		
Dividends to shareholders from net investment income	(138,318,667)	(73,464,785)
CAPITAL SHARE TRANSACTIONS – Net	<u>227,971,658</u>	<u>(900,399,164)</u>
Increase (decrease) in net assets	<u>227,971,658</u>	<u>(900,399,164)</u>
NET ASSETS		
Beginning of year, as previously reported		3,990,172,296
Cumulative effect on prior year of restatement for change in reporting entity - See Note 2		<u>56,261,306</u>
Beginning of year, as restated	<u>3,146,034,438</u>	<u>4,046,433,602</u>
End of year	<u>\$3,374,006,096</u>	<u>\$3,146,034,438</u>

*Restated – See Note 2.

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF ORGANIZATION

Description of Fund

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

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

Legal Authority

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

Investment Advisor and Administrator

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

Co-Administrator

Carnegie Capital Management Company, Cleveland, Ohio, is the co-administrator and provides certain clerical and administrative services for STAR Ohio. Compensation was based on a percentage of daily net assets. In April 2006, compensation was decreased to a flat fee of \$1,350,000 per year.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF ORGANIZATION (continued)

Custodian, Transfer Agent and Investment Consultant

National City Bank, Cleveland, Ohio is the dividend and transfer agent for STAR Ohio and also serves as custodian of its portfolio. All securities are held in the name of STAR Ohio on behalf of the Fund. Allegiant Asset Management Group (National City Corporation's institutional asset management business), served as investment consultant until March 2006 when United American Capital Corporation, Worthington, Ohio began providing the 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.

2. CHANGE IN REPORTING ENTITY

As of July 1, 2005, the State of Ohio determined that the Ohio Housing Finance Agency was a legally separate entity and no longer a part of the State's financial reporting entity. As such it is to be considered a part of the Trust Fund as of that date. In accordance with Accounting Principles Board Opinion No. 20, *Accounting Changes*, this is accounted for as a change in reporting entity. Therefore, the 2005 financial statements have been retroactively restated for the change, which resulted in an increase in net investment income of \$1,345,567 for the year ended June 30, 2005. Net assets as of July 1, 2004 have been adjusted for the effect of retroactive application.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Security Valuations

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

Security Transactions and Related Investment Income

Security transactions are accounted for on the trade date (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.

NOTES TO THE FINANCIAL STATEMENTS

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

4. INVESTMENT SECURITIES

Repurchase Agreements and Commercial Paper

STAR Ohio is permitted to invest in commercial paper, but shall not exceed 25 percent of the average net assets on an annualized basis. Commercial paper holdings when purchased represent 25 percent or less of the average net assets on an annualized basis. As of June 30, 2006, commercial paper holdings represented 24.6 percent of the net assets.

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

As of June 30, 2006, the Trust Fund had the following share of investments and maturities:

Investment Type	Amortized Cost	Investment Maturities (in Years) Less Than 1
Commercial paper	\$ 830,870,704	\$ 830,870,704
Repurchase Agreements	2,408,572	2,408,572
U.S. Agencies Obligations	<u>2,540,582,469</u>	<u>2,540,582,469</u>
Total	<u>\$3,373,861,745</u>	<u>\$ 3,373,861,745</u>

NOTES TO THE FINANCIAL STATEMENTS

4. INVESTMENT SECURITIES (continued)

Interest Rate Risk

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

Credit Risk

STAR Ohio's Investment Policy requires all securities held by STAR Ohio be rated the equivalent of A-1+ or A-1 and at least 50% of the Total Average Portfolio be rated A-1+ or better. As of June 30, 2006, STAR Ohio's investments in U.S. Agencies were rated AAA by Standard & Poor's and Aaa by Moody's Investor Services. Of the commercial paper \$615,806,463 was rated A-1+/P-1 and the remaining \$215,064,241 was rated A-1/P-1.

Concentration of Credit Risk

STAR Ohio through its investment policy limits the amount invested in any single issuer to 2 percent of STAR Ohio's Total Average Portfolio, with the following exceptions: U.S. Treasury Obligations (100% maximum), U.S. Agencies Obligations (33% maximum), Repurchase Agreement Counterparties (10% or \$500 million, whichever is less), and Mutual Funds (10% maximum). As of June 30, 2006, STAR Ohio had more than 5% of the investments in the Federal Home Loan Bank, the Federal Home Loan Mortgage Corporation, and the Federal National Mortgage Association. These investments are 21, 23, and 31 percent, respectively, of the Pool's total investments.

Foreign Currency Risk

STAR Ohio does not have exposure for foreign exchange risk.

Custodial Credit Risk

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

5. SECURITIES LENDING

Pursuant to Section 135.143 of the Ohio Revised Code, the Pool may lend up to 25 percent of its securities to any eligible financial institution that is a member of the Federal Reserve System or any recognized United States government securities dealer. Under the terms of the lending agreement, STAR Ohio lends securities and the eligible financial institution or primary dealer agrees to simultaneously exchange similar securities or cash. STAR Ohio may not pledge or sell the securities received in exchange. STAR Ohio receives payments from borrowers equivalent to the interest that would have been earned on 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.

NOTES TO THE FINANCIAL STATEMENTS

5. SECURITIES LENDING (continued)

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

As of June 30, 2006, there were no securities on loan. No losses were incurred during the year on the Pool's securities lending transactions from the default of a borrower or lending agent.

6. 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.

7. CAPITAL SHARES

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

	Year Ended June 30	
	2006	2005
Shares sold	12,569,017,547	13,955,785,321
Shares issued for reinvestment of distributions	<u>138,318,667</u>	<u>73,464,785</u>
	12,707,336,214	14,029,250,106
Shares redeemed and other transactions	<u>(12,479,364,556)</u>	<u>(14,929,649,270)</u>
Capital share transactions – net increase (decrease)	<u><u>227,971,658</u></u>	<u><u>(900,399,164)</u></u>

The Honorable Betty Montgomery
Ohio Auditor of State

The Honorable Jennette B. Bradley
Ohio Treasurer of State

Report on Internal Control over Financial Reporting and on Compliance and Other Matters

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, 2006, and the related statements of operations and changes in net assets and the financial highlights for the year then ended and have issued our report thereon dated July 25, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered STAR Ohio's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion 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 that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether STAR Ohio's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Cohen & Company

Cleveland, Ohio
July 25, 2006



Annual Report

June 30, 2006

*Jennette B. Bradley
Ohio Treasurer of State*



A Message from Ohio Treasurer of State Jennette Bradley



August 2006

Dear Shareholders:

It is a pleasure to present to you the State Treasury Asset Reserve of Ohio (STAR Ohio) Annual Report for fiscal year 2006.

STAR Ohio continued previous trends by delivering high levels of safety, liquidity and yield as an investment option for Ohio's public funds managers during its recently completed 20th year of operation.

In fiscal year 2006 STAR Ohio again received Standard & Poor's AAAM rating — the highest rating possible for a Government Investment Pool.

At the end of state fiscal year 2005 the STAR Ohio assets totaled \$3.843 billion. STAR Ohio's assets increased in state fiscal year 2006 by \$308 million totaling \$4.151 billion. Additionally, the weighted average yield of STAR Ohio's investment portfolio at the end of fiscal year 2006 was 5.02 percent, a significant increase compared to the fiscal year 2005 ending weighted average yield of 3.17 percent.

As STAR Ohio continues into its 21st year of operation, we remain committed to risk-averse policies that have allowed STAR Ohio to be an effective investment tool for public fund managers.

Respectfully,

Jennette Bradley
Ohio Treasurer of State

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

Background

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

Overview of Financial Condition

The targeted overnight federal funds rate increased eight times for a total of 2.00% during the fiscal year ended June 30, 2006. Increasing interest rates and general economic conditions experienced by STAR Ohio participants during the year resulted in an approximate \$308 million addition in the investment portfolio due to an increase in net assets as shareholders deposited funds.

Overview of Operations

Net investment income as a percentage of average daily net assets increased to 4.07% in fiscal year 2006 from 1.97% in fiscal year 2005, resulting primarily from the federal funds targeted rate increasing 2.00% during the fiscal year. The weighted average yield of STAR Ohio's investment portfolio was 5.02% and 3.17% at June 30, 2006 and 2005, respectively.

STATE TREASURY ASSET RESERVE OF OHIO FINANCIAL HIGHLIGHTS

Data for each share outstanding throughout the year

	Year ended June 30,				
	2006	2005	2004	2003	2002
Net asset value, beginning of year	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00
Net investment income0407	.0197	.0100	.0144	.0256
Distributions from net investment income	(.0407)	(.0197)	(.0100)	(.0144)	(.0256)
Net asset value, end of year	<u>\$1.00</u>	<u>\$1.00</u>	<u>\$1.00</u>	<u>\$1.00</u>	<u>\$1.00</u>
Total return	4.07%	1.97%	1.00%	1.44%	2.56%
Ratios/Supplemental Information					
Expenses as a percentage of average net assets(1)102%	.099%	.082%	.077%	.072%
Net investment income as a percentage of average net assets(1)	4.07%	1.97%	1.00%	1.44%	2.56%
Net assets, at end of year	\$4,151,966,416	\$3,843,599,547	\$5,055,228,202	\$6,477,198,143	\$7,197,975,497

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



STATEMENT OF ASSETS & LIABILITIES

JUNE 30, 2006

ASSETS

Investments	
Federal Agency Issues	\$3,126,378,206
Commercial Paper	1,022,449,022
Daily Repurchase Agreement	<u>2,963,929</u>
Total Investments	4,151,791,157
Receivable for Fund Shares Purchased	<u>1,082,600</u>
Total Assets	<u>4,152,873,757</u>

LIABILITIES

Payable for Fund Shares Redeemed	526,068
Accrued Management fees	125,429
Accrued Co-Administrator fees	107,486
Accrued Custodian fees	77,575
Other Liabilities	<u>70,783</u>
Total Liabilities	<u>907,341</u>

NET ASSETS \$4,151,966,416

Participant Net Asset Value, Price Per Unit \$ 1.00

See Accompanying Notes to Financial Statements.



STATEMENTS OF OPERATIONS

	Year ended June 30,	
	2006	2005
INVESTMENT INCOME		
Interest income	\$175,131,800	\$94,917,036
Securities lending income	20,576	601,594
Total investment income	175,152,376	95,518,630
EXPENSES		
Management fees	1,611,871	1,978,201
Co-administrator fees	1,462,603	1,371,572
Custodian and transfer agent fees	944,512	938,762
Postage and printing fees	48,065	38,750
Audit fees	39,600	36,000
S & P analytical fees	33,000	33,000
Telephone response fees	31,715	29,335
Security lending fees	1,978	194,800
Miscellaneous	96,126	119,320
Total expenses	4,269,470	4,739,740
NET INVESTMENT INCOME	\$170,882,906	\$90,778,890

STATEMENTS OF CHANGES IN NET ASSETS

	Year ended June 30,	
	2006	2005
INCREASE (DECREASE) IN NET ASSETS		
Operations		
Net investment income	\$ 170,882,906	\$ 90,778,890
Distributions to shareholders from		
Net investment income	(170,882,906)	(90,778,890)
Capital share transactions net increase (decrease)		
— Note E	308,366,869	(1,211,628,655)
Increase (decrease) in net assets	308,366,869	(1,211,628,655)
Net assets		
Beginning of year	3,843,599,547	5,055,228,202
End of year	\$4,151,966,416	\$ 3,843,599,547

See Accompanying Notes to Financial Statements.



NOTES TO FINANCIAL STATEMENTS

NOTE A — SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Carnegie Capital Management Company, Cleveland, Ohio is the co-administrator and provides certain clerical and administrative services for STAR Ohio. Compensation to the co-administrator was based on a percentage of daily net assets. In April 2006, compensation was decreased to a flat fee of \$1,350,000 per year.

National City Bank, Cleveland, Ohio is the dividend and transfer agent for STAR Ohio and also serves as custodian of its portfolio. Allegiant Asset Management Group (National City Corporation's institutional asset management business), served as investment consultant until March 2006 when United American Capital Corporation, Worthington, Ohio began providing the investment consulting services. The investment consulting fees are reflected in the management fees in the Statements of Operations. Compensation is based on a percentage of daily net assets.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions 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.

NOTE B — 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 the 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 25 percent of the average net assets on an annualized basis. Commercial paper holdings when purchased represent 25 percent or less of the average net assets on an annualized basis. As of June 30, 2006, commercial paper holdings represented 24.6 percent of the net assets.

All repurchase agreements are fully collateralized by United States Government or Federal Agency securities, pursuant to Section 135.143 of the Ohio Revised Code, and such collateral is in the possession of STAR Ohio's custodian. STAR Ohio evaluates collateral daily to ensure its market value plus accrued interest exceeds the delivery value of the repurchase 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.

As of June 30, 2006, STAR Ohio had the following investments and maturities.

<u>Investment Type</u>	<u>Amortized Cost</u>	<u>Investment Maturities (in Years) Less than 1</u>
Commercial Paper	\$1,022,449,022	\$1,022,449,022
Repurchase Agreement	2,963,929	2,963,929
Federal Agency Issues	<u>3,126,378,206</u>	<u>3,126,378,206</u>
	<u>\$4,151,791,157</u>	<u>\$4,151,791,157</u>

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

Credit Risk. STAR Ohio's investment policy requires all securities held by STAR Ohio be rated the equivalent of A-1+ or A-1 and at least 50% of the Total Average Portfolio be rated A-1+ or better. As of June 30, 2006 STAR Ohio's investments in U.S. Agencies were rated AAA by Standard & Poor's and Aaa by Moody's Investor Services. Of the commercial paper, \$757,796,264 was rated A-1+/P-1 and the remaining \$264,652,758 was rated A-1/P-1.

Concentration of Credit Risk. STAR Ohio through its investment policy limits the amount invested in any single issuer to 2 percent of STAR Ohio's Total Average Portfolio, with the following exceptions: U.S. Treasury Obligations (100 percent maximum), U.S. Agencies Obligations (33 percent maximum), Repurchase Agreement Counterparties (10 percent or \$500 million, whichever is less), and Mutual Funds (10 percent maximum). As of June 30, 2006, STAR Ohio had more than 5 percent of its investments in the Federal Home Loan Bank, the Federal Home Loan Mortgage Corporation, and the Federal National Mortgage Association. These investments are 21, 23, and 31 percent, respectively, of the Pool's total investments.

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

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

NOTE C — SECURITIES LENDING

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

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

As of June 30, 2006, there were no securities on loan. No losses were incurred during the year on the Pool's securities lending transactions from the default of a borrower or lending agent.

NOTE D — INCOME DISTRIBUTIONS

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

NOTE E — CAPITAL SHARES

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

	<u>Year ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
Shares sold	14,472,102,246	23,758,841,937
Shares issued for reinvestment of distributions	170,882,906	90,778,890
	14,642,985,152	23,849,620,827
Shares redeemed	<u>(14,334,618,283)</u>	<u>(25,061,249,482)</u>
Capital shares transactions net increase/(decrease) ...	<u>308,366,869</u>	<u>(1,211,628,655)</u>

Independent Auditors' Report

The Honorable Betty Montgomery
Ohio Auditor of State

The Honorable Jennette B. Bradley
Ohio 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, 2006, and the related statements of operations and changes in net assets and the financial highlights for the year then ended. These financial statements and financial highlights are the responsibility of STAR Ohio's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audit. The statements of changes in net assets for the year ended June 30, 2005 and the financial highlights for the periods indicated prior to June 30, 2006 were audited by other auditors, who expressed unqualified opinions on those statements and financial highlights.

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.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of STAR Ohio as of June 30, 2006, and the results of its operations, the changes in net assets and the financial highlights for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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



Cohen & Company, Ltd.
Cleveland, Ohio
July 25, 2006



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 25 percent of the average net assets on an annualized basis, as determined and calculated by the Treasurer of State;

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

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

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

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 Ohio Treasurer of State, as chairperson, the Ohio Auditor of State, and the Ohio 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 monies in excess of 30 percent of its total assets.

Certificates of deposit as described in item (8) 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.

**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

Jennette B. Bradley
Ohio Treasurer of State

Co-Administrator

Carnegie Capital Management Company
Cleveland, Ohio

Custodian and Transfer Agent

National City Bank
Cleveland, Ohio

Investment Agent

United American Capital Corporation
Worthington, 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://tos.ohio.gov>
and
www.starohio.org

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



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Mary Taylor, CPA
Auditor of State

STAR OHIO

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 22, 2007**