

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



# *Annual Report*

*June 30, 2001*

*Joseph T. Deters  
Treasurer of State*



*Investing Ohio's Money in Ohio.*





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

JIM PETRO, AUDITOR OF STATE

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

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The Honorable Joseph T. Deters  
Treasurer of State

We have reviewed the Independent Auditor's Reports 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, 2000 through June 30, 2001. 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 is responsible for compliance with these laws and regulations.

JIM PETRO  
Auditor of State

October 5, 2001

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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, 2001.

With its 15th year now complete, STAR Ohio remains a key investment tool for Ohio's public funds managers, providing them with outstanding safety, liquidity, and yield.

I am pleased to report that STAR Ohio had a record-breaking year. Not only has the number of participants grown to an all-time high of more than 1,600, but records for the total number of assets managed by the fund also have been broken numerous times — first the \$7.1 billion milestone in February and climbing toward the \$10 billion mark as the fiscal year ended.

As we look to build on the year's success, we will maintain our commitment to the same risk-averse policies that have made it such a successful and dependable local government investment pool. Thank you for your continued support and cooperation.

Respectfully,

Joseph T. Deters  
Treasurer of State

### STATE TREASURY ASSET RESERVE OF OHIO FINANCIAL HIGHLIGHTS

Data for each share outstanding throughout the period

	Year ended June 30,			Six months Ended June 30 1998(2)	Year ended December 31,	
	2001	2000	1999		1997	1996
Net asset value, beginning of period .....	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00
<b>Income from Investment Operations:</b>						
Net investment income .....	.0566	.0557	.0503	.0271	.0542	.0529
Total from Investment Operations: .....	.0566	.0557	.0503	.0271	.0542	.0529
<b>Less Distributions:</b>						
Distributions from Net Investment Income .....	(.0566)	(.0557)	(.0503)	(.0271)	(.0542)	(.0529)
Total Distributions .....	(.0566)	(.0557)	(.0503)	(.0271)	(.0542)	(.0529)
Net Asset Value, End of Period .....	<u>\$1.00</u>	<u>\$1.00</u>	<u>\$1.00</u>	<u>\$1.00</u>	<u>\$1.00</u>	<u>\$1.00</u>
<b>Ratios/Supplemental Information</b>						
Expenses as a percentage of average daily net assets(1) .....	.050%	.054%	.057%	.058%(3)	.058%	.061%
Net investment income as a percentage of average daily net assets(1) .....	5.66%	5.57%	5.03%	5.43%(3)	5.42%	5.29%
Net Assets at end of period .....	<u>\$9,358,311,989</u>	<u>\$5,769,461,746</u>	<u>\$5,986,857,403</u>	<u>\$5,096,679,772</u>	<u>\$4,476,823,366</u>	<u>\$4,139,184,195</u>

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

(2) Represents new fiscal year end.

(3) Annualized.



## STATEMENT OF INVESTMENTS

June 30, 2001

Principal Amount		Maturity Date (2001)	Value (Note A)
	<b>U.S. TREASURY ISSUES — 3.2%</b>		
\$ 300,000,000	U.S. Treasury Notes, 5.50-7.88% .....	7/31 - 8/31	\$ 300,637,988
	<b>Total U.S. Treasury Issues .....</b>		<b>300,637,988</b>
	<b>FEDERAL AGENCY ISSUES — 94.3%</b>		
182,647,000	Federal Agriculture Mortgage Corp. Discount Notes, 3.60-4.18% .....	7/2 - 8/30	182,264,548
750,000,000	Federal Farm Credit Bank Bonds, 3.48-6.07% .....	7/2 - 1/2/02	750,000,000
470,241,000	Federal Farm Credit Bank Discount Notes, 3.51-4.56% .....	7/9 - 10/23	466,913,295
25,000,000	Federal Home Loan Bank Debenture, 4.30%	5/23/02	25,000,000
2,029,392,000	Federal Home Loan Bank Discount Notes, 3.44-5.26% .....	7/2 - 12/21	2,020,152,745
2,633,020,000	Federal Home Loan Mortgage Corp. Discount Notes, 3.48-5.08% .....	7/2 - 12/31	2,620,377,342
25,000,000	Federal Home Loan Mortgage Corp. Medium Term Note, 4.15% .....	5/15/02	24,993,466
2,338,921,000	Federal National Mortgage Association Discount Notes, 6.33-6.58% .....	7/3 - 12/27	2,326,059,296
70,000,000	Student Loan Marketing Association Discount Notes, 3.86-3.88% .....	7/25	69,819,333
290,000,000	Student Loan Marketing Association Floating Rate Notes, 3.75-3.95% .....	7/19 - 12/20	290,000,000
25,000,000	Student Loan Marketing Association Medium Term Note, 3.75% .....	6/28/02	25,000,000
25,000,000	Tennessee Valley Authority Discount Notes, 3.72% .....	8/13	24,888,917
	<b>Total Federal Agency Issues .....</b>		<b>8,825,468,942</b>
	<b>Total U.S. Treasury Issues and Federal Agency Issues — 97.5% .....</b>		<b>9,126,106,930</b>



**STATEMENT OF INVESTMENTS (continued)**  
**June 30, 2001**

<b>Principal Amount</b>		<b>Maturity Date (2001)</b>	<b>Value (Note A)</b>
	<b>COMMERCIAL PAPER — 3.7%</b>		
\$ 50,000,000	American Express Credit Corp., 3.62-4.01%	7/13 - 8/27	\$ 49,823,292
25,000,000	Bank One Corporation, 3.70% .....	8/30	24,845,833
25,000,000	CitiCorp, 3.82% .....	8/8	24,899,194
25,000,000	Ford Motor Credit Company, 3.95% .....	7/24	24,936,910
24,000,000	Fountain Square Commercial Funding Corp., 3.72-3.77% .....	7/23 - 7/31	23,932,415
25,000,000	General Electric Capital Corporation, 3.80%	8/31	24,839,028
25,000,000	General Motors Acceptance Corporation, 4.18% .....	7/24	24,933,236
50,000,000	Household Finance Corporation, 3.68-3.82%	8/10 - 8/17	49,773,778
25,000,000	John Deere Capital Corp., 3.80% .....	8/9	24,897,083
25,000,000	Morgan Stanley, Dean Witter & Co., 4.65% ..	7/17	24,948,333
25,000,000	National City Credit Corporation, 4.12% ....	7/26	24,928,472
25,000,000	Prudential Funding Corporation, 3.89% .....	7/6	24,986,493
	<b>Total Commercial Paper .....</b>		<b>347,744,067</b>
	<b>DAILY REPURCHASE AGREEMENT — .2%</b>		
17,540,484	Fifth Third Bank, Cincinnati, 3.94%, collateralized by \$17,999,000 Federal Home Loan Mortgage Corporation Note, 6.45%, due 4/29/09, market value \$18,015,312 (repurchase proceeds \$17,546,243) .....	7/2	17,540,484
	<b>Total Daily Repurchase Agreement ...</b>		<b>17,540,484</b>
	<b>TOTAL INVESTMENTS — 101.4% .....</b>		<b>9,491,391,481</b>
	<b>Other Assets Less Liabilities — (1.4%) .....</b>		<b>(133,079,492)</b>
	<b>NET ASSETS — 100% — equivalent to \$1.00 per share for 9,358,311,989 outstanding shares of the Pool .....</b>		<b>\$9,358,311,989</b>

See Accompanying Notes to Financial Statements.



**STATEMENT OF ASSETS & LIABILITIES**  
**JUNE 30, 2001**

**ASSETS**

Investments	
U.S. Treasury and Federal Agency Issues .....	\$ 9,126,106,930
Commercial Paper .....	347,744,067
Repurchase Agreement .....	<u>17,540,484</u>
Total Investments .....	<u>9,491,391,481</u>
Interest Receivable .....	17,363,794
Collateral on Securities Lent .....	<u>1,763,269,063</u>
Total Assets .....	<u>11,272,024,338</u>

**LIABILITIES**

Obligation Under Security Lending .....	1,763,269,063
Payable for Securities Purchased .....	150,000,000
Accrued Co-Administrator fees .....	154,425
Accrued Custodian fees .....	132,070
Investment Advisory fees .....	41,096
Other Liabilities .....	<u>115,695</u>
Total Liabilities .....	<u>1,913,712,349</u>

<b>NET ASSETS</b> .....	<u><u>\$ 9,358,311,989</u></u>
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See Accompanying Notes to Financial Statements.





## STATEMENT OF OPERATIONS

	Year ended June 30,	
	2001	2000
<b>INCOME — Note A</b>		
Interest income .....	\$412,817,021	\$341,769,678
Securities lending income .....	2,253,700	3,326,001
Total income .....	415,070,721	345,095,679
<b>EXPENSES — Note A</b>		
Co-administrator fees .....	1,501,962	1,407,464
Custodian and transfer agent fees .....	1,317,987	1,130,896
Security lending fees .....	630,423	999,923
Management fees .....	500,000	500,000
Postage and printing fees .....	52,815	40,310
Telephone response fees .....	42,410	21,730
Audit fees .....	30,000	31,290
S & P analytical fees .....	30,000	29,850
Miscellaneous .....	145,741	138,705
	4,251,338	4,300,168
<b>NET INVESTMENT INCOME .....</b>	<b>\$410,819,383</b>	<b>\$340,795,511</b>

## STATEMENTS OF CHANGES IN NET ASSETS

	Year ended June 30,	
	2001	2000
<b>INCREASE (DECREASE) IN NET ASSETS</b>		
<b>Operations</b>		
Net investment income .....	\$ 410,819,383	\$ 340,795,511
<b>Distributions to shareholders from</b>		
Net investment income .....	(410,819,383)	(340,795,511)
<b>Capital share transactions net increase (decrease)</b>		
— Note B .....	3,588,850,243	(217,395,657)
Increase (decrease) in net assets .....	3,588,850,243	(217,395,657)
<b>Net assets</b>		
Beginning of year .....	5,769,461,746	5,986,857,403
End of year .....	<b>\$9,358,311,989</b>	<b>\$5,769,461,746</b>

See Accompanying Notes to Financial Statements.



## NOTES TO FINANCIAL STATEMENTS

### NOTE A — SIGNIFICANT POLICIES

#### SUMMARY

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

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

State Treasurer Joseph T. Deters, through the Investment Department, 30 East Broad Street, 9th Floor, Columbus, Ohio 43266-0421, serves as investment adviser and administrator to STAR Ohio. The adviser manages the investment and reinvestment of STAR Ohio’s assets in accordance with STAR Ohio’s investment objectives and policies, subject to the general limitations of Section 135.143 of the Ohio Revised Code. In addition, the adviser is responsible for the overall management of STAR Ohio’s business affairs. STAR Ohio compensates the adviser with a flat management fee.

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

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

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

#### INVESTMENT SECURITIES

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

Security transactions are accounted for on the trade date (date order to buy or sell is executed). Interest income is determined on an accrual basis with discounts earned (including original issue and market discount) 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 total portfolio on an annualized basis. At June 30, 2001, commercial paper holdings represented 3.7 percent of the total portfolio.

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

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

Pursuant to ORC 135.143, the Pool may lend 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, 2001, collateral on securities lent consisted primarily 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 dividends and 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 delivery value. At year-end the Pool has no credit risk exposure to the borrowers because the amounts the Pool owes the borrower exceeds the amounts the borrowers owe the Pool.

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

As of June 30, 2001, the amortized cost and fair value of securities available for securities lending were \$8,537,154,308 and \$8,537,538,006 respectively, of which the following were actually lent:

	<u>Amortized Cost</u>	<u>Fair Value</u>
Federal Farm Credit Bank Bonds .....	\$ 100,000,000	\$ 100,000,000
Federal Farm Credit Bank Notes .....	123,362,562	123,617,500
Federal Home Loan Bank Notes .....	622,009,706	622,474,175
Federal Home Loan Mortgage Corp. Notes .....	527,936,193	528,221,500
Federal National Mortgage Association Notes .....	67,733,582	67,748,400
U.S. Treasury Notes .....	300,238,765	300,636,939
	<u>\$1,741,280,808</u>	<u>\$1,742,698,514</u>

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

## 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>2001</u>	<u>2000</u>
Shares sold .....	27,077,039,924	21,938,243,816
Shares issued on reinvestment of distributions .....	410,819,383	340,795,511
	27,487,859,307	22,279,039,327
Shares redeemed .....	<u>(23,899,009,064)</u>	<u>(22,496,434,984)</u>
Capital shares transactions net increase (decrease) .....	<u>3,588,850,243</u>	<u>(217,395,657)</u>

## Independent Auditors' Report

The Honorable Jim Petro  
Auditor of State

The Honorable Joseph T. Deters  
Treasurer of State:

We have audited the statement of assets and liabilities, including the statement of investments, of the State Treasury Asset Reserve of Ohio ("STAR Ohio") as of June 30, 2001, and the related statements of operations, changes in net assets and the financial highlights for the year then ended. These financial statements are the responsibility of the management of STAR Ohio. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. 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 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights 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, such financial statements present fairly, in all material respects, the financial position of STAR Ohio as of June 30, 2001, the results of its operations, the changes in its net assets and the financial highlights for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2001, 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 audit.

*Deloitte + Touche LLP*

Cleveland, Ohio  
July 27, 2001



## APPENDIX

### STANDARD & POOR'S RATING OF STAR

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 total average portfolio, as determined and calculated by the Treasurer of State;

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

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

### **Certificates of Deposit**

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

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

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

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

The Honorable Jim Petro  
Auditor of State

The Honorable Joseph T. Deters  
Treasurer of State:

We have audited the financial statements of State Treasury Asset Reserve of Ohio ("STAR Ohio") as of and for the year ended June 30, 2001, and have issued our report thereon dated July 27, 2001. 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 27, 2001

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

30 East Broad Street  
Columbus, Ohio 43266-0421  
<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

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

Additional information regarding **STAR Ohio** and other  
Treasurer of State Programs may be accessed through the  
Treasury Web Site at:

<http://www.state.oh.us/treasurer/>  
and  
[www.starohio.org](http://www.starohio.org)

The Office of the Treasurer of State, 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  
for the Year Ended June 30, 2001  
and Independent Auditors' Report*

# STATE TREASURY ASSET RESERVE OF OHIO INVESTMENT TRUST FUND

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Deloitte & Touche LLP  
Suite 2500  
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**Deloitte  
& Touche**

## **INDEPENDENT AUDITORS' REPORT**

To the Treasurer of the State of Ohio:

We have audited the accompanying statement of assets and liabilities of the State Treasury Asset Reserve of Ohio Investment Trust Fund ("Trust Fund") as of June 30, 2001, 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.

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, 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, 2001, and the results of its operations and changes in its net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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 27, 2001

**Deloitte  
Touche  
Tohmatsu**

# STATE TREASURY ASSET RESERVE OF OHIO INVESTMENT TRUST FUND

## STATEMENT OF ASSETS AND LIABILITIES JUNE 30, 2001

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### ASSETS:

#### Investments:

U.S. Treasury and Federal Agency issues	\$ 8,189,293,801
Commercial paper	312,047,443
Repurchase agreements	<u>15,739,918</u>
Total investments	8,517,081,162
Collateral on securities lent	1,582,265,967
Interest receivable	<u>15,581,366</u>
Total assets	<u>10,114,928,495</u>

### LIABILITIES:

Obligation under security lending	1,582,265,967
Payable for securities purchased	134,602,200
Accrued co-administrator fees	138,573
Accrued custodian fees	118,513
Investment advisory fees	36,877
Other liabilities	<u>103,819</u>
Total liabilities	<u>1,717,265,949</u>

NET ASSETS \$ 8,397,662,546

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 YEAR ENDED JUNE 30, 2001

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### STATEMENT OF OPERATIONS:

Investment income:	
Interest	\$ 373,723,975
Other investment income, including securities lending income	<u>2,042,198</u>
Total investment income	<u>375,766,173</u>
Investment expenses:	
Co-administrator fees	1,358,523
Custodian and transfer agent fees	1,192,220
Security lending fees	570,678
Management fees	452,553
Telephone response fees	38,384
Standard & Poor's analytical fees	27,152
Postage and printing fees	47,754
Audit fees	27,187
Miscellaneous	<u>131,792</u>
Total investment expense	<u>3,846,243</u>
 NET INVESTMENT INCOME	 <u>\$ 371,919,930</u>

### STATEMENT OF CHANGES IN NET ASSETS:

OPERATIONS:	
Net investment income	\$ 371,919,930
 DISTRIBUTIONS TO SHAREHOLDERS:	
Dividends to shareholders from net investment income	(371,919,930)
 CAPITAL SHARE TRANSACTIONS, NET	 <u>3,146,973,492</u>
Increase in net assets	3,146,973,492
 NET ASSETS:	
Beginning of year	<u>5,250,689,054</u>
End of year	<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 FOR THE YEAR ENDED JUNE 30, 2001

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### 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.

On January 1, 1997 STAR Ohio adopted Statement No. 31 of the Governmental Accounting Standards Board (GASB No. 31), *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. This statement establishes financial reporting standards for all investments held by governmental external investment pools. GASB No. 31 requires the State of Ohio ("State") to report the external portion of STAR Ohio as a separate investment trust fund. The external portion of STAR Ohio ("Trust Fund") is the portion that belongs to legally separate entities that are not part of the State's financial reporting entity. The STAR Ohio investment pool does not have separate investments or activities for the external portion. The Statement of Assets and Liabilities of the Trust Fund have been prepared by prorating the assets and liabilities related to the external portion. Additionally, the 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 43266-0421, serves as investment adviser and administrator to STAR Ohio. The adviser manages the investment and reinvestment of STAR Ohio's assets in accordance with STAR Ohio's investment objectives and policies, subject to the general limitations of Section 135.143 of the Ohio Revised Code. In addition, the adviser is responsible for the overall management of STAR Ohio's business affairs. STAR Ohio compensates the adviser with a flat management fee.

**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 and Transfer Agent** - 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.

**Repurchase Agreements and Commercial Paper** - All repurchase agreements are fully collateralized by United States Government and Federal Agency Securities, pursuant to Section 135.143 of the Ohio Revised Code, and such collateral is in the possession of STAR Ohio's custodian. STAR Ohio evaluates collateral daily to ensure its market value exceeds the delivery value of the repurchase agreement at maturity. STAR Ohio does not enter into reverse repurchase (borrowing) agreements. STAR Ohio is permitted to invest in commercial paper, but it shall not exceed 5 percent of the total portfolio on an annualized basis. At June 30, 2001, commercial paper holdings represented 3.7 percent of the total portfolio.

**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, 2001, collateral on securities lent consisted primarily 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 dividends and 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 delivery value. At year end, the Pool has no credit risk exposure to the borrowers because the amounts the pool owes the borrower exceeds the amounts the borrowers owe the pool.

The Pool follows strict levels of collateralization governed by daily mark-to-market analysis, a review of the credit worthiness of securities dealers and banks, 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, 2001, the amortized cost and fair value of securities available for securities lending allocated to the Trust Fund were \$7,660,798,344 and \$7,661,142,654, respectively, of which the following were actually lent:

	<b>Amortized Cost</b>	<b>Fair Value</b>
Federal Farm Credit Bank Bonds	\$ 89,734,800	\$ 89,734,800
Federal Farm Credit Bank Notes	110,699,148	110,927,916
Federal Home Loan Bank Notes	558,159,166	558,575,956
Federal Home Loan Mortgage Corp. Notes	473,742,487	473,998,507
Federal National Mortgage Association Notes	60,780,594	60,793,891
U.S. Treasury Notes	<u>269,418,655</u>	<u>269,775,956</u>
Total	<u>\$1,562,534,850</u>	<u>\$1,563,807,026</u>

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

## 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 asset and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## 3. CAPITAL SHARES

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

	<b>Year Ended June 30, 2000</b>
Shares sold	\$ 22,982,889,045
Shares issued on reinvestment of distributions	371,919,930
Shares redeemed	<u>(20,207,835,483)</u>
Net increase from capital share transactions	<u>\$ 3,146,973,492</u>

\* \* \* \* \*





STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

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**STAR OHIO**  
**FRANKLIN COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
OCTOBER 18, 2001**