

STAR[★]Ohio

State Treasury Asset Reserve of Ohio

STAR[★]Ohio

State Treasury Asset Reserve of Ohio

State Treasury Asset Reserve of Ohio
STAR Ohio
30 E. Broad St.
Columbus, Ohio 43215-3461
www.ohiotreasurer.gov

Annual Report

June 30, 2008



RICHARD CORDRAY

OHIO TREASURER *of* STATE



Mary Taylor, CPA
Auditor of State

The Honorable Richard Cordray
STAR Ohio
30 E. Broad Street
Columbus, Ohio 43215-3461

We have reviewed the *Independent Auditors' Report* of STAR Ohio, Franklin County, prepared by Cohen & Company, for the audit period July 1, 2007 through June 30, 2008. 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

October 31, 2008

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A Message from Ohio Treasurer of State Richard Cordray



August 1, 2008

Dear Public Funds Managers,

It is my pleasure to present the annual report of the Ohio Treasury's investment pool, The State Treasury Asset Reserve of Ohio (STAR Ohio).

As a former county treasurer, I understand the responsibility that local officials have to be good stewards of public monies, and appreciate the value of a system like STAR Ohio. With more than 1,600 shareholders, STAR Ohio represents public funds managers from every corner and county of Ohio. The pooled monies of townships, villages, cities, counties, school districts, library districts, colleges and universities, and many arms of state government allow the fund to maximize returns and minimize costs. I am proud of the professional management that the Ohio Treasury is able to offer as STAR Ohio continues to be a dependable option for Ohio public funds managers.

In the uncertain economic times that the United States, and Ohio in particular, are experiencing, it is especially important that all STAR Ohio investors can benefit from the pooling of resources. In fiscal year 2008, the STAR Ohio portfolio increased by approximately 36%. These gains were due to steadily increasing deposits as the participants sought higher returns while the federal funds rate was declining throughout the fiscal year.

I look forward to continuing to serve you as STAR Ohio shareholders, and welcome your comments and questions. If you would like to discuss the ways that STAR Ohio or the Ohio Treasurer's Office can be of assistance to your community, please feel free to contact me at 614-466-2160 or at treasurer@tos.ohio.gov.

Respectfully,

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

Ohio Treasurer Richard Cordray

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

Background

The State Treasury Asset Reserve of Ohio (STAR Ohio) is a statewide investment pool managed and administered by the Ohio Treasurer of State. Participation is offered to Ohio political subdivisions as a means to invest in a portfolio of short-term investment securities and registered investment companies. The investment objective of STAR Ohio is to seek a high 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 high-grade investment instruments and money market funds. 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.

The Ohio Treasurer of State is committed to maintaining STAR Ohio as a top-rated investment option for all government subdivisions of Ohio. As such, STAR Ohio has been completely insulated from any market driven issues that have arisen over the past year from the mortgage and financial services industries. The additional level of safety in the fund is attributed to the constant monitoring of credit ratings for issuers of investments held by STAR Ohio as well as a modification to the custodial arrangement in which the fund's assets are now held in a specific trust account at the Depositor Trust Clearing Corporation designated for STAR Ohio. Both measures ensure that the underlying assets of STAR Ohio are highly rated, secure and readily available to the fund.

Overview of Financial Condition

STAR Ohio's net assets increased in Fiscal Year 2008 by approximately 36 percent as investors sought competitive short-term returns during the period. STAR Ohio continued to maintain its AAAM rating from Standard & Poor's, the highest rating possible for a Local Government Investment Pool.

Overview of Operations

During this period of deteriorating credit conditions and slowing economic activity, STAR Ohio increased by approximately 36 percent as STAR Ohio's daily returns outpaced other investments available to public fund managers. The Federal Reserve lowered the Federal Funds target rate to 2.00% to increase liquidity in the financial markets by the end of STAR Ohio's fiscal year. As rates fell, STAR Ohio's yield continued to be competitive and market driven. The total return for fiscal year 2008 was 3.83 percent.

STATE TREASURY ASSET RESERVE OF OHIO FINANCIAL HIGHLIGHTS

Data for each share outstanding throughout the year

	Year ended June 30,				
	2008	2007	2006	2005	2004
Net asset value, beginning of year	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00
Net investment income0383	.0516	.0407	.0197	.0100
Distributions from net investment income.	(.0383)	(.0516)	(.0407)	(.0197)	(.0100)
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.	3.83%	5.16%	4.07%	1.97%	1.00%
Ratios/Supplemental Information					
Expenses as a percentage of average net assets(1)084%	.097%	.102%	.099%	.082%
Net investment income as a percentage of average net assets(1)	3.83%	5.16%	4.07%	1.97%	1.00%
Net assets, at end of year	\$6,570,253,325	\$4,821,138,575	\$4,151,966,416	\$3,843,599,547	\$5,055,228,202

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



SCHEDULE OF INVESTMENTS

June 30, 2008

Principal Amount		Maturity Date	Value (Note B)
	FEDERAL AGENCY ISSUES — 67.5%		
\$ 190,000,000	Federal Farm Credit Bank Debentures, 2.38-3.13%	4/14/09 - 6/17/09	\$ 189,979,164
100,000,000	Federal Home Loan Bank Debentures, 2.52-2.63%	4/21/09 - 4/30/09	100,000,000
1,368,765,000	Federal Home Loan Bank Discount Notes, 2.02-2.41%	7/7/08 - 9/24/08	1,365,244,164
1,133,050,000	Federal Home Loan Mortgage Corp. Discount Notes, 2.02-2.44%	7/7/08 - 10/10/08	1,129,299,838
150,000,000	Federal Home Loan Mortgage Corp. Medium Term Notes, 2.45-2.85%	4/9/09 - 6/16/09	150,000,000
1,505,236,000	Federal National Mortgage Association Discount Notes, 2.00-2.44%	7/1/08 - 10/14/08	1,500,650,847
	Total Federal Agency Issues		4,435,174,013
	COMMERCIAL PAPER — 22.8%		
120,000,000	Abbey National North America LLC, 2.24-2.27%	7/8/08 - 7/25/08	119,867,361
120,000,000	ABN Amro North America Finance Inc., 2.45-2.48%	7/14/08	119,892,750
110,000,000	American Express Credit Corporation, 2.18-2.45%	7/1/08 - 8/12/08	109,846,133
50,000,000	American Honda Finance Corporation, 2.25%	8/14/08	49,862,500
120,000,000	Bank of America Corp., 2.25-2.56%	7/17/08 - 8/5/08	119,782,931
70,000,000	CBA Delaware Finance Inc., 2.33%	7/7/08 - 7/10/08	69,963,108
70,000,000	Dexia Delaware LLC, 2.60%	8/5/08 - 8/8/08	69,815,472
50,000,000	General Electric Capital Corporation, 2.30%	8/19/08	49,843,472
70,000,000	General Electric Capital Services, 2.11-2.35%	7/3/08 - 7/28/08	69,958,889
120,000,000	Goldman Sachs, 2.22%	7/22/08 - 7/25/08	119,832,267
120,000,000	HSBC Finance Corporation, 2.35-2.40%	7/10/08 - 7/22/08	119,882,785
120,000,000	JPMorgan Chase & Company, 2.25-2.30%	7/15/08 - 7/21/08	119,882,917
120,000,000	Prudential Funding Corporation, 2.12-2.21%	7/3/08 - 7/17/08	119,927,047
120,000,000	Rabobank USA Financial Corporation, 2.41-2.48%	7/31/08 - 8/14/08	119,673,394
120,000,000	Wells Fargo Corporation, 2.19-2.32%	7/3/08 - 7/31/08	119,883,695
	Total Commercial Paper		1,497,914,721
	MONEY MARKET FUND* — 9.5%		
621,919,283	Goldman Sachs Financial Square Government Fund, 2.41% . . .		621,919,283
	DAILY REPURCHASE AGREEMENTS — .2%		
15,763,762	Fifth Third Bank, Cincinnati, 2.00% collateralized by \$16,500,000 Federal Home Loan Mortgage Corporation Note, 4.20% coupon due 06/13/2013, market value \$16,401,633 (repurchase proceeds \$15,764,638)	7/1/08	15,763,762
	TOTAL INVESTMENTS — 100%		6,570,771,779
	Liabilities in excess of other assets		(518,454)
	NET ASSETS — 100% — equivalent to \$1.00 per share for 6,570,253,325 outstanding shares of the Pool		\$6,570,253,325

* Variable Rate Security, the yield shown represents the rate at June 30, 2008.
See Accompanying Notes to Financial Statements.



STATEMENT OF ASSETS & LIABILITIES
JUNE 30, 2008

ASSETS

Investments	
Federal Agency Issues	\$4,435,174,013
Commercial Paper	1,497,914,721
Money Market Fund	621,919,283
Daily Repurchase Agreement	<u>15,763,762</u>
Total Investments	6,570,771,779
Interest Receivable	1,519,754
Receivable for Fund Shares Purchased	<u>30,422</u>
Total Assets	<u>6,572,321,955</u>

LIABILITIES

Payable for Fund Shares Redeemed	1,575,071
Accrued Custodian and Transfer Agent Fees	171,886
Accrued Co-Administrator Fees	110,657
Accrued Investment Consultant Fees	102,382
Accrued Management Fees	40,983
Accrued Audit Fees	40,000
Accrued Printing Fees	12,318
Accrued Bloomberg and Pricing Fees	9,179
Accrued Postage, Telephone and Administrative Fees	<u>6,154</u>
Total Liabilities	<u>2,068,630</u>

NET ASSETS

\$6,570,253,325

Participant Net Asset Value, Price Per Unit

\$ 1.00

See Accompanying Notes to Financial Statements.



STATEMENTS OF OPERATIONS

	Year ended June 30,	
	2008	2007
INVESTMENT INCOME		
Interest Income	\$247,297,120	\$250,120,808
EXPENSES		
Custodian and Transfer Agent Fees	2,005,239	1,535,423
Co-administrator Fees	1,350,000	1,350,000
Investment Consultant Fees	1,218,178	1,037,596
Management Fees	500,000	500,000
Bloomberg and Pricing Service Fees	103,880	82,074
Postage and Printing Fees	47,670	41,975
Audit Fees	40,000	29,000
S & P Analytical Fees	36,500	33,000
Telephone Response Fees	27,710	26,350
Total Expenses	5,329,177	4,635,418
NET INVESTMENT INCOME	\$241,967,943	\$245,485,390

STATEMENTS OF CHANGES IN NET ASSETS

	Year ended June 30,	
	2008	2007
INCREASE IN NET ASSETS		
Operations		
Net Investment Income	\$ 241,967,943	\$ 245,485,390
Distributions to Shareholders from		
Net Investment Income	(241,967,943)	(245,485,390)
Capital Share Transactions Net Increase — Note E		
	1,749,114,750	669,172,159
Increase in Net Assets	1,749,114,750	669,172,159
Net assets		
Beginning of Year	4,821,138,575	4,151,966,416
End of Year	\$6,570,253,325	\$4,821,138,575

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 Ohio Treasurer of State. The State Treasury Asset Reserve of Ohio (STAR Ohio) provides units of local government with an investment option for their public funds.

STAR Ohio is a statewide investment pool managed by the Ohio Treasurer of State. 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.

Ohio Treasurer of State, Richard Cordray, through the Treasurer's 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 for STAR Ohio and provides certain clerical and administrative services for STAR Ohio. Compensation to the co-administrator is based on a flat fee of \$1,350,000 per year.

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

United American Capital Corporation, Worthington, Ohio is the investment consultant for STAR Ohio. 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, liabilities, and disclosure of both contingent assets and liabilities as well as amounts of income and expenses. Actual results could differ from those estimates.

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

STAR Ohio is not registered with the Securities Exchange Commission (SEC) as an investment company, but maintains a policy to operate as a "2a-7 like pool" in a manner consistent with the Governmental Accounting Standards Board, Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools."

NOTE B — INVESTMENT SECURITIES

Investment securities other than money market funds are valued according to the amortized cost method (which approximates fair value) whereby a security is valued at cost adjusted for the amortization of any premiums or accretion of any discounts over the period until maturity. Investments in money market funds are valued at quoted market values.

Security transactions are accounted for on the trade date (day the order to buy or sell is executed). Interest income is determined on an accrual basis with earned discounts (including original issue and market discount)

accreted and paid premiums amortized. Any realized gains or losses on sales of securities are calculated on the identified cost basis.

STAR Ohio is permitted to invest in commercial paper, but commercial paper holdings shall not exceed 25 percent of the average net assets which is defined as the 12 month rolling average of the total shares in the fund on the last day of the month. As of June 30, 2008, commercial paper holdings represented 23 percent of the net assets.

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

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

As of June 30, 2008, STAR Ohio had the following investments and maturities:

<u>Investment Type</u>	<u>Value</u>	<u>Investment Maturities (in Years) Less than 1</u>
Commercial Paper	\$1,497,914,721	\$1,497,914,721
Repurchase Agreement	15,763,762	15,763,762
Federal Agency Issues	4,435,174,013	4,435,174,013
Money Market Fund	621,919,283	621,919,283
	<u>\$6,570,771,779</u>	<u>\$6,570,771,779</u>

Interest Rate Risk. Through its investment policy, STAR Ohio manages its exposure to fair value losses arising from increasing interest rates by limiting the final stated maturity on any investment to 397 days and limiting the weighted average maturity of the portfolio to 60 days. Federal Agency Issues include callable bonds which have maturity dates less than one year and callable dates ranging from July 9, 2008 through October 31, 2008.

Credit Risk. STAR Ohio's investment policy requires money market securities to be valued at AAAM or AAAM-G or better by Standard & Poor's Corporation, and all other 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, 2008, STAR Ohio's investments in U.S. Agencies and the money market fund were rated AAA and AAAM, respectively, by Standard & Poor's and Aaa by Moody's Investor Services. Of the commercial paper, \$1,338,206,088 was rated A-1+/P-1 and the remaining \$159,708,633 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. Agency 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, 2008, STAR Ohio had more than 5 percent of its investments in the Federal Home Loan Bank, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, and Goldman Sachs Financial Square Government Fund. These investments are 22, 19, 23 and 9 percent, respectively, of the Pool's total investments. As of June 30, 2008, STAR Ohio held approximately 3 percent of the total assets of the Goldman Sachs Financial Square Government Fund.

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

Custodial Credit Risk. STAR Ohio's investments are not exposed to custodial credit risk, as defined by Statement No. 40. Securities in STAR Ohio are either insured, registered, held by STAR Ohio, or held in a specific trust account designated for 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.

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

For the fiscal year ended June 30, 2008, STAR Ohio did not participate in security lending transactions.

NOTE D — INCOME DISTRIBUTIONS

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

NOTE E — CAPITAL SHARES

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

	Year ended June 30,	
	2008	2007
Shares Sold	21,621,525,083	15,479,476,872
Shares Issued for Reinvestment of Distributions	241,967,943	245,485,340
	<u>21,863,493,026</u>	<u>15,724,962,212</u>
Shares Redeemed	(20,114,378,276)	(15,055,790,053)
Capital Shares Transactions Net Increase	<u>1,749,114,750</u>	<u>669,172,159</u>

Independent Auditors' Report

The Honorable Mary Taylor
Ohio Auditor of State

The Honorable Richard Cordray
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, 2008, and the related statements of operations and changes in net assets for each of the two years in the period then ended and the financial highlights for each of the three years in the period then ended. These financial statements and financial highlights are the responsibility of STAR Ohio's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits. The financial highlights for the periods indicated prior to June 30, 2006 were audited by other auditors, who expressed unqualified opinions on those financial highlights.

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

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of STAR Ohio as of June 30, 2008, and the results of its operations and changes in net assets for each of the two years in the period then ended and the financial highlights for each of the three years in the period 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 August 27, 2008, on our consideration of STAR Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

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
August 27, 2008



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 STAR Ohio's management, investment guidelines, portfolio holdings and market price exposure.

SUMMARY OF INVESTMENT OBJECTIVES & ALL PERMITTED & ELIGIBLE INVESTMENTS

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

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

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

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

(i) The par value of the securities;

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

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

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

(4) The Ohio 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 held in trust by the Ohio 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 Ohio 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 which is defined as the 12 month rolling average of the total shares in the fund on the last day of the month;

(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 Ohio 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.

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STAR^{Ohio}

State Treasury Asset Reserve of Ohio

Investment Advisor and Administrator

Richard Cordray
Ohio Treasurer of State

Co-Administrator

Carnegie Capital Management Company
Cleveland, OH

Custodian and Transfer Agent

National City Bank
Cleveland, OH

Investment Agent

United American Capital Corporation
Worthington, OH

For more information, current yields or assistance
in opening a STAR account call toll free:

1-800-648-7827 (STAR).

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

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

The Honorable Mary Taylor
Ohio Auditor of State

The Honorable Richard Cordray
Ohio Treasurer of State

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

We have audited the statement of assets and liabilities, including the schedule of investments, of the State Treasury Asset Reserve of Ohio (“STAR Ohio”) as of June 30, 2008, and the related statements of operations and changes in net assets for each of the two years in the period then ended and the financial highlights for each of the three years in the period then ended and have issued our report thereon date August 27, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether STAR Ohio’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations,

contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards*.

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

Cohen & Company

Cleveland, Ohio
August 27, 2008

STATE TREASURY ASSET RESERVE OF OHIO
INVESTMENT TRUST FUND

INDEPENDENT AUDITORS' REPORT

JUNE 30, 2008

STATE TREASURY ASSET RESERVE OF OHIO
INVESTMENT TRUST FUND

JUNE 30, 2008

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The Honorable Mary Taylor
Ohio Auditor of State

The Honorable Richard Cordray
Ohio Treasurer of State

Independent Auditors' Report

We have audited the statement of assets and liabilities of the State Treasury Asset Reserve of Ohio Investment Trust Fund ("Trust Fund") as of June 30, 2008, and the related statements of operations and changes in net assets for each of the two years in the period then ended. These financial statements are the responsibility of the Trust Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 1, the financial statements present only the State Treasury Asset Reserve of Ohio Investment Trust Fund and are not intended to present fairly the financial position of the State Treasury Asset Reserve of Ohio, 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, 2008, and the results of its operations and changes in net assets for each of the two years in the period then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, the 2007 statement of operations and net assets has been restated for a change in reporting entity.

The Management's Discussion and Analysis on Page 4 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 Ohio Treasurer of State, the Ohio Auditor of State, and the Ohio Office of Budget and Management and is not intended to be and should not be used by anyone other than those specific parties.

Cohen & Company

Cleveland, Ohio
September 15, 2008

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

BACKGROUND

The State Treasury Asset Reserve of Ohio (STAR Ohio) is a statewide investment pool managed and administered by the Ohio Treasurer of State. Participation is offered to Ohio political subdivisions as a means to invest in a portfolio of short-term investment securities and registered investment companies. The investment objective of STAR Ohio is to seek a high 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 high-grade investment instruments and money market funds. 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.

The Ohio Treasurer of State is committed to maintaining STAR Ohio as a top-rated investment option for all government subdivision's of Ohio. As such, STAR Ohio has been completely insulated from any market driven issues that have arisen over the past year from the mortgage and financial services industries. The additional level of safety in the fund is attributed to the constant monitoring of credit ratings for issuers of investments held by STAR Ohio as well as a modification to the custodial arrangement in which the fund's assets are now held in a specific trust account at the Depositor Trust Clearing Corporation designated for STAR Ohio. Both measures ensure that the underlying assets of STAR Ohio are highly rated, secure and readily available to the 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 STAR Ohio. As a result, the financial condition and results of operations of the Trust Fund have been prepared by prorating the assets and liabilities related to the external portion. Additionally, the Statement of Operations and Changes in Net Assets are prepared by prorating investment income and expenses related to the external portion using average daily balances. Our discussion and analysis below is based upon currently known facts and conditions that we judge to have had a material effect on the Trust Fund's financial condition and results of operations.

OVERVIEW OF FINANCIAL CONDITION

STAR Ohio's net assets increased in Fiscal Year 2008 by approximately 36 percent as investors sought competitive short-term returns during the period. STAR Ohio continued to maintain its AAAM rating from Standard & Poor's, the highest rating possible for a Local Government Investment Pool.

OVERVIEW OF OPERATIONS

During this period of deteriorating credit conditions and slowing economic activity, STAR Ohio increased by approximately 36 percent as STAR Ohio's daily returns outpaced other investments available to public fund managers. The Federal Reserve lowered the Federal Funds target rate to 2.00% to increase liquidity in the financial markets by the end of STAR Ohio's fiscal year. As rates fell, STAR Ohio's yield continued to be competitive and market driven. The total return for fiscal year 2008 was 3.83 percent.

STATEMENT OF ASSETS AND LIABILITIES

JUNE 30, 2008

ASSETS

Investments	
Federal Agency Issues	\$3,346,875,449
Commercial Paper	1,130,357,905
Money Market Fund	469,313,351
Daily Repurchase Agreement	<u>11,895,666</u>
Total Investments	4,958,442,371
Interest Receivable	1,146,838
Receivable for Fund Shares Purchased	<u>22,957</u>
 TOTAL ASSETS	 <u>4,959,612,166</u>

LIABILITIES

Payable for Fund Shares Redeemed	1,188,582
Accrued Custodian and Transfer Agent Fees	129,709
Accrued Co-Administrator Fees	83,504
Accrued Investment Consultant Fees	77,260
Accrued Management Fees	30,927
Accrued Audit Fees	30,185
Accrued Printing Fees	9,295
Accrued Bloomberg and Pricing Fees	8,397
Accrued Postage, Telephone, and Administrative Fees	<u>6,114</u>
 TOTAL LIABILITIES	 <u>1,563,973</u>

NET ASSETS	<u>\$4,958,048,193</u>
Participant Net Asset Value, Price Per Unit	<u>\$ 1.00</u>

The accompanying notes are an integral part of these statements.

STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007*</u>
STATEMENT OF OPERATIONS		
Investment income		
Interest income	\$ 193,999,337	\$ 200,126,642
Expenses		
Management fees	392,151	399,960
Investment consultant fees	955,409	830,171
Co-administrator fees	1,058,806	1,079,893
Custodian and transfer agent fees	1,572,706	1,228,483
Postage and printing fees	37,386	33,577
Audit fees	31,376	23,319
S&P analytical fees	28,629	26,397
Telephone response fees	21,722	21,007
Bloomberg and pricing service fees	81,475	65,033
Total expenses	<u>4,179,660</u>	<u>3,707,840</u>
NET INVESTMENT INCOME	<u>\$ 189,819,677</u>	<u>\$ 196,418,802</u>

STATEMENT OF CHANGES IN NET ASSETS

INCREASE IN NET ASSETS		
OPERATIONS – Net investment income	\$ 189,819,677	\$ 196,418,802
DISTRIBUTIONS TO SHAREHOLDERS -		
Dividends to shareholders from net investment income	(189,819,677)	(196,418,802)
CAPITAL SHARE TRANSACTIONS – Net	<u>1,095,563,174</u>	<u>537,383,517</u>
Increase in net assets	<u>1,095,563,174</u>	<u>537,383,517</u>
NET ASSETS		
Beginning of year, as previously stated		3,374,006,096
Cumulative effect on prior year of restatement for change in reporting entity – See Note 2		<u>(48,904,594)</u>
Beginning of year, as restated	<u>3,862,485,019</u>	<u>3,325,101,502</u>
End of year	<u>\$4,958,048,193</u>	<u>\$3,862,485,019</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 Ohio Treasurer of State (the "Treasurer"). 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 of the Trust Fund 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 Treasurer and the Treasurer's staff of portfolio managers. STAR Ohio provides units of local government with an alternative investment option for their public funds.

STAR Ohio is not registered with the Securities and Exchange Commission (SEC) as an investment company, but maintains a policy to operate as a "2a-7 like pool" in a manner consistent with the Governmental Accounting Standards Board, Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools."

Investment Advisor and Administrator

Ohio Treasurer of State, Richard Cordray, through the Treasurer's 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.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF ORGANIZATION (continued)

Co-Administrator

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

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. Compensation is based on a percentage of daily net assets.

United American Capital Corporation, Worthington, Ohio is the investment consultant for STAR Ohio. Compensation is based on a percentage of daily net assets.

2. CHANGE IN REPORTING ENTITY

As of July 1, 2007, the State of Ohio determined that the Housing Development (OHFA) and the Petroleum Underground Storage Tank Funds were internal accounts of the State of Ohio's financial reporting entity and therefore were no longer considered a part of the Trust Fund. In accordance with Accounting Principles Board Opinion No. 20, *Accounting Changes*, this is accounted for as a change in reporting entity. Therefore, the 2007 financial statements have been retroactively adjusted for the change, which resulted in a decrease in net investment income of \$2,707,699 for the year ended June 30, 2007. Net assets as of July 1, 2006 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 other than money market funds are valued according to the amortized cost method (which approximates fair value) whereby a security is valued at cost adjusted for the amortization of any premiums or accretion of any discounts over the period until maturity. Investments in money market funds are valued at quoted market values.

Security Transactions and Related Investment Income

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

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 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, liabilities, and disclosure of both contingent assets and liabilities as well as amounts of income and expenses. 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 the investment shall not exceed 25 percent of the average net assets which is defined as the 12 month rolling average of the total shares in the fund on the last day of the month. As of June 30, 2008, commercial paper holdings represented 23 percent of the net assets.

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

As of June 30, 2008, the Trust Fund had the following share of the Pool's investments and maturities:

Investment Type	Value	Investment Maturities (in Years) Less Than 1
Commercial Paper	\$1,130,357,905	\$1,130,357,905
Federal Agency Issues	3,346,875,449	3,346,875,449
Money Market Fund	469,313,351	469,313,351
Repurchase Agreements	11,895,666	11,895,666
Total	\$4,958,442,371	\$4,958,442,371

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 397 days and limiting the weighted average maturity of the portfolio to 60 days. Federal Agency Issues include callable bonds which have maturity dates less than one year and callable dates ranging from July 9, 2008 through October 31, 2008.

Credit Risk

STAR Ohio's Investment Policy requires money market securities to be valued at AAAM or AAAM-G or better by Standard & Poor's Corporation, and all other 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, 2008, STAR Ohio's investments in U.S. Agencies and the money market fund were rated AAA and AAAM, respectively, by Standard & Poor's and Aaa by Moody's Investor Services. Of the commercial paper, \$1,009,838,416 was rated A-1+/P-1 and the remaining \$120,519,489 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, 2008, STAR Ohio had more than 5% of the investments in the Federal Home Loan Bank, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, and the Goldman Sachs Financial Square Government Fund. These investments are 22, 19, 23, and 9 percent, respectively, of the Pool's total investments. As of June 30, 2008, STAR Ohio held approximately 3 percent of the total assets of the Goldman Sachs Financial Square Government Fund.

Foreign Currency Risk

STAR Ohio does not have exposure to foreign exchange risk.

Custodial Credit Risk

STAR Ohio's investments are not exposed to custodial credit risk, as defined by GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. Securities in STAR Ohio are either insured, registered, held by STAR Ohio, or held in a specific trust account designated for STAR Ohio.

NOTES TO THE FINANCIAL STATEMENTS

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.

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

For the fiscal year ended June 30, 2008, STAR Ohio did not participate in security lending transactions.

6. INCOME DISTRIBUTIONS

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

7. CAPITAL SHARES

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

	Year Ended June 30	
	2008	2007
Shares sold	17,241,772,737	13,485,727,679
Shares issued for reinvestment of distributions	<u>189,819,677</u>	<u>196,418,802</u>
	17,431,592,414	13,682,146,481
Shares redeemed and other transactions	<u>(16,336,029,240)</u>	<u>(13,144,762,964)</u>
Capital share transactions – net increase	<u><u>1,095,563,174</u></u>	<u><u>537,383,517</u></u>



Mary Taylor, CPA
Auditor of State

STAR OHIO

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 13, 2008**