

STAR Fund

ANNUAL REPORT

2010

Massachusetts Development Finance Agency
Short Term Asset Reserve Fund

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For further information on the STAR Fund, call 1-800-937-2736



160 Federal Street • Boston, Massachusetts 02110

*This information does not represent an offer to sell or a solicitation of an offer to buy or sell any fund or other security. Investors should consider the Fund's investment objectives, risks, charges and expenses before investing in the Fund. This and other information about the Fund is available in the Fund's current Information Statement, which should be read carefully before investing. A copy of the Fund's Information Statement may be obtained by calling the Investment Manager at 1-800-937-2736. While the Fund seeks to maintain a stable net asset value of \$1.00 per unit, it is possible to lose money investing in the Fund. An investment in the Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Units of the Fund are distributed by **PFM Fund Distributors, Inc.**, member Financial Industry Regulatory Authority (FINRA) (www.finra.org) and Securities Investor Protection Corporation (SIPC) (www.sipc.org). PFM Fund Distributors, Inc. is a wholly owned subsidiary of PFM Asset Management LLC.*

About the STAR Fund

The Short Term Asset Reserve (STAR) Fund was established by the Massachusetts Health and Educational Facilities Authority (the "Authority") in 1991 to provide comprehensive investment management for the Authority, for bond proceeds, bond anticipation notes and other obligations issued by the Authority on behalf of its institutional borrowers, and funds held by trustees with respect to bond issues of the Authority. It was created to provide Participants with a convenient method of pooling cash and proceeds of bonds, notes or other obligations for temporary investment pending their expenditure.

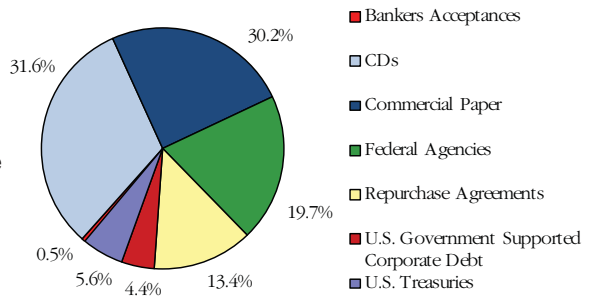
Pursuant to Chapter 240 of the Acts of 2010, Commonwealth of Massachusetts, the Authority was merged into the Massachusetts Development Finance Agency (the "Agency") effective October 1, 2010. All rights, powers, duties and properties of the Authority related to the STAR Fund transferred to the Agency as of this date.

Investment Objectives

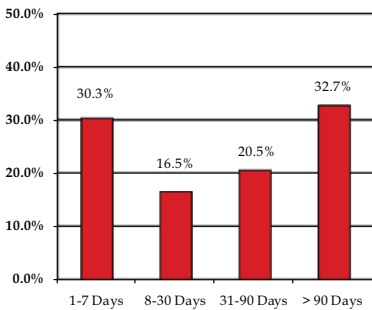
The STAR Fund is a short-term investment fund which seeks to preserve principal, maintain liquidity and attain a level of current income as high as is consistent with those objectives. The primary goal of the STAR Fund is the safety and security of funds entrusted to it. The STAR Fund is designed to comply with all Massachusetts statutes and regulations for the allowable investment of funds by the Agency or its institutional borrowers.

Additionally, all securities must further meet the Investment Adviser's own high investment standards. Information on the securities which the STAR Fund held at December 31, 2010 is shown in the accompanying charts.

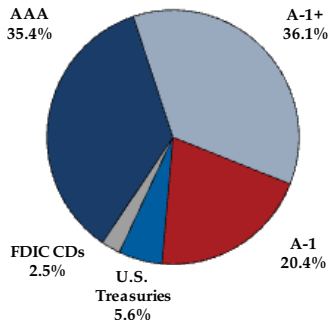
STAR Fund Asset Allocation at December 31, 2010



STAR Fund Portfolio Maturities at December 31, 2010



Credit Quality of STAR Fund Portfolio Holdings at December 31, 2010



The STAR Fund offers Participants a variety of features, including:

- Standard & Poor's AAAm rating
- Daily liquidity
- 2 p.m. transaction deadline
- No minimum deposit
- Unlimited deposits and withdrawals
- Unlimited sub-accounting to track multiple projects
- Interest earned daily and credited monthly
- Competitive money market rates

Services

To simplify investing, the STAR Fund also offers a variety of cash management tools to assist investors in effectively managing their cash, such as automatic transfers, which help investors minimize the effort of transferring funds. STAR Fund Participants are able to access account information for all STAR Fund accounts via a link on the Agency's website at www.massdevelopment.com. This service enables users to view their balance, transaction history, account registration information, and dividend earnings in a secure on-line environment. To find out more, contact the Investment Adviser's Online Access Helpdesk at (888) 693-7274.

The STAR Fund is also designed to assist Participants and Institutions in complying with arbitrage rebate requirements under the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). Investments are purchased and documentation is maintained in accordance with requirements of the Internal Revenue Code.

We Value Your Participation

The Agency and the STAR Fund's Investment Adviser, PFM Asset Management LLC, are committed to managing the STAR Fund in a manner that meets the investment and associated record-keeping and cash management needs of Massachusetts institutions eligible for financing through the Agency. We are interested in your feedback. For additional information, please call us at (800) 937-2736.

**Standard & Poor's fund ratings are based on analysis of credit quality, market price exposure, and management. According to Standard & Poor's rating criteria, the AAAm rating signifies excellent safety of investment principal and a superior capacity to maintain a \$1.00 per share net asset value. However, it should be understood that the rating is not a "market" rating nor a recommendation to buy, hold or sell the securities. For a full description on rating methodology, visit Standard & Poor's website (<http://www.standardandpoors.com/ratings/funds-main/en/us>).*

Massachusetts Development Finance Agency STAR Fund

Message from the Investment Adviser

We are pleased to report that the STAR Fund performed very well over the past year. Safety and liquidity were our top priorities and the STAR Fund continued to provide competitive yields in the lowest short-term interest rate environment in history.

We accomplished this at a highly uncertain time.

Although the Great Recession officially ended in June 2009, and the U.S. economy returned to a growth trend, this year the recovery has been modest by historic standards despite massive government intervention. The European debt crisis and continued political discord in Washington spawned uncertainty in the state and

local government sector and among private investors. Despite six consecutive quarters of Gross Domestic Product (“GDP”) growth, as illustrated in the chart above, the consensus outlook of financial economists is for only modest growth over the next several quarters, as improvement still lags in important economic indicators such as housing and employment.

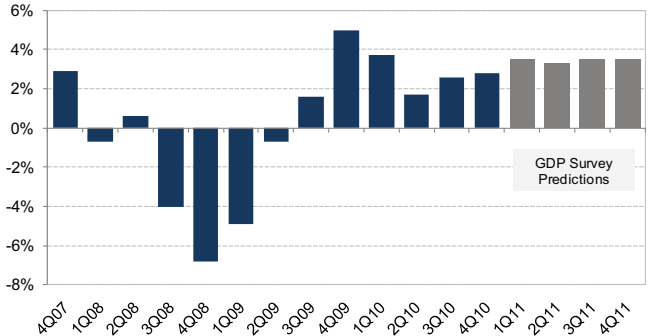
In order to boost the economy, in November the Federal Reserve announced a second round of quantitative easing (“QE2”). With the Federal Funds rate already near zero, the goal of QE2 is to pump money into the economy to spur growth by pushing down interest rates for consumer, mortgage, and business borrowing. The Fed plans to purchase \$600 billion in intermediate-term Treasuries over the eight month period from November 2010 until the conclusion of June 2011. This is in addition to the first round of quantitative easing from December 2008 to March 2010, when the Fed bought \$1.7 trillion of Treasuries and mortgage-backed securities. That move was widely credited with helping to pull the economy out of a freefall during the credit crisis by lowering the yields on those securities.

While QE2 focuses on long-term rates, the Fed’s short-term interest rate policy is most important to pool investors. Fed governors have consistently said that current economic conditions “are likely to warrant exceptionally low levels for the federal funds rate for an extended period of time.” In order for the Fed to consider raising rates from near zero, two primary factors must show improvement: unemployment and inflation.

Unemployment, above 9% since May 2009, is well above “maximum sustainable employment,” and inflation is running below what the Fed considers to be “price stability,” a target of approximately 2%.

While the Fed has taken a macro approach to the economy, in 2010 the Securities and Exchange Commission issued new regulations to better protect investors in registered money market funds. The regulations are designed to make money market funds more resilient to severe economic shocks, such as those seen in the fall of 2008. These rules will present new challenges and opportunities for all short-term investment funds, including the STAR Fund, as the entire short-term market adjusts.

Gross Domestic Product (Quarter over Quarter)
Fourth Quarter 2007 – Fourth Quarter 2011



In response to these challenging economic conditions, we placed a great emphasis on maturity management and the credit quality of the STAR Fund. For the first half of the year, we maintained the STAR Fund's weighted average maturity toward the maximum allowable level because of the positive yield curve and our continued belief that the Fed would maintain short term interest rates near zero. In light of the recent uncertainty caused by the European debt crisis, we made a modest shift in our strategy to slightly scale back the STAR Fund's weighted average maturity. This strategy shift was a defensive move to maintain portfolio safety and a stable net asset value, and to capture value in short-term money market securities.

Although credit markets, corporate balance sheets, and liquidity have improved as the economy recovered, we have remained cautious about credit. The issuer of each security we purchase is subject to due diligence and extensive credit research and we strive for diversification among issuers.

With an outlook for modest growth and muted inflation, we believe the Fed is likely to maintain short-term rates at current levels for some time. We intend to maintain the STAR Fund's weighted average maturities at the longer end of our range for the time being and make selective use of high quality money market instruments to benefit the STAR Fund's investors. However, we are prepared to shorten the maturity if there is a shift in monetary policy or further volatility enters the market.

We look forward to continuing to work with you to develop and implement effective investment strategies to address your financial objectives.

Respectfully,

PFM Asset Management LLC

February 24, 2011

Report of Independent Auditors

To the Participants of the Massachusetts Development Finance Agency
Short Term Asset Reserve Fund

We have audited the accompanying statement of assets and liabilities of the Massachusetts Development Finance Agency Short Term Asset Reserve Fund (the "STAR Fund"), including the statement of net assets, as of December 31, 2010, 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 five years in the period then ended. These financial statements and financial highlights are the responsibility of the STAR Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in 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. We were not engaged to perform an audit of the STAR Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the STAR Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2010, by correspondence with the custodian and brokers. 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 the Massachusetts Development Finance Agency Short Term Asset Reserve Fund at December 31, 2010, the results of its operations and changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

Philadelphia, Pennsylvania
April 22, 2011

Statement of Assets and Liabilities

December 31, 2010

ASSETS		
Investments		\$ 432,131,385
Cash		98,596
Accrued Interest Receivable		768,059
Prepaid Expenses		5,958
<i>Total Assets</i>		433,003,998
LIABILITIES		
Management Fees Payable		45,140
Administration Fees Payable		34,511
Audit Fees Payable		14,300
Other Accrued Expenses		14,750
<i>Total Liabilities</i>		108,701
NET ASSETS		\$ 432,895,297

Statement of Net Assets

December 31, 2010

	Face Amount	Value ⁽¹⁾
BANKERS ACCEPTANCES (0.46%)		
U.S. Bank		
0.33% 4/27/11	\$ 973,591	\$ 972,556
0.33% 5/9/11	1,037,338	1,036,121
<i>Total Bankers Acceptances</i>		2,008,677
CERTIFICATES OF DEPOSIT (31.58%)		
Allstate Bank		
0.70% 10/28/11	248,000	248,000
American National Bank		
0.95% 1/27/11	247,000	247,000
Banco Santander (NY)		
0.50% 2/10/11	14,000,000	13,997,979
Bank of Kremlin		
0.95% 4/8/11	247,000	247,000
Bank of Tokyo Mitsubishi Ltd		
0.34% 3/8/11	8,600,000	8,600,625
Barclays Bank PLC (NY)		
0.90% 9/1/11	8,000,000	8,000,000
0.79% 10/25/11	1,500,000	1,500,000
0.75% 11/1/11	5,000,000	5,000,000
BNP Paribas (NY)		
0.37% 4/12/11	11,000,000	11,000,000
Cathay Bank		
1.13% 1/7/11	247,000	247,000
Cedarstone Bank		
0.90% 4/21/11	247,000	247,000
Centerstate Bank		
0.90% 1/5/11	246,000	246,000
Citizens Bank (GA)		
0.90% 1/14/11	247,000	247,000
Commonwealth Business Bank		
1.10% 3/3/11	247,000	247,000

The accompanying notes are an integral part of these financial statements.

Statement of Net Assets

December 31, 2010

	Face Amount	Value ⁽¹⁾
CERTIFICATES OF DEPOSIT (31.58%) continued		
Conagree State Bank		
1.25% 2/3/11	\$ 246,000	\$ 246,000
Connecticut Bank & Trust Co.		
1.35% 1/24/11	246,000	246,000
Credit Agricole CIB (NY)		
0.45% 3/25/11	2,000,000	2,000,821
0.40% 4/1/11	12,000,000	12,000,000
Deutsche Bank (NY)		
0.46% 9/6/11	14,000,000	14,000,000
East Boston Savings Bank		
0.75% 9/22/11	246,000	246,000
Farmers & Merchants Union Bank		
0.85% 3/24/11	247,000	247,000
Fifth Third Bank		
0.69% 8/23/11	247,000	247,000
Hometown Bank		
0.90% 2/8/11	247,000	247,000
Inland Northwest Bank		
0.85% 1/20/11	247,000	247,000
Interamerican Bank		
0.90% 1/14/11	247,000	247,000
Kaw Valley Bank		
0.90% 1/13/11	246,000	246,000
Landmark Community Bank		
1.00% 1/7/11	246,000	246,000
Lloyds TSB Bank PLC (NY)		
0.29% 1/21/11	7,500,000	7,501,705
Mercantile Bank of Michigan		
0.90% 1/4/11	247,000	247,000
Millbury National Bank		
1.10% 2/4/11	247,000	247,000
Mizuho Corporate Bank (NY)		
0.28% 1/24/11	14,000,000	14,000,000
National Republic Bank of Chicago		
1.00% 10/12/11	247,000	247,000
New City Bank		
0.75% 8/23/11	247,000	247,000
Nordea Bank Finland (NY)		
0.26% 1/10/11	14,500,000	14,500,000
Onewest Bank		
0.70% 8/23/11	247,000	247,000
Orrstown Bank		
0.90% 1/4/11	247,000	247,000
Plus International Bank		
0.90% 1/27/11	247,000	247,000
Primesouth Bank		
0.95% 1/21/11	247,000	247,000
Privatebank & Trust		
1.05% 1/4/11	247,000	247,000

The accompanying notes are an integral part of these financial statements.

Massachusetts Development Finance Agency STAR Fund

Statement of Net Assets

December 31, 2010

	Face Amount	Value ⁽¹⁾
CERTIFICATES OF DEPOSIT (31.58%) continued		
Progressive Bank		
0.95% 4/5/11	\$ 247,000	\$ 247,000
Rabobank Nederland NV (NY)		
0.24% 1/10/11	14,000,000	14,001,257
River City Bank		
1.09% 1/13/11	246,000	246,000
Silvergate Bank		
0.85% 3/24/11	247,000	247,000
Sonabank		
0.90% 4/21/11	247,000	247,000
State Bank of India (CA)		
0.90% 4/6/11	247,000	247,000
Summit Bank		
1.00% 2/23/11	247,000	247,000
Tennessee State Bank		
1.10% 1/7/11	246,000	246,000
The Foster Bank		
0.90% 4/13/11	247,000	247,000
Trisummit Bank		
0.70% 10/4/11	248,000	248,000
United Texas Bank		
1.25% 1/5/11	246,000	246,000
Valley National Bank		
0.85% 2/8/11	247,000	247,000
Valliance Bank		
1.10% 2/23/11	247,000	247,000
Volunteer State Bank		
1.25% 1/28/11	246,000	246,000
Wayne County Bank		
0.90% 1/5/11	246,000	246,000
West Pointe Bank		
0.90% 1/14/11	247,000	247,000
Woodlands Community Bank		
1.40% 9/22/11	246,000	246,000
<i>Total Certificates Of Deposit</i>		136,713,387
COMMERCIAL PAPER (24.73%)		
Bank of Nova Scotia (NY)		
0.16% 1/3/11	13,000,000	12,999,884
BNP Paribas (NY)		
0.38% 4/1/11	2,000,000	1,998,100
0.36% 4/15/11	2,000,000	1,997,920
Chevron Funding Corp		
0.15% 1/4/11	15,000,000	14,999,813
Credit Suisse (NY)		
0.23% 1/3/11	13,000,000	12,999,834
Danske Corporation		
0.29% 1/12/11	1,500,000	1,499,869

The accompanying notes are an integral part of these financial statements.

Statement of Net Assets

December 31, 2010

	Face Amount	Value ⁽¹⁾
COMMERCIAL PAPER (24.73%) continued		
ING (US) Funding LLC		
0.30% 1/5/11	\$ 14,000,000	\$ 13,999,534
0.30% 2/23/11	1,100,000	1,099,514
Societe Generale NA		
0.35% 2/28/11	2,000,000	1,998,872
0.41% 3/11/11	12,500,000	12,490,177
Svenska Handelsbanken, Inc.		
0.26% 1/7/11	16,000,000	15,999,302
Toyota Motor Credit Corp		
0.38% 4/15/11	2,000,000	1,997,804
0.39% 6/13/11	13,000,000	12,977,044
<i>Total Commercial Paper</i>		107,057,667
U.S. GOVERNMENT SUPPORTED CORPORATE DEBT (4.39%)		
Goldman Sachs Group, Inc.		
0.38% ⁽²⁾ 3/15/11	3,000,000	3,000,000
JP Morgan Chase & Co		
0.36% ⁽²⁾ 2/23/11	8,000,000	8,000,000
0.42% ⁽²⁾ 4/1/11	3,000,000	3,000,000
Straight-A Funding LLC		
0.26% 1/31/11	5,000,000	4,999,097
<i>Total U.S. Government Supported Corporate Debt</i>		18,999,097
U.S. GOVERNMENT & AGENCY OBLIGATIONS (25.26%)		
Fannie Mae Notes		
0.60% 2/7/11	3,050,000	3,063,676
0.42% ⁽²⁾ 9/13/12	10,000,000	9,998,301
0.39% ⁽²⁾ 12/3/12	3,000,000	2,997,966
Federal Farm Credit Bank Note		
0.31% ⁽²⁾ 6/22/11	10,000,000	9,998,118
0.33% ⁽²⁾ 9/1/11	10,000,000	10,000,000
Federal Home Loan Bank Note		
0.54% 1/20/11	3,000,000	3,000,488
0.30% ⁽²⁾ 8/12/11	10,000,000	10,000,000
0.41% ⁽²⁾ 11/28/11	2,000,000	1,999,363
0.45% 12/14/11	4,000,000	4,000,000
0.32% ⁽²⁾ 2/10/12	10,000,000	9,997,479
0.34% ⁽²⁾ 2/28/12	5,000,000	5,001,182
Freddie Mac Notes		
0.37% ⁽²⁾ 3/9/11	5,000,000	5,000,000
0.34% ⁽²⁾ 4/7/11	5,000,000	5,000,151
0.36% 7/18/11	5,000,000	5,132,512
U.S. Treasury Notes		
0.56% 1/15/11	9,000,000	9,015,289
0.17% 3/31/11	10,000,000	10,017,175
0.35% 7/31/11	5,000,000	5,130,857
<i>Total U.S. Government & Agency Obligations</i>		109,352,557

The accompanying notes are an integral part of these financial statements.

Statement of Net Assets

December 31, 2010

	Face Amount	Value ⁽¹⁾
REPURCHASE AGREEMENTS (13.40%)		
Goldman Sachs Group		
0.19% 1/3/11	\$ 40,000,000	\$ 40,000,000
(Dated 12/27/10, repurchase price \$40,001,478, collateralized by Ginnie Mae securities, 4.50% to 8%, maturing 6/15/11 to 12/15/40, fair value \$40,800,000)		
Merrill Lynch, Pierce, Fenner & Smith, Inc.		
0.25% 1/3/11	18,000,000	18,000,000
(Dated 12/31/10, repurchase price \$18,000,375, collateralized by Fannie Mae securities, 0%, maturing 11/15/14, fair value \$4,090,064; by Federal Home Loan Bank securities, 5.25%, maturing 6/18/14, fair value \$14,270,982)		
<i>Total Repurchase Agreements</i>		58,000,000
TOTAL INVESTMENTS (99.82%)		432,131,385
OTHER ASSETS IN EXCESS OF OTHER LIABILITIES (0.18%)		763,912
NET ASSETS (100.00%)		
Applicable to 432,895,297 outstanding shares of beneficial interest (unlimited authorization - no par value)		\$ 432,895,297
NET ASSET VALUE, OFFERING PRICE AND REDEMPTION PRICE PER SHARE		\$ 1.00

(1) See Note B.1 to the financial statements.

(2) Adjustable rate instrument. Rate shown is that which was in effect at December 31, 2010.

Statements of Operations

	Year Ended December 31,	
	2010	2009
INCOME		
Interest Income	\$1,922,242	\$3,996,046
Total Income	1,922,242	3,996,046
EXPENSES		
Management Fees	601,684	549,532
Administration Fees	469,517	422,940
Audit Fees	22,800	22,100
Other Expenses	8,893	22,326
Total Expenses	1,102,894	1,016,898
Net Investment Income	819,348	2,979,148
Net Realized Gain on Sale of Investments	9,404	43,391
Net Increase in Net Assets Resulting from Operations	\$ 828,752	\$3,022,539

The accompanying notes are an integral part of these financial statements.

Statements of Changes in Net Assets

	Year Ended December 31,	
	2010	2009
INCREASE (DECREASE) IN NET ASSETS		
Operations		
Net Investment Income	\$ 819,348	\$ 2,979,148
Net Realized Gain on Sale of Investments	9,404	43,391
Net Increase in Net Assets Resulting from Operations	828,752	3,022,539
Distributions		
Net Investment Income	(819,348)	(2,979,148)
Net Realized Gain on Sale of Investments	(9,404)	(43,391)
Total Distributions	(828,752)	(3,022,539)
Capital Share Transactions (at \$1.00 per share)		
Issued	616,740,380	809,513,466
Redeemed	(704,600,372)	(835,375,754)
Distributions Reinvested	828,752	3,022,539
Net (Decrease) from Capital Share Transactions	(87,031,240)	(22,839,749)
Total (Decrease) in Net Assets	(87,031,240)	(22,839,749)
Net Assets		
Beginning of Year	519,926,537	542,766,286
End of Year	\$432,895,297	\$519,926,537

Financial Highlights

For a share outstanding throughout each period

	Year Ended December 31,				
	2010	2009	2008	2007	2006
Net Asset Value,					
Beginning of Year	\$1.000	\$1.000	\$1.000	\$1.000	\$ 1.000
Operations					
Net Investment Income002	.006	.027	.051	.048
Total from Operations002	.006	.027	.051	.048
Distributions					
Net Investment Income	(.002)	(.006)	(.027)	(.051)	(.048)
Total Distributions	(.002)	(.006)	(.027)	(.051)	(.048)
Net Asset Value, End of Year	\$1.000	\$1.000	\$1.000	\$1.000	\$ 1.000
Ratios/Supplemental Data					
Net Assets, End of Year (000)	\$432,895	\$519,927	\$542,766	\$617,783	\$ 289,046
Total Return	0.16%	0.65%	2.77%	5.21%	4.94%
Ratio of Expenses to Average Net Assets	0.21%	0.22%	0.21%	0.22%	0.23%
Ratio of Net Investment Income to Average Net Assets	0.16%	0.63%	2.75%	5.08%	4.83%

The accompanying notes are an integral part of these financial statements

Notes to Financial Statements

A. ORGANIZATION

The Massachusetts Development Finance Agency Short Term Asset Reserve Fund (formerly known as the Massachusetts Health and Educational Facilities Authority Short Term Asset Reserve Fund) (the “STAR Fund” or the “Fund”) was established on July 16, 1991 under the laws of the Commonwealth of Massachusetts, Chapter 614, of the Acts of 1968, to make available comprehensive investment management of proceeds of bonds and other obligations issued by the Massachusetts Health and Educational Facilities Authority (the “Authority”) on behalf of its institutional borrowers. Pursuant to Chapter 240 of the Acts of 2010, Commonwealth of Massachusetts, the Authority was merged into the Massachusetts Development Finance Agency (the “Agency”) effective October 1, 2010. All rights, powers, duties and properties of the Authority related to the STAR Fund transferred to the Agency as of this date and the Fund’s name was changed commensurate with this change. The Agency provides oversight for the STAR Fund.

The STAR Fund’s investment earnings are not taxable to the Fund, but may be subject to arbitrage rebate payments by Participants. An objective of the STAR Fund is to maintain a net asset value of \$1 per share, but there can be no assurance that the net asset value will not vary from \$1. Shares are issued and redeemed at the net asset value per share next determined after receipt of a request. All participation in the STAR Fund is voluntary. The STAR Fund is not required to register as an investment company with the SEC and has not provided or obtained any legally binding guarantees to support the value of shares.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the STAR Fund are prepared in conformity with generally accepted accounting principles (“GAAP”). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts and disclosures reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The significant accounting policies are as follows:

1. Investments held are stated at amortized cost which approximates fair value at December 31, 2010. This method involves valuing a portfolio security initially at its original cost and thereafter adjusting for amortization of premium or accretion of discount to maturity. Significant inputs to the amortized cost method include purchase cost of security, premium or discount at the purchase date and time to maturity. Fair value is determined by reference to quoted market prices. It is the STAR Fund’s policy to compare amortized cost and fair value of investments periodically throughout the month and as of the last business day of each month.
2. Investment transactions are accounted for on trade date. Costs used in determining realized gains and losses on the sale of investment are those of the specific securities sold. Interest income is recorded using the accrual method. Discounts and premiums are accreted and amortized, respectively, to interest income over the lives of the respective securities. The rates shown in the Statement of Net Assets are the yield-to-maturity at original cost unless otherwise noted. The dates shown on the Statement of Net Assets are the legal maturity dates.
3. Dividends from net investment income are declared on a daily basis and paid on the last day of the month. Dividends paid are automatically reinvested in each account by the purchase of additional shares of the STAR Fund.

4. The STAR Fund may invest cash in repurchase agreements collateralized by U.S. Government and Agency obligations. Securities pledged as collateral for repurchase agreements are held by the STAR Fund's custodian bank until maturity of the repurchase agreement. Provisions of the repurchase agreements ensure that the market value of the collateral is sufficient in the event of default; however, in the event of default or bankruptcy by the other party to the agreement, realization and/or retention of the collateral may be subject to legal proceedings.
5. Pursuant to Section 115 of the Internal Revenue Code, the Fund is not a taxable entity. Accordingly, no provision for federal income taxes is required in the financial statements. The Fund has evaluated this tax position to determine whether the tax position is "more likely-than-not" of being sustained by the applicable tax authority. Management has concluded that no provision for federal income tax is required for the Fund's financial statements.
6. The Fund has evaluated subsequent events through April 22, 2011, the date through which procedures were performed to prepare the financial statements for issuance. No events have taken place that meet the definition of a subsequent event that requires disclosure in these financial statements.

C. INVESTMENTS

The Fund's Information Statement specifies the types of investments that can be made by the STAR Fund with available cash. Cash can be invested in the following:

1. United States Treasury bills, notes or bonds or other obligations for which the full faith and credit of the United States is pledged for the payment of principal and interest.
2. Obligations, participations or other instruments of or issued by Fannie Mae, the Federal Home Loan Banks, Freddie Mac, the Federal Farm Credit System, the Student Loan Marketing Association, Financing Corporation, the Resolution Funding Corporation and other similar obligations of any Federal agency or instrumentality hereafter created.
3. Repurchase agreements with respect to securities described in (1) or (2) above, provided that the term thereof is less than one year, that the counterparty is recognized as a "primary dealer" by the Federal Reserve Bank of New York, and that the market value of the collateral securities underlying the repurchase agreement represent 102% of the initial price plus accrued interest of the agreement.
4. Bills of exchange or time drafts drawn on and accepted by a commercial bank (otherwise known as bankers' acceptances) provided that such bankers' acceptances may not exceed 180 days maturity and provided further that the accepting bank has the highest short-term letter and numerical rating as provided by Moody's Investors Service, Inc. ("Moody's") or Standard & Poor's Ratings Service ("Standard & Poor's", or "S&P").
5. Commercial paper issued by corporations organized and operating within the United States of the highest letter and numerical ratings as provided by Moody's or Standard & Poor's, with a maturity not to exceed 270 days.
6. Debt obligations issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States provided that such debt obligations are rated "Aa" or "AA" or better by Moody's or Standard & Poor's.
7. Negotiable certificates of deposit or other evidences of deposit issued by a nationally or state-chartered bank or a state or federal savings and loan association or by a state-licensed branch of a foreign bank, provided that the senior debt obligations of the issuing institution are rated "Aa" or "AA" or better by Moody's or Standard & Poor's.

8. Obligations of any state of the United States or any political subdivision thereof, provided that at the time of their purchase such obligations are rated in either of the two highest categories by Moody's or Standard & Poor's.

In accordance with the authoritative guidance on fair value measurements and disclosures under GAAP, the Fund discloses the fair value of its investments in a hierarchy that prioritizes the inputs to valuation techniques used to measure the fair value. The hierarchy gives the highest priority to valuations based upon unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to valuations based upon unobservable inputs that are significant to the valuation (level 3 measurements). The guidance establishes three levels of the fair value hierarchy as follows:

Level 1 – Quoted prices in active markets for identical assets.

Level 2 – Inputs other than quoted prices that are observable for the asset, including quoted prices for similar investments based on interest rates, credit risk and like factors.

Level 3 – Unobservable inputs for the assets, including the Fund's own assumption for determining fair value.

Portfolio investments are assigned a level based upon the observability of the inputs which are significant to the overall valuation. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Money market securities are valued using amortized cost, as outlined in Rule 2a-7 under the Investment Company Act of 1940. Generally, amortized cost approximates the current fair value of a security, but since the value is not obtained from a quoted price in an active market, such securities held by the STAR Fund are categorized as Level 2.

D. FEES AND CHARGES

PFM Asset Management LLC ("PFMAM") provides investment management services to the STAR Fund, including investment advisory, distribution, shareholder accounting and certain administrative services. Fees for such services are calculated at an annual rate of .14% of the average daily net assets of the STAR Fund up to \$100 million, .12% on the next \$200 million, and .10% on such assets in excess of \$300 million. For each of the years ended December 31, 2010 and 2009, fees for these services represent an effective annual rate of .12%. Shares of the Fund are distributed by PFM Fund Distributors, Inc., a wholly owned subsidiary of PFMAM. PFM Fund Distributors, Inc. is not compensated by the Fund for these services.

The Agency, and formerly the Authority prior to October 1, 2010, as Administrator of the Fund may charge an administration fee up to a maximum of .10% of the average daily net assets of the fund so long as the aggregate expenses of the STAR Fund are not greater than .35% of the average daily net assets of the Fund. The Administrator pays the custodial and cash management fees of the STAR Fund. For each of the years ended December 31, 2010 and 2009, fees for these services represent an effective annual rate of .09%.

The STAR Fund enters into contracts in the normal course of business that contain a variety of indemnifications. The Fund's maximum exposure under these arrangements is unknown. However, the Fund has not had prior claims or losses pursuant to these contracts. Management has reviewed the Fund's contracts and expects the risk of loss to be remote.

E. GOVERNMENTAL ACCOUNTING STANDARDS (unaudited)

Under Governmental Accounting Standards ("GAS"), state and local governments and other municipal entities are required to disclose credit risk, concentration of credit risk, and interest rate risk for investment portfolios. Although the Fund is not subject to GAS, the following risk disclosures of its investment portfolio as of December 31, 2010 have been provided for the information of the STAR Fund's Participants.

Credit Risk

The STAR Fund's investment policy, as outlined in its Information Statement, limits the STAR Fund's investments to those which Participants in the STAR Fund can invest in under the laws of the Commonwealth of Massachusetts (see Footnote C). As of December 31, 2010, the STAR Fund was comprised of investments which were, in aggregate, rated by Standard and Poor's as noted in the chart to the right.

The ratings of the STAR Fund in the preceding chart include the ratings of collateral underlying repurchase agreements in effect for the STAR Fund at December 31, 2010.

S&P Rating	Percentage of Portfolio
AAA	35.4%
A-1+	36.1%
A-1	20.4%
Not Rated*	8.1%

* Represents investments in U.S. Treasury securities and certificates of deposit insured by the FDIC.

Concentration of Credit Risk

The STAR Fund's investment policy establishes certain restrictions on investments and limitations on portfolio composition. The Fund's investment portfolio at December 31, 2010 included the issuers noted in the chart to the right which individually represented greater than 5% of the Fund's total investment portfolio.

Issuer	Percentage of Portfolio
Federal Home Loan Bank	7.9%
Goldman Sachs Group*	10.0%
United States Treasury	5.6%

*This issuer is a counterparty to a repurchase agreement entered into by the Fund which is collateralized by obligations of the United States government or its agencies or instrumentalities.

Interest Rate Risk

The STAR Fund's investment policy limits its exposure to market value fluctuations due to changes in interest rates by (1) requiring that its portfolio maintain a dollar-weighted average maturity of not greater than ninety days; (2) requiring that any investment securities purchased by the STAR Fund have a remaining maturities of 397 days or less at the time of purchase (except for variable rate notes issued by the United States government or its agencies or instrumentalities, which must have remaining maturities of 762 days or less); and (3) limiting the remaining maturity of any commercial paper purchased by the STAR Fund to 270 days or less. The weighted average maturity of the STAR Fund's entire portfolios at December 31, 2010 was 54 days. The fair value and weighted average maturity of the types of investments in which the STAR Fund was invested at December 31, 2010 are as follows:

Type of Investments	Fair Value	Weighted Average Maturity
Bankers Acceptances	\$ 2,008,677	123 Days
Cash and Cash Equivalents	98,596	1 Day
Certificates of Deposit	136,713,387	92 Days
Commercial Paper	107,057,667	39 Days
Repurchase Agreements	58,000,000	3 Days
U.S. Government Agency Notes	85,189,236	38 Days
U.S. Government Supported Corporate Debt	18,999,097	43 Days
U.S. Treasury Notes	24,163,321	89 Days
Total	\$ 432,229,981	

The weighted-average maturities shown above are calculated based on the stated maturity dates with the following exceptions: (1) floating or variable rate securities are assumed to have an effective maturity of the date upon with the security's interest rate next resets; (2) the effective maturity of callable securities is assumed to be its stated maturity unless the security had been called as of the reporting date, in which case the effective maturity would be assumed to be its called date; and (3) the effective maturity of cash and cash equivalents is assumed to be one day.

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Service Contractors

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One Keystone Plaza, Suite 300
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Custodian & Depository

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St. Paul, MN 55107

Independent Auditors

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Legal Counsel

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