

Report No. 2009-19

September 2009



Kate Brown, Secretary of State  
Gary Blackmer, Director, Audits Division

# Secretary of State Audit Report

State of Oregon

## Oregon Short-Term Fund

An Investment Pool of the State of Oregon  
For the Fiscal Year Ended June 30, 2009



**Office of the Secretary of State**

Kate Brown  
Secretary of State

Barry Pack  
Deputy Secretary of State



**Audits Division**

Gary Blackmer  
Director

255 Capitol St. NE, Suite 500  
Salem, OR 97310

(503) 986-2255  
**fax** (503) 378-6767

The Honorable Theodore R. Kulongoski, Governor, of Oregon  
The Honorable Ben Westlund, State Treasurer  
The Oregon Investment Council  
Oregon Short-Term Fund Board

This report presents the results of our annual audit of the Oregon Short-Term Fund (OSTF), an investment pool of the State of Oregon.

As required by auditing standards, we performed the audit to obtain reasonable assurance about whether the financial statements and accompanying notes have been presented fairly by management. Our Independent Auditor's Report and the financial statements for the year ended June 30, 2009, are included in the Financial Section of this report. We concluded that the financial statements are fairly presented in accordance with accounting principles generally accepted in the United States of America.

Auditing standards also require us to review the Office of the State Treasurer's internal control and compliance with applicable laws, regulations, contracts, and grant agreements relating to the Oregon Short-Term Fund. Our report on the results of those reviews is included in the Other Reports section of this report. Our consideration of internal control was limited to the scope necessary to achieve our audit objectives and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined by generally accepted auditing standards.

We appreciated the cooperation and assistance of the Office of the State Treasurer management and staff during the course of our audit.

**OREGON AUDITS DIVISION**

Gary Blackmer  
Director



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## **FINANCIAL SECTION**





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**INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying financial statements of the Oregon Short-Term Fund, an investment pool for the State of Oregon, as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the Office of the State Treasurer management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 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 Office of the State Treasurer's internal control over financial reporting relating to the Oregon Short-Term Fund. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Oregon Short-Term Fund, an investment pool of the State of Oregon, Office of the State Treasurer, are intended to present the financial position, and changes in financial position of only the Oregon Short-Term Fund. They do not purport to, and do not, present fairly the financial position of the Office of the State Treasurer or the State of Oregon as of June 30, 2009, and the changes in its financial position for the year then ended 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 Oregon Short-Term Fund as of June 30, 2009, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2009 on our consideration of the Office of the State Treasurer's internal control over financial reporting relating to the Oregon Short-Term Fund 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 should be considered in assessing the results of our audit. That report is presented separately in the Other Reports section as listed in the table of contents.

#### OREGON AUDITS DIVISION

Kate Brown  
Secretary of State

August 25, 2009

State of Oregon  
**OREGON SHORT-TERM FUND**  
**Statement of Net Assets**  
**June 30, 2009**  
(Dollars in Thousands)

	<u>June 30, 2009</u>
<b>Assets:</b>	
Cash and Cash Equivalents	\$ 2,339,560
Investments	7,815,700
Due from Secretary of State (Note 5)	72
Due from Department of Administrative Services (Note 5)	8,333
Due from the Department of Human Services (Note 5)	60,000
Accrued Interest Receivable	26,191
Securities Lending Collateral (Note 3)	<u>3,923,673</u>
<b>Total Assets</b>	<u>14,173,529</u>
<b>Liabilities:</b>	
Due to Employment Department (Note 6)	41
Bank Overdrafts	9,173
Obligations Under Securities Lending (Note 3)	<u>3,923,673</u>
<b>Total Liabilities</b>	<u>3,932,887</u>
<b>Net Assets:</b>	
Held in Trust for Participants	<u>10,240,642</u>
<b>Total Net Assets</b>	<u><u>\$ 10,240,642</u></u>

*The accompanying notes are an integral part of the financial statements.*

State of Oregon  
**OREGON SHORT-TERM FUND**  
**Statement of Changes in Net Assets**  
**For the Year Ended June 30, 2009**  
(Dollars in Thousands)

	Year Ended June 30, 2009
<b>Additions:</b>	
Participants' Contributions	\$ 47,752,155
Investment Income, Net of Expenses (Notes 1, 4)	<u>206,169</u>
<b>Total Additions</b>	<u>47,958,324</u>
<b>Deductions:</b>	
Participants' Withdrawals	47,151,120
Distributions of Interest to Participants	212,586
Securities Lending Agent Fee Expense	3,849
Securities Lending Borrowers' Rebate Expense	<u>37,838</u>
<b>Total Deductions</b>	<u>47,405,393</u>
Change in Net Assets Held in Trust for Participants	552,931
Net Assets - Beginning	<u>9,687,711</u>
<b>Net Assets - Ending</b> (Note 7)	<u><u>\$ 10,240,642</u></u>

*The accompanying notes are an integral part of the financial statements.*

**OREGON SHORT-TERM FUND**  
**Notes to Financial Statements**  
June 30, 2009

**(1) Summary of Significant Accounting Policies**

**Reporting Entity** The Oregon Short-Term Fund (Fund) is a short-term cash investment vehicle. A number of local governments in Oregon as well as all State agencies participate in the Fund, thus it is an external investment pool as defined in Statement No. 31 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

The Fund is not registered with the U.S. Securities and Exchange Commission as an investment company. The State's investment policies are governed by Oregon Revised Statutes and the Oregon Investment Council (Council). The State Treasurer is the investment officer for the Council and is responsible for all funds entrusted to the Office of the State Treasurer (OST). These funds must be invested, and the investments managed, as a prudent investor would, exercising reasonable care, skill and caution. Investments in the Fund are further governed by portfolio guidelines recommended by the Oregon Short-Term Fund Board, with Council approval, establishing diversification percentages and specifying the types and maturities of investments. The portfolio guidelines permit securities lending transactions as well as investments in repurchase agreements and reverse repurchase agreements. The Fund was in compliance with all portfolio guidelines at June 30, 2009. Portfolio guidelines are discussed in greater detail in the Investments section of Note 2.

According to ORS 293.265 and 295.002, state agencies must deposit all funds with depositories qualified by the OST. Undesignated funds not required to meet current demand are deposited in the Fund; therefore, state agencies are considered involuntary participants of the Fund. Because the Fund operates as a demand deposit account for state agency participants, the portion of the Fund belonging to state agency (internal) participants is classified as cash and cash equivalents in the State's Comprehensive Annual Financial Report. The portion of the Fund belonging to local government (external) participants is reported in an investment trust fund in the State's Comprehensive Annual Financial Report.

**Basis of Accounting** These statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Trade date accounting is observed, which means that purchases and sales of securities are recorded on the day the trade takes place with a corresponding payable to or receivable from the broker. Changes in the fair value of investments are recognized at the end of each year. The fair value of investments is determined annually and is equal to market price.

**Cash and Cash Equivalents** Investments with original maturities of three months or less are considered cash equivalents and are reported at amortized cost, which approximates fair value. Cash and Cash Equivalents also include cash in banks.

**OREGON SHORT-TERM FUND**  
**Notes to Financial Statements (continued)**  
June 30, 2009

**Investments** Investments with remaining maturities of less than ninety days are carried at amortized cost, provided that the fair value of these instruments is not significantly affected by the impairment of the credit standing of the issuer or by other factors. Amortized cost approximates fair value. Investments with longer maturities are carried at fair value.

**Participants' equity; distributions of interest** Participants' account balances in the Fund are determined by the amount of participants' deposits, adjusted for withdrawals and distributed interest. The Fund has not provided or received any legally binding guarantees with regard to balances in the Fund. Interest is calculated and accrued daily on each participant's account based on the ending account balance and a variable interest rate determined periodically by the OST. When a participant's account is overdrawn, negative interest accrues daily at the determined rate plus a premium. The total interest paid to participants each month approximates the actual earnings of the Fund exclusive of unrealized gains and losses. Interest is distributed monthly on the last business day of the month. If the last day of the month is a weekend or holiday, interest is accrued through the last calendar day of the month but posted on the last business day.

**(2) Deposits and Investments**

**Deposits** On June 30, 2009 the Fund held \$(7.1) million book balance in deposits with a bank balance of \$40.1 million. Insurance and collateral requirements for deposits are established by banking regulations and Oregon law. All deposits are with financial institutions participating in the FDIC's Transaction Account Guarantee Program. Under that program, through December 31, 2009, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. Coverage under the Transaction Account Guarantee Program is in addition to and separate from the coverage available under the FDIC's general deposit insurance rules. Consequently, the balance of \$40.1 million is fully insured.

**Investments** On June 30, 2009, the Fund held \$10.2 billion in net assets, \$2.3 billion of which are classified as Cash and Cash Equivalents on the Statement of Net Assets. The Fund's portfolio rules establish the Fund's permitted investments and provide guidelines for managing the various types of risk associated with these investments. The different risks will be discussed below.

**A. Interest rate risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Fund staff manages this risk by limiting the maturity of the investments held by the Fund. The portfolio rules require that at least 50 percent of the portfolio mature within 93 days; not more than 25 percent of the portfolio may mature in over a year; and no investments may mature over three years from settlement date. The June 30, 2009 holdings are shown in the schedule

**OREGON SHORT-TERM FUND**  
**Notes to Financial Statements (continued)**  
June 30, 2009

below. For variable rate securities, the next interest rate reset date is used instead of the maturity date.

**June 30, 2009**  
(Dollars in Thousands)

Investment Type	Investment Maturities			
	Reported Amount ①	Up to 93 Days	94 Days to One Year	One to Three Years
Cash and Cash Equivalents: ②				
Commercial Paper	\$ 1,611,306	\$ 1,611,306	\$ -	\$ -
U.S. Agency Securities	374,928	374,928	-	-
Time Certificates of Deposit	66,550	66,550	-	-
Temporary Liquidity Guarantee	284,958	284,958	-	-
Subtotal Cash Equivalents	2,337,742	2,337,742	-	-
Investments: ②				
U.S. Agency Securities	4,062,127	2,083,986	851,228	1,126,913
Bank Notes	96,139	96,139	-	-
Commercial Paper	76,113	76,113	-	-
Corporate Notes	2,720,665	2,321,779	288,482	110,404
Time Certificates of Deposit	31,200	31,200	-	-
Temporary Liquidity Guarantee	829,456	636,281	50,001	143,174
Subtotal Investments	7,815,700	5,245,498	1,189,711	1,380,491
Total	\$ 10,153,442	\$ 7,583,240	\$ 1,189,711	\$ 1,380,491

① Reported Amount is a combination of amortized cost and fair value. See Note 1

② Classification on Statement of Net Assets

**B. Credit risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Fund's policies provide minimum weighted average credit quality ratings for the Fund's holdings: AA and Aa2 for Standard and Poor's (S&P) and Moody's, respectively. On June 30, 2009, the fund's weighted average rating was between S&P's AA+/Aa1 and Moody's AA/Aa2 ratings.

The Fund has policies that require a minimum credit rating at the time of purchase for corporate notes from one of three ratings services. The minimums are a S&P rating of AA-, Moody's of Aa3 and Fitch of AA-. The Fund also requires commercial paper to have a minimum short-term credit rating at the time of purchase from two of three ratings services. Minimums are a S&P ratings of A-1, Moody's of P-1 and Fitch of F-1.

**OREGON SHORT-TERM FUND**  
**Notes to Financial Statements (continued)**  
June 30, 2009

Occasionally, securities are downgraded but Fund policies allow them to be retained at the Senior Investment Officer's discretion. The Fund is holding corporate notes at June 30, 2009 totaling \$921.3 million that have been downgraded, but are still of investment grade quality. Holdings of Lehman Brothers securities totaling \$191.3 million par value had its ratings from all three agencies withdrawn due to bankruptcy. The schedule below summarizes the fund's holdings by grouped S&P rating:

**Schedule of Credit Quality Distribution**  
**June 30, 2009**  
(Dollars in Thousands)

<b>Investment Type</b>	<b>AAA</b>	<b>AA</b>	<b>A</b>	<b>BBB</b>	<b>Not Rated</b>	<b>Rating Withdrawn</b>	<b>Total Reported Amount</b>
Bank Notes	\$ -	\$ 96,139	\$ -	\$ -	\$ -	\$ -	\$ 96,139
Commercial Paper	-	1,687,419	-	-	-	-	1,687,419
Corporate Notes	362,032	585,744	1,669,274	75,399	-	28,217	2,720,666
U.S. Treasury and Agency Securities	4,437,055	-	-	-	-	-	4,437,055
Temporary Liquidity Guarantee	829,455	284,958	-	-	-	-	1,114,413
Time Certificates of Deposit	-	-	-	-	97,750	-	97,750
<b>Total</b>	<b>\$ 5,628,542</b>	<b>\$ 2,654,260</b>	<b>\$ 1,669,274</b>	<b>\$ 75,399</b>	<b>\$ 97,750</b>	<b>\$ 28,217</b>	<b>\$ 10,153,442</b>

**C. Custodial credit risk**

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the government will not be able to recover the value of an investment or collateral securities in the possession of an outside party. The Fund's portfolio rules provide that broker/dealers meet certain qualifications and that investments are delivered to and held by a third-party custodian, which holds the Fund's securities in the State of Oregon's name. Time certificates of deposit (TCDs) are not exposed to custodial credit risk, as they are covered by FDIC insurance of \$1.2 million and the balance of \$96.6 million is covered by a multiple financial institution collateral pool (ORS 295.015) administered by the Oregon Office of the Treasurer.

**D. Concentration of credit risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Fund rules provide that the maximum that may be invested in any one issuer, as a percentage of the fund's total investments, is 33 percent for U.S. Agency securities and five percent for both commercial paper and corporate notes. On June 30, 2009, the Fund did not hold investments with any one issuer that exceeded these limits. The schedule below lists those issuers where holdings are greater than five percent.



**OREGON SHORT-TERM FUND**  
**Notes to Financial Statements (continued)**  
June 30, 2009

**Schedule of Issuers - Holdings Greater Than Five Percent**  
**June 30, 2009**  
(Dollars in Thousands)

<b>Issuer Name</b>	<b>Reported Amount</b>	<b>Percent of Holding</b>
<b>Agency Bonds:</b>		
Federal Home Loan Bank	\$ 663,581	6.54%
Federal National Mortgage Association	752,137	7.41%
<b>Agency Discount Notes:</b>		
Federal Home Loan Bank	705,228	6.95%
Federal Home Loan Mortgage Corporation	853,588	8.41%

**E. Foreign Currency**

The Fund portfolio rules prohibit investments that are not US dollar-denominated; therefore, the Fund is not exposed to this risk.

**(3) Securities Lending**

The OST has authorized its custodian to act as its agent in the lending of the Fund's securities pursuant to a form of loan agreement, in accordance with Fund investment policies. There have been no significant violations of the provisions of the securities lending agreement. The State's securities lending agent lent short-term and fixed income securities and received as collateral U.S. dollar-denominated cash. Borrowers were required to deliver cash collateral for each loan equal to not less than 102 percent of the market value of the loaned security. The State did not impose any restrictions during the year on the amount of the loans that the securities lending agent made on its behalf. The State is fully indemnified by its securities lending agent against losses due to borrower default. There were no losses during the year from the failure of borrowers to return loaned securities.

In 2008 the lending agent created a new fund to reinvest cash collateral received on behalf of the OSTF and Oregon state agencies other than PERS. As permitted under the fund's Declaration of Trust (Declaration), participant purchases and redemptions are transacted at \$1.00 per unit ("constant value") based on the amortized cost of the fund's investments. Accordingly, the securities lending collateral held and the obligation to the lending agent are both stated at constant value on the Statement of Net Assets. The balances of securities on loan, cash collateral received and invested collateral at market value are presented in the schedule below.

**OREGON SHORT-TERM FUND**  
**Notes to Financial Statements (continued)**  
June 30, 2009

**Schedule of Securities Lending Balances**

**June 30, 2009**

(Dollars in Thousands)

	<b>Securities on Loan at</b>		<b>Invested Collateral at</b>	
	<b>Fair Value</b>	<b>Collateral Received</b>	<b>Fair Value</b>	
U.S. Agency Securities	\$ 3,240,842	\$ 3,308,293	\$ 3,280,138	
Corporate Notes	602,519	615,380	610,143	
Total	<u>\$ 3,843,361</u>	<u>\$ 3,923,673</u>	<u>\$ 3,890,281</u>	

The Declaration also provides that if a significant difference exists between the constant value and the market-based net asset value of investments made with the collateral, the agent may determine that a condition exists that would create inequitable results if redemptions were made at the constant value. In that case, the agent may direct that units be redeemed at fair value, engage in in-kind redemptions, or take other actions to avoid inequitable results for the fund participants, until the difference between the constant value and the fair value is deemed immaterial.

**(4) Management Fees**

In accordance with ORS 293.718, the OST may deduct monthly 0.435 basis points of the most recent market value of assets under management for administration and portfolio management. For the year ended June 30, 2009 the OST charged the Fund a monthly rate of 0.30 basis points based on average daily balances in the Fund. The fee is deducted from investment income before distributions to participants. Fees charged to the Fund totaled \$3.75 million for the year ended June 30, 2009.

**(5) Receivable from the Department of Administrative Services, Department of Human Services and Oregon Secretary of State**

The Oregon Department of Administrative Services (DAS) has an agreement to borrow up to \$6.0 million to use for short-term cash flow needs through June 30, 2009. Interest is charged at a variable per annum rate of equal to the Oregon Short Term Fund rate plus 150 basis points. To date, the DAS has drawn \$4.5 million. The total amount loaned is due September 30, 2009.

The OST collects debt service payments from general obligation debt-issuing agencies and forwards them to the fiscal agent, which then makes bond interest and principal payments to bondholders. The OST maintains accounts separate from the Fund in which the payments to the state's fiscal agent are recorded. Occasionally the OST forwards a debt service payment to the fiscal agent before the funds are actually received from the agency in order to assure that funds are available on the due date of the payment. The OST forwarded cash of \$3.8 million for DAS bond principal and interest payments to the state bond fiscal agent in advance of DAS making payment to OST at June 30, 2009.

**OREGON SHORT-TERM FUND**  
**Notes to Financial Statements (continued)**  
June 30, 2009

The Oregon Department of Human Services has an agreement to borrow up to \$60.0 million to use for short-term cash flow needs through June 30, 2009. Interest is charged at a variable per annum rate of equal to the Oregon Short Term Fund rate plus 150 basis points. To date, the Department of Human Services has drawn \$60.0 million. The total amount loaned is due December 31, 2009.

The Oregon Secretary of State made an agreement in fiscal year 2008 with the fund to borrow \$90.3 thousand to use for costs of purchasing voting machines for Curry County. The balance at 6/30/2009 of the loan is \$72.3 thousand. Interest is charged at a fixed per annum rate of 5.66 percent. The total amount loaned is due December 31, 2012, with an option to pay \$21.2 thousand per year on December 31, commencing in 2008.

**(6) Payable to the Oregon Employment Department**

The OST maintains accounts separate from the Fund, which contains employment benefit and trust funds in the name of the Oregon Employment Department, which is also a participant in the Fund. The OST processes transfers of employment taxes and benefit payments between state agencies and the Oregon Employment Department. Occasionally a transfer will be recorded between participants' accounts on one day, but the transfer of cash between the Fund and the employment benefit and trust funds does not take place until the following day, creating either a receivable from or payable to Employment.

**(7) Equity of Internal and External Participants**

The following table describes the equity of internal and external participants in the Fund's net assets, and shows that net assets are composed of participants' account balances less undistributed and unrealized losses:

	<u>June 30, 2009</u>
Net assets held in trust for participants (in thousands):	
Equity of internal participants	\$ 6,325,862
Equity of external participants	<u>3,914,780</u>
	<u>\$ 10,240,642</u>
Net assets consist of (in thousands):	
Participants' Account Balances	\$ 10,332,864
Undistributed and Unrealized Losses	<u>(92,222)</u>
	\$ 10,240,642

Participants' Fair Value (Net Assets divided by Participants' Account Balances)	99.11%
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**OREGON SHORT-TERM FUND**  
**Notes to Financial Statements (continued)**  
June 30, 2009

**(8) Schedule of Investments and Cash Equivalents**

The following schedule presents by issuer the par value and reported amount of the Investments and Cash Equivalents held as of June 30, 2009 (in thousands).

**Schedule of Investments and Cash Equivalents**

**June 30, 2009**  
**(Dollars in Thousands)**

	<u>Par Value</u>	<u>Reported Amount</u>	<u>Percentage</u>
U.S. Government and Agency Securities:			
Agency Bonds:			
Federal Agricultural Mortgage Corporation	\$ 100,000	\$ 104,438	
Federal Farm Credit Bank	337,040	341,639	
Federal Home Loan Bank	658,500	663,581	
Federal Home Loan Mortgage Corporation	294,079	295,673	
Federal National Mortgage Association	746,845	752,137	
Total Agency Bonds	<u>2,136,464</u>	<u>2,157,468</u>	21.2%
Agency Discount Notes:			
Federal Agricultural Mortgage Corporation	10,000	9,996	
Federal Home Loan Bank	705,620	705,228	
Federal Home Loan Mortgage Corporation	854,200	853,588	
Federal National Mortgage Association	308,871	308,727	
Total Agency Discount Notes	<u>1,878,691</u>	<u>1,877,539</u>	18.5%
Treasury Bills:	<u>397,500</u>	<u>402,048</u>	3.9%
Total U.S. Government and Agency Securities	<u>4,412,655</u>	<u>4,437,055</u>	43.6%
Commercial Paper:			
Broker/Dealer:			
BNP Paribas	<u>150,000</u>	<u>149,992</u>	1.5%
Cosmetics:			
Colgate Palmolive	<u>50,000</u>	<u>49,997</u>	0.5%

**OREGON SHORT-TERM FUND**  
**Notes to Financial Statements (continued)**  
June 30, 2009

	<u>Par Value</u>	<u>Reported Amount</u>	<u>Percentage</u>
Financial:			
American Honda Finance	\$ 15,000	\$ 14,999	
HSBC Financial	80,000	79,997	
John Deere Capital	50,000	50,000	
Rabobank USA Financial	130,000	129,997	
Toyota Motor Credit	200,000	199,998	
US Bancorp	150,000	150,000	
Total Financial	<u>625,000</u>	<u>624,991</u>	6.2%
Gasses:			
Praxair Incorporated	<u>10,000</u>	<u>9,999</u>	0.1%
Import/Export:			
Sumitomo Corporation of America	<u>69,000</u>	<u>68,979</u>	0.7%
Industrial			
General Electric Capital Corporation	80,214	76,113	
Hewlett Packard Company	50,000	50,000	
Koch Resources, LLC	175,000	174,998	
Total Industrial	<u>305,214</u>	<u>301,111</u>	3.0%
Investment Management:			
Alliance Bernstein	<u>25,000</u>	<u>25,000</u>	0.2%
Pipelines:			
Colonial Pipeline Company	<u>43,275</u>	<u>43,273</u>	0.4%
Special Purpose Entity:			
Cargill GBL Funding	50,000	49,998	
Procter & Gamble International Funding	37,200	37,193	
Unilever Capital Corp	30,000	29,999	
Total Special Purpose Entity	<u>117,200</u>	<u>117,190</u>	1.2%
Telephone - Integrated:			
Verizon Communication	<u>107,000</u>	<u>106,996</u>	1.1%

**OREGON SHORT-TERM FUND**  
**Notes to Financial Statements (continued)**  
June 30, 2009

	<u>Par Value</u>	<u>Reported Amount</u>	<u>Percentage</u>
Utility-Electric:			
FPL Group Capital	\$ 75,900	\$ 75,894	
Nstar Electric Company	114,000	113,996	
Total Utility-Electric	189,900	189,890	1.9%
Total Commercial Paper	1,691,589	1,687,418	16.8%
Corporate Notes:			
Bank Notes:			
Wachovia Corporation	96,385	96,139	0.9%
Broker/Dealer:			
Bear Stearns	10,000	9,956	
Credit Suisse USA, Inc.	143,850	143,749	
Goldman Sachs	264,431	262,351	
Merrill Lynch and Company	108,626	108,083	
Morgan Stanley	183,841	181,361	
Total Broker/Dealer	710,748	705,500	6.9%
Financial and Insurance:			
American Honda Finance	177,930	174,869	
Bank America	25,000	24,255	
Bank of New York	40,000	39,925	
Bear Stearns	15,100	14,855	
Citigroup Inc.	58,000	55,645	
Credit Suisse First Boston	54,102	54,047	
Countrywide Funding Corporation	10,000	9,908	
General Electric Capital Corporation	174,935	172,838	
Household Finance Corporation	15,685	15,653	
HSBC Finance Corporation	77,350	76,269	
International Lease Finance Corporation	77,055	75,399	
JP Morgan Chase and Company	239,399	237,869	
Lehman Brothers Holdings	191,302	28,217	
Nationwide Life	86,000	85,454	
Suncorp Metway LTD	50,000	49,897	
Toyota Motor Credit	45,000	44,738	
US Bankcorp	83,750	84,286	
UBS AG Stamford	220,000	219,650	
Wachovia Corporation	110,165	106,933	
Wells Fargo and Company	105,460	103,969	
Total Financial and Insurance	1,856,233	1,674,676	16.5%

**OREGON SHORT-TERM FUND**  
**Notes to Financial Statements (continued)**  
June 30, 2009

	<u>Par Value</u>	<u>Reported Amount</u>	<u>Percentage</u>
Foreign Government Backed Securities			
Barclays Realty Limited Partnership	\$ 60,000	\$ 59,927	0.6%
Industrial:			
Abbott Labs	13,000	13,913	0.1%
REITS:			
Arden Realty Limited Partnership	9,000	9,151	
Frachise Financing Corporation	5,000	5,291	
Total REITS	14,000	14,442	0.1%
Medical - Drugs:			
Pfizer Incorporated	50,000	51,563	0.5%
Supranational Bank:			
International Bank for Reconciliation and Development	200,000	200,646	2.0%
Total Corporate Notes	3,000,366	2,816,806	27.6%
Government Guaranteed Corporate Securities:			
Bank of America	75,000	75,218	
Citigroup	485,000	485,359	
General Electric Capital Corporation	80,000	80,574	
Goldman Sachs Group Incorporated	125,000	126,133	
JP Morgan Chase & Company	112,000	112,752	
Morgan Stanley	179,250	183,225	
Wells Fargo & Company	50,000	51,152	
Total Government Guaranteed Corporate Securites	1,106,250	1,114,413	11.0%
Time Certificates of Deposit	97,750	97,750	1.0%
<b>Total Investments and Cash Equivalents</b>	<b>\$ 10,308,610</b>	<b>\$ 10,153,442</b>	<b>100.0%</b>





## **OTHER REPORTS**



**Office of the Secretary of State**

Kate Brown  
Secretary of State

Barry Pack  
Deputy Secretary of State



**Audits Division**

Gary Blackmer  
Director

255 Capitol St. NE, Suite 500  
Salem, OR 97310

(503) 986-2255  
**fax** (503) 378-6767

The Honorable Theodore R. Kulongoski, Governor of Oregon  
The Honorable Ben Westlund, State Treasurer  
The Oregon Investment Council  
Oregon Short-Term Fund Board

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

We have audited the financial statements of the Oregon Short-Term Fund, an investment pool of the State of Oregon, as of and for the year ended June 30, 2009, and have issued our report thereon dated August 25, 2009. 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 the Office of the State Treasurer's internal control over financial reporting relating to the Oregon Short-Term Fund 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 Office of the State Treasurer's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Office of the State Treasurer'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 the Oregon Short-Term Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management of the Office of the State Treasurer, the Oregon Investment Council, the Oregon Short-Term Fund Board, the Governor of the State of Oregon, and the Oregon Legislative Assembly and is not intended to be and should not be used by anyone other than these specified parties.

OREGON AUDITS DIVISION

Kate Brown  
Secretary of State

August 25, 2009

# **ABOUT THE SECRETARY OF STATE AUDITS DIVISION**

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The Oregon Constitution provides that the Secretary of State shall be, by virtue of his office, Auditor of Public Accounts. The Audits Division exists to carry out this duty. The division reports to the elected Secretary of State and is independent of the Executive, Legislative, and Judicial branches of Oregon government. The division audits all state officers, agencies, boards, and commissions and oversees audits and financial reporting for local governments.

## **Directory of Key Officials**

Director	Gary Blackmer
Deputy Director	William K. Garber, MPA, CGFM
Deputy Director	Mary Wenger, CPA

## **Audit Team**

Kelly Olson, CPA, Audit Manager  
Sarah Anderson, CPA  
Mary Doel

The courtesies and cooperation extended by management and staff of the Office of the State Treasurer during the course of our audit were commendable and sincerely appreciated.

This report, a public record, is intended to promote the best possible management of public resources. Copies may be obtained from:

internet: <http://www.sos.state.or.us/audits/index.html>  
phone: 503-986-2255  
mail: Oregon Audits Division  
255 Capitol Street NE, Suite 500  
Salem, OR 97310

**Auditing to Protect the Public Interest and Improve Oregon Government**

