



State of Oregon

OREGON SHORT TERM FUND

An Investment Pool of the State of Oregon

Financial Statements

For the Year Ended June 30, 2020

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OREGON SHORT TERM FUND
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FINANCIAL SECTION

Bev Clarno
Secretary of State

Jeff Morgan
Interim Deputy Secretary of State



Kip R. Memmott, MA, CGAP, CRMA
Director

255 Capitol St. NE, Suite 500
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Independent Auditor's Report

The Honorable Kate Brown, Governor of Oregon
The Honorable Tobias Read, State Treasurer
Oregon Investment Council
Oregon Short Term Fund Board

Report on the Financial Statements

We have audited the accompanying financial statements of the Oregon Short Term Fund, an external investment pool of the State of Oregon, as of and for the year ended June 30, 2020, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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, 2020, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Oregon Short Term Fund and do not purport to, and do not, present fairly the financial position of the Oregon State Treasury or the State of Oregon as of June 30, 2020, or the changes in their financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2020, on our consideration of the Oregon State Treasury'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 solely 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 effectiveness of the Oregon State Treasury's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Oregon State Treasury's internal control over financial reporting and compliance.

Office of the Secretary of State, Audits Division

State of Oregon
August 31, 2020

State of Oregon
OREGON SHORT TERM FUND

Statement of Net Position

June 30, 2020

(Dollars in Thousands)

Assets:

| | |
|---|-------------------|
| Cash and Cash Equivalents | \$ 2,398,803 |
| Investments | 20,719,741 |
| Accrued Interest Receivable | 56,220 |
| Due from Broker on Sale | 44,996 |
| Due from Oregon Secretary of State (Note 5) | 49 |
| Securities Lending Collateral (Note 3) | 280,426 |
| Total Assets | <u>23,500,235</u> |

Liabilities:

| | |
|---|----------------|
| Due to Broker on Purchase | 44,969 |
| Due to Employment Department (Note 6) | 375 |
| Obligations Under Securities Lending (Note 3) | 280,426 |
| Total Liabilities | <u>325,770</u> |

Net Position:

| | |
|--------------------------------|-----------------------------|
| Held in Trust for Participants | <u>23,174,465</u> |
| Total Net Position | <u><u>\$ 23,174,465</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 Position

For the Year Ended June 30, 2020

(Dollars in Thousands)

Additions

Investment Earnings:

| | |
|---|----------|
| Net Increase in Fair Value of Investments | \$ 9,135 |
| Interest, Dividends, and Other | 555,344 |
| Securities Lending Income | 5,831 |

| | |
|----------------------------------|---------|
| Total Investment Earnings | 570,310 |
|----------------------------------|---------|

Less Investment Costs:

| | |
|------------------------------------|--------|
| Investment Activity Costs (Note 4) | 14,303 |
| Securities Lending Costs | 4,356 |

| | |
|--------------------------------|---------|
| Net Investment Earnings | 551,651 |
|--------------------------------|---------|

Participant Account Transactions:

| | |
|---|--------------|
| Participants' Contributions & Reinvested Income | 79,864,747 |
| Participants' Withdrawals | (77,949,188) |

| | |
|---|-----------|
| Net Increase as a Result of Participant Transactions | 1,915,559 |
|---|-----------|

| | |
|------------------------|-----------|
| Total Additions | 2,467,210 |
|------------------------|-----------|

Deductions:

| | |
|---|---------|
| Distributions of Interest to Participants | 486,095 |
|---|---------|

| | |
|-------------------------|---------|
| Total Deductions | 486,095 |
|-------------------------|---------|

| | |
|---|-----------|
| Change in Assets Held in Trust for Participants | 1,981,115 |
|---|-----------|

| | |
|--------------------------|------------|
| Net Position - Beginning | 21,193,349 |
|--------------------------|------------|

| | |
|---------------------------------------|---------------|
| Net Position - Ending (Note 7) | \$ 23,174,464 |
|---------------------------------------|---------------|

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

OREGON SHORT TERM FUND

Notes to Financial Statements

June 30, 2020

(1) Summary of Significant Accounting Policies

Reporting Entity The Oregon Short Term Fund (the 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 (the Council). The State Treasurer is the investment officer for the Council and is responsible for all funds entrusted to the Oregon State Treasury (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. 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 demands 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, including cash held with the custodial bank.

Investments Investments with remaining maturities of fewer 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 regarding 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. OST accumulates an amount to offset potential losses based on historical default rates, as part of Total Net Position (See Note 7). This balance is reviewed at the end of every month, and is considered in setting the rate paid to participants, 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 and posted on the last business day.

OREGON SHORT TERM FUND

Notes to Financial Statements

June 30, 2020

(2) Deposits and Investments

Deposits On June 30, 2020 the Fund held a \$75.9 million book balance in deposits with a bank balance of \$69.1 million. Insurance and collateral requirements for deposits are established by banking regulations and Oregon law. Where interest-bearing balances exceed the Federal Deposit Insurance amount of \$250,000, the balances are covered by collateral held in a multiple financial institution collateral pool (ORS 295.015) administered by the OST in the Public Funds Collateralization Program (PFCP). As of June 30, 2020, \$2.1 million of demand deposits were covered by FDIC insurance and \$67 million of demand deposits were collateralized under the PFCP.

Investments On June 30, 2020, the Fund had a net position of \$23.2 billion, \$2.4 billion of which is classified as Cash and Cash Equivalents on the Statement of Net Position. 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 (see the current portfolio rules at <https://www.oregon.gov/treasury/public-financial-services/oregon-short-term-funds/pages/default.aspx>). The different risks are discussed below.

A. Interest rate and credit 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 period of the reset date (reset) or maturity of the investments held by the Fund. The portfolio rules require that at least 50 percent of the portfolio mature or reset within 93 days; not more than 25 percent of the portfolio may mature or reset in over a year; and no investments may mature or reset over three years from settlement date. The June 30, 2020 holdings are shown in the schedule below. For variable rate securities, the next interest rate reset date is used instead of the maturity date. For variable rate securities, in a fixed rate period that will switch to variable rate at a later date, the maturity is based on the final maturity of the security, not the next variable reset date. For fixed rate securities with a put option, the date upon which the put option is fully exercisable for at least 100% of the face value is used instead of the maturity date, and for variable rate securities with a put option, the earlier of the next variable reset date or the put date is used instead of the maturity date. For asset-backed securities, the weighted average life will be used as a proxy for the maturity date.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Fund's policies provide for a composite minimum weighted average credit quality rating for the Fund's holdings to be the equivalent of a AA Standard and Poor's (S&P) rating. This composite is calculated based on the median rating if three agencies rate the security, the lower rating if two ratings are available, or the single rating if only one rating is available. On June 30, 2020, the fund's composite weighted average rating was equivalent to S&P's AA based on the method described above. U.S. Treasuries and all unrated federal agency securities were also assumed to be rated AAA for the composite rating, as these securities are backed by the U.S. government.

The minimum ratings for corporate notes at the time of purchase are an S&P rating of A-, a Moody's rating of A3 or a Fitch rating of A-. Commercial paper is required to have a minimum short-term credit rating at the time of purchase from two of three ratings services; minimum ratings are S&P of A-1, Moody's of P-1 and Fitch of F-1. Foreign government securities are required to have a minimum credit rating from S&P of AA-, Moody's of Aa3 or Fitch of AA-. Asset-backed securities are required to have long-term ratings of AAA, Aaa or AAA, or short-term ratings of A-1+, P-1 or F-1+ by S&P, Moody's, and Fitch, respectively.

Fund policies allow securities downgraded below the minimum required ratings at the time of purchase to be retained at the Senior Investment Officer's discretion. Rating groups were determined using the lowest actual rating from S&P, Moody's or Fitch, and are shown below:

OREGON SHORT TERM FUND

Notes to Financial Statements

June 30, 2020

Interest Rate and Credit Risk (Dollars in Thousands)

| Classification | Rating | One to Three | | | | Par Value |
|--------------------------------------|--------------|-----------------|-------------|-------------|--------------|--------------|
| | | 93 Days or Less | 94-366 Days | Years | Total | |
| U.S. Treasuries | Not Rated | \$2,258,612 | \$911,182 | \$859,317 | \$4,029,111 | \$4,000,500 |
| Agency Securities | AA | 621,014 | 346,401 | 637,341 | 1,604,756 | 1,597,848 |
| Agency Discount Notes | Not Rated(2) | 340,135 | - | - | 340,135 | 340,164 |
| Municipal Commercial Paper | A-1+ | 152,309 | - | - | 152,309 | 152,341 |
| | A-1 | 10,000 | - | - | 10,000 | 10,000 |
| | | 162,309 | - | - | 162,309 | 162,341 |
| Municipal Obligations | AAA | 14,880 | 15,818 | - | 30,698 | 30,615 |
| | AA | 47,838 | - | 157,146 | 204,984 | 199,125 |
| | A | 28,997 | - | - | 28,997 | 29,000 |
| | | 91,715 | 15,818 | 157,146 | 264,679 | 258,740 |
| Commingled Investment Pool | Not Rated(3) | - | - | 223,046 | 223,046 | 215,278 |
| Non U.S. Government Commercial Paper | A-1+ | 231,707 | 86,163 | - | 317,870 | 318,060 |
| | A-1 | 246,993 | - | - | 246,993 | 247,000 |
| | | 478,700 | 86,163 | - | 564,863 | 565,060 |
| Non U.S. Government Obligations | AAA | 70,516 | 261,775 | 90,262 | 422,553 | 415,925 |
| | AA | 260,044 | 183,985 | 184,435 | 628,464 | 620,145 |
| | A | - | 41,544 | 225,298 | 266,842 | 259,000 |
| | | 330,560 | 487,304 | 499,995 | 1,317,859 | 1,295,070 |
| Corporate Commercial Paper | A-1+ | 99,969 | - | - | 99,969 | 100,000 |
| | A-1 | 1,071,152 | 44,766 | - | 1,115,918 | 1,116,350 |
| | A-2 | 42,703 | - | - | 42,703 | 42,800 |
| | | 1,213,824 | 44,766 | - | 1,258,590 | 1,259,150 |
| Corporate Obligations | AAA | 99,924 | - | - | 99,924 | 100,000 |
| | AA | 755,994 | 68,945 | 91,713 | 916,652 | 910,912 |
| | A | 4,335,151 | 806,802 | 1,342,237 | 6,484,190 | 6,439,069 |
| | BBB(1) | 657,186 | 149,499 | 283,673 | 1,090,358 | 1,076,339 |
| | | 5,848,255 | 1,025,246 | 1,717,623 | 8,591,124 | 8,526,320 |
| Asset-Backed Securities | AAA | 2,060,420 | 1,184,290 | 1,141,255 | 4,385,965 | 4,349,087 |
| Negotiable Certificates of Deposit | A | 275,014 | 25,193 | - | 300,207 | 300,000 |
| Cash | | 75,900 | - | - | 75,900 | 75,900 |
| Total | | \$13,756,458 | \$4,126,363 | \$5,235,723 | \$23,118,544 | \$22,945,458 |

¹ Securities rated BBB on this table have been downgraded during the past fiscal year. The positions have been reviewed and retained at the Senior Investment Officer's discretion per the rules above.

² Federal Agency securities, which are not rated by the credit ratings agencies as they carry an implicit guarantee of the U.S. Government.

³ The Oregon Local Government Intermediate Term Fund is not rated by the credit ratings agencies. The composite credit quality rating of the Oregon Local Government Intermediate Term Fund's holdings was AA at June 30, 2020.

B. Custodial credit risk

Custodial credit risk for investments is the risk that, in the event of a transactional counterparty failure, 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 \$0.25 million.

OREGON SHORT TERM FUND

Notes to Financial Statements

June 30, 2020

C. 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, 10 percent for both municipals and foreign governments and instrumentalities, 5 percent for corporate securities, asset-backed securities and negotiable certificates of deposit and 10 percent for all securities and support commitments with the exception of U.S. Treasury (100 percent) and Government Agency securities (33 percent per issuer). In addition, no more than \$250 million may be invested in the Oregon Local Government Intermediate Term Fund. On June 30, 2020, the Fund did not hold investments with any one issuer that exceeded these limits.

D. Foreign currency risk

The Fund portfolio rules prohibit investments that are not U.S. 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 lending 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 and U.S. Treasury securities. Borrowers were required to deliver collateral for each loan equal to not less than 102 percent of the market value of the loaned security. The State may pledge or sell the collateral securities received only in the event of a borrower default. The State has the ability to impose restrictions on the amount of the loans that the securities lending agent made on its behalf. No such restrictions were made during the year ended June 30, 2020. 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.

The Fund's lending agent uses a fund to reinvest cash collateral received on behalf of the Fund and other Oregon state agencies managed by the OST, exclusive of the Oregon Public Employees Retirement Fund. At June 30, 2020 the Fund's allocated portion of the market value of repurchase agreements held by the fund was approximately \$72,030,000. 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 Position. The balances of securities on loan, collateral received and invested collateral at market value are presented in the schedule below.

OREGON SHORT TERM FUND**Notes to Financial Statements**

June 30, 2020

Schedule of Securities Lending Balances

(Dollars in Thousands)

| | Securities on Loan at | | | Invested Cash Collateral at | |
|------------------------|------------------------------|----------------------------|--------------|------------------------------------|--|
| | Fair Value | Collateral Received | | Fair Value | |
| U.S. Agency Securities | \$ 79,628 | \$ 81,246 | ¹ | \$ 51,898 | |
| U.S. Treasury | 198,082 | 202,134 | ² | 135,454 | |
| Corporate Notes | 59,174 | 60,418 | ³ | 93,092 | |
| Total | <u>\$ 336,884</u> | <u>\$ 343,798</u> | | <u>\$ 280,444</u> | |

¹ Cash Collateral \$81,246² Cash Collateral \$138,762, U.S. Treasury \$63,372³ Cash Collateral \$60,418

The State and borrowers maintained the right to terminate all securities lending transactions on demand. As a consequence, the maturities of investments made with cash collateral generally do not match the maturities of the securities loans. As of June 30, 2020, the State had no credit risk exposure to borrowers related to securities on loan.

(4) Management and Administrative 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, 2020 the OST charged the Fund a monthly rate of 0.435 basis points on the most recent market value of the Fund. The fee is deducted from investment income before distributions to participants. Fees charged to the Fund, including administration and management fees, totaled \$14.3 million for the year ended June 30, 2020.

(5) Receivables from State Agencies and Other Commitments

The Oregon Secretary of State entered into an agreement in October of 2018 to borrow \$82,178 for the purpose of purchasing voting equipment that will be sold pursuant to agreement between Secretary of State and Curry County. Interest is charged at a fixed rate equal to four point zero three five (4.035) percent per annum. The loan will mature on the earlier of December 31, 2023 or on the date OST determines the Fund requires repayment to meet current Fund requirements.

(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 (Employment), which is also a participant in the Fund. The OST processes transfers of employment taxes and benefit payments between state agencies and Employment. 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.

OREGON SHORT TERM FUND

Notes to Financial Statements

June 30, 2020

(7) Equity of Internal and External Participants

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

Net position held in trust for participants (in thousands):

| | |
|---------------------------------|----------------------|
| Equity of internal participants | \$ 14,978,711 |
| Equity of external participants | 8,195,753 |
| | <u>\$ 23,174,464</u> |

Net position consist of (in thousands):

| | |
|---|----------------------|
| Participants' Account Balances | \$ 22,971,880 |
| Undistributed and Unrealized Gains (Losses) | 156,739 |
| Allowance for Potential Defaults | 45,845 |
| | <u>\$ 23,174,464</u> |

Participants' Fair Value (Net Position divided by Participants'
Account Balances)

100.88%

(8) Fair Value Measurements

GASB Statement No. 72, *Fair Value Measurements and Application*, establishes a framework for measuring fair value and establishes a reporting hierarchy to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs are developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are developed based on the best information available about the assumptions market participants would use in pricing the asset. The classification of securities within the fair value hierarchy is based upon the activity level in the market for the security type and the inputs used to determine their fair value, as follows:

- Level 1 – Unadjusted quoted prices for identical instruments in active markets.
- Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable.
- Level 3 – Valuations derived from valuation techniques in which significant inputs are unobservable.

OREGON SHORT TERM FUND

Notes to Financial Statements

June 30, 2020

Fair Value Measurements

(Dollars in Thousands)

| | Assets and Liabilities at Fair Value as of June 30, 2020 | | | |
|--------------------------------------|--|---------------|---------|---------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Investments: | | | | |
| U.S. Treasuries | \$ - | \$ 3,607,146 | \$ - | \$ 3,607,146 |
| Agency Securities | - | 1,563,395 | - | 1,563,395 |
| Agency Discount Notes | - | 45,257 | - | 45,257 |
| Municipal Obligations | - | 220,480 | - | 220,480 |
| Non U.S. Government Commercial Paper | - | 152,135 | - | 152,135 |
| Non U.S. Government Obligations | - | 1,317,859 | - | 1,317,859 |
| Corporate Commercial Paper | - | 338,127 | - | 338,127 |
| Corporate Obligations | - | 8,591,124 | - | 8,591,124 |
| Asset-Backed Securities | - | 4,385,965 | - | 4,385,965 |
| Negotiable Certificates of Deposit | - | 275,207 | - | 275,207 |
| Total Investments | \$ - | \$ 20,496,695 | \$ - | \$ 20,496,695 |

The Fund's investments, other than those with remaining maturities of fewer than ninety days and the investment in the Oregon Local Government Intermediate Term Fund, are valued using the latest bid prices or evaluated quotes from independent pricing vendors. The third-party vendors use a variety of methods when pricing these securities that incorporate relevant observable market data to arrive at an estimate of what a buyer in the marketplace would pay for a security under current market conditions. At June 30, 2020, certain corporate and non U.S. government commercial paper is reported at amortized cost as independent vendor pricing was not available. Investments with remaining maturities of fewer than ninety days are carried at amortized cost, which approximates fair value. The Fund's investment in the Oregon Local Government Intermediate Term Fund (OLGIF) is priced using a net asset value and the value of OLGIF's underlying investments are marked to market daily. The Fund held approximately 90% of the outstanding units of OLGIF at June 30, 2020. All of the Fund's investment at June 30, 2020 are considered level 2.

OTHER REPORTS

Bev Clarno
Secretary of State

Jeff Morgan
Interim Deputy Secretary of State



Kip R. Memmott, MA, CGAP, CRMA
Director

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

503-986-2255

Independent Auditor's 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*

The Honorable Kate Brown, Governor of Oregon
The Honorable Tobias Read, State Treasurer
Oregon Investment Council
Oregon Short Term Fund Board

We have audited, 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, the financial statements of the Oregon Short Term Fund, an external investment pool of the State of Oregon, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Oregon Short Term Fund's basic financial statements, and have issued our report thereon dated August 31, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Oregon State Treasury's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Oregon State Treasury's internal control. Accordingly, we do not express an opinion on the effectiveness of Oregon State Treasury's internal control.

A deficiency in internal control 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 and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Oregon Short Term Fund's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Office of the Secretary of State, Audits Division

State of Oregon
August 31, 2020