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Secretary of State

State of Oregon

**OREGON SHORT-TERM FUND**

**An Investment Pool of the State of Oregon**

For the Years Ended June 30, 2004 and 2003



Audits Division

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**Audits Division**





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*Auditing for a Better Oregon*

The Honorable Ted Kulongoski  
Governor of Oregon  
254 State Capitol  
Salem, Oregon 97310-4047

The Honorable Randall Edwards, State Treasurer, and the  
Oregon Short-Term Fund Board  
Oregon State Treasury  
350 Winter Street NE, Suite 100  
Salem, Oregon 97310-0840

This report presents the results of our annual audit of the Oregon Short-Term Fund, 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 years ended June 30, 2004 and 2003 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.

Auditing standards also require us to review Oregon State Treasury's internal control and compliance with applicable laws and regulations, as it relates to the Oregon Short-Term Fund. Our report on the results of those reviews is included in the Other Reports section of this report. We did not note any instances of noncompliance that are required to be reported under *Government Auditing Standards*. Similarly, we did not note any material weaknesses in internal control over financial reporting. We did note other matters involving internal control over financial reporting, which we reported to Treasury management in a separate letter.

We appreciated the cooperation and assistance of the Oregon State Treasury's management and staff during the course of our audit.

Sincerely,  
OREGON AUDITS DIVISION

Cathy Pollino  
State Auditor



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## SUMMARY

### AUDIT PURPOSE

The audit was conducted for the purpose of reporting on the financial statements of the Oregon Short-Term Fund for the years ended June 30, 2004 and 2003, and on Oregon State Treasury's internal control over financial reporting and its compliance with applicable laws and regulations as it relates to the Oregon Short-Term Fund.

### AUDIT RESULTS

This audit concludes that the financial statements of the Oregon Short-Term Fund for the years ended June 30, 2004 and 2003, which are included in this report, are fairly presented. Our report on compliance with applicable laws and regulations and internal control over financial reporting is included herein. Our review disclosed no instances of noncompliance required to be reported herein under *Government Auditing Standards*, nor did we note matters involving internal control over financial reporting that we consider to be material weaknesses.

### ORGANIZATION AND FUNCTIONS

The Oregon Short-Term Fund (OSTF), maintained by the State Treasurer, is a cash and investment pool available for use by all state funds and eligible local governments. The Oregon Short-Term Fund is managed by the Investment Division of the Oregon State Treasury within the guidelines established in the OSTF Portfolio Rules.

Local governments are considered external participants in the OSTF. The Local Government Investment Pool (LGIP) is an open-ended, no-load diversified portfolio offered to eligible participants, including any municipality, subdivision, or public corporation of the state who by law is made the custodian of, or has control of, any public funds. State agency participants are considered internal involuntary participants, because state law requires state agencies to deposit all funds with depositories qualified by the Oregon State Treasury.

The Oregon Short-Term Fund Board (Board) serves as the advisory board to the Oregon Investment Council and the investment officer in the management of the pool and

investment of all state funds that are not subject to the control and administration of officers or bodies specifically designated by law. The Board consists of seven members who serve four-year terms. Members include the Oregon State Treasurer or his designee, three nonpublic members appointed by the Oregon State Treasurer and three members appointed by the Governor who are treasurers, financial or fiscal officers or business managers of any county, city, or school district.

## **FINANCIAL ACTIVITIES**

The OSTF is a governmental 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*. Statement No. 31 requires certain investments to be reported at fair value. The OSTF is valued and reported at fair market value annually. Investments that are not reported at fair value are reported at amortized cost, which approximates fair value.

The OSTF calculates and accrues pool interest daily based on the ending account balances of LGIP participants and state agencies. The interest rate approximates the actual yield of the OSTF, excluding unrealized gains and losses. Interest distributions occur monthly. Total participant account balances equaled approximately \$8.2 billion as of June 30, 2004.

OSTF operates as a demand deposit account, which is classified as cash and cash equivalents in the State of Oregon's Comprehensive Annual Financial Report (CAFR). Local government pooled assets are reported as an Investment Trust Fund in the CAFR.

**FINANCIAL SECTION**





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350 Winter Street NE, Suite 100  
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### **INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying financial statements of the Oregon Short-Term Fund, an investment pool of the State of Oregon, as of and for the years ended June 30, 2004 and 2003, as listed in the table of contents. These financial statements are the responsibility of the Oregon Short-Term Fund management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Oregon Short-Term Fund, an investment pool of the State of Oregon, and do not purport to, and do not present fairly the financial position of the State of Oregon as of June 30, 2004 and 2003, and the changes in its financial position for the years 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, 2004 and 2003, and the changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying Schedule of Investments and Cash Equivalents listed as supplementary information in the foregoing table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Oregon Short-Term Fund. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 17, 2004, on our consideration of Oregon State Treasury's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

OREGON AUDITS DIVISION

Bill Bradbury  
Secretary of State

August 17, 2004

State of Oregon  
**OREGON SHORT-TERM FUND**  
**Statement of Net Assets**  
**June 30, 2004, and 2003**  
(Dollars in Thousands)

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
<b>Assets:</b>		
Cash and Cash Equivalents	\$ 4,998,322	\$ 4,514,272
Investments	3,181,623	3,140,892
Due from Employment Department (note 6)	561	-
Accrued Interest Receivable	11,007	17,344
Securities Lending Collateral	3,861,705	966,339
	12,053,218	8,638,847
<b>Liabilities:</b>		
Payable to Broker (note 7)	-	249,993
Payable to Employment Department (note 6)	-	7
Obligations Under Securities Lending (note 3)	3,861,376	965,153
	3,861,376	1,215,153
<b>Net Assets:</b>		
Held in Trust for Participants (note 8)	8,191,842	7,423,694
	\$ 8,191,842	\$ 7,423,694

*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 Years Ended June 30, 2004, and 2003**  
(Dollars in Thousands)

	<u>Year Ended June 30, 2004</u>	<u>Year Ended June 30, 2003</u>
<b>Additions:</b>		
Participants' Contributions	\$ 35,952,522	\$ 34,556,159
Investment Income, Net of Expenses (notes 1, 5)	113,100	138,276
	<u>36,065,622</u>	<u>34,694,435</u>
<b>Total Additions</b>		
<b>Deductions:</b>		
Participants' Withdrawals	35,166,726	34,890,278
Distributions of Interest to Participants	101,003	125,908
Securities Lending Agent Fees Expense	731	288
Securities Lending Borrowers' Rebate Expense	29,014	10,390
	<u>35,297,474</u>	<u>35,026,864</u>
<b>Total Deductions</b>		
Change in Net Assets Held in Trust For Participants	768,148	(332,429)
Net Assets - Beginning	<u>7,423,694</u>	<u>7,756,123</u>
<b>Net Assets – Ending</b> (note 8)	<u>\$ 8,191,842</u>	<u>\$ 7,423,694</u>

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



**OREGON SHORT-TERM FUND**  
**Notes to Financial Statements**  
June 30, 2004 and 2003

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

**Reporting Entity.** The Oregon Short-Term Fund (Fund) is one of five asset classes approved for the investment of State of Oregon (State) funds. 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 the 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 in the State Treasury. 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 issued by the Oregon Short-Term Fund Board, which establishes diversification percentages and specifies 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 as of June 30, 2004.

According to ORS 295.025, state agencies must deposit all funds with depositories qualified by the State Treasury. 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. Interest income and expenses are recognized on an accrual basis. 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.

**OREGON SHORT-TERM FUND**  
**Notes to Financial Statements (continued)**

June 30, 2004 and 2003

**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 includes cash in banks.

**Investments.** Investments with remaining maturities of up to 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 State Treasury. 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. See note (8).

**(2) Deposits and Investments**

**A. Deposits** Three categories of credit risk apply to deposits of state agencies and local governments:

1. Insured or collateralized with securities held by the State or by its agent in the State's name.
2. Collateralized with securities held by the pledging financial institution's trust department or agent in the State's name.
3. Uncollateralized.

As of June 30, 2004, the bank balance of deposits was \$131.5 million; \$61.6 million in category 1 and \$69.9 million in category 3. As of June 30, 2004, the book balance of deposits was 94.2 million.

The insurance and collateral requirements for deposits are established by banking regulations and Oregon law. FDIC insurance of \$100,000 applies to the deposits in each depository. Where balances continually exceed \$100,000, ORS 295.025 requires the depositor to obtain certificates of participation in the amount of the excess deposit from its pool manager. ORS 295.005 provides

**OREGON SHORT-TERM FUND**  
**Notes to Financial Statements (continued)**  
June 30, 2004 and 2003

that the pool manager can be the Oregon State Treasury, an insured bank or trust company, the Federal Reserve Bank, or the Federal Home Loan Bank. Depository banks must pledge securities with a value of at least 25 percent of the certificate of participation, and the securities are held by a custodian for the benefit of the State of Oregon. The pool manager ensures that the value of the securities pledged is at least 25 percent of the certificates of participation.

**B. Investments** Three categories of credit risk apply to cash equivalents and investments of the Oregon Short-Term Fund:

1. Insured or registered, or securities held by the State or by its agent in the State's name.
2. Uninsured or unregistered, with securities held by the counterparty's trust department or agent in the State's name. (The Fund held no investments in this category as of June 30, 2004).
3. Uninsured or unregistered, with securities held by the counterparty or its trust department or agent not in the State's name.

Investments and cash equivalents held in each category are reported in the Schedule of Custodial Category Risk.

**Schedule of Custodial Category Risk**  
June 30, 2004  
(Dollars in Thousands)

	<u>Yield</u>	<u>Maturity Dates</u>	<u>Par Value</u>	<u>Reported Amount*</u>
Investments and cash equivalents – category 1:				
Not on loan:				
U.S. Government & Agency Securities	1.00 – 3.00	7/1/04 – 3/9/07	\$ 1,492,472	\$ 1,490,790
Commercial paper	1.03 – 1.48	7/1/04 – 8/12/04	2,818,949	2,817,486
			<u>4,311,421</u>	<u>4,308,276</u>
Investments and cash equivalents – not categorized:				
Held by broker-dealers under securities loans:				
U.S. Government & Agency Securities	1.00 – 3.41	7/1/2004 – 3/9/2007	3,784,584	3,777,514
Securities lending collateral short-term investment fund	1.06 – 1.81	7/1/2004 – 9/15/2011	3,861,376	3,861,705
			<u>7,645,960</u>	<u>7,639,219</u>
			<u>\$ 11,957,381</u>	<u>\$ 11,947,495</u>

\* Reported amount is a combination of amortized cost and fair value. See Note 1.

**OREGON SHORT-TERM FUND**  
**Notes to Financial Statements (continued)**

June 30, 2004 and 2003

**(3) Securities Lending**

The State Treasury 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 securities lending agreements.

The State's securities lending agent lent short-term and fixed income securities and received as collateral U.S. dollar-denominated cash. Securities lent at year-end for cash collateral are presented as "not categorized" in the schedule of custodial credit risk. Cash collateral is invested in a short-term investment fund maintained by the custodial agent. The Fund's share of the short-term investment fund is presented as "not categorized" in the schedule of custodial credit risk.

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.

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, 2004, the State had no credit risk exposure to borrowers related to securities on loan.

**(4) Derivatives**

The Governmental Accounting Standards Board issued Technical Bulletin 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*, in June 2003, which supercedes Technical Bulletin No. 94-1, *Disclosures about Derivatives and Similar Debt and Investment Transactions*. The Fund held no investments that are considered derivatives according to Technical Bulletin 2003-1 on June 30, 2004 or June 30, 2003.

**OREGON SHORT-TERM FUND**  
**Notes to Financial Statements (continued)**  
June 30, 2004 and 2003

**(5) Management Fees**

In accordance with ORS 293.718, the State Treasury may deduct monthly 0.435 basis points of the most recent market value of assets under management for administration and portfolio management. For the years ended June 30, 2004 and 2003, the State Treasury 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 \$2,844,072 and \$2,668,189 for the years ended June 30, 2004 and 2003, respectively.

**(6) Receivable from and Payable to Employment**

The State Treasury maintains accounts separate from the Fund that contain employment benefit and trust funds in the name of the Oregon Department of Employment, also a participant in the Fund. The State Treasury processes transfers of employment taxes and benefit payments between state agencies and the Oregon Department of 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.

**(7) Broker Payable**

On June 30, 2003, the settlement of a purchase of \$200 million (par value) of commercial paper failed because the broker did not deliver the securities to the Fund's custodian. Since the trade was executed that day, the cost of the securities (approximately \$200 million) is included in Cash Equivalents on the balance sheet. However, since the trade did not settle as expected on June 30, Cash Equivalents also includes the same amount of cash held by the Fund's custodian and an offsetting Broker Payable balance. The broker subsequently made the Fund whole for this purchase.

**OREGON SHORT-TERM FUND**  
**Notes to Financial Statements (continued)**  
June 30, 2004 and 2003

**(8) 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 and undistributed and unrealized gains:

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Net Assets Held in Trust for Participants: (in thousands)		
Equity of Internal Participants	\$ 4,822,897	\$ 4,090,048
Equity of External Participants	<u>3,368,944</u>	<u>3,333,646</u>
	<u>\$ 8,191,841</u>	<u>\$ 7,423,694</u>
Net Assets Consist of: (in thousands)		
Participants' Account Balances	\$ 8,200,047	\$ 7,414,251
Undistributed and Unrealized Gains (Losses)	<u>(8,206)</u>	<u>9,443</u>
	<u>\$ 8,191,841</u>	<u>\$ 7,423,694</u>
Participants' Fair Value (Net Assets divided by Participants' Account Balances)	<u>.999</u>	<u>1.001</u>

**SUPPLEMENTARY INFORMATION**



**OREGON SHORT-TERM FUND**  
**Schedule of Investments and Cash Equivalents**  
June 30, 2004  
(Dollars in Thousands)

	<u>Par Value</u>	<u>Reported Amount</u>	<u>Percentage</u>
<b>Unaudited</b>			
<b>INVESTMENTS AND CASH EQUIVALENTS NOT ON LOAN – categorized:</b>			
U.S. Government and Agency Securities:			
Agency Bonds:			
Federal Farm Credit Bank	\$ 800	\$ 795	
Federal Home Loan Bank	379,840	379,830	
Federal Home Loan Mortgage Corporation	104,276	103,511	
Federal National Mortgage Association	120,250	119,768	
Student Loan Marketing Association	<u>15,000</u>	<u>15,082</u>	
Total Agency Bonds	\$ <u>620,166</u>	\$ <u>618,986</u>	5.2%
Agency Discount Notes:			
Federal Home Loan Bank	\$ 120,687	\$ 120,667	
Federal Home Loan Mortgage Corporation	247,992	247,864	
Federal National Mortgage Assoc	444,627	444,291	
FRM	<u>59,000</u>	<u>58,982</u>	
Total Agency Discount Notes	\$ <u>872,306</u>	\$ <u>871,804</u>	7.3%
Total U.S. Government Agency Securities	\$ <u>1,492,472</u>	\$ <u>1,490,790</u>	12.5%
Commercial Paper:			
Asset Backed:			
CXC Inc	\$ 177,750	\$ 177,608	
Daimler Chrysler Revolving	250,000	249,919	
FCAR Owner Trust 1	256,000	255,730	
Fleet Funding	50,000	49,992	
Giro Multi Funding Corp	175,599	175,488	
GOVCO Inc.	107,200	107,060	
New Center Asset Trust	<u>170,000</u>	<u>169,868</u>	
Total Asset Backed	\$ <u>1,186,549</u>	\$ <u>1,185,665</u>	9.9%

**OREGON SHORT-TERM FUND**  
**Schedule of Investments and Cash Equivalents (continued)**

June 30, 2004

(Dollars in Thousands)

	<b><u>Par</u></b>	<b><u>Reported</u></b>	<b>Unaudited</b>
	<b><u>Value</u></b>	<b><u>Amount</u></b>	<b><u>Percentage</u></b>
Broker Dealer:			
Bear Stearns Co	\$ <u>50,000</u>	\$ <u>49,980</u>	.4%
Financial:			
Bank America Corp	125,000	124,955	
CIT Group, Inc.	214,000	213,886	
General Electric Capital Corp.	250,000	250,000	
General Re Corp	72,000	71,998	
Household Finance Corp	195,000	194,960	
INTL Lease Finance	49,200	49,178	
National Rural Utilities Coop	270,000	269,884	
Prudential Funding, LLC	50,000	49,976	
Southern Company Funding Corp.	106,000	105,922	
Toyota Motor Credit	110,000	109,967	
Verizon Network	<u>37,500</u>	<u>37,485</u>	
Total Financial	\$ <u>1,478,700</u>	\$ <u>1,478,211</u>	12.4%
Industrial:			
Cortez Capital Corp	\$ 73,700	\$ 73,651	
Explorer Pipe	<u>30,000</u>	<u>29,979</u>	
Total Industrial	\$ <u>103,700</u>	\$ <u>103,630</u>	0.9%
Total Commercial Paper	\$ <u>2,818,949</u>	\$ <u>2,817,486</u>	23.6%
<b>TOTAL INVESTMENTS AND CASH</b>			
<b>EQUIVALENTS – Categorized</b>	\$ <u>4,311,421</u>	\$ <u>4,308,276</u>	36.1%

**OREGON SHORT-TERM FUND**  
**Schedule of Investments and Cash Equivalents (continued)**  
June 30, 2004  
(Dollars in Thousands)

	<b><u>Par Value</u></b>	<b><u>Reported Amount</u></b>	<b><u>Percentage</u></b>
<b>INVESTMENT AND CASH EQUIVALENTS – Not Categorized:</b>			
Held by Broker-Dealers Under Securities Loans:			
U.S. Government and Agency Securities	\$ 3,784,584	\$ 3,777,514	
Securities Lending Collateral Short-Term Investment Fund	<u>3,861,376</u>	<u>3,861,705</u>	
<b>TOTAL INVESTMENTS AND CASH EQUIVALENTS – Not Categorized</b>	<u>\$ 7,645,960</u>	<u>\$ 7,639,219</u>	63.9%
<b>TOTALS INVESTMENTS AND CASH EQUIVALENTS</b>	<u><u>\$ 11,957,381</u></u>	<u><u>\$ 11,947,495</u></u>	100.0%



## **OTHER REPORTS**





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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING 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 years ended June 30, 2004 and 2003, and have issued our report thereon dated August 17, 2004. 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.

Compliance

As part of obtaining reasonable assurance about whether the financial statements of the Oregon Short-Term Fund are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Oregon State Treasury's internal control over financial reporting as it relates to the Oregon Short-Term Fund in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting

would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the Oregon State Treasury in a separate letter.

This report is intended solely for the information and use of the Oregon State Treasurer, the Oregon Short-Term Fund Board, the Oregon Investment Council, management of the Oregon State Treasury, 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

Bill Bradbury  
Secretary of State

August 17, 2004

# FACTS 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

<i>State Auditor</i>	Cathy Pollino, CGFM, MBA
<i>Deputy State Auditor</i>	Charles A. Hibner, CPA
<i>Deputy State Auditor</i>	Mary E. Wenger, CPA

## Audit Team

Nancy L. Young, CPA, CISA, CFE, Audit Manager  
Julianne Kennedy, CPA  
Jean M. Hodges, CPA

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

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

