

Report No. 2007-18

September 7, 2007



Charles A. Hibner, Director, Audits Division

Bill Bradbury, Secretary of State

# Secretary of State Audit Report

State of Oregon

**Oregon Short-Term Fund**

An Investment Pool of the State of Oregon

For the Year Ended June 30, 2007

**Report Prepared by Office of the State Treasurer**



**Office of the Secretary of State**

Bill Bradbury  
Secretary of State

Jean Straight  
Deputy Secretary of State



**Audits Division**

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The Honorable Ted Kulongoski  
Governor of Oregon

The Honorable Randall Edwards, State Treasurer, and the  
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, available for use by all state funds and eligible local governments. The OSTF is managed by the Investment Division of the Office of the State Treasurer within the guidelines established in the OSTF Portfolio Rules.

Local governments are considered external participants in the OSTF. The Local Government Investment Pool 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 Office of the State Treasurer (Treasury).

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, 2007, 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 Treasury's internal control over financial reporting and on 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 noted no 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 will report to Treasury management in a separate letter.

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

Sincerely,  
OREGON AUDITS DIVISION

Charles A. Hibner, CPA  
Director



# T A B L E O F C O N T E N T S

	<u>Page</u>
<b>FINANCIAL SECTION</b>	
Independent Auditor's Report.....	3
Financial Statements	
Statement of Net Assets .....	5
Statement of Changes in Net Assets .....	7
Notes to the Financial Statements .....	9
<b>OTHER REPORTS</b>	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters.....	21



**FINANCIAL SECTION**



**Office of the Secretary of State**

Bill Bradbury  
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Oregon Short-Term Fund Board  
Office of the State Treasurer  
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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 year ended June 30, 2007, 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 as it relates to the Oregon Short-Term Fund. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 and do not purport to, and do not, present fairly the financial position of the State of Oregon as of June 30, 2007, 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, 2007, and the changes in financial position thereof 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 29, 2007, on our consideration of Office of the State Treasurer's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and 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

Bill Bradbury  
Secretary of State

August 29, 2007

State of Oregon  
**OREGON SHORT-TERM FUND**  
**Statement of Net Assets**  
**June 30, 2007**  
(Dollars in Thousands)

	<u>June 30, 2007</u>
<b>Assets:</b>	
Cash and Cash Equivalents	\$ 5,767,426
Investments	4,790,777
Due from Employment Department (note 5)	338
Due from Department of Human Resources (note 5)	22,000
Accrued Interest Receivable	43,096
Securities Lending Collateral (note 3)	<u>3,894,125</u>
<b>Total Assets</b>	<u>14,517,762</u>
<b>Liabilities:</b>	
Due to Broker	40,089
Obligations Under Securities Lending (note 3)	<u>3,894,934</u>
<b>Total Liabilities</b>	<u>3,935,023</u>
<b>Net Assets:</b>	
Held in Trust for Participants (note 6)	<u>10,582,739</u>
<b>Total Net Assets</b>	<u>\$ 10,582,739</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, 2007**  
(Dollars in Thousands)

	<u>Year Ended June 30, 2007</u>
<b>Additions:</b>	
Participants' Contributions	\$ 33,366,704
Investment Income, Net of Expenses (notes 1, 4)	<u>611,120</u>
<b>Total Additions</b>	<u>33,977,824</u>
<b>Deductions:</b>	
Participants' Withdrawals	31,020,436
Distributions of Interest to Participants	461,026
Securities Lending Agent Fees Expense	260
Securities Lending Borrowers' Rebate Expense	<u>135,517</u>
<b>Total Deductions</b>	<u>31,617,239</u>
Change in Net Assets Held in Trust For Participants	2,360,585
Net Assets - Beginning	<u>8,222,154</u>
<b>Net Assets – Ending</b> (note 6)	<u>\$ 10,582,739</u>

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



**OREGON SHORT-TERM FUND**  
**Notes to Financial Statements**  
June 30, 2007

**(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 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 entrusted to the Office of the State Treasurer. 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 as of June 30, 2007. These guidelines are discussed in greater detail in the Investments section of note (2).

According to ORS 293.265 and 295.025, state agencies must deposit all funds with depositories qualified by the Office of the State Treasurer. 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 includes cash in banks.

**OREGON SHORT-TERM FUND**  
**Notes to Financial Statements (continued)**  
June 30, 2007

**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 Office of the State Treasurer. 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 (6).

**(2) Deposits and Investments**

**Deposits**

On June 30, 2007 the OSTF held \$22.3 million (book balance) in deposits with a bank balance of \$56.7 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 exceed \$100,000, ORS 295.025 requires the depositor to obtain certificates of participation (COPs) in the amount of the excess deposit from its pool manager. ORS 295.005 provides that the pool manager can be the Office of the State Treasurer, 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 outstanding COPs, 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 outstanding COPs.

The balances in excess of the FDIC insurance plus 25 percent of the COPs are considered exposed to custodial credit risk. Custodial credit risk for deposits is the risk that, in the event of the bank failure, the Fund will be unable to recover deposits or collateral securities in possession of an outside party. As of June 30, 2007, the balances exposed to custodial credit risk totaled \$15.6 million.

**OREGON SHORT-TERM FUND**  
**Notes to Financial Statements (continued)**  
June 30, 2007

**Investments**

On June 30, 2007, the OSTF held \$10.6 billion in net assets, \$5.8 billion of which are classified as 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 (see the current portfolio rules at <http://www.ost.state.or.us/divisions/investment/index.htm>). 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, 2007 holdings are shown in the schedule below. For variable rate securities, the next interest rate reset date is used instead of the maturity date.

**Oregon Short Term Fund Investments**  
June 30, 2007  
(Dollars in Thousands)

Investment Type:	Interest Rate	Reported Amount ①	Up to 93 Days	94 Days to One Year	One to Three Years
Cash Equivalents: ②					
Bank Notes	5.27	\$ 100,000	\$ 100,000	\$ -	\$ -
Commercial Paper	5.23-5.31	3,150,715	3,150,715	-	-
U.S. Agency Securities	3.75-5.18	2,367,230	2,367,230	-	-
Time Certificates of Deposit	5.29-5.32	127,150	127,150	-	-
Subtotal Cash Equivalents		<u>\$ 5,745,095</u>	<u>\$ 5,745,095</u>	<u>\$ -</u>	<u>\$ -</u>
Investments: ②					
U.S. Agency Securities	3.00-5.83	\$ 2,793,446	\$ 1,207,813	\$ 527,968	\$ 1,057,665
Commercial Paper	5.13-5.25	113,017	88,510	24,507	-
Corporate Notes	1.00-7.13	1,884,314	1,143,561	368,204	372,549
Subtotal Investments		<u>\$ 4,790,777</u>	<u>\$ 2,439,884</u>	<u>\$ 920,679</u>	<u>\$ 1,430,214</u>
<b>Total</b>		<u>\$ 10,535,872</u>	<u>\$ 8,184,979</u>	<u>\$ 920,679</u>	<u>\$ 1,430,214</u>

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

② Classification on Statement of Net Assets.

**OREGON SHORT-TERM FUND**  
**Notes to Financial Statements (continued)**  
June 30, 2007

**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 and Moody's, respectively. On June 30, 2007, the Fund's weighted average rating was between the AA+/Aa1 and AA/Aa2 ratings. The schedule below summarizes the fund's holdings by S&P rating.

**Schedule of Credit Quality Distributions**

June 30, 2007

(Dollars in Thousands)

<b>Investment Type:</b>	<b>AAA</b>	<b>AA</b>	<b>A</b>	<b>Not rated</b>	<b>Total Reported Amount</b>
Commercial Paper	\$ -	\$ 49,934	\$ 3,213,798	\$ -	\$ 3,263,732
Corporate Bonds	190,801	1,176,780	387,130	229,603	1,984,314
U.S. Agency Securities	5,160,676	-	-	-	5,160,676
TCDs	-	-	-	127,150	127,150
	<u>-</u>	<u>-</u>	<u>-</u>	<u>127,150</u>	<u>127,150</u>
<b>Total</b>	<u>\$ 5,351,477</u>	<u>\$ 1,226,714</u>	<u>\$ 3,600,928</u>	<u>\$ 356,753</u>	<u>\$ 10,535,872</u>

**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. The time certificates of deposit (TCDs) are exposed to custodial credit risk since they are collateralized by securities pledged by the bank equal to 25 percent of the COP provided by the bank. The uninsured and uncollateralized exposure related to the TCDs is \$94.1 million.

**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, 2007, the Fund did not hold investments with any one issuer that exceeded these limits.

**OREGON SHORT-TERM FUND**  
**Notes to Financial Statements (continued)**  
June 30, 2007

E. Foreign currency

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

**(3) Securities Lending**

The Office of the State Treasurer 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.

The balances of securities on loan and cash collateral received are presented in the schedule below. Cash collateral is invested in a short-term investment fund (STIF) maintained by the custodial agent; the STIF's balance is also presented below. The STIF is not rated by a nationally recognized statistical rating organization (NRSRO), although the Fund's portfolio rules provide minimum requirements with respect to the credit quality of the STIF.

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, 2007, the State had no credit risk exposure to borrowers related to securities on loan.

**Schedule of Securities Lending Balances**

June 30, 2007  
(Dollars in Thousands)

	<b>Securities on Loan at Fair Value</b>		<b>Collateral Received</b>		<b>Invested Collateral at Fair Value (STIF Fund)</b>
U.S Agency Securities	\$ 107,224	\$	109,410	\$	109,466
Corporate Notes	3,709,095		3,785,524		3,784,659
Total	\$ 3,816,319	\$	3,894,934	\$	3,894,125

**OREGON SHORT-TERM FUND**  
**Notes to Financial Statements (continued)**  
June 30, 2007

**(4) Management Fees**

In accordance with ORS 293.718, the Office of the State Treasurer 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, 2007 the Office of the State Treasurer 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 \$3.17 million for the year ended June 30, 2007.

**(5) Receivable from Oregon Employment Department and Department of Human Services**

The Office of the State Treasurer maintains accounts separate from the Fund which contain employment benefit and trust funds in the name of the Oregon Employment Department, which is also a participant in the Fund. The Office of the State Treasurer 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.

The Department of Human Services has an agreement to borrow up to \$40 million to use for short-term cash flow needs through September 30, 2007. Interest is charged at a per annum rate equal to the Oregon Short Term Fund rate plus 70 basis points, which at June 30, 2007 was 5.9 percent. To date, the Department of Human Services has drawn \$22 million. The total amount loaned is due September 30, 2007.

**(6) 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 losses:

**OREGON SHORT-TERM FUND**  
**Notes to Financial Statements (continued)**  
June 30, 2007

	<u>June 30, 2007</u>
Net Assets Held in Trust for Participants: (in thousands)	
Equity of Internal Participants	\$ 6,920,599
Equity of External Participants	<u>3,662,140</u>
	\$ <u><u>10,582,739</u></u>
Net Assets Consist of: (in thousands)	
Participants' Account Balances	\$ 10,586,423
Undistributed and Unrealized Gains (Losses)	<u>(3,684)</u>
	\$ <u><u>10,582,739</u></u>
Participants' Fair Value (Net Assets divided by Participants' Account Balances)	<u><u>99.97%</u></u>

**(7) 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, 2007.

**Schedule of Investments and Cash Equivalents**  
June 30, 2007  
(Dollars in Thousands)

	<u>Par Value</u>	<u>Reported Amount</u>	<u>Percentage</u>
<b>INVESTMENTS AND CASH EQUIVALENTS:</b>			
U.S. Government and Agency Securities:			
Agency Bonds:			
Federal Farm Credit Bank	\$ 8,400	\$ 8,393	
Federal Home Loan Bank	936,825	933,950	
Federal Home Loan Mortgage Corporation	590,162	588,635	
Federal National Mortgage Association	<u>423,668</u>	<u>422,065</u>	
Total Agency Bonds	<u>1,959,055</u>	<u>1,953,043</u>	18.5%
Agency Discount Notes:			
Federal Agriculture Mortgage Corporation	115,075	114,086	
Federal Home Loan Bank	9,000	8,975	
Federal Home Loan Mortgage Corporation	1,645,184	1,634,355	

**OREGON SHORT-TERM FUND**  
**Notes to Financial Statements (continued)**  
June 30, 2007

	<u>Par Value</u>	<u>Reported Amount</u>	<u>Percentage</u>
Federal National Mortgage Assoc	1,460,082	1,450,217	
Total Agency Discount Notes	<u>3,229,341</u>	<u>3,207,633</u>	30.5%
Total U.S. Government Agency Securities	\$ <u>5,188,396</u>	\$ <u>5,160,676</u>	49.0%
 Commercial Paper:			
Asset Backed:			
Alpine Securitization Corporation	\$ 150,000	\$ 149,816	
Barton Capital Corporation	111,531	111,442	
Bavaria Universal Funding	153,239	153,053	
CAFCO, LLC	150,000	149,047	
Ciesco Inc.	200,000	199,063	
Daimler Chrysler Revolving Auto	148,251	147,787	
FCAR Owner Trust 1	110,698	110,245	
FCAR Owner Trust II	48,000	47,887	
Gemini Securities	156,500	156,381	
Giro Balanced Funding	100,848	100,717	
Jupiter Securitization	36,188	36,099	
Ranger Funding	145,000	144,433	
Sheffield Receivables Corporation	120,000	119,847	
Yorktown Capital LLC	<u>140,000</u>	<u>139,496</u>	
Total Asset Backed	<u>1,770,255</u>	<u>1,765,313</u>	16.8%
 Financial:			
American Honda Finance	50,000	49,971	
Bank America Corporation	80,000	79,851	
Barclays US Fund	90,000	89,621	
CIT Group, Inc.	78,449	78,429	
Citigroup Funding, Inc.	160,000	159,602	
Credit Suisse New York	135,000	134,859	
General Electric	15,000	14,708	
International Lease Finance	50,000	49,934	
JP Morgan Chase and Company	27,000	26,744	
Toyota Motor Credit	50,000	49,883	
UBS Finance Delaware, LLC	<u>228,485</u>	<u>228,083</u>	
Total Financial	<u>963,934</u>	<u>961,685</u>	9.1%
 Industrial:			
Explorer Pipe	25,000	24,904	
Koch Resources, LLC	<u>250,000</u>	<u>249,134</u>	
Total Industrial	275,000	274,038	2.6%

**OREGON SHORT-TERM FUND**  
**Notes to Financial Statements (continued)**  
June 30, 2007

	<u>Par Value</u>	<u>Reported Amount</u>	<u>Percentage</u>
Utility - Electric:			
Alabama Power Company	15,000	14,996	
National Rural Utilities	120,000	119,673	
Southern Company Funding	100,000	99,681	
Southern Company	<u>9,600</u>	<u>9,576</u>	
 Total Utility - Electric	 <u>244,600</u>	 <u>243,926</u>	 2.3%
Utility - Gas:			
New Jersey Natural Gas	<u>18,800</u>	<u>18,770</u>	0.2%
 Total Commercial Paper	 \$ <u>3,272,589</u>	 \$ <u>3,263,732</u>	 31.0%
Corporate Notes:			
Bank Notes:			
Wells Fargo Bank	\$ <u>100,000</u>	\$ <u>100,000</u>	1.0%
Broker/Dealer:			
Credit Suisse USA Inc.	90,500	90,601	
Goldman Sachs	110,755	110,735	
Merrill Lynch and Company	181,000	181,003	
Morgan Stanley	<u>180,000</u>	<u>180,071</u>	
 Total Broker/Dealer	 <u>562,255</u>	 <u>562,410</u>	 5.3%
Finance and Insurance:			
American Honda Finance	51,460	51,384	
Associates Corporation	64,665	65,365	
Bank America	20,750	20,847	
Bank One	25,595	25,406	
Barclays Financial, LLC	100,000	97,251	
Berkshire Hathaway	10,000	10,000	
Citigroup Inc.	29,225	29,295	
General Electric Capital Corporation	171,225	170,651	
Goldman Sachs	14,250	14,282	
Household Finance	50,561	50,624	
HSBC Finance Corp	99,415	99,272	
International Lease Finance Corporation	195,551	193,857	
JP Morgan Chase and Company	64,500	64,483	
Lehman Brothers Holdings	40,187	39,589	
Nationwide Life	80,000	80,034	
Toyota Motor Credit Corporation	75,000	75,110	
US Bank	9,000	9,001	
Wachovia Corporation	100,000	100,032	
Wells Fargo and Company	60,496	60,249	

**OREGON SHORT-TERM FUND**  
**Notes to Financial Statements (continued)**  
June 30, 2007

	<u>Par Value</u>	<u>Reported Amount</u>	<u>Percentage</u>
Total Finance and Insurance	<u>1,261,880</u>	<u>1,256,732</u>	11.9%
Industrial:			
Pepsi Bottling	5,000	5,021	
Wal-Mart Stores, Inc.	<u>50,000</u>	<u>50,001</u>	
Total Industrial	<u>55,000</u>	<u>55,022</u>	0.5%
Utility - Electric:			
Cleveland Electric Illumination	<u>10,150</u>	<u>10,150</u>	0.1%
Total Corporate Notes	\$ <u>1,989,285</u>	\$ <u>1,984,314</u>	18.8%
Time Certificates of Deposit	\$ <u>127,150</u>	\$ <u>127,150</u>	1.2%
<b>TOTALS INVESTMENTS AND CASH EQUIVALENTS</b>	\$ <u>10,577,420</u>	\$ <u>10,535,872</u>	100.0%

## **OTHER REPORTS**



**Office of the Secretary of State**

Bill Bradbury  
Secretary of State

Jean Straight  
Deputy Secretary of State



**Audits Division**

Charles A. Hibner, CPA  
Director

255 Capitol Street NE, Suite 500  
Salem, OR 97310

(503) 986-2255

fax (503) 378-6767

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  
Office of the State Treasurer  
350 Winter Street NE, Suite 100  
Salem, Oregon 97310-0840

**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, 2007, and have issued our report thereon dated August 29, 2007. 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, 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 an opinion 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 reportable 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 caused by error or fraud 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.

### 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*.

We noted certain matters that we will report to management of the Office of the State Treasurer 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 Office of the State Treasurer, 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 29, 2007



# **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	Charles A. Hibner, CPA
Deputy Director	William K. Garber, MPA, CGFM
Deputy Director	Mary E. Wenger, CPA

## **Audit Team**

Julianne Kennedy, CPA, Audit Manager

Jean M. Hodges, CPA

Byron Williams

*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***