

Secretary of State Audit Report

Kate Brown, Secretary of State

Gary Blackmer, Director, Audits Division



State of Oregon

Oregon Short-Term Fund

An Investment Pool of the State of Oregon
For the Fiscal Year Ended June 30, 2011

Office of the Secretary of State

Kate Brown
Secretary of State

Barry Pack
Deputy Secretary of State



Audits Division

Gary Blackmer
Director

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The Honorable John Kitzhaber, Governor of Oregon
The Honorable Ted Wheeler, State Treasurer
Oregon Short-Term Fund Board

This report presents the results of our audit of the Oregon Short-Term Fund, an investment pool of the State of Oregon, for the year ended June 30, 2011.

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 fiscal year ended June 30, 2011, are included in the Financial Section of this report. We concluded that the financial statements are fairly presented in accordance with accounting principles generally accepted in the United States of America.

Auditing standards also require us to review the Oregon State Treasury's internal control of the Oregon Short Term Fund and compliance with applicable laws, regulations, contracts, and grant agreements. 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*. Our consideration of internal control was limited to the scope necessary to achieve our audit objectives and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined by generally accepted auditing standards.

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

OREGON AUDITS DIVISION

A handwritten signature in black ink, appearing to read "Gary Blackmer". The signature is written in a cursive style.

Gary Blackmer
Director

OREGON SHORT-TERM FUND
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FINANCIAL SECTION

Office of the Secretary of State

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INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Oregon Short-Term Fund, an investment pool for the State of Oregon, as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Oregon State Treasury 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 Oregon State Treasury's internal control over financial reporting relating to the Oregon Short-Term Fund. Accordingly, we express no 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 of the Oregon Short-Term Fund, an investment pool of the State of Oregon, Oregon State Treasury, are intended to present the financial position, and changes in financial position of only the Oregon Short-Term Fund. They do not purport to, and do not, present fairly the financial position of the Oregon State Treasury or the State of Oregon as of June 30, 2011, 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 previously present fairly, in all material respects, the financial position of the Oregon Short-Term Fund as of June 30, 2011, 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 accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2011, 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 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 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 separately presented in the Other Reports section as listed in the table of contents.

OREGON AUDITS DIVISION

A handwritten signature in black ink, appearing to read 'Kate Brown', with a long, sweeping horizontal line extending to the right.

Kate Brown
Secretary of State

August 29, 2011

State of Oregon
OREGON SHORT-TERM FUND
Statement of Net Assets
June 30, 2011
(Dollars in Thousands)

Assets:	
Cash and Cash Equivalents	\$ 1,537,127
Investments	8,062,697
Due from Broker on Sale	100,506
Due from Secretary of State (Note 5)	27
Due from Department of Human Services (Note 5)	95,000
Accrued Interest Receivable	30,644
Securities Lending Collateral (Note 3)	2,384,318
Total Assets	12,210,319
 Liabilities:	
Due to Employment Department (Note 6)	635
Obligations Under Securities Lending (Note 3)	2,384,318
Total Liabilities	2,384,953
 Net Assets:	
Held in Trust for Participants	9,825,366
Total Net Assets	\$ 9,825,366

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, 2011
(Dollars in Thousands)

Additions:	
Participants' Contributions	\$ 45,928,518
Investment Income, Net of Expenses (Notes 1, 4)	105,671
	46,034,189
Total Additions	
Deductions:	
Participants' Withdrawals	45,894,007
Distributions of Interest to Participants	54,440
Securities Lending Agent Fee Expense	947
Securities Lending Borrowers' Rebate Expense	6,830
	45,956,224
Total Deductions	
Change in Net Assets Held in Trust for Participants	77,965
Net Assets - Beginning	9,747,401
Net Assets - Ending (Note 7)	\$ 9,825,366

The accompanying notes are an integral part of the financial statements

OREGON SHORT-TERM FUND
Notes to Financial Statements
June 30, 2011

1) Summary of Significant Accounting Policies

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

The Fund is not registered with the U.S. Securities and Exchange Commission as an investment company. The State's investment policies are governed by Oregon Revised Statutes and the Oregon Investment Council (Council). The State Treasurer is the investment officer for the Council and is responsible for all funds entrusted to the 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 demand are deposited in the Fund; therefore, state agencies are considered involuntary participants of the Fund. Because the Fund operates as a demand deposit account for state agency participants, the portion of the Fund belonging to state agency (internal) participants is classified as cash and cash equivalents in the State's Comprehensive Annual Financial Report. The portion of the Fund belonging to local government (external) participants is reported in an investment trust fund in the State's Comprehensive Annual Financial Report.

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

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

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.

OREGON SHORT-TERM FUND
Notes to Financial Statements
June 30, 2011

Participants' equity; distributions of interest Participants' account balances in the Fund are determined by the amount of participants' deposits, adjusted for withdrawals and distributed interest. The Fund has not provided or received any legally binding guarantees with regard to balances in the Fund. Interest is calculated and accrued daily on each participant's account based on the ending account balance and a variable interest rate determined periodically by the OST. When a participant's account is overdrawn, negative interest accrues daily at the determined rate plus a premium. OST accumulates an amount to offset losses on specific investments and historically-based default rates as part of Total Net Assets. This amount is reviewed at the end of every month, and 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 but posted on the last business day.

(2) Deposits and Investments

Deposits On June 30, 2011 the Fund held \$54.5 million book balance in deposits with a bank balance of \$101.6 million. Insurance and collateral requirements for deposits are established by banking regulations and Oregon law. Where 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 Oregon State Treasury in the Public Funds Collateralization Program (PFCP).

As of June 30, 2011, \$1.9 million was covered by FDIC insurance and \$99.7 million were collateralized under the PFCP.

Investments On June 30, 2011, the Fund held \$9.8 billion in net assets, \$1.5 billion of which are classified as Cash and Cash Equivalents on the Statement of Net Assets. The Fund's portfolio rules establish the Fund's permitted investments and provide guidelines for managing the various types of risk associated with these investments (see the current portfolio rules at <http://www.ost.state.or.us/About/OSTF/OSTF%20Portfolio%20Rules.pdf>). 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, 2011 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 but will switch to variable rate at a later date, the maturity is based on the final maturity of the bond, not the next variable reset date.

OREGON SHORT-TERM FUND
Notes to Financial Statements
June 30, 2011

Schedule of Investment Maturities
(Dollars in Thousands)

<u>Investment Type</u>	<u>Investment Maturities</u>				
	<u>Reported Amount ①</u>	<u>Up to 93 Days</u>	<u>94 Days to One Year</u>	<u>One to Three Years</u>	<u>Defaulted ③</u>
Cash and Cash Equivalents: ②					
Commercial Paper	\$ 255,810	\$ 255,810	\$ -	\$ -	\$ -
U.S. Treasury and Agency Securities	1,181,630	1,181,630	-	-	-
Time Certificates of Deposit	45,200	45,200	-	-	-
Subtotal Cash Equivalents	<u>1,482,640</u>	<u>1,482,640</u>	-	-	-
Investments: ②					
U.S. Treasury and Agency Securities	2,490,387	418,293	1,665,088	407,006	-
Bank Notes	114,215	82,555	31,660	-	-
Municipal Bonds	56,999	56,999	-	-	-
Corporate Notes	4,369,269	2,674,859	239,593	1,405,481	49,336
Time Certificates of Deposit	15,000	15,000	-	-	-
Temporary Liquidity Guarantee	1,016,828	513,308	221,962	281,558	-
Subtotal Investments	<u>8,062,698</u>	<u>3,761,014</u>	<u>2,158,303</u>	<u>2,094,045</u>	<u>49,336</u>
Total	<u>\$ 9,545,338</u>	<u>\$ 5,243,654</u>	<u>\$ 2,158,303</u>	<u>\$ 2,094,045</u>	<u>\$ 49,336</u>

- ① Reported Amount is a combination of amortized cost and fair value. See Note 1
- ② Classification on Statement of Net Assets
- ③ Lehman Brothers securities, \$191.3 million par value

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 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, 2011, the fund's composite weighted average rating was equivalent to S&P's AA based on the method described above. For purposes of the composite rating, TCDs were considered AAA, as they are fully collateralized against loss. 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 current minimums for corporate notes are an S&P rating of A-, Moody's of A3 or Fitch 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 with current 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-.

OREGON SHORT-TERM FUND
Notes to Financial Statements
June 30, 2011

Occasionally, securities are downgraded but Fund policies allow them to be retained at the Senior Investment Officer's discretion. Holdings of Lehman Brothers securities totaling \$191.3 million par value had ratings from all three agencies withdrawn due to bankruptcy. The holdings are currently past maturity and in arrears in both interest and principal. Rating groups were determined using the lowest actual rating from S&P, Moody's or Fitch, and are shown below:

Schedule of Credit Quality Distribution
(Dollars in Thousands)

Investment Type	AAA	AA	A	BBB	Not Rated	Rating Withdrawn	Total Reported Amount
Bank Notes	\$ -	\$ 49,891	\$ 64,324	\$ -	\$ -	\$ -	\$ 114,215
Commercial Paper	-	24,998	230,812	-	-	-	255,810
Corporate Notes	47,366	1,599,983	2,654,719	17,865	① -	49,336	4,369,269
U.S. Treasury and Agency Securities	3,521,279	-	150,738	-	-	-	3,672,017
Municipal Bonds	-	56,999	-	-	-	-	56,999
Temporary Liquidity Guarantee	1,016,828	-	-	-	-	-	1,016,828
Time Certificates of Deposit	-	-	-	-	60,200	-	60,200
Total	\$ 4,585,473	\$ 1,731,871	\$ 3,100,593	\$ 17,865	\$ 60,200	\$ 49,336	\$ 9,545,338

① Securities rated BBB in this table continue to meet investment quality rules as discussed above, as they have at least one rating of S&P A-, Moody's A3 or Fitch A-.

B. Custodial credit risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the government will not be able to recover the value of an investment or collateral securities in the possession of an outside party. The Fund's portfolio rules provide that broker/dealers meet certain qualifications and that investments are delivered to and held by a third-party custodian, which holds the Fund's securities in the State of Oregon's name. Time certificates of deposit (TCDs) are not exposed to custodial credit risk, as they are covered by FDIC insurance of \$0.5 million and the balance of \$59.7 million is covered by the PFCP (ORS 295.015) administered by the Oregon State Treasury.

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, ten percent for foreign governments and instrumentalities and five percent for both commercial paper and corporate notes. On June 30, 2011, the Fund did not hold investments with any one issuer that exceeded these limits. The schedule below lists those issuers where holdings are greater than five percent.

OREGON SHORT-TERM FUND
Notes to Financial Statements
June 30, 2011

Schedule of issuers - Holdings Greater Than Five Percent

(Dollars in Thousands)

Issuer Name	Reported Amount	Percent of Holding
Federal Home Loan Bank	1,140,191	11.95%
Freddie Mac	863,436	9.05%
Fannie Mae	564,172	5.91%

E. Foreign currency

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

(3) Securities Lending

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

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

OREGON SHORT-TERM FUND
Notes to Financial Statements
June 30, 2011

Schedule of Securities Lending Balances

(Dollars in Thousands)

	Securities on Loan			Invested Collateral at	
	at Fair Value	Collateral Received		Fair Value	
U.S. Agency Securities	\$ 2,394,095	\$ 2,443,060	①	\$ 2,207,526	
Corporate Notes	172,867	176,760		176,758	
Total	\$ 2,566,962	\$ 2,619,820		\$ 2,384,284	

① Cash Collateral: \$2,207,559 U.S. Agency Debt: \$235,501

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

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, 2011, the State had no credit risk exposure to borrowers related to securities on loan.

(4) Management Fees

In accordance with ORS 293.718, the OST may deduct monthly 0.435 basis points of the most recent market value of assets under management for administration and portfolio management. For the year ended June 30, 2011 the OST charged the Fund a monthly rate of 0.30 basis points based on average daily balances in the Fund. The fee is deducted from investment income before distributions to participants. Fees charged to the Fund totaled \$3.8 million for the year ended June 30, 2011.

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

The Oregon Department of Human Services made an agreement in May of 2011 to borrow up to \$120 million for the purpose of interim financing until revenues from tobacco tax and provider tax funds become available.. Interest is charged at a variable per annum rate equal to the greater of two (2) percent or the Oregon Short Term Fund rate plus 130 basis points. To date, the Department of Human Services has drawn \$95 million. The total amount loaned is due October 31, 2011.

The Oregon Secretary of State made an agreement in fiscal year 2008 with the fund to borrow \$90.3 thousand to use for costs of purchasing voting machines for Curry County. The balance at June 30, 2011 of the loan is \$26.7 thousand. Interest is charged at a fixed per annum rate of 5.66

OREGON SHORT-TERM FUND
Notes to Financial Statements
June 30, 2011

percent. The total amount loaned is due December 31, 2012, with an option to pay \$21.2 thousand per year on December 31, commencing in 2008.

(6) Payable to the Oregon Employment Department

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

(7) Equity of Internal and External Participants

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

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

Equity of internal participants	\$ 5,684,075
Equity of external participants	4,141,291
	\$ 9,825,366

Net assets consist of (in thousands):

Participants' Account Balances	\$ 9,825,375
Undistributed and Unrealized Losses	(120,778)
Amounts for Losses and Historically-based Defaults	120,769
	\$ 9,825,366

Participants' Fair Value (Net Assets divided by Participants' Account Balances)	100.00%
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OREGON SHORT-TERM FUND
Notes to Financial Statements
June 30, 2011

(8) Schedule of Investments and Cash Equivalents

The following schedule presents by issuer the par value and reported amount of the Investments and Cash Equivalents held as of June 30, 2011 (in thousands).

Schedule of Investments and Cash Equivalents
(Dollars in Thousands)

	<u>Par Value</u>	<u>Reported Amount</u>	<u>Percentage</u>
U.S. Government and Agency Securities:			
Agency Bonds:			
Federal Farm Credit Bank	\$ 102,170	102,629	
Federal Home Loan Bank	256,150	256,242	
Federal Home Loan Mortgage Corporation	225,000	226,834	
Federal National Mortgage Association	493,732	502,248	
Total Agency Bonds	<u>1,077,052</u>	<u>1,087,953</u>	11.4%
Agency Discount Notes:			
Federal Home Loan Bank	883,963	883,949	
Federal Home Loan Mortgage Corporation	636,763	636,602	
Federal National Mortgage Association	61,925	61,924	
Total Agency Discount Notes	<u>1,582,651</u>	<u>1,582,475</u>	16.6%
Treasury Bills	<u>939,000</u>	<u>951,643</u>	10.0%
Agency Strips	<u>50,000</u>	<u>49,946</u>	0.5%
Total U.S. Government and Agency Securities	<u>3,648,703</u>	<u>3,672,017</u>	38.5%
Government			
Municipal Bonds			
Florida Hurricane Catastrophe	<u>57,250</u>	<u>56,999</u>	0.6%
Total Government Securities	<u>57,250</u>	<u>56,999</u>	0.6%
Bank Notes			
Bank Notes			
Barclays Bank PLC	50,000	49,891	
BB & T Corporation	23,000	23,032	
Citigroup Incorporated	10,000	9,632	
JP Morgan Chase and Company	<u>31,650</u>	<u>31,660</u>	
Total Bank Notes	<u>114,650</u>	<u>114,215</u>	1.2%

OREGON SHORT-TERM FUND
Notes to Financial Statements
June 30, 2011

Commercial Paper:

Commercial Banks - Non US			
Bank of Montreal	25,000	25,000	
Toronto Dominion Holdings USA	25,000	24,998	
Total Commercial Banks - Non US	<u>50,000</u>	<u>49,998</u>	0.5%
Diversified Financial			
Sumitomo Corporation of America	5,814	5,813	0.1%
Multi-Line Insurance			
Prudential Funding LLC	35,000	35,000	0.4%
Oil-Field Services			
Koch Resources LLC	25,000	25,000	0.3%
Special Purpose Entity			
Societe Generale North America	100,000	100,000	1.0%
Transport Services			
Wheels Incorporated	40,000	39,999	0.4%
Total Commercial Paper	<u>255,814</u>	<u>255,810</u>	2.7%

Corporate Notes:

Beverages - Non-Alcohol			
Coca-Cola Company	85,000	84,723	0.9%
Broker / Dealer			
Goldman Sachs Group Inc	164,091	166,188	
Morgan Stanley	136,950	137,524	
Total Broker / Dealer	<u>301,041</u>	<u>303,712</u>	3.2%
Commerical Bank - Non US			
ANZ National Intl New Zealand	100,000	100,108	
Australia and New Zealand Banking Group	50,000	50,000	
Barclays Bank PLC	110,000	110,025	
Commonwealth Bank Australia	131,600	131,724	
Credit Agricole London	50,000	50,690	
National Australia Bank	100,000	99,887	
Westpac Banking Corporation	271,000	271,798	
Total Commercial Bank - Non US	<u>812,600</u>	<u>814,232</u>	8.5%

OREGON SHORT-TERM FUND
Notes to Financial Statements
June 30, 2011

Computers			
Cisco Systems Inc	20,000	20,056	
Hewlett-Packard Company	128,000	128,320	
HP Enterprise Services	14,478	15,868	
Total Computers	<u>162,478</u>	<u>164,244</u>	1.7%
Diversified Financial			
Caisse Centrale Desjardn	15,000	15,085	
Citigroup Incorporated	25,000	24,646	
General Electric Capital Corporation	196,410	197,711	
Goldman Sachs Group Incorporated	75,000	74,378	
Societe Generale	50,000	49,528	
UBS AG Stamford CT	185,000	184,963	
Total Diversified Financial	<u>546,410</u>	<u>546,311</u>	5.7%
Electronic Components			
Broadcom Corporation	<u>17,830</u>	<u>17,865</u>	0.2%
Fiduciary Banks			
Bank of New York Mellon	<u>27,822</u>	<u>29,364</u>	0.3%
Finance - Auto Loans			
American Honda Finance	<u>5,000</u>	<u>5,030</u>	0.1%
Finance Commercial			
Caterpillar Financial SE	<u>75,000</u>	<u>75,078</u>	0.8%
Finance - Other Services			
Blackrock Incorporated	50,000	49,991	
NYSE Euronext	15,000	16,025	
Total Finance - Other Services	<u>65,000</u>	<u>66,016</u>	0.7%
Financial			
American Honda Finance	68,650	68,419	
Bank of America Corporation	50,000	50,115	
Barclays Bank PLC	115,000	115,132	
BC Capital Markets PLC	53,710	54,244	
Citigroup Incorporated	166,121	173,563	
Countrywide Financial Corporation	73,264	76,337	
Credit Suisse New York	50,000	51,431	
General Electric Capital Corporation	108,006	108,160	
Goldman Sachs Group Incorporated	50,000	49,949	
JP Morgan Chase and Company	216,910	217,960	
Lehman Brothers Holdings	191,302	49,336	
MBNA Corporation	15,900	16,646	

OREGON SHORT-TERM FUND
Notes to Financial Statements
June 30, 2011

Merrill Lynch and Company	62,261	65,185	
Morgan Stanley	118,000	119,726	
New York Life Global FDG	35,000	35,009	
Rabobank Nederland	100,000	99,954	
TEVA Pharmaceutical Financial 3 LLC	32,500	32,634	
UBS AG Stamford CT	100,000	100,345	
US Bancorp	50,000	50,120	
US Bank NA	13,800	13,825	
Wachovia Bank NA	35,000	35,389	
Wachovia Corporation	181,265	184,979	
Total Financial	<u>1,886,689</u>	<u>1,768,458</u>	18.5%
Foreign Government Backed			
Commonwealth Bank Australia	<u>100,000</u>	<u>99,073</u>	1.0%
Industrial			
Archer-Daniels-Midland Corporation	<u>20,000</u>	<u>20,037</u>	0.2%
Life / Health Insurance			
New York Life Global FDG	<u>5,761</u>	<u>6,163</u>	0.1%
Medical - Drugs			
TEVA Pharmaceutical Financial 3	<u>36,550</u>	<u>36,720</u>	0.4%
Oil Cos. Integrated			
BP Capital Markets PLC	28,400	30,150	
Shell International Financial	31,935	32,567	
Total Oil Cos. Integrated	<u>60,335</u>	<u>62,717</u>	0.6%
Property Trust			
WEA Financial LLC / WCI Financial LLC	<u>21,468</u>	<u>22,558</u>	0.2%
Reinsurance			
Berkshire Hathaway Incorporated	<u>150,000</u>	<u>151,467</u>	1.6%
REITS - Office Property			
Arden Realty LP	<u>9,000</u>	<u>9,005</u>	0.1%
Special Purpose Entity			
President and Fellows of Harvard	5,657	6,194	
SSIF Nevada LP	75,000	75,001	
Total Special Purpose Entity	<u>80,657</u>	<u>81,195</u>	0.8%
Telephone			
New Cingular Wireless SV	<u>5,000</u>	<u>5,301</u>	0.1%
Total Corporate Notes	<u>4,473,641</u>	<u>4,369,269</u>	45.7%

OREGON SHORT-TERM FUND
Notes to Financial Statements
June 30, 2011

Government Guaranteed Corporate Securities:			
Ally Financial Incorporated	50,000	50,891	
Citibank NA	175,000	175,555	
Citigroup Funding Incorporated	273,244	275,728	
General Electric Capital Corporation	171,400	175,330	
Goldman Sachs Group Incorporated	97,495	97,908	
HSBC USA Incorporated	22,920	23,228	
JP Morgan Chase & Company	24,718	25,021	
Morgan Stanley	87,955	88,459	
US Bancorp	41,447	42,038	
Wells Fargo & Company	62,300	62,670	
	<hr/>		
Total Government Guaranteed Corporate Securities	1,006,479	1,016,828	10.7%
	<hr/>		
Time Certificates of Deposit	60,200	60,200	0.6%
	<hr/>		
Total Investments and Cash Equivalents	<u>\$ 9,616,737</u>	<u>\$ 9,545,338</u>	100.0%

OTHER REPORTS

Office of the Secretary of State

Kate Brown
Secretary of State

Barry Pack
Deputy Secretary of State



Audits Division

Gary Blackmer
Director

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The Honorable John Kitzhaber, Governor of Oregon
The Honorable Ted Wheeler, State Treasurer
Oregon Short-Term Fund Board

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLINACE 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 external investment pool of the State of Oregon, as of and for the year ended June 30, 2011, and have issued our report thereon dated August 29, 2011. 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

Management of Oregon State Treasury is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Oregon State Treasury's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Oregon State Treasury's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Oregon State Treasury's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

OREGON AUDITS DIVISION

A handwritten signature in black ink, appearing to read 'Kate Brown', with a long horizontal flourish extending to the right.

Kate Brown
Secretary of State

August 29, 2011

ABOUT THE SECRETARY OF STATE AUDITS DIVISION

The Oregon Constitution provides that the Secretary of State shall be, by virtue of her 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.

Audit Team

Kelly Olson, CPA, Audit Manager

Mary Doel

Roy Jackson

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

The courtesies and cooperation extended by officials and employees of the Oregon State Treasury during the course of this audit were commendable and sincerely appreciated.