



**State of Oregon**

**OREGON SHORT-TERM FUND**

An Investment Pool of the State of Oregon

Financial Statements

For the year ended June 30, 2013

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**OREGON SHORT-TERM FUND**  
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FINANCIAL SECTION

**Office of the Secretary of State**

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Secretary of State

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

**INDEPENDENT AUDITOR'S REPORT**

**Report on the Financial Statements**

We have audited the accompanying financial statements of the Oregon Short-Term Fund, an external investment pool of the State of Oregon, as of and for the year ended June 30, 2013, and the related notes to the financial statements, as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Oregon Short-Term Fund as of June 30, 2013, 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.

## **Emphasis of Matter**

As discussed in Note 1, the financial statements of the Oregon Short-Term Fund, an investment pool of the State of Oregon, are intended to present the financial position and the 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, 2013, or the changes in their financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2013, 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* in considering the Oregon State Treasury's internal control over financial reporting and compliance.

OREGON AUDITS DIVISION



Kate Brown  
Secretary of State

August 28, 2013

**State of Oregon**  
**OREGON SHORT-TERM FUND**

Statement of Net Position

June 30, 2013

(Dollars in Thousands)

Cash and Cash Equivalents	\$	2,561,627
Investments		9,089,307
Due from Oregon Health Authority (Note 5)		111,000
Due from Military Department (Note 5)		3,000
Accrued Interest Receivable		20,557
Securities Lending Collateral (Note 3)		596,311
		596,311
<b>Total Assets</b>		12,381,802
<b>Liabilities:</b>		
Due to Broker on Purchase		99,999
Due to Employment Department (Note 6)		308
Obligations Under Securities Lending (Note 3)		596,311
		596,311
<b>Total Liabilities</b>		696,618
<b>Net Position:</b>		
Held in Trust for Participants		11,685,184
		11,685,184
<b>Total Net Position</b>	\$	11,685,184

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

**State of Oregon**  
**OREGON SHORT-TERM FUND**  
Statement of Changes in Net Position  
For the Year Ended June 30, 2013  
(Dollars in Thousands)

<b>Additions:</b>	
Participants' Contributions	\$ 49,522,352
Investment Income, Net of Expenses (Notes 1, 4)	93,054
<b>Total Additions</b>	<b>49,615,406</b>
 <b>Deductions:</b>	
Participants' Withdrawals	47,138,275
Distributions of Interest to Participants	66,265
Securities Lending Agent Fee Expense	158
Securities Lending Borrowers' Rebate Expense	1,314
<b>Total Deductions</b>	<b>47,206,012</b>
Change in Assets Held in Trust for Participants	2,409,394
Net Position - Beginning	9,232,787
Prior Period Adjustment (Note 8)	43,003
<b>Net Position - Ending</b> (Note 7)	<b>\$ 11,685,184</b>

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

# OREGON SHORT-TERM FUND

## Notes to Financial Statements

June 30, 2013

### (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. During the year the OSTF implemented GASB Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The implementation of these statements had no financial effect on OSTF's position, requiring only terminology changes in financial statement presentation.

**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.

**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

## OREGON SHORT-TERM FUND

### Notes to Financial Statements

June 30, 2013

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 Position. 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, 2013 the Fund held a \$57.8 million book balance in deposits with a bank balance of \$61.0 million. Insurance and collateral requirements for deposits are established by banking regulations and Oregon law. Where interest-bearing balances exceed the Federal Deposit Insurance amount of \$250,000, the balances are covered by collateral held in a multiple financial institution collateral pool (ORS 295.015) administered by the OST in the Public Funds Collateralization Program (PFCP). As of June 30, 2013, \$2.0 million of demand deposits were covered by FDIC insurance and \$59.0 million of demand deposits were collateralized under the PFCP.

**Investments** On June 30, 2013, the Fund had a net position of \$11.6 billion, \$2.5 billion of which is classified as Cash and Cash Equivalents on the Statement of Net Position. The Fund's portfolio rules establish the Fund's permitted investments and provide guidelines for managing the various types of risk associated with these investments (see the current portfolio rules at [http://www.oregon.gov/treasury/Divisions/Investment/Pages/Oregon-Short-Term-Fund-\(OSTF\).aspx](http://www.oregon.gov/treasury/Divisions/Investment/Pages/Oregon-Short-Term-Fund-(OSTF).aspx)). The different risks are discussed below.

#### A. Interest rate and credit risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Fund staff manages this risk by limiting the period of the reset date (reset) or maturity of the investments held by the Fund. The portfolio rules require that at least 50 percent of the portfolio mature or reset within 93 days; not more than 25 percent of the portfolio may mature or reset in over a year; and no investments may mature or reset over three years from settlement date. The June 30, 2013 holdings are shown in the schedule below. For variable rate securities, the next interest rate reset date is used instead of the maturity date. For variable rate securities in a fixed rate period that will switch to variable rate at a later date, the maturity is based on the final maturity of the security, not the next variable reset date. After April of 2013, for securities with a put option, the date upon which the put option was fully exercisable for at least 100% of the face value was used instead of the maturity date.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Fund's policies provide for a composite minimum weighted average credit quality rating for the Fund's holdings to be the equivalent of a AA Standard and Poor's (S&P) rating. This composite is calculated based on the median rating if three agencies rate the security, the lower rating if two ratings are available, or the single rating if only one rating is available. On June 30, 2013, 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.

## OREGON SHORT-TERM FUND

### Notes to Financial Statements

June 30, 2013

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-.

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

<b>Interest Rate and Credit Risk</b>					
<b>(Dollars in Thousands)</b>					
<b>Classification</b>	<b>Rating</b>	<b>93 Days or Less</b>	<b>94 to 366 Days</b>	<b>One to Three Years</b>	<b>Total</b>
Commercial Paper	A	14,950	-	-	14,950
Corporate Bonds	A	2,877,591	252,016	541,549	3,671,156
	AA	784,217	25,172	104,799	914,188
	BBB <sup>①</sup> •	609,210	8,329	281,384	898,923
	Not Rated <sup>②</sup>	-	-	50,000	50,000
Federal Agency Debt	A	-	74,951	-	74,951
	AA	907,933	216,167	478,409	1,602,509
	Not Rated <sup>④</sup>	2,108,184	189,178	-	2,297,362
Municipals	A	97,441	-	7,486	104,927
	AA	336,606	18,933	9,982	365,521
	AAA	16,175	-	-	16,175
Non-US Government Debt	A	125,243	-	14,935	140,178
	AA	275,738	131,328	50,325	457,391
TCD	Not Rated <sup>③</sup>	77,200	-	-	77,200
US Treasury Strips	Not Rated <sup>④</sup>	-	135,085	772,634	907,719
Total		<b>8,230,488</b>	<b>1,051,159</b>	<b>2,311,503</b>	<b>11,593,150</b>
<sup>①</sup> Securities rated BBB on 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					
<sup>②</sup> The Corporated bonds showing as unrated at June 30th had an expected rating of Moody's Aa1 which was affirmed 7/30/2013, still meeting investment quality rules.					
<sup>③</sup> TCD's are considered deposits for purposes of credit quality, and are fully covered by FDIC and state PFCP programs					
<sup>④</sup> GASB 40 states that US federal debt is considered to be without credit risk. For credit quality rules, federal debt is considered to be highest quality, except when rated differently, as shown above.					

### 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 \$0.7 million and the balance of \$76.5 million is covered by the PFCP (ORS 295.015) administered by the OST.

**OREGON SHORT-TERM FUND**  
**Notes to Financial Statements**  
June 30, 2013

**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, 2013, 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.

<b>Schedule of issuers - Holdings Greater Than Five Percent</b>		
(Dollars in Thousands)		
<b>Issuer Name</b>	<b>Reported Amount</b>	<b>Percent of Holding</b>
Federal Home Loan Bank	1,734,034	14.96%
US Treasury Bills	907,719	7.83%
Fannie Mae	792,859	6.84%
Federal Farm Credit bank	773,164	6.67%

**D. Foreign currency risk**

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 and U.S. Treasury securities. Borrowers were required to deliver collateral for each loan equal to not less than 102 percent of the market value of the loaned security. The State 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 Fund's lending agent uses a 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 Position. The balances of securities on loan, collateral received and invested collateral at market value are presented in the schedule below.

**OREGON SHORT-TERM FUND**  
**Notes to Financial Statements**  
June 30, 2013

**Schedule of Securities Lending Balances**  
(Dollars in Thousands)

	<b>Securities on Loan at</b>			<b>Invested Cash Collateral</b>	
	<u>Fair Value</u>	<u>Collateral Received</u>		<u>at Fair Value</u>	
U.S. Agency Securities	\$ 34,010	\$ 34,692		\$ 34,693	
U.S. Treasury	675,329	689,123	①	435,248	
Corporate Notes	123,828	126,370		126,370	
<b>Total</b>	<u>\$ 833,167</u>	<u>\$ 850,185</u>		<u>\$ 596,311</u>	

① Cash Collateral \$435,248 U.S. Treasury \$253,875

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, 2013, 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, 2013 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 \$4.1 million for the year ended June 30, 2013.

**(5) Receivable from the Oregon Health Authority and Oregon Military Department**

The Oregon Health Authority made an agreement in February of 2013 to borrow up to \$235 million for the purpose of interim financing until revenues from tobacco tax, provider tax and federal reimbursement 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 Oregon Health Authority has drawn \$111 million. The total amount loaned is due October 31, 2013.

The Oregon Military Department made an agreement in February of 2013 to borrow up to \$3 million for the purpose of interim financing until revenues from federal reimbursement 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 Oregon Military Department has drawn \$3 million. The total amount loaned is due August 31, 2013.

**OREGON SHORT-TERM FUND**

**Notes to Financial Statements**

June 30, 2013

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

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

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

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

Net position held in trust for participants (in thousands):	
Equity of internal participants	\$ 6,916,431
Equity of external participants	<u>4,768,753</u>
	<u>\$ 11,685,184</u>
Net position consist of (in thousands):	
Participants' Account Balances	\$ 11,609,759
Undistributed and Unrealized Losses	48,304
Amounts for Losses and Historically-based Defaults	<u>27,121</u>
	<u>\$ 11,685,184</u>
Participants' Fair Value (Net Position divided by Participants' Account Balances)	<u>100.65%</u>

**(8) Prior Period Adjustment**

During the review of bank balances, it was determined that deposits relating to cash lockboxes were not included in the cash balances at the end of the year. An adjustment has been made to reflect those cash balances, resulting in a prior period adjustment of \$43.0 million and a net increase to Contributions of \$7.2 million.

**OREGON SHORT-TERM FUND**

**Notes to Financial Statements**

June 30, 2013

**(9) 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, 2013:

**Schedule of Investments and Cash Equivalents**

(Dollars in Thousands)

	<u>Par Value</u>	<u>Reported Amount</u>	<u>Percentage</u>
<b>U.S. Government and Agency Securities:</b>			
Agency Bonds:			
Federal Farm Credit Bank	\$ 722,390	723,164	
Federal Home Loan Bank	543,215	543,602	
Federal Home Loan Mortgage Corporation	162,018	163,266	
Federal National Mortgage Association	393,455	395,329	
FDIC Structured Sale Guaranteed	4,200	4,197	
Tennessee Valley Authority	2,081	2,089	
Total Agency Bonds	<u>1,827,359</u>	<u>1,831,647</u>	15.8%
Agency Discount Notes:			
Federal Home Loan Bank	1,190,520	1,190,432	
Federal Home Loan Mortgage Corporation	409,861	409,842	
Federal National Mortgage Association	397,558	397,531	
Federal Farm Credit Bank	50,000	50,000	
Tennessee Valley Authority	95,375	95,370	
Total Agency Discount Notes	<u>2,143,314</u>	<u>2,143,175</u>	18.5%
Treasury Strips	<u>911,000</u>	<u>907,719</u>	7.8%
<b>Total U.S. Government and Agency Securities</b>	<u>4,881,673</u>	<u>4,882,541</u>	42.1%
<b>Government</b>			
Electric - Integrated			
Georgia Power Company	<u>7,500</u>	<u>7,486</u>	0.1%
Finance Other Services			
National Rural Utility Coop	<u>25,000</u>	<u>24,935</u>	0.2%
Schools			
Regents of University of California	25,000	24,997	
University of Texas	22,500	22,500	
Total Schools	<u>47,500</u>	<u>47,497</u>	0.4%

## OREGON SHORT-TERM FUND

### Notes to Financial Statements

June 30, 2013

	<u>Par Value</u>	<u>Reported Amount</u>	<u>Percentage</u>
US Municipals			
Alaska State Housing Fund	19,685	19,685	
Board of Regents - University of Texas	10,000	10,000	
Charlotte NC Water & Sewer System	6,175	6,175	
Chicago II Midway ARPT	25,000	25,000	
Chicago II Sales Tax Revenue	25,000	25,000	
Conneticut State Housing Financing Authorit	10,000	10,000	
East Bay CA Municipal Utility District	10,000	10,000	
Massachusettes State	50,000	50,027	
Mecklenburg County NC COPs	50,000	50,064	
Mississippi State Business Financing	14,985	14,985	
North Texas Tollway Authority	7,450	7,467	
Philadephia PA ARPT	9,510	9,510	
Raleigh NC Combined Enterprise System	19,485	19,485	
Sandiego County CA ARPT	20,000	20,000	
State of California General Obligation	26,880	26,880	
Texas State	10,000	10,038	
Texas State Public Financing Authority	13,400	13,400	
University of California	50,000	50,073	
Walnut Energy Center Authority	20,000	19,994	
Washington State	28,940	28,916	
Total Us Municipals	426,510	426,699	3.7%
<b>Total Government Securities</b>	506,510	506,617	4.4%
<b>Non-US Government Debt</b>			
Commecial Banks - Non-US			
Bank of Montreal	50,000	50,230	
Bank of Nova Scotia	65,000	64,909	
Bank of Tokyo	25,000	25,040	
Commonwealth Bank of Australia	135,000	135,213	
Total Commercial Banks - Non-US	275,000	275,392	2.4%
Regional Authority			
Province of Ontario	296,993	300,069	
Quebec Government	22,109	22,108	
Total Regional Authority	319,102	322,177	2.8%
<b>Total Non-US Government Debt</b>	594,102	597,569	5.2%
<b>Commercial Paper:</b>			
Commercial Banks - Eastern US			
State Street Bank and Trust	15,000	14,950	0.1%
<b>Total Commercial Paper</b>	15,000	14,950	0.1%

## OREGON SHORT-TERM FUND

### Notes to Financial Statements

June 30, 2013

	Par Value	Reported Amount	Percentage
<b>Corporate Notes:</b>			
Auto - Cars/Light Trucks			
Daimler Finance NA LLC	54,675	54,911	
Volkswagen International	66,457	66,806	
Total Auto - Cars/Light Trucks	121,132	121,717	1.0%
Beverages - Non-Alcohol			
Coca-Cola Company	50,000	50,028	
Pepsico Inc.	30,000	30,048	
Total Beverages - Non-Alcohol	80,000	80,076	0.7%
Beverages - Wine/Spirits			
Diago Capital PLC	35,000	34,563	0.3%
Brewery			
Anhauser Busch	10,691	10,704	0.1%
Cable/Satellite TV			
Comcast Corporation	14,794	16,419	0.1%
Cellular Telecom			
Cellco Part/Verizon Wireless	38,100	39,115	
Vodafone Group PLC	40,000	40,027	
Total Beverages - Non-Alcohol	78,100	79,142	0.7%
Commercial Bank - Non US			
Australia and New Zealand Banking Group	150,000	152,014	
Bank of Nova Scotia	50,000	50,573	
Barclay's Bank PLC	145,000	144,987	
Commonwealth Bank of Australia	135,000	136,036	
Erste Finance LLC	20,000	20,000	
HBSC Bank PLC	19,200	19,205	
National Bank of Australia	130,000	130,690	
National Bank of Canada	12,500	12,625	
Royal Bank of Canada	10,000	9,922	
SSIF Nevada LP	115,000	115,538	
Toronto Dominion Bank	10,000	10,002	
Westpac Banking Corp	158,000	158,888	
Total Commercial Bank - Non US	954,700	960,480	8.3%
Commercial Banks - Central US			
Fifth Third Bank	85,000	84,622	
US Bank	38,000	39,293	
Total Commercial Banks - Central US	123,000	123,915	1.1%

## OREGON SHORT-TERM FUND

### Notes to Financial Statements

June 30, 2013

	<u>Par Value</u>	<u>Reported Amount</u>	<u>Percentage</u>
Commercial Banks - Eastern US			
Australia & New Zeland Banking Group New York	20,000	19,874	
PNC Bank NA	25,000	24,861	
Total Commercial Banks - Eastern US	45,000	44,735	0.4%
Commercial Banks - Southern US			
BB&T Corporation	24,655	24,750	
Wachovia Bank NA	37,800	37,811	
Total Commercial Banks - Southern US	62,455	62,561	0.5%
Computer Services			
HP Enterprise Services	14,478	14,535	
IBM Corp	65,000	64,939	
Total Computer Services	79,478	79,474	0.7%
Computers			
Apple Inc.	25,000	24,979	
Hewlett Packard	87,050	86,914	
Total Computers	112,050	111,893	1.0%
Cosmetics and Toiletries			
The Proctor and Gamble Company	7,000	7,023	0.1%
Diversified Banking Institutions			
Bank of America Corp	160,477	161,207	
Citigroup Incorporated	103,769	103,685	
Fortis funding LLC	20,000	20,000	
Goldman Sachs Group Incorporated	329,911	328,520	
JP Morgan Chase and Co.	392,564	395,270	
Morgan Stanley	333,511	331,241	
Societe Generale	19,500	19,594	
UBS AG Stamford CT	141,484	141,874	
Total Banking Institutions	1,501,216	1,501,391	13.0%
Diversified Financial Services			
Caisse Centrale Desjardins	15,000	15,000	
General Electric Capital Corporation	373,440	375,987	
Total Diversified Financial	388,440	390,987	3.4%
Diversified Minerals			
BHP Billiton Finance	25,000	25,109	0.2%
Electric - Integrated			
Duke Energy Florida Inc.	4,000	3,968	0.0%

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

June 30, 2013

	<u>Par Value</u>	<u>Reported Amount</u>	<u>Percentage</u>
Electronic Components - Semiconductors			
Broadcom Corporation	<u>17,830</u>	<u>17,883</u>	0.2%
Export/Import Bank			
Swedish Export Credit	<u>50,000</u>	<u>50,000</u>	0.4%
Fiduciary Banks			
Bank of New York Mellon	<u>58,541</u>	<u>59,380</u>	0.5%
Finance - Auto Loans			
American Honda Finance	155,000	154,965	
Paccar Financial Corporation	23,000	22,980	
Toyota Motor Credit Corporation	<u>105,000</u>	<u>104,973</u>	
Total Finance - Auto Loans	<u>283,000</u>	<u>282,918</u>	2.5%
Finance - Commercial			
Caterpillar Financial Services	<u>115,000</u>	<u>115,146</u>	1.0%
Finance - Consumer Loans			
John Deere Capital Corporation	<u>95,000</u>	<u>95,314</u>	0.8%
Finance - Credit Card			
MBNA Corporation	<u>20,605</u>	<u>21,890</u>	0.2%
Finance - Investment Broker/Dealer			
Bear Sterns Co LLC	9,833	9,862	
Merrill Lynch and Company	<u>37,684</u>	<u>39,215</u>	
Total Finance - Investment Broker/Dealer	<u>47,517</u>	<u>49,077</u>	0.4%
Finance - Other Services			
Harley Davidson Financial Services	<u>24,320</u>	<u>24,277</u>	0.2%
Food - Miscellaneous/Diversified			
Unilever Capital Corporation	<u>15,000</u>	<u>15,617</u>	0.1%
Investment Management/Advisory Services			
Blackrock Inc.	<u>10,000</u>	<u>10,111</u>	0.1%
Life/Health Insurance			
Suncorp Group LTD	<u>50,000</u>	<u>49,777</u>	0.4%

**OREGON SHORT-TERM FUND**

**Notes to Financial Statements**

June 30, 2013

	<u>Par Value</u>	<u>Reported Amount</u>	<u>Percentage</u>
Medical - Drugs			
Abbvie Inc.	15,000	15,020	
GlaxoSmithKline Capital	25,000	24,853	
Merck & Company Inc.	30,000	29,864	
Total Medical - Drugs	<u>70,000</u>	<u>69,737</u>	0.6%
Medical - Generic Drugs			
Teva PharmacyFinance	<u>16,550</u>	<u>16,671</u>	0.1%
Medical - Wholesale Drug Distribution			
McKesson Corporation	<u>5,000</u>	<u>4,995</u>	0.0%
Multimedia			
Thomson Reuters Corporation	5,000	4,943	
The Walt Disney Company	45,000	45,027	
Total Multimedia	<u>50,000</u>	<u>49,970</u>	0.4%
Oil Companies - Exploration and Production			
CNOOC Fiance	<u>8,000</u>	<u>7,885</u>	0.1%
Oil Companies - Integrated			
BP Capital Markets PLC	198,357	199,796	
Chevron corporation	10,000	10,013	
Shell International Financial	35,000	34,877	
Total Capital Canada LTD	25,000	25,139	
Total Oil Cos. Integrated	<u>268,357</u>	<u>269,825</u>	2.3%
Oil - Field Services			
Schlumberger Investment	<u>25,000</u>	<u>25,140</u>	0.2%
Property Trust			
WEA Finance	2,985	3,261	
Westfield Capital	8,613	9,161	
Total Property Trust	<u>11,598</u>	<u>12,422</u>	0.1%
Reinsurance			
Berkshire Hathaway Incorporated	<u>32,000</u>	<u>32,060</u>	0.3%
Retail - Discretionary			
Army & Air Force Exchange	<u>15,000</u>	<u>15,000</u>	0.1%
Special Purpose Banks			
Korea Development Bank	<u>75,000</u>	<u>74,877</u>	0.6%

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

June 30, 2013

	<u>Par Value</u>	<u>Reported Amount</u>	<u>Percentage</u>
Super-Regional Banks - US			
US Bankcorp	50,000	49,997	
Wachovia	104,004	105,048	
Wells-Fargo and Company	245,870	247,778	
Total Super-Regional Banks - US	<u>399,874</u>	<u>402,823</u>	3.6%
Telephone - Integrated			
AT&T Inc.	20,000	19,889	
Verizon Communications	16,250	17,455	
Total Telephone - Integrated	<u>36,250</u>	<u>37,344</u>	0.3%
Tobacco			
Philip Morris International Inc.	50,000	49,976	0.4%
<b>Total Corporate Notes</b>	<u>5,491,498</u>	<u>5,514,272</u>	47.5%
<b>Time Certificates of Deposit</b>	<u>77,200</u>	<u>77,200</u>	0.7%
<b>Total Investments and Cash Equivalents</b>	<u>\$ 11,565,983</u>	<u>\$ 11,593,149</u>	100.0%

**OREGON SHORT-TERM FUND**  
**Notes to Financial Statements**  
June 30, 2013

**OTHER REPORTS**

Office of the Secretary of State

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Secretary of State

Brian Shipley  
Deputy Secretary of State



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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  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Oregon Short-Term Fund, an external investment pool of the State of Oregon, as of and for the year ended June 30, 2013, and the related notes to the financial statements and have issued our report thereon dated August 28, 2013.

**Internal Control Over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we did identify certain deficiencies in internal control described in the

accompanying schedule of findings and responses that we consider to be a material weakness. See finding 2013-01.

### **Compliance and Other Matters**

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

### **Oregon State Treasury's Response to Finding**

Oregon State Treasury's response to the finding identified in our audit is included in the accompanying schedule of findings and responses. Oregon State Treasury's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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

OREGON AUDITS DIVISION



Kate Brown  
Secretary of State

August 28, 2013

## Schedule of Findings and Responses

### 2013-01 Improve Internal Controls Over Financial Reporting (Material Weakness)

Treasury management is responsible for establishing and maintaining internal controls to ensure the Oregon Short-Term Fund (OSTF) financial statements and accompanying note disclosures are complete, accurate and prepared in accordance with generally accepted accounting principles.

We identified the following inaccuracies in OSTF's financial statements and note disclosures, which impact financial reporting but not individual participant's accounts:

- Participants' contributions and participants' withdrawals were both understated by \$354 million as Treasury had netted the impact of several transaction codes for financial reporting purposes;
- Securities lending collateral and obligations under securities lending were both overstated by \$253 million as Treasury had reported securities received as collateral as an OSTF asset and liability which is prohibited by accounting standards;
- The securities lending note disclosure did not disclose the securities received as collateral; and
- Cash and participants' contributions were understated in fiscal year 2013 by \$52 million as deposits made into treasury accounts at depository institutions on the last day of the fiscal year were not recorded in OSTF records until July 1. It was determined this also occurred in the prior year resulting in a net understatement to participants' contribution of \$7 million and a prior period adjustment of \$45 million.

To prepare the OSTF financial statements, Treasury prepares many manual adjustments based on various documentation. Although Treasury has a process in place to review the preparation of the financial statements and disclosures these errors were not identified during that review process. Further, the procedures followed in preparing the financial statements could include more robust explanations for calculating the participant contributions and withdrawals.

**We recommend** Treasury management strengthen its financial statement review process, including the review of detail behind significant adjustments and disclosures, and consider whether financial reporting procedures could be more robust in certain areas.

#### Treasury's Response:

The inaccuracies noted above have been corrected and properly presented within the OSTF financial statements and notes. Associated procedures will be enhanced to address these specific concerns. Treasury will also strengthen the overall review process to provide greater structure and depth for this review.