
Secretary of State

State of Oregon

OREGON SHORT-TERM FUND

An Investment Pool of the State of Oregon

For the Year Ended June 30, 2005



Audits Division

Secretary of State

State of Oregon

OREGON SHORT-TERM FUND

An Investment Pool of the State of Oregon

For the Year Ended June 30, 2005



Audits Division



Auditing for a Better Oregon

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), a cash and 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 Oregon State Treasury within the guidelines established in the OSTF Portfolio Rules.

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

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, 2005 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 Oregon State Treasury's internal control and compliance with applicable laws and regulations, as it relates to the Oregon Short-Term Fund. Our report on the results of those reviews is included in the Other Reports section of this report. We 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 reported to Treasury management in a separate letter.

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

Sincerely,
OREGON AUDITS DIVISION

Cathy Pollino
State Auditor

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FINANCIAL SECTION



Auditing for a Better Oregon

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

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

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, 2005, 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, 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, an investment pool of the State of Oregon, and do not purport to, and do not, present fairly the financial position of the State of Oregon as of June 30, 2005, 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, 2005, 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 17, 2005, on our consideration of Oregon State Treasury's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, 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.

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

OREGON AUDITS DIVISION

Bill Bradbury
Secretary of State

August 17, 2005

State of Oregon
OREGON SHORT-TERM FUND
Statement of Net Assets
June 30, 2005
(Dollars in Thousands)

	<u>June 30, 2005</u>
Assets:	
Cash and Cash Equivalents	\$ 4,928,961
Investments	3,347,398
Due from Employment (note 5)	1,806
Due from Human Services (note 6)	82,300
Accrued Interest Receivable	21,877
Securities Lending Collateral	<u>1,478,667</u>
Total Assets	<u>9,861,009</u>
Liabilities:	
Obligations Under Securities Lending (note 3)	<u>1,482,783</u>
Total Liabilities	<u>1,482,783</u>
Net Assets:	
Held in Trust for Participants (note 7)	<u>8,378,226</u>
Total Net Assets	<u>\$ 8,378,226</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, 2005
(Dollars in Thousands)

		Year Ended <u>June 30, 2005</u>
Additions:		
Participants' Contributions	\$	37,885,218
Investment Income, Net of Expenses (notes 1, 4)		<u>211,895</u>
Total Additions		<u>38,097,113</u>
Deductions:		
Participants' Withdrawals		37,693,050
Distributions of Interest to Participants		186,454
Securities Lending Agent Fees Expense		104
Securities Lending Borrowers' Rebate Expense		<u>31,121</u>
Total Deductions		<u>37,910,729</u>
Change in Net Assets Held in Trust For Participants		186,384
Net Assets - Beginning		<u>8,191,842</u>
Net Assets – Ending (note 7)	\$	<u>8,378,226</u>

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

OREGON SHORT-TERM FUND
Notes to Financial Statements
June 30, 2005

(1) Summary of Significant Accounting Policies

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

The Fund is not registered with the U.S. Securities and Exchange Commission as an investment company. The State's investment policies are governed by the Oregon Revised Statutes and the Oregon Investment Council (Council). The State Treasurer is the investment officer for the Council and is responsible for all funds in the State Treasury. These funds must be invested, and the investments managed, as a prudent investor would, exercising reasonable care, skill and caution. Investments in the Fund are further governed by portfolio guidelines issued by the Oregon Short-Term Fund Board, which establishes diversification percentages and specifies the types and maturities of investments. The portfolio guidelines permit securities lending transactions as well as investments in repurchase agreements and reverse repurchase agreements. The Fund was in compliance with all portfolio guidelines at June 30, 2005. These guidelines are discussed in greater detail in the Investments section of note (2).

According to ORS 295.025, state agencies must deposit all funds with depositories qualified by the State Treasury. Undesignated funds not required to meet current demand are deposited in the Fund; therefore, state agencies are considered involuntary participants of the Fund. Because the Fund operates as a demand deposit account for state agency participants, the portion of the Fund belonging to state agency (internal) participants is classified as cash and cash equivalents in the State's Comprehensive Annual Financial Report. The portion of the Fund belonging to local government (external) participants is reported in an investment trust fund in the State's Comprehensive Annual Financial Report.

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

OREGON SHORT-TERM FUND
Notes to Financial Statements (continued)
June 30, 2005

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

Investments. Investments with remaining maturities of up to ninety days are carried at amortized cost, provided that the fair value of these instruments is not significantly affected by the impairment of the credit standing of the issuer or by other factors. Amortized cost approximates fair value. Investments with longer maturities are carried at fair value.

Participants' equity; distributions of interest. Participants' account balances in the Fund are determined by the amount of participants' deposits, adjusted for withdrawals and distributed interest. The Fund has not provided or received any legally binding guarantees with regard to balances in the Fund. Interest is calculated and accrued daily on each participant's account based on the ending account balance and a variable interest rate determined periodically by the State Treasury. When a participant's account is overdrawn, negative interest accrues daily at the determined rate plus a premium. The total interest paid to participants each month approximates the actual earnings of the Fund exclusive of unrealized gains and losses. Interest is distributed monthly on the last business day of the month. If the last day of the month is a weekend or holiday, interest is accrued through the last calendar day of the month but posted on the last business day. See note (7).

(2) Deposits and Investments

Deposits

On June 30, 2005 the OSTF held \$48.6 million in deposits with a bank balance of \$82.0 million. The insurance and collateral requirements for deposits are established by banking regulations and Oregon law. FDIC insurance of \$100,000 applies to the deposits in each depository. Where balances continually exceed \$100,000, ORS 295.025 requires the depositor to obtain certificates of participation (COPs) in the amount of the excess deposit from its pool manager. ORS 295.005 provides that the pool manager can be the Oregon State Treasury, an insured bank or trust company, the Federal Reserve Bank, or the Federal Home Loan Bank. Depository banks must pledge securities with a value of at least 25% of the COP, 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% of the COP.

The balances in excess of the FDIC insurance plus 25% 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

OREGON SHORT-TERM FUND
Notes to Financial Statements (continued)
June 30, 2005

collateral securities in possession of an outside party. As of June 30, 2005 the balances exposed to custodial credit risk totaled \$41.4 million.

Investments

On June 30, 2005, the OSTF held \$8.2 billion of investments, \$4.9 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 at least 50% of the portfolio mature within 93 days; not more than 25% of the portfolio may mature in over a year; and no investments may mature over three years from settlement date. The June 30, 2005 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, 2005
(Dollars in Thousands)

	----- Investment Maturities -----			
Investment Type:	Reported Amount*	Up to 93 Days	94 Days to One Year	1 – 3 Years
Cash Equivalents: #				
Commercial Paper	\$ 2,535,414	\$ 2,535,414	\$ -	\$ -
U.S. Agency Securities	2,255,562	2,255,562	-	-
Time Certificates of Deposit	89,350	89,350	-	-
Subtotal, Cash Equivalents	\$ 4,880,326	\$ 4,880,326	\$ -	\$ -
Investments: #				
Commercial Paper	\$ 24,900	\$ 24,900	\$ -	\$ -
U.S. Agency Securities	2,265,705	1,009,738	773,415	482,552
Corporate Notes	1,056,793	834,904	221,889	-
Subtotal, Investments	\$ 3,347,398	\$ 1,869,542	\$ 995,304	\$ 482,552
Total	\$ 8,227,724	\$ 6,749,868	\$ 995,304	\$ 482,552

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

Classification on Statement of Net Assets.

OREGON SHORT-TERM FUND
Notes to Financial Statements (continued)
June 30, 2005

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 that the weighted average credit quality ratings for the Fund's holdings are a minimum of AA and Aa2 for Standard and Poor's and Moody's, respectively. On June 30, 2005, 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, 2005
(Dollars in Thousands)

Investment Type:	AAA	AA	A	Not rated	Total Reported Amount
US Agency Securities	\$ 4,521,267	\$ -	\$ -	\$ -	\$ 4,521,267
Corporate Bonds	27,493	361,222	668,078	-	1,056,793
Commercial Paper	309,888	1,149,633	1,100,793	-	2,560,314
TCDs	-	-	-	89,350	89,350
Total	<u>\$ 4,858,648</u>	<u>\$ 1,510,855</u>	<u>\$ 1,768,871</u>	<u>\$ 89,350</u>	<u>\$ 8,227,724</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% of the COP provided by the bank. The uninsured and uncollateralized exposure related to the TCDs is \$65.3 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% for U.S. Agency securities and 5% for both commercial paper and corporate notes. On June 30, 2005, 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, 2005

E. Foreign currency

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

(3) Securities Lending

The State Treasury has authorized its custodian to act as its agent in the lending of the Fund's securities pursuant to a form of loan agreement, in accordance with Fund investment policies. There have been no significant violations of the provisions of securities lending agreements.

The State's securities lending agent lent short-term and fixed income securities and received as collateral U.S. dollar-denominated cash. Borrowers were required to deliver cash collateral for each loan equal to not less than 102% 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, 2005, the State had no credit risk exposure to borrowers related to securities on loan.

Schedule of Securities Lending Balances
June 30, 2005
(Dollars in Thousands)

	Securities on Loan at Fair Value	Collateral Received	Invested Collateral at Fair Value (STIF Fund)
US Agency Securities	\$1,432,119	\$1,461,889	\$1,457,820
Corporate Notes	20,455	20,894	20,847
Total	\$1,452,574	\$1,482,783	\$1,478,667

OREGON SHORT-TERM FUND
Notes to Financial Statements (continued)
June 30, 2005

(4) Management Fees

In accordance with ORS 293.718, the State Treasury may deduct monthly 0.435 basis points of the most recent market value of assets under management for administration and portfolio management. For the year ended June 30, 2005 the State Treasury charged the Fund a monthly rate of 0.30 basis points based on average daily balances in the Fund. The fee is deducted from investment income before distributions to participants. Fees charged to the Fund totaled \$2,985,878 for the year ended June 30, 2005.

(5) Receivable from and Payable to Employment

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

(6) Receivable from Human Services

ORS 293.210 provides that the State Treasurer may transfer funds from a fund with excess funds to a fund that expects its funds will be insufficient to meet its obligations. In May 2005, the OSTF lent \$82.3 million to the Department of Human Services (DHS) which DHS will use to fund expenses of the Office of Medical Assistance and the Seniors and People with Disabilities program. The loan will be repaid with revenues from provider and tobacco taxes, not later than December 30, 2005.

OREGON SHORT-TERM FUND
Notes to Financial Statements (continued)
June 30, 2005

(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 and undistributed and unrealized gains:

	<u>June 30, 2005</u>
Net Assets Held in Trust for Participants: (in thousands)	
Equity of Internal Participants	\$ 4,963,024
Equity of External Participants	<u>3,415,202</u>
	<u>\$ 8,378,226</u>
 Net Assets Consist of: (in thousands)	
Participants' Account Balances	\$ 8,392,214
Undistributed and Unrealized Gains (Losses)	<u>(13,988)</u>
	<u>\$ 8,378,226</u>
 Participants' Fair Value (Net Assets divided by Participants' Account Balances)	 <u><u>\$.998</u></u>

SUPPLEMENTARY INFORMATION

OREGON SHORT-TERM FUND
Schedule of Investments and Cash Equivalents
June 30, 2005
(Dollars in Thousands)

		Unaudited	
	<u>Par Value</u>	<u>Reported Amount</u>	<u>Percentage</u>
INVESTMENTS AND CASH EQUIVALENTS:			
U.S. Government and Agency Securities:			
Agency Bonds:			
Federal Farm Credit Bank	49,800	49,798	
Federal Home Loan Bank	1,134,500	1,131,742	
Federal Home Loan Mortgage Corporation	604,440	599,541	
Federal National Mortgage Association	458,916	456,387	
Total Agency Bonds	\$ 2,247,656	2,237,468	27.3%
Agency Discount Notes:			
Federal Agriculture Mortgage Corporation	43,400	43,318	
Federal Home Loan Bank	405,735	405,170	
Federal Home Loan Mortgage Corporation	814,489	813,533	
Federal National Mortgage Assoc	1,023,179	1,021,778	
Total Agency Discount Notes	\$ 2,286,803	2,283,799	27.7%
Total U.S. Government Agency Securities	\$ 4,534,459	4,521,267	55.0%
Commercial Paper:			
Asset Backed:			
CAFCO, LLC	100,000	99,781	
Daimler Chrysler Revolving	140,000	139,783	
FCAR Owner Trust 1	140,000	139,773	
FCAR Owner Trust II	60,000	59,850	
GOVCO Inc.	130,800	130,447	
New Center Asset Trust	135,000	134,908	
Total Asset Backed	\$ 705,800	704,542	8.6%
Broker Dealer:			
Bear Stearns	10,000	9,985	
Goldman Sachs	110,000	109,920	
Morgan Stanley	45,000	44,965	
Total Broker Dealer	\$ 165,000	164,870	2.0%

OREGON SHORT-TERM FUND
Schedule of Investments and Cash Equivalents (continued)
June 30, 2005
(Dollars in Thousands)

	<u>Par Value</u>	<u>Reported Amount</u>	<u>Percentage</u>
Unaudited			
Financial:			
American General Finance Corp.	80,000	79,807	
Bank America Corp	100,000	99,774	
Barclays US Funding, LLC	50,000	49,859	
CIT Group, Inc.	92,016	91,981	
Citigroup Funding, Inc.	230,000	230,000	
Credit Suisse New York	50,000	49,896	
General Electric Capital Corp	160,000	160,000	
ING America	36,600	36,538	
International Lease Finance	61,000	60,863	
National Rural Utilities Coop	195,325	194,863	
River Fuel Co. #2, Inc.	25,188	25,149	
Toyota Motor Credit	150,000	149,888	
UBS Finance Delaware, LLC	<u>259,000</u>	<u>258,992</u>	
 Total Financial	 \$ <u>1,489,129</u>	 <u>1,487,610</u>	 18.1%
Industrial:			
Cortez Capital Corp	51,200	51,134	
Explorer Pipe	<u>25,000</u>	<u>24,932</u>	
 Total Industrial	 \$ <u>76,200</u>	 <u>76,066</u>	 0.9%
Telephone:			
SBC Communications	50,000	49,860	
Verizon Global Funding	<u>77,430</u>	<u>77,366</u>	
 Total Telephone	 \$ <u>127,430</u>	 <u>127,226</u>	 1.5%
 Total Commercial Paper	 \$ <u>2,563,559</u>	 <u>2,560,314</u>	 31.1%
Corporate Notes:			
Broker/Dealer:			
Credit Suisse First Boston USA	35,000	35,103	
Goldman Sachs	110,000	110,061	
Merrill Lynch & Co.	50,000	50,092	
Morgan Stanley	<u>129,515</u>	<u>129,271</u>	
 Total Broker/Dealer	 \$ <u>324,515</u>	 <u>324,527</u>	 3.9%
Finance and Insurance:			
Bank One Corp.	127,896	129,379	

OREGON SHORT-TERM FUND
Schedule of Investments and Cash Equivalents (continued)
June 30, 2005
(Dollars in Thousands)

Unaudited

	Par Value	Reported Amount	Percentage
Barclays Financial, LLC	100,000	99,845	
Citigroup Inc.	20,000	20,008	
General Electric Capital Corp	27,500	27,493	
International Lease Finance Corp.	124,541	124,587	
Met Life Global Funding I	19,000	19,003	
US Bancorp	14,505	14,511	
Wachovia Corp.	75,000	75,074	
Wells Fargo & Co.	<u>122,000</u>	<u>122,359</u>	
 Total Finance and Insurance	 \$ <u>630,442</u>	 <u>632,259</u>	 7.7%
 Industrial:			
Eli Lilly & Co.	50,000	50,016	
Wal-Mart	<u>50,000</u>	<u>49,991</u>	
 Total Industrial	 \$ <u>100,000</u>	 <u>100,007</u>	 1.2%
 Total Corporate Notes	 \$ 1,054,957	 1,056,793	 12.8%
 TCDs	 \$ <u>89,350</u>	 <u>89,350</u>	 1.1%
 TOTALS INVESTMENTS AND CASH EQUIVALENTS	 \$ <u>8,242,325</u>	 <u>8,227,724</u>	 100.0%
 SECURITIES LENDING COLLATERAL SHORT TERM INVESTMENT FUND		 \$ <u>1,478,667</u>	

OTHER REPORTS



Auditing for a Better Oregon

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

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

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING, 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, 2005, and have issued our report thereon dated August 17, 2005. 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 Oregon State Treasury's internal control over financial reporting, as it relates to the Oregon Short-Term Fund, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide 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 reported to management of the Oregon State Treasury in a separate letter.

This report is intended solely for the information and use of the Oregon State Treasurer, the Oregon Short-Term Fund Board, the Oregon Investment Council, management of the Oregon State Treasury, the governor of the State of Oregon, and the Oregon Legislative Assembly, and is not intended to be and should not be used by anyone other than these specified parties.

OREGON AUDITS DIVISION

Bill Bradbury
Secretary of State

August 17, 2005

FACTS ABOUT THE SECRETARY OF STATE AUDITS DIVISION

The Oregon Constitution provides that the Secretary of State shall be, by virtue of his office, Auditor of Public Accounts. The Audits Division exists to carry out this duty. The division reports to the elected Secretary of State and is independent of the Executive, Legislative, and Judicial branches of Oregon government. The division audits all state officers, agencies, boards, and commissions and oversees audits and financial reporting for local governments.

Directory of Key Officials

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

Audit Team

Kelly L. Olson, CPA, Audit Manager

Jean M. Hodges, CPA

Jason A. Butler

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Oregon Audits Division
Public Service Building
255 Capitol Street NE • Suite 500
Salem, Oregon 97310

We invite comments on our reports through our Hotline or Internet address.

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<http://www.sos.state.or.us/audits/audithp.htm>

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

Auditing to Protect the Public Interest and Improve Oregon Government

