



State of Oregon

OREGON SHORT-TERM FUND

An Investment Pool of the State of Oregon

For the year ended June 30, 2012

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OREGON SHORT-TERM FUND
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FINANCIAL SECTION

Office of the Secretary of State

Kate Brown
Secretary of State

Barry Pack
Deputy Secretary of State



Audits Division

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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

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, 2012, as listed in the table of contents. These financial statements are the responsibility of the Oregon Office of the State Treasurer's 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 Office of the State Treasurer's internal control over financial reporting relating 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 of the Oregon Short-Term Fund, an investment pool of the State of Oregon, 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 Office of the State Treasurer or the State of Oregon as of June 30, 2012, and the changes in their financial position, or where applicable, their cash flows 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, 2012, 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 28, 2012, on our consideration of the Oregon Office of the State Treasurer's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 horizontal flourish extending to the right.

Kate Brown
Secretary of State

August 28, 2012

State of Oregon
OREGON SHORT-TERM FUND

Statement of Net Assets

June 30, 2012

(Dollars in Thousands)

Assets:	
Cash and Cash Equivalents	\$ 1,733,600
Investments	7,306,789
Due from Broker on Sale	369,717
Due from Secretary of State (Note 5)	14
Accrued Interest Receivable	22,676
Securities Lending Collateral (Note 3)	911,017
	<hr/>
Total Assets	10,343,813
Liabilities:	
Due to Broker on Purchase	199,976
Due to Employment Department (Note 6)	33
Obligations Under Securities Lending (Note 3)	911,017
	<hr/>
Total Liabilities	1,111,026
Net Assets:	
Held in Trust for Participants	9,232,787
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Total Net Assets	\$ 9,232,787
	<hr/> <hr/>

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, 2012

(Dollars in Thousands)

Additions:

Participants' Contributions	\$ 47,299,115
Investment Income, Net of Expenses (Notes 1, 4)	66,506

Total Additions 47,365,621

Deductions:

Participants' Withdrawals	47,898,807
Distributions of Interest to Participants	56,707
Securities Lending Agent Fee Expense	709
Securities Lending Borrowers' Rebate Expense	1,977

Total Deductions 47,958,200

Change in Net Assets Held in Trust for Participants (592,579)

Net Assets - Beginning 9,825,366

Net Assets - Ending (Note 7) \$ 9,232,787

The accompanying notes are an integral part of the financial statements

OREGON SHORT-TERM FUND

Notes to Financial Statements

June 30, 2012

(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 Office of the State Treasurer (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.

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.

OREGON SHORT-TERM FUND

Notes to Financial Statements

June 30, 2012

(2) Deposits and Investments

Deposits On June 30, 2012 the Fund held a \$4.4 million book balance in deposits with a bank balance of \$50.8 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 Oregon Office of the State Treasurer in the Public Funds Collateralization Program (PFCP). Non-interest-bearing accounts are fully covered by FDIC insurance under the Dodd-Frank Wall Street Reform and Consumer Protection Act until December 31, 2012.

As of June 30, 2012, \$50.8 million of demand deposits were covered by FDIC insurance and no demand deposits were collateralized under the PFCP.

Investments On June 30, 2012, the Fund had net assets of \$9.2 billion, \$1.7 billion of which is 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://treasury.oregon.gov/treasury/Divisions/Investment/Pages/Oregon-Short-Term-Fund-%28OSTF%29.aspx>.)

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, 2012 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 2012, for securities with a put option, the date upon which the put option was fully exercisable for at least 100 percent of the face value was used instead of the maturity date.

OREGON SHORT-TERM FUND
Notes to Financial Statements
June 30, 2012

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>
Cash Equivalents: ^②				
Commercial Paper	\$ 134,999	\$ 134,999	\$ -	\$ -
U.S. Treasury and Agency Securities	1,513,098	1,513,098	-	-
Time Certificates of Deposit	81,100	81,100	-	-
Subtotal Cash Equivalents	<u>1,729,197</u>	<u>1,729,197</u>	-	-
Investments: ^②				
Commercial Paper	159,804	98,008	61,796	-
U.S. Treasury and Agency Securities	2,203,561	643,175	713,345	847,041
Municipal Bonds	114,832	107,264	-	7,568
Corporate Notes	4,234,437	2,962,336	374,127	897,974
Non-US Government Debt	82,466	-	-	82,466
Temporary Liquidity Guarantee	511,689	135,752	375,937	-
Subtotal Investments	<u>7,306,789</u>	<u>3,946,535</u>	<u>1,525,205</u>	<u>1,835,049</u>
Total	<u>\$ 9,035,986</u>	<u>\$ 5,675,732</u>	<u>\$ 1,525,205</u>	<u>\$ 1,835,049</u>

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

② Classification on Statement of Net Assets

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 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, 2012, 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-.

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:

OREGON SHORT-TERM FUND
Notes to Financial Statements
June 30, 2012

Schedule of Credit Quality Distribution
(Dollars in Thousands)

<u>Investment Type</u>	<u>AA</u>	<u>A</u>	<u>BBB ①</u>	<u>Not Rated</u>	<u>Total Reported Amount</u>
Commercial Paper	\$ 9,994	\$ 284,808	\$ -	\$ -	\$ 294,802
Corporate Notes	1,125,134	2,421,533	637,718 ②	50,052	4,234,437
U.S. Treasury and Agency Securities	1,410,773	322,182	-	1,983,704	3,716,659
Non-US Government Debt	82,466	-	-	-	82,466
Municipal Bonds	109,801	5,032	-	-	114,833
Temporary Liquidity Guarantee	511,689	-	-	-	511,689
Total	\$ 3,249,857	\$ 3,033,555	\$ 637,718	\$ 2,033,756	8,954,886
Time Certificates of Deposit ③					81,100
				Total Investments	\$ 9,035,986

- 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.
- ② The \$50 million of Corporate notes had only estimated ratings as of June 30. Shortly after that date, the securities received an S&P rating of AA+, meeting fund rules.
- ③ TCDs are considered deposits for purposes of credit quality, and are fully covered by FDIC and state PFCP programs

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. 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 \$80.4 million is covered by the PFCP (ORS 295.015) administered by the Oregon Office of the State Treasurer.

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 thirty-three 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, 2012, 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.

Schedule of issuers - Holdings Greater Than Five Percent
(Dollars in Thousands)

<u>Issuer Name</u>	<u>Reported Amount</u>	<u>Percent of Holding</u>
Federal Home Loan Bank	1,201,059	13.29%
Fannie Mae	1,188,037	13.15%
Freddie Mac	824,642	9.13%

OREGON SHORT-TERM FUND
Notes to Financial Statements
June 30, 2012

E. 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. Borrowers were required to deliver cash collateral for each loan equal to not less than 102 percent of the market value of the loaned security. The State did not impose any restrictions during the year on the amount of the loans that the securities lending agent made on its behalf. The State is fully indemnified by its securities lending agent against losses due to borrower default. There were no losses during the year from the failure of borrowers to return loaned securities.

The 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 Assets. The balances of securities on loan, cash collateral received and invested collateral at market value are presented in the schedule below.

Schedule of Securities Lending Balances
(Dollars in Thousands)

	Securities on Loan at		Invested Collateral at	
	Fair Value	Collateral Received	Fair Value	
U.S. Agency Securities	\$ 766,357	\$ 783,257	\$	783,406
Corporate Notes	125,077	127,760		127,784
Total	\$ 891,434	\$ 911,017	\$	911,190

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, 2012, the State had no credit risk exposure to borrowers related to securities on loan.

OREGON SHORT-TERM FUND

Notes to Financial Statements

June 30, 2012

(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, 2012 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 \$3.9 million for the year ended June 30, 2012.

(5) Receivable from the Oregon Secretary of State

The Oregon Secretary of State made an agreement in fiscal year 2008 with the fund to borrow \$90,335 to use for costs of purchasing voting machines for Curry County. The balance at June 30, 2012 of the loan is \$13,702. Interest is charged at a fixed per annum rate of 5.66 percent. The current balance is due December 31, 2012.

(6) Payable to the Oregon Employment Department

The OST maintains accounts separate from the Fund which contain 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 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	\$ 4,908,789
Equity of external participants	4,323,998
	<u>\$ 9,232,787</u>
Net assets consist of (in thousands):	
Participants' Account Balances	\$ 9,225,683
Undistributed and Unrealized Losses	(4,992)
Amounts for Losses and Historically-based Defaults	12,096
	<u>\$ 9,232,787</u>
Participants' Fair Value (Net Assets divided by Participants' Account Balances)	<u>100.08%</u>

The investment the OSTF held in Lehman Brothers securities was sold this year. The realized loss of \$133.0 million was applied against the Amounts for Losses and Historically-based Defaults balance.

OREGON SHORT-TERM FUND

Notes to Financial Statements

June 30, 2012

(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, 2012 (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	\$ 222,670	222,806	
Federal Home Loan Bank	175,700	175,742	
Federal Home Loan Mortgage Corporation	372,511	375,478	
Federal National Mortgage Association	952,241	958,929	
Total Agency Bonds	1,723,122	1,732,955	19.2%
Agency Discount Notes:			
Federal Home Loan Bank	1,025,440	1,025,317	
Federal Home Loan Mortgage Corporation	449,227	449,164	
Federal National Mortgage Association	229,150	229,108	
Federal Farm Credit Bank	67,837	67,824	
Tennessee Valley Authority	112,300	112,291	
Total Agency Discount Notes	1,883,954	1,883,704	20.8%
Treasury Bills	100,000	100,000	1.1%
Total U.S. Government and Agency Securities	3,707,076	3,716,659	41.1%
Government			
Municipal Bonds			
Florida Hurricane Catastrophe	57,250	57,264	
North Texas Tollway Authority	7,450	7,568	
University of California	50,000	50,000	
Total Government Securities	114,700	114,832	1.3%
Non-US Government Debt			
Province of Ontario	80,000	82,466	0.9%
Commercial Paper:			
Beverages - Non-alcoholic			
Coca-Cola Company	22,997	22,997	0.2%
Commercial Banks - Non US			
Natexis Banques	25,000	24,999	0.3%

OREGON SHORT-TERM FUND

Notes to Financial Statements

June 30, 2012

Commercial Banks -Western US			
Union Bank NA	80,000	80,000	0.9%
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Finance - Consumer Loans			
John Deere LTD	30,000	30,000	0.3%
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Oil companies - Integrated			
BP Capital Markets PLC	75,000	75,011	0.8%
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Regional Authority			
Quebec Government	10,000	9,994	0.1%
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Soap and Cleaning Preparations			
Reckitt Benckiser Treasury Services	52,000	51,801	0.6%
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Total Commercial Paper	294,997	294,802	3.2%
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Corporate Notes:			
Auto - Cars/Light Trucks			
Daimler Finance NA LLC	34,675	34,740	0.4%
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Bank Notes			
BB+T Corporation	24,655	24,790	0.3%
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Beverages - Non-Alcohol			
Coca-Cola Company	60,000	60,285	0.7%
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Broker / Dealer			
Morgan Stanley	151,950	147,127	1.6%
<hr/>			
Commercial Banks - Central US			
US Bank	70,000	71,900	0.8%
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Commerical Bank - Non US			
Australia and New Zealand Banking Group	50,000	50,000	
ANZ National Intl NZ	100,000	99,592	
Bank of Nova Scotia	100,000	101,216	
Barclay's Bank PLC	220,000	217,339	
HBSC Bank PLC	19,200	19,290	
National Australia Bank	75,000	74,925	
National Bank of Canada	12,500	12,531	
Rabobank Nederland	75,000	74,980	
Westpac Banking Corp	276,000	277,048	
Total Commerical Bank - Non US	927,700	926,921	10.3%
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Computer Services			
IBM Corp	15,000	14,887	0.2%
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OREGON SHORT-TERM FUND

Notes to Financial Statements

June 30, 2012

Computers			
Hewlett-Packard Company	87,050	86,872	
HP Enterprise Services	14,478	15,183	
Total Computers	101,528	102,055	1.1%
Cosmetics and Toiletries			
The Proctor and Gamble Company	7,000	7,013	0.1%
Diversified Banking Institutions			
Bank of America Corp	50,000	49,478	
Citigroup Incorporated	201,121	202,887	
Goldman Sachs Group Incorporated	269,091	267,957	
JP Morgan Chase and Co.	296,650	296,628	
Morgan Stanley	114,000	113,218	
UBS AG Stamford CT	265,000	262,933	
Total Diversified Financial	1,195,862	1,193,101	13.2%
Diversified Financial Services			
Caisse Centrale Desjardins	15,000	15,149	
Caterpillar Financial SE	55,000	55,156	
General Electric Capital Corporation	304,410	306,695	
Societe Generale	19,500	18,872	
Total Diversified Financial	393,910	395,872	4.4%
Diversified Minerals			
BHP Billiton Finance	25,000	25,113	0.3%
Electronic Components			
Broadcom Corporation	17,830	17,957	0.2%
Fiduciary Banks			
Bank of New York Mellon	58,541	59,769	0.7%
Finance - Auto Loans			
American Honda Finance	5,000	5,053	0.1%
Finance - Consumer Loans			
John Deere Capital Corporation	40,000	40,320	0.4%
Finance - Investment Broker/Dealer			
Merrill Lynch and Company	46,891	47,553	0.5%
Finance - Other Services			
Blackrock Incorporated	50,000	50,197	
NYSE Euronext	15,000	15,599	
Total Finance - Other Services	65,000	65,796	0.7%

OREGON SHORT-TERM FUND

Notes to Financial Statements

June 30, 2012

Foreign Government Backed			
Commonwealth Bank Australia	291,600	290,877	3.2%
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Medical - Drugs			
GlaxoSmithKline Capital	10,000	10,004	
TEVA Pharmaceutical Financial	55,550	56,088	
Total Medical - Drugs	65,550	66,092	0.7%
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Multimedia			
The Walt Disney Company	10,000	10,027	0.1%
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Mutual Insurance			
New York Life Global Funding	5,761	5,943	0.1%
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Oil - Field Services			
Schlumberger Investment	25,000	25,021	0.3%
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Oil Companies - Integrated			
BP Capital Markets PLC	108,000	110,489	
Shell International Financial	34,235	34,603	
Total Oil Cos. Integrated	142,235	145,092	1.6%
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Reinsurance			
Berkshire Hathaway Incorporated	65,000	65,723	0.7%
<hr/>			
Special Purpose Entity			
SSIF Nevada LP	75,000	74,498	0.8%
<hr/>			
Super-Regional Banks - US			
Wachovia	83,365	86,179	
Wells-Fargo and Company	225,000	224,734	
Total Oil Cos. Integrated	308,365	310,913	3.4%
<hr/>			
Total Corporate Notes	4,229,053	4,234,438	46.9%
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Government Guaranteed Corporate Securities:			
Ally Financial Incorporated	171,427	172,442	
Citibank NA	75,000	75,186	
Citigroup Funding Incorporated	100,000	100,245	
General Electric Capital Corporation	137,690	138,992	
US Central Federal Credit	1,575	1,583	
West Corp Federal Credit Union	23,122	23,241	
Total Government Guaranteed Corporate Securities	508,814	511,689	5.7%
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Time Certificates of Deposit	81,100	81,100	0.9%
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Total Investments and Cash Equivalents	\$ 9,015,740	\$ 9,035,986	100%

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
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, 2012, and have issued our report thereon dated August 28, 2012. 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 the Oregon Office of the State Treasurer is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Oregon Office of the State Treasurer'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 Office of the State Treasurer's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Oregon Office of the State Treasurer'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 Office of the State Treasurer, the Oregon Short-Term Fund Board, the Oregon Investment Council, the Governor of the State of Oregon, others within the entity, 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 28, 2012