

# MEMORANDUM

Montana Board of Investments

Department of Commerce  
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Helena, MT 59620-0126  
406-444-0001

**To:** STIP Participants  
**From:** Carroll South, Executive Director  
**Date:** September 5, 2007  
**Subject:** Investment Disclosures, GASB 31, GASB 40 and Security Lending

## Investment Disclosures

The Montana Short Term Investment Pool (STIP) invests in securities required to be disclosed per the Governmental Accounting Standards Board (GASB). Due to the GASB requirements, STIP's fiscal year 2007 financial statement reports "variable interest rate" securities as a separate investment type. An unaudited copy of the STIP fiscal year 2007 and 2006 financial statement is available online at [www.investmentmt.com](http://www.investmentmt.com) / Programs / STIP Program.

The STIP portfolio includes Variable Rate (Floating-Rate) Securities to provide diversification and a competitive rate of return. These securities offer many advantages of short-term bonds because they are designed to minimize the investor's interest rate risk. As with variable rate loans issued by banks, the interest rate paid by the issuer of these securities is reset periodically depending on market conditions. The value of these securities will usually remain at or near par because their interest rates are reset to maintain a current market yield. STIP's variable rate securities float to the London Interbank Offering Rate (LIBOR), which is similar to the European federal funds rate.

## GASB 31

According to GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and External Investment Pools, STIP is considered an external investment pool. An external investment pool is defined as an arrangement that pools the monies of more than one legally separate entity and invests, on the participant's behalf, in an investment portfolio. STIP is also classified as a "2a7-like" pool. A 2a7-like pool is an external investment pool that is not registered with the Securities and Exchange Commission (SEC) as an investment company, but has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. If certain conditions are met, 2a7-like pools are allowed to use amortized cost rather than fair value to report net assets to compute unit values. The Board of Investments has adopted a policy to treat STIP as a 2a7-like pool.

## GASB 40

Effective June 30, 2005, the Board implemented the provisions of GASB Statement No. 40 – Deposit and Investment Risk Disclosures. STIP investments are categorized to disclose credit rate risk as of June 30, 2007 and 2006. Credit risk reflects the security quality rating, by investment security type, as of the June 30 report date. If a security investment type is unrated, the quality type is indicated by NR (not rated). Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated.

## Security Lending

STIP is eligible to participate in securities lending. Securities lending transactions for fiscal year 2007 and 2006 are disclosed in the attached financial statements.

If you have any questions, please contact me at 444-0001.