

# State Water Implementation Fund for Texas

Report to the Honorable Glenn Hegar  
December 12, 2017





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December 12, 2017

To the Honorable Glenn Hegar  
Comptroller of Public Accounts of the State of Texas  
State Water Implementation Fund for Texas  
Austin, Texas

Dear Mr. Hegar:

We are pleased to present this report related to our audit of the basic financial statements of State Water Implementation Fund for Texas (the Fund), a private-purpose trust fund of the state of Texas, as of and for the year ended August 31, 2017. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the Fund's financial reporting process.

This report is intended solely for the information and use of the Comptroller of Public Accounts of the State of Texas, management of the Fund, the Texas Water Development Board and the State Auditor of Texas and is not intended to be, and should not be, used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to State Water Implementation Fund for Texas.

*RSM US LLP*

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## Contents

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Required communications	1-2
Summary of significant accounting estimates	3
Exhibit A—Significant written communications between management and our firm	
Representation letter—Financial statement audit	
Representation letter—Compliance attestation examination	

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## Required Communications

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit, as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

Area	Comments
<b>Our Responsibilities With Regard to the Financial Statement Audit</b>	<p>Our responsibilities under auditing standards generally accepted in the United States of America have been described to you in our arrangement letter dated September 8, 2017. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.</p>
<b>Overview of the Planned Scope and Timing of the Financial Statement Audit</b>	<p>We have issued a separate communication dated September 8, 2017, to Mr. Paul Ballard, regarding the planned scope and timing of our audit and have discussed with him our identification of, and planned audit response to, significant risks of material misstatement. We conducted our audit consistent with the planned scope and timing previously communicated to Mr. Paul Ballard.</p> <p>As described in Note 2 to the financial statements, the financial statements present only the financial statements of the Fund and do not purport to, and do not present fairly, the financial position of the state of Texas as of August 31, 2017, and the changes in its financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion was not modified with respect to this matter.</p>
<b>Accounting Policies and Practices</b>	<p><b>Preferability of Accounting Policies and Practices</b> Under accounting principles generally accepted in the United States of America, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.</p> <p><b>Adoption of, or Change in, Accounting Policies</b> Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Fund. The Fund did not adopt any significant new accounting policies, nor have there been any changes in existing significant accounting policies during the current period.</p> <p><b>Significant or Unusual Transactions</b> We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.</p> <p><b>Management's Judgments and Accounting Estimates</b> Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached Summary of Significant Accounting Estimates.</p>

<b>Area</b>	<b>Comments</b>
<b>Audit Adjustments</b>	There were no audit adjustments made to the original trial balance presented to us to begin our audit.
<b>Uncorrected Misstatements</b>	We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.
<b>Other Information in Documents Containing Audited Financial Statements</b>	We are not aware of any other documents that contain the audited financial statements. If such documents were to be published, we would have the responsibility to determine such financial information was not materially inconsistent with the audited financial statements of the Fund.
<b>Disagreements With Management</b>	We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements.
<b>Consultations With Other Accountants</b>	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
<b>Significant Issues Discussed With Management</b>	No significant issues arising from the audit were discussed or the subject of correspondence with management.
<b>Significant Difficulties Encountered in Performing the Audit</b>	We did not encounter any significant difficulties in dealing with management during the audit.
<b>Significant Written Communications Between Management and Our Firm</b>	Copies of significant written communications between our firm and management of the Fund, including the representation letters provided to us by management, are attached as Exhibit A.

# Summary of Significant Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management’s current judgment. The process used by management encompasses its knowledge and experience about past and current events, and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following describes the significant accounting estimates reflected in the Fund’s August 31, 2017, financial statements.

<u>Estimate</u>	<u>Accounting Policy</u>	<u>Management’s Estimation Process</u>	<u>Basis for Our Conclusions on Reasonableness of Estimate</u>
Fair value measurements of the individual investment securities within the investment portfolio	Investments within the Fund are reported at fair value.	<p>Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.</p> <p>Investments are reported at fair value based upon quoted market prices, or when quoted market prices are not readily determinable, other observable significant inputs including, but not limited to, quoted prices for similar securities, interest rates, net asset values of underlying securities and fixed-income pricing models.</p>	We tested the fair value of investments at year-end. For investments measured using net asset value, we rolled forward balances from the prior-year audited amounts, tested fiscal year 2017 activity and confirmed the value at year-end with the custodian and individual money managers. We concluded the valuation methods and estimates are reasonable.

**Exhibit A—Significant Written Communications Between Management and Our Firm**



December 12, 2017

RSM US LLP  
811 Barton Springs Road Suite 500  
Austin, Texas 78704

This representation letter is provided in connection with your audit of the basic financial statements of State Water Implementation Fund for Texas (the Fund) as of and for the year ended August 31, 2017 for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

We confirm, to the best of our knowledge and belief, that as of the date of this letter:

**Financial Statements**

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated September 8, 2017, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.
2. We acknowledge our responsibility for 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.
3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and reflect our judgment based on our knowledge and experience about past and current events, and our assumptions about conditions we expect to exist and courses of action we expect to take.
5. Related-party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
6. All events subsequent to the date of the financial statements, and for which U.S. GAAP requires adjustment or disclosure, have been adjusted or disclosed.
7. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.



8. The following have been properly recorded and/or disclosed in the financial statements:
  - a. Net position classifications.
  - b. The fair value of investments.
  - c. All significant estimates and investment concentrations known to management which are required to be disclosed.
  - d. Deposits and investment securities categories of risk.
9. We have no plans or intentions that may materially affect the carrying value or classification of assets. In that regard:
  - a. The Fund has no significant amounts of idle property and equipment.
  - b. The Fund has no plans or intentions to discontinue the operations of any activities or programs or to discontinue any significant operations.
  - c. The Fund has no assets that have permanently declined in value.
  - d. There are no long-lived assets or identifiable intangibles that require impairment.
10. We are responsible for making the accounting estimates included in the financial statements. Those estimates reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take.
11. There are no:
  - a. Material transactions that have not been properly recorded in the accounting records underlying the financial statements.
  - b. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
  - c. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by the Governmental Accounting Standards Board (GASB).
  - d. Agreements to repurchase assets previously sold, excluding repurchase agreement transactions which occur in the normal course of business.
  - e. Security agreements in effect under the Uniform Commercial Code.
  - f. Liabilities which are subordinated in any way to any other actual or possible liabilities.
  - g. Leases and material amounts of rental obligations under long-term leases.
  - h. Special and extraordinary items.
  - i. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances.
  - j. Risk financing activities.

- k. Guarantees, whether written or oral, under which the Fund is contingently liable.
  - l. Investments, intangibles, and other assets which have permanently declined in value.
12. We are not aware of any pending or threatened litigation, claims, or assessments that are required to be accrued or disclosed in the financial statements in accordance with GASB and we have not consulted a lawyer concerning litigation claims or assessments.
  13. We have no direct or indirect legal or moral obligation for any debt of any organization, public or private, that is not disclosed in the financial statements.
  14. The Fund has satisfactory title to all owned assets.
  15. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance. In connection therewith, we specifically represent that we are responsible for determining that we are not subject to the requirements of the Single Audit Act because we have not received, expended or otherwise been the beneficiary of the required amount of federal awards during the period of this audit.
  16. Revenues and expenses are appropriately classified in the statement of changes in fiduciary net position.
  17. There are no capital assets, including infrastructure assets.
  18. In considering the disclosures that should be made about risks and uncertainties, we have concluded that the following are required:

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Investments are reported at fair value based upon quoted market prices, or when quoted market prices are not readily determinable, other observable significant inputs including, but not limited to, quoted prices for similar securities, interest rates, net asset values of underlying securities, and fixed income pricing models.
  19. We have no knowledge of any uncorrected misstatements in the financial statements.

#### **Information Provided**

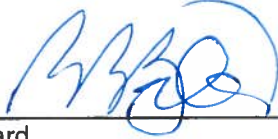
20. We have provided you with:
  - a. Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters;
  - b. Additional information that you have requested from us for the purpose of the audit;
  - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence; and
  - d. Minutes of the meetings of the governing board and committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.
21. All transactions have been recorded in the accounting records and are reflected in the financial statements.
22. We have disclosed to you the results of our assessment of risk that the financial statements may be materially misstated as a result of fraud.

23. We have no knowledge of allegations of fraud or suspected fraud affecting the entity's financial statements involving:
  - a. Management.
  - b. Employees who have significant roles in internal control.
  - c. Others where the fraud could have a material effect on the financial statements.
24. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity's financial statements received in communications from employees, former employees, analysts, regulators, or others.
25. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations whose effects were considered when preparing financial statements.
26. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements and we have not consulted legal counsel concerning litigation or claims.
27. We have disclosed to you the identity of the Fund's related parties and all the related-party relationships and transactions of which we are aware.
28. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the Fund's ability to record, process, summarize and report financial data.
29. We are aware of no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
30. During the course of your audit, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

#### **Supplementary Information**

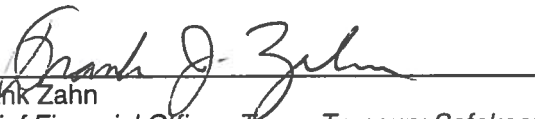
31. With respect to Management's Discussion and Analysis presented as required by GASB to supplement the basic financial statements:
  - a. We acknowledge our responsibility for the presentation of such required supplementary information.
  - b. We believe such required supplementary information is measured and presented in accordance with guidelines prescribed by accounting principles generally accepted in the United States of America.
  - c. The methods of measurement or presentation have not changed from those used in the prior period.

State Water Implementation Fund for Texas



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Paul Ballard  
*Chief Executive Officer, Texas Treasury Safekeeping Trust Company*



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Frank Zahn  
*Chief Financial Officer, Texas Treasury Safekeeping Trust Company*



December 12, 2017

RSM US LLP  
811 Barton Springs Road, Suite 500  
Austin, TX 78704

In connection with your examination of our assertion that the State Water Implementation Fund for Texas (the "Fund") complied with its Investment Policy dated October 2016 (the "Policy") as of August 31, 2017, in accordance with attestation standards established by the American Institute of Certified Public Accountants, we confirm to the best of our knowledge and belief, the following representations made to you during the course of your engagement:

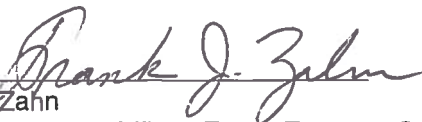
1. We understand that we are responsible for the fair presentation of the subject matter prepared in conformity with the requirements of the Comptroller's Office as of August 31, 2017.
2. We are responsible for the Fund's compliance with the Policy. We have performed an evaluation of the Fund's compliance with the Policy. Based on our evaluation, we assert that the Fund has complied with the Policy as of August 31, 2017.
3. We are responsible for selecting the criteria and for determining that such criteria are appropriate for our purposes.
4. We are responsible for establishing and maintaining effective internal control over compliance with the Policy.
5. We are responsible for the interpretation of any compliance requirements that may have varying interpretations.
6. There are no known matters contradicting the assertion nor any communication from regulatory agencies affecting the subject matter or the assertion.
7. We have made available to you all related financial records and data.
8. No events or transactions have occurred subsequent to August 31, 2017 that would require adjustment to, or disclosure in, the presentation of the subject matter.
9. We have no knowledge of fraud or suspected fraud affecting the entity involving:
  - a. Management,
  - b. Employees who have significant roles in the internal control, or
  - c. Others where fraud could have a material impact.

10. We acknowledge our responsibility for the design and implementation of programs and controls to provide reasonable assurance that fraud is prevented and detected.
11. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.
12. We have responded fully to all inquiries made to us by you during your engagement.
13. There are no material transactions that have not been properly recorded as part of the subject matter or the assertion.
14. We have complied with all aspects of contractual agreements that would have a material effect on the subject matter or the assertion in the event of noncompliance.
15. We have advised you of all actions taken at meetings of the Comptroller's Investment Advisory Board that may affect the subject matter.
16. We understand that no procedures have been performed since the date of your report and you have no responsibility to update your procedures.
17. There has been no noncompliance discovered by us subsequent to August 31, 2017.
18. During the course of your engagement you may have accumulated records containing data which should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

State Water Implementation Fund for Texas



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Paul Ballard  
*Chief Executive Officer, Texas Treasury Safekeeping Trust Company*



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Frank Zahn  
*Chief Financial Officer, Texas Treasury Safekeeping Trust Company*

