

Texas Treasury Safekeeping Trust Company

(A Component Unit of the State of Texas)

Report to the Honorable Glenn Hegar
December 12, 2017





RSM US LLP

811 Barton Springs Rd
Suite 550
Austin, TX 78704

T +1 512 476 0717
F +1 512 476 0462

www.rsmus.com

December 12, 2017

To the Honorable Glenn Hegar
Comptroller of Public Accounts of the State of Texas
Texas Treasury Safekeeping Trust Company
Austin, Texas

Dear Mr. Hegar:

We are pleased to present this report related to our audit of the basic financial statements of Texas Treasury Safekeeping Trust Company (Texas Trust) 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 Texas Trust'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 Texas Trust 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 Texas Treasury Safekeeping Trust Company.

RSM US LLP

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

Contents

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	

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
Our Responsibilities With Regard to the Financial Statement Audit	<p>Our responsibilities under auditing standards generally accepted in the United States of America and <i>Government Auditing Standards</i> issued by the Comptroller General of the United States 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>
Overview of the Planned Scope and Timing of the Financial Statement Audit	<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 1 to the financial statements, the financial statements present only the financial statements of Texas Trust 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 conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.</p>
Accounting Policies and Practices	<p>Preferability of Accounting Policies and Practices 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>Adoption of, or Change in, Accounting Policies Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Texas Trust. The Texas Trust did not adopt any significant new accounting policies, nor have there been any changes in existing significant accounting policies during the current period, except for the required initial adoption of Governmental Accounting Standards Board (GASB) Statement No. 82, <i>Pension Issues—an amendment of GASB Statements No. 68 and 73</i>. The adoption of this standard did not have a significant impact on the Texas Trust's financial statements.</p> <p>Significant or Unusual Transactions 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>

Area	Comments
Accounting Policies and Practices (Continued)	Management’s Judgments and Accounting Estimates 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.
Audit Adjustments	There were no audit adjustments made to the original trial balance presented to us to begin our audit.
Uncorrected Misstatements	We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.
Other Information in Documents Containing Audited Financial Statements	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 Texas Trust.
Disagreements With Management	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.
Consultations With Other Accountants	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
Significant Issues Discussed With Management	No significant issues arising from the audit were discussed or the subject of correspondence with management.
Significant Difficulties Encountered in Performing the Audit	We did not encounter any significant difficulties in dealing with management during the audit.
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	We have separately issued a Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> which is included in the Texas Trust’s financial statements.
Significant Written Communications Between Management and Our Firm	Copies of significant written communications between our firm and management of the Texas Trust, including the representation letter 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 Texas Trust'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	Money market instruments and repurchase agreements are reported at amortized cost. Investments, other than money market instruments and repurchase agreements, are reported at fair value.	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, other than money market instruments and repurchase agreements, 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 (NAVs) of underlying securities and fixed income pricing models. Money market instruments and repurchase agreements are reported at amortized cost.	We tested the fair value of investments at year-end by using a valuation specialist to price debt securities. For investments measured using NAV, 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 that the valuation methods and estimates are reasonable.
Pension Expense and Net Pension Liability	The Texas Trust participates in the Employees Retirement System (ERS), one of the three retirement systems of the state of Texas. ERS is considered a single employer defined benefit pension plan.	The net pension liability was measured as of August 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Texas Trust's proportion of the net pension liability was based on contributions to the pension plan relative to contributions of all employers to the plan for the period from September 1, 2015, to August 31, 2016.	We obtained the actuarial valuation calculations from ERS, audited schedules and State Auditor's Office auditor's reports. We recalculated the Texas Trust's balances. RSM US LLP's Risk and Regulatory Consulting team also performed a review of the actuarial valuation. We concluded the estimates used by management 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 the Texas Treasury Safekeeping Trust Company (Texas Trust) 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. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances.
 - c. The fair value of investments. All significant estimates and investment concentrations known to management which are required to be disclosed.
 - d. All significant estimates and investment concentrations known to management which are required to be disclosed.
 - e. Derivative financial instruments.
 - f. Deposits and investments 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. Texas Trust has no significant amounts of idle property and equipment.
 - b. Texas Trust has no plans or intentions to discontinue the operations of any activities or programs or to discontinue any significant operations.
 - c. Texas Trust has no assets that have permanently declined in value.
 - d. We have reviewed long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances have indicated that the carrying amount of the assets might not be recoverable and have concluded no adjustments are necessary.
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. In that regard, adequate provisions have been made to reduce receivables to their estimated net collectable amounts.
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. Line of credit or similar arrangements.
 - e. Agreements to repurchase assets previously sold, excluding repurchase agreement transactions which occur in the normal course of business.

- f. Security agreements in effect under the Uniform Commercial Code.
 - g. Other liens or encumbrances on assets or revenues or any assets or revenues which were pledged as collateral for any liability or which were subordinated in any way.
 - h. Amounts of contractual obligations for construction and purchase of real property or equipment not included in the liabilities or encumbrances recorded on the books.
 - i. Liabilities which are subordinated in any way to any other actual or possible liabilities.
 - j. Leases and material amounts of rental obligations under long-term leases.
 - k. Special and extraordinary items.
 - l. Impairment of capital assets.
 - m. Guarantees, whether written or oral, under which the Texas Trust is contingently liable.
 - n. 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. Texas Trust 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 Subpart F of Title 2 U.S. Code of Federal Regulation Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards 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. Revenue and expenses have been appropriately classified in the statement of activities.
17. Capital assets are properly capitalized, reported, and depreciated.
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, other than money market instruments in the Investment Trust Fund and the Treasury Pool, 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. Money market instruments in the Investment Trust Fund and the Treasury Pool are reported at amortized cost.

19. We have no knowledge of any uncorrected misstatements in the financial statements.

Information Provided

20. During fiscal year 2017, management fee rebates were provided to the endowment funds in an amount totaling approximately \$607,000

21. 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.

22. All transactions have been recorded in the accounting records and are reflected in the financial statements.

23. 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.

24. 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.

25. 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.

26. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.

27. 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.

28. We have disclosed to you the identity of the Texas Trust's related parties and all the related-party relationships and transactions of which we are aware.

29. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect Texas Trust's ability to record, process, summarize and report financial data.
30. We are aware of no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
31. 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

32. With respect to supplementary information presented in relation to the financial statements as a whole:
 - a. We acknowledge our responsibility for the presentation of such information.
 - b. We believe such information, including its form and content, is fairly presented in accordance with U.S. GAAP
 - c. The methods of measurement or presentation have not changed from those used in the prior period.
 - d. When supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance of the supplementary information and the auditor's report thereon.
33. With respect to Management's Discussion and Analysis, the Schedule of Proportionate Share of the Net Pension Liability, and the Schedule of Contributions, all 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.

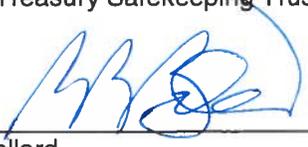
Compliance Considerations

In connection with your audit conducted in accordance with *Government Auditing Standards*, we confirm that:

34. We are responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.

35. We are responsible for compliance with certain provisions of laws, regulations, and contracts applicable to Texas Trust.
36. We are not aware of any instances that have occurred, or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
37. We are not aware of any instances that have occurred, or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that have a material effect on the determination of financial statement amounts.
38. We are not aware of any instances that have occurred, or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements.
39. We are responsible 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.
40. We acknowledge our responsibility for the design, implementation and maintenance of internal controls to prevent and detect fraud.
41. We have taken timely and appropriate steps to remedy fraud; noncompliance with provisions of laws, regulations, contracts and grant agreements; or abuse that the auditor reports.
42. We have a process to track the status of audit findings and recommendations.
43. We have identified for the auditor previous audits, attestation engagements and other studies related to the audit objectives and whether related recommendations have been implemented.
44. We have provided views on the auditor's reported findings, conclusions and recommendations, as well as management's planned corrective actions, for the report.
45. We acknowledge our responsibilities as they relate to non-audit services performed by the auditor, including a statement that we assume all management responsibilities; that we oversee the services by designating Frank Zahn, CFO, who possesses suitable skill, knowledge or experience; that we evaluate the adequacy and results of the services performed; and that we accept responsibility for the results of the services.

Texas Treasury Safekeeping Trust Company



Paul Ballard
Chief Executive Officer



Frank Zahn
Chief Financial Officer



December 12, 2017

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

In connection with your examination of our assertion that the Final Incentive Award Calculations- Plan Year Ended September 30, 2017 (the Calculation) complied with the Texas Treasury Safekeeping Trust Company's Incentive Compensation Plan, effective October 1, 2016, (the Plan) as it relates to the Calculation as of September 30, 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 are responsible for the fair presentation of the subject matter prepared in conformity with the requirements of the Plan, as of September 30, 2017.
2. We are responsible for preparing the Calculation in accordance with the Plan. We have prepared the Calculation for the Plan Year Ended September 30, 2017 in accordance with the Plan and we assert that the Calculation is in compliance with the Plan.
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.
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 the Comptroller's Office that would affect the subject matter or the assertion.
7. We have made available to you all related financial records and data.
8. No events or transaction have occurred subsequent to September 30, 2017 that would require adjustments to the Calculation, or disclosure in, your report.
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.
 - c. Others where fraud could have a material impact.
10. We acknowledge our responsibility for the design and implementation of internal controls to provide assurance that fraud is prevented and detected.

11. We have no knowledge of any allegations of fraud or suspected fraud affecting the Texas Treasury Safekeeping Trust Company received in communications from employees, former employees, analysts, regulators, or others.
12. We have responded fully to all inquiries made it 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 September 30, 2017.
18. We are responsible for and have determined that Investment Professionals receiving an award under the Plan have complied with the Texas Treasury Safekeeping Trust Company's Investment Policy Statement and Ethics Policy as discussed in Section 4.5 of the Plan.
19. 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.

Sincerely,



Paul Ballard
Chief Executive Officer
Texas Treasury Safekeeping Trust Company

