

**Texas Treasury Safekeeping  
Trust Company**

**Report on Conduct of Audit**

August 31, 2016



## Padgett Stratemann

December 16, 2016

To the Honorable Glenn Hegar  
Comptroller of Public Accounts of the State of Texas  
208 East 10<sup>th</sup> Street, Suite 416  
Austin, Texas 78701

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) for the year ended August 31, 2016. 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.

Sincerely,

*Padgett, Stratemann + Co., L.L.P.*

Certified Public Accountants

Attachment

### AUSTIN

811 BARTON SPRINGS ROAD, SUITE 550  
AUSTIN, TEXAS 78704  
512 476 0717

### HOUSTON

1980 POST OAK BOULEVARD, SUITE 1100  
HOUSTON, TEXAS 77056  
713 335 8630

### SAN ANTONIO

100 N.E. LOOP 410, SUITE 1100  
SAN ANTONIO, TEXAS 78216  
210 828 6281

TOLL FREE: 800 879 4966  
WEB: PADGETT-CPA.COM

# Required Communications

Area	Comments
<p><b><i>Our Responsibility Under Auditing Standards Generally Accepted in the United States of America</i></b></p>	<p>As communicated in our arrangement letter dated June 17, 2016, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by Texas Trust’s management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or Texas Trust’s management of your respective responsibilities.</p> <p>Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free from material misstatement. An audit of financial statements 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 entity’s internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of Texas Trust solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.</p> <p>We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.</p> <p>As communicated in the arrangement letter dated June 17, 2016, our responsibility, as described in <i>Government Auditing Standards</i>, is to report on the tests of internal control related to financial reporting and the tests of compliance with certain provisions of laws, regulations, contracts, and other</p>

Area	Comments
<p><b><i>Other Information in Documents Containing Audited Financial Statements</i></b></p>	<p>matters. However, they do not provide a basis for an opinion on Texas Trust’s internal control over financial reporting or on compliance and other matters.</p> <p>We are not aware of any other documents that contain the audited financial statements. If such documents were to be published, we would have a responsibility to determine such financial information was not materially inconsistent with the audited financial statements of Texas Trust.</p>
<p><b><i>Planned Scope and Timing of the Audit</i></b></p>	<p>We conducted our audit consistent with the planned scope and timing we 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, 2016, 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>
<p><b><i>Qualitative Aspects of Significant Accounting Practices</i></b></p>	<p><i>Significant Accounting Policies</i></p> <p>Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by Texas Trust is included in Note 1 to the financial statements. There has been no initial selection of accounting policies and no changes in significant accounting policies or their application during the year ended August 31, 2016 other than the required initial adoption of Governmental Accounting Standards Board (GASB) Statement No. 72, <i>Fair Value Measurement and Application</i>, and GASB Statement No. 79, <i>Certain External Investment Pools and Pool Participants</i>. Our opinion was not modified with respect to these matters.</p>

Area	Comments
	<p>No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.</p> <p><i>Significant Accounting Estimates</i></p> <p>Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management’s current judgments.</p> <p>The most sensitive accounting estimates affecting the financial statements are the estimated fair values of the individual securities within the investment portfolio. Management’s estimates are based on information currently available, and the process used to calculate these estimates should be monitored throughout the year. These estimates were reviewed and it was determined they are reasonable in relation to the basic financial statements taken as a whole.</p> <p><i>Financial Statement Disclosures</i></p> <p>Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting Texas Trust’s financial statements relate to investments.</p>

Area	Comments
<b><i>Significant Difficulties Encountered During the Audit</i></b>	We encountered no significant difficulties in dealing with management relating to the performance of the audit.
<b><i>Uncorrected and Corrected Misstatements</i></b>	<p>For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those we believe are trivial, and communicate them to the appropriate level of management.</p> <p>In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures.</p> <p>In connection with our audit of the financial statements, we did not identify any corrected or uncorrected financial statement misstatements.</p>
<b><i>Disagreements With Management</i></b>	For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to Texas Trust's financial statements or the auditor's report. No such disagreements arose during the course of the audit.
<b><i>Representations Requested From Management</i></b>	We have requested and received certain written representations from management in our standard representation letter dated December 16, 2016.
<b><i>Management's Consultations With Other Accountants</i></b>	In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.
<b><i>Other Significant Findings or Issues</i></b>	In the normal course of our professional association with Texas Trust, we generally discuss a variety of matters, including the application of accounting

Area	Comments
	principles and auditing standards, business conditions affecting Texas Trust, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as Texas Trust's auditors.

# **Recently Issued Accounting and Reporting Pronouncements**

The Governmental Accounting Standards Board (GASB) has issued the following pronouncements which could have an impact to the Texas Trust in future years: GASB Statement No. 75 and Statement No. 82. Management has not yet determined the impact of these pronouncements on the financial statements. The following is a summary of these pronouncements and their effective dates.

***GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions***

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is effective for the Texas Trust's fiscal year beginning September 1, 2017 and establishes new accounting and financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB), as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities.

The scope of this statement includes OPEB plans – defined benefit and defined contribution – administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

This statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria.

The primary objective of this statement is to improve accounting and financial reporting by state and local governments for OPEB. It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

This statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

***GASB Statement No. 82, Pension Issues, an Amendment of GASB Statements No. 67, No. 68, and No. 73***

The objective of this statement is to address certain issues that have been raised with respect to Statement No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets*

*That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and 68.* Specifically, this statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

This statement is effective for the Texas Trust's fiscal year beginning September 1, 2016.