

Texas Treasury Safekeeping Trust Company

(A Component Unit of the State of Texas)

Annual Financial Report
August 31, 2019

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RSM US LLP

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and aggregate remaining fund information of the Texas Treasury Safekeeping Trust Company (Texas Trust), a component unit of the State of Texas, as of and for the year ended August 31, 2019, and the related notes to the financial statements, which collectively comprise the Texas Trust's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of Texas Trust, as of August 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As described in Note 1 to the financial statements, these 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, 2019, and the changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Changes in Proportionate Share of the Net Pension Liability, Schedule of Contributions—Net Pension Liability, Schedule of Changes in Proportionate Share of the Net OPEB Liability and Schedule of Contributions—Net OPEB Liability, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Texas Trust's basic financial statements. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements, or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2019, on our consideration of Texas Trust'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 solely 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 the effectiveness of the Texas Trust's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Texas Trust's internal control over financial reporting and compliance.

RSM US LLP

Austin, Texas
December 10, 2019

Texas Treasury Safekeeping Trust Company

Management's Discussion and Analysis August 31, 2019

This section of the Texas Treasury Safekeeping Trust Company's (Texas Trust) annual financial report presents discussion and analysis of its financial performance during the fiscal year ended August 31, 2019, and should be read in conjunction with Texas Trust's financial statements, which follow this section.

Financial Highlights

- Texas Trust's total managed funds, including pooled funds, exceeded seventy-eight (78) billion dollars at August 31, 2019.
- Texas Trust had fees for services in fiscal year 2019 of \$29,827,552 and net nonoperating revenues of \$1,199,750 (interest income less nonoperating expenses). Operating expenses were \$32,603,939.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Texas Trust's financial statements. The financial statements include statements for each of the following funds: Proprietary Fund and Fiduciary Fund.

Proprietary Fund

The proprietary fund financial statements presented herein include the operations of the Texas Trust using the approach as prescribed by the Governmental Accounting Standards Board (GASB) in its publication *Codification of Governmental Accounting and Financial Reporting Standards*. They present the financial statements of the Texas Trust from the economic resources measurement focus using the accrual basis of accounting.

The Texas Trust Enterprise Fund is used to report any activity for which a fee is charged to users for services such as investment management and custodial services. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs. The Texas Trust accounts for its daily operations using an enterprise fund. The enterprise fund, which represents Texas Trust's operating funds, is reported as a proprietary component unit of the State of Texas, and as such is accounted for using the flow of economic resources measurement focus and accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when the liability is incurred regardless of the timing of the related cash flow, similar to private sector companies.

The following statements are presented as part of the enterprise fund:

- The Statement of Net Position presents information on all of the Texas Trust's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Texas Trust is improving or deteriorating. Additionally, certain eliminations have occurred in regards to interfund activity, payables and receivables.
- The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the Texas Trust's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the time of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods. The business-type activities of Texas Trust include providing investment management and custody services. Management fees charged to customers support these activities.

Texas Treasury Safekeeping Trust Company

Management's Discussion and Analysis

August 31, 2019

- The Statement of Cash Flows—This statement reports the cash receipts and payments of Texas Trust according to whether they stem from operating, noncapital financing, capital and related financing, or investing activities.

Fiduciary Funds

Fiduciary funds are used to account for resources that a government holds as a trustee or agent on behalf of an outside party that cannot be used to support the government's own programs. The Texas Trust performs custodial and investment services for entities in two fund categories for a fee designed on a cost recovery basis. The two fund categories used under fiduciary fund types are:

Investment Trust Funds

Investment Trust Funds are used to report the external portion of investment pools reported by the sponsoring government. The Texas Trust accounts for monies constituting the Texas Local Government Investment Pool and the Texas Local Government Investment Pool Prime in an investment trust fund.

Agency Funds

Agency Funds are used to report resources held by the reporting government in a purely custodial capacity. Agency funds typically involve only the receipt, temporary investment and remittance of fiduciary resources to individuals, private organizations, or other governments. The Texas Trust accounts for monies held for certain state agencies including the Treasury Pool, Tobacco Settlement Permanent Trust Fund, State Water Implementation Fund for Texas (SWIFT), Texas Economic Stabilization Investment Fund (TESTIF) and securities held on behalf of their owners or beneficiaries in agency funds. Those agencies contract with the Texas Trust for investment management and custodial services.

Texas Treasury Safekeeping Trust Company

Management's Discussion and Analysis
August 31, 2019

Condensed Financial Information for 2019 and 2018 (in 000's)

	Business-Type Activities	
	2019	2018
Assets:		
Current assets	\$ 75,890	\$ 74,109
Capital assets	2,221	1,811
Total assets	78,111	75,920
Deferred outflow of resources:		
Deferred outflow for ERS pension liability	3,945	5,762
Deferred outflow for ERS OPEB liability	6,362	94
Total deferred outflows of resources	10,307	5,856
Liabilities:		
Current liabilities	5,291	6,475
Noncurrent liabilities	33,265	28,167
Total liabilities	38,556	34,642
Deferred inflows of resources:		
Deferred inflow for ERS pension liability	2,097	285
Deferred inflow for ERS OPEB liability	3,208	715
Total deferred inflows of resources	5,305	1,000
Net position:		
Invested in capital assets	2,221	1,811
Unrestricted	42,337	44,323
Total net position	\$ 44,558	\$ 46,134

Texas Treasury Safekeeping Trust Company

Management's Discussion and Analysis August 31, 2019

Condensed Financial Information for 2019 and 2018 (in 000's) (Continued)

	Business-Type Activities	
	2019	2018
Changes in net position:		
Charges for service:		
Treasury Pool	\$ 12,071	\$ 9,196
Endowments	8,569	11,235
SWIFT	3,187	3,543
TESTIF	2,632	2,259
Emerging Technology Fund	1,500	1,500
Investment Trust Fund	1,197	1,158
Agencies	671	658
Total charges for service	<u>29,827</u>	<u>29,549</u>
Net nonoperating revenues	1,200	473
Total revenues	<u>31,027</u>	<u>30,022</u>
Total operating expenses	<u>32,604</u>	<u>30,954</u>
Change in net position	<u>\$ (1,577)</u>	<u>\$ (932)</u>

Overall Financial Analysis

Business-type activities: The Texas Trust earns a fee based upon the assets under management for each client; consequently, revenue is directly related to the total assets under management by Texas Trust. Average balances under management for Endowments, TESTIF, Treasury Pool and the Investment Trust Funds increased during FY 2019, while average balances for the State Water Implementation Fund for Texas and other state agencies funds decreased in FY 2019. Business-type activities generated revenue of \$29.8 million, an increase of \$278 thousand during FY 2019. Total expenses for business-type activities were \$32.6 million, an increase of \$1.7 million during FY 2019.

The Texas Trust is required to have a fee schedule to maintain operations, being a self-supporting entity. A Capital Reserves Requirement policy exists in order to identify required reserves and other reserves necessary to support operations. This policy is reviewed periodically by executive management. If there are excess reserves at the end of the fiscal year, fees are waived or refunded until the excess is eliminated.

Texas Treasury Safekeeping Trust Company

Management's Discussion and Analysis August 31, 2019

The fee schedule for the various funds managed by the Texas Trust is as follows:

Account	Fees in Basis Points
Charges for service:	
Endowments	30
SWIFT	20
TESTIF	10
Treasury Pool	3
TexPool and TexPool Prime	0.5
Other Agency Funds	Range from 2-6 Basis Points plus certain itemized charges for services

The Texas Trust reports in the Enterprise Fund its proportionate share of net pension liability, deferred outflows of resources, and deferred inflows of resources and related pension expenses of the Employee Retirement System of Texas Plan (ERS Plan). The proportionate share is an actuarial calculation based on ERS records of actual contributions from the Texas Trust as a percentage of total contributions from all other plan participants. Texas Trust's proportionate share of net pension liability at August 31, 2019 is \$24.6 million, a slight decrease of \$7,914 from August 31, 2018. See Notes 4 and 7 to the Financial Statements for additional information.

Beginning in fiscal year 2018, the Texas Trust reports in the Enterprise Fund its proportionate share of Other Postemployment Benefits (OPEB) liability, deferred outflows of resources, and deferred inflows of resources and related OPEB expenses of the ERS Plan. The proportionate share is an actuarial calculation based on ERS records of actual contributions from the Texas Trust as a percentage of total contributions from all other plan participants. Texas Trust's proportionate share of OPEB liability at August 31, 2019 is \$8.3 million, an increase of \$5.1 million from August 31, 2018. See Notes 5 and 7 to the Financial Statements for additional information.

Fiduciary Funds Financial Analysis

Investment trust fund: The fund balance includes the Texas Local Government Investment Pool (TexPool) and the Texas Local Government Investment Pool Prime (TexPool Prime) that are operated for the benefit of local governments.

The net position in the fund at August 31, 2019 totals \$26.6 billion and the net increase in fiduciary net position for FY 2019 is \$4.5 billion.

Agency Fund: This fund includes assets held by the Texas Trust on behalf of various agencies and special accounts. The balance of funds held for others at August 31, 2019 was \$51.8 billion. There is no change in fund balance as Texas Trust holds these amounts as custodial assets only.

Capital assets and long-term debt: The Texas Trust's investment in capital assets for its business type activities as of August 31, 2019 amounts to \$2,220,690 (net of accumulated depreciation). This investment in capital assets includes leasehold improvements, furniture, equipment and software.

Texas Trust has no long-term debt and only short-term trade payables.

Texas Treasury Safekeeping Trust Company

Management's Discussion and Analysis
August 31, 2019

Contacting Texas Trust's Financial Management

This financial report is designed to provide Texas Trust customers, business partners and creditors with a general overview of its finances. Questions about this report can be directed to Texas Trust's Finance Department at (512) 463-4300.

Basic Financial Statements

Texas Treasury Safekeeping Trust Company

Statement of Net Position

August 31, 2019

Assets:

Current assets:

Cash and cash equivalents:

Cash in bank \$ 10,049,776

Cash in State Treasury 914,744

Restricted cash in bank 97,026

Investments in repurchase agreements 58,413,470

Restricted investments 437,911

Receivables, net from:

Management fees 5,059,135

Interest 14,043

Other 13,907

Prepaid expenses 890,266

Total current assets 75,890,278

Noncurrent assets:

Capital assets:

Non-depreciable:

Construction in progress 934,459

Depreciable:

Building and building improvements (net) 896,741

Furniture and equipment (net) 389,490

Total noncurrent assets 2,220,690

Total assets 78,110,968

Deferred outflows of resources:

Deferred outflow for ERS pension liability 3,945,499

Deferred outflow for ERS OPEB liability 6,362,377

Total deferred outflows of resources 10,307,876

See accompanying notes to financial statements

Texas Treasury Safekeeping Trust Company

Statement of Net Position (Continued)

August 31, 2019

Liabilities:

Current liabilities:

Accounts payable	\$ 1,687,996
Payroll payable	2,980,015
Employee's compensable leave	623,480
Total current liabilities	<u>5,291,491</u>

Noncurrent liabilities:

Employees' compensable leave	421,132
Net pension liability	24,557,084
OPEB liability	8,286,775
Total noncurrent liabilities	<u>33,264,991</u>

Total liabilities	<u>38,556,482</u>
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Deferred inflow of resources:

Deferred inflow for ERS pension liability	2,097,335
Deferred inflow for ERS OPEB liability	3,207,513
Total deferred inflows of resources	<u>5,304,848</u>

Net position:

Invested in capital assets	2,220,690
Unrestricted	42,336,824

Total net position	<u>\$ 44,557,514</u>
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See accompanying notes to financial statements.

Texas Treasury Safekeeping Trust Company

**Statement of Revenues, Expenses and Changes in Net Position
Year Ended August 31, 2019**

Operating revenue—management fees	\$ 29,827,552
Operating expenses:	
Salaries and wages	10,147,898
Payroll related costs	1,431,260
Pension and other postemployment expense	5,784,496
Professional fees and services	8,052,691
Travel	172,248
Materials and supplies	2,720,841
Communication and utilities	1,686,392
Repairs and maintenance	1,379,983
Rentals and leases	27,397
Printing and reproduction	12,921
Depreciation and amortization	241,220
Other operating expenses	946,592
Total operating expenses	<u>32,603,939</u>
Operating income (loss)	<u>(2,776,387)</u>
Nonoperating revenue (expenses):	
Investment income	1,203,138
Settlement of claims	(3,388)
Net nonoperating revenues	<u>1,199,750</u>
Change in net position	(1,576,637)
Total net position at beginning of year, as previously reported	<u>46,134,151</u>
Total net position at end of year	<u><u>\$ 44,557,514</u></u>

See accompanying notes to financial statements

Texas Treasury Safekeeping Trust Company

Statement of Cash Flows

Year Ended August 31, 2019

Cash flows from operating activities:	
Proceeds from management fees	\$ 30,386,395
Payments to employees	(12,660,376)
Payments for pension and other postemployment benefits	(887,336)
Payments for operating expenses	(14,666,358)
Net cash provided by operating activities	2,172,325
Cash flows from capital and related financing activities:	
Payments for additions to capital assets	(934,459)
Proceeds from return of capital assets	284,159
Net cash used for capital and related financing activities	(650,300)
Cash flows from investing activities:	
Purchases of investments	(90,666)
Proceeds from interest and investment income	1,191,047
Net cash provided by investing activities	1,100,381
Net increase in cash and cash equivalents	2,622,406
Cash and cash equivalents at beginning of year	66,852,610
Cash and cash equivalents at end of year	\$ 69,475,016
Reconciliation of operating loss to net cash provided by operating activities:	
Operating income (loss)	\$ (2,776,387)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Classification differences	(3,388)
Depreciation expense	241,220
Changes in assets/liabilities:	
Receivables	558,843
Prepaid expenses	384,732
Deferred outflows/inflows	(147,324)
Benefits payables	5,044,484
Payables	(1,129,855)
Net cash provided by operating activities	\$ 2,172,325
Displayed as:	
Cash in bank	\$ 10,049,776
Cash in State Treasury	914,744
Restricted cash in bank	97,026
Investments in repurchase agreements	58,413,470
Total cash and cash equivalents	\$ 69,475,016

See accompanying notes to financial statements

Texas Treasury Safekeeping Trust Company

**Statement of Fiduciary Net Position—Fiduciary Funds
August 31, 2019**

	Investment Trust Fund	Agency Fund
Assets:		
Cash in State Treasury	\$ -	\$ 1,695,277,868
Cash in bank	-	56,587,692
Deposits	-	598,551,000
Investments	26,784,412,458	49,272,592,619
Other asset	-	66,397,439
Accrued interest receivable	29,943,429	68,555,646
	<hr/>	<hr/>
Total assets	\$ 26,814,355,887	\$ 51,757,962,264
	<hr/> <hr/>	<hr/> <hr/>
Liabilities:		
Accounts payable and accrued expenses	\$ 1,348,130	\$ 6,171,269
Interest payable	-	1,214,913
Amounts payable to participants	50,606,605	-
Trades pending settlement	173,608,750	-
Management fees reserved for operating expenses	232,321	-
Obligations under reverse repurchase agreements	-	19,763,814
Funds held for others	-	51,730,812,268
	<hr/>	<hr/>
Total liabilities	225,795,806	\$ 51,757,962,264
	<hr/> <hr/>	<hr/> <hr/>
Net position:		
Held in trust for pool participants	\$ 26,588,560,081	
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See accompanying notes to financial statements

Texas Treasury Safekeeping Trust Company

**Statement of Changes in Fiduciary Net Position—Fiduciary Funds
Year Ended August 31, 2019**

	Investment Trust Fund
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Additions:	
Investment income:	
Interest income	\$ 636,851,217
Expenses:	
Management fees and expenses	<u>(12,137,275)</u>
Net investment income	<u>624,713,942</u>
Deductions:	
Earnings paid to investors from net investment income	(624,763,521)
Net change in management fees reserved for operating expenses	49,579
Net increase in participant investments	<u>4,547,089,296</u>
Net increase in net position	4,547,089,296
Net position at beginning of year	<u>22,041,470,785</u>
Net position at end of year	<u><u>\$ 26,588,560,081</u></u>

See accompanying notes to financial statements

Notes to Financial Statements

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements

August 31, 2019

Note 1. Summary of Significant Accounting Policies

Reporting entity: In 1986, the 69th Texas Legislature authorized the incorporation of the Texas Treasury Safekeeping Trust Company (Texas Trust) to give the Treasurer of the State of Texas access to the Federal Reserve System. The 77th Legislature amended the Texas Trust statute and the Texas Trust began operations as a separate State entity on September 1, 2001. The Comptroller of Public Accounts (Comptroller) is the single shareholder of the Texas Trust and is charged with managing the Texas Trust. Texas Trust is reported as a blended, proprietary component unit of the State of Texas.

The Texas Trust is authorized to manage, disburse, transfer, safekeep and invest funds and securities provided by statute or belonging to state and local entities and gives the Comptroller direct access to services provided by the Federal Reserve System. The enabling legislation also provides for:

- Specifically exempting the Texas Trust from other state laws regulating or limiting state purchasing or a purchasing decision if it is determined the purchase or decision relates to its fiduciary duties.
- The Texas Trust to enter into contracts, trust agreements, or other fiduciary instruments with the Comptroller, the Federal Reserve System, the Depository Trust Company and other third parties.
- The Comptroller appointing an investment advisory board to advise the Comptroller with respect to managing the assets held by the Texas Trust.
- The Comptroller appointing a person to serve as Chief Executive Officer in managing the Texas Trust and carrying out its duties.
- The development of a fee schedule in the amount necessary to recover costs of service and to retain adequate reserves to support the operations of the Texas Trust.

The Texas Trust is exempt from federal income taxation as a governmental entity under Internal Revenue Code Section 115. The accompanying financial statements present the activities and operations of the Texas Trust. The primary business functions provided by the Texas Trust are investment management and custodial services and therefore, the majority of the funds accounted for by the Texas Trust are fiduciary in nature. Separate audited financial statements are available for the Texas Local Government Investment Pool (TexPool), the Texas Local Government Investment Pool Prime (TexPool Prime), the Tobacco Settlement Permanent Trust Fund (Tobacco Trust) and the State Water Implementation Fund for Texas (SWIFT) and may be obtained from the Comptroller's Office by writing:

Texas Comptroller of Public Accounts
Post Office Box 13528
Austin, Texas 78711-3528

Financial statements: The Texas Trust financial statements report information on all of the nonfiduciary activities of the Texas Trust. Separate financial statements are provided for Texas Trust's proprietary fund and fiduciary funds. All capital asset depreciation is reported as a direct expense of the proprietary fund. Operating revenues include charges for services relating to assets under management.

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements

August 31, 2019

Note 1. Summary of Significant Accounting Policies (Continued)

Measurement focus, basis of accounting and financial statement presentation: The Texas Trust financial statements include financial statements for each of the following fund classifications: a proprietary fund and fiduciary funds consisting of an investment trust fund and multiple agency funds. The proprietary and investment trust funds are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The agency funds have no measurement focus but utilize the accrual basis of accounting for reporting its assets and liabilities.

The Texas Trust accounts for its daily operations using an enterprise fund. Operating revenues result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as investment earnings, result from nonexchange transactions or ancillary activities. Operating expenses include the cost of services, administrative expenses and depreciation of capital assets.

The Texas Trust reports the following fiduciary funds.

Investment Trust Fund: Investment trust funds are used to report the external portion of investment pools reported by the sponsoring government. The Texas Trust accounts for monies constituting TexPool and TexPool Prime in an investment trust fund.

Agency Fund: Agency funds are used to report resources held by the reporting government in a custodial capacity. Agency funds typically involve only the receipt, temporary investment and remittance of fiduciary resources to individuals, private organizations or other governments. The Texas Trust accounts for monies for individual state agencies contracting with the Texas Trust for investment management and custodial services in agency funds.

Cash and cash equivalents: For purposes of the statement of cash flows, demand deposits and short-term highly liquid investments in the business type activities with an original maturity of three months or less are considered cash equivalents. For purposes of the statement of net position presentation, investments in repurchase agreements and cash in state treasury and cash with the Federal Reserve are included in cash and cash equivalents.

Restricted cash and cash equivalents: The Texas Trust maintains an account with the Depository Trust Company (DTC). In accordance with the agreement between DTC and the Texas Trust, \$97,026 in cash was held at DTC as of August 31, 2019, in order to maintain the account.

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2019

Note 1. Summary of Significant Accounting Policies (Continued)

Deposits and investments: Money market instruments and repurchase agreements are reported at amortized cost. All other investments 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 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.

The Texas Trust manages the fiduciary funds and enterprise fund investments in accordance with the Comptroller's Investment Policy and Government Code Section 404.024. The portfolio of investments may include:

1. Direct security repurchase agreements;
2. Reverse security repurchase agreements;
3. Obligations of the United States or its agencies and instrumentalities, other than mortgage-backed securities interest only and principal only strips;
4. Bankers' acceptances that:
 - a. do not exceed 270 days to maturity; and
 - b. are issued by a bank that has received the highest short-term credit rating by a nationally recognized investment rating firm;
5. Commercial paper that:
 - a. does not exceed 270 days to maturity; and
 - b. except as provided by Subsection (i) of Government Code Section 404.024, has received the highest short-term credit rating by a nationally recognized investment rating firm;
6. Contracts written by the treasury in which the treasury grants the purchaser the right to purchase securities in the treasury's marketable securities portfolio at a specified price over a specified period and for which the treasury is paid a fee and specifically prohibits naked-option or uncovered option trading;
7. Direct obligations of or obligations guaranteed by the Inter-American Development Bank, the International Bank for Reconstruction and Development (the World Bank), the African Development Bank, the Asian Development Bank and the International Finance Corporation that have received the highest credit rating by a nationally recognized investment rating firm (collectively referred to herein as Supranationals);
8. Bonds issued, assumed, or guaranteed by the State of Israel;
9. Obligations of a state or an agency, county, city, or other political subdivision of a state that have received at least a single A rating or its equivalent by a nationally recognized investment rating firm as provided for by Government Code Section 404.024, Subsection (i);

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2019

Note 1. Summary of Significant Accounting Policies (Continued)

10. Mutual funds secured by obligations that are described by Subdivisions (1) through (6);
11. Foreign currency for the sole purpose of facilitating investment by state agencies that have the authority to invest in foreign securities; and
12. Such other investments as may be authorized by Government Code Section 404.024.

Fiduciary funds are managed in accordance with the respective entities' investment policies and governing statutes.

Security transactions are recorded on a trade date basis.

In connection with transactions in repurchase agreements, it is the Texas Trust's policy to hold the underlying collateral securities in their account at the Federal Reserve Bank of Dallas, San Antonio branch, in the name of the Texas Trust. The fair value of the underlying collateral securities exceeds the principal amount of the repurchase transaction, including accrued interest, at all times. Where tri-party agreements have been executed, the Texas Trust may enter into repurchase agreements whereby a third party custodian holds the collateral in a segregated account in Texas Trust's name. As of August 31, 2019, the Texas Trust had no tri-party agreements outstanding. If the seller defaults, and the fair value of the collateral declines, realization of the collateral held by the Texas Trust may be delayed or limited. Repurchase agreements may be entered into only with State or National banks doing business in Texas or with primary dealers approved by the Federal Reserve System.

Government Code Section 404.024 provides for the use of reverse repurchase agreements by the Comptroller. In connection with transactions in reverse repurchase agreements (reverse), it is the Texas Trust's policy, consistent with Government Code Section 404.024, to match the maturity of the reverse with the maturity of securities purchased with the proceeds from the reverse. Further, proceeds from reverses are used to purchase securities. At August 31, 2019, the Agency Fund had \$19,763,814 in reverse repurchase agreements.

In accordance with Government Code Section 404.021 and the State Depository Handbook, the Texas Trust may deposit state funds with approved national and state banks, savings and loan associations and credit unions doing business in Texas through a main office or one or more branches. Any entity where total deposits are in excess of \$237,500 requires acceptable collateral in an amount not less than 105% of the total deposit balance held in the Texas Trust's account at the Federal Reserve. Collateralization of 125% is required for any securities pledged that have a declining principal balance.

Receivables and payables: All trade receivables are shown net of an allowance for uncollectible amounts. The allowance as of August 31, 2019, was \$1,500. The liabilities are for the value of assets or services received at or before year-end for which payment was not made as of year-end.

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2019

Note 1. Summary of Significant Accounting Policies (Continued)

Capital assets: Assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year are capitalized. Assets are capitalized at cost when acquired. Donated assets are reported at acquisition value on the acquisition date. All capital assets are depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Software	3 years
Office equipment	5 years
Computer equipment	5 years
Building improvements	10 years

Compensable leave: A state employee is entitled to be paid for all unused vacation time accrued, in the event of the employee's resignation, dismissal or separation from state employment, provided the employee has had continuous employment with the state for six months. Therefore, the liability for unused vacation time has been recorded. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

Common stock: One share of common stock issued and outstanding at August 31, 2019, is held by the Comptroller with a par value of \$1,000,000. This amount is reflected in the Statement of Net Position within the unrestricted net position balance.

Use of estimates: The preparation of the Texas Trust financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the financial statements and related notes. Actual results could differ from those estimates.

Risk management: The Texas Trust provides investment management and custodial services. Investments are managed for other State agencies in accordance with their applicable investment guidelines. Although every effort is made to preserve principal, the Texas Trust does not provide any guarantee or insurance against loss.

Pensions: The fiduciary net position of the Employees Retirement System of Texas Plan (ERS) has been determined using the flow of economic resources measurement focus and the accrual basis of accounting. This includes the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense and information about assets, liabilities and additions to/deductions from ERS's fiduciary net position. Benefit payments by ERS (including refunds of employee contributions) are recognized when due and payable in accordance with the terms of the plan. Investments of ERS are reported at fair value.

Other Post-Employment Benefits: The fiduciary net position of the ERS has been determined using the flow of economic resources measurement focus and the accrual basis of accounting. This includes the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense and information about assets, liabilities and additions to/deductions from ERS's fiduciary net position. Benefit payments by ERS are recognized when due and payable in accordance with the terms of the plan. Investments of ERS are reported at fair value.

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2019

Note 2. Deposits and Investments

Deposits: Cash deposits are made in state or national banks, savings and loan associations, or credit unions doing business in Texas through a main office or one or more branches. Single direct placements of deposits less than Deposit Insurance levels made with any qualifying institution are fully insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Share Insurance Fund. Deposits made in any single financial institution, which are in excess of its Deposit Insurance levels, may be made only if fully collateralized in accordance with the State Depository Handbook. Collateral is held by a qualifying institution. Cash in State Treasury is not considered a deposit with a financial institution for Texas Trust reporting purposes since the State Treasury is not a bank.

Securities pledged as collateral on August 31, 2019, were categorized under the Political Subdivision Securities or U.S. Government Securities as U.S. Treasury Bills or U.S. Treasury Notes and Bonds.

All bank balances were either insured or collateralized with securities held by the Texas Trust.

Bank balance	<u><u>\$ 665,974,265</u></u>
Carrying amount	<u><u>\$ 665,285,494</u></u>
Proprietary cash at bank	\$ 10,049,776
Proprietary Funds restricted cash at bank	97,026
Investment Trust Fund cash at bank	-
Agency Fund cash at bank	56,587,692
Agency Funds deposits	<u>598,551,000</u>
Total deposits carrying amount	<u><u>\$ 665,285,494</u></u>

Investment risks addressed by Texas Trust's investment policy, including custodial credit risk, credit risk, interest rate risk, concentration risk and foreign currency risk are disclosed below by investment type, if applicable.

Investments—custodial credit risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Texas Trust would not be able to recover the loss of its investments or collateral securities that are in possession of an outside entity. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not held in the name of the Texas Trust and are held by the counterparty, its trust or agent but not in the name of the Texas Trust. The Texas Trust's investments are not exposed to custodial credit risk since they are insured or registered or the securities are held by the Texas Trust or its agent in the Texas Trust's name.

The Texas Trust categorizes its fair value measurement disclosures within the fair value hierarchy established by generally accepted accounting principles. The hierarchy prioritizes valuation inputs used to measure the fair value of the asset or liability in three broad categories. Levels 1, 2 and 3 (lowest priority level) of the fair value hierarchy are defined as follows.

Level 1: Inputs using unadjusted quoted prices in active markets or exchanges for identical assets or liabilities.

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2019

Note 2. Deposits and Investments (Continued)

Level 2: Significant other observable inputs, which may include, quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in nonactive markets; and inputs other than quoted prices that are observable for the assets or liabilities, either directly or indirectly.

Level 3: Valuations for which one or more significant inputs are unobservable and may include situations where there is minimal, if any, market activity for the asset or liability.

If the fair value is measured using inputs from different levels in the fair value hierarchy, the measurement is categorized based on the lowest priority level input that is significant to the valuation. The Texas Trust's assessment of significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment. Investments measured at fair value using NAV per share (or equivalent) as a practical expedient to fair value are not classified in the fair value hierarchy.

A. Business-Type Activities:

Investments for the Enterprise Fund, as of August 31, 2019, are as follows:

Investments by Fair Value Level	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities	\$ 437,911	\$ -	\$ 437,911	\$ -
Total investments at fair value	\$ 437,911	\$ -	\$ 437,911	\$ -
Investments measured at amortized cost:	Carrying Value			
Repurchase agreements	\$ 58,413,470			
Total investments at amortized cost	\$ 58,413,470			
Total investments	\$ 58,851,381			

Equity securities classified as Level 2 of the fair value hierarchy are valued using other observable significant inputs including but not limited to quoted prices for similar securities.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Pursuant to Government Code section 404.024 (a) and (b), treasury funds may be invested in fully collateralized repurchase agreements secured by obligations of the U.S., its agencies, or Government Sponsored Enterprises (GSEs), or cash. The Enterprise Fund invests in the Repurchase Agreement Pool which the Texas Trust administers. The underlying securities in the Repurchase Agreement Pool are rated AA+ by Standard & Poor's and Aaa by Moody's.

Concentration of credit risk is the risk of loss attributable to the magnitude of the investment in a single issuer. The Enterprise Fund's investments are not exposed to concentration risk as of August 31, 2019.

Interest rate is the risk that changes in interest rates will adversely affect the fair value of an investment. The maximum maturity of direct repurchase agreements will not exceed 180 days. All Texas Trust repurchase agreement pools are in overnight repurchase agreements. The weighted average maturity of the Repurchase Agreement Pool is 4 days.

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2019

Note 2. Deposits and Investments (Continued)

B. TexPool and TexPool Prime Investment Trust Fund:

Investments for TexPool and TexPool Prime, as of August 31, 2019, are as follows:

Investments by Fair Value Level	Principal Value	Carrying Value	Fair Value	Fair Value Measurements Using		
				Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities:						
Repurchase agreements	\$ 10,418,232,294	\$ 10,418,232,294	\$ 10,418,232,294	\$ -	\$ 10,418,232,294	\$ -
Commercial paper	4,177,000,000	4,166,383,727	4,167,370,090	-	4,167,370,090	-
United States government treasuries	3,311,190,000	3,301,391,277	3,302,386,663	-	3,302,386,663	-
United States government agencies	7,718,015,000	7,708,204,206	7,709,468,432	-	7,709,468,432	-
Money market mutual funds	1,190,126,004	1,190,200,954	1,190,126,004	1,190,126,004	-	-
Total investments	\$ 26,814,563,298	\$ 26,784,412,458	\$ 26,787,583,483	\$ 1,190,126,004	\$ 25,597,457,479	\$ -

Debt securities classified as Level 2 of the fair value hierarchy are valued using other observable significant inputs including, but not limited to, quoted prices for similar securities, interest rates, and a fixed-income pricing model. Money market mutual funds classified as Level 1 of the fair value hierarchy are valued using a published net asset value per share of \$1.

The following table provides additional information about TexPool's portfolio:

	August 31, 2019	
	Ranges of	
	Interest Rates	Maturity Dates
Repurchase agreements	2.100% to 2.180%	09/03/2019-09/04/2019
United States government agencies	0.000% to 2.195%	09/03/2019-07/23/2021
United States government treasuries	0.010% to 2.099%	10/17/2019-04/30/2021
Money market mutual funds	1.973% to 2.077%	09/02/2019-09/03/2019

The following table provides additional information about TexPool Prime's portfolio:

	August 31, 2019	
	Ranges of	
	Interest Rates	Maturity Dates
Repurchase agreements	2.15% to 2.16%	09/03/2019
Commercial paper	0.00% to 2.59%	09/04/2019-05/26/2020
Money market mutual funds	1.97% to 2.20%	09/03/2019

Credit risk: TexPool and TexPool Prime portfolios are designed and managed to ensure that they maintain an AAAM rating (or the equivalent) by a nationally recognized statistical rating organization (NRSRO). As of August 31, 2019, TexPool and TexPool Prime's investments in United States government securities, commercial paper and the underlying securities of the majority of repurchase agreements were A-1 by Standard and Poor's, P-1 by Moody's and F-1 by Fitch. However, one repurchase agreement in the amount of \$300,000,000 was rated A-2 by Standard and Poor's, P-2 by Moody's, and F-1 by Fitch. Money market mutual funds were rated AAA by Standard and Poor's, A by Moody's and AAA by Fitch ratings as of August 31, 2019.

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2019

Note 2. Deposits and Investments (Continued)

Concentration of credit risk: Concentration of credit risk is the risk of loss attributable to the magnitude of the investment in a single issuer. TexPool's investment policy has no limit on the amount it may invest in any single Governmental Sponsored Enterprise. As of August 31, 2019, TexPool had more than 5.0% of the pool's investments in the following GSEs: 26.2% with the Federal Home Loan Bank and 7.8% with the Federal Farm Credit Bank. TexPool Prime's investment policy limits commercial paper investments to less than 25% in a single industry or business sector, provided that this limitation does not apply to securities issued or guaranteed by companies in the financial services industry. No more than 5.0% of TexPool Prime assets at the time of purchase may be invested in a single corporate entity. As of August 31, 2019, commercial paper investments in Toronto Dominion Bank were 5.06% exceeding the 5.0% policy limit. However, at the time of the last purchase, these investments were under 5.0% of total investments.

Interest rate risk: The weighted average maturity of the portfolio is limited to 60 days calculated using the reset date for variable rate notes (VRNs) and 90 days or fewer using the final maturity date for VRNs, with the maximum maturity for any individual security in the portfolio not exceeding 397 days for fixed rate securities and 24 months for VRNs. The following schedule reflects the weighted average maturity by investment type and as a whole:

Investment Type	Weighted Average Maturity (Days)	
	TexPool	TexPool Prime
Repurchase agreements	4	4
Commercial paper	-	45
Money market mutual funds	4	4
United States government agencies	51	-
United States government treasuries	102	-
Weighted average maturity	38	31

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2019

Note 2. Deposits and Investments (Continued)

C. Treasury Pool:

Investments for the Treasury Pool, an agency fund, as of August 31, 2019, are as follows:

Investments by Fair Value Level	Carrying Value	Fair Value	Fair Value Measurements Using		
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities:					
United States government agencies	\$ 306,556,969	\$ 306,586,251	\$ -	\$ 306,586,251	\$ -
United States government treasuries	8,751,272,220	8,759,245,250	-	8,759,245,250	-
Agency commercial backed securities	134,857,834	134,857,834	-	134,857,834	-
Government mortgage-backed securities	2,995,295,856	2,995,295,856	-	2,995,295,856	-
Commercial paper	10,838,157,744	10,838,157,744	-	10,838,157,744	-
Israel bonds	60,000,000	60,000,000	-	60,000,000	-
Supranational	3,154,744,500	3,154,744,500	-	3,154,744,500	-
Corporate obligations	2,585,851,462	2,585,851,462	-	2,585,851,462	-
Asset backed securities	3,441,240,536	3,441,240,536	-	3,441,240,536	-
Small business administration	11,669,725	11,669,725	-	11,669,725	-
Stock in Texas Trust	1,000,000	1,000,000	-	-	1,000,000
Money market mutual funds	1,835,000,000	1,835,000,000	1,835,000,000	-	-
United States government agencies—Refco	274,477,970	274,477,970	-	274,477,970	-
United States government agencies—Lottery					
Treasury Strips	213,616,084	213,616,084	-	213,616,084	-
Total investments at fair value	<u>\$ 34,603,740,900</u>	<u>\$ 34,611,743,212</u>	<u>\$ 1,835,000,000</u>	<u>\$ 32,775,743,212</u>	<u>\$ 1,000,000</u>
Investments Measured at amortized cost:					
	Carrying Value				
Repurchase agreements	<u>\$ 2,729,000,000</u>				
Total investments at amortized cost	<u>\$ 2,729,000,000</u>				
Total investments	<u>\$ 37,332,740,900</u>				

Debt securities classified as Level 2 of the fair value hierarchy are valued using other observable significant inputs including but not limited to quoted prices for similar securities, interest rates, and fixed income pricing models. Stock classified as Level 3 of the fair value hierarchy is valued using a market comparable companies technique. There was no change in the Level 3 stock in Texas Trust between 2018 and 2019. Money market funds are valued based upon their published NAV.

Credit risk: The risk that an issuer or other counterparty to an investment will not fulfill its obligation. Pursuant to Government Code section 404.024(a) and (b), treasury funds may be invested in fully collateralized repurchase agreements secured by obligations of the U.S., its agencies, or GSEs, including mortgage-backed securities of such agencies and GSEs, as set out in section 404.001 of the Government Code. The Comptroller may purchase direct obligations of or obligations, the principal and interest of which are guaranteed by the U.S.; and direct obligations of, or obligations guaranteed by U.S. agencies or GSEs. Mortgage-backed securities are eligible for purchase except those specifically prohibited by section 404.024 (e) of the Government Code. Treasury funds may invest in commercial paper that has received the highest short-term credit rating by a NRSRO. "Highest short-term credit rating" includes at least one of the following short-term credit ratings, Moody's (P-1), Standard & Poor's (A-1), or Fitch, Inc. (F-1). Asset backed securities that have a weighted-average maturity of up to two years shall be rated A or better by two NRSRO's at the time of purchase. Asset backed securities with a weighted-average maturity between two and five years shall be rated AA or better by two NRSRO's at the time of purchase. Corporate debt securities with maturities of up to 25 months shall be rated A or better by two NRSRO's at the time of purchase.

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2019

Note 2. Deposits and Investments (Continued)

Corporate debt securities with maturities between 25 months and five years shall be rated AA or better by two NRSRO's at the time of purchase. Supranationals must be rated AAA at the time of purchase. Money market funds must be rated AAAM by a NRSRO.

All fixed income securities, except those issued by GSEs, are rated by a NRSRO. The securities issued by GSEs are rated AA+. The Treasury portfolio is rated AA+ by Standard & Poor's.

The following table lists Standard & Poor's credit rating by investment type at fair value for the Treasury Pool securities that are subject to credit risk.

Investment Type	AAA	AA	A	A-1	Not Rated
United States government agencies	\$ -	\$ 306,586,251	\$ -	\$ -	\$ -
Agency commercial backed securities	8,973,935	125,883,899	-	-	-
Government mortgage-backed securities	-	2,995,295,856	-	-	-
Commercial paper	-	-	-	10,838,157,744	-
Israel bonds	-	60,000,000	-	-	-
Supranational	3,005,710,500	-	-	149,034,000	-
Corporate obligations	551,274,210	1,783,456,837	251,120,415	-	-
Asset-backed securities	3,368,842,018	-	-	-	72,398,518
Small business administration	-	11,669,725	-	-	-
Stock in Texas Trust	-	-	-	-	1,000,000
Money market mutual funds	1,835,000,000	-	-	-	-

Concentration of credit risk: With the exception of fully collateralized bank deposits, repurchase agreements, and securities of the U.S. government, its agencies, or GSEs, the Comptroller will not invest more than 5% of the Treasury Pool in any single corporate issuer. No more than 2% of the Treasury Pool may be invested in an asset backed security with a single issuer rated lower than AA. No more than 1% of the Treasury Pool may be invested in a corporate debt security with a single issuer rated lower than AA. Treasury Pool investments did not exceed these limits at August 31, 2019.

GASB requirements include disclosure of any investments by issuer that comprise more than 5% of total investments at year-end. At August 31, 2019, the Treasury Pool had more than 5% of total investments in the following: 6.1% in Federal National Mortgage Association and 7.0% in the World Bank.

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2019

Note 2. Deposits and Investments (Continued)

Interest rate risk: In accordance with its investment policy, the Treasury Pool manages its exposure to interest rate risk by maintaining an overall weighted-average maturity of no more than two (2) years. The following schedule reflects the average modified duration (a measure of the price sensitivity of a bond to interest rate movements) of the Treasury Pool by investment type and as a whole:

Investment Type	Modified Duration (Years)
United States government agencies	2.320
United States government treasuries	0.622
Agency commercial backed securities	0.948
Government mortgaged-backed securities	4.167
Commercial paper	0.248
Supranational and Israel bonds	2.189
Corporate obligations	1.175
Asset-backed securities	1.156
Small Business Administration	12.179
Repurchase agreements	0.008
U.S. government agencies—REFCO	3.270
U.S. government agencies—Lottery treasury strips	7.522
Modified duration of the Treasury Pool Excluding the Lottery Securities	1.009

Reverse repurchase agreements: The Treasury Pool may enter into reverse repurchase agreements for up to 35% of the pool's assets. The Treasury Pool's aggregate amount of reverse repurchase agreement obligations at August 31, 2019, was \$19,764,663 including accrued interest. The aggregate fair value of the securities underlying those agreements, including accrued interest, was \$19,856,945. There was no credit exposure at year-end.

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2019

Note 2. Deposits and Investments (Continued)

D. Endowment Funds:

Investments for the Endowment Funds, an agency fund, as of August 31, 2019, are as follows:

Investments by Fair Value Level	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities:				
Money market mutual funds	\$ 268,776,819	\$ 268,776,819	\$ -	\$ -
Mutual funds—global fixed income	291,350,230	291,350,230	-	-
Mutual funds—global equities	8,717,316	8,717,316	-	-
Total return swap—fixed income	4,462,734	-	4,462,734	-
Total return swap—equity	(1,443,361)	-	(1,443,361)	-
Total investments at fair value	<u>\$ 571,863,738</u>	<u>\$ 568,844,365</u>	<u>\$ 3,019,373</u>	<u>\$ -</u>

Investments Measured at NAV	Investment Strategy	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge funds—fund of funds	Equity	\$ 143,492,771	N/A	Daily, Monthly, Quarterly, Annually	1-95 days
Hedge funds—direct funds—fixed income	Alternative fixed income	632,487,927	N/A	Daily, Monthly, Quarterly, Annually	2-92 days
Hedge funds—direct funds—equities	Equity	1,044,874,935	N/A	Daily, Monthly, Quarterly, Semi-Annually	1-120 days
Hedge funds—direct funds—all asset	All asset	40,599,270	N/A	Annually	45 days
Hedge funds—direct funds—real assets	All asset	45,451,241	N/A	Monthly	30 days
Domestic alternative—private debt	Private debt	405,276,483	\$ 311,567,841	N/A	N/A
Domestic alternative—private equity	Equity	493,628,835	429,210,489	N/A	N/A
Domestic alternative—real assets	Real asset	696,397,993	440,803,607	N/A	N/A
International alternative—private debt	Private debt	35,522	840,133	N/A	N/A
International alternative—private equity	Equity	45,247,531	27,150,974	N/A	N/A
International alternative—real assets	Real asset	33,160,190	37,464,063	N/A	N/A
Total investments at NAV		<u>\$ 3,580,652,698</u>	<u>\$ 1,247,037,107</u>		
Total investments		<u>\$ 4,152,516,436</u>			

Mutual funds are valued daily or monthly, as appropriate, at a published NAV per share.

Through the use of derivatives, including total return swaps, the risks that are bound together in traditional cash market investments can be separated and managed independently. The primary intent of the Endowment Fund's investment in derivative instruments is to manage and implement investment strategies more effectively and at a lower cost than would be possible in the cash market. All of the Endowment funds' derivative instruments are considered investment derivatives and therefore are measured and reported at fair value. Fair value of total returns swaps entered into with counterparties is determined based on the percentage changes in the value of underlying indexes (such as bond index or equity index) over a specified period of time. The fair value of the derivatives are measured on a daily basis, by a third-party service provider, but is reported on a monthly basis.

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2019

Note 2. Deposits and Investments (Continued)

Hedge Funds are valued monthly at NAV using the current monthly account statements from the funds. If a current monthly account statement is unavailable, the value is calculated by the custodian using the estimated monthly return from the fund. Once a statement is received, the value is adjusted to reflect the NAV from the statement adjusted for cash flows that occur after the statement date. Domestic and international alternative investments are valued monthly at NAV using the latest account statements from the funds. NAV is adjusted for cash flows that occur after the date of the statements through the month-end date.

Equity strategies include public and private equities and asset classes that are correlated to global equity markets. Historically, global equity investments have provided returns in excess of the total fund return objective. The equity portfolio consists of traditional long-only, hedged and private strategies whose portfolios are predominantly invested in the equity of corporations.

Alternative Fixed Income strategies are intended to preserve investment capital by achieving consistent positive real returns and maximizing long-term total returns, within prudent levels of risk, through the use of diversified portfolios of complementary strategies.

All asset strategies include exposures across equity, fixed income and real asset classes. The all asset portfolio may consist of long-only, hedged and private strategies whose portfolios are diversified across a broad range of asset types.

Private Debt strategies will be primarily focused on debt and credit oriented strategies ranging from senior secured credit to distressed credit, but at times may include exposures across the entire corporate capital structure. Private debt strategies are intended to take advantage of illiquidity premiums available in the debt markets. Portfolios may take an extended period to be realized.

Real asset strategies are intended to serve primarily as inflation hedges and provide diversification benefits of low correlation with other investment strategies. A significant majority of the portfolio is exposed to real assets such as high quality real estate, timber, infrastructure assets, industrial and precious metals, energy, livestock and grains.

Credit risk: Corporate obligations must be rated investment grade by at least one NRSRO and not rated below investment grade by any NRSRO. Short-term securities must be rated in the highest rating category by an NRSRO. The average quality rating of the high-yield fixed income portfolio shall be B1/B+ or higher. All high-yield securities when purchased must be rated at least CCC. The following schedule lists Standard & Poor's credit rating by investment type for the Endowment Fund securities that are subject to credit risk.

Standard & Poor's Credit Ratings	Mutual Funds— Global Fixed Income	Money Market Funds
AAA	\$ -	\$ 268,776,819
Not rated	291,350,230	-
Total	<u>\$ 291,350,230</u>	<u>\$ 268,776,819</u>

Texas Treasury Safekeeping Trust Company

**Notes to Financial Statements
August 31, 2019**

Note 2. Deposits and Investments (Continued)

Concentration risk: Excluding securities issued or guaranteed by the U.S. Government, its agencies, instrumentalities, and GSEs, no more than 5% of the portfolio at the time of purchase, shall be invested in securities of one issuer. As of August 31, 2019, no more than 5% of the portfolio was invested in securities of one issuer.

Interest rate risk: The endowment funds do not have a formal investment policy that limits investment maturities. The following schedule reflects the average effective duration of the endowment funds by investment type. The investments in the short-term investment fund use a weighted average maturity to reflect the interest rate risk.

Investment Type	Effective Duration (Years)
Mutual funds—global fixed income	2.74
	<u>Weighted- Average Maturity</u>
Money market mutual fund	35

Foreign currency risk: The endowment funds do not have a formal investment policy that limits foreign currencies. The endowment funds exposure to foreign currency risk derives from its position in foreign currency-denominated investment in alternative investments.

Currency	Cash	International Alternative Investments	Total
Euros	\$ -	\$ 78,443,243	\$ 78,443,243

Derivatives: Derivatives are financial instruments whose value is derived, in whole or part, from the value of any one of more underlying securities or assets, or index of securities or assets, such as stocks, bonds, commodities or currencies. The Endowment funds use derivatives as part of the hedging and overlays program. The objective of the program is to facilitate risk management and provide efficiency in the implementation of various investment strategies. Permitted applications of the portfolio hedging and overlays program are: to implement strategies in a low cost and efficient manner; to hedge and control risks; to alter the Endowment funds' market (systemic) exposure without trading the underlying cash market securities; to construct portfolios with risk and return characteristics that could not be created with cash market securities or; to facilitate transition trading.

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2019

Note 2. Deposits and Investments (Continued)

The fair value, changes in fair value, and notional value of the Endowment funds derivatives investments, classified by derivative type, are displayed in the following table as of August 31, 2019.

	Fair Value	Changes in Fair Value	Notional Value
Futures:			
Futures—commodities	\$ -	\$ 548,997	\$ -
Total futures	\$ -	\$ 548,997	\$ -
Swaps:			
Total return swap—fixed income	\$ 4,462,734	\$ 12,640,360	\$ 165,347,700
Total return swap—equity	(1,443,361)	316,848	309,710,583
Total swaps	\$ 3,019,373	\$ 12,957,208	\$ 475,058,283
Total derivatives	\$ 3,019,373	\$ 13,506,205	\$ 475,058,283

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2019

Note 2. Deposits and Investments (Continued)

E. State Water Implementation Fund for Texas:

Investments for the SWIFT, an agency fund, as of August 31, 2019, are as follows:

Investments by Fair Value Level	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt Securities:				
Money market funds	\$ 93,354,582	\$ 93,354,582	\$ -	\$ -
Mutual Funds—Global Fixed Income	160,545,597	160,545,597	-	-
Mutual Funds—Global Equities	62,789,165	62,789,165	-	-
Total investments by fair value level	<u>\$ 316,689,344</u>	<u>\$ 316,689,344</u>	<u>\$ -</u>	<u>\$ -</u>

Investments Measured at NAV	Investment Strategy	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge funds—fund of funds	Equity	\$ 61,831,245	N/A	Monthly, Quarterly	26 - 95 days
Hedge funds—direct funds—fixed income	Alternative fixed income	254,990,689	N/A	Daily, Monthly, Quarterly	2 - 65 days
Hedge funds—direct funds—equities	Equity	307,547,268	N/A	Monthly, Quarterly, Semi-Annually, Anniversary	30 - 120 days
Hedge funds—direct funds—all asset	All asset	88,521,606	N/A	Annually	45 days
Domestic alternative—private debt	Private debt	249,195,467	\$ 179,391,771	N/A	N/A
Domestic alternative—private equity	Equity	2,590,921	79,839,480	N/A	N/A
Domestic alternative—real assets	Real asset	284,010,613	32,345,040	N/A	N/A
Total investments at NAV		<u>\$ 1,248,687,809</u>	<u>\$ 291,576,291</u>		
Total investments		<u>\$ 1,565,377,153</u>			

Mutual funds are valued daily or monthly, as appropriate, at a published NAV per share. Hedge Funds are valued monthly at NAV using the current monthly account statements from the funds. If a current monthly account statement is unavailable, the value is calculated by the custodian using the estimated monthly return from the fund. Once a statement is received, the value is adjusted to reflect the NAV from the statement adjusted for cash flows that occur after the statement date. Domestic alternative investments are valued monthly at NAV using the latest account statements from the funds. NAV is adjusted for cash flows that occur after the date of the statements through the month-end date.

Equity strategies include public and private equities and asset classes that are correlated to global equity markets. Historically, global equity investments have provided returns in excess of the total fund return objective. The equity portfolio consists of traditional long-only, hedged and private strategies whose portfolios are predominantly invested in the equity of corporations.

Alternative Fixed Income strategies are intended to preserve investment capital by achieving consistent positive real returns and maximizing long-term total returns, within prudent levels of risk, through the use of diversified portfolios of complementary strategies.

Texas Treasury Safekeeping Trust Company

**Notes to Financial Statements
August 31, 2019**

Note 2. Deposits and Investments (Continued)

All asset strategies include exposures across equity, fixed income and real asset classes. The all asset portfolio may consist of long-only, hedged and private strategies whose portfolios are diversified across a broad range of asset types.

Private Debt strategies will be primarily focused on debt and credit oriented strategies ranging from senior secured credit to distressed credit, but at times may include exposures across the entire corporate capital structure. Private debt strategies are intended to take advantage of illiquidity premiums available in the debt markets. Portfolios may take an extended period to be realized.

Real asset strategies are intended to serve primarily as inflation hedges and provide diversification benefits of low correlation with other investment strategies. A significant majority of the portfolio is exposed to real assets such as high quality real estate, timber, infrastructure assets, industrial and precious metals, energy, livestock and grains.

Credit risk: The SWIFT investment policy does not limit credit risk. The following schedule lists Standard & Poor's credit rating by investment type for those investments subject to credit risk.

Standard & Poor's Credit Ratings	Mutual Funds— Global Fixed Income	Money Market Funds
AAA	\$ -	\$ 93,354,582
Not rated	160,545,597	-
Total	<u>\$ 160,545,597</u>	<u>\$ 93,354,582</u>

Concentration risk: Excluding passive strategies, exposure to any investment firm will generally be limited to no more than 25% of fund assets. Fund investments will generally not exceed more than 25% of any firms' total assets under management. As of August 31, 2019, no more than 5% of the portfolio was invested in securities of one issuer.

Interest rate risk: The SWIFT investment policy does not limit investment maturities. The following schedule reflects the average effective duration of the funds by investment type. The investments in the short-term investment fund use a weighted average maturity to reflect the interest rate risk.

Investment Type	Effective Duration (Years)
Mutual funds—global fixed income	4.21
	<u>Weighted- Average Maturity</u>
Money market mutual funds	35 days

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2019

Note 2. Deposits and Investments (Continued)

F. Texas Economic Stabilization Investment Fund of Texas (TESTIF):

Investments for the TESTIF, an agency fund, as of August 31, 2019 are as follows:

Investments by Fair Value Level	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities:				
Money market mutual funds	\$ 612,248,067	\$ 612,248,067	\$ -	\$ -
Mutual Funds—Global Fixed Income	2,139,199,182	2,139,199,182	-	-
Total investments by fair value level	<u>\$ 2,751,447,249</u>	<u>\$ 2,751,447,249</u>	<u>\$ -</u>	<u>\$ -</u>

Investments measured at NAV	Investment Strategy	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Domestic Alternative—Private Debt	Private debt	\$ 513,644,218	\$ -	N/A	N/A
Total investments		<u>\$ 3,265,091,467</u>			

Mutual funds are valued daily or monthly, as appropriate, at a published NAV per share. Domestic alternative investments are valued monthly at NAV using the latest account statements from the funds. NAV is adjusted for cash flows that occur after the date of the statements through the month-end date.

Private Debt strategies will be primarily focused on debt and credit oriented strategies ranging from senior secured credit to distressed credit, but at times may include exposures across the entire corporate capital structure. Private debt strategies are intended to take advantage of illiquidity premiums available in the debt markets. Portfolios may take an extended period to be realized.

Credit risk: The TESTIF investment policy does not limit credit risk. The following schedule lists Standard & Poor's credit rating by investment type for those investments subject to credit risk.

Standard & Poor's Credit Ratings	Mutual Funds—Global Fixed Income	Money Market Funds
AAA	\$ -	\$ 612,248,067
Not rated	2,139,199,182	-
Total	<u>\$ 2,139,199,182</u>	<u>\$ 612,248,067</u>

Concentration risk: Exposure to any investment firm will generally be limited to no more than 25% of the fund's assets. Fund investments will generally not exceed more than 25% of any firm's total assets under management. As of August 31, 2019, no more than 5% of the portfolio was invested in securities of one issuer.

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2019

Note 2. Deposits and Investments (Continued)

Interest rate risk: The TESTIF investment policy does not limit investment maturities. The following schedule reflects the average effective duration of the funds by investment type. The investments in the short-term investment fund use a weighted average maturity to reflect the interest rate risk.

Investment Type	Effective Duration (Years)
Mutual funds—global fixed income	2.75
	Weighted- Average Maturity
Money market mutual funds	35 days

G. Repurchase Agreement Pool, an agency fund:

The Texas Trust operates a Repurchase Agreement Pool (Pool) in which state entities may invest nonappropriated funds. Investments for the Pool, as of August 31, 2019, consist of repurchase agreements carried at amortized cost.

Credit risk: Is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Pursuant to Government Code section 404.024 (a) and (b), treasury funds may be invested in fully collateralized repurchase agreements secured by obligations of the U.S., its agencies, or GSEs, or cash. The Repurchase Agreement Pool is administered by the Texas Trust. The underlying securities in the Pool are rated AA+ by Standard & Poor's.

Concentration of credit risk is the risk of loss attributable to the magnitude of the investment in a single issuer. The Repurchase Agreement Pool investments are not exposed to concentration risk as of August 31, 2019.

Interest rate risk: The maximum maturity of direct repurchase agreements will not exceed 180 days. All investments in the Pool are overnight repurchase agreements. The weighted average maturity of the Repurchase Agreement Pool is 4 days.

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2019

Note 2. Deposits and Investments (Continued)

H. Other trust activities, an agency fund:

The Texas Trust functions as a custodian and/or depository to several state agencies. The functions are strictly fiduciary. Credit risk, interest rate risk, and concentration risk are not significantly different from the risks of similar investments disclosed above. Each respective state agency performs their own investment management activities within the parameters of their own respective investment policies.

Investments for these other trust activities, as of August 31, 2019, are as follows:

Investments by Fair Value Level	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities:				
Money market mutual funds	\$ 2,461,709	\$ 2,461,709	\$ -	\$ -
Commercial paper	293,388,831	293,388,831	-	-
Corporate obligations	9,154,164	-	9,154,164	-
Government sponsored enterprises	278,763,852	-	278,763,852	-
Government mortgage-backed securities	127,452	-	127,452	-
Investment in guaranteed investment contracts	203,172,129	203,172,129	-	-
Non agency collateralized mortgage obligations	6,010	-	6,010	-
Political subdivision bonds	74,551,172	-	74,551,172	-
United States government treasuries	239,281,787	-	239,281,787	-
Total debt securities	<u>1,100,907,106</u>	<u>499,022,669</u>	<u>601,884,437</u>	<u>-</u>
Equity securities:				
Common and preferred stock	344,680,305	344,680,305	-	-
Investment in real estate trust fund	4,229,427	-	4,229,427	-
Total equity securities	<u>348,909,732</u>	<u>344,680,305</u>	<u>4,229,427</u>	<u>-</u>
Total investments at fair value	<u>\$ 1,449,816,838</u>	<u>\$ 843,702,974</u>	<u>\$ 606,113,864</u>	<u>\$ -</u>
Investments measured at amortized cost:				
Repurchase agreements	<u>\$ 573,784,358</u>			
Total investments measured at amortized cost	<u>\$ 573,784,358</u>			
Total investments	<u>\$ 2,023,601,196</u>			

Debt securities classified as Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified as Level 2 of the fair value hierarchy are valued using other observable significant inputs including but not limited to quoted prices for similar securities, interest rates, and fixed income pricing models.

Equity securities classified as Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Equity securities classified as Level 2 of the fair value hierarchy are valued using other observable significant inputs including but not limited to quoted prices for similar securities.

Mutual funds are valued daily or monthly, as appropriate, at a published NAV per share.

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2019

Note 3. Capital Assets

Capital asset activity for the year ended August 31, 2019, was as follows:

Business-Type Activities	Balance September 1, 2018	Additions	Deletions	Balance at August 31, 2019
Nondepreciable or nonamortizable assets:				
Construction in progress	\$ -	\$ 934,459	\$ -	\$ 934,459
Total nondepreciable or nonamortizable assets	<u>-</u>	<u>934,459</u>	<u>-</u>	<u>934,459</u>
Depreciable assets:				
Buildings and building improvements	1,722,348	-	(284,159)	1,438,189
Furniture and equipment	1,366,386	-	-	1,366,386
Total depreciable assets at historical cost	<u>3,088,734</u>	<u>-</u>	<u>(284,159)</u>	<u>2,804,575</u>
Less accumulated depreciation for:				
Buildings and building improvements	(503,217)	(38,231)	-	(541,448)
Furniture and equipment	(904,040)	(72,856)	-	(976,896)
Total accumulated depreciation	<u>(1,407,257)</u>	<u>(111,087)</u>	<u>-</u>	<u>(1,518,344)</u>
Total depreciable assets, net	<u>1,681,477</u>	<u>(111,087)</u>	<u>(284,159)</u>	<u>1,286,231</u>
Amortizable assets—intangible:				
Computer software	2,910,356	-	-	2,910,356
Total amortizable assets—intangible	<u>2,910,356</u>	<u>-</u>	<u>-</u>	<u>2,910,356</u>
Less Accumulated amortization for:				
Computer software	(2,780,223)	(130,133)	-	(2,910,356)
Total accumulated amortization	<u>(2,780,223)</u>	<u>(130,133)</u>	<u>-</u>	<u>(2,910,356)</u>
Amortizable assets—intangible, net	<u>130,133</u>	<u>(130,133)</u>	<u>-</u>	<u>-</u>
Business-type activities—capital assets, net	<u>\$ 1,811,610</u>	<u>\$ 693,239</u>	<u>\$ (284,159)</u>	<u>\$ 2,220,690</u>

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2019

Note 4. Pension Plan

Texas Trust employees participate in the Employees Retirement System of Texas Plan (ERS Plan) which is one of the three retirement systems of the state of Texas. The ERS Plan is administered through a trust.

ERS Plan: The Board of Trustees of ERS is the administrator of four pension plans that provide a standard monthly benefit in a life annuity at retirement and death and disability benefits for members. In addition to the state of Texas, the employers of the ERS plan include various component units of the state. The Employees Retirement System and the Texas Trust, which are blended component units, and the State Bar of Texas, which is a discrete component unit, are also employers of the ERS plan. The ERS Plan is considered a single employer defined benefit plan under GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. For financial reporting purposes, ERS is treated as a cost-sharing plan, since each participating agency has an obligation to contribute.

ERS Plan covers members in employee and elected classes. Employee class includes employees and appointed officers of the agencies of the state of Texas except those who included in the coverage of Teacher Retirement System of Texas, Judicial Retirement System Plan I (JRS 1) and Plan II (JRS II). Elected class includes elected state officials not included in the coverage of JRS 1 and JRS II, and members of the Legislature and district and criminal district attorneys.

The benefit and contribution provisions of the ERS Plan are authorized by state law and may be amended by the Legislature. The monthly benefit may vary by membership class.

The monthly standard annuity of the employee class is determined by a statutory percentage of 2.3% of a member's average monthly compensation multiplied by number of years of service credit. The average monthly compensation of the employee class may vary depending on the hire date. For members hired on or before August 31, 2009, the average monthly compensation is the average of the highest 36 months of compensation. For members hired on or after September 1, 2009 and before September 1, 2013, the average monthly compensation is the average of the highest 48 months of compensation. For members hired on or after September 1, 2013, the average monthly compensation is the average of highest 60 months of compensation.

The monthly standard annuity of the elected class equals the statutory percentage of 2.3% of the current state salary of a district judge multiplied by the number of years of service credit. Retirement benefits are automatically adjusted as state judicial salaries change.

The contribution rates for the state and the agencies for the ERS Plan for the measurement period of August 31, 2018 are presented in the table below:

Employee Class	Employer		Employee Class	Members	
	Elected Class—Legislators	Elected Class—Other		Elected Class—Legislators	Elected Class—Other
10.00%	10.00%	10.00%	9.50%	9.50%	9.50%

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2019

Note 4. Pension Plan (Continued)

The amount of Texas Trust's contributions recognized by the ERS Plan for the measurement period of August 31, 2018 was \$847,950. Fiscal year 2019 contributions were \$840,979.

The total pension liability is determined by an annual actuarial valuation. The methods and assumptions applied, except discount rate, in the actuarial valuation were based on an experience study covering the five-year period from September 1, 2011, through August 31, 2016. The table below presents the actuarial methods and assumptions used to measure the total pension liability as of the August 31, 2018:

Actuarial Methods and Assumptions	
ERS Plan	
Actuarial valuation date	August 31, 2018
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Payroll, Open
Actuarial assumptions:	
Discount rate	5.69%
Investment rate of return	7.50%
Inflation	2.50%
Salary increase	0% to 9.5%
Mortality	2017 State Retirees of Texas (SRT) Mortality Tables. Generational mortality improvements in accordance with the ultimate rates from the scale most recently published by Retirement Plans Experience Committee of the Society of Actuaries (Scale U-MP) and projected from the year 2017. Rates for male LECO members are set forward one year.
Cost-of-living adjustments	None—Employee 2.75%—Elected

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2019

Note 4. Pension Plan (Continued)

A single discount rate of 5.69% was applied to measure the total pension liability. The 5.69% discount rate incorporated a 7.50% long-term expected rate of return on pension plan investments and 3.69% 20-year municipal bond rate based on the rate for Fixed Income Market Data/Yield Curve/Data Municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index." The long-term expected investment rate of return was applied to projected benefit payments through fiscal 2049 and the municipal bond rate was applied to all benefit payments thereafter.

The projections of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels and remain a level percentage of payroll. The projected cash flows from the employers are based on contributions for the most recent five year period as of the measurement date, adjusted on consideration of subsequent events. The Legislature passed House Bill No. 9 in the 84th legislative session during fiscal 2015 to increase the state contribution rates for fiscal 2016 and 2017 and maintained the changes made by the 83rd legislature session in Senate Bill No. 1459, which established proportional decreases to the employee contribution if the state contribution was decreased. The passage of this bill is an indicator that the Legislature is committed to increase the funding levels for the pension funds. Projected employer contributions are based on fiscal year 2018 funding levels.

The long-term expected rate of return on plan investments was developed using a building-block method with assumptions including asset class of investment portfolio, target allocation, real rate of return on investments, and inflation factor. Under this method, best estimate ranges of expected future real rates of return (net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class for the plan's investment portfolio are presented below:

Asset Class	Target Allocation	Long-Term Expected Arithmetic Real Rate of Return
Global Equity	50.00%	3.91%
Global Credit	11.00%	0.57%
Opportunistic Credit	3.00%	0.20%
Intermediate Treasuries	11.00%	0.29%
Real Estate	12.00%	0.90%
Infrastructure	7.00%	0.49%
Hedge Funds	5.00%	0.31%
Cash	1.00%	0.02%
Total	<u>100.0%</u>	

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2019

Note 4. Pension Plan (Continued)

Sensitivity analysis was performed on the impact of changes in the discount rate on the proportionate share of Texas Trust's net pension liability. The result of the analysis is presented in the table below:

	1% Decrease	Current Discount Rate	1% Increase
	4.69%	5.69%	6.69%
Texas Trust's proportionate share of the net pension liability	\$ 32,363,826	\$ 24,557,084	\$ 18,095,616

The pension plan's fiduciary net position is determined using economic resources measurement focus and the accrual basis of accounting, which is the same basis used by Employees Retirement System. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan. Investments of the pension trust fund are reported at fair value in accordance with GASB Statement No. 72. The fair value of investments is based on published market prices and quotations from major investment brokers at available current exchange rates. However, corporate bonds in general are valued based on currently available yields of comparable securities by issuers with similar credit ratings. Employees Retirement System issues a stand-alone audited Comprehensive Annual Financial Report (CAFR). More detailed information on the plan's investment valuation, investment policy, assets and fiduciary net position may be obtained from ERS' CAFR:

Employees Retirement System of Texas
200 E. 18th Street
Austin, Texas 78701

At August 31, 2019, the Texas Trust reported a liability of \$24,557,084 for its proportionate share of the net pension liability. The net pension liability was measured as of August 31, 2018, 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 a projection of the Texas Trust's long-term share of contributions to the pension plan relative to the projected contributions of all participating governments, actuarially determined.

There have been no changes to the benefit terms of the plan since the prior measurement date. The change of discount rate is the only assumption change during the current measurement period. The Texas Trust's proportion of the entire ERS plan was 0.12162405% for the measurement period August 31, 2018 as compared with the 0.11235055% in the prior measurement period.

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2019

Note 4. Pension Plan (Continued)

For the fiscal year ending August 31, 2019, Texas Trust recognized pension expense of \$4,461,958. At August 31, 2019, Texas Trust reported deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 144,574	\$ -
Changes of assumptions	1,487,221	1,714,677
Net difference between projected and actual investment return	-	382,658
Change in proportion and contribution difference	1,472,725	-
Contributions subsequent to the measurement date	840,979	-
Total	<u>\$ 3,945,499</u>	<u>\$ 2,097,335</u>

The \$840,979 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending August 31, 2020.

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense in the following years:

Year ended August 31:	
2020	\$ 1,669,876
2021	(121,545)
2022	(421,532)
2023	(119,614)
	<u>\$ 1,007,185</u>

The deferred outflows and inflows resulting from the difference between projected and actual earnings on pension plan investments will be recognized as a reduction of pension expense over five years. The other deferred inflows and outflows will be recognized in pension expense using the average expected remaining service lives of all members.

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements

August 31, 2019

Note 5. Other Post-Employment Benefit Plan (OPEB)

In addition to the pension benefits described in Note 4, the Employees Retirement System of Texas (ERS) provides postemployment health care, life and dental insurance benefits through the Group Benefits Program in accordance with Chapter 1551, Texas Insurance Code. This program is governed by the same Board of Trustees who is responsible for the defined benefit pension plans.

Texas Trust employees participate in the State Retiree Health Plan (SRHP) administered by ERS. The SRHP is a cost-sharing multiple-employer postemployment health care plan with a special funding situation. This plan covers retired employees of the State, and other entities as specified by the State legislature. Benefit and contribution provisions of the State Retiree Health Plan are authorized by state law and may be amended by the Texas Legislature. Retirees must meet certain age and service requirements and have at least 10 years of service at retirement to participate in the plan. The principal participating employer is the state of Texas.

The contribution rates for the state and the agencies for the SRHP plan for the measurement period of August 31, 2018 are presented in the table below:

Retiree only	\$ 621.90
Retiree and spouse	1,334.54
Retiree and children	1,099.06
Retiree and family	1,811.70

The employer does not contribute toward dental or optional life insurance. Surviving spouses and their dependents do not receive any employer contribution.

The amount of Texas Trust's contributions recognized by the SHRP plan for the measurement period ending August 31, 2018 was \$92,829. Fiscal year 2019 contributions were \$46,357.

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2019

Note 5. Other Post-Employment Benefit Plan (OPEB) (Continued)

The total OPEB liability is determined by an actuarial valuation. The methods and assumptions applied in the actuarial valuation were based on an experience study covering the five-year period from September 1, 2011 through August 31, 2016, for state agency members and for the period September 1, 2010 through August 31, 2017, for higher education members. The table below presents the actuarial methods and assumptions used to measure the total OPEB liability as of the August 31, 2018:

Actuarial Methods and Assumptions	
ERS Plan	
Actuarial valuation date	August 31, 2018
Actuarial cost method	Entry Age
Amortization method	Level Percent of Payroll, Open
Amortization period	30 years
Actuarial assumptions:	
Discount rate	3.96% *
Inflation	2.50%
Salary increase	2.50% to 9.50%, including inflation
Annual healthcare trend rate	7.30% for fiscal year 2020, 7.40% for fiscal year 2021, 7.00% for FY 2022, decreasing 0.5% per year to an ultimate rate of 4.50% for fiscal year 2027 and later years
Aggregate payroll growth	3.00%
Retirement age	Experience-based tables of rates that are specific to employee class
Mortality:	
State Agency Members:	
Service Retirees, Survivors and Other Inactive Members	2017 State Retirees of Texas Mortality table with a 1 year set forward for male CPO/CO members and Ultimate MP Projection Scale projected from the year 2017
Disabled Retirees	RP-2014 Disabled Retiree Mortality with Ultimate MP Projection Scale projected from the year 2014
Active Members	RP-2014 Active Member Mortality tables with Ultimate MP Projection Scale from the year 2014
Higher Education Members:	
Service Retirees, Survivors and Other Inactive Members	Tables based on TRS experience with Ultimate MP Projection Scale from the year 2018
Disabled Retirees	Tables based on TRS experience with Ultimate MP Projection Scale from year 2018 using a 3-year set forward and minimum mortality rates of four per 100 male members and two per 100 female members
Active Members	Sex Distinct RP-2014 Employee Mortality multiplied by 90% with Ultimate MP Projection Scale from the year 2014
Ad hoc postemployment benefit changes	None

*The source of the municipal bond rate is the Bond Buyer Index of general obligations bonds with 20 years to maturity and mixed credit quality. The bonds' average credit quality is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's Corp.'s AA.

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements
August 31, 2019

Note 5. Other Post-Employment Benefit Plan (OPEB) (Continued)

The following assumptions and other inputs have been adopted since the prior valuation to reflect plan experience and trends as expected by ERS and the actuaries attesting to the results of the valuation:

- a. demographic assumptions (including rates of retirement, disability, termination, mortality, and assumed salary increases) for higher education members have been updated to reflect assumptions recently adopted by the Trustees from TRS;
- b. assumed expenses, assumed Per Capita Health Benefit Costs and assumed Health Benefit Cost, Retiree Contribution and expense trends have been updated to reflect recent experience and its effects on our short-term expectations;
- c. percentage of current retirees and their spouses not yet eligible to participate in the HealthSelect Medicare Advantage plan and future retirees and their spouses who will elect to participate in the plan at the earliest date at which coverage can commence;
- d. percentage of future retirees assumed to be married and electing coverage for their spouse have been updated to reflect recent plan experience and expected trends; and,
- e. discount rate assumption was increased from 3.51% to 3.96% to utilize the yield or index rate for 20-year, tax-exempt general obligation municipal bonds rated AA/Aa (or equivalent) or higher in effect on the measurement date.

The only benefit revisions that have been adopted since the prior valuation for retirees and dependents for whom Medicare is not primary is an increase in the out-of-pocket maximum for both HealthSelect and Consumer Directed HealthSelect plans.

The discount rate that was used to measure the total OPEB liability is the municipal bond rate of 3.96% as of the end of the measurement year; as of the beginning of the measurement year, the discount rate was 3.51%. Projected cash flows into the plan are equal to projected benefit payments out of the plan. As the plan operates on a pay as you go basis and is not intended to accumulate assets, there is no long-term expected rate of return.

Sensitivity analysis was performed on the impact of changes in the discount rate on the proportionate share of Texas Trust's total OPEB liability. The result of the analysis is presented in the table below:

	1% Decrease	Current Discount Rate	1% Increase
	2.96%	3.96%	4.96%
Texas Trust's proportionate share of the total OPEB liability	\$ 9,838,330	\$ 8,286,775	\$ 7,112,422

The initial healthcare trend rate is 7.30% and the ultimate rate is 4.50%. The sensitivity of the net OPEB liability to changes in the discount rate and healthcare trend rate is summarized below:

	1% Decrease (6.30%, Decreasing to 3.50%)	Current Healthcare Cost Trend Rates (7.30%, Decreasing to 4.50%)	1% Increase (8.30%, Decreasing to 5.50%)
Texas Trust's proportionate share of the total OPEB liability	\$ 7,017,827	\$ 8,286,775	\$ 9,923,721

Texas Treasury Safekeeping Trust Company

**Notes to Financial Statements
August 31, 2019**

Note 5. Other Post-Employment Benefit Plan (OPEB) (Continued)

The OPEB plan's fiduciary net position is determined using economic resources measurement focus and the accrual basis of accounting, which is the same basis used by Employees Retirement System. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan. Investments of the OPEB trust fund are reported at fair value in accordance with GASB Statements No. 72. The fair value of investments is based on published market prices and quotations from major investment brokers at available current exchange rates. However, corporate bonds in general are valued based on currently available yields of comparable securities by issuers with similar credit ratings. Employees Retirement System issues stand-alone audited Comprehensive Annual Financial Report (CAFR). More detailed information on the plan's investment valuation, investment policy, assets and fiduciary net position may be obtained from ERS' fiscal 2018 CAFR:

Employees Retirement System of Texas
200 E. 18th Street
Austin, Texas 78701

At August 31, 2019, the Texas Trust recognized a net OPEB liability of \$8,286,775 for its proportionate share of the collective total OPEB liability. The Texas Trust's proportionate share of the total OPEB liability was 0.02796021% and was based on contributions to the OPEB plan relative to the contributions of all employers and the non-employer contributing entity for the period. The proportionate share of the total OPEB liability was 0.00949250% in the prior year.

For the year ending August 31, 2019, Texas Trust recognized OPEB expense of \$1,322,537. At August 31, 2019, Texas Trust reported deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 303,601
Changes of assumptions	-	2,903,912
Net difference between projected and actual investment return	3,924	-
Effect of change in proportion and contribution difference	6,312,096	-
Contributions subsequent to the measurement date	46,357	-
Total	\$ 6,362,377	\$ 3,207,513

The \$46,357 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the total OPEB liability for the year ending August 31, 2020. Amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense in the following years:

Year ended August 31:	
2020	\$ 556,430
2021	556,430
2022	556,430
2023	821,402
2024	617,815
	\$ 3,108,507

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2019

Note 6. Related-Party Transactions

The Texas Trust has entered into a services agreement with the Comptroller of Public Accounts (CPA). The agreement provides for specified rates based on hours of utilization. For the fiscal year ended August 31, 2019, the Texas Trust paid CPA \$73,925 for services provided. At August 31, 2019, the Texas Trust had accrued \$17,948 for services provided by CPA and this amount is included in accounts payable.

The Texas Trust utilizes the CPA Payroll Department to service its payroll. Prior to the end of each month, the approximate amount of the Texas Trust's monthly payroll is transferred from the Texas Trust to the Comptroller's Office. At August 31, 2019, the Comptroller held \$914,744 to pay for the Texas Trust's September 1, 2019 payroll.

During the year ended August 31, 2019, the SWIFT entered into a series of related-party transactions with the Endowment Funds and the TESTIF, whereby certain interests in limited partnership investments were transferred in exchange for cash. These transactions enabled the SWIFT to generate sufficient liquidity to meet its annual cash distribution, while allowing the Endowment Funds and the TESTIF to meet strategic and tactical allocation targets. The transactions involved transferring the limited partnership shares from the SWIFT to the Endowment Funds and the TESTIF at the current net asset value. No gain or loss on the exchange was recognized by the SWIFT as a result of the transactions. The total amount of partnership interests exchanged was \$30 million with the Endowment Funds and \$40 million with the TESTIF.

Note 7. Changes in Long-Term Liabilities

During the year ended August 31, 2019, the following changes occurred in long-term liabilities:

	Balance September 1, 2018	Additions	Reductions	Balance August 31, 2019	Amounts Due Within One Year
Compensable leave	\$ 984,871	\$ 926,615	\$ (866,874)	\$ 1,044,612	\$ 623,480
Net pension liability	24,564,998	-	(7,914)	24,557,084	-
OPEB liability	3,234,380	5,052,395	-	8,286,775	-
Total	<u>\$ 28,784,249</u>	<u>\$ 5,979,010</u>	<u>\$ (874,788)</u>	<u>\$ 33,888,471</u>	<u>\$ 623,480</u>

**Required Supplementary Information
(Unaudited)**

Texas Treasury Safekeeping Trust Company

**Schedule of Changes in Proportionate Share of the Net Pension Liability
Last Five Fiscal Years**

Year	Texas Trust's proportionate share of the collective plan net pension liability	Texas Trust's proportionate share of the collective plan net pension liability	Texas Trust's covered payroll	Texas Trust's proportionate share of the net pension liability as a percentage of its covered payroll	Plan fiduciary net position as a percentage of total pension liability
2015	0.09956829%	\$ 14,398,372	\$ 5,929,750	242.82%	63.40%
2016	0.10548924%	\$ 13,994,671	\$ 6,487,794	215.71%	64.40%
2017	0.10855888%	\$ 21,447,953	\$ 7,319,190	293.04%	55.32%
2018	0.11235055%	\$ 24,564,998	\$ 7,706,918	318.74%	54.67%
2019	0.12162405%	\$ 24,557,084	\$ 8,284,940	296.41%	57.89%

The information disclosed for each fiscal year is reported as of the measurement date of the net pension liability which is August 31 of the preceding fiscal year.

Only five years of data is presented in accordance with GASB Statement No. 68, Paragraph 138. The information for all periods for the ten-year schedules that are required to be presented as required supplementary information is not available. During this transition period, the information will be presented for as many years as are available.

See accompanying notes to required supplementary information.

Texas Treasury Safekeeping Trust Company

**Schedule of Contributions—Net Pension Liability
Last Five Fiscal Years**

Fiscal Years Ending August, 31	Actuarially Determined Contributions	Contributions in Relation to the Actuarially Determined Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2015	\$ 777,573	\$ 527,863	\$ 249,710	\$ 6,487,794	8.14%
2016	\$ 737,990	\$ 745,626	\$ (7,636)	\$ 7,319,190	10.19%
2017	\$ 801,652	\$ 786,614	\$ 15,038	\$ 7,706,918	10.21%
2018	\$ 1,135,865	\$ 847,950	\$ 287,915	\$ 8,284,940	10.23%
2019	\$ 1,116,667	\$ 840,979	\$ 275,688	\$ 8,198,727	10.26%

The information disclosed for each fiscal year is reported as of the fiscal year-end date.

Only five years of data is presented in accordance with GASB Statement No. 68. The information for all periods for the ten-year schedules that are required to be presented as required supplementary information is not available. During this transition period, the information will be presented for as many years as are available.

See accompanying notes to required supplementary information.

Texas Treasury Safekeeping Trust Company

**Schedule of Changes in Proportionate Share of the Net OPEB Liability
August 31, 2019**

Year	Texas Trust's proportionate share of the collective net OPEB liability	Texas Trust's proportionate share of the collective net OPEB liability	Texas Trust's covered payroll	Texas Trust's proportionate share of the net OPEB liability as a percentage of its covered payroll	Plan fiduciary net position as a percentage of total OPEB liability
2018	0.00949250%	\$ 3,234,380	\$ 7,706,918	41.97%	2.04%
2019	0.02796021%	\$ 8,286,775	\$ 8,284,940	100.02%	1.27%

The information disclosed for each fiscal year is reported as of the measurement date of the net OPEB liability which is August 31 of the preceding fiscal year.

Only two years of data is presented in accordance with GASB Statement No. 75. The information for all periods for the ten-year schedules that are required to be presented as required supplementary information is not available. During this transition period, the information will be presented for as many years as are available.

See accompanying notes to required supplementary information.

Texas Treasury Safekeeping Trust Company

**Schedule of Contributions—Net OPEB Liability
August 31, 2019**

Fiscal Years Ending August, 31	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2018	\$ 92,829	\$ 92,829	\$ -	\$ 8,284,940	1.12%
2019	\$ 46,357	\$ 46,357	\$ -	\$ 8,198,727	0.57%

The information disclosed for each fiscal year is reported as of the fiscal year-end date.

Only two years of data is presented in accordance with GASB Statement No. 75. The information for all periods for the ten-year schedules that are required to be presented as required supplementary information is not available. During this transition period, the information will be presented for as many years as are available.

See accompanying notes to required supplementary information.

Texas Treasury Safekeeping Trust Company

Notes to Required Supplementary Information August 31, 2019

Note 1. Changes of Benefit Terms—Pension Plan

During fiscal year 2015, there were no changes to benefit terms.

During fiscal year 2016, the 84th Texas Legislature increased the total state and employer contribution to 10% from 8% and the employee contribution to 9.5% from 6.9%. Contributing employees received a 2.5% salary increase to offset the retirement contribution increase. The legislature also eliminated the 90-day waiting period to participate in the retirement system for state agency employees hired on or after September 1 2015.

During fiscal years 2017, 2018 and 2019, there were no changes to benefit terms.

Note 2. Changes of Assumptions—Pension Plan

During fiscal years 2015, 2016 and 2017, actuarially determined contributions were adjusted for actual payroll and administrative expenses.

During fiscal year 2016, the single discount rate increased from 6.07% to 6.86%.

During fiscal year 2017, the single discount rate increased from 6.86% to 5.73%.

During fiscal year 2018, the following changes were made:

- a. The single discount rate decreased from 5.73% to 5.36%
- b. Decrease the investment return assumption from 8.00% to 7.50%
- c. Decrease the inflation assumption from 3.50% to 2.50%
- d. Establish a general wage inflation assumption of 0.50% above inflation, or 3.00%
- e. Mortality assumptions updated from 1994 Group Annuity Mortality table to most recently published national tables, RP-2014 Mortality tables for employees and disability retirees
- f. Modified the application of Entry Age Normal (EAN) actuarial cost method from Ultimate EAN, the normal cost rate based on the benefits payable to a new member and the entry age characteristics of the current active membership, to individual EAN which bases the normal cost rate on benefits payable to each individual active member.

During fiscal year 2019, the single discount rate increased from 5.36% to 5.69%.

Note 3. Changes of Benefit Terms—OPEB Plan

During fiscal years 2018 and 2019, there were no changes to benefit terms.

Note 4. Changes of Assumptions—OPEB Plan

During fiscal year 2018, the following changes were made:

- a. Additional demographic assumptions (aggregate payroll increases and rate of general inflation) to reflect an experience study

Texas Treasury Safekeeping Trust Company

Notes to Required Supplementary Information August 31, 2019

- b. The percentage of current and future retirees and retirees spouses not yet eligible to participate in the Health Select Medicare Advantage plan who will elect to participate at the earliest date at which coverage can commence has been updated to reflect recent plan experience and expected trends
- c. Assumptions for administrative expenses, assumed per Capital Health Benefit Costs, Health Benefit Cost and Retiree Contribution trends to reflect recent health plan experience
- d. Effects in short-term expectations and revised assumed rate of general inflation. Decrease the investment return assumption from 8.00% to 7.50%

The following benefit revisions have been adopted since the prior valuations: a) an increase in the out-of-pocket cost applicable to services obtained at a free-standing emergency facility, b) an elimination of the copayment for virtual visits, c) a copay reduction for Airrosti and for out-of-state participants, d) elimination of the deductible for in-network services and application of a copayment rather than coinsurance to certain services like primary care and specialist visits. These minor benefit changes have been reflected in the fiscal year 2018 Assumed Per Capita Health Benefit Costs.

During fiscal year 2019, the following changes were made:

- a. demographic assumptions (including rates of retirement, disability, termination, mortality, and assumed salary increases) for higher education members have been updated to reflect assumptions recently adopted by the Trustees from TRS;
- b. assumed expenses, assumed Per Capita Health Benefit Costs and assumed Health Benefit Cost, Retiree Contribution and expense trends have been updated to reflect recent experience and its effects on our short-term expectations;
- c. percentage of current retirees and their spouses not yet eligible to participate in the HealthSelect Medicare Advantage plan and future retirees and their spouses who will elect to participate in the plan at the earliest date at which coverage can commence;
- d. percentage of future retirees assumed to be married and electing coverage for their spouse have been updated to reflect recent plan experience and expected trends; and,
- e. discount rate assumption was increased from 3.51% to 3.96% to utilize the yield or index rate for 20-year, tax-exempt general obligation municipal bonds rated AA/Aa (or equivalent) or higher in effect on the measurement date.

The only benefit revisions that have been adopted since the prior valuation for retirees and dependents for whom Medicare is not primary is an increase in the out-of-pocket maximum for both HealthSelect and Consumer Directed HealthSelect plans.

Supplementary Information

Texas Treasury Safekeeping Trust Company

**Combining Statement of Fiduciary Net Position—Agency Fund
August 31, 2019**

Assets	Endowment Funds	State Water Implementation Fund	Texas Economic Stabilization Investment Fund	Treasury Pool	Repurchase Agreement Pool	Other Agency Funds	Totals
Current assets:							
Cash in State Treasury	\$ -	\$ 191,820,961	\$ 1,503,456,907	\$ -	\$ -	\$ -	\$ 1,695,277,868
Cash in bank	829,513		-	723,047	941,756	54,093,376	56,587,692
Deposits	-	-	-	583,551,000	-	15,000,000	598,551,000
Investments	4,152,516,436	1,565,377,153	3,265,091,467	37,332,740,900	933,265,467	2,023,601,196	49,272,592,619
Other assets	-	-	-	-	-	66,397,439	66,397,439
Receivables from:							
Interest and dividends	676,930	555,941	4,199,591	55,464,109	107,060	7,552,015	68,555,646
Total assets	\$ 4,154,022,879	\$ 1,757,754,055	\$ 4,772,747,965	\$ 37,972,479,056	\$ 934,314,283	\$ 2,166,644,026	\$ 51,757,962,264
Liabilities							
Liabilities:							
Accounts payable	\$ 2,128,210	\$ 532,354	\$ 510,705	\$ -	\$ 3,000,000	\$ -	\$ 6,171,269
Interest payable	1,214,064	-	-	849	-	-	1,214,913
Obligations under reverse repurchase agreements	-	-	-	19,763,814	-	-	19,763,814
Funds held for others	4,150,680,605	1,757,221,701	4,772,237,260	37,952,714,393	931,314,283	2,166,644,026	51,730,812,268
Total liabilities	\$ 4,154,022,879	\$ 1,757,754,055	\$ 4,772,747,965	\$ 37,972,479,056	\$ 934,314,283	\$ 2,166,644,026	\$ 51,757,962,264

**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***

Independent Auditor's Report

To the Honorable Glenn Hegar
Comptroller of Public Accounts of the State of Texas

We have audited, in accordance with the 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, the financial statements of the business-type activities, and the aggregate remaining fund information of the Texas Treasury Safekeeping Trust Company (Texas Trust) as of and for the year ended August 31, 2019, and the related notes to the financial statements, which collectively comprise Texas Trust's basic financial statements, and have issued our report thereon dated December 10, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Texas Trust's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Texas Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of Texas Trust's internal control.

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 Texas Trust's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Texas Trust's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Texas Trust's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Texas Trust's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Austin, Texas
December 10, 2019

