Texas Treasury Safekeeping Trust Company

Report on Conduct of Audit

August 31, 2015

PS&Co.

Padgett Stratemann

December 4, 2015

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

Dear Mr. Hegar:

We are pleased to present this report related to our audit of the basic financial statements of Texas Treasury Safekeeping Trust Company (Texas Trust) for the year ended August 31, 2015. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the Texas Trust's financial reporting process.

This report is intended solely for the information and use of the Comptroller of Public Accounts of the State of Texas, management of Texas Trust, and the State Auditor of Texas, and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

Padgett, Stratemann & Co., L L P

Certified Public Accountants

Attachment

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Required Communications

Area	Comments
Our Responsibility Under Auditing Standards Generally Accepted in the United States of America	As communicated in our arrangement letter dated July 23, 2015, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by Texas Trust's management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or Texas Trust's management of your respective responsibilities. Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free from material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of Texas Trust solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you. As communicated in the arrangement letter dated July 23, 2015, our responsibility, as described in *Government Auditing Standards*, is to report on the tests of internal control related to financial reporting and the tests of compliance with certain provisions of laws, regulations, contracts, and other matters. However, they do not provide a basis for an opinion on Texas Trust's internal control over financial reporting or on compliance and other matters.

Area	Comments
Other Information in Documents Containing Audited Financial Statements	We are not aware of any other documents that contain the audited financial statements. If such documents were to be published, we would have a responsibility to determine such financial information was not materially inconsistent with the audited financial statements of Texas Trust.
Planned Scope and Timing of the Audit	We conducted our audit consistent with the planned scope and timing we previously communicated to Mr. Paul Ballard. As described in Note 1 to the financial statements, the financial statements present only the financial statements of Texas Trust and do not purport to, and do not, present fairly the financial position of the State of Texas as of August 31, 2015, and the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.
Qualitative Aspects of Significant Accounting Practices	*Significant Accounting Policies* Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by Texas Trust is included in Note 1 to the financial statements. There has been no initial selection of accounting policies and no changes in significant accounting policies or their application during the year ended August 31, 2015 other than the required initial adoption of Governmental Accounting Standards Board Statement ("GASB") No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68*. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect

Area	Comments
	of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. *Significant Accounting Estimates* Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. The most sensitive accounting estimates affecting the financial statements are the estimated fair values of the individual securities within the investment portfolio. Management's estimates are based on information currently available, and the process used to calculate these estimates should be monitored throughout the year. These estimates were reviewed and it was determined they are reasonable in relation to the basic financial statements taken as a whole. *Financial Statement Disclosures* Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting Texas Trust's financial statements relates to investments.
Significant Difficulties Encountered During the Audit	We encountered no significant difficulties in dealing with management relating to the performance of the audit.
Uncorrected and Corrected Misstatements	For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those we believe are trivial, and communicate them to the appropriate level of management.

Area	Comments
	In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. In connection with our audit of the financial statements, we did not identify any corrected or uncorrected financial statement misstatements.
Disagreements With Management	For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to Texas Trust's financial statements or the auditor's report. No such disagreements arose during the course of the audit.
Representations Requested From Management	We have requested and received certain written representations from management in our standard representation letter dated December 4, 2015.
Management's Consultations With Other Accountants	In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.
Other Significant Findings or Issues	In the normal course of our professional association with Texas Trust, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting Texas Trust, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as Texas Trust's auditors.

Recently Issued Accounting and Reporting Pronouncements

The Governmental Accounting Standards Board ("GASB") has issued the following pronouncements: GASB Statements No. 72, 73, 74, and 75. Management has not yet determined the impact of these pronouncements on the financial statements. The following is a summary of these pronouncements and their effective dates.

GASB Statement No. 72, *Fair Value Measurement and Application*

The requirements of this statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This statement also will enhance fair value application guidance and related disclosures by providing guidance for applying fair value to certain investments and disclosures related to all fair value measurements, in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position.

This statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Governmental entities should organize these disclosures by type of asset or liability reported at fair value. The statement also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent).

The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015 and could have an impact on the Texas Trust's financial statements.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and 68*

This statement establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of GASB Statement No. 68. It also amends certain provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans*, and GASB Statement No. 68 for pension plans and pensions that are within their respective scopes.

The requirements of this statement extend the approach to accounting and financial reporting established in GASB Statement No. 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in GASB Statement No. 68 should not be considered pension plan assets. It also requires information similar to that required by GASB Statement No. 68 be included in notes to the financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities.

This statement also clarifies the application of certain provisions of GASB Statements No. 67 and 68 with regard to the following issues:

- Information that is required to be presented as notes to the ten-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported

- Accounting and financial reporting for separately financed specific liabilities of individual employers and nonemployer contributing entities for defined benefit pensions

- Timing of employer recognition of revenue for the support of nonemployer contributing entities not in a special funding situation

The requirements of this statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this statement for pension plans that are within the scope of GASB Statement No. 67 or for pensions that are within the scope of GASB Statement No. 68 are effective for fiscal years beginning after June 15, 2015.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*

The objective of this statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

The requirements of this statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by other postemployment benefit (OPEB) plans that are administered through trusts that meet the specified criteria. The new information will enhance the decision-usefulness of the financial reports of those OPEB plans, their value for assessing accountability, and their transparency by providing information about measures of net OPEB liabilities and explanations of how and why those liabilities changed from year to year. The net OPEB liability information, including ratios, will offer an up-to-date indication of the extent to which the total OPEB liability is covered by the fiduciary net position of the OPEB plan. The comparability of the reported information for similar types of OPEB plans will be improved by the changes related to the attribution method used to determine the total OPEB liability. The contribution schedule will provide measures to evaluate decisions related to the assessment of contribution rates in comparison with actuarially determined rates, if such rates are determined. In addition, new information about rates of return on OPEB plan investments will inform financial report users about the effects of market conditions on the OPEB plan's assets over time and provide information for users to assess the relative success of the OPEB plan's investment strategy and the relative contribution that investment earnings provide to the OPEB plan's ability to pay benefits to plan members when they come due.

This statement is effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is encouraged.

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

The primary objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

The requirements of this statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire OPEB liability and a more comprehensive measure of OPEB expense. Decision-usefulness and accountability also will be enhanced through new note disclosures and required supplementary information, as follows:

- More robust disclosures of assumptions will allow for better informed assessments of the reasonableness of OPEB measurements.

- Explanations of how and why the OPEB liability changed from year to year will improve transparency.

- The summary OPEB liability information, including ratios, will offer an indication of the extent to which the total OPEB liability is covered by resources held by the OPEB plan, if any.

- For employers that provide benefits through OPEB plans that are administered through trusts that meet the specified criteria, the contribution schedules will provide measures to evaluate decisions related to contributions.

The consistency, comparability, and transparency of the information reported by employers and governmental nonemployer contributing entities about OPEB transactions will be improved by requiring:

- The use of a discount rate that considers the availability of the OPEB plan's fiduciary net position associated with the OPEB of current active and inactive employees and the investment horizon of those resources, rather than utilizing only the long-term expected rate of return regardless of whether the OPEB plan's fiduciary net position is projected to be sufficient to make projected benefit payments and is expected to be invested using a strategy to achieve that return.

- A single method of attributing the actuarial present value of projected benefit payments to periods of employee service, rather than allowing a choice among six methods with additional variations.

- Immediate recognition in OPEB expense, rather than a choice of recognition periods, of the effects of changes of benefit terms.

- Recognition of OPEB expense that incorporates deferred outflows of resources and deferred inflows of resources related to OPEB over a defined, closed period, rather than a choice between an open or closed period.

The scope of this statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity.

This statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.