

Tobacco Settlement Permanent Trust Fund

Independent Accountant's Report
Distribution Policy
December 31, 2019



RSM US LLP

Independent Accountant's Report

Honorable Glenn Hegar
Comptroller of Public Accounts of the State of Texas
Tobacco Settlement Permanent Trust Fund

We have examined management of the Texas Treasury Safekeeping Trust Company's (Texas Trust) assertion, as represented by the accompanying Calculated Distribution Amount, that the Tobacco Settlement Permanent Trust Fund (Fund) complied with its Trust Account Distribution Policy (Texas Administrative Code, Title 34, Part 1, Chapter 18, Rules 18.1 and 18.2) as of December 31, 2019. Management of the Texas Trust is responsible for its assertion. Our responsibility is to express an opinion on management's assertion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether management's assertion is fairly stated, in all material respects. An examination involves performing procedures to obtain evidence about management's assertion. The nature, timing and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of management's assertion, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination on the Fund's compliance with the specified requirements.

In our opinion, management's assertion that the Fund complied with its Trust Account Distribution Policy as of December 31, 2019, is fairly stated, in all material respects.

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

RSM US LLP

Austin, Texas
March 12, 2020

Tobacco Settlement Permanent Trust Fund

Calculated Distribution Amount December 31, 2019

Actual distribution amount (Rule 18.1(b)(1))*:		
Average market value of the trust account (Rule 18.1(b)(3))*	\$ 2,461,060,792	
3.0% of the average market value of the trust account	<u> x 3.0%</u>	
Total		<u><u>\$ 73,831,824</u></u>
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Calculation of distribution restrictions (Rule 18.2(c))*:		
Calendar year-end market value of the trust account at December 31, 2019	\$ 2,728,629,516	
Less trust account corpus (Rule 18.1(b)(4))*	<u>(1,682,964,904)</u>	
Calendar year-end market value amount greater than corpus		<u><u>\$ 1,045,664,612</u></u>
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Adjusted current earnings of the trust account (Rule 18.1(b)(2))*:		
Current earnings (Rule 18.1(b)(5))*	\$ 60,237,729	
Less investment expenses (Rule 18.1(b)(7))*	<u>(5,394,783)</u>	
Total		<u><u>\$ 54,842,946</u></u>
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Amount eligible for distribution per Investment Policy Statement (Rules 18.2(b) and 18.2(c))*		<u><u>\$ 73,831,824</u></u>

*References refer to Texas Administrative Code, Title 34, Part 1, Chapter 18

See Notes to Calculated Distribution Amount.

Tobacco Settlement Permanent Trust Fund

Notes to Calculated Distribution Amount December 31, 2019

Note 1. Background of the Tobacco Settlement Permanent Trust Fund

The Tobacco Settlement Permanent Trust Fund (Fund) was established under the authority of House Bill 1161 (Act) enacted by the 76th Regular Session of the 1999 Texas Legislature. The purpose of the Fund is to collect monies from the tobacco companies and distribute the funds to eligible local governmental units for reimbursement of previous health care costs associated with tobacco-related illness. The Fund was organized on July 24, 1998, and commenced operations on December 31, 1998.

The Act establishes the Fund with the Texas Comptroller of Public Accounts (Comptroller), who is required to administer and manage the assets of the Fund with the advice of, and in consultation with, the appointed Tobacco Settlement Permanent Trust Account Investment Advisory Committee (Investment Advisory Committee). The Investment Advisory Committee consists of 11 members from the largest governmental units affected by the Act. The Comptroller is also required to make annual distributions to eligible governmental units. The accompanying Calculated Distribution Amount schedule is calculated in accordance with the Trust Account Distribution Policy (Policy), as outlined in Texas Administrative Code, Title 34, Part 1, Chapter 18, Rules 18.1 and 18.2.

After the calculations, which determine the actual distribution amount, year-end market value of the trust account and corpus, an annual meeting of the Investment Advisory Committee shall be held on or before April 1 of each calendar year. The Comptroller is required to report the performance of the Fund for the preceding calendar year to the Investment Advisory Committee. The Investment Advisory Committee shall then adopt the actual dollar amount to be distributed by the Comptroller.

Note 2. Summary of Significant Accounting Policies

Basis of accounting: The State of Texas reports the Fund as a private-purpose trust fund in its basic financial statements. Private-purpose trust funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the liability is incurred regardless of the time of the related cash flows.

Restrictions: In accordance with the Act, the Fund is composed of money paid to the Fund in accordance with the Tobacco Settlement Agreement (Agreement), assets purchased with that money, earnings of the Fund and any other contributions made to the Fund. These amounts represent the corpus of the Fund and shall remain in the Fund, and may not be distributed for any purpose that is not in accordance with the approved spending policy. The money and other assets contained in the Fund are not a part of the general funds of the State of Texas.

The Comptroller, with the advice and consultation of the Investment Advisory Committee, may use the earnings of the Fund for investment expenses. Upon certification, in accordance with the Health and Safety Code, Subchapter J, Chapter 12, the Comptroller shall make an annual distribution from the net earnings of the Fund to each eligible political subdivision, as provided in the Agreement regarding disposition of settlement proceeds.

Basis of presentation: Management of the Fund utilizes the following criteria and definitions in its computation of the annual distribution amount, as specified in the Policy.

Actual Distribution Amount (Rule 18.1(b)(1)): As defined in the Policy (Rule 18.1(b)(1) and Rule 18.2(b)), the actual distribution amount shall be 3% of the average market value of the trust account calculated as of the end of the calendar year immediately preceding the distribution. The average market value of the trust account is calculated using the most recent twenty (20) calendar quarter-end market values.

Tobacco Settlement Permanent Trust Fund

Notes to Calculated Distribution Amount December 31, 2019

Note 2. Summary of Significant Accounting Policies (Continued)

Calendar Year-End Market Value of the Trust Account (Rule 18.2(c)): If the calendar year-end market value of the trust account is equal to or less than the corpus, the actual distribution amount shall be limited to no more than adjusted current earnings.

Adjusted Current Earnings of the Trust Account (Rule 18.1(b)(2)): As defined in the Policy, adjusted current earnings are current earnings less investment expenses. Current earnings of the trust account is the sum of interest and dividend income, income from real estate and private equity investments, and total returns produced by investments designated by the governing investment policy as substitutes for fixed income earned by the trust account during the calendar year.