

Texas Treasury Safekeeping Trust Company
(A Component Unit of the State of Texas)

Basic Financial Statements

August 31, 2014

Texas Treasury Safekeeping Trust Company

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Padgett Stratemann

Independent Auditor's Report

To the Honorable Susan Combs
Comptroller of Public Accounts of the State of Texas
Austin, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Texas Treasury Safekeeping Trust Company (the Texas Trust) as of and for the year ended August 31, 2014, 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 Texas Trust'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 Texas Trust'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.

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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, each major fund, and the aggregate remaining fund information of the Texas Trust, as of August 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, these financial statements present only the financial statements of the Texas Trust and do not purport to, and do not, present fairly the financial position of the State of Texas as of August 31, 2014, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, 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 the Texas Trust's basic financial statements. The accompanying supplemental information on page 31 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplemental 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 supplemental 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 November 19, 2014 on our consideration of the Texas Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is 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 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 the Texas Trust's internal control over financial reporting and compliance.

Padgett, Statemann + Co., L.L.P.

Austin, Texas
November 19, 2014

Texas Treasury Safekeeping Trust Company

Management's Discussion and Analysis

August 31, 2014

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, 2014, 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 fifty-two (52) billion dollars at August 31, 2014.
- Texas Trust had fees for services in fiscal year 2014 of \$20,131,523 and non-operating revenues of \$5,379 (interest income). Operating expenses were \$13,638,465.

Overview of the Financial Statements

This report consists of four parts that explain some of the information in the financial statements in more detail – Independent Auditor's Report; Management's Discussion and Analysis (this section); Financial Statements; and, Notes to the Financial Statements.

The proprietary fund financial statements presented herein include the operations of the Texas Trust using the approach as prescribed by Governmental Accounting Standards Board Statement 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 Statement of Net Position presents information on all of the Texas Trust's assets and liabilities, with the difference between the two 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.

The fund financial statements include statements for each of the following funds – enterprise fund, investment trust fund, and agency fund.

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 Texas Trust performs custodial and investment services for entities in the other two fund categories (investment trust fund and agency fund) for a fee designed on a cost recovery basis. In Fiscal Year (FY) 2014, the Texas Trust charged client funds \$20,131,523 in fees and incurred \$13,638,465 in related service expense generating those fees.

Texas Treasury Safekeeping Trust Company

Management's Discussion and Analysis

August 31, 2014

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 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, 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.

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.

Condensed Financial Information for 2014 and 2013 (in 000's)

	<u>2014</u> <u>Business-Type</u> <u>Activities</u>	<u>2013</u> <u>Business-Type</u> <u>Activities</u>
Assets		
Current assets	\$ 26,140	\$ 20,328
Capital assets	73	155
Noncurrent assets	<u>34,260</u>	<u>34,226</u>
Total assets	<u>60,473</u>	<u>54,709</u>
Liabilities		
Current liabilities	2,938	3,688
Noncurrent liabilities	<u>294</u>	<u>278</u>
Total liabilities	<u>3,232</u>	<u>3,966</u>
Net position:	57,241	50,743
Invested in capital assets	73	155
Unrestricted	<u>57,168</u>	<u>50,588</u>
Total net position	<u>\$ 57,241</u>	<u>\$ 50,743</u>

Texas Treasury Safekeeping Trust Company

Management's Discussion and Analysis

August 31, 2014

Condensed Financial Information for 2014 and 2013 (in 000's) (continued)

Changes in Net Position	2014 Business-Type Activities	2013 Business-Type Activities
Charges for service	\$ 20,131	\$ 20,473
Interest Income	5	11
Total revenues	20,136	20,484
Total expenses	13,638	13,591
Change in net position	\$ 6,498	\$ 6,893

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 other State agencies and for endowment funds slightly increased during fiscal year 2014, while average balances for Treasury Pool and the Investment Trust Funds decreased during the same period. Business-type activities generated revenue of \$20.1 million, a decrease of \$0.3 million during FY 2014. In accordance with the Capital Reserves Policy of the Texas Trust, management may rebate fees to clients during fiscal years when the amount required to be held in capital reserves of the Enterprise Fund have been realized and excess fees are sufficient to rebate client fees. The FY 2014 revenue of \$20.1 million is net of \$3.5 million in fee rebates. Total expenses for business-type activities were \$13.6 million during both FY 2014 and FY 2013.

Individual Fund 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 is operated for the benefit of local governments.

The net position in the fund at August 31, 2014 totals \$13.5 billion and the net decrease in fiduciary net position for FY 2014 is \$1.9 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, 2014 is \$38.8 billion. There is no change in fund balance as Texas Trust holds these amounts as custodial assets only.

Texas Treasury Safekeeping Trust Company

Management's Discussion and Analysis

August 31, 2014

Capital Assets and Long-Term Debt

The Texas Trust's investment in capital assets for its business type activities as of August 31, 2014 amounts to \$73 thousand (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. The Texas Trust maintains an account with the Federal Reserve, which establishes a reserve requirement for the Texas Trust. In order to meet the reserve requirement, the Texas Trust must maintain an average balance for the weekly measurement period that surpasses the required reserve amount of \$34 million.

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 Chief Financial Officer at (512) 463-3129.

Basic Financial Statements

Texas Treasury Safekeeping Trust Company

Statement of Net Position – Proprietary Fund

August 31, 2014

	<u>Enterprise Fund</u>
Assets	
Current assets:	
Cash and cash equivalents	
Cash in bank	\$ 52,433
Cash in State Treasury	651,130
Investments in repurchase agreements	21,453,715
Receivables from:	
Management fees	3,754,216
Interest	157
Other	6,148
Prepaid expenses	<u>222,120</u>
Total current assets	<u>26,139,919</u>
Non-current assets:	
Restricted cash and cash equivalents	
Cash in bank	34,164,910
Restricted investments	94,795
Capital assets:	
Depreciable:	
Building and building improvements (net)	8,691
Furniture and equipment (net)	<u>64,289</u>
Total non-current assets	<u>34,332,685</u>
Total assets	<u>60,472,604</u>
Liabilities	
Current liabilities:	
Accounts payable	675,274
Payroll payable	1,828,842
Employee's compensable leave	<u>433,469</u>
Total current liabilities	<u>2,937,585</u>
Non-current liabilities:	
Employees' compensable leave	<u>294,065</u>
Total non-current liabilities	<u>294,065</u>
Total liabilities	<u>3,231,650</u>
Net position:	
Invested in capital assets	72,980
Unrestricted	<u>57,167,974</u>
Total net position	<u>\$ 57,240,954</u>

Notes to financial statements are an integral part of these financial statements.

Texas Treasury Safekeeping Trust Company

Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Fund

Year Ended August 31, 2014

	Enterprise Fund
Operating revenue – management fees	\$ 20,131,523
Operating expenses:	
Salaries and wages	7,107,987
Payroll related costs	1,418,413
Professional fees and services	2,568,401
Travel	142,456
Materials and supplies	608,604
Communication and utilities	507,722
Repairs and maintenance	455,168
Rentals and leases	26,833
Printing and reproduction	6,710
Depreciation and amortization	81,627
Other operating expenses	714,544
Total operating expenses	<u>13,638,465</u>
Operating income	<u>6,493,058</u>
Nonoperating revenue:	
Investment income	<u>5,379</u>
Net nonoperating revenues	<u>5,379</u>
Change in net position	6,498,437
Total net position at beginning of year	<u>50,742,517</u>
Total net position at end of year	<u>\$ 57,240,954</u>

Notes to financial statements are an integral part of these financial statements.

Texas Treasury Safekeeping Trust Company

Statement of Cash Flows – Proprietary Fund

Year Ended August 31, 2014

	<u>Enterprise Fund</u>
Cash flows from operating activities:	
Proceeds from management fees	\$ 19,073,098
Payments to employees	(8,472,986)
Payments for operating expenses	<u>(5,782,530)</u>
Net cash provided by operating activities	<u>4,817,582</u>
Cash flows from investing activities:	
Proceeds from interest and investment income	<u>(16,069)</u>
Net cash used in investing activities	<u>(16,069)</u>
Net increase in cash and cash equivalents	4,801,513
Cash and cash equivalents at beginning of year	<u>51,520,675</u>
Cash and cash equivalents at end of year	<u><u>\$ 56,322,188</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 6,493,058
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	81,627
Changes in assets/liabilities:	
Receivables	(1,058,424)
Prepaid expenses	36,432
Payables	<u>(735,111)</u>
Net cash provided by operating activities	<u><u>\$ 4,817,582</u></u>
Displayed as:	
Cash in bank	\$ 52,433
Cash in State Treasury	651,130
Investments in repurchase agreements	21,453,715
Restricted cash in bank	<u>34,164,910</u>
Total cash and cash equivalents	<u><u>\$ 56,322,188</u></u>

Notes to financial statements are an integral part of these financial statements.

Texas Treasury Safekeeping Trust Company

Statement of Fiduciary Net Position – Fiduciary Funds

August 31, 2014

Assets	Investment Trust Fund	Agency Funds
Cash in state treasury	\$ -	\$ 276,766,015
Cash in bank	373	1,288,874,511
Deposits	-	441,629,500
Investments	12,409,007,415	36,763,524,564
Accrued interest receivable	14,118,292	30,797,833
Trades pending settlement	1,050,000,000	349,369
Total assets	\$ 13,473,126,080	\$ 38,801,941,792
Liabilities		
Accounts payable	\$ 16,105,372	\$ 2,704,658
Interest payable	-	45
Amounts payable to participants	443,123	-
Trades pending settlement	-	762,371
Management fees reserved for operating expenses	472,683	-
Obligations under reverse repurchase agreements	-	48,078,057
Funds held for others	-	38,750,396,661
Total liabilities	17,021,178	\$ 38,801,941,792
Net Position		
Held in trust for pool participants and other purposes	\$ 13,456,104,902	

Notes to financial statements are an integral part of these financial statements.

Texas Treasury Safekeeping Trust Company

Statement of Changes in Fiduciary Net Position – Fiduciary Fund

Year Ended August 31, 2014

	<u>Investment Trust Fund</u>
Additions:	
Investment income:	
Interest income	\$ 13,821,240
Expenses:	
Management fees and expenses	<u>(8,046,375)</u>
Net investment income	<u>5,774,865</u>
Deductions:	
Earnings paid to investors from net investment income	(5,823,836)
Net change in management fees reserved for operating expenses	48,971
Net decrease in participant investments	<u>(1,886,178,643)</u>
Net decrease in net position	(1,886,178,643)
Net position at beginning of year	<u>15,342,283,545</u>
Net position at end of year	<u><u>\$ 13,456,104,902</u></u>

Notes to financial statements are an integral part of these financial statements.

Texas Treasury Safekeeping Trust Company

Notes to the Financial Statements

August 31, 2014

(1) Summary of Significant Accounting Policies

(a) 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

Texas Treasury Safekeeping Trust Company

Notes to the Financial Statements

August 31, 2014

(b) Financial Statements

The Texas Trust financial statements report information on all of the non-fiduciary 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.

(c) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Texas Trust financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Texas Trust financial statements include financial statements for each of the following fund classifications: a proprietary fund and fiduciary funds.

The Texas Trust reports the following major proprietary fund:

Enterprise Fund. Enterprise funds are used to report any activity for which a fee is charged to external users for services such as investment management and custodial services. 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. Non-operating revenues, such as investment earnings, result from non-exchange 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.

Texas Treasury Safekeeping Trust Company

Notes to the Financial Statements

August 31, 2014

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 for individual state agencies contracting with the Texas Trust for investment management and custodial services in agency funds.

(d) *Cash and Cash Equivalents*

For purposes of the statement of cash flows, demand deposits and short-term highly liquid investments in the Enterprise Fund 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 are included in cash and cash equivalents.

(e) *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, \$164,910 in cash was held at DTC as of August 31, 2014, in order to maintain the account.

The Texas Trust maintains an account with the Federal Reserve, which establishes a reserve requirement for the Texas Trust. In order to meet the reserve requirement, the Texas Trust must maintain an average balance for the weekly measurement period that surpasses the required reserve amount. The Federal Reserve's reserve requirement is \$34 million as of August 31, 2014. The Texas Trust Federal Reserve account balance reported in restricted cash on August 31, 2014 was \$34,000,000.

(f) *Deposits and Investments*

Investments, other than money market instruments in the Investment Trust Fund and the Treasury Pool, are reported at fair value based upon quoted market prices, or when quoted market prices are not readily determinable, estimated fair values based on market conditions and information provided by the investment administrators are used. For investments in limited partnerships where no readily determinable fair value exists, the fair value of the investment is based on the most recent capital account balance of each limited partnership as communicated by the investment administrator, adjusted for subsequent contributions, distributions, and withdrawals and adjusted as necessary by Texas Trust for current market conditions. For investments in fund of hedge funds and direct investments in hedge funds, the fair value is based on net asset value information provided by the designated fund administrator and adjusted as necessary by Texas Trust for current market conditions. Money market instruments in the Investment Trust Fund and the Treasury Pool are reported at amortized cost.

Texas Treasury Safekeeping Trust Company

Notes to the Financial Statements

August 31, 2014

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;
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);
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

Texas Treasury Safekeeping Trust Company

Notes to the Financial Statements

August 31, 2014

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 policy and governing statutes.

Security transactions are recorded on a trade date basis. Investments in securities traded on a national securities exchange are stated at the last reported sales price on the day of valuation. TexPool and TexPool Prime are short-term investment pools. The investments in TexPool and TexPool Prime along with Rule 2a-7 like pools and money market mutual funds are carried at amortized cost, which approximates fair value.

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, 2014 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, 2014, the Agency Fund had \$48,078,057 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.

Texas Treasury Safekeeping Trust Company

Notes to the Financial Statements

August 31, 2014

(g) Receivables and Payables

All trade receivables are shown net of an allowance for uncollectible amounts. 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.

(h) 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, or estimated historical cost, if actual historical cost is not available. Donated assets are reported at fair value on the acquisition date. All capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Software	3 years
Office equipment	5 years
Computer equipment	5 years
Building improvements	10 years

(i) 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.

(j) Common Stock

One share of common stock issued and outstanding at August 31, 2014 is held by the Comptroller with a par value of \$1,000,000. This amount is reflected in the Fiduciary Fund's Statement of Net Position within the unrestricted net position balance.

(k) 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 reported amounts of assets and liabilities and fund equity at the date of the financial statements. Actual results could differ from those estimates.

Texas Treasury Safekeeping Trust Company

Notes to the Financial Statements

August 31, 2014

(1) *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.

(2) **Deposits and Investments**

(a) *Deposits*

Cash deposits (CD's) 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 \$237,500 or less made with any qualifying institution are fully insured by the Federal Deposit Insurance Corporation (FDIC). Deposits made in any single financial institution, which are in excess of \$237,500, may be made only if fully collateralized in accordance with the State Depository Handbook. Collateral is held in the Texas Trust's Federal Reserve account. 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, 2014 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	\$ 1,764,913,000
Carrying amount	1,764,721,727
Proprietary cash at bank	\$ 52,433
Proprietary Funds non-current restricted cash at bank	34,164,910
Investment Trust Fund cash at bank	373
Agency Fund cash at bank	1,288,874,511
Agency Funds deposits	<u>441,629,500</u>
Total deposits carrying amount	<u>\$ 1,764,721,727</u>

(b) *Investments*

Custodial Credit Risk. The Texas Trust's investments are insured or registered or the securities are held by the Texas Trust or its agent in the Texas Trust's name.

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

Texas Treasury Safekeeping Trust Company

Notes to the Financial Statements

August 31, 2014

Enterprise Fund

Investments for the Enterprise Fund, as of August 31, 2014 are as follows:

Investment Type	Fair Value
Repurchase agreements	\$ 21,453,715
Equity securities	94,795
	\$ 21,548,510

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Enterprise Fund invests in the repurchase agreements various pool (“REPO Various”) which the Texas Trust administers. The underlying securities in the various repurchase agreement pools are rated AA+ by Standard & Poor’s and Aaa by Moody’s.

Interest Rate Risk. All repurchase agreement pools are in overnight repurchase agreements. The weighted average maturity of the repurchase agreement pools are one day.

TexPool and TexPool Prime Investment Trust Fund

Investments for TexPool and TexPool Prime, as of August 31, 2014 are as follows:

Investment Type	Carrying Value	Fair Value
Repurchase agreements	\$ 1,720,043,682	\$ 1,720,042,482
Commercial paper	590,646,103	590,648,873
United States government treasuries	464,727,307	464,687,330
United States government agencies	9,633,590,323	9,634,341,060
Total TexPool and TexPool Prime	\$ 12,409,007,415	\$ 12,409,719,745

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, 2014, TexPool and TexPool Prime’s investments in United States government securities, commercial paper and the underlying securities of the Repurchase Agreements were A-1+ by Standard and Poor’s, P1 by Moody’s and F-1+ by Fitch.

Texas Treasury Safekeeping Trust Company

Notes to the Financial Statements

August 31, 2014

Concentration of Credit Risk. No more than 5% of TexPool Prime assets at the time of purchase may be invested in a single corporate entity. As of August 31, 2014 5.83% of the TexPool Prime assets were invested in commercial paper issued by Fairway Finance Company; 5.57% of the TexPool Prime assets were invested in commercial paper issued by Bedford Row Fdg Corp; 5.57% of the TexPool Prime assets were invested in commercial paper issued by Sanofi-Aventis; 5.56% of the TexPool Prime assets were invested in commercial paper issued by Coca-Cola Company; 5.34% of the TexPool Prime assets were invested in commercial paper issued by General Electric Corp; 5.10% of the TexPool Prime assets were invested in commercial paper issued by Icici Bank Lmt; 5.10% of the TexPool Prime assets were invested in commercial paper issued by Manhattan Asset Fdg; 5.10% of the TexPool Prime assets were invested in commercial paper issued by National Australia Fndg; and 5.10% of the TexPool Prime assets were invested in commercial paper issued by Toyota Motor Credit. The percentage ownership of each was below 5% at the time of purchase. TexPool and TexPool Prime's investment policy has no limit on the amount it may invest in any single Governmental Sponsored Enterprise. More than 5% of the TexPool investments are with the Federal Home Loan Bank, the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association. These investments are 47.85%, 12.18%, and 12.74%, respectively, at August 31, 2014.

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:

<u>Investment Type</u>	<u>Weighted Average Maturity (Days)</u>	
	<u>TexPool</u>	<u>TexPool Prime</u>
Repurchase agreements	5	4
Commercial paper	-	49
United States government agency securities	60	88
United States government treasury securities	54	78
Weighted average maturity	53	41

Texas Treasury Safekeeping Trust Company

Notes to the Financial Statements

August 31, 2014

Treasury Pool

Investments for the Treasury Pool, as of August 31, 2014 are as follows:

	Carrying Value	Fair Value
United States government agencies	\$ 3,181,049,152	\$ 3,181,298,048
United States government treasuries	5,369,410,995	5,369,700,545
Government mortgage-backed securities	2,119,975,788	2,119,975,788
Commercial paper	7,912,357,803	7,912,357,803
Repurchase agreements	700,000,000	700,000,000
Supranational	1,986,653,000	1,986,653,000
Corporate obligations	2,920,347,422	2,920,347,422
Asset backed securities	2,778,082,469	2,778,082,469
Small business administration	42,647,353	42,647,353
Stock In Texas Trust	1,000,000	1,000,000
Money market mutual funds	775,000,000	775,000,000
Total Treasury Pool without Lottery Securities	27,786,523,982	27,787,062,428
United States government agencies – Refco	551,800,916	551,800,916
United States government agencies – Lottery Treasury Strips	234,958,437	234,958,437
Total Treasury Pool	\$ 28,573,283,335	\$ 28,573,821,781

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), 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 nationally recognized investment rating organization or “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). Money market funds must be rated AAAM by a NRSRO. The asset backed securities, corporate obligations, and small business administration obligations, that are not rated, are issued by Government Sponsored Enterprises that are rated AA+. The Treasury portfolio is rated AA+ by Standard & Poor’s.

Texas Treasury Safekeeping Trust Company

Notes to the Financial Statements

August 31, 2014

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

<u>Investment Type</u>	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>A-1</u>	<u>Not Rated</u>
United States government agencies	\$ -	\$ 3,181,298,048	\$ -	\$ -	\$ -
Government mortgage-backed securities	48,728,035	2,071,247,753	-	-	-
Commercial paper	-	-	-	7,912,357,803	-
Corporate obligations	-	1,398,281,016	230,845,445	-	1,291,220,961
Asset-backed securities	1,910,289,952	29,225,859	37,732,165	-	800,834,493
Repurchase agreements	-	700,000,000	-	-	-
Small business administration	-	-	-	-	42,647,353
Supranational	1,948,653,000	-	38,000,000	-	-
Mutual funds (2A 7-Like)	775,000,000	-	-	-	-

Concentration of Credit Risk: The Comptroller places no limit on the amount the Treasury Pool may invest in any one issuer. More than 5 percent of the Treasury Pool investments are with the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, and the International Bank for Reconstruction and Development. These investments are 7.25%, 6.02%, and 6.44% respectively.

Interest Rate Risk. In accordance with its investment policy, the Treasury Pool manages its exposure to interest rate risk by maintaining a 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:

<u>Investment Type</u>	<u>Modified Duration (Years)</u>
United States government agencies	1.717
United States government treasuries	1.417
Government mortgaged-backed securities	2.786
Commercial paper	0.270
Corporate obligations	1.745
Asset-backed securities	1.108
Repurchase agreements	0.005
Small Business Administration	18.636
Supranational	2.591
Placement of deposits with financial institutions	0.329
Treasury portfolio modification duration	1.291

Texas Treasury Safekeeping Trust Company

Notes to the Financial Statements

August 31, 2014

Reverse Repurchase Agreements. The Treasury Pool may enter into reverse repurchase agreements for up to 35% of the pools assets. The Treasury Pool's aggregate amount of reverse repurchase agreement obligations at August 31, 2014 was \$48,078,102 including accrued interest. The aggregate fair value of the securities underlying those agreements, including accrued interest, was \$48,056,117. There was no credit exposure at year-end.

Endowment Funds

Investments for the Endowment Funds, as of August 31, 2014 are as follows:

<u>Investment Type</u>	<u>Fair Value</u>
Equities	\$ 529,587
Mutual funds – global fixed income	314,224,981
Mutual funds – commodities	150,852,426
Fund of funds	240,998,937
Direct funds	1,932,353,132
Alternative investments domestic	865,517,790
Alternative investments international	95,373,321
Investment in short-term investment fund	<u>134,797,000</u>
Total endowment fund investments	<u>\$ 3,734,647,174</u>

Texas Treasury Safekeeping Trust Company

Notes to the Financial Statements

August 31, 2014

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. The high-yield securities not rated by Standard & Poor's are rated Ba or B by Moody's. The investments in the short-term investment fund are investments in State Street's Institutional Liquid Reserve fund which is rated AAAM by Standard & Pools.

Standard & Poor's Credit Ratings	Mutual Funds - Global Fixed Income	Investments in Short-Term Investment Fund
AAA	\$ -	\$ 134,797,000
Not rated	314,224,981	-
Total	\$ 314,224,981	\$ 134,797,000

Concentration Risk: Excluding securities issued or guaranteed by the U.S. Government, its agencies, instrumentalities, and GSE's, no more than 5% of the portfolio at the time of purchase, shall be 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 securities lending cash collateral pool and 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	2.69
	Weighted-Average Maturity
Investments in short-term investment fund	38 days

Texas Treasury Safekeeping Trust Company

Notes to the Financial Statements

August 31, 2014

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.

<u>Currency</u>	<u>Alternative Investment</u>	<u>Total</u>
Euros	\$ 95,373,321	\$ 95,373,321

State Water Implementation Fund for Texas (SWIFT)

Investments for the SWIFT, as of August 31, 2014 are as follows:

	<u>Fair Value</u>
Investment Type	
Mutual Funds:	
Global fixed income	\$ 1,341,941,881
Hedge Funds:	
Direct funds	258,350,095
Alternative Investments:	
Domestic	7,655,271
Investment in short-term investment fund	<u>142,962,230</u>
Total Endowment Fund Investments	<u>\$ 1,750,909,477</u>

Texas Treasury Safekeeping Trust Company

Notes to the Financial Statements

August 31, 2014

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 Rating	Mutual Funds – Global Fixed Income	Investments in Short-Term Investment Fund
AAA	\$ -	\$ 142,962,230
Not Rated	1,341,941,881	-
Total	\$ 1,341,941,881	\$ 142,962,230

Concentration Risk: As of August 31, 2014, no more than 5% of the portfolio was invested in securities of one issuer.

Interest Rate Risk: The Fund's investment policy does not limit 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
Mutual Funds:	
Global Fixed Income	0.63 years
	Weighted Average Maturity
Investment in short-term investment fund	38 days

Repurchase Agreement Pool

The Texas Trust operates a Repurchase Agreement Pool in which state entities may invest non-appropriated funds. Investments for the Repurchase Agreement Pool, as of August 31, 2014 are as follows:

Investment Type	Fair Value
Repurchase agreements	\$ 600,631,046

Texas Treasury Safekeeping Trust Company

Notes to the Financial Statements

August 31, 2014

Credit Risk. The credit rating on the underlying securities that are subject to credit risk for repurchase agreements are rated AA+ by Standard & Poor's.

Interest Rate Risk. All Repurchase agreement pools are in overnight repurchase agreements. The weighted average maturity of the Repurchase agreement pool is four days.

Other Trust activities

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 risks of the Texas Trust but of the clients its serves as a custodian or depository. 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, 2014 are as follows:

<u>Investment Type</u>	<u>Fair Value</u>
United States government treasuries	\$ 896,645,935
United States government agencies	20,626,846
REFCO strips	619
Government mortgage-backed securities	11,306,117
Asset-backed securities	22,775
Political subdivision bonds	23,863,569
Corporate obligations	113,864,469
Repurchase agreements	481,776,505
Commercial paper	119,958,722
Negotiable certificates of deposit	248,000
Warrants	93,796
Equities	358,287,275
Mutual funds	43,561,327
Investment in real estate trust fund	5,245,962
Investment in guaranteed investment contracts	28,551,615
Total other trust activities	<u>\$ 2,104,053,532</u>

Texas Treasury Safekeeping Trust Company

Notes to the Financial Statements

August 31, 2014

(3) Capital Assets

Capital asset activity for the year ended August 31, 2014 was as follows:

	Primary Government			
Business-Type Activities	Balance 09/01/13	Additions	Deletions	Balance 08/31/14
Depreciable assets:				
Buildings and building improvements	\$ 311,520	\$ -	\$ -	\$ 311,520
Furniture and equipment	744,952	-	-	744,952
Total depreciable assets at historical cost	<u>1,056,472</u>	<u>-</u>	<u>-</u>	<u>1,056,472</u>
Less accumulated depreciation for:				
Buildings and building improvements	(296,567)	(6,262)	-	(302,829)
Furniture and equipment	(632,354)	(48,309)	-	(680,663)
Total accumulated depreciation	<u>(928,921)</u>	<u>(54,571)</u>	<u>-</u>	<u>(983,492)</u>
Total depreciable assets, net	<u>127,551</u>	<u>(54,571)</u>	<u>-</u>	<u>72,980</u>
Amortizable assets-intangible:				
Computer software	<u>2,231,060</u>	<u>-</u>	<u>-</u>	<u>2,231,060</u>
Total amortizable assets-intangible	<u>2,231,060</u>	<u>-</u>	<u>-</u>	<u>2,231,060</u>
Less Accumulated amortization for:				
Computer software	<u>(2,204,004)</u>	<u>(27,056)</u>	<u>-</u>	<u>(2,231,060)</u>
Total accumulated amortization	<u>(2,204,004)</u>	<u>(27,056)</u>	<u>-</u>	<u>(2,231,060)</u>
Amortizable assets-intangible, net	<u>27,056</u>	<u>(27,056)</u>	<u>-</u>	<u>-</u>
Business-type activities – capital assets, net	<u>\$ 154,607</u>	<u>\$ (81,627)</u>	<u>\$ -</u>	<u>\$ 72,980</u>

Texas Treasury Safekeeping Trust Company

Notes to the Financial Statements

August 31, 2014

(4) Contributions to Pension Plan

The Employees Retirement System of Texas (ERS) operates under Title 8 of the Texas Government Code. ERS operates as a single-employer defined benefit plan and provides retirement, disability, and death benefits for qualified employees of the State. ERS issues a separate comprehensive annual financial report. Copies of the annual financial report may be obtained by requesting a copy through ERS:

ERS of Texas
Customer Service Division
18th and Brazos Streets
P.O. Box 13207
Austin, Texas 78711-3207

Active plan members in ERS are required to contribute a percentage of their annual covered salary. Currently, state employees contribute 6.6%. The State provides a matching contribution of 6.95% of the employees' current annual compensation. Texas Trust recognized \$450,742 in expense for the year ended August 31, 2014 for its share of ERS required contributions.

(5) 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, 2014, the Texas Trust paid CPA \$35,873 for services provided. At August 31, 2014, the Texas Trust had accrued \$10,228 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, 2014, the Comptroller held \$651,130 to pay for the Texas Trust's September 1, 2014 payroll.

(6) Changes in Long-Term Liabilities

During the year ended August 31, 2014 the following changes occurred in long-term liabilities:

	<u>Balance</u> <u>09/01/13</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>08/31/14</u>	<u>Amounts Due</u> <u>Within One Year</u>
Compensable leave	\$ 673,369	\$ 593,587	\$ 539,422	\$ 727,534	\$ 433,469
Total	\$ <u>673,369</u>	\$ <u>593,587</u>	\$ <u>539,422</u>	\$ <u>727,534</u>	\$ <u>433,469</u>

Supplemental Information

Texas Treasury Safekeeping Trust Company

Combining Schedule – Balance Sheet Information – Agency Funds

August 31, 2014

Assets	<u>Endowment Funds</u>	<u>State Water Implementation Fund</u>	<u>Treasury Pool</u>	<u>Repurchase Agreement Pool</u>	<u>Other Agency Funds</u>	<u>Totals</u>
Current assets:						
Cash in state treasury	\$ -	\$ 276,766,015	\$ -	\$ -	\$ -	\$ 276,766,015
Cash in bank	-	-	1,263,665,859	143,290	25,065,362	1,288,874,511
Deposits	-	-	441,629,500	-	-	441,629,500
Investments	3,734,647,174	1,750,909,477	28,573,283,335	600,631,046	2,104,053,532	36,763,524,564
Receivables from:						
Interest and dividends	37,580	496,586	26,619,413	1,501	3,642,753	30,797,833
Trades pending settlement	349,369	-	-	-	-	349,369
Total assets	\$ 3,735,034,123	\$ 2,028,172,078	\$ 30,305,198,107	\$ 600,775,837	\$ 2,132,761,647	\$ 38,801,941,792
Liabilities						
Liabilities:						
Accounts payable	\$ 1,896,226	\$ 808,432	\$ -	\$ -	\$ -	\$ 2,704,658
Interest payable	-	-	45	-	-	45
Trades pending settlement	378,680	383,691	-	-	-	762,371
repurchase agreements	-	-	48,078,057	-	-	48,078,057
Funds held for others	3,732,759,217	2,026,979,955	30,257,120,005	600,775,837	2,132,761,647	38,750,396,661
Total liabilities	\$ 3,735,034,123	\$ 2,028,172,078	\$ 30,305,198,107	\$ 600,775,837	\$ 2,132,761,647	\$ 38,801,941,792

See accompanying independent auditor's report.



Padgett Stratemann

Independent Auditor's 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*

To the Honorable Susan Combs
Comptroller of Public Accounts of the State of Texas
Austin, 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, each major fund, and the aggregate remaining fund information of the Texas Treasury Safekeeping Trust Company (the Texas Trust) as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the Texas Trust's basic financial statements, and have issued our report thereon dated November 19, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the Texas Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Texas Trust's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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.

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

Austin, Texas
November 19, 2014