

# State Water Implementation Fund for Texas

Report to the Honorable Glenn Hegar  
Comptroller of Public Accounts of the State of Texas  
December 2, 2019





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December 2, 2019

To the Honorable Glenn Hegar  
Comptroller of Public Accounts of the State of Texas  
State Water Implementation Fund for Texas  
Austin, Texas

Dear Mr. Hegar:

We are pleased to present this report related to our audit of the financial statements of the State Water Implementation Fund for Texas (Fund), a private-purpose trust fund of the state of Texas, as of and for the year ended August 31, 2019. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the Fund'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 the Fund, the Texas Water Development Board and the State Auditor of Texas and is not intended to be, and should not be, used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to the State Water Implementation Fund for Texas.

*RSM US LLP*

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## Required Communications

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit, as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial and related compliance reporting process.

Area	Comments
<b>Our Responsibilities With Regard to the Financial Statement Audit</b>	<p>Our responsibilities under auditing standards generally accepted in the United States of America and <i>Government Auditing Standards</i> issued by the Comptroller General of the United States have been described to you in our arrangement letter dated June 5, 2019. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.</p>
<b>Overview of the Planned Scope and Timing of the Financial Statement Audit</b>	<p>We have issued a separate communication, dated June 4, 2019, addressed to Mr. Paul Ballard, Chief Executive Officer of Texas Treasury Safekeeping Trust Company, regarding the planned scope and timing of our audit and have discussed with him our identification of significant risks of material misstatement.</p> <p>As described in Notes 1 and 2 to the financial statements, the financial statements present only the financial statements of the Fund 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 its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion was not modified with respect to this matter.</p>
<b>Accounting Policies and Practices</b>	<p><b>Preferability of Accounting Policies and Practices</b> Under accounting principles generally accepted in the United States of America, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.</p> <p><b>Adoption of, or Change in, Accounting Policies</b> Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Fund. A summary of the significant accounting policies adopted by the Fund is included in Note 2 to the financial statements. The Fund did not adopt any significant new accounting policies, nor has there been any changes in existing significant accounting policies during the year ended August 31, 2019.</p> <p><b>Significant or Unusual Transactions</b> We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.</p>

Area	Comments
<b>Accounting Policies and Practices (Continued)</b>	<b>Management's Judgments and Accounting Estimates</b> Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached Summary of Significant Accounting Estimates.
<b>Audit Adjustments</b>	There were no audit adjustments made to the original trial balance presented to us to begin our audit.
<b>Uncorrected Misstatements</b>	We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.
<b>Other Information in Documents Containing Audited Financial Statements</b>	We are not aware of any other documents that contain the audited financial statements. If such documents were to be published, we would have the responsibility to determine such financial information was not materially inconsistent with the audited financial statements of the Fund.
<b>Disagreements With Management</b>	We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements.
<b>Consultations With Other Accountants</b>	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
<b>Significant Issues Discussed With Management</b>	No significant issues arising from the audit were discussed or the subject of correspondence with management.
<b>Significant Difficulties Encountered in Performing the Audit</b>	We did not encounter any significant difficulties in dealing with management during the audit.
<b>Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards</b>	We have separately issued a Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> , which is included in the Fund's Annual Financial Report.
<b>Significant Written Communications Between Management and Our Firm</b>	Copies of material written communications between our firm and the management of the Fund, including the representation letters provided to us by management, are attached as Exhibit A.

## Summary of Significant Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses its knowledge and experience about past and current events, and certain assumptions about future events. Management may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following describes the significant accounting estimates reflected in the Fund's August 31, 2019, financial statements.

Estimate	Accounting Policy	Management's Estimation Process	Basis for Our Conclusions on Reasonableness of Estimate
<b>Fair Value Measurements of the Individual Investment Securities Within the Investment Portfolio</b>	Investments within the Fund 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 (NAVs) of underlying securities and fixed-income pricing models.	<p>Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.</p> <p>Management's estimate of the fair value of investments is 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, as provided by custodians or individual money managers.</p>	<p>We tested the fair value of investments at year-end.</p> <p>For investments measured using a published value, we estimated the fair value by using an internal specialist to price the securities.</p> <p>For investments measured using net asset value as a practical expedient, we rolled forward balances from the prior-year audited amounts, tested fiscal year 2019 activity, and confirmed the value at year-end with the custodian and individual money managers.</p> <p>We concluded the valuation methods and estimates are reasonable.</p>

**Exhibit A—Significant Written Communications Between Management and Our Firm**



December 2, 2019

RSM US LLP  
811 Barton Springs Road Suite 500  
Austin, TX 78704

This representation letter is provided in connection with your audit of the financial statements of the State Water Implementation Fund for Texas (Fund) as of and for the years ended August 31, 2019 and 2018, for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

We confirm, to the best of our knowledge and belief, that as of the date of this letter:

**Financial Statements**

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter, dated June 5, 2019, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.
2. We acknowledge our responsibility for 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.
3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and reflect our judgment based on our knowledge and experience about past and current events, and our assumptions about conditions we expect to exist and courses of action we expect to take.
5. Related-party transactions have been recorded in accordance with the economic substance of the transaction and appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
6. There are no events subsequent to the date of the financial statements for which U.S. GAAP requires adjustment or disclosure.
7. There is no known actual or possible litigation and claims to be accounted for and disclosed in accordance with U.S. GAAP.
8. We have no direct or indirect legal or moral obligation for any debt of any organization, public or private.



9. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance. In connection therewith, we specifically represent that we are responsible for determining that we are not subject to the requirements of the Single Audit Act because we have not received, expended or otherwise been the beneficiary of the required amount of federal awards during the period of this audit.
10. We have no knowledge of any uncorrected misstatements in the financial statements.

**Information Provided**

11. We have provided you with:
  - a. Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters;
  - b. Additional information that you have requested from us for the purpose of the audit;
  - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence; and
  - d. Minutes of the meetings of the governing board and committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.
12. All transactions have been recorded in the accounting records and are reflected in the financial statements.
13. We have disclosed to you the results of our assessment of risk that the financial statements may be materially misstated as a result of fraud.
14. We have no knowledge of allegations of fraud or suspected fraud affecting the Fund's financial statements involving:
  - a. Management.
  - b. Employees who have significant roles in internal control.
  - c. Others where the fraud could have a material effect on the financial statements.
15. We have no knowledge of any allegations of fraud or suspected fraud affecting the Fund's financial statements received in communications from employees, former employees, analysts, regulators, short sellers or others.
16. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations affecting the Fund's financial statements.
17. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements and we have not consulted legal counsel concerning litigation or claims.
18. We have disclosed to you the identity of the entity's related parties and all the related-party relationships and transactions of which we are aware.

19. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the Fund's ability to record, process, summarize and report financial data.
20. We are aware of no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
21. During the course of your audit, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

### **Supplementary Information**

22. With respect to management's discussion and analysis, as required by the Governmental Accounting Standards Board to supplement the financial statements:
  - a. We acknowledge our responsibility for the presentation of such required supplementary information.
  - b. We believe such required supplementary information is measured and presented in accordance with guidelines prescribed by U.S. GAAP.
  - c. The methods of measurement or presentation have not changed from those used in the prior period.

### **Compliance Considerations**

In connection with your audit conducted in accordance with *Government Auditing Standards*, we confirm that management:

23. Is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
24. Is responsible for compliance with the laws, regulations and provisions of contracts and grant agreements applicable to the Fund.
25. Is not aware of any instances that have occurred, or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
26. Is not aware of any instances that have occurred, or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that have a material effect on the determination of financial statement amounts.
27. Is not aware of any instances that have occurred, or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements.
28. Is responsible for 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.


29. Acknowledges its responsibility for the design, implementation and maintenance of internal controls to prevent and detect fraud.
30. There was no fraud; noncompliance with provisions of laws, regulations, contracts and grant agreements; or abuse reported by the auditor. If any had been reported, management would take timely and appropriate steps to remedy fraud; noncompliance with provisions of laws, regulations, contracts and grant agreements; or abuse that the auditor reports.
31. Has a process to track the status of audit findings and recommendations.
32. Has identified for the auditor previous audits, attestation engagements and other studies related to the audit objectives and whether related recommendations have been implemented.
33. Has provided views on the auditor's reported findings, conclusions and recommendations, as well as management's planned corrective actions, for the report, if applicable.
34. Acknowledges its responsibilities as it relates to nonaudit services performed by the auditor, including a statement that it assumes all management responsibilities; that it oversees the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge or experience; that it evaluates the adequacy and results of the services performed; and that it accepts responsibility for the results of the services. Ms. Genoveva Minjares, Chief Financial Officer, assumed these responsibilities.

State Water Implementation Fund for Texas



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Mike Reissig  
Acting Chief Executive Officer  
Texas Treasury Safekeeping Trust Co.



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Genoveva Minjares  
Chief Financial Officer  
Texas Treasury Safekeeping Trust Co.

  
**TEXAS TRUST**  
TEXAS TREASURY SAFEKEEPING TRUST COMPANY  
COMPTROLLER GLENN HEGAR, CHAIRMAN

December 2, 2019

RSM US LLP  
811 Barton Springs Road, Suite 500  
Austin, TX 78704

In connection with your examination of our assertion that the State Water Implementation Fund for Texas (Fund) complied with its Investment Policy as of August 31, 2019, in accordance with attestation standards established by the American Institute of Certified Public Accountants, we confirm, to the best of our knowledge and belief, the following representations made to you during the course of your engagement:

1. Management of the Texas Treasury Safekeeping Trust Company is responsible for its assertion that the Fund complied with its Investment Policy as of August 31, 2019. Management asserts that the Fund did comply with its Investment Policy as of August 31, 2019.
2. We understand that we are responsible for the selection of the criteria against which the Fund's compliance with its Investment Policy as of August 31, 2019, is being evaluated.
3. We understand that we are responsible for determining that such criteria are appropriate for our purposes.
4. There are no known matters contradicting the assertion nor any communications from regulatory agencies affecting the assertion or the subject matter.
5. We have made available to you all records relevant to compliance as of August 31, 2019, with the Investment Policy dated September 2018.
6. No events or transactions have occurred subsequent to August 31, 2019, that would require adjustment to, or disclosure in, the presentation of compliance as of August 31, 2019, with the Investment Policy dated September 2018.
7. There has been no knowledge of fraud or suspected fraud affecting the entity involving:
  - a. Management.
  - b. Employees who have significant roles in internal control.
  - c. Others where fraud could have a material effect on the Fund's compliance with the Investment Policy dated September 2018.
8. We acknowledge our responsibility for the design and implementation of programs and controls to provide reasonable assurance that fraud is prevented and detected.

9. We have no knowledge of any allegations of fraud or suspected fraud affecting the Fund received in communications from employees, former employees, analysts, regulators or others.
10. We have responded fully to all inquiries made to us by you during your engagement.
11. We are responsible for the fair presentation of the subject matter prepared in conformity with the requirements of the Comptroller's Office.
12. We have advised you of all actions taken at meetings of the Investment Committee and the Investment Advisory Board that may affect the subject matter.
13. We are responsible for establishing and maintaining effective internal control over compliance.
14. We are responsible for the interpretation of any compliance requirements that may have varying interpretations.
15. We have reviewed a draft of your report dated December 2, 2019, and we are not aware of any significant errors or misstatements contained in that report.
16. No procedures have been performed since the date of your report and you have no responsibility to update your procedures.
17. There has not been any noncompliance discovered by us subsequent to August 31, 2019.
18. We have complied with all aspects of contractual agreements that would have a material effect on the subject matter or the assertion in the event of noncompliance.
19. There are no material transactions that have not been properly recorded as part of the subject matter or the assertion.
20. During the course of your engagement, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

State Water Implementation Fund for Texas



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Mike Reissig  
Acting Chief Executive Officer  
Texas Treasury Safekeeping Trust Co.



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Genoveva Minjares  
Chief Financial Officer  
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