

TEXAS TREASURY SAFEKEEPING TRUST COMPANY
(A Component Unit of the State of Texas)

Basic Financial Statements

August 31, 2012

(With Independent Auditors' Report Thereon)

TEXAS TREASURY SAFEKEEPING TRUST COMPANY

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Independent Auditors' Report

The Honorable Susan Combs
Comptroller of Public Accounts of the State of Texas

We have audited the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of Texas Treasury Safekeeping Trust Company (Texas Trust), a component unit of the State of Texas, as of and for the year ended August 31, 2012, which collectively comprise Texas Trust's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the management of Texas Trust. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Texas Trust's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, the financial statements present only the financial statements of Texas Trust and do not purport to, and do not, present fairly, the financial position of the State of Texas as of August 31, 2012, and the changes in its financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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 Texas Trust as of August 31, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2012, 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 grant agreements 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* and should be considered in assessing the results of our audit.

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Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 6, 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.

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 28 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The 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 financial statements or to the financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Padgett, Stratemann + Co., LLP

Certified Public Accountants
November 16, 2012

TEXAS TREASURY SAFEKEEPING TRUST COMPANY

Management's Discussion and Analysis

August 31, 2012

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, 2012, 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, 2012.
- Texas Trust had fees for services in fiscal year 2012 of \$19,161,559 and non-operating revenues of \$35,729 (interest income). Operating expenses were \$12,874,594.

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 Auditors' 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 Assets presents information on all of the Texas Trust's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 Assets presents information showing how the Texas Trust's net assets changed during the most recent fiscal year. All changes in net assets 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 categories - proprietary and fiduciary.

Within the above listed categories, the Texas Trust's financial statements are comprised of three funds: Enterprise Fund (proprietary), Investment Trust Funds (fiduciary) and Agency Funds (fiduciary). The funds comprising these three categories are provided for by State legislation, which governs the operations and investment parameters within which Texas Trust functions as a custodian and investment service provider.

TEXAS TREASURY SAFEKEEPING TRUST COMPANY

Management's Discussion and Analysis

August 31, 2012

Enterprise Funds are 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 for a fee designed on a cost recovery basis. In Fiscal Year (FY) 2012, the Texas Trust charged client funds \$19,161,559 in fees and incurred \$12,874,594 in related service expense generating those fees.

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, Tobacco Settlement Permanent Trust Fund 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 2012 and 2011 (in 000's)

	2012	2011
	Business-type	Business-type
	Activities	Activities
Assets:		
Current assets	\$ 12,347	\$ 13,658
Capital assets	231	501
Noncurrent assets	34,221	26,143
Total assets	<u>46,799</u>	<u>40,302</u>
Current liabilities	2,701	2,516
Noncurrent liabilities	248	259
Total liabilities	<u>2,949</u>	<u>2,775</u>
Net assets:	43,850	37,527
Invested in capital assets	231	501
Unrestricted	43,619	37,026
Total Net Assets	<u><u>\$ 43,850</u></u>	<u><u>\$ 37,527</u></u>

TEXAS TREASURY SAFEKEEPING TRUST COMPANY

Management's Discussion and Analysis

August 31, 2012

Condensed Financial Information for 2012 and 2011 (in 000's) (continued)

Changes in Net Assets	2012	2011
	Business-type Activities	Business-type Activities
Charges for service	\$ 19,162	\$ 19,357
Interest Income	36	49
Total revenues	19,198	19,406
Total expenses	12,875	12,969
Change in net assets	\$ 6,323	\$ 6,437

Overall Financial Analysis

Business-type Activities

Business-type activities generated revenue of \$19.2 million, including charges for services of \$19.2 million, a decrease of \$208 thousand during FY 2012. Total expenses for business-type activities were \$12.9 million, a decrease of \$94 thousand during FY 2012. 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 2012, while average balances for Treasury Pool and the Investment Trust Funds decreased in fiscal year 2012.

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 assets in the fund at August 31, 2012 is \$14.6 billion and the net decrease in fiduciary net assets for FY 2012 is \$0.6 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, 2012 is \$37.9 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, 2012

Capital Assets and Long-term Debt

The Texas Trust's investment in capital assets for its business type activities as of August 31, 2012 amounts to \$231 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. Through July 11, 2012 the amount of reserves on deposit generates earnings credits for the Texas Trust which are used to offset fees charged by the Federal Reserve for services it provides to the Texas Trust. The Federal Reserve requirement is \$34 million. The practice for paying earnings credits for reserves on deposit at the Federal Reserve was discontinued for the Texas Trust as of July 11, 2012.

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, Frank Zahn at (512) 463-3129.

TEXAS TREASURY SAFEKEEPING TRUST COMPANY

Statement of Net Assets

Proprietary Fund

August 31, 2012

Assets	Enterprise Fund
Current assets:	
Cash and cash equivalents	
Cash in bank	\$ 52,449
Cash in State Treasury	656,955
Investments in repurchase agreements	8,857,089
Receivables from:	
Management fees	2,524,916
Interest	226
Other	10,180
Prepaid expenses	244,727
Total current assets	<u>12,346,542</u>
Non-current assets:	
Restricted cash and cash equivalents	
Cash in bank	34,137,206
Restricted investments	83,624
Capital assets:	
Depreciable:	
Software (net)	126,722
Building and building improvements (net)	22,253
Furniture and equipment (net)	81,924
Total non-current assets	<u>34,451,729</u>
Total assets	<u>46,798,271</u>
Liabilities	
Current liabilities:	
Accounts payable	646,576
Payroll payable	1,685,158
Employee's compensable leave	369,111
Total current liabilities	<u>2,700,845</u>
Non-current liabilities:	
Employee's compensable leave	247,551
Total non-current liabilities	<u>247,551</u>
Total liabilities	<u>2,948,396</u>
Net assets:	
Invested in capital assets	230,899
Unrestricted	43,618,976
Total net assets	\$ <u><u>43,849,875</u></u>

The accompanying notes are an integral part of the financial statements.

TEXAS TREASURY SAFEKEEPING TRUST COMPANYStatement of Revenues, Expenses, and
Changes in Net Assets

Proprietary Fund

Year Ended August 31, 2012

	Enterprise Fund
	<u> </u>
Operating revenue - management fees	\$ 19,161,559
Operating expenses:	
Salaries and wages	6,714,246
Payroll related costs	1,162,478
Professional fees and services	2,767,054
Travel	124,954
Materials and supplies	405,523
Communication and utilities	462,949
Repairs and maintenance	392,139
Rentals and leases	21,523
Printing and reproduction	16,157
Depreciation and amortization	269,876
Other operating expenses	537,695
Total operating expenses	<u>12,874,594</u>
Operating income	<u>6,286,965</u>
Nonoperating revenue:	
Investment income	<u>35,729</u>
Net nonoperating revenues	<u>35,729</u>
Change in net assets	<u>6,322,694</u>
Total net assets - beginning of year	<u>37,527,181</u>
Total net assets - end of year	<u>\$ 43,849,875</u>

The accompanying notes are an integral part of the financial statements.

TEXAS TREASURY SAFEKEEPING TRUST COMPANY

Statement of Cash Flows

Proprietary Fund

Year Ended August 31, 2012

	Enterprise Fund
Cash flows from operating activities:	
Proceeds from management fees	\$ 19,116,590
Payments to employees	(7,503,610)
Payments for operating expenses	(4,928,868)
Net cash provided by operating activities	<u>6,684,112</u>
Cash flows from investing activities:	
Proceeds from interest and investment income	<u>6,580</u>
Net cash provided by investing activities	<u>6,580</u>
Net increase in cash and cash equivalents	6,690,692
Cash and cash equivalents-August 31, 2011	<u>37,013,007</u>
Cash and cash equivalents-August 31, 2012	<u><u>\$ 43,703,699</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 6,286,965
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	269,876
Changes in assets/liabilities:	
Receivables	(44,970)
Prepaid expenses	(980)
Payables	173,221
Net cash provided by operating activities	<u><u>\$ 6,684,112</u></u>
Displayed as:	
Cash in bank	\$ 52,449
Cash in State Treasury	656,955
Investments in repurchase agreements	8,857,089
Restricted cash in bank	<u>34,137,206</u>
Total cash and cash equivalents	<u><u>\$ 43,703,699</u></u>

The accompanying notes are an integral part of the financial statements.

TEXAS TREASURY SAFEKEEPING TRUST COMPANY

Statement of Fiduciary Net Assets

Fiduciary Funds

August 31, 2012

	<u>Investment Trust Fund</u>	<u>Agency Fund</u>
Assets		
Cash in bank	\$ 1,270	29,613,346
Deposits	—	518,247,700
Investments	14,621,963,575	37,351,180,773
Accrued interest receivable	9,091,478	47,422,474
Trades pending settlement	—	23,383,616
Total assets	<u>14,631,056,323</u>	<u>37,969,847,909</u>
Liabilities		
Accounts payable	—	1,598,719
Interest payable	—	28
Amounts payable to participants	1,706,439	—
Options written, at fair value	—	593,750
Trades pending settlement	4,500,000	2,997,892
Management fees reserved for operating expenses	566,697	—
Obligations under reverse repurchase agreements	—	66,293,255
Funds held for others	—	37,898,364,265
Total liabilities	<u>6,773,136</u>	<u>37,969,847,909</u>
Net Assets		
Held in trust for pool participants and other purposes	<u>\$ 14,624,283,187</u>	

The accompanying notes are an integral part of the financial statements.

TEXAS TREASURY SAFEKEEPING TRUST COMPANY

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds

Year Ended August 31, 2012

	Investment Trust Fund
Additions:	
Investment income:	
From investing activities	
Interest and dividends	\$ 26,765,888
Expenses - management fees	(8,206,360)
Net investment income	<u>18,559,528</u>
Deductions:	
Distributions	(18,608,187)
Net change in management fees reserved for operating expenses	48,659
Net decrease in net assets from contributions/disbursements	<u>(595,034,500)</u>
Change in net assets	<u>(595,034,500)</u>
Net assets - beginning of year	<u>15,219,317,687</u>
Net assets - end of year	<u><u>\$ 14,624,283,187</u></u>

The accompanying notes are an integral part of the financial statements.

TEXAS TREASURY SAFEKEEPING TRUST COMPANY

Notes to the Financial Statements

August 31, 2012

(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) and the Tobacco Settlement Permanent Trust Fund (Tobacco Trust) 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, 2012

(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 has adopted the provisions prescribed by the Governmental Accounting Standards Board (GASB) in its publication Codification of Governmental Accounting and Financial Reporting Standards (Codification), Section P80. This section of the Codification specifies that in addition to adopting all applicable GASB pronouncements, the Texas Trust has adopted Statements and Interpretations of the Financial Accounting Standards Board, Accounting Principles Board Opinion, and Accounting Research Bulletins of the Committee on Accounting Procedure issued prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Texas Trust has elected to follow only GASB Standards issued subsequent to November 30, 1989.

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, 2012

Agency 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 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 assets 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, \$137,383 in cash was held at DTC as of August 31, 2012, 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. Through July 11, 2012 the amount of reserves on deposit generates earnings credits for the Texas Trust which are used to offset fees charged by the Federal Reserve for services it provides to the Texas Trust. The practice for paying earnings credits for reserves on deposit at the Federal Reserve was discontinued for the Texas Trust as of July 11, 2012.

During the prior year, the reserve requirement was increased by the Federal Reserve from \$5 million to \$34 million. The Texas Trust Federal Reserve account balance reported in restricted cash on August 31, 2012 was \$33,999,823.

(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

TEXAS TREASURY SAFEKEEPING TRUST COMPANY

Notes to the Financial Statements

August 31, 2012

market instruments in the Investment Trust Fund and the Treasury Pool are reported at amortized cost.

The Texas Trust manages the fiduciary funds and enterprise fund investments in accordance with the Comptroller's Investment Policy and Government Code §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 §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 §404.024, Subsection (i);
10. Mutual funds secured by obligations that are described by Subdivisions (1) through (6);

TEXAS TREASURY SAFEKEEPING TRUST COMPANY

Notes to the Financial Statements

August 31, 2012

11. Foreign currency for the sole purpose of facilitating investment by state agencies that have the authority to invest in foreign securities; and
12. Such other investments as may be authorized by Government Code §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 take physical possession of the underlying collateral securities, the fair value of which 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, 2012 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 §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 §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, 2012, the Agency Fund had \$66,293,255 in reverse repurchase agreements.

In accordance with Government Code §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.

(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.

TEXAS TREASURY SAFEKEEPING TRUST COMPANY

Notes to the Financial Statements

August 31, 2012

(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 (in years)</u>
Software	3
Office equipment	5
Computer equipment	5
Building improvements	10

(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, 2012 is held by the Comptroller with a par value of \$1,000,000. This amount is reflected in the Proprietary Fund's Statement of Net Assets within the unrestricted net asset 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.

(l) 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.

TEXAS TREASURY SAFEKEEPING TRUST COMPANY

Notes to the Financial Statements

August 31, 2012

(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, 2012 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. The following schedule reflects the bank balance and the carrying amount of deposits held by the Texas Trust.

Bank Balance	\$	582,233,242
Carrying Amount		582,051,971
Consists of the Following:		
Proprietary Cash at Bank	\$	52,449
Proprietary Funds NonCurrent Restricted Cash at Bank		34,137,206
Investment Trust Fund -Cash at Bank		1,270
Agency Fund Cash at Bank		29,613,346
Agency Funds Deposits		518,247,700
Total Deposits Carrying Amount	\$	582,051,971

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.

Credit risk, interest rate risk, concentration risk and foreign currency risk, if applicable, are disclosed by the investment policy.

TEXAS TREASURY SAFEKEEPING TRUST COMPANY

Notes to the Financial Statements

August 31, 2012

Enterprise Fund

Investments for the Enterprise Fund, as of August 31, 2012 are as follows:

Investment Type	Fair Value
Repurchase Agreements	\$ 8,857,089
Equity securities	83,624
	<u>\$ 8,940,713</u>

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 in accordance with Government Code Section 404.024.

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, 2012 are as follows:

Investment Type	Carrying Value	Fair Value
Repurchase agreements	\$ 8,560,906,695	8,560,906,695
Commercial paper	400,666,707	400,701,135
U.S. Government treasuries	125,277,672	125,276,400
U.S. Government agencies	5,535,112,501	5,535,906,560
Total Texpool & Texpool Prime	<u>\$ 14,621,963,575</u>	<u>14,622,790,790</u>

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, 2012, TexPool and TexPool Prime’s investments in U.S. 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, 2012

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, 2012 5.44% of the TexPool Prime assets were invested in commercial paper issued by BASF Aktiengesellschaft; 5.50% of the TexPool Prime assets were invested in commercial paper issued by Market Street Funding Corporation; 5.09% of the TexPool Prime assets were invested in commercial paper issued by Sanofi-Aventis; and 5.04% of the TexPool Prime assets were invested in commercial paper issued by Fairway Finance Corporation. The percentage ownership 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, the Federal National Mortgage Association, and the Straight A Funding LLC. These investments are 15.14%, 9.13%, 7.77%, and 5.21% respectively, at August 31, 2012. More than 5% of the TexPool Prime investments are with the Federal Home Loan Bank. These investments are 6.98%, as of August 31, 2012.

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

Investment Type	Weighted Average Maturity (Days)	
	TexPool	TexPool Prime
Repurchase agreements	4	4
Commercial paper	-	50
U.S. Government agency securities	88	138
U.S. Government treasury securities	15	227
Weighted average maturity	38	43

TEXAS TREASURY SAFEKEEPING TRUST COMPANY

Notes to the Financial Statements

August 31, 2012

Treasury Pool

Investments for the Treasury Pool, as of August 31, 2012 are as follows:

	Carrying Value	Fair Value
U.S. Government agencies	\$ 350,758,241	\$ 350,758,241
U.S. Government treasuries	14,527,896,686	14,527,884,311
Government mortgage backed securities	2,614,197,349	2,614,197,349
Commercial paper	1,660,279,122	1,660,279,122
Repurchase agreements	6,474,000,000	6,474,000,000
Supranational	399,583,000	399,583,000
Corporate obligations	1,551,784,622	1,551,784,622
Asset backed securities	2,245,194,951	2,245,194,951
Small business administration	63,126,258	63,126,258
Stock In Texas Trust	1,000,000	1,000,000
Money market mutual funds	522,000,000	522,000,000
Total Treasury Pool without Lottery Securities	\$ 30,409,820,229	\$ 30,409,807,854
U.S. Government Agencies-Refco	801,164,414	801,164,414
U.S. Government Agencies-Lottery-Treasury Strips	265,791,934	265,791,934
Total Treasury Pool	\$ 31,476,776,577	\$ 31,476,764,202

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

TEXAS TREASURY SAFEKEEPING TRUST COMPANY

Notes to the Financial Statements

August 31, 2012

Investment Type	AAA	AA	A	A-1	Not Rated
U.S. Government agencies	\$ -	\$ 350,758,241	\$ -	\$ -	\$ -
Government mortgage backed securities	-	2,614,197,349	-	-	-
Commercial paper	-	-	-	1,660,279,122	-
Corporate obligations	191,121,295	619,024,893	277,221,420	-	464,417,014
Asset backed securities	1,279,869,084	38,654,361	-	-	926,671,506
Repurchase agreements	-	6,474,000,000	-	-	-
Small business administration	-	-	-	-	63,126,258
Supranational	355,583,000	-	44,000,000	-	-
Mutual funds	522,000,000	-	-	-	-

Concentration of Credit Risk: The Comptroller places no limit on the amount the Treasury Pool may invest in any one issuer. The Treasury Pool had no investments that exceeded 5% of the Treasury Pool net asset value as of August 31, 2012.

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:

Investment Type	Modified Duration (Years)
U.S. Government agencies	0.729
U.S. Government treasuries	1.225
Government mortgage backed securities	3.625
Commercial Paper	0.158
Corporate obligations	1.946
Asset backed securities	1.077
Repurchase agreements	0.038
Small business administration	20.048
Supranational	1.751
Placement of deposits with financial institutions	0.323
Treasury Portfolio Modified Duration	1.173

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, 2012 was \$66,293,283 including accrued interest. The aggregate fair value of the securities underlying those agreements, including accrued interest, was \$66,353,393. The credit exposure at year end was \$60,110.

TEXAS TREASURY SAFEKEEPING TRUST COMPANY

Notes to the Financial Statements

August 31, 2012

Covered Call Options – The Treasury Pool writes covered call options on treasury notes owned by the pool. When the Treasury Pool writes an option, the premium received is recorded as a liability and is adjusted to the current market value of the option written on a monthly basis. Premiums received from writing options that expire unexercised are treated as realized gains. If the premium received is greater than the amount paid when closing a position, the difference is treated as a realized gain, or, if the premium is less than the amount paid for the closing purchase transaction, as a realized loss. If a call option is exercised, the premium is added to the proceeds from the sale of the underlying security in determining whether the Treasury Pool has a realized gain or loss. The Treasury Pool, as the writer of an option, bears the market risk of an unfavorable change in the price of the security underlying the written option. The fair value of outstanding covered call options as of August 31, 2012 is \$593,750.

Endowment Funds

Investments for the Endowment Funds, as of August 31, 2012 are as follows:

Investment Type	Fair Value
Equities	\$ 779,772
Mutual funds - domestic equities	23,044,127
Mutual funds - global equities	10,671,158
Mutual funds - domestic fixed income	10,917,773
Mutual funds - global fixed income	352,164,397
Mutual funds - commodities	180,212,544
Hedge funds - fund of funds	227,560,849
Hedge funds - direct funds	1,601,084,061
Alternative investments domestic	611,364,362
Alternative investments international	100,878,025
Investment in short-term investment fund	28,682,222
Total Endowment Fund Investments	\$ 3,147,359,290
Consisting of the following:	
Endowment fund investments	\$ 3,147,359,290
Total as presented on the Financial statements	\$ 3,147,359,290

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 Northern Trust's Institution Government Portfolio fund which is rated Aaa by Moody's.

TEXAS TREASURY SAFEKEEPING TRUST COMPANY

Notes to the Financial Statements

August 31, 2012

Standard & Poor's Credit Ratings	Mutual Funds - domestic fixed income	Mutual Funds - global fixed income	Investments in short-term investment fund
AAA	-	-	28,682,222
Not Rated	10,917,773	352,164,397	-
Total	10,917,773	352,164,397	28,682,222

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 modified 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	Modified Duration (Years)
Mutual funds – domestic fixed income	4.25
Mutual funds – global fixed income	3.82

Investments in short-term investment fund	Weighted Average Maturity
	54 days

Foreign Currency Risk. The endowment funds do not have a formal investment policy that limits foreign currencies. The endowment funds exposure to foreign currency risk derives from its position in foreign currency-denominated investment in Alternative Investments.

Currency	Alternative Investment	Total
European Euro	\$100,878,025	\$100,878,025

TEXAS TREASURY SAFEKEEPING TRUST COMPANY

Notes to the Financial Statements

August 31, 2012

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, 2012 are as follows:

Investment Type	Fair Value
Repurchase Agreements	\$ 1,056,799,458

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, 2012 are as follows:

Investment Type	Fair Value
U.S. Government treasuries	\$ 749,373,608
U.S. Government agencies	72,493,653
REFCO strips	3,622
Government mortgage backed securities	6,078,222
Non-agency collateral mortgage obligation	4,041,080
Asset backed securities	2,144,802
Political subdivision bonds	37,230,554
Corporate obligations	226,148,918
Repurchase agreements	343,762,619
Commercial paper	29,984,444
Negotiable Certificates of Deposit	243,376
Warrants	68,432
Equities	167,814,215
Mutual funds	3,264,724
Investment in real estate trust fund	2,748,290
Investment in guaranteed investment contracts	24,844,889
Total Other Trust Activities	<u>\$ 1,670,245,448</u>

TEXAS TREASURY SAFEKEEPING TRUST COMPANY

Notes to the Financial Statements

August 31, 2012

(3) Capital Assets

Capital asset activity for the year ended August 31, 2012, was as follows:

	Primary Government				Balance 08/31/12
	Balance 09/01/11	Reclassification	Additions	Deletions	
Business-type activities:					
Depreciable assets:					
Buildings and building improvements	\$ 311,520	-	-	-	311,520
Furniture and equipment	671,707	-	-	-	671,707
Total depreciable assets at historical cost	<u>983,227</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>983,227</u>
Less accumulated depreciation for:					
Buildings and building improvements	(264,180)	-	-	(25,087)	(289,267)
Furniture and equipment	(541,480)	-	-	(48,303)	(589,783)
Total accumulated depreciation	<u>(805,660)</u>	<u>-</u>	<u>-</u>	<u>(73,390)</u>	<u>(879,050)</u>
Total depreciable assets, net	<u>177,567</u>	<u>-</u>	<u>-</u>	<u>(73,390)</u>	<u>104,177</u>
Amortizable assets-intangible					
Computer software	2,231,060	-	-	-	2,231,060
Total amortizable assets-intangible	<u>2,231,060</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,231,060</u>
Less Accumulated amortization for:					
Computer software	(1,907,852)	-	-	(196,486)	(2,104,338)
Total accumulated amortization	<u>(1,907,852)</u>	<u>-</u>	<u>-</u>	<u>(196,486)</u>	<u>(2,104,338)</u>
Amortizable assets-Intangible, net	<u>323,208</u>	<u>-</u>	<u>-</u>	<u>(196,486)</u>	<u>126,722</u>
Business-type activities: capital assets, net	<u>\$ 500,775</u>	<u>-</u>	<u>-</u>	<u>(269,876)</u>	<u>230,899</u>

(4) Contributions to Pension Plan

The Employees Retirement System of Texas (ERS) operates under Title 8 of the Texas Government Code. ERS operates as an agent multiple-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

TEXAS TREASURY SAFEKEEPING TRUST COMPANY

Notes to the Financial Statements

August 31, 2012

Active plan members in ERS are required to contribute a percentage of their annual covered salary. Currently, state employees contribute 6.5%. The State provides a matching contribution of 6.95% of the employees' current annual compensation. Texas Trust recognized \$336,477 in expense for the year ended August 31, 2012 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, 2012, the Texas Trust paid CPA \$36,390 for services provided. At August 31, 2012, the Texas Trust had accrued \$8,523 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, 2012, the Comptroller held \$656,955 to pay for the Texas Trust's September 1, 2012 payroll.

6) Changes in Long-term Liabilities

During the year ended August 31, 2012 the following changes occurred in long-term liabilities:

	<u>Balance</u> <u>09/01/11</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>08/31/12</u>	<u>Amounts Due</u> <u>Within One Year</u>
Compensable Leave	\$ 603,932	526,862	514,132	\$ 616,662	\$ 369,111
Total	<u>\$ 603,932</u>	<u>526,862</u>	<u>514,132</u>	<u>\$ 616,662</u>	<u>\$ 369,111</u>

SUPPLEMENTAL INFORMATION

TEXAS TREASURY SAFEKEEPING TRUST COMPANY
 Combining Schedule – Balance Sheet Information – Agency Fund

August 31, 2012

Assets	<u>Endowment Funds</u>	<u>Treasury Pool</u>	<u>Repurchase Agreement Pool</u>	<u>Other Agency Funds</u>	<u>Totals</u>
Current assets:					
Cash in bank	\$ —	97,442	476,677	29,039,227	29,613,346
Deposits	—	518,247,700	—	—	518,247,700
Investments	3,147,359,290	31,476,776,577	1,056,799,458	1,670,245,448	37,351,180,773
Receivables from:					
Interest and dividends	73,525	40,836,385	4,679	6,507,885	47,422,474
Trades pending settlement	23,383,616	—	—	—	23,383,616
Total assets	\$ 3,170,816,431	32,035,958,104	1,057,280,814	1,705,792,560	37,969,847,909
Liabilities					
Liabilities:					
Accounts payable	\$ 1,598,719	—	—	—	1,598,719
Interest payable	—	28	—	—	28
Options written, at fair value	—	593,750	—	—	593,750
Trades pending settlement	2,997,892	—	—	—	2,997,892
Obligations under reverse repurchase agreements	—	66,293,255	—	—	66,293,255
Funds held for others	3,166,219,820	31,969,071,071	1,057,280,814	1,705,792,560	37,898,364,265
Total liabilities	\$ 3,170,816,431	32,035,958,104	1,057,280,814	1,705,792,560	37,969,847,909

See accompanying independent auditors' report.

Independent Auditors' 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*

The Honorable Susan Combs
Comptroller of Public Accounts of the State of Texas

We have audited the financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of Texas Treasury Safekeeping Trust Company (Texas Trust) as of and for the year ended August 31, 2012, which collectively comprise Texas Trust's basic financial statements, and have issued our report thereon dated November 16, 2012. 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.

Internal Control Over Financial Reporting

Management of Texas Trust is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Texas Trust's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Texas Trust's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Texas Trust's internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

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

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

Padgett, Stratemann + Co., LLP

Certified Public Accountants
November 16, 2012