

Tobacco Settlement Permanent Trust Fund

Report to the Honorable Glenn Hegar
Comptroller of Public Accounts of the State of Texas
March 15, 2023





RSM US LLP

811 Barton Springs Rd
Suite 500
Austin, TX 78704

T +1 512 476 0717
F +1 512 476 0462

www.rsmus.com

March 15, 2023

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

Attention: Mr. Hegar

We are pleased to present this report related to our audit of the basic financial statements of the Tobacco Settlement Permanent Trust Fund (the Fund), a private-purpose trust fund of the State of Texas, as of and for the year ended December 31, 2022. 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 letter is to inform the Comptroller of Public Accounts of the State of Texas of Tobacco Settlement Permanent Trust Fund about significant matters related to the conduct of our audit as of and for the year ended December 31, 2022, so that it can appropriately discharge its oversight responsibility and we comply with our professional responsibilities.

RSM US LLP

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

TABLE OF CONTENTS

Required Communications	1-3
Summary of Significant Accounting Estimates	4
Exhibits	
Exhibit A— Management Representation Letter	

REQUIRED COMMUNICATIONS

Auditing standards generally accepted in the United States of America (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 reporting process.

Our Responsibilities With Regard to the Financial Statement Audit

Our responsibility under auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States have been described to you in our arrangement letter dated November 4, 2022. The audit of the basic financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.

Overview of the Planned Scope and Timing of the Financial Statement Audit

We have issued a separate communication, dated October 13, 2022, regarding the planned scope and timing of our audit and identified significant risks. Our letter indicated that pension and other post employee benefits (OPEB) liability was a risk but that was not applicable to the Fund. Our letter did not indicate the risk surrounding the wire room or interest income as a significant risk. These risks were subsequently identified as a significant risk to the Fund for the year ended December 31, 2022.

Significant Accounting Practices, Including Policies, Estimates and Disclosures

In our meeting with you, we will discuss our views about the qualitative aspects of the Fund's significant accounting practices, including significant accounting policies, significant unusual transactions, accounting estimates and financial statement disclosures. The following is a list of the matters that will be discussed, including the significant estimates, which you may wish to monitor for your oversight responsibilities of the financial reporting process:

- **Preferability of Accounting Policies and Practices**
Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.
- **Adoption of, or Change in, Accounting Policies**
Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Fund. The Fund did not adopt any significant new accounting policies, nor have there been any changes in existing significant accounting policies during the current period.
- **Significant Accounting Policies**
We did not identify any significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.
- **Significant Unusual Transactions**
We did not identify any significant unusual transactions.
- **Management's Judgments and Accounting Estimates**
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.

Audit Adjustments and Uncorrected Misstatements

There were no audit adjustments made to the original trial balance presented to us to begin our audit.

We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.

Departure From the Auditor's Standard Report

Emphasis of Matter

As discussed in Note 2, the financial statements present only the Tobacco Settlement Permanent Trust Fund, and do not purport to, and do not, present fairly the financial position of the State of Texas as of December 31, 2022, the changes in its financial position or, where applicable, its related cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Disagreements With Management

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 financial statements.

Consultation With Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

Significant Issues Discussed With Management

No significant issues arising from the audit were discussed or were the subject of correspondence with management.

Significant Difficulties Encountered in Performing the Audit

We did not encounter any significant difficulties in dealing with management during the audit.

Difficult or Contentious Matters That Required Consultation

We did not encounter any significant and difficult or contentious matters that required consultation outside the engagement team.

Shared Responsibilities: AICPA Independence

The AICPA regularly emphasizes that auditor independence is a **joint responsibility** and is managed most effectively when management, audit committees, and audit firms work together in considering compliance with AICPA independence rules. For RSM to fulfill its professional responsibility to maintain and monitor independence, management, the audit committee, and RSM each play an important role.

Our Responsibilities

- AICPA rules require independence both of mind and in appearance when providing audit and other attestation services. RSM is to ensure that the AICPA's General Requirements for performing non-attest services are adhered to and included in all letters of engagement.
- Maintain a system of quality control over compliance with independence rules and firm policies.

The Company's Responsibilities

- Timely inform RSM, before the effective date of transactions or other business changes, of the following:
 - New affiliates, directors, officers, or person in financial reporting oversight roles.
 - Changes in the reporting entity impacting affiliates such as related entities, investments, joint ventures.
- Provide necessary affiliate information such as new or updated investment structure charts, as well as financial information required to perform materiality calculations needed for making affiliate determinations.
- Understand and conclude on the permissibility, prior to the entity and its affiliates, officers, directors, or persons in a decision-making capacity, engaging in business relationships with RSM.
- Not entering into relationships resulting in RSM, RSM covered persons or their close family members, temporarily or permanently acting as an officer, director, or person in an accounting or financial reporting oversight role at the Company.

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

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 Government Auditing Standards, which is included in the Fund's Annual Financial Report.

Management Representations

Attached is a copy of the management representation letter as Exhibit A.

Closing

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to Tobacco Settlement Permanent Trust Fund.

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

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. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following summarizes the significant accounting estimates reflected in the Fund's December 31, 2022, financial statements.

Significant Accounting Estimates	
Fair Value Measurements of the Individual Investment Securities Within the Investment Portfolio	
Accounting policy	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, net asset values (NAVs) of underlying securities.
Management's estimation process	<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 fair value of investments is based upon quoted market prices, or when quoted market prices are not readily determinable, other observable significant inputs, including NAV of the underlying securities, as provided by custodians or individual money managers.</p>
Basis for our conclusion on the reasonableness of the estimate	<p>We tested the fair value of investments at year-end.</p> <p>For investments measured using a published value, we tested the fair value by using an internal specialist to price the securities.</p> <p>For investments measured using NAV as a practical expedient, we rolled forward balances from the prior-year audited amounts, evaluated management's estimate of the adjustment for the 4th quarter, performed lookback analysis to support that management's adjustments are historically reasonable, tested fiscal year 2022 activity and confirmed the value at year-end with the custodian and individual money managers.</p> <p>We concluded the estimates are reasonable.</p>

EXHIBIT A

Management Engagement Letter



March 15, 2023

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

This representation letter is provided in connection with your audit of the basic financial statements of Tobacco Settlement Permanent Trust Fund (Fund), a private-purpose trust fund of the State of Texas, as of and for the year ended December 31, 2022 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 March 15, 2023:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated November 4, 2022 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 controls to prevent and detect fraud.
4. The methods, data, and significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement, or disclosure that is reasonable in the context of U.S. GAAP, 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. The methods, assumptions and data used to value investments are as follows, and result in an estimate that is appropriate for financial statement measurement and disclosure purposes and have been consistently selected and applied in making the estimate:

Our valuation methodologies have been consistently applied period to period and are appropriate for financial statement measurement and disclosure purposes. Adequate consideration was given to those estimates associated with funds valued using net asset values and those estimates made for valuation of investments for which the supporting documentation provided did not coincide with December 31, 2022.

All disclosures related to the estimate, including disclosures describing estimation uncertainty, are complete and reasonable in the context of U.S. GAAP. No subsequent events have occurred that would require adjustment to the estimate and related disclosures included in the financial statements.

6. 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. Types of related party transactions engaged in by the Fund include:
 - a. The Texas Treasury Safekeeping Trust Company (Texas Trust) entered into an inter-company services agreement with the Comptroller of Public Accounts to recover cost for services provided. The current contract and agreement between the Comptroller and the Texas Trust allow the Texas Trust to charge a flat fee of 28 basis points to recover all costs associated with the management of the Fund.
 - b. During 2022, a fund managed by Texas Trust, the State Water Implementation Fund of Texas (SWIFT), entered into a transaction with the Endowment Funds (which includes Tobacco Settlement Permanent Trust Fund), whereby certain interests in limited partnership investments were transferred in exchange for cash. These transactions enabled the SWIFT to meet strategic and tactical allocation targets while bringing additional liquidity to the Endowment Funds. The transactions involved transferring the limited partnership shares from the Endowment Funds to the SWIFT at the current net asset value. No gain or loss on the exchange was recognized by the Endowment Funds as a result of the transactions.
7. There are no events subsequent to the date of the financial statements except as communicated to you by management and included in note 6 in the notes to the basic financial statement, and for which U.S. GAAP requires adjustment or disclosure, have been adjusted or disclosed.
8. The financial statements include all fiduciary activities required by GASB Statement No. 84, *Fiduciary Activities*, as amended.
9. There are no known actual or possible litigation and claims which would be required to be accounted for and disclosed in accordance with U.S. GAAP.
10. We have no direct or indirect legal or moral obligation for any debt of any organization, public or private, that is not disclosed in the financial statements.
11. Risk disclosures associated with deposit and investment securities are presented in accordance with GASB requirements.
12. We have complied with all aspects of laws, regulations and provisions of contracts and 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.
13. We have reviewed the GASB Statements effective for the fiscal year ending December 31, 2022, and concluded the implementation of the following Statements did not have a material impact on the basic financial statements:
 - a. GASB Statement No. 87, *Leases*
14. We have no knowledge of any uncorrected misstatements in the financial statements.

Information Provided

15. We have provided you with:
- c. Access to all information of which we are aware that is relevant to the preparation and fair presentation of the basic financial statements such as records, documentation, and other matters.
 - d. Additional information that you have requested from us for the purpose of the audit.
 - e. Unrestricted access to persons within the Texas Treasury Safekeeping Trust Company from whom you determined it necessary to obtain audit evidence.
 - f. 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.
16. All transactions have been recorded in the accounting records and are reflected in the basic financial statements.
17. We have disclosed to you the results of our assessment of risk that the basic financial statements may be materially misstated as a result of fraud.
18. It is our responsibility to establish and maintain internal control over financial reporting. One of the components of an entity's system of internal control is risk assessment. We hereby represent that our risk assessment process includes identification and assessment of risks of material misstatement due to fraud. We have shared with you our fraud risk assessment, including a description of the risks, our assessment of the magnitude and likelihood of misstatements arising from those risks, and the controls that we have designed and implemented in response to those risks.
19. We have no knowledge of allegations of fraud or suspected fraud affecting the Fund's basic 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 basic financial statements.
20. We have no knowledge of any allegations of fraud or suspected fraud affecting the Fund's basic financial statements received in communications from employees, former employees, analysts, regulators, short sellers, or others.
21. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations.
22. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements.
23. We have disclosed to you the identity of all of the Fund's related parties and all the related-party relationships and transactions of which we are aware.
24. We are aware of no deficiencies in internal control over financial reporting, including significant deficiencies or 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.

25. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
26. 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

27. With respect to Management's Discussion and Analysis presented as required by the Governmental Accounting Standards Board to supplement the basic financial statements:
 - g. We acknowledge our responsibility for the presentation of such required supplementary information.
 - h. We believe such required supplementary information is measured and presented in accordance with guidelines prescribed by U.S. GAAP.
 - i. 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:

28. Is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
29. Is responsible for compliance with the laws, regulations and provisions of contracts and grant agreements applicable to the auditee.
30. Is not aware of any instances of identified and suspected fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements that have a material effect on the financial statements.
31. 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.
32. Acknowledges its responsibility for the design, implementation and maintenance of controls to prevent and detect fraud.
33. Has a process to track the status of audit findings and recommendations.
34. Is not aware of any investigations or legal proceedings that have been initiated with respect to the period under audit.

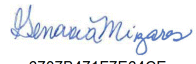
35. Acknowledges its responsibilities as it relates to non-audit services performed by the auditor, including that it assumes all management responsibilities; that it oversees the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; that it evaluates the adequacy and results of the services performed; and that it accepts responsibility for the results of the services.

Tobacco Settlement Permanent Trust Fund

DocuSigned by:

EC0299EFFDC4E9

Mike Reissig,
Chief Executive Officer, Texas Treasury Safekeeping Trust Company

DocuSigned by:

87078471F7E04CE

Genoveva Minjares,
Chief Financial Officer, Texas Treasury Safekeeping Trust Company