

FUND ACCOUNTING TRAINING

Module 4

Endowment and Similar Funds – State

The University of Texas System

OBJECTIVES



The University of Texas System has two state endowment funds:

- Permanent University Fund
- Permanent Health Fund

STATE ENDOWMENT FUNDS - PUF

History of the Permanent University Fund (PUF)

The University of Texas originated in 1839 when the Congress of the Republic ordered a site set aside for a university. That same year, 50 leagues of land were allocated for the establishment of two colleges or universities.

The *Constitution* of 1866 directed the legislature to put the university into operation. In 1871, the Agricultural and Mechanical College of Texas was established in Brazos county as a branch of the then nonexistent University of Texas. (It remained the Agricultural and Mechanical College until 1963 when it was changed to Texas A&M University.) It was not until 1881 that Austin was chosen as the site of the main campus. The University of Texas was formally opened in 1883.

STATE ENDOWMENT FUNDS - PUF (CONTINUED)

The *Constitution* of 1876 set aside 1 million acres of unappropriated public land in West Texas to fund The University of Texas. In 1883, the legislature appropriated an additional 1 million acres of West Texas land to the University. The land was to be sold and the proceeds used to make up the corpus of the PUF.

However, due to low interest rates on securities for which the proceeds were required to be invested, it was more profitable to lease the land rather than sell it. Oil was subsequently discovered on University land at oil well Santa Rita #1. These original oil proceeds were the first investments to the new State Endowment Fund, the PUF.

Pictured, Santa Rita #1 oil rig, now located on the U. T. Austin campus. “. . .the Santa Rita roared to life, sprayed oil over the top of the derrick, and covered a 250-yard area around the site.” from the *Handbook of Texas, Online*.



STATE ENDOWMENT FUNDS - PUF (CONTINUED)

- Assets:** Assets of the PUF include cash and cash equivalents, securities lending collateral, receivables, and restricted investments
- Liabilities:** Include accounts payable, trade payable, payable to Texas A&M's for their PUF bonds and notes, and securities lending obligations.
- Net Position:** The PUF net position is reported as Restricted-Nonexpendable for the fair value of the PUF lands and for the corpus of the PUF fund; and restricted-expendable for the appreciation of the PUF fund.

Mineral income ("below the ground" income) from the PUF lands are contributed to the PUF.

The PUF is a unique endowment for the benefit of The University of Texas and Texas A&M University (TAMU) Systems. Dividends, interest, and both realized and unrealized gains/losses on investments serve to change the net position of the PUF. A portion of this income is then distributed to the Available University Fund (AUF) along with the surface income from the 2 million acres of PUF lands. Because of its uniqueness, this fund is reported as a separate fund group on U. T. System Administration's books only.

STATE ENDOWMENT FUNDS - PUF (CONTINUED)

U. T. System and the TAMU System may issue bonds and notes totaling 20% and 10% respectively, of the total PUF book value for the construction and major renovation of plant facilities at institutions. PUF bond service is paid from each system's respective share of AUF income.

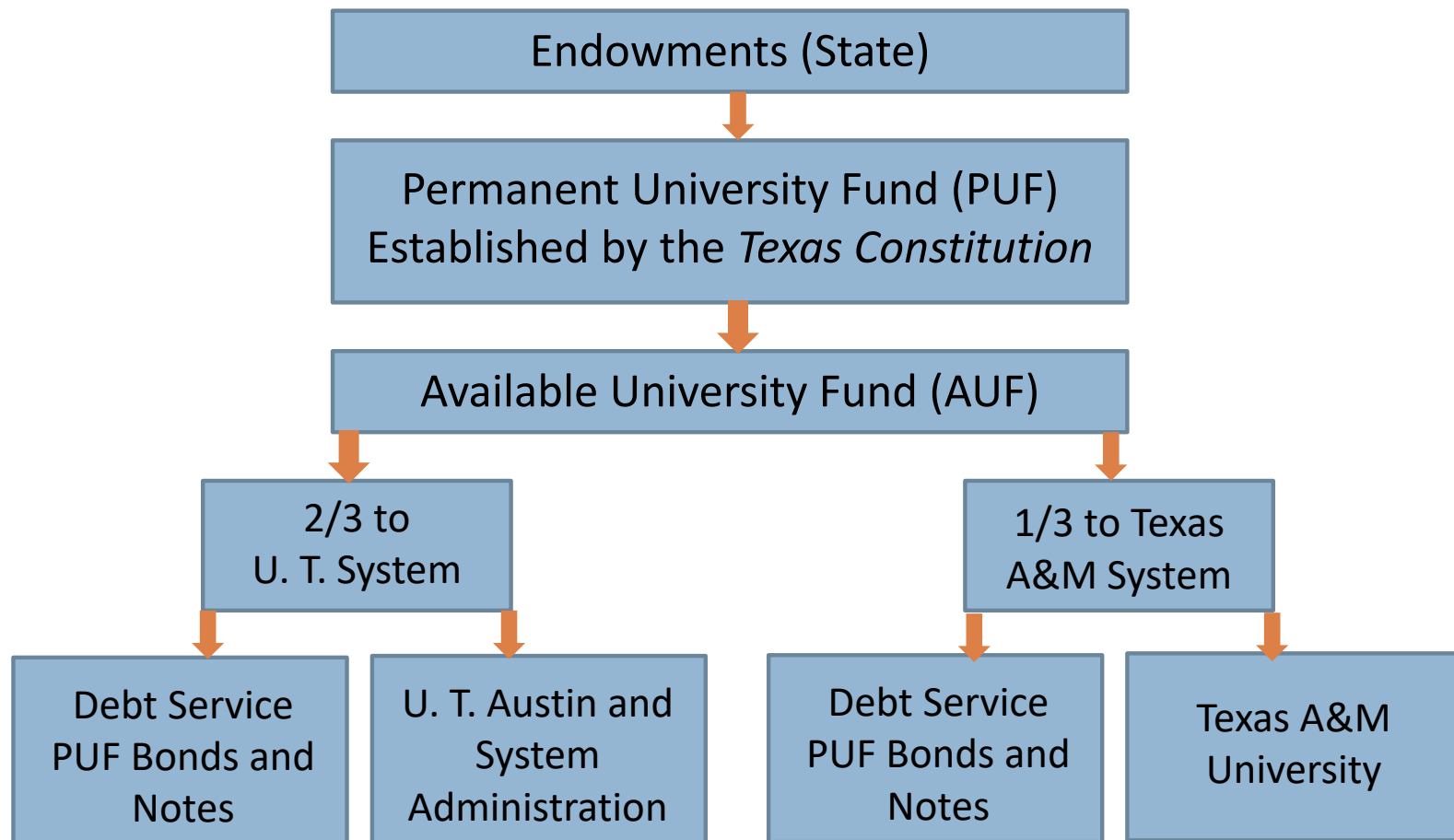
Of the funds that flow into the AUF (either through the PUF distribution or PUF land surface income), one-third is distributed to the TAMU System and two-thirds remains within the U. T. System.

AUF funds are expended by each university system to fund two major programs:

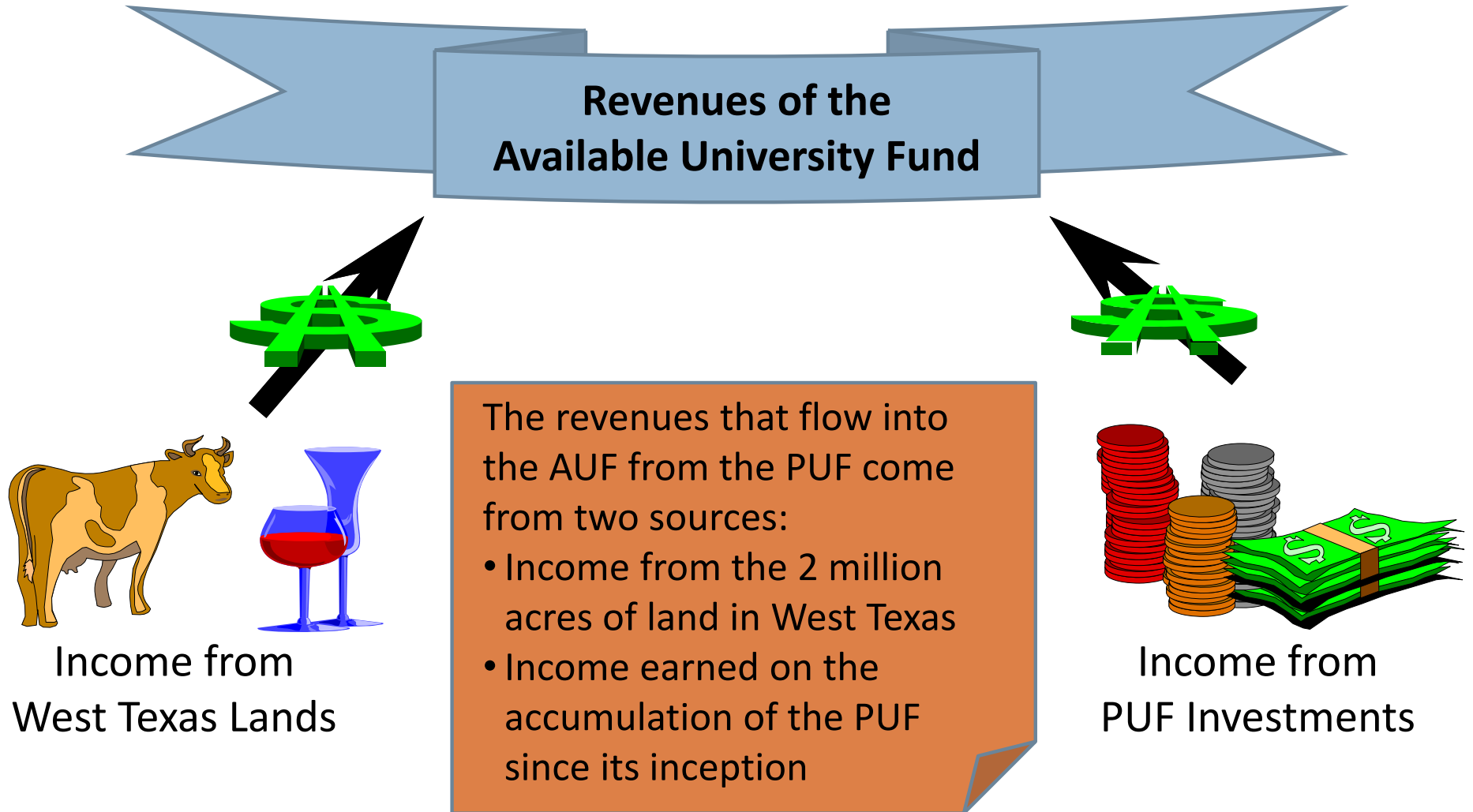
- Debt service on PUF bonds and notes issued to fund capital expenditures
- Academic Excellence Programs at U. T. Austin and Texas A&M University

A portion of the AUF funding is also used to fund the System Administration offices of both systems.

STATE ENDOWMENT FUNDS - PUF (CONTINUED)



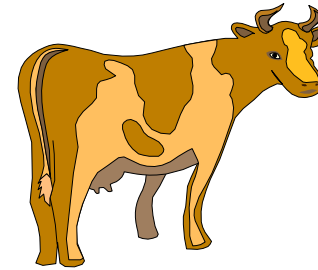
State Endowment Funds - PUF (Continued)



INCOME FROM WEST TEXAS LANDS

Examples of income from the 2 million acres of land in west Texas include:

- Grazing leases
- Surface easements
- Exploration permits
- Mineral lease assignment
- Royalties on winery



INCOME FROM PUF INVESTMENTS

Examples of income from PUF investments include:

- Interest on United States Bonds
- Interest on U.S. Government Obligations
- Interest on Corporate Bonds
- Stock Dividends
- Interest on Commercial Paper
- Interest on Municipal Bonds
- Income from Security Lending
- Capital Gain Distributions
- Capital Gains Resulting from Sales



PERMANENT HEALTH FUND



- On August 30, 1999, a second state endowment was created by the Legislature.
- The Permanent Health Fund (PHF) was created with approximately \$1 billion of settlement funds received from the tobacco lawsuit.
- All U. T. health institutions and U. T. El Paso had a permanent state endowment established with these funds for their institution.
- Earnings must be used for research or education related to tobacco use.

CONCLUSION

You have completed this module of the Fund Accounting Training. Exit the training by clicking the link below and access the next module.

[Fund Accounting Training](#)