

MEMORANDUM OF UNDERSTANDING
FOR INVESTMENT RELATED TRANSACTIONS AND ACCOUNTING

BETWEEN

THE COMPTROLLER OF PUBLIC ACCOUNTS

AND

UNIVERSITY OF TEXAS SYSTEM

(Permanent University Fund)

This MEMORANDUM OF UNDERSTANDING, dated as of October 3, 1997 is made and entered into between the Comptroller of Public Accounts ("Comptroller") and University of Texas System ("Participating Agency").

In order to maximize the State's return on investments, update investment and reinvestment transaction processes and to properly account for state funds, the Comptroller and the Participating Agency have agreed to the following:

1. The best interests of State Government are served through the cooperative efforts of state agencies in streamlining investment and reinvestment procedures, utilizing effective accounting procedures and generally improving processes to maximize and protect the state's funds.
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2. Prior to the adoption of Act of May 24, 1997, S.B. 701, R.S. (Senate Bill 701), state agencies were required by Section 404.094(b), Government Code, to deposit proceeds from the sale of securities not later than the third day of receipt and to obtain warrants drawn on the state treasury when purchasing securities. Similarly, Section 66.02, Education Code, required deposits to be made not later than the fifth day of receipt and Sections 51.003 and 51.008, Education Code, provided for deposits not later than the seventh day.

Senate Bill 701 amended Section 404.094, Government Code, by adding a new subsection (d) and amended Sections 66.07 and 85.70, Education Code, to allow investing agencies, with the Comptroller's approval, to net proceeds received from securities transactions and available for reinvestment under applicable law against purchases of securities occurring within one (1) business day. Any proceeds received and available for investment that are not reinvested within (1) business day of receipt must be deposited into the state treasury as otherwise provided by the Government Code and Education Code provisions cited above. Further, an agency authorized to net securities transactions is subject to the accounting and reporting procedures established by the Comptroller.

3. The Comptroller and the Participating Agency agree to fully comply with the attached "Accounting Procedures" which may be amended from time to time by the Comptroller with input from the Participating Agency.

4. The Participating Agency agrees to ensure that its selection of a custodian under applicable law is consistent with all investment authority and fiduciary responsibilities of the Participating Agency under applicable law.

5. The Participating Agency agrees that the Comptroller may review records and investment transactions to verify compliance herewith by the Participating Agency. Participating Agency agrees to promptly provide the Comptroller with access to its records, and to respond completely and timely to requests for records or other information made by the Comptroller in connection with this Memorandum of Understanding.

6. Further, the Participating Agency agrees to timely respond to the Comptroller's request for any additional information the Comptroller determines necessary for an accurate accounting of investment transactions or otherwise necessary to protect the state's interest. Participating Agency acknowledges that such requests may include information not addressed in the "Accounting Procedures" .

7. The Comptroller may terminate this Memorandum of Understanding if the Comptroller reasonably determines that Participating Agency is not in full compliance with the terms and conditions set forth herein, including but not limited to the "Accounting Procedures". The Comptroller's termination of this Memorandum of Understanding will also constitute withdrawal of the statutory approval required for Participating Agency to "net" its same day securities transactions, and upon such termination and withdrawal, Participating Agency shall not be authorized to engage in the "netting" of such transactions unless and until the Comptroller reinstates its approval.

8. All notices or communications with the Comptroller's Office under this Agreement must be sent as follows:

COMPTROLLER OF PUBLIC ACCOUNTS
LBJ State Office Building
111 E. 17th Street
P.O. Box 13528
Austin, Texas 78711-3528


ATTN: Manager, Fund Accounting Division


9. By the signature below of an authorized agency representative, the Participating Agency agrees to conform to the terms and conditions herein.

10. The signature below constitutes the Comptroller's approval for the Participating Agency to net proceeds from the sale of securities consistent with the terms of this agreement and the "Accounting Procedures."

PARTICIPATING AGENCY

COMPTROLLER OF PUBLIC ACCOUNTS

BY: 

BY: 

Name: R. D. Burck
Executive Vice Chancellor

Name: Billy C. Hamilton

Title: for Business Affairs

Title: Deputy Comptroller

Date: November 17, 1997

Date: October 3, 1997

ATTACHMENT

The following are the accounting and reporting procedures to be implemented by the Permanent University Fund under this agreement.

Accounting procedures:

The Agency will post on a daily basis all transactions affecting the PUF except as enumerated in the monthly section below. The comptroller shall provide the necessary T codes and other such information as required to make the appropriate entries to the USAS System.

DAILY :

| New Cash | Investment | Investment | Increase in | Decrease in | Transaction Coding | | |
|----------|------------|------------|-------------|-------------|---------------------|--------------------|------------------------|
| | Sold | Purchased | G/L Balance | G/L Balance | T-code | Comp Obj | General Ledger Account |
| Yes | | No | | | deposit to Treasury | various | NA |
| | Yes | No | | | deposit to Treasury | sale of investment | Investment GL |
| | | | Yes | | 644 | | 0106 (Investments) |
| | | | | Yes | 645 | | 0106 (Investments) |
| | | | Yes | | 644 | | 0231 (Receivable) |
| | | | | Yes | 645 | | 0231 (Receivable) |
| | | | Yes | | 645 | | 1010 (Payable) |
| | | | | Yes | 644 | | 1010 (Payable) |
| | | | Yes | | 631 | 3899 | 0106 (Gain) |
| | | | | Yes | 631(R) | 3899 | 0106 (Loss) |

T-code 631 defaults to General Ledger account 5100, in order for the investment account 0106 to be affected, the agency must manually enter the 0106 into the General Ledger account field on the USAS screen. If new cash (additional contributions) is added to the PUF principal, Comptroller will be consulted for entries.

Once a month the Agency shall reclassify into the proper investment general ledger any balances that have been recorded to the miscellaneous investment G/L account. Deposit of accrued income to the AUF shall be recorded monthly when deposited into the Fund (Fund 11).

MONTHLY:

| T-code | Comp Obj | General Ledger Account |
|--------|----------|-------------------------|
| 644 | NA | Investment GL |
| 645 | NA | Misc Investment LTGL |

To reclassify the net investment balances to USAS (Balance Sheet), the Agency will use T-codes 644 (net increase) and T-code 645 (net decrease) with the applicable investment General Ledger Account.

Agencies must consider the following items when making these entries:

1. The recommended T-codes post to General Ledger Account 9999, System Clearing GL Level Only. Agencies must not have a balance in GL 9999 after all transactions have been entered.
2. GASB Statement No. 31 states that realized gains and losses should not be displayed separately in the agency financial statements. Therefore, T-codes 642/643 should not be used to record a gain/loss on investment.
3. If the legal or contractual provisions require that the income purchased/sold be that of another fund, the investment activity must reflect the income purchased/sold to the appropriate fund unless the Agency records income on an accrual basis of accounting.

A new General Ledger Account 0062 (Short Term Investment Fund - STIF) shall be used for transfers of PUF treasury cash to or from the agency's custodian using the Comptroller Object Codes 3811 and 7713.

Any cash paid out of/deposited to the state treasury, should be posted to USAS with the T-codes agencies are currently using for investment transactions in accordance with the time restrictions established in SB701.

Reporting procedures:

Agencies shall provide the financial information necessary for the comptroller to accurately account for netted transactions using the method, format and frequency required by the comptroller. Agencies should be prepared to furnish the requested information in both electronic and/or hard copy.

Upon request, agencies shall furnish the shares/par value and fair market value of investments as of the prior month end.

The agencies will submit to the Comptroller of Public Accounts a monthly report of all investment transactions in a format similar to that required by House Bill 1, 75th Legislative Session, Article III, Section 7, Paragraph 5a. An example of the format follows:

Summary of

Investments

As of May 31, 1997

| | <u>Book Value</u> | <u>%</u> | <u>Market Value</u> | <u>%</u> |
|--|-------------------------|----------------|----------------------|----------------|
| Long-term Securities | | | | |
| Debt Securities | | | | |
| U.S. Government Obligations | | | | |
| Direct Treasuries | \$ 362,608,821 | 7.47% | 383,641,391 | 6.34% |
| Guaranteed | 38,061,080 | 0.78% | 39,688,744 | 0.66% |
| Total U.S. Government Obligations | <u>400,669,901</u> | <u>8.26%</u> | <u>423,330,135</u> | <u>7.00%</u> |
| U.S. Government Agencies (Non-Gtd.) | 320,882,127 | 6.61% | 334,324,062 | 5.53% |
| Foreign Government Obligations | 98,398,512 | 2.03% | 101,436,859 | 1.68% |
| Municipal and County Bonds | 108,842,088 | 2.24% | 109,245,197 | 1.81% |
| Corporate Bonds | 1,288,668,495 | 26.55% | 1,316,079,016 | 21.76% |
| Other | - | 0.00% | - | 0.00% |
| Total Debt Securities | <u>2,217,461,123</u> | <u>45.69%</u> | <u>2,284,415,269</u> | <u>37.77%</u> |
| Equity Securities | | | | |
| Common Stocks and Other Equities | 967,948,707 | 19.94% | 1,472,841,790 | 24.35% |
| Index Funds | 1,271,870,362 | 26.21% | 1,843,324,381 | 30.47% |
| Mutual Funds | - | 0.00% | - | 0.00% |
| Other | 254,505,631 | 5.24% | 306,900,117 | 5.07% |
| Total Equity Securities | <u>2,494,324,700</u> | <u>51.40%</u> | <u>3,623,066,288</u> | <u>59.90%</u> |
| Real Estate | - | 0.00% | - | 0.00% |
| Total Long-term Securities | <u>4,711,785,823</u> | <u>97.09%</u> | <u>5,907,481,557</u> | <u>97.66%</u> |
| Short-term Securities | | | | |
| U.S. Government (Direct & Guaranteed) | - | 0.00% | - | 0.00% |
| U.S. Government Agencies (Non-Gtd.) | - | 0.00% | - | 0.00% |
| Corporate Bonds | - | 0.00% | - | 0.00% |
| TexPool | - | 0.00% | - | 0.00% |
| Other | - | 0.00% | - | 0.00% |
| Total Short-term Securities | <u>-</u> | <u>0.00%</u> | <u>-</u> | <u>0.00%</u> |
| Cash and Cash Equivalents | | | | |
| Treasury Cash and Money Markets | 59,651,736 | 1.23% | 59,651,736 | 0.99% |
| Commercial Paper | 75,000,000 | 1.55% | 75,000,000 | 1.24% |
| Trade Receivables | 6,778,547 | 0.14% | 6,778,547 | 0.11% |
| Other | - | 0.00% | - | 0.00% |
| Total Cash and Cash Equivalents | <u>141,430,283</u> | <u>2.91%</u> | <u>141,430,283</u> | <u>2.34%</u> |
| Other Accruals - Net | - | 0.00% | - | 0.00% |
| Total Investments | <u>\$ 4,853,216,106</u> | <u>100.00%</u> | <u>6,048,911,840</u> | <u>100.00%</u> |
| Total Rate of Return | | | <u>4.6%</u> | |