



Lawrence F. Alwin, CPA

**An Audit of the Financial Statements of  
the Permanent School Fund for the  
Fiscal Year Ended August 31, 2000**

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April 4, 2001

Members of the Legislative Audit Committee:

The Permanent School Fund's (Fund) fiscal year 2000 financial statements are materially correct in accordance with generally accepted accounting principles. Our audit opinion dated January 19, 2001, will be included in the financial statement section of the Fund's *Annual Report for Fiscal Year Ending August 31, 2000*. We also reported that the Fund had no instances of noncompliance with certain provisions of laws and regulations and no material weaknesses in internal controls that would significantly affect the Fund's financial statements.

In fiscal year 1999, we identified the spending rule of the Fund as an issue for further study. We reported that without a constitutional change allowing the Fund to use a "total return" based spending rule, it would be difficult for the Fund to maintain the purchasing power of its distributions to the Available School Fund (ASF) while increasing the market value of its principal. Although the Fund's distribution to the ASF has increased by 5.4 percent (from \$662 million to \$698 million) during fiscal year 2000, the Fund is still faced with difficulty meeting the conflicting objectives of maintaining the purchasing power of its distributions to the ASF and increasing the market value of its principal.

We appreciate the cooperation of the Fund's management and staff during this audit. If you have any questions, please call Carol Smith, CPA, Audit Manager, at (512) 936-9550.

Sincerely,

Lawrence F. Alwin, CPA  
State Auditor

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cc: Chair and Members, State Board of Education  
Mr. Jim Nelson, Commissioner of Education, Texas Education Agency  
Mr. Paul B. Ballard, Executive Administrator, Permanent School Fund, Texas Education Agency

**Objective, Scope, and Methodology**

The objective of the audit was to express an opinion on the Fund's financial statements for the fiscal year ended August 31, 2000.

The scope of this audit included testing evidence that supported the amounts and disclosures in the Fund's financial statements. The scope also included testing compliance with laws and regulations that could have a material effect on the financial statements.

We gained an understanding of the Fund's overall control environment and internal controls over financial reporting to the extent necessary to plan the audit. We tested internal controls and significant accounts as deemed necessary to support our opinion. Tests of accounts primarily included test of details that supported entries, confirmations, and analytical review. We also conducted interviews, administered questionnaires, reviewed documents, and recalculated amounts.

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