

**HARLAN MATHEWS**  
TREASURER  
STATE CAPITOL  
NASHVILLE, TENNESSEE 37219

FOR THE FISCAL YEAR JULY 1, 1975 THROUGH JUNE 30, 1976

REPORT  
of the  
TREASURER  
of the  
STATE OF TENNESSEE

\*\*\*\*\*

For the Fiscal Year  
July 1, 1975 through June 30, 1976

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Harlan Mathews  
Treasurer  
Nashville, Tennessee



TENNESSEE  
TREASURY DEPARTMENT  
NASHVILLE

HARLAN MATHEWS  
TREASURER

January 4, 1977

Honorable Ray Blanton  
Governor  
State of Tennessee  
The Capitol  
Nashville, Tennessee 37219

Dear Governor Blanton:

Submitted herewith is the Annual Financial Report of the  
Treasurer's Office for the Fiscal Year ending June 30,  
1976.

Very truly yours,

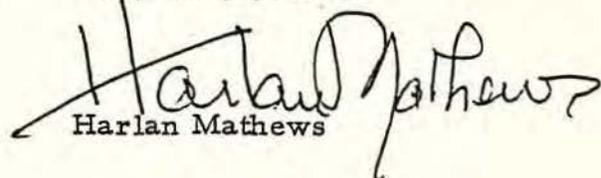
  
Harlan Mathews

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STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**

William R. Snodgrass  
Comptroller

1533 ANDREW JACKSON STATE OFFICE BUILDING  
NASHVILLE, TENNESSEE 37219  
PHONE (615) 741-3697

Frank L. Greathouse, Director  
Division of State Audit

December 20, 1976

Mr. W. R. Snodgrass  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37219

Dear Mr. Snodgrass:

We have examined the balance sheet of the Department of Treasury as of June 30, 1976 and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Department of the Treasury as of June 30, 1976 and the changes in fund balances and the current funds revenues, expenditures, and other changes for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Very truly yours,

Frank L. Greathouse, CPA, Director  
Division of State Audit

FLG:dah

## COMMENTS

The Office of the State Treasurer is a constitutional office established by Article 7, Section 3, of the State Constitution. The duties of the State Treasurer, as outlined by statute, involve three (3) major areas of operation:

1. Accounting for the Receipt and Disbursement of Public Funds

Section 8-507, Tennessee Code Annotated, requires that the Treasurer maintain accounts showing all receipts and disbursements, maintain accounts with banks, and be the custodian of all securities, bonds, and other valuable papers deposited with the state or any department thereof.

Cash invested on June 30, 1976, totaled \$559 million. Collateral pledged by banks to secure the state deposits made by the Treasurer totaled \$670 million as of June 30, 1976.

The Treasury has accounts with 382 commercial banks and 75 savings and loan associations. Every county in the State of Tennessee is represented.

The Department of the Treasury is custodian of \$62 million of bonds and securities deposited with the Department of Insurance.

2. Investment of State Funds

a. Investment of Idle Cash

Section 9-406, Tennessee Code Annotated, requires the investment of idle cash by the State Treasurer, under the provisions of investment guidelines established by the Funding Board.

Idle Cash Invested as of June 30, 1976:

Time Deposits	\$463,869,936
Repurchase Agreements (Overnight Investment)	<u>95,050,000</u>
Total Investment of Idle Cash	<u>\$558,919,936</u>

Earnings collected from investments during Fiscal Year ended June 30, 1976:

Time Deposits	\$ 29,318,124
Repurchase Agreements	<u>2,471,190</u>
Total Earnings Collected	<u>\$ 31,789,314</u>

Collections were 25 percent less than the preceding Fiscal Year. This was due primarily to a consistent decline in the interest rate.

The Treasury Department invests idle cash for the Consolidated Retirement System as part of the department's regular operations. The Consolidated Retirement Fund was allocated \$2,222,959 of the above earnings.

b. Consolidated Retirement System Investments

Section 8-3929, Tennessee Code Annotated, provides that the power of investment of Retirement Fund monies shall be subject to approval by the Board of Trustees and shall further be subject to all terms, conditions, limitations and restrictions imposed by the laws of the State of Tennessee upon domestic life insurance companies in the making and disposing of their investments. This section further provides that the total sum invested in common and preferred stocks cannot exceed fifty (50%) percent of the total of the funds of the Retirement System.

The book value of the Retirement Fund investments as of  
June 30, 1976:

	<u>Amount</u>	<u>Percent of Total</u>
Investments by Investment Section:		
Certificates of Deposit	\$ 200,000	.02
Stocks	184,707,477	22.38
Bonds	<u>597,797,907</u>	<u>72.44</u>
	\$ 782,705,384	94.84
Investments by Cash Management Section:		
Short Term Investments	<u>42,600,000</u>	<u>5.16</u>
Total:	<u>\$825,305,384</u>	<u>100.00</u>

The Consolidated Retirement Act of 1972 provides for an Investment Advisory Council, the function of which is to provide policy guidance to the Investment staff. The policy statement of the Investment Advisory Council at June 30, 1976, is as follows:

1. The Council considers that due to the public nature of the fund undue risks should be carefully avoided.
2. An interim goal of 30% of total assets in equities is to be reached by approximately October of 1976 and maintained.
3. Bond investments will normally be confined to the top four (4) rating categories, AAA through BAA, and private placements of comparable quality.
4. When market spreads are favorable, older low coupon bonds may be traded for bonds with higher yields.

Recent average yields on retirement fund investments are as follows:

	<u>Percentage</u>
1971-72	5.55
1972-73	5.93
1973-74	6.47
1974-75	6.65
1975-76	7.13

Average yield to maturity on bonds purchased during Fiscal Year 1975-76 was 8.32 percent, down from 8.81 percent for the 1974-75 Fiscal Year.

A schedule with more detail on Retirement Funds is shown on Page 14.

3. Administration of the Retirement System

Section 4-340, Tennessee Code Annotated, established the Division of Retirement within the Treasury Department and has delegated to the Treasurer the responsibility for the administration of the division. The Consolidated Retirement Act of 1972, effective July 1, 1972, consolidated the previously existing seven (7) retirement systems into a single system with three (3) classes or groups; i. e., Group I - Teachers and General Employees; Group II - State Policemen, Game and Fish Officers, Firemen and Policemen; Group III - State Judges, County Judges, Attorney Generals, County Officials and Public Service Commissioners. All new members entering the Retirement System after July 1, 1976, will be classified as a Group I member. Prior members of the superseded systems were allowed to remain in these systems with all rights, privileges and benefits which were provided therein. This necessitates the administration of not only the new system but also the seven (7) superseded systems.

Salaries of all state employees, including teachers and employees of political subdivisions are reported to the Social Security Administration on a quarterly basis and funds are transmitted that have been collected for the Federal Insurance Contribution Act as required in Section 8-3800, Tennessee Code Annotated. A schedule of the above information is included on Page 19 of this report.

In addition to the above mentioned duties, the State Treasurer is a member of the following entities:

1. Funding Board
2. Board of Claims
3. Board of Equalization
4. State School Bond Authority
5. Tennessee Student Assistance Corporation
6. Licensing Board for Healing Arts
7. Tennessee Housing Development Agency
8. Tennessee Industrial Development Agency
9. Board of Trustees of the Consolidated Retirement System
10. Board of Banking
11. Investment Advisory Council

and is the Treasurer of the Tennessee Housing Rehabilitation Corporation.

STATE OF TENNESSEE  
DEPARTMENT OF THE TREASURY  
BALANCE SHEET  
AS OF JUNE 30, 1976

ASSETS

CASH

Deposits in Transit	\$ 1,540,278.84	
Petty Cash	243,290.00	
Cash in Treasurer Accounts	<u>617,602,112.76</u>	\$ 619,390,681.60

RECEIVABLES

Due from Federal Government	\$ 376,617,255.56	
Due from County Governments	1,085,894.14	
Due from Political Subdivisions	55,106,984.83	
Due from Universities	343,633,369.50	
Retirement Contribution Receivable	6,798,794.11	
Investment Income Receivable	21,059,392.82	
Travel Advances & Other	<u>159,814.74</u>	804,461,505.70

OTHER ASSETS

Assets with Trustee	\$ 12,798,157.33	
Investments	840,755,383.79	
Prepaid Expenses	175,635.00	
Unissued Bonds	718,700,000.00	
Improvements Authorized	<u>45,759,810.08</u>	<u>1,618,188,986.20</u>
		<u>\$3,042,041,173.50</u>

BALANCE SHEET AS OF JUNE 30, 1976  
CONTINUED

LIABILITIES, RESERVES AND FUND BALANCES

LIABILITIES

Accounts Payable	\$ 21,685,193.09	
Warrants Payable	70,522,404.60	
Accrued Payroll and Deductions	15,681,309.62	
Notes Payable	139,800,000.00	
Bonds Payable	228,113,000.00	
Interest on Notes and Bonds	189,135,433.50	
Contract Retainage Deposits	3,262,741.58	
Miscellaneous Deposits/Advances	3,120,190.00	
Payable to Political Subdivisions	37,941,860.65	
Other	<u>239,199.84</u>	\$ 709,501,332.88

RESERVES

Encumbrances	\$ 94,221,460.62	
Unencumbered Balances	485,101,313.99	
Capital Outlay	26,084.15	
Retirement Contributions	845,342,172.55	
Other Specific Reserves	<u>863,529,739.18</u>	2,288,220,770.49

BALANCE SHEET AS OF JUNE 30, 1976

LIABILITIES, RESERVES AND FUND BALANCES  
CONTINUED

FUND

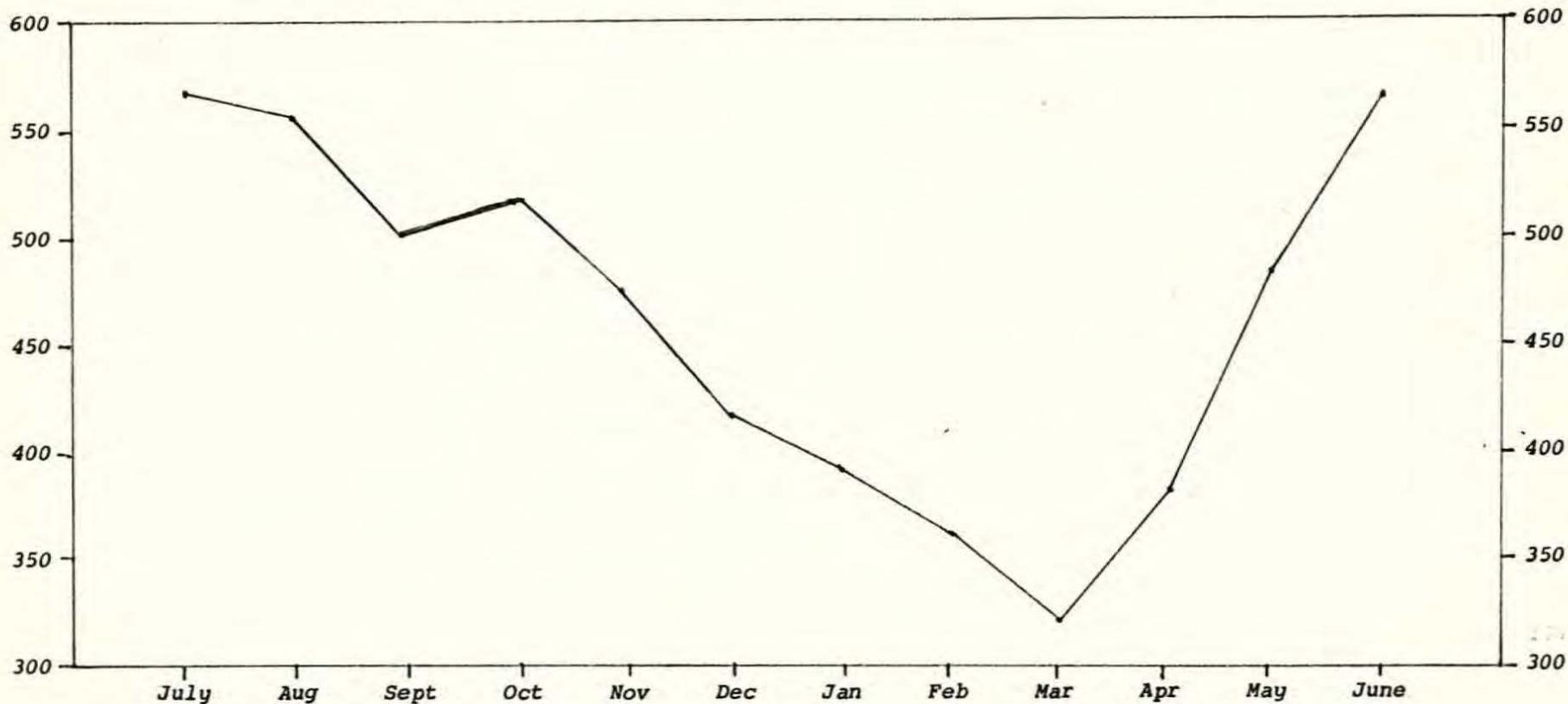
General Fund	\$ 22,516,984.75	
Highway Fund	5,650,693.51	
Sinking Fund (See Note 1)	1,250,182.34	
School Bond Authority Fund	445,660.95	
Sewage Treatment Facilities Fund	184,304.00	
Board of Equalization Loan Fund	<u>14,271,244.58</u>	<u>44,319,070.13</u>
TOTAL LIABILITIES, RESERVES AND FUND BALANCES		<u>\$3,042,041,173.50</u>

NOTE 1. These balances differ from those presented by the Department of Finance and Administration by \$134,802.00 as a result of reclassifying some accounts payable to the Sinking Fund Balance.

STATE OF TENNESSEE  
DEPARTMENT OF THE TREASURY  
GRAPH OF AVERAGE CASH BALANCES FOR  
FISCAL YEAR 1975-76

\$ Millions

\$ Millions



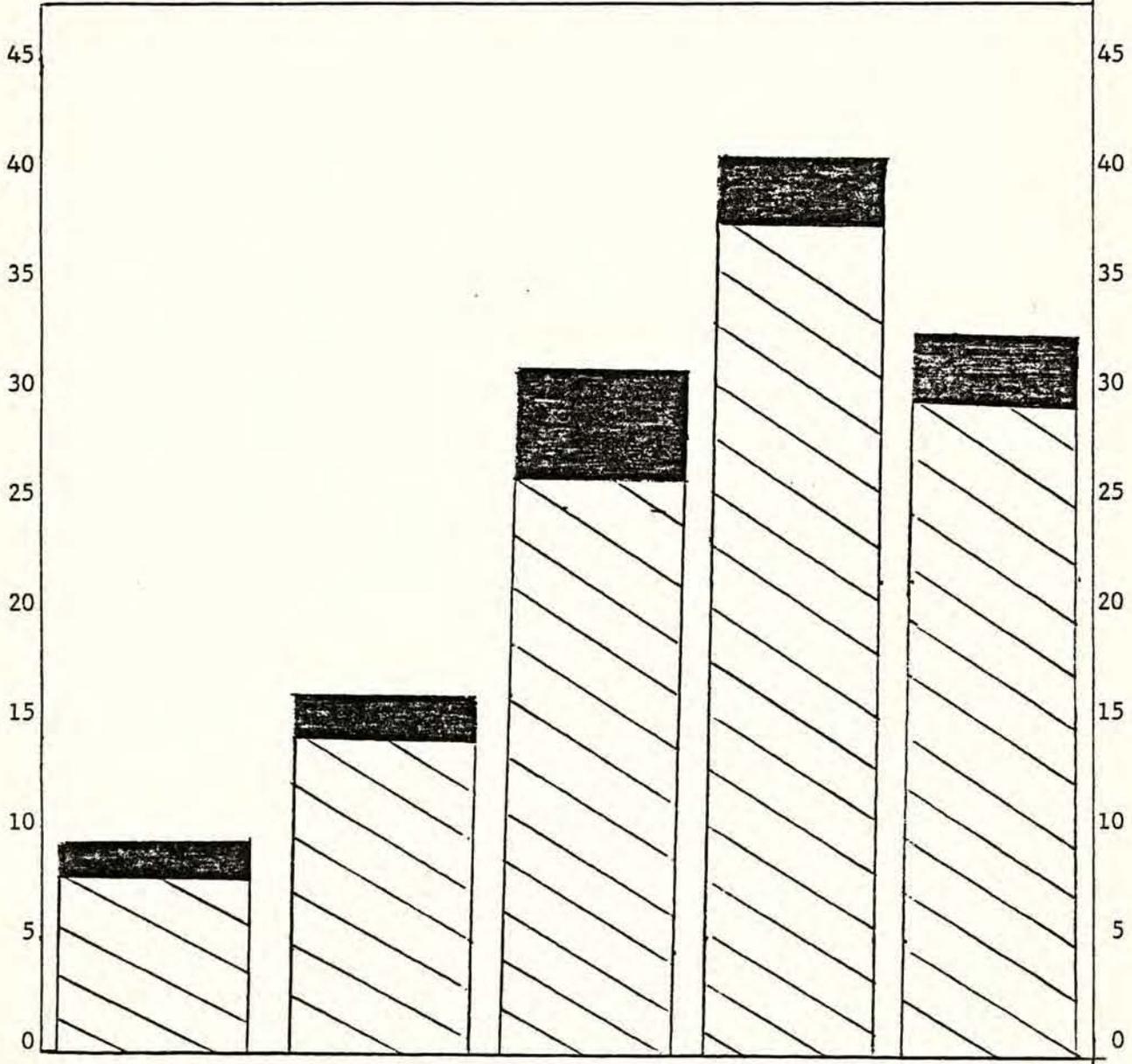
THIS CHART WAS PREPARED BASED ON THE AVERAGE DAILY BALANCE OF CASH  
ON DEPOSIT WITH THE STATE TREASURY

STATE OF TENNESSEE  
DEPARTMENT OF THE TREASURY  
SCHEDULE OF CASH BALANCES, INVESTMENTS AND PERCENTAGE  
INVESTED BY AVERAGE MONTHLY BALANCE FOR THE  
FISCAL YEAR ENDED JUNE 30, 1976

<u>MONTH</u>	<u>AVERAGE CASH</u>		<u>INVESTMENTS</u>		<u>PERCENTAGE OF FUNDS INVESTED</u>
	<u>AVAILABLE IN PAYING BANKS</u>	<u>AVAILABLE IN OTHER DEPOSITORIES</u>	<u>REPURCHASE AGREEMENTS</u>	<u>TIME DEPOSITS</u>	
July	\$ 8,454,408.02	\$15,494,341.56	\$56,274,194.00	\$493,862,597.52	96
August	15,761,853.17	14,208,189.94	47,477,419.00	475,279,855.55	95
September	5,140,852.81	11,525,394.01	44,900,000.00	437,440,633.39	97
October	2,316,580.01	23,482,633.18	60,967,741.94	416,328,242.70	95
November	7,210,998.65	12,145,725.54	64,000,000.00	380,959,936.20	96
December	7,006,869.26	22,452,949.31	18,645,161.29	356,912,500.76	93
January	4,976,750.17	18,506,791.09	39,406,451.61	322,835,178.11	94
February	780,789.40	18,840,721.78	52,186,206.90	283,163,815.67	95
March	2,572,348.17	21,848,497.92	41,574,193.55	255,918,968.48	92
April	6,543,438.51	30,348,825.53	60,483,333.33	294,234,936.30	91
May	8,114,419.72	52,140,988.24	57,106,451.61	367,169,936.31	88
June	4,743,182.75	23,239,876.05	79,046,666.67	459,731,602.89	95

STATE OF TENNESSEE  
 DEPARTMENT OF THE TREASURY  
 BAR CHART ON EARNINGS FROM SHORT TERM INVESTMENTS  
 FOR THE FISCAL YEARS JULY 1, 1971 THROUGH JUNE 30, 1976

Millions      1971-72      1972-73      1973-74      1974-75      1975-76      Millions



 Repurchase Agreement Earnings  
 Time Deposit Earnings

STATE OF TENNESSEE  
DEPARTMENT OF THE TREASURY  
ANALYSIS OF PERCENTAGE RETURN ON INVESTMENTS  
FOR THE FISCAL YEARS JULY 1, 1971 THROUGH JUNE 30, 1976

<u>FISCAL YEAR</u>	<u>AVERAGE AMOUNT INVESTED</u>	<u>AMOUNT EARNED</u>	<u>PERCENTAGE EARNED</u>
<u>RETIREMENT INVESTMENTS</u>			
1971-72	\$469,379,722.00	\$26,096,288.00	5.55
1972-73	513,288,990.00	30,458,120.00	5.93
1973-74	554,056,250.00	35,826,000.00	6.47
1974-75	632,635,705.00	42,076,402.00	6.65
1975-76	713,036,235.00	50,814,904.00	7.13
<u>TIME DEPOSITS</u>			
1971-72	\$224,642,786.00	\$ 7,697,841.00	3.43
1972-73	359,006,062.00	13,415,548.00	3.74
1973-74	382,773,768.00	26,441,570.00	6.91
1974-75	436,871,936.00	37,643,580.00	8.62
1975-76	378,653,184.00	29,318,124.00	7.74
<u>REPURCHASE AGREEMENTS</u>			
1971-72	\$ 34,500,000.00	\$ 1,332,798.00	3.86
1972-73	32,769,090.00	2,005,172.00	6.11
1973-74	40,383,065.00	3,926,659.00	9.72
1974-75	39,479,178.00	2,963,069.00	7.50
1975-76	51,838,985.00	2,471,190.00	4.77

STATE OF TENNESSEE  
DEPARTMENT OF THE TREASURY  
EARNINGS ON TIME DEPOSITS AND REPURCHASE AGREEMENTS  
FOR THE FISCAL YEARS JULY 1, 1971 THROUGH JUNE 30, 1976

<u>FISCAL YEAR</u>	<u>EARNINGS ON TIME DEPOSITS</u>	<u>EARNINGS ON REPURCHASE AGREEMENTS</u>	<u>TOTAL EARNINGS</u>
1971-72	\$ 7,697,841.00	\$1,332,798.00	\$ 9,030,639.00
1972-73	13,415,548.00	2,005,172.00	15,420,720.00
1973-74	26,441,570.00	3,926,659.00	30,368,229.00
1974-75	37,643,580.00	2,963,069.00	40,606,649.00
1975-76	29,318,123.99	2,471,189.59	31,789,313.58

STATE OF TENNESSEE  
DEPARTMENT OF THE TREASURY  
COMPARATIVE BALANCE SHEET  
FOR THE CONSOLIDATED RETIREMENT SYSTEM  
AS OF JUNE 30, 1975 AND JUNE 30, 1976

<u>ASSETS</u>	<u>June 30, 1976</u>	<u>June 30, 1975</u>
Cash	\$ 55,717,581.25	\$ 22,737,861.59
Receivables		
Members' Contributions	\$ 4,470,378.36	\$ 3,838,281.17
Employers' Contributions	2,267,103.42	1,788,704.29
Investment Income	13,248,630.47	11,351,861.79
Political Subdivisions	<u>61,312.33</u>	<u>90,810.28</u>
Total Receivables	\$ 20,047,424.58	\$ 17,069,657.53
Investments (See Note 1)		
Government Bonds	\$ 39,200,000.00	\$ 5,500,000.00
Federal Land Bank Bonds	-	2,350,000.00
Federal National Mortgage Association Bonds	5,300,000.00	6,925,000.00
Federal Merchant Marine Insured Bonds	4,628,652.40	5,396,305.20
U. S. Insured Business Bonds	1,418,283.35	1,609,700.01
International Bank Bonds	8,987,000.00	11,287,000.00
Foreign Government Bonds	32,665,000.00	32,065,000.00
Foreign Utility Bonds	12,800,000.00	12,800,000.00
Foreign Industrial Bonds	34,566,327.59	28,841,327.59
Corporate Industrial Bonds	201,735,852.92	187,779,147.17
Corporate Bank and Credit Company Bonds	41,726,717.35	42,341,068.89
Corporate Utility Bonds	175,700,200.00	169,321,200.00
Corporate Railroad Bonds	35,585,391.99	30,436,571.44
Mortgages	12,441,923.16	13,526,605.10
Short Term Investments	200,000.00	35,000,000.00
Convertible Debentures	6,117,000.00	2,697,000.00
Common Stock	184,707,477.00	121,183,978.13
Unamortized Premium (See Note 2)	3,093,801.10	2,709,908.82
Unamortized Discount (See Note 2)	<u>(18,168,243.07)</u>	<u>(17,587,820.80)</u>
Total Investments	\$ 782,705,383.79	\$694,181,991.55
TOTAL ASSETS	<u>\$ 858,470,389.62</u>	<u>\$733,989,510.67</u>

COMPARATIVE BALANCE SHEET FOR THE CONSOLIDATED RETIREMENT SYSTEM AS OF JUNE 30, 1975 AND JUNE 30, 1976 (CONTINUED)

<u>LIABILITIES AND RESERVES</u>	<u>June 30, 1976</u>	<u>June 30, 1975</u>
Accounts Payable	\$ 3,018,603.89	\$ -
Warrants Payable	10,105,594.30	6,171,976.49
Liabilities-Deferred Credits	4,018.88	3,602.53
Reserve--Members Accumulation	284,213,429.36	251,086,503.50
Reserve--State Accumulation	560,858,122.05	476,449,461.08
Reserve--Former Members' Accumulation	<u>270,621.14</u>	<u>277,967.07</u>
<b>TOTAL LIABILITIES AND RESERVES</b>	<b><u>\$ 858,470,389.62</u></b>	<b><u>\$ 733,989,510.67</u></b>

NOTE 1. The Market Value as of:

	<u>June 30, 1976</u>	<u>June 30, 1975</u>
Bonds	\$ 394,817,502.00	\$ 309,413,468.00
Private Placement Bonds (At Book Value)	151,441,452.00	131,591,000.00
Stock and Convertible Debentures	<u>217,784,318.00</u>	<u>137,783,007.00</u>
<b>TOTAL</b>	<b><u>\$ 764,043,272.00</u></b>	<b><u>\$ 578,787,475.00</u></b>

NOTE 2. The premium and discount are amortized using the straight line method over the life of the bond.

NOTE 3. The State has a contributory retirement plan covering salaried and hourly employees. Retirement costs for the year ended June 30, 1976 totaled \$93.7 million, representing provision for normal costs plus amortization of prior service cost over a 40 year period. State policy is to fund retirement cost accrued. The actuarially computed value of vested benefits exceeded the retirement fund reserves by approximately \$450 million at June 30, 1975, the date of the most recent actuarial valuation. Said excess is not reflected as a liability in this statement.

STATE OF TENNESSEE  
DEPARTMENT OF THE TREASURY  
COMPARATIVE STATEMENT OF CHANGE IN RESERVE BALANCE FOR  
THE CONSOLIDATED RETIREMENT SYSTEM  
FOR THE FISCAL YEARS ENDED JUNE 30, 1975 AND JUNE 30, 1976

	July 1, 1975 through <u>June 30, 1976</u>	July 1, 1974 through <u>June 30, 1975</u>
Reserve Balance on July 1	\$ 727,813,931.65	\$ 643,330,741.04
Plus Revenues	<u>196,740,225.97</u>	<u>153,516,970.00</u>
Gross Reserve Balance	\$ 924,554,157.62	\$ 796,847,711.04
Less Disbursements	<u>79,211,985.07</u>	<u>69,033,779.39</u>
Reserve Balance on June 30	<u>\$ 845,342,172.55</u>	<u>\$ 727,813,931.65</u>

STATE OF TENNESSEE  
DEPARTMENT OF THE TREASURY  
SCHEDULE OF SALARIES REPORTED TO OASI AND FUNDS TRANSMITTED TO THE FEDERAL GOVERNMENT  
FOR THE FISCAL YEARS JULY 1, 1974 THROUGH JUNE 30, 1976

Categories of Employees	1974-75		1975-76	
	<u>Salaries Reported to Social Security</u>	<u>Funds Transmitted to Federal Government</u>	<u>Salaries Reported to Social Security</u>	<u>Funds Transmitted to Federal Government</u>
State Employees	\$ 284,597,769.55	\$ 33,297,939.04	\$ 304,182,276.01	\$ 35,589,326.28
Teachers	437,684,444.94	51,203,464.75	471,236,164.90	55,117,422.65
Political Subdivisions	<u>641,334,964.27</u>	<u>75,015,083.59</u>	<u>714,062,162.49</u>	<u>83,492,891.85</u>
Grand Total	<u>\$1,363,617,178.76</u>	<u>\$159,516,487.38</u>	<u>\$1,489,480,603.40</u>	<u>\$174,199,640.78</u>