



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

**FOR THE FISCAL YEAR JULY 1, 1977 THROUGH JUNE 30, 1978**

REPORT  
of the  
TREASURER  
of the  
STATE OF TENNESSEE

\*\*\*\*\*

For the Fiscal Year  
July 1, 1977 through June 30, 1978

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Harlan Mathews  
Treasurer  
Nashville, Tennessee

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TENNESSEE  
TREASURY DEPARTMENT  
NASHVILLE

HARLAN MATHEWS  
TREASURER

January 9, 1978

Honorable Ray Blanton  
Honorable John S. Wilder  
Honorable Ned R. McWherter

Gentlemen:

Each year, this office prepares a summary of the Treasury Department's financial activities so that legislative and executive decision-makers, as well as the interested public, may have an opportunity to more easily understand the financial condition of the Treasury. This year, I am especially pleased to submit herewith the Annual Financial Report of the Treasurer's Office for the year ended June 30, 1978.

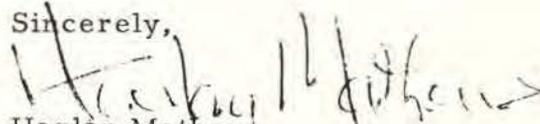
Although presented in detail elsewhere in the report, there are certain aspects of the year's activities that deserve special note:

Local, state and federal revenues flowing through the Treasury during the year totaled nearly four billion dollars, with disbursements of \$16 million each working day. On an average day, funds placed in short-term investments exceeded \$700 million, which produced over \$37.5 million in earnings for the year.

The assets of the 135,000 member Tennessee Consolidated Retirement System have increased 19.3% during Fiscal 1978, now exceeding \$1.2 billion. Investment of these funds produced a rate of return of 7.62%. This compares favorably with the 5.9% yield of five years ago.

The public's desire for its government at all levels to exhibit financial responsibility has never been greater. We believe that an active program of sound financial management, as evidenced in this report, must continue to be an integral part of the overall operations of state government.

Sincerely,

  
Harlan Mathews

HM/z

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STATE OF TENNESSEE

**COMPTROLLER OF THE TREASURY**

**DEPARTMENT OF AUDIT**

**DIVISION OF STATE AUDIT**

1530 ANDREW JACKSON STATE OFFICE BUILDING  
NASHVILLE, TENNESSEE 37219  
PHONE (615) 741-3697

Frank L. Greathouse, CPA,  
Director of State Audit and  
Assistant to the Comptroller

William R. Snodgrass  
Comptroller

November 20, 1978

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

Dear Mr. Snodgrass:

We have examined the balance sheets of the Department of the Treasury as of June 30, 1978 and June 30, 1977, and the balance sheets and the related statements of changes in fund balances and statements of revenues and expenditures for the Tennessee Consolidated Retirement System for the years 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 and of the Tennessee Consolidated Retirement System as of June 30, 1978 and June 30, 1977, and the operations and changes in fund balance for the Tennessee Consolidated Retirement System for the years then ended in conformity with generally accepted accounting principles applied on a basis consistent with preceding years.

Very truly yours,

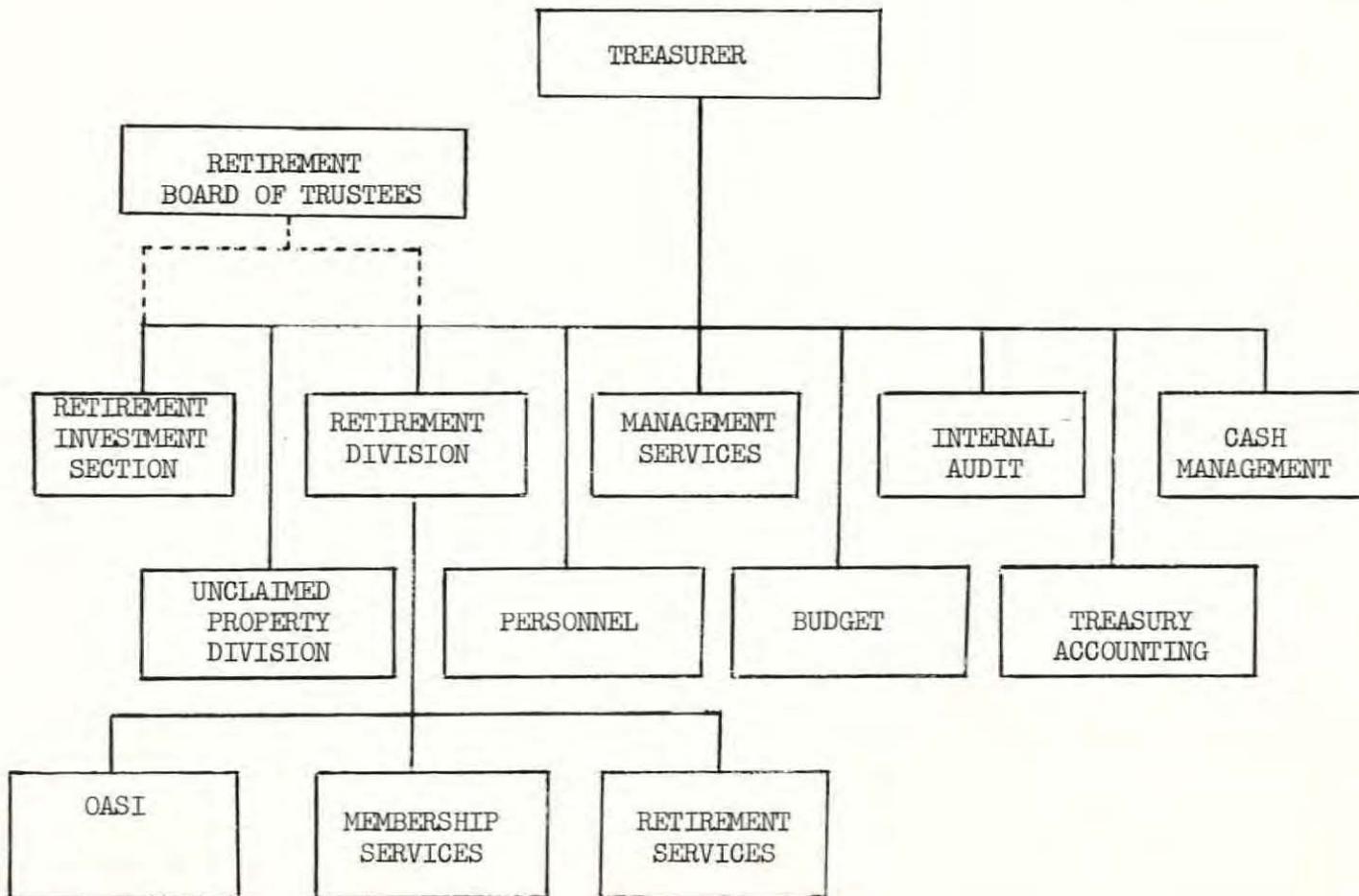
Frank L. Greathouse, CPA, Director  
Division of State Audit

FLG/tg

## PAST TREASURERS

Miller Francis	1836-1843	W. P. Hickerson	1913-1915
Matthew Nelson	1843-1845	Porter Dunlap	1915-1919
Robert B. Turner	1845-1847	Hill McAlister	1919-1927
Anthony Dibrell	1847-1855	John F. Nolan	1927-1931
G. C. Torbett	1857-1865	Hill McAlister	1931-1933
W.Z. McGregor	1857-1865	James J. Bean	1933-1937
R. L. Standford	1865-1866	Grover Keaton	1937-1939
John R. Henry	1866-1868	John W. Harton	1939-1945
W. H. Stilwell	1868-1869	Cecil C. Wallace	1945-1948
J. E. Rust	1869-1871	J. Floyd Murrey	1948-1949
William Morrow	1871-1877	W.N. Estes	1949-1953
M. T. Polk	1877-1883	J. B. Walker Sr.	1953-1955
Atha Thomas	1883-1885	Ramon Davis	1955-1963
J. W. Thomas	1885-1886	James H. Alexander	1963-1964
Atha Thomas	1886-1889	Nobel Caudill	1964-1964
M. F. House	1889-1893	James H. Alexander	1964-1967
E. B. Craig	1893-1901	Charlie Worley	1967-1971
Reau Folk	1901-1911	Thomas A. Wiseman	1971-1974
G.T. Taylor	1911-1913	Harlan Mathews	1974-present

STATE OF TENNESSEE  
DEPARTMENT OF THE TREASURY  
ORGANIZATION CHART  
AS OF JUNE 30, 1978



## SUMMARY OF OPERATIONS

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 involve five (5) major areas of operation: administration of the Tennessee Consolidated Retirement System; the investment of state funds; the accounting for the receipt and disbursement of public funds; administration of the Old Age and Survivors Insurance Agency; and the administration of the Unclaimed Property Law.

### THE TENNESSEE CONSOLIDATED 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 of members, i.e., Group I - Teachers and General Employess; Group II - State Policemen, Game and Fish Officers, Firemen and Policemen; Group III - State Judges, County Judges, Attorneys General, 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.

Membership in the TCRS is mandatory for state employees, teachers, and employees of participating local governments. Membership is optional for State and County Judges, County Officials and elected or appointed officials of the general assembly. The membership and their related contributions for the fiscal years ended June 30, 1978 and June 30, 1977 are as follows:

<u>Membership Groups</u>	<u>Number of Active Members</u>		<u>Total Members Contributions</u>	
	<u>1978</u>	<u>1977</u>	<u>1978</u>	<u>1977</u>
State - General Employees	46,891	46,198	\$22,004,000	\$20,437,000
State - Teachers	52,867	52,087	32,901,000	29,458,000
Political Subdivisions	<u>34,975</u>	<u>34,458</u>	<u>12,584,000</u>	<u>10,256,000</u>
Totals	134,733	132,743	\$67,489,000	\$60,151,000

From the above information, a 1.5% increase in active membership and a 12.2% increase in contributions therefrom was noted from June 30, 1977 to June 30, 1978. This information is based only on normal employee contributions and does not include employee prior service payments. The contribution rate for Group I employees is 5% of gross salary (effective July 1, 1976) and varies for other Groups of members. The employers participating in the TCRS make contributions at a rate determined by the actuary to maintain financial soundness in the system. The following table indicates the employer groups participating in the TCRS and their related contributions for the fiscal years ended June 30, 1978, and June 30, 1977.

<u>Employer Groups</u>	<u>Total Employer Contributions For Fiscal Years Ended</u>	
	<u>June 30, 1978</u>	<u>June 30, 1977</u>
State - General Employees	\$ 36,508,210	\$ 32,821,304
State - Teachers	99,236,615	83,485,194
Political Subdivisions	<u>18,362,933</u>	<u>14,768,433</u>
Totals	\$154,107,758	\$131,074,931

These figures indicate a 17.6% increase in employer contributions from the 1976-77 fiscal year to the 1977-78 fiscal year. The employer's contributions include provision for the normal cost, amortization of the unfunded liability cost and advance funding of cost of living benefit payments on an actuarial reserve basis. The rates as determined by the actuary expressed as a percent of payroll to provide level funding of the retirement system for the fiscal year ended June 30, 1978 were as follows:

State - General Employees	7.11%
State - Teachers	14.90%
Political Subdivisions	*

\*Each Political Subdivision's rate is computed separately.

In 1976, the legislature reduced the retirement eligibility requirements for state employees and teachers from age sixty-five (65) or thirty-five (35) years of service to age sixty (60) or thirty (30) years of service. The following table represents the number of retirees and benefits being paid to them from the retirement system for the fiscal years ended June 30, 1978 and June 30, 1977:

<u>Fiscal Year</u>	<u>Number of Retirees</u>	<u>Benefits expended per year</u>	<u>Cost-of-living payments per year</u>	<u>Total Payroll</u>
1977-78	32,307	\$84,519,745	\$6,216,826	\$90,736,571
1976-77	29,508	74,748,815	4,791,872	79,540,687
Increase	9.5%	13.1%	29.7%	14.1%

The excess revenues over current expenditures increases the accumulated reserves for the retirement system. The comparative balance sheet on page 16 of this report indicates total reserves of \$1.2 billion at June 30, 1978 which represents a 20% growth rate over the total reserves of \$1 billion at June 30, 1977.

The Investment Section of the Treasury Department is responsible for the investment of cash reserves for the Tennessee Consolidated Retirement System. Section 8-3929, Tennessee Code Annotated, provides that the power of investment of Retirement Fund monies shall be subject to the approval of 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 provided that the total sum invested in common and preferred stocks cannot exceed fifty percent (50%) of the total of the funds of the Retirement System. 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.

Recent average yields on retirement fund investments are as follows:

<u>Fiscal Year</u>	<u>Percent Yield</u>	
	<u>Excluding gains and losses</u>	<u>Including gains and losses</u>
1972-73	6.28%	5.96%
1973-74	6.66%	5.71%
1974-75	6.97%	5.19%
1975-76	7.27%	7.46%
1976-77	7.22%	7.61%
1977-78	7.54%	7.62%

The yield excluding gains and losses as shown in the above table has been recomputed for the prior periods. In prior periods the accrual of earnings had been negated prior to computing a yield rate whereas, in the current period, restatement of prior periods and in the future, the accrued earnings on investments will be used in the computation of yield rates.

Average yield to maturity on bonds purchased during Fiscal Year 1977-78 was 7.90 percent, up from 7.89 percent for the 1976-77 Fiscal Year. The internal growth rate of the investment portfolio computed as an annualized rate of return that gives consideration of market value changes as prepared by an independent securities analysis firm, Becker Securities, has shown that on the average the TGRS ranks in the upper 25 percentile in growth as compared to other public fund systems utilizing the same service.

The book value of the Retirement Fund investments as of June 30, 1978, and June 30, 1977 is as follows:

	<u>June 30, 1978</u>	<u>June 30, 1977</u>
<b>Investments by Investment Section:</b>		
Certificates of Deposit	\$ 300,000	\$ 300,000
Stocks	314,512,187	246,159,125
Bonds	764,267,559	659,592,842
Mortgages	<u>9,869,584</u>	<u>11,251,751</u>
Total Investment Section	\$1,088,949,330	\$ 917,303,718
<b>Investments by Cash Management Section:</b>		
Short Term Investments	<u>82,468,295</u>	<u>69,300,000</u>
Total	<u>\$1,171,417,625</u>	<u>\$ 986,603,718</u>

## Cash Management

Pursuant to Section 9-406, Tennessee Code Annotated, the Treasurer is required to invest the idle cash on deposit in the Treasury under the guidelines established by the State Funding Board. This function is performed by analyzing the daily cash requirements of the Treasury and allocating resources accordingly. The following table summarizes the investments made during the fiscal years ended June 30, 1978 and June 30, 1977 and the associated earnings:

	<u>Average Cash Invested for year 1977-78</u>	<u>1977-78 Earnings</u>	<u>Average Cash Inv. for year 1976-77</u>	<u>1976-77 Earnings</u>
Time Deposits	\$613,377,489	\$31,854,178	\$469,542,386	\$24,847,902
Repurchase Agreements	<u>95,822,272</u>	<u>5,697,238</u>	<u>88,427,788</u>	<u>4,599,988</u>
Totals	<u>\$709,199,761</u>	<u>\$37,551,416</u>	<u>\$557,970,174</u>	<u>\$29,447,890</u>

The accrued average earnings rates, which match income with the appropriate period of investment, for 1977-78 was 6.41% and for 1976-77 was 5.78%.

A portion of the earnings are distributed to special funds based on their average cash on deposit with the State Treasurer while the remainder becomes General Fund revenue. Of the \$9,128,005.62 distributed to special funds from the 1977-78 earnings, \$4,885,867.35 was credited to the Tennessee Consolidated Retirement System based on its average Cash balance on deposit with the treasurer.

Any investments with or deposits in banking institutions or Savings and Loan organizations are required to be collateralized pursuant to Section 9-515, Tennessee Code Annotated. The face value of such collateral shall be a sum 10% in excess of the deposits to be secured, less any protection by the federal deposit insurance corporation or the federal savings and loan insurance corporation.

The following table summarizes the cash and investments at June 30, 1978 and June 30, 1977 and related collateral pledged:

	<u>Cash and Time Deposits</u>	<u>Collateral Pledged</u>	<u>Percent Coverage</u>
June 30, 1978	\$776,593,356	\$926,803,885	119%
June 30, 1977	701,323,971	799,195,357	114%

A schedule indicating the investment of idle cash based on average monthly balances is included in the appendix of this report. The following table summarizes the annualized monthly cash available for investment and the related investments made for the fiscal years ended June 30, 1978 and June, 1977:

	<u>Average Cash Available</u>	<u>Average Funds Invested</u>	<u>Percent of Funds Invested</u>
June 30, 1978	\$51,476,959	\$709,199,761	93.2%
June 30, 1977	42,951,275	557,970,174	92.9%

The average cash available as presented in the above table and in the schedule on page 23 has been computed from bank statement balances. The cash in these bank accounts is maintained for redeeming state warrants and for compensatory balances to the banks for maintaining an account in the Treasurer's name.

#### RECEIPT AND DISBURSEMENT OF PUBLIC FUNDS

The Treasurer as directed by Chapter 5 of Title 8 in the Tennessee Code Annotated, maintains bank accounts throughout the State of Tennessee for the receipt and disbursement of state funds. There are 398 bank accounts and 98 Savings and Loan Accounts (representing time deposit investments) maintained in the Treasurer's name at June 30, 1978 as compared to 384 bank accounts and 81 Savings and Loan Accounts at June 30, 1977. The following table represents the average monthly cash flows experienced in the bank accounts during the fiscal years ended June 30, 1978 and June 30, 1977 and states the nature of cash activity.

	<u>Average Monthly Cash Inflows</u>	<u>Average Monthly Cash Outflows</u>
June 30, 1978	\$977,839,792	\$977,452,596
June 30, 1977	685,577,314	682,280,430
Increase	42.6%	43.2%

CASH INFLOWS CONSIST PRIMARILY OF:

- 1) Revenue receipts of the State of Tennessee
- 2) Return of funds due to sale of investments

CASH OUTFLOWS CONSIST PRIMARILY OF:

- 1) Payments for redemption of warrants
- 2) Payments to make investments

A statement for each bank account is received every month by the Treasurer, as required by Section 9-533 of the Tennessee Code Annotated, and its balance of cash on deposit is reconciled by the Treasury Department with the general ledger maintained by the Commissioner of Finance and Administration, in the Division of Accounts as directed by Section 8-507 of the Tennessee Code Annotated.

The Treasurer's office is the focal point in State operations for maintaining control and detail of all warrants written by the State of Tennessee representing disbursement of public funds. To fulfill this obligation, a computer system program and data base are utilized to account for each warrant transaction and to provide operational reports for reconciliation with the general ledger maintained by the Commissioner of Finance and Administration, in the Division of Accounts, as directed by Section 8-507 of the Tennessee Code Annotated.

The following table provides the approximate average warrant activity for the fiscal years ended June 30, 1978 and June 30, 1977 on a daily basis:

	<u>Average Number Of Warrants Issued Daily</u>	<u>Average Total Amount of Warrants Issued Daily</u>	<u>Average Number Of Warrants Received From Banks Daily</u>	<u>Average Total Amount Paid To Banks for Warrants Received Daily</u>
June 30, 1978	3,335	\$17,449,943	3,505	\$16,311,148
June 30, 1977	3,353	15,373,544	3,280	15,230,110
Increase or (Decrease)	(.5%)	13.5%	6.9%	7.1%

#### OLD AGE AND SURVIVORS INSURANCE AGENCY (OASI)

The Treasurer's office administers OASI for the purpose of providing social security coverage for state and local government employees. This is accomplished through a Federal-State Agreement under Section 218 of the Federal Social Security Act.

Prior to 1951, public employees were excluded from social security coverage. Effective January 1, 1951, the Federal Statute was amended to extend social security coverage to public employees. The State of Tennessee executed an Agreement with the Secretary of Health, Education, and Welfare on August 16, 1951, to provide coverage for Tennessee public employees.

The following table summarizes the number of employees covered by social security during the last two years. A schedule of salaries reported to OASI and of funds transmitted to the Federal Government is included in the appendix of this report.

<u>Categories Of Employees</u>	<u>Number of Covered Employees At:</u>		<u>Percentage Of Increase</u>
	<u>June 30, 1978</u>	<u>June 30, 1977</u>	
State Employees	47,178	44,423	6.2%
Teachers	50,519	49,210	2.7%
Political Subdivisions	<u>134,031</u>	<u>126,675</u>	5.8%
Total	<u>231,728</u>	<u>220,308</u>	5.2%

## UNCLAIMED PROPERTY

The 1978 General Assembly enacted the Uniform Disposition of Unclaimed Property Act. Responsibility for administration of the Act, which became effective March 6, 1978, was placed with the State Treasurer.

The Act provides that the State of Tennessee take custody of property which has been in an inactive or dormant status for the prescribed period - in most cases, seven years. Property subject to the act includes property held by banking or financial organizations, property held by life insurance corporations, deposits and refunds held by utilities, undistributed dividends and distributions of business associations and banking or financial organizations held in course of dissolution, property held by courts and public officers and agencies, and miscellaneous property held for another person. The Treasurer is required to publish annual notice of property reported to him.

The Act provides for the first reports of Unclaimed Property to be made to the Treasurer by May 1, 1979. It is estimated that \$1.5 million of property and/or funds will be reflected in these initial reports. Upon proof of ownership, property will be returned to the rightful owners by the Treasurer.

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 Tennessee Consolidated Retirement System
10. Board of Banking
11. Investment Advisory Council
12. Council on Pensions and Retirement

and is the Treasurer of the Tennessee Housing Rehabilitation Corporation.

STATE OF TENNESSEE  
DEPARTMENT OF THE TREASURY  
COMPARATIVE BALANCE SHEET  
AS OF JUNE 30, 1978 AND JUNE 30, 1977

(EXPRESSED IN THOUSANDS)

	<u>June 30, 1978</u>	<u>June 30, 1977</u>
<u>ASSETS</u>		
CASH:		
On Deposit with the Treasurer	\$ 856,989	\$ 735,754
On Deposit with Fiscal Agents	193,687	158,950
Total Cash	<u>\$ 1,050,676</u>	<u>\$ 894,704</u>
RECEIVABLES:		
Due from Other Agencies -	\$ 167,292	\$ 135,276
Interfund	3,791	3,030
Total Receivables	<u>\$ 171,083</u>	<u>\$ 138,306</u>
OTHER ASSETS:		
Investments	\$ 1,198,994	\$ 975,354
Deferred Charges	3,256	1,173
Total Other Assets	<u>\$ 1,202,250</u>	<u>\$ 976,527</u>
TOTAL ASSETS	<u>\$ 2,424,009</u>	<u>\$ 2,009,537</u>
<u>LIABILITIES AND FUND EQUITY</u>		
LIABILITIES:		
Warrants Payable	\$ 80,021	\$ 83,393
Accounts Payable and Accruals	22,067	21,781
Interfund Payable	3,791	3,030
Notes and Bond Payable	205,449	205,100
Other	112,877	94,797
Total Liabilities	<u>\$ 424,205</u>	<u>\$ 408,101</u>
FUND EQUITY:		
Contributed Capital	\$ 2,740	\$ -0-
Retained Earnings:		
Reserved	1,058	343
Unreserved	3,846	624
Fund Balance:		
Reserved For:		
Related Assets	\$ 20,983	\$ 23,782
Encumbrances and Contracts	267,460	185,954
Unencumbered, Revolving and Capital Outlay Amounts	121,422	89,623
Capital Outlay and Bond Cancellation	19,950	-0-
Highway Construction	14,950	-0-
Pension Funding	20,900	-0-
Other Nonrecurring Items	20,484	12,204
Other Specific Purposes	1,468,246	1,241,712
Unreserved:		
Designated for Debt Service	\$ 1,800	\$ 3,805
Designated for Revenue Fluctuations	21,000	15,000
Designated for Highway Construction	6,294	3,399
Designated for Trust Purposes	8,079	13,803
Undesignated	592	11,187
Total Fund Equity	<u>\$ 1,999,804</u>	<u>\$ 1,601,436</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 2,424,009</u>	<u>\$ 2,009,537</u>

STATE OF TENNESSEE  
DEPARTMENT OF THE TREASURY  
NOTES TO FINANCIAL STATEMENT

Accounting and Reporting Changes

During the fiscal year 1978 the state made several significant changes in accounting and reporting in order to more closely conform with generally accepted accounting principles as prescribed by GAAFR (1968), ASLGU (1975) and the GAAFR Restatement Principles Exposure Draft (1978). In the accompanying financial statement, 1977 amounts have been reclassified where appropriate to conform with the current year presentation. Budgetary and certain other accounts previously reported in the financial statement have been excluded from the accompanying financial statement. Examples of these are amounts pertaining to future bond sales, future federal financing, future finance charges on long-term debt, etc.

The reclassification of the 1977 financial statement and subsequent interfund eliminations effectively reduced cash within the General Fund for elimination to the Tennessee Housing Development Agency and in the School Bond Authority for elimination to the Colleges and Universities in the total of \$11,769,000.

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
BALANCE SHEET

	<u>June 30, 1978</u>	<u>June 30, 1977</u>
<u>ASSETS</u>		
CASH	\$ 97,112,643.38	\$ 79,908,779.18
RECEIVABLES:		
Investments Sold	\$ 3,614,625.60	\$ 8,121.21
Member Contributions Receivable	5,651,361.93	5,040,014.63
Employer Contributions Receivable	3,511,433.42	2,745,289.99
Accrued Interest Receivable	16,863,877.02	14,067,812.82
Accrued Dividends Receivable	1,376,809.65	1,093,670.32
Political Subdivisions Receivable	<u>96,938.53</u>	<u>212,157.25</u>
Total Receivables	\$ 31,115,046.15	\$ 23,167,066.22
INVESTMENTS:		
Government Bonds (Par Value)	\$ 272,963,514.29	\$ 153,092,254.14
International and Foreign Bonds (Par Value)	77,149,333.32	84,394,994.25
Corporate Bonds (Par Value)	440,079,513.72	447,740,524.22
Net Unamortized Premium or Discount on Bonds	(16,055,218.17)	(14,383,179.62)
Corporate Stocks (Cost)	314,512,186.93	246,159,124.76
Short Term Investments	<u>300,000.00</u>	<u>300,000.00</u>
Total Investments	\$1,088,949,330.09	\$ 917,303,717.75
Total Assets	<u>\$1,217,177,019.62</u>	<u>\$1,020,379,563.15</u>
<u>LIABILITIES AND RESERVES</u>		
CURRENT LIABILITIES:		
Warrants Payable	\$ 14,644,348.04	\$ 10,598,672.02
Total Current Liabilities	\$ 14,644,348.04	\$ 10,598,672.02
RESERVES:		
Member	\$ 390,593,433.86	\$ 334,012,175.22
Employer	811,680,996.53	675,504,039.26
Former Member	<u>258,241.19</u>	<u>264,676.65</u>
Total Reserves	\$1,202,532,671.58	\$1,009,780,891.13
Total Liabilities and Reserves	<u>\$1,217,177,019.62</u>	<u>\$1,020,379,563.15</u>

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
STATEMENT OF CHANGES IN FUND BALANCE

	July 1, 1977 Through June 30, 1978	July 1, 1976 Through June 30, 1977
Balance Beginning of Year	<u>\$1,009,780,891.13</u>	<u>\$ 845,342,172.55</u>
Additions:		
Member Contributions	\$ 70,228,614.49	\$ 61,783,999.80
Employer Contributions	135,744,824.43	116,306,497.14
Political Subdivisions Contributions	<u>18,362,933.45</u>	<u>224,336,372.37</u> 14,768,433.42
		192,858,930.36
Investment Income:		
Interest	\$ 56,048,705.86	\$ 48,073,906.40
Dividends	15,818,291.63	10,199,228.49
Net Profit (Loss) on Sale of Investments	<u>1,759,065.77</u>	<u>73,626,063.26</u> 4,017,757.32
		<u>62,290,892.21</u>
Total Additions	<u>\$ 297,962,435.63</u>	<u>\$ 255,149,822.57</u>
Deductions:		
Annuity Benefits	\$ 90,736,571.16	\$ 79,540,687.03
Death Benefits	950,027.12	818,965.79
Refunds	<u>13,524,056.90</u>	<u>105,210,655.18</u> 10,351,451.17
		<u>90,711,103.99</u>
Total Deductions	<u>\$ 105,210,655.18</u>	<u>\$ 90,711,103.99</u>
Net Additions	<u>\$ 192,751,780.45</u>	<u>\$ 164,438,718.58</u>
Balance End of Year	<u>\$1,202,532,671.58</u>	<u>\$1,009,780,891.13</u>

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
COMPARATIVE STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS

	July 1, 1977 Through <u>June 30, 1978</u>	July 1, 1976 Through <u>June 30, 1977</u>
Cash Balance at Beginning of Year	<u>\$ 79,908,779.18</u>	<u>\$ 55,717,581.25</u>
Add Cash Receipts:		
Member Contributions	\$ 69,617,267.19	\$ 61,214,363.53
Employer Contributions	134,978,681.00	115,824,112.66
Political Subdivisions Contributions	18,478,152.17	14,617,588.50
Investment Income	65,181,289.57	60,369,918.33
Investments Sold (Net Book Value)	<u>144,803,436.45</u>	<u>129,896,858.08</u>
Total Cash Receipts	<u>\$433,058,826.38</u>	<u>\$381,922,841.10</u>
Deduct Cash Disbursements:		
Annuity Benefits	\$ 90,736,571.16	\$ 79,540,687.03
Death Benefits	950,027.12	818,965.79
Refunds	13,524,056.90	10,351,451.17
Investments Purchased	<u>310,644,307.00</u>	<u>267,020,539.18</u>
Total Cash Disbursements	<u>\$415,854,962.18</u>	<u>\$357,731,643.17</u>
Cash Balance at End of Year	<u>\$ 97,112,643.38</u>	<u>\$ 79,908,779.18</u>

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
ACTUARIAL BALANCE SHEET  
JUNE 30, 1977

RESOURCES

Net Assets		\$ 1,009,511,744.00
Present value of future level payroll contributions:		
Member	\$ 605,942,876.00	
Employer	<u>578,773,981.00</u>	1,184,716,857.00
Accumulated prior level payroll contributions to be financed		<u>1,742,654,963.00</u>
Total		<u>\$ 3,936,883,564.00</u>

REQUIREMENTS

Present value of benefits (past and future service) for:		
Present retired members and contingent annuitants		\$ 878,133,994.00
Present active members		3,022,775,213.00
Former members		<u>35,974,357.00</u>
Total		<u>\$ 3,936,883,564.00</u>

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
NOTES TO FINANCIAL STATEMENTS

Market Value of Investments

The market value of the Tennessee Consolidated Retirement System Investments as of June 30, 1977 and June 30, 1978 is as follows:

	<u>June 30, 1978</u>	<u>June 30, 1977</u>
Bonds - Marketable	\$ 569,384,448.81	\$ 502,471,479.62
Mortgages	9,751,379.07	11,080,652.40
Bonds-Private Placements at Book Value	136,202,028.00	142,726,818.08
Stock	<u>317,399,677.00</u>	<u>252,872,288.00</u>
Total	<u>\$ 1,032,737,532.88</u>	<u>\$ 909,151,238.10</u>

The amortization of premium and discount on investments is computed on the straight-line basis.

Description of the Plan

The Tennessee Consolidated Retirement System is a defined benefit plan with contributions being made by both the employees and the employer. The retirement plan covers hourly and salaried general employees and teachers of the State of Tennessee and employees of Political Subdivisions who have elected coverage. Benefits are determined by a benefit formula using the high five year average salary and years of service of each employee.

Contributions to the system are determined on an actuarial reserve basis and provide funding for both normal and supplemental liability costs. Employee contribution rates are fixed by state statute and are taken into consideration by the actuary in fixing employer rates. The entry age normal method, a projected benefit cost method, is used to value the plan with contributions being made as a level dollar amount.

It is the policy of the State to fund pension costs accrued. For the period ending June 30, 1978 the State contributed \$135,745,000 to the pension plan while the employees contributed \$54,916,000. These contributions include funding for the cost of living provision and amortization of the supplemental liability on an actuarial reserve basis over a 40 year period which began in July of 1975.

An actuarial valuation is made every two (2) years with the last valuation being made as of June 30, 1977. At that time, the actuarially computed value of vested benefits exceeded the net assets of the pension fund by \$927 million. This amount includes the cost attributable to the cost of living provision which prior to June 30, 1976 was funded on a "pay-as-you-go" basis. The supplemental liability of the retirement system,

based on the present value of benefits on account of past and future service, was estimated to be \$1,742,655,000 at June 30, 1977. Of this amount, \$190,078,000 was attributable to Political Subdivisions for which the State assumes no liability.

An experience study of the system is conducted every four years, the most recent as of June 30, 1976. As a result of the experience study, the interest rate assumption was changed from 5-3/8% to 6% and the salary increase assumption from a graduated scale to a 4.5% annual increase. An assumption was added for a 4% annual increase in the Social Security Wage Base. Previously, there was no assumption made for any increases in the Wage Base. The actuarial assumptions for the deaths of retirees, deaths of active members, withdrawal from the retirement system and the rates of disability were not changed from those used in previous actuarial valuations.

STATE OF TENNESSEE  
DEPARTMENT OF THE TREASURY  
SCHEDULE OF SALARIES REPORTED TO OASI AND FUNDS  
TRANSMITTED TO FEDERAL GOVERNMENT  
FOR THE FISCAL YEARS ENDED JUNE 30, 1978 AND JUNE 30, 1977

<u>CATEGORY OF EMPLOYEES</u>	<u>1977-78</u>	<u>1976-77</u>	<u>PERCENTAGE INCREASE</u>
	<u>SALARIES REPORTED TO OASI</u>		
STATE EMPLOYEES	\$ 393,852,769.41	\$ 346,526,040.76	13.7%
TEACHERS	584,454,065.43	531,649,877.22	9.9%
POLITICAL SUBDIVISIONS	<u>890,518,732.92</u>	<u>789,328,709.39</u>	12.8%
TOTAL	<u>\$1,868,825,567.76</u>	<u>\$1,667,504,627.37</u>	12.1%

FUNDS TRANSMITTED TO THE FEDERAL GOVERNMENT

STATE EMPLOYEES	\$ 46,900,957.92	\$ 40,543,546.70	15.7%
TEACHERS	69,753,907.24	62,118,959.34	12.3%
POLITICAL SUBDIVISIONS	<u>106,071,015.84</u>	<u>92,351,459.64</u>	14.9%
TOTAL	<u>\$ 222,725,881.00</u>	<u>\$ 195,013,965.68</u>	14.2%

STATE OF TENNESSEE  
DEPARTMENT OF THE TREASURY  
INVESTMENT ANALYSIS OF IDLE CASH  
FOR THE FISCAL YEAR ENDED JUNE 30, 1978

<u>Month</u>	<u>AVERAGE CASH</u>		<u>Repurchase Agreements</u>	<u>INVESTMENTS</u>	
	<u>Available In Paying Banks</u>	<u>Available In Other Depositories</u>		<u>Time Deposits</u>	<u>Percentage of Funds Invested</u>
July	\$22,315,972	\$26,174,344	\$ 91,774,194	\$606,508,636	93.5%
August	24,231,626	19,817,427	114,232,000	539,987,185	93.7%
September	18,247,470	27,492,882	69,590,000	532,169,470	92.9%
October	23,602,219	28,355,144	75,645,161	549,160,975	92.3%
November	21,786,957	26,174,440	109,986,667	585,641,136	93.6%
December	22,276,008	24,018,185	83,229,141	622,898,072	93.8%
January	28,994,005	27,079,917	112,383,937	623,658,556	92.9%
February	25,197,247	26,246,765	133,226,679	630,456,136	93.7%
March	23,862,993	25,629,991	95,338,775	643,266,620	93.7%
April	33,846,202	30,950,815	82,402,728	668,799,470	92.1%
May	25,769,315	29,568,747	98,765,484	672,615,814	93.3%
June	28,595,064	27,489,774	83,292,500	685,367,803	93.2%

STATE OF TENNESSEE  
DEPARTMENT OF THE TREASURY  
ANALYSIS OF PERCENTAGE RETURN ON CASH MANAGEMENT INVESTMENTS  
FOR THE FISCAL YEARS JULY 1, 1972 THROUGH JUNE 30, 1978

<u>FISCAL YEAR</u>	<u>AVERAGE AMOUNT INVESTED</u>	<u>AMOUNT EARNED</u>	<u>PERCENTAGE EARNED</u>
<u>TIME DEPOSITS</u>			
1972-73	\$359,006,062	\$13,415,548	3.74
1973-74	382,773,768	26,441,570	6.91
1974-75	436,871,936	37,643,580	8.62
1975-76	378,653,184	29,318,124	7.74
1976-77	469,542,386	24,847,902	5.29
1977-78	613,377,489	31,854,178	5.19

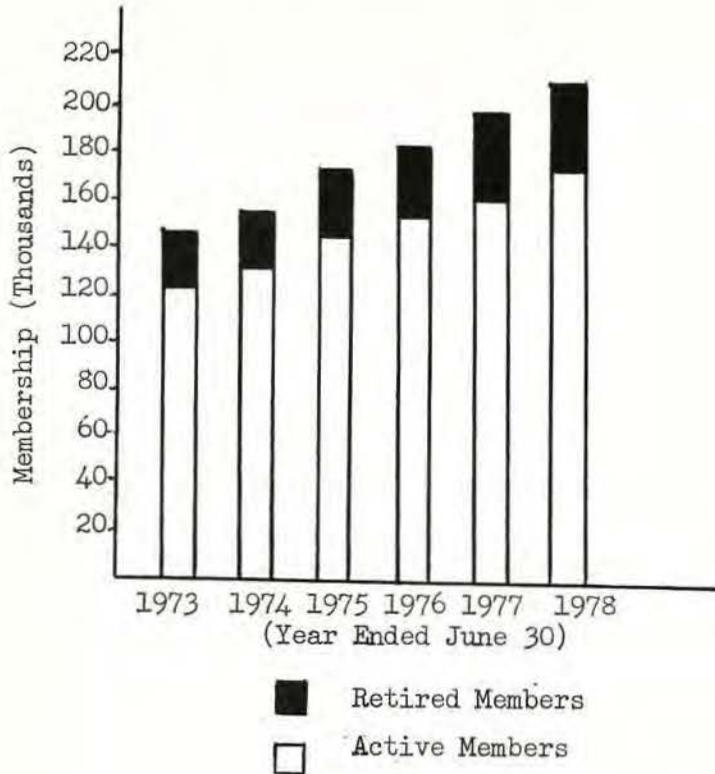
REPURCHASE AGREEMENTS

1972-73	\$ 32,769,090	\$ 2,005,172	6.11
1973-74	40,383,065	3,926,659	9.72
1974-75	39,479,178	2,963,069	7.50
1975-76	51,838,985	2,471,190	4.77
1976-77	88,427,788	4,599,988	5.20
1977-78	95,822,272	5,697,238	5.95

STATE OF TENNESSEE  
DEPARTMENT OF THE TREASURY  
ANALYSIS OF PERCENTAGE RETURN ON RETIREMENT INVESTMENTS  
FOR THE FISCAL YEARS JULY 1, 1972 THROUGH JUNE 30, 1978

<u>Fiscal Year</u>	<u>EXCLUDING GAINS AND LOSSES</u>			<u>INCLUDING GAINS AND LOSSES</u>		
	<u>Average Amount Invested</u>	<u>Amount Earned</u>	<u>Percentage Earned</u>	<u>Average Amount Invested</u>	<u>Amount Earned</u>	<u>Percentage Earned</u>
1972-73	\$484,799,662	\$30,460,109	6.28%	\$485,557,802	\$28,943,829	5.96%
1973-74	553,546,088	36,852,911	6.66%	556,106,329	31,732,428	5.71%
1974-75	631,720,844	44,005,668	6.97%	637,192,884	33,061,588	5.19%
1975-76	712,531,286	51,824,802	7.27%	711,891,753	53,103,867	7.46%
1976-77	820,383,929	59,241,243	7.22%	818,852,318	62,304,463	7.61%
1977-78	966,691,417	72,870,213	7.54%	966,310,867	73,631,313	7.62%

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
ANALYSIS OF GROWTH  
IN RETIRED AND ACTIVE MEMBERSHIP  
JUNE 30, 1973 - JUNE 30, 1978



Analysis of Membership by Employee Classification

