



TREASURER'S REPORT 1979

HARLAN MATHEWS
TREASURER
STATE CAPITOL
NASHVILLE, TENNESSEE 37219

FOR THE FISCAL YEAR JULY 1, 1978 THROUGH JUNE 30, 1979

**REPORT OF THE TREASURER
OF THE
STATE OF TENNESSEE**



**Harlan Mathews
Treasurer
Nashville, Tennessee**

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TENNESSEE
TREASURY DEPARTMENT
NASHVILLE

HARLAN MATHEWS
TREASURER

ARNOLD TACKETT
EXECUTIVE ASSISTANT

January 8, 1980

Honorable Lamar Alexander, Governor
Honorable John S. Wilder, Lieutenant Governor
and Speaker of the Senate
Honorable Ned R. McWherter, Speaker of the
House of Representatives
State of Tennessee
State Capitol
Nashville, Tennessee 37219

Gentlemen:

Submitted herewith is the Annual Financial Report of the Treasurer's Office for the fiscal year ending June 30, 1979.

Sincerely,

A handwritten signature in cursive script that reads "Harlan Mathews".
Harlan Mathews



SUMMARY OF OPERATIONS

The office of the State Treasurer is established by the State Constitution. The duties of the State Treasurer involve six major areas: administration of the Tennessee Consolidated Retirement System, investment of state funds, accounting for the receipt and disbursements of public funds, administration of the Old Age and Survivors Insurance Agency, administration of the Unclaimed Property Law, and participation in various administrative state agencies.

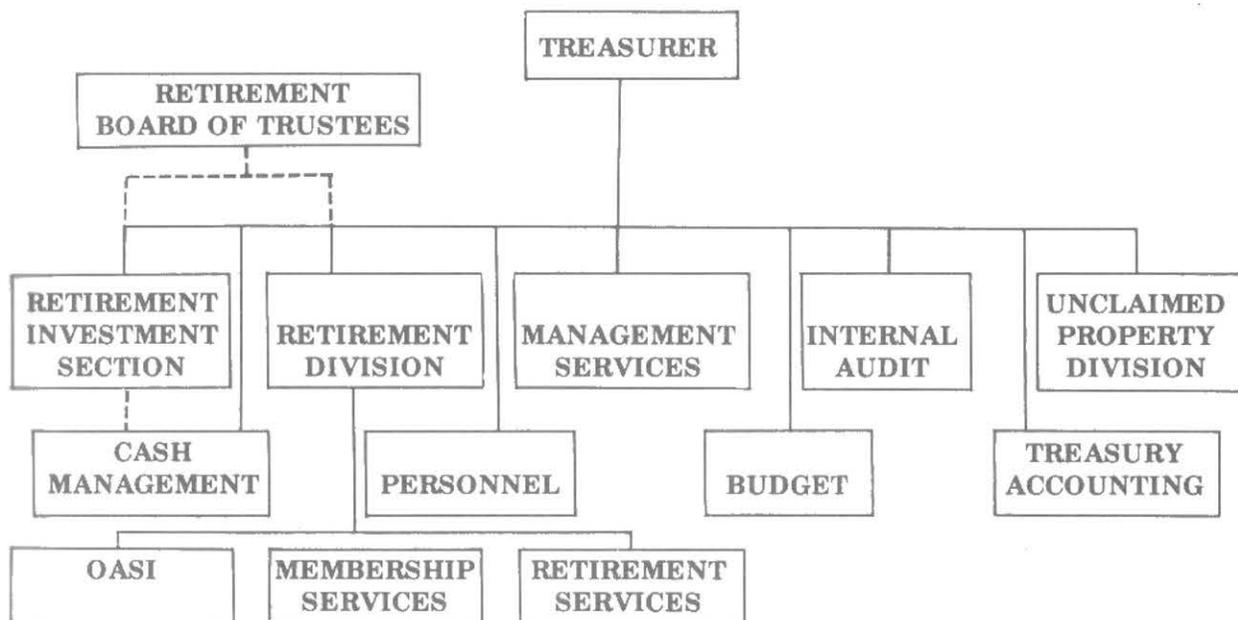
During the 1978-79 fiscal year, several important advances have been made by the Treasury Department:

- 1) Assets of the Tennessee Consolidated Retirement System were increased by \$254 million. This 20% increase raised total TCRS assets to a record level of \$1.471 billion.
- 2) Treasury Department investments of the State's idle cash yielded \$62.78 million for the State. This \$62.78 million is 50% higher than the short term investment earnings realized in any previous year. The bulk of the earnings, \$48.45 million, was placed directly into the general fund.
- 3) Under the 1978 Uniform Disposition of Unclaimed Property Act, the first collections of unclaimed property were made by the State. The total value of the unclaimed property reported during the first year is approximately \$5.1 million.

The first section of the Treasurer's Report summarizes the operations in each of the six areas of responsibility within the Treasury Department. The second section of the report includes the corresponding detailed financial statements for the 1978-79 fiscal year. Code References to each of the Treasurer's responsibilities are indexed on page 26.

The Treasury Department is organized according to the following plan in order to carry out the duties assigned to the office.

DEPARTMENT OF THE TREASURY ORGANIZATION CHART AS OF JUNE 30, 1979



TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

One of the primary responsibilities of the State Treasurer is the administration of the state's retirement system. In 1972, the seven state retirement plans were consolidated into a single system, the Tennessee Consolidated Retirement System. Administration of this system involves the areas of membership and contributions, retirement benefits and investment of retirement system funds.

Membership and Contributions

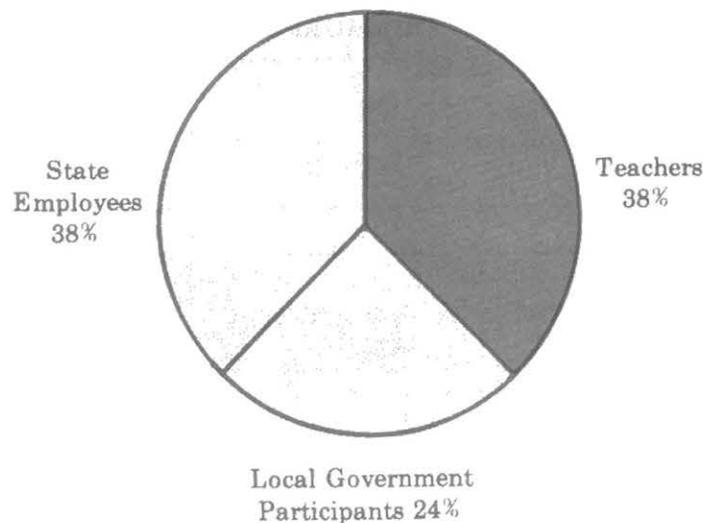
Effective July 1, 1972, the Consolidated Retirement Act of 1972 brought together the state's seven retirement systems into a single system with three groups of members: Group I, teachers and general employees; Group II, state policemen, wildlife officers, firemen and policemen; and Group III, judges and elected officials. Prior members of the seven superseded systems were permitted to remain in those systems and to retain their original rights and benefits. Effective July 1, 1976, all new members of the consolidated system are classified as Group I members.

Membership in the Tennessee Consolidated Retirement System is mandatory for state employees, teachers, and employees of participating local governments.

Effective July 1, 1978, the TCRS assumed administrative duties of the University of Tennessee Joint Contributory Retirement System which provided specific benefits to faculty and administrative personnel who elected to join the plan. Currently, the TCRS administers all retirement plans available to state employees and teachers except the Teacher Insurance Annuity Plan which is optional to Higher Education teachers.

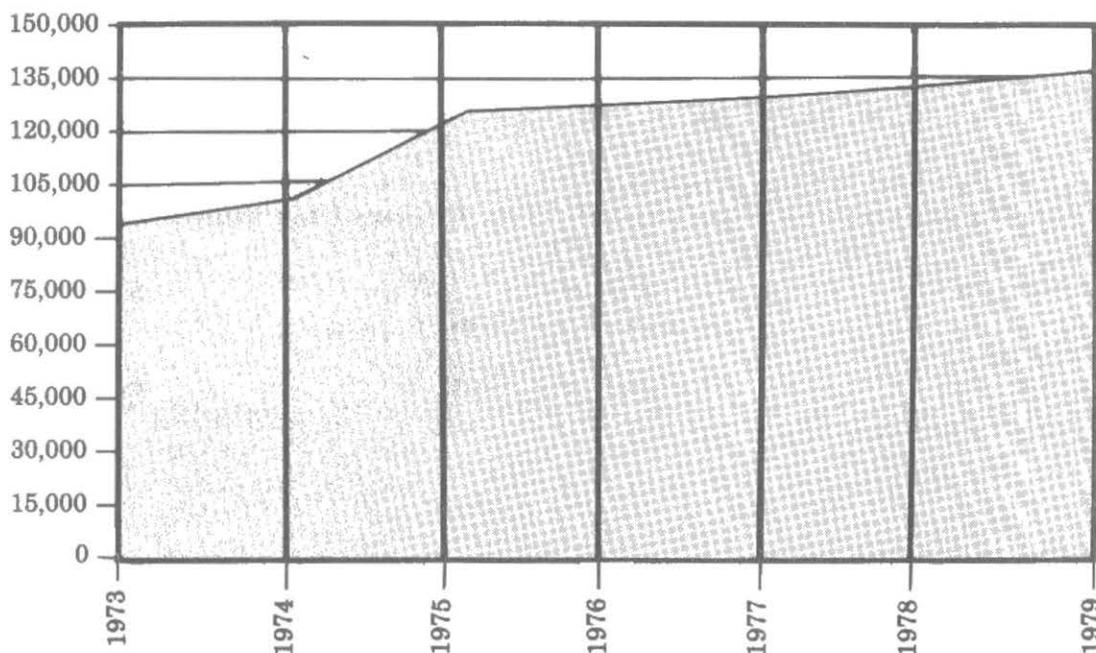
During 1978-79, TCRS membership consisted of 51,964 teachers, 51,588 general employees, and 31,695 local government employees, as illustrated below.

**TCRS MEMBERSHIP COMPOSITION
1978-1979**



TCRS membership has grown steadily since consolidation in 1972-73. During 1978-79, membership reached 135,247. TCRS membership in 1977-78 was 134,733.

TCRS MEMBERSHIP GROWTH 1973-1979



Members contribute a percentage of their salaries to the Tennessee Consolidated Retirement System. The contribution rate for Group I members is 5% of gross salary and varies for other groups of members.

Total member contributions for 1978-79 were \$76,535,547. This figure represents a 13.4% increase over the \$67,489,000 in member contributions paid during 1977-78.

The contribution rates for the employers participating in the system are determined by a biennial actuarial valuation performed by an independent actuarial firm. It is the policy of the retirement system to fund pension cost accrued. The contribution rates 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. The employer contribution rates during the year ended June 30, 1979 were as follows:

State Employees	7.65%
Teachers	15.29%
Political Subdivisions	Individually Determined

Total employer contributions as generated by these rates for the year ended June 30, 1979 were \$202,075,615. This figure indicates a 31.1% growth over the \$154,107,758 in employer contributions made during 1977-78.

Member and employer contributions for the 1979 and 1978 fiscal years are listed below.

<u>Membership Group</u>	<u>Number of Active Members</u>		<u>Total Member Contributions</u>	
	<u>1979</u>	<u>1978</u>	<u>1979</u>	<u>1978</u>
State General Employees	51,588	46,891	\$31,533,095	\$22,004,000
Teachers	51,964	52,867	33,719,204	32,901,000
Political Subdivisions	31,695	34,975	11,283,248	12,584,000
Total	135,247	134,733	<u>\$76,535,547</u>	<u>\$67,489,000</u>

<u>Employer Group</u>	<u>Total Employer Contributions</u>	
	<u>1979</u>	<u>1978</u>
State General Employees	\$ 68,308,174	\$ 36,508,210
Teachers	113,753,660	99,236,615
Political Subdivisions	20,013,781	18,362,933
Total	<u>\$202,075,615</u>	<u>\$154,107,758</u>

Retirement Benefits

State employees and teachers become eligible to retire from the Tennessee Consolidated Retirement System at age 60 or with 30 years of service.

During the year ended June 30, 1979, the retirement system provided monthly benefits to 34,914 retirees. Detailed below is an analysis of those benefit payments.

	<u>Year Ended June 30, 1979</u>		<u>Year Ended June 30, 1978</u>	
	<u>Retirees</u>	<u>Benefits</u>	<u>Retirees</u>	<u>Benefits</u>
State Employees	9,320	\$ 22,944,604	7,927	\$19,061,973
Teachers	19,516	69,635,077	19,077	65,554,476
Political Subdivisions	6,078	11,053,189	5,303	6,120,122
Total	34,914	<u>\$103,632,870</u>	32,307	<u>\$90,736,571</u>
Percent Increase	8.1%	14.2%		

Investments

The cash reserves of the Tennessee Consolidated Retirement System are invested by the Investment Cash Management Division of the Treasury Department. The investment of TCRS funds is subject to the approval of the Board of Trustees as well as to the conditions and limitations imposed by the State of Tennessee on domestic life insurance companies. The total sum invested in common and preferred stocks cannot exceed 50% of the total of the funds of the Retirement System. An Investment Advisory Council was established by the Consolidated Retirement Act of 1972 to provide policy guidance to the Investment Section.

The excess revenues over current expenditures increases the accumulated reserves for the retirement system. The comparative balance sheet on page 15 indicates total reserves of \$1.45 billion at June 30, 1979 which represents a \$250 million increase and a 21% growth rate over the total reserves of \$1.2 billion at June 30, 1978.

RETIREMENT INVESTMENT YIELD RATES

<u>Fiscal Year</u>	<u>Excluding Gains and Losses</u>	<u>Including Gains and Losses</u>
1978-79	7.19%	7.72%
1977-78	6.81	6.89
1976-77	6.60	6.95
1975-76	6.81	6.99
1974-75	6.63	4.94
1973-74	6.29	5.39
1972-73	5.90	5.60

Average yield to maturity on bonds purchased during 1978-79 was 9.12%, up from 7.90% for the 1977-78 fiscal year.

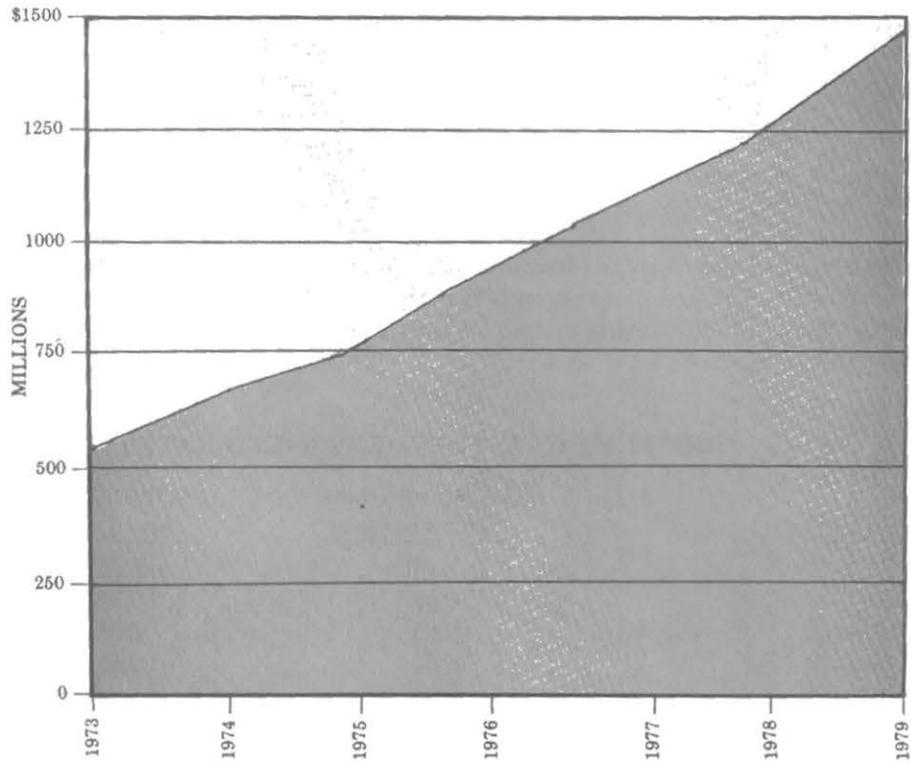
BOOK VALUE OF RETIREMENT FUND INVESTMENTS

	<u>June 30, 1979</u>	<u>June 30, 1978</u>
Short Term Investments	\$ 83,770,641	\$ 82,768,295
Stocks	337,965,462	314,512,187
Bonds	992,395,790	764,385,764
Farmers Home Administration Notes	7,577,780	8,461,636
FHA/VA Mortgages	1,089,852	1,289,743
TOTAL	<u>\$1,422,799,525</u>	<u>\$1,171,417,625</u>

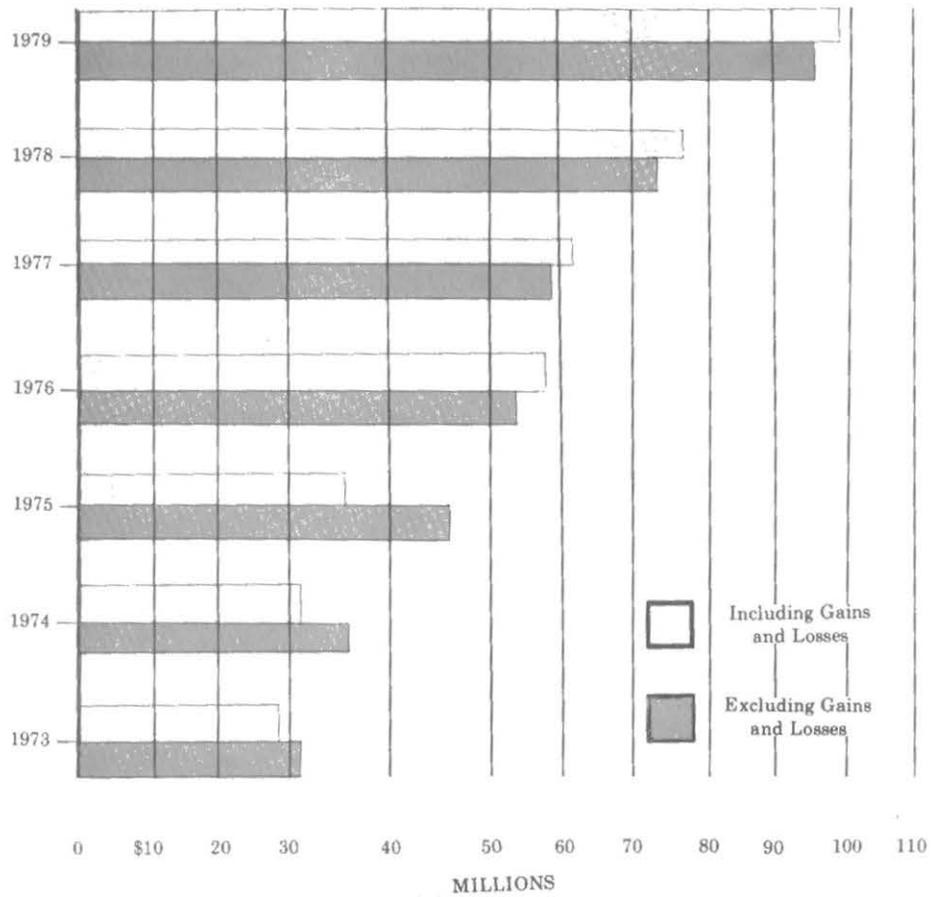
The performance of the investment portfolio of the State retirement fund is evaluated by A. G. Becker Securities Corporation, an independent securities analysis firm. The 1979 evaluation placed the Tennessee Consolidated Retirement System's 1979 investment portfolio performance in the top 35% of all public funds evaluated by Becker. The portfolio's overall performance during the seven years from 1972 through 1979 ranks in the top 7% of all public funds in the Becker data base.

RETIREMENT FUND GROWTH

GROWTH OF RETIREMENT FUND ASSETS

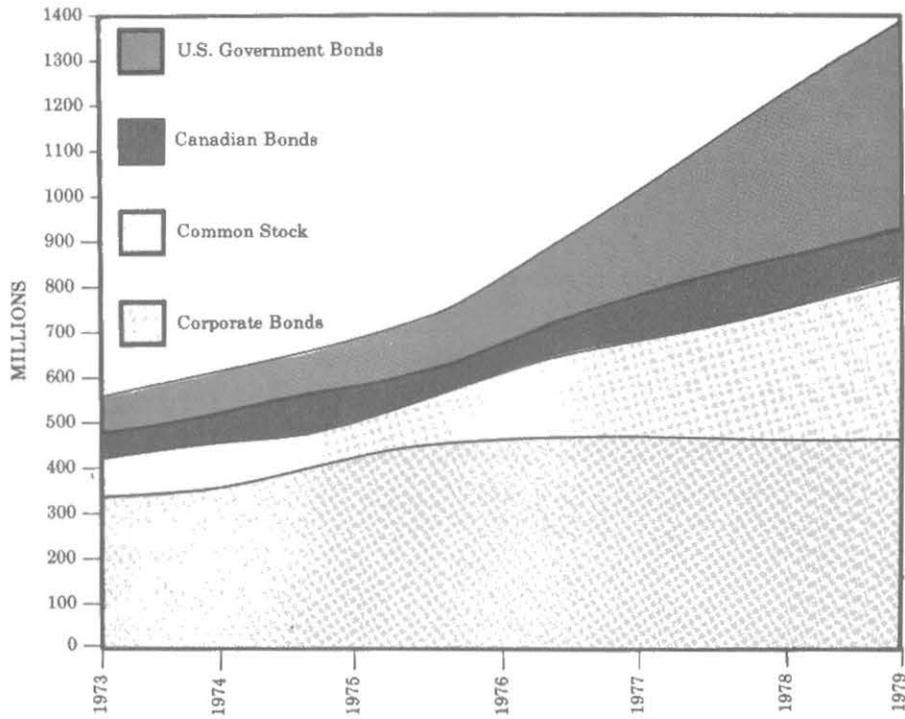


INVESTMENT INCOME GROWTH

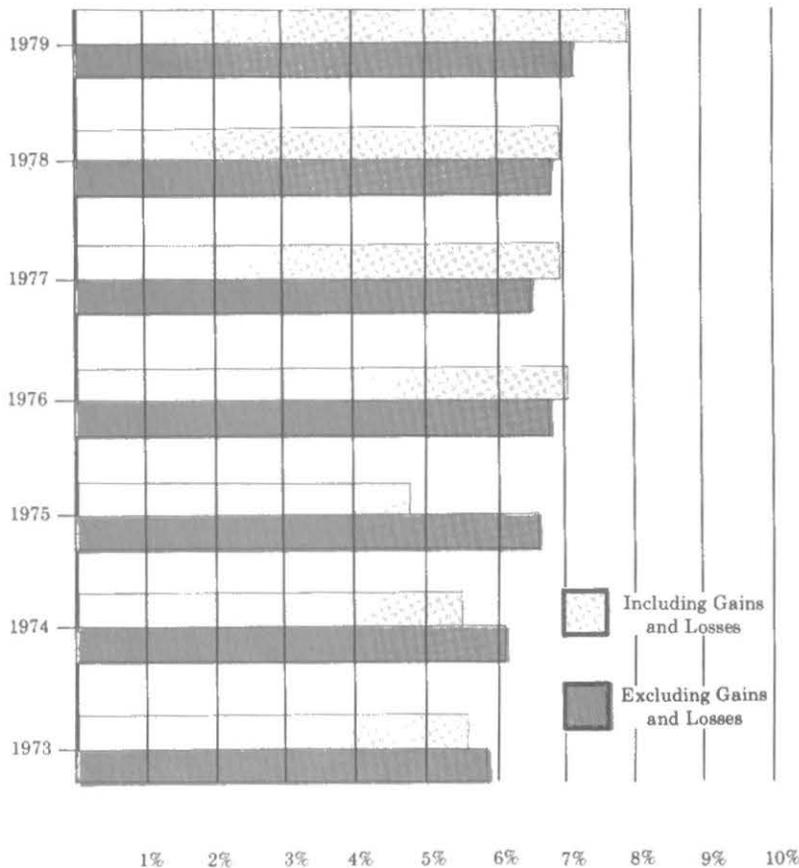


A SEVEN YEAR COMPARISON

PORTFOLIO DISTRIBUTION



INVESTMENT YIELD RATES



INVESTMENT OF STATE FUNDS

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, 1979 and June 30, 1978 and the associated earnings.

Earnings Sources

	<u>Average Cash Invested for year 1978-79</u>	<u>1978-79 Earnings</u>	<u>Average Cash Invested for year 1977-78</u>	<u>1977-78 Earnings</u>
Time Deposits	\$689,174,857	\$54,208,974	\$613,377,489	\$31,854,178
Repurchase Agreements	95,030,067	8,319,193	95,822,272	5,697,238
Totals	<u>\$784,204,924</u>	<u>\$62,528,167</u>	<u>\$709,199,761</u>	<u>\$37,551,416</u>

The accrued average earnings rates, which match income with the appropriate period of investment were 8.64% for 1978-79 and 6.41% for 1977-78.

Collateral

Any investments with, or deposits in, banking institutions or savings and loan organizations are required to be collateralized. The face value of such collateral must 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, 1979 and June 30, 1978 and related collateral pledged:

	<u>Cash and Time Deposits</u>	<u>Collateral Pledged</u>	<u>Percent Coverage</u>
June 30, 1979	\$757,353,510	\$941,114,902	124%
June 30, 1978	776,593,356	926,803,885	119%

Average Investment Balances

A schedule indicating the investment of idle cash based on average monthly balances is included in the second section 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, 1979 and June 30, 1978.

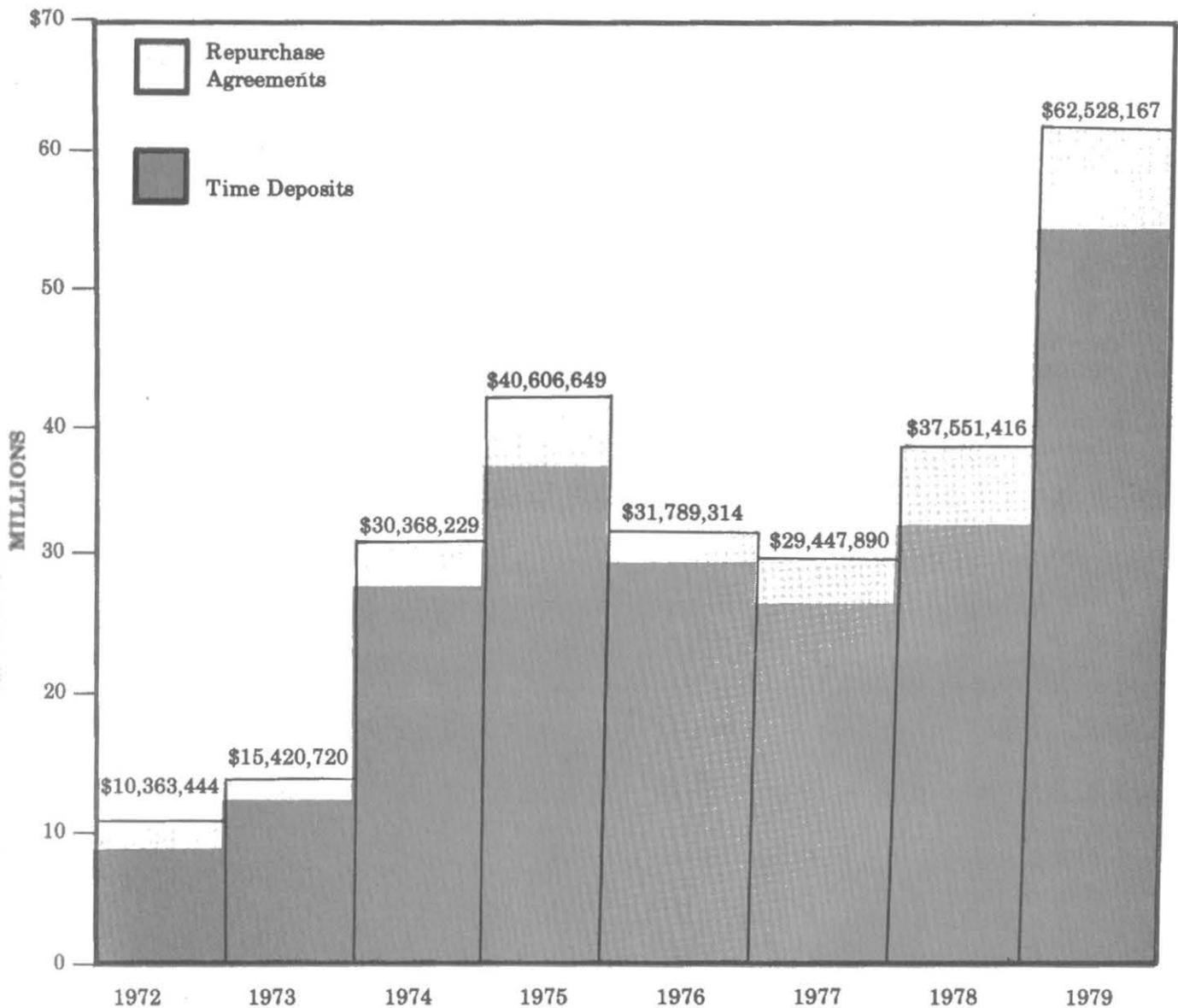
	<u>Average Bank Deposit Balance</u>	<u>Average Funds Invested</u>	<u>Percent of Funds Invested</u>
June 30, 1979	\$57,969,605	\$784,204,924	93.1%
June 30, 1978	51,476,959	709,199,761	93.2%

The average bank deposit balance as presented in the above table and in the schedule on page 22 has been computed from bank statement balances. The cash in these bank accounts represents uncollected cash balances and reserves for current liabilities and state revenues deposited locally throughout the state not yet consolidated for investment purposes.

Earnings Distribution

A portion of the earnings is distributed to special funds based on their average cash on deposit with the State Treasurer while the remainder becomes General Fund revenue. Of the \$14,326,376 distributed to special funds from the 1978-79 earnings, \$8,014,426 was credited to the Tennessee Consolidated Retirement System based on its average cash balance on deposit with the Treasurer, as compared with \$4,885,867 credited to TCRS in 1977-78.

GROWTH OF SHORT TERM INVESTMENT EARNINGS



RECEIPT AND DISBURSEMENT OF PUBLIC FUNDS

The Treasurer maintains bank accounts throughout the State of Tennessee for the receipt of state funds and disburses funds through specifically designated banks in Nashville. There are 403 bank accounts and 98 savings and loan accounts (representing time deposit investments) maintained in the Treasurer's name at June 30, 1979 as compared to 398 bank accounts and 98 savings and loan accounts at June 30, 1978.

A statement for each bank account is received every month by the Treasurer, 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.

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.

The following table provides the approximate average warrant activity for the fiscal years ended June 30, 1979 and June 30, 1978 on a daily basis:

	Average Number of Warrants Issued Daily	Average Total Amount of Warrants Issued Daily	Average Number of Warrants Received From Banks Daily	Average Total Amount Paid to Banks for Warrants Received Daily
June 30, 1979	3,279	\$20,365,558	3,202	\$18,489,575
June 30, 1978	3,335	17,449,943	3,505	16,311,148
Increase or (Decrease)	(1.7%)	16.7%	(8.6%)	13.4%

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.

The OASI Agency reports salaries of all state employees, teachers and employees of political subdivisions to the Social Security Administration and collects and transmits the employee and employer social security contributions to the Federal Government. A schedule of this information is included on page 21 of this report.

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 each of the last three years.

STATE AND LOCAL GOVERNMENT EMPLOYEES COVERED BY SOCIAL SECURITY

<u>Employment Category</u>	<u>Number of Covered Employees</u>		
	<u>June 30, 1979</u>	<u>June 30, 1978</u>	<u>June 30, 1977</u>
State Employees	46,961	47,178	44,423
Teachers	52,325	50,519	49,210
Political Subdivision Employees	<u>134,666</u>	<u>134,031</u>	<u>126,675</u>
Total	<u>233,952</u>	<u>231,728</u>	<u>220,308</u>

UNCLAIMED PROPERTY

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

The Act provides that the State of Tennessee take custody of personal property which has been in an inactive or dormant status for a prescribed period of time—in most cases, seven years—and for which the owner cannot be located. Property subject to the act includes accounts held by banking or financial organizations, property held by fire insurance corporations, deposits and refunds held by utilities, undistributed dividends and distributions of business associations, property resulting from a corporate 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 the property reported to him and to attempt to contact owners by mail.

The Act provides for the first reports of Unclaimed Property to be filed with the Treasurer on May 1, 1979. The total value of all property reported for this first year is approximately \$5.1 million. Approximately 25% of this property was claimed by the rightful owners prior to being turned over to the state in November 1979. Upon proof of ownership, property which has been turned over to the State Treasurer will be returned to the rightful owners.

ADMINISTRATION

The responsibilities of the State Treasurer also include participation in various state agencies.

The Treasurer serves as Treasurer of the Tennessee Housing Rehabilitation Corporation and 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 of 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

**STATE OF TENNESSEE
DEPARTMENT OF THE TREASURY
CASH AND CASH EQUIVALENTS
JUNE 30, 1979**

(EXPRESSED IN THOUSANDS)

Cash and Cash Equivalents per Department of Finance and Administration	<u>\$1,101,748</u>
Less: Petty Cash	170
Departmental Revolving Accounts	470
Departmental Cash in Other Accounts	198,484
Net Reconciling items to Bank Statements	<u>7,763</u>
Total	<u>\$ 206,887</u>
 Cash and Cash Equivalents per Department of the Treasury	 <u>\$ 894,861</u>

NOTE: The cash and cash equivalents per Finance and Administration is reported in the State of Tennessee Annual Financial Report as \$1.1 billion. The items above reduced from that balance represent cash and cash equivalents under control of the State of Tennessee but not in possession of the Treasurer. Consequently, the State Treasurer has in his possession at June 30, 1979 cash and cash equivalents of \$.89 billion.

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
COMPARATIVE BALANCE SHEET

	<u>June 30, 1979</u>	<u>June 30, 1978</u>
<u>ASSETS</u>		
CASH AND CASH EQUIVALENTS:	\$ 95,763,735.57	\$ 97,112,643.38
RECEIVABLES:		
Investments Sold	\$ 58,111.25	\$ 3,614,625.60
Member Contributions Receivable	6,033,779.08	5,651,361.93
Employer Contribution Receivable	3,406,990.01	2,031,073.07
Accrued Interest Receivable	23,184,782.02	16,863,877.02
Accrued Dividends Receivable	1,609,630.01	1,376,809.65
Political Subdivisions Receivable	1,753,861.47	1,577,298.88
Total Receivables	<u>\$ 36,047,153.84</u>	<u>\$ 31,115,046.15</u>
INVESTMENTS:		
Government Bonds (Par Value)	\$ 526,661,899.25	\$ 272,963,514.29
Canadian Bonds (Par Value)	76,577,999.98	77,149,333.32
Corporate Bonds (Par Value)	418,430,919.07	440,079,513.72
Net Unamortized Premium and Discount on Bonds	(20,607,396.98)	(16,055,218.17)
Corporate Stocks (Cost)	337,965,462.39	314,512,186.93
Short Term Investments	300,000.00	300,000.00
Total Investments	<u>\$1,339,328,883.71</u>	<u>\$1,088,949,330.09</u>
Total Assets	<u><u>\$1,471,139,773.12</u></u>	<u><u>\$1,217,177,019.62</u></u>
<u>LIABILITIES AND FUND BALANCE</u>		
CURRENT LIABILITIES:		
Warrants Payable	\$ 9,958,612.32	\$ 14,644,348.04
Accounts Payable	2,334,482.71	
Total Current Liabilities	<u>\$ 12,293,095.03</u>	<u>\$ 14,644,348.04</u>
FUND BALANCE:		
Reserved for Member Contributions	\$ 450,372,811.56	\$ 390,593,433.86
Reserved for Employer Contributions	1,008,222,275.10	811,680,996.53
Reserved for Former Member Contributions	251,591.43	258,241.19
Total Fund Balance	<u>\$1,458,846,678.09</u>	<u>\$1,202,532,671.58</u>
Total Liabilities and Fund Balance	<u><u>\$1,471,139,773.12</u></u>	<u><u>\$1,217,177,019.62</u></u>

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE**

	July 1, 1978 Through June 30, 1979		July 1, 1977 Through June 30, 1978
Fund Balance, Beginning of Year	<u>\$1,202,532,671.58</u>		<u>\$1,009,780,891.13</u>
Revenues:			
Member Contributions	\$ 76,535,547.11		\$70,228,614.49
Employer Contributions	182,061,834.67		135,744,824.43
Political Subdivisions Contributions	20,013,780.80		18,362,933.45
TIAA Contributions	<u>9,888,148.03</u>	<u>288,499,310.61</u>	<u>-0-</u>
			<u>224,336,372.37</u>
Investment Income:			
Interest	\$ 72,758,494.25		\$56,048,705.86
Dividends	16,007,538.52		15,818,291.63
Net Profit (Loss) on Sale of Investments	<u>10,087,023.36</u>	<u>98,853,056.13</u>	<u>1,759,065.77</u>
			<u>73,626,063.26</u>
Total Revenues	<u>\$ 387,352,366.74</u>		<u>\$ 297,962,435.63</u>
Expenditures:			
Annuity Benefits	\$103,632,870.39		\$90,736,571.16
Death Benefits	1,043,306.58		950,027.12
Refunds	17,613,455.66		13,524,056.90
TIAA Payments	<u>9,872,490.53</u>	<u>132,162,123.16</u>	<u>-0-</u>
			<u>105,210,655.18</u>
Total Expenditures	<u>\$ 132,162,123.16</u>		<u>\$ 105,210,655.18</u>
Excess of Revenues over Expenditures before Cumulative Effect of Accounting Changes	<u>\$ 255,190,243.58</u>		<u>\$ 192,751,780.45</u>
Cumulative Effect on Prior Years of Changes in Accounting Principles	<u>\$ 1,123,762.93</u>		<u>\$ -0-</u>
Excess of Revenues and Cumulative Effect of Accounting Changes over Expenditures	<u>\$ 256,314,006.51</u>		<u>\$ 192,751,780.45</u>
Fund Balance, End of Year	<u>\$1,458,846,678.09</u>		<u>\$1,202,532,671.58</u>

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
COMPARATIVE STATEMENT OF CASH RECEIPTS
AND DISBURSEMENTS**

	July 1, 1978 Through June 30, 1979	July 1, 1977 Through June 30, 1978
Cash Balance at Beginning of Year	<u>\$ 97,112,643.38</u>	<u>\$ 79,908,779.18</u>
Add Cash Receipts:		
Member Contributions	\$ 76,153,129.96	\$ 69,617,267.19
Employer Contributions	180,685,917.73	136,459,041.35
Political Subdivisions Contributions	19,837,218.21	16,997,791.82
Investment Income	84,636,070.34	68,795,915.17
Investments Sold (Net Book Value)	184,499,859.50	141,188,810.85
TIAA Contributions	<u>9,888,148.03</u>	<u>0</u>
Total Cash Receipts	<u>\$555,700,343.77</u>	<u>\$433,058,826.38</u>
Deduct Cash Disbursements:		
Annuity Benefits	\$103,632,870.39	\$ 90,736,571.16
Death Benefits	1,043,306.58	950,027.12
Refunds	17,413,455.66	13,524,056.90
Investments Purchased	425,921,611.13	310,644,307.00
TIAA Payments	<u>9,038,007.82</u>	<u>0</u>
Total Cash Disbursements	<u>\$557,049,251.58</u>	<u>\$415,854,962.18</u>
Cash Balance at End of Year	<u><u>\$ 95,763,735.57</u></u>	<u><u>\$ 97,112,643.38</u></u>

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
ACTUARIAL BALANCE SHEET
June 30, 1979**

RESOURCES

Net Assets of the Fund (5-Year Average Market Value)		\$1,390,503,231.00
Present value of future level payroll contributions (Normal cost only):		
Member	\$716,564,116.00	
Employer	663,416,572.00	1,379,980,688.00
Accumulated prior level payroll contributions to be financed		2,086,620,979.00
Total		\$4,857,104,898.00

REQUIREMENTS

Present value of benefits (past and future service) for:		
Present retired members and contingent annuitants		\$1,120,664,944.00
Present active members		3,689,566,769.00
Former members		46,873,185.00
Total		\$4,857,104,898.00

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM NOTES TO FINANCIAL STATEMENTS

Note 1: Market Value of Investments

The market value of the Tennessee Consolidated Retirement System Investments as of June 30, 1978 and June 30, 1979 is as follows:

	June 30, 1979	June 30, 1978
Bonds—Marketable	\$ 801,346,720	\$ 569,384,448
Farmers Home Administration Notes	7,577,780	8,461,636
FHA/VA Mortgages	1,089,852	1,289,743
Bonds—Private Placements (Estimated Market Value)	119,530,077	123,834,884
Stocks	357,817,397	317,399,677
Total	\$1,287,361,826	\$1,020,370,388

Privately placed bonds are not priced in market exchanges and have therefore been valued at an estimated market value based on the relationship of the marketable bonds' book value to market value.

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

Note 2: Description of the Plan

The Tennessee Consolidated Retirement System (TCRS) is a defined benefit, contributory retirement plan covering general employees and teachers of the state as well as employees of political subdivisions who have elected coverage. Benefits are determined by a 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 accrued liability costs. 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 year ended June 30, 1979 the state contributed \$182.1 million to the plan and state employees contributed \$60.2 million. These contributions include funding for a cost-of-living provision and amortization of the accrued liability on an actuarial reserve basis over a 40-year period.

An experience study of the system is conducted every four years, the most recent being as of June 30, 1976. As a result of this study, the interest rate assumption was changed from 5-³/₈% to 6%, and the salary increase assumption was changed from a graduated scale to a 4-¹/₂% annual increase. Also, an assumption was added for a 4% annual increase in the Social Security Wage Base. Other assumptions remain unchanged.

An actuarial valuation is made every two years, the most recent having been completed as of June 30, 1979. For valuation purposes the assets of the system were valued on the basis of a five-year moving market average rather than at book value as in the past. This change resulted in a \$68 million decrease (4.7%) in net assets. At June 30, 1979, the actuarially computed present value of vested benefits exceeded the net assets of the pension fund by \$1.14 billion. This calculation includes the amount attributable to the cost-of-living provision and to the liability associated with a closed group of University of Tennessee faculty who participate in the Teachers Insurance and Annuity Association retirement plan (TIAA-CREF), described below. The unamortized accrued liability of the retirement system, based on the present value of benefits for past and future service, was estimated to be \$2.09 billion at June 30, 1979. Of this amount, \$230 million is attributable to political subdivisions for which the state assumes no liability.

Note 3: Other than TCRS

Eligible faculty of the various state universities and community colleges may elect to become members of either TIAA-CREF, a privately-administered retirement plan, or the TCRS. The state assumes no liability for this group of TIAA-CREF members other than payment of matching contributions. During the year ended June 30, 1979 these members and the state each contributed \$4.9 million to the TIAA-CREF plan.

A second, now-closed group of University of Tennessee faculty also participates in TIAA-CREF with certain supplemental benefits guaranteed by the state. Prior to fiscal year 1978 these guaranteed benefits were funded by the university on a pay-as-you-go basis; they since have been assumed by the TCRS and are included in the actuarial calculations disclosed in the TCRS note above.

Note 4: Accounting Changes

The cumulative effect on prior years of changes in accounting principles as reported on the Statement of Revenues, Expenditures and Changes in Fund Balance represents inclusion of Accounts Payable and Accrued Interest on short term investments not previously reported, in order to more closely conform with generally accepted accounting principles for accrual basis accounting. The effect of these accounting changes is as follows:

Effect on 1979 Revenues:	
Increased for changes in accruals from June 30, 1978 to June 30, 1979	\$ 608,770.17
Effect on 1979 Expenditures:	
Increased for changes in payables June 30, 1978 to June 30, 1979	<u>1,034,482.71</u>
Effect on Revenues over (under) expenditures before cumulative effect of accounting change	<u>(425,712.54)</u>
Cumulative Effect on Prior Years:	
Revenues	2,423,762.93
Expenditures	(1,300,000.00)
Net Cumulative Effect	<u>1,123,762.93</u>

Additionally, June 30, 1978 receivables for Employer Contributions and Political Subdivisions have been restated for Political Subdivisions receivable amounts previously included in Employer Contributions receivable.

Note 5: Significant Accounting Policies

The Tennessee Consolidated Retirement System is a pension trust fund accounted for on the accrual basis of accounting. The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by (1) *Governmental Accounting, Auditing and Financial Reporting* (GAAFR, 1968) by the National Committee on Governmental Accounting, (2) *Audits of State and Local Governmental Units* (ASLGU, 1974) by the American Institute of Certified Public Accountants, and (3) *Statement I, Governmental Accounting and Financial Reporting Principles* (GAFR, 1979) by the National Council on Governmental Accounting.

**STATE OF TENNESSEE
DEPARTMENT OF THE TREASURY
SCHEDULE OF SALARIES REPORTED TO OASI AND FUNDS
TRANSMITTED TO FEDERAL GOVERNMENT**

<u>CATEGORY OF EMPLOYEES</u>	<u>1978-79</u>	<u>1977-78</u>	<u>PERCENTAGE INCREASE</u>
<u>SALARIES REPORTED TO OASI</u>			
State Employees	\$440,103,921.32	\$393,852,769.41	11.7%
Teachers	631,883,400.15	584,454,065.43	8.1%
Political Subdivisions	<u>972,050,386.46</u>	<u>890,518,732.92</u>	9.2%
Total	<u>\$2,044,037,707.93</u>	<u>\$1,868,825,567.76</u>	9.4%
<u>FUNDS TRANSMITTED TO THE FEDERAL GOVERNMENT</u>			
State Employees	\$53,614,540.74	\$46,900,957.92	14.3%
Teachers	76,985,025.89	69,753,907.24	10.4%
Political Subdivisions	<u>118,437,675.75</u>	<u>106,071,015.84</u>	11.7%
Total	<u>\$249,037,242.38</u>	<u>\$222,725,881.00</u>	11.8%

INVESTMENT ANALYSIS OF IDLE CASH FOR THE FISCAL YEAR ENDED JUNE 30, 1979

<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	\$27,429,943	\$27,944,196	\$125,870,484	\$702,741,620	93.7%
August	25,037,854	24,976,540	169,606,282	727,396,459	94.7%
September	35,278,561	29,316,713	109,516,633	758,947,803	93.1%
October	28,166,155	28,902,559	86,047,871	784,835,169	93.9%
November	31,925,028	29,928,636	54,041,333	738,098,870	92.8%
December	29,006,664	25,843,755	59,129,032	681,225,975	93.1%
January	34,024,539	28,606,743	72,693,548	670,120,136	92.2%
February	30,477,069	29,601,171	67,964,286	641,012,993	92.2%
March	26,710,217	32,512,082	65,490,323	601,863,685	91.9%
April	25,872,034	32,346,363	106,106,667	621,921,803	92.6%
May	26,495,053	30,361,703	123,209,677	671,065,298	93.3%
June	26,096,751	28,774,925	100,684,667	670,868,470	93.4%

**ANALYSIS OF PERCENTAGE RETURN
ON CASH MANAGEMENT INVESTMENTS FOR THE
FISCAL YEARS
JULY 1, 1972 THROUGH JUNE 30, 1979**

<u>FISCAL YEAR</u>	<u>AVERAGE AMOUNT INVESTED</u>	<u>AMOUNT EARNED</u>	<u>PERCENTAGE EARNED (CASH BASIS)</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
1978-79	689,174,857	54,208,974	7.87
<u>REPURCHASE AGREEMENTS</u>			
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
1978-79	95,030,067	8,319,193	8.75

**ANALYSIS OF PERCENTAGE RETURN
ON RETIREMENT INVESTMENTS FOR THE
FISCAL YEARS JULY 1, 1972 THROUGH JUNE 30, 1979**

<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	\$ 515,884,464	\$30,460,109	5.90%	\$ 516,642,604	\$28,943,829	5.60%
1973-74	586,176,926	36,852,911	6.29	588,737,167	31,732,428	5.39
1974-75	663,571,303	44,005,668	6.63	669,043,343	33,061,588	4.94
1975-76	760,669,461	51,824,802	6.81	760,029,929	53,103,867	6.99
1976-77	897,942,919	59,241,243	6.60	896,411,309	62,304,463	6.95
1977-78	1,069,721,675	72,870,213	6.81	1,069,341,125	73,631,313	6.89
1978-79	1,284,537,367	92,304,615	7.19	1,281,261,947	98,855,456	7.72

Note: The 1972-73 through 1977-78 percentage rates earned as stated above have been restated from prior reports due to a change in the formula for computation of yield rates for 1978-79. The new formula has been devised consistent with authoritative sources absent specific generally accepted accounting principles promulgating such and is as follows:

$$\frac{I}{(A + B - I) / 2}$$

Where:

- I = Current earnings plus discount minus premium
- A = Total assets less current liabilities at beginning of year
- B = Total assets less current liabilities at end of year

Note: Rates are computed where I includes and excludes gains and losses on sales of investments.



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

November 30, 1979

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

Dear Mr. Snodgrass:

We have examined the Balance Sheets of the Tennessee Consolidated Retirement System at June 30, 1979 and June 30, 1978, and the accompanying Statements of Revenues, Expenditures and changes in Fund Balance, and Cash Receipts and Disbursements for the years then ended and the Actuarial Balance Sheet at June 30, 1979. 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 aforementioned financial statements present fairly the financial position of the Tennessee Consolidated Retirement System at June 30, 1979 and June 30, 1978, and the results of its operations and the changes in financial position for the years then ended in conformity with generally accepted accounting principles applied on a consistent basis except for the changes, with which we concur, in the method of accounting for certain accounts as described in Note 4 to the financial statements.

Sincerely,

A handwritten signature in cursive script that reads "Frank L. Greathouse".

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

FLG/pna

INDEX OF CODE REFERENCES TO TREASURER'S DUTIES

The office of the State Treasurer is a constitutional office established by Article 7, Section 3, of the State Constitution. References to the various duties and responsibilities of the office set forth in the code are indexed below.

	<u>Tennessee Code Annotated Section</u>
Administrative Agencies	
Board of Banking	45-124
Board of Claims	9-801
Board of Equalization	4-307
Board of Trustees of the Tennessee Consolidated Retirement System	8-3925
Council on Pensions and Retirement	3-901
Funding Board	9-901
Investment Advisory Council	8-3929
Licensing Board of Healing Arts	63-101
State School Bond Authority	49-3514
Tennessee Housing Development Agency	13-2306
Tennessee Housing Rehabilitation Corporation	13-2208
Tennessee Industrial Development Agency	13-1604
Tennessee Student Assistance Corporation	49-5002
Investment of State Idle Cash Funds	9-406, 9-515
Old Age and Survivors Insurance Agency	8-3818, 8-3819
Receipt and Disbursement of Public Funds	8-506—8-510, 9-533
Tennessee Consolidated Retirement System	4-340, 8-3929
Unclaimed Property	64-2901—64-2932

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	1855-1857	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