



TREASURER'S REPORT 1980

**HARLAN MATHEWS
TREASURER
STATE CAPITOL
NASHVILLE, TENNESSEE 37210**

FOR THE FISCAL YEAR JULY 1, 1979 THROUGH JUNE 30, 1980

REPORT OF THE TREASURER OF THE STATE OF TENNESSEE



Harlan Mathews
Treasurer
Nashville, Tennessee

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STATE OF TENNESSEE



HARLAN MATHEWS
TREASURER

TREASURY DEPARTMENT
NASHVILLE, TENNESSEE 37219

January 13, 1981

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 1979-80 fiscal year. Included in this summary of the Treasury Department's financial activities are reports on the various programs administered by the Treasury Department, including the Tennessee Consolidated Retirement System, Cash Management Operations and Unclaimed Property and Escheat.

Several aspects of the year's activities described in detail elsewhere in this report are particularly noteworthy:

- The Tennessee Consolidated Retirement System provided monthly pension benefits to 36,767 retirees or beneficiaries and pension plan coverage to over 137,000 active teachers, state employees and local government employees. A direct deposit program was initiated to allow retirees to have their pension checks deposited directly to their banks.
- Investment holdings of the retirement system were increased by \$262.7 million to \$1.6 billion. Interest and dividend income totaled \$124.9 million, accounting for 29% of the system's total revenue for 1979-80. Assets of the retirement system increased by \$291 million to \$1.76 billion. TCRS investment portfolio performance for 1972-80 was ranked in the top 11% of all public funds by A. G. Becker Securities Corporation, an independent securities analysis firm.
- The Old Age and Survivors Insurance Agency collected and transmitted \$281 million in social security taxes to the federal government on behalf of 237,460 state and local government employees.
- \$4,227,692 of unclaimed cash property was turned over to the Treasurer. \$1,132,105 of the reported property was returned to the owners or their heirs.
- Two new programs were organized under Treasury Department administration: an investment pool for local governments and a deferred compensation plan for state employees. These programs will begin during the 1980-81 fiscal year.

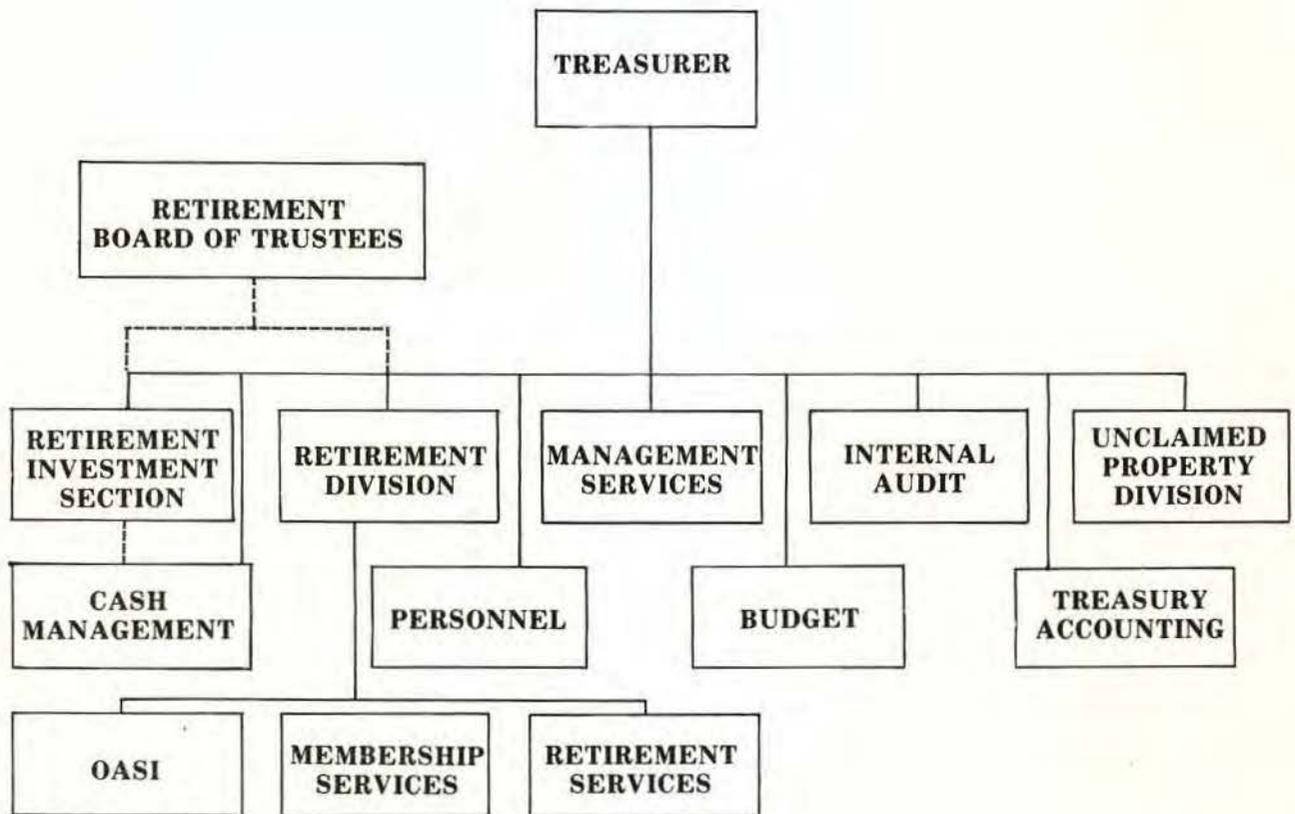
The Treasury Department continues its emphasis on an active program of sound financial management.

Sincerely,

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

DEPARTMENT ORGANIZATION

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





STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT

SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37219
PHONE (615) 741-3897

October 31, 1980

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, 1980 and June 30, 1979 and the related statements of revenues and expenditures and changes in fund balances for the years then ended. Our examinations were 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 Tennessee Consolidated Retirement System at June 30, 1980 and June 30, 1979, and the results of operations for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Our examinations were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The actuarial balance sheet and statement of cash receipts and disbursements are presented for the purposes of additional information and are not a required part of the basic financial statements. Such information, except for the actuarial balance sheet on which we express no opinion, has been subjected to the auditing procedures applied in the examinations of the basic financial statements, and, in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Sincerely,

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

FLG/pna

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

One of the primary responsibilities of the State Treasurer is the administration of the state's retirement system for the purpose of providing pension coverage for state employees, teachers, and participating local government employees. 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.

In addition, the Treasurer's office administers the Old Age and Survivors Insurance Agency (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 employees and employer social security contributions to the Federal Government.

Old Age and Survivors Insurance Agency (OASI)

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 tables show the number of employees covered by social security during the last two years, the salaries reported to OASI, and the funds transmitted to the Federal Government.

State and Local Government Employees Covered by Social Security

Employment Category	Number of Covered Employees	
	June 30, 1980	June 30, 1979
State Employees	42,350	46,961
Teachers	52,680	52,325
Political Subdivisions Employees	142,430	134,666
Total	<u>237,460</u>	<u>233,952</u>

Salaries Reported to OASI

Category of Employees	1979-80	1978-79	Percentage Increase
State Employees	\$ 438,030,526.56	\$ 440,103,921.32	(.47)%
Teachers	715,959,933.40	631,883,400.15	13.30
Political Subdivisions	1,138,029,762.41	972,050,386.46	17.10
Total	<u>\$2,292,020,222.37</u>	<u>\$2,044,037,707.93</u>	9.97

Funds Transmitted to the Federal Government

Category of Employees	1979-80	1978-79	Percentage Increase
State Employees	\$ 53,702,542.56	\$ 53,614,540.74	1.6%
Teachers	87,776,687.66	76,985,025.89	14.0
Political Subdivisions	139,522,448.78	118,437,675.75	17.8
Total	\$ 281,001,679.00	\$ 249,037,242.38	11.0

Membership and Contributions

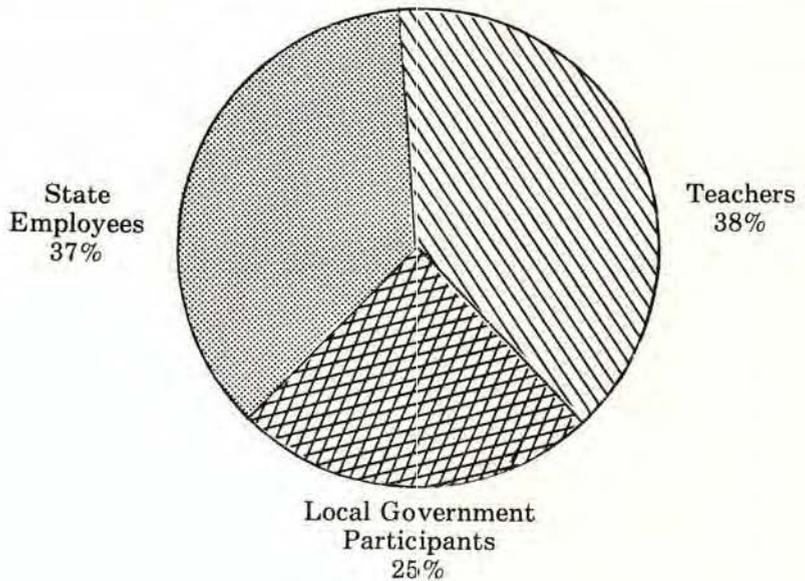
Effective July 1, 1972, the Consolidated Retirement Act of 1972 brought together the state's seven retirement systems into a single system with three groups of members: Group I, teachers and general employees; Group II, state policemen, wildlife officers, firemen and policemen; and Group III, judges and elected officials. Prior members of the seven superseded systems were permitted to 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 and Annuity Association Plan which is optional to higher education teachers.

During 1979-80, the Tennessee Consolidated Retirement System provided retirement coverage to

- 52,071 teachers
- 51,215 state employees
- 34,306 local government employees
- 137,592 active members



TCRS membership has grown steadily since consolidation in 1972. During 1979-80, membership reached 137,592, a 1.7% increase over 1978-79 membership of 135,247.

Benefits to members of the retirement system are financed by both member and employer contributions.

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 1979-80 were \$81,676,014. This figure represents a 6.7% increase over the \$76,535,547 in member contributions paid during 1978-79.

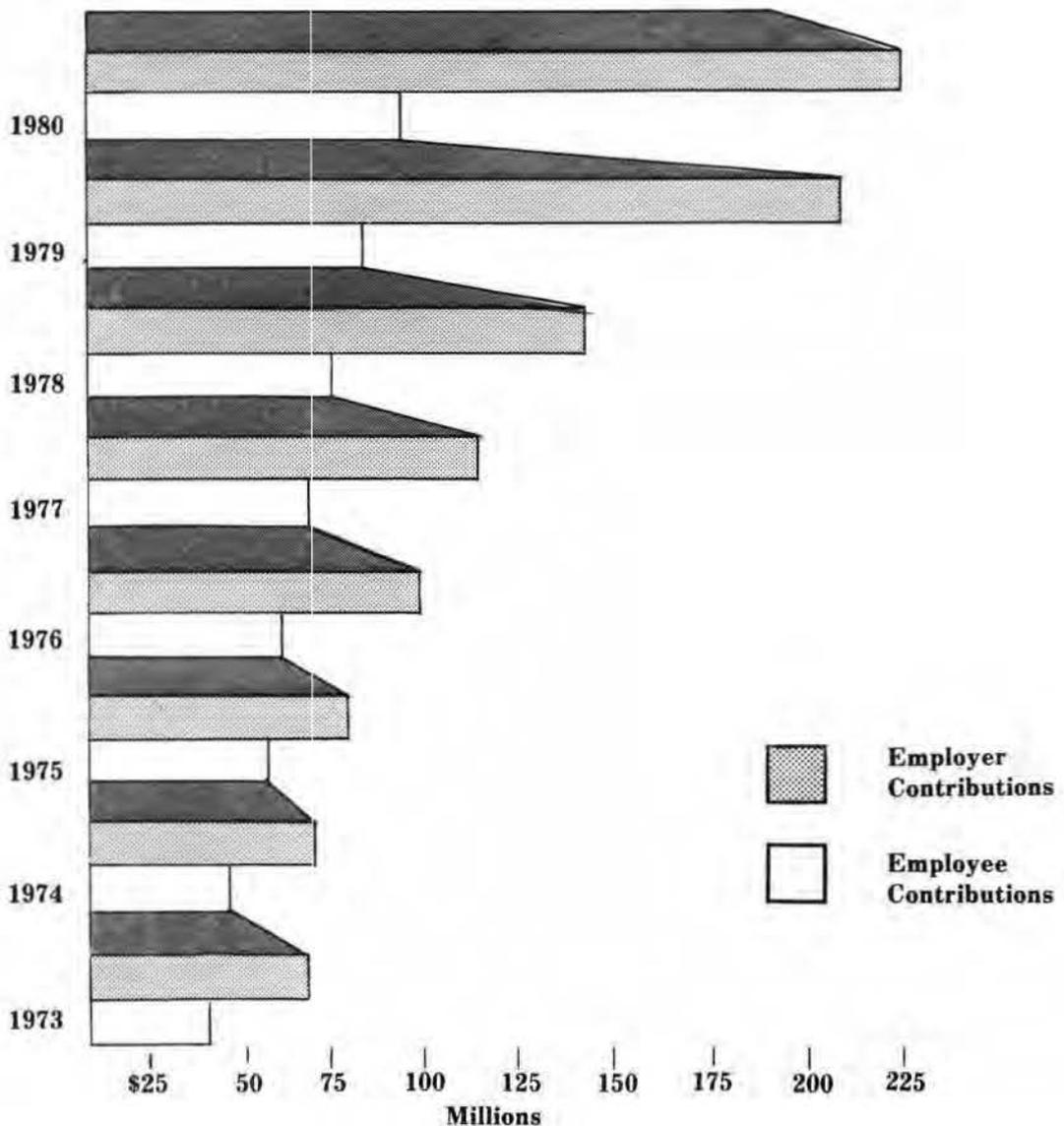
The contribution rates for the employers participating in the system are determined by a biennial actuarial valuation performed by an independent actuarial firm. It is the policy of the retirement system to fund pension cost accrued. The contribution rates include funding for the cost of living provision 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, 1980 were as follows:

State Employees	7.06%
Teachers	15.47%
Political Subdivisions	Individually Determined

Total employer contributions generated by these rates for the year ended June 30, 1980 were \$216,556,250. This figure indicates a 7.1% growth over the \$202,075,615 in employer contributions made during 1978-79.

Member and employer contributions for the past eight years are illustrated below.

Analysis of Employee and Employer Contributions 1973-1980



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. The amount of the retiree's benefit is calculated based on the average of the member's five highest consecutive years of employment and the years of creditable service. A reduced early retirement benefit is available to vested members at age 55.

Disability benefits are available through the retirement system to active members who become disabled as a result of an accident or injury occurring in the performance of duty or to active members with five or more years of membership service who become disabled from performing gainful employment.

During the year ended June 30, 1980, the retirement system provided monthly benefits to 36,767 retirees or beneficiaries. Detailed below is an analysis of benefit payments during the last two years.

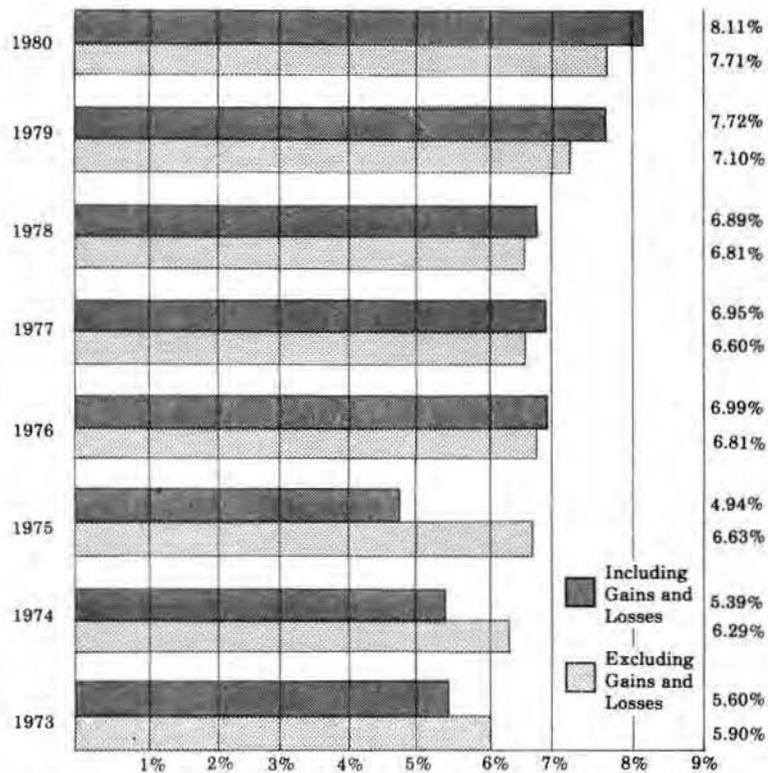
	Year Ended June 30, 1980		Year Ended June 30, 1979	
	Retirees	Benefits	Retirees	Benefits
State Employees	9,937	\$ 25,836,106	9,320	\$ 22,944,604
Teachers	20,053	75,083,967	19,516	69,635,077
Political Subdivision Employees	6,777	12,643,777	6,078	11,053,189
Total	36,767	\$113,563,850	34,914	\$103,632,870
Percent Increase	5.3%	9.58%		

Investments

The cash reserves of the Tennessee Consolidated Retirement System are invested by the Investment Cash Management Division of the Treasury Department. Investment holdings of the retirement system increased by \$262.7 million during the 1979-80 fiscal year to \$1.6 billion. Interest and dividend income from long and short term investments totaled \$124,922,850 in 1979-80, which represents 29% of the system's total revenue. This \$124.9 million in investment income exceeded the year's retirement benefit and death benefit payments by over \$10 million.

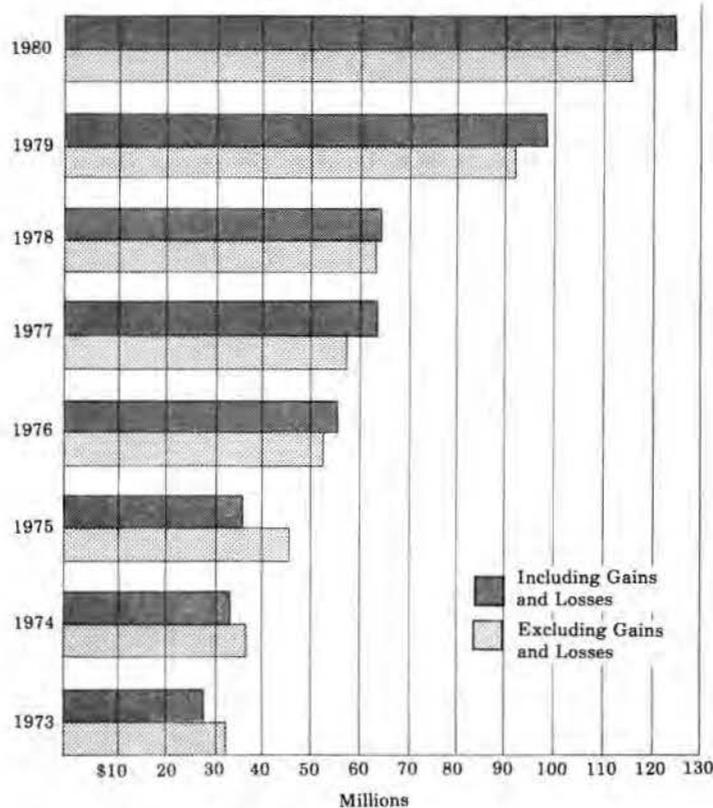
Growth in investment earnings and investment yield rates over the past eight years are illustrated by the following charts.

Investment Yield Rates



Average yield to maturity on bonds purchased during 1979-80 was 11.05%, up from 9.12% for the 1978-80 fiscal year.

Investment Income Growth

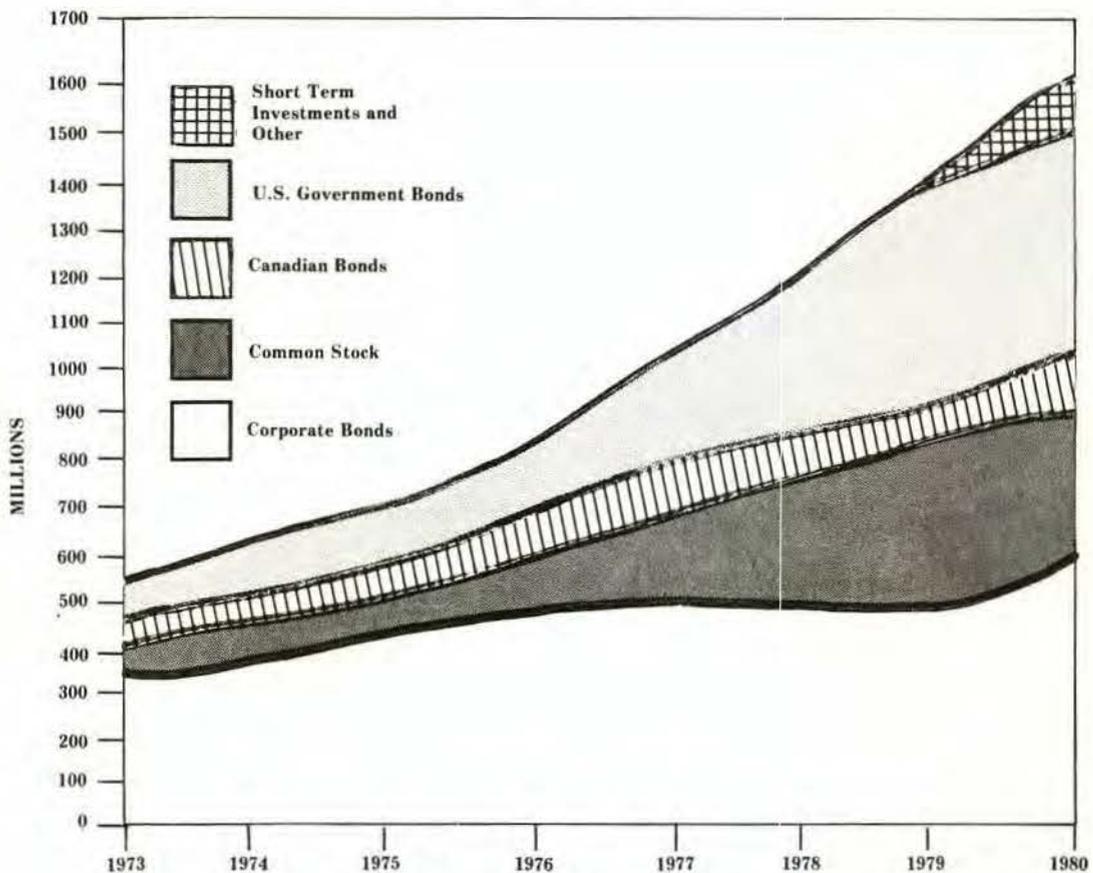


Book Value of Retirement Fund Investments

	June 30, 1980	June 30, 1979
Short Term Investments		
Stocks	\$ 202,024,441	\$ 83,770,641
Bonds	370,886,633	337,965,462
Farmer Home Administration	1,126,607,831	992,395,790
Notes	6,977,865	7,577,780
FHA/VA Mortgages	959,328	1,089,852
Total	\$1,707,456,098	\$1,422,799,525

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 of 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. Assets have been invested in the following proportions over the last eight years.

Portfolio Distribution



The Tennessee Consolidated Retirement System's overall investment portfolio performance for 1972-80 ranks in the top 11% of all public funds, according to the 1980 evaluation by A. G. Becker Securities Corporation, an independent securities analysis firm. The portfolio's 1979-80 investment performance ranks in the top 50% of all public funds in the Becker data base.

**Analysis of Percentage Return
on Retirement Investments for the
Fiscal Years July 1, 1972 Through June 30, 1980**

Fiscal Year	EXCLUDING GAINS AND LOSSES			INCLUDING GAINS AND LOSSES		
	Average Amount Invested	Amount Earned	Percentage Earned	Average Amount Invested	Amount Earned	Percentage Earned
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
1979-80	1,542,751,066	118,939,883	7.71	1,539,759,583	124,922,850	8.11

NOTE: The formula used to calculate the above figures 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.

COMPARATIVE BALANCE SHEET

	June 30, 1980	June 30, 1979
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 122,045,980.64	\$ 95,763,735.57
RECEIVABLES:		
Investments Sold	\$ 93,002.41	\$ 58,111.25
Member Contributions Receivable	6,182,557.92	6,033,779.08
Employer Contributions Receivable	3,250,463.00	3,406,990.01
Accrued Interest Receivable	24,769,793.49	23,184,782.02
Accrued Dividends Receivable	1,911,365.51	1,609,630.01
Political Subdivisions Receivable	1,932,056.67	1,753,861.47
Total Receivables	<u>\$ 38,139,239.00</u>	<u>\$ 36,047,153.84</u>
INVESTMENTS:		
Government Bonds (Par Value)	\$ 560,729,440.96	\$ 526,661,899.25
Canadian Bonds (Par Value)	77,235,166.64	76,577,999.98
Corporate Bonds (Par Value)	510,504,270.52	418,430,919.07
Net Unamortized Premium and (Discount) on Bonds	(28,634,219.10)	(20,607,396.98)
Corporate Stocks (Cost)	370,886,633.41	337,965,462.39
Short Term Investments	97,300,000.00	300,000.00
Savings and Loans	14,000,000.00	0
Total Investments	<u>\$1,602,021,292.43</u>	<u>\$1,339,328,883.71</u>
Total Assets	<u>\$1,762,206,512.07</u>	<u>\$1,471,139,773.12</u>
LIABILITIES AND FUND BALANCE		
CURRENT LIABILITIES:		
Warrants Payable	\$ 13,671,968.91	\$ 9,958,612.32
Accounts Payable	2,939,205.68	2,334,482.71
Total Current Liabilities	<u>\$ 16,611,174.59</u>	<u>\$ 12,293,095.03</u>
FUND BALANCE:		
Reserved for Member Contributions	\$ 516,485,693.90	\$ 450,372,811.56
Reserved for Employer Contributions	1,228,863,097.07	1,008,222,275.10
Reserved for Former Member Contributions	246,546.51	251,591.43
Total Fund Balance	<u>\$1,745,595,337.48</u>	<u>\$1,458,846,678.09</u>
Total Liabilities and Fund Balance	<u>\$1,762,206,512.07</u>	<u>\$1,471,139,773.12</u>

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

	For the Year Ended June 30, 1980		For the Year Ended June 30, 1979	
Fund Balance, Beginning of Year		\$1,458,846,678.09		\$1,202,532,671.58
Revenues:				
Member Contributions	\$ 81,676,014.44		\$ 76,535,547.11	
Employer Contributions	189,676,884.81		182,024,201.54	
Political Subdivisions Contributions	26,849,098.84		20,013,780.80	
TIAA Contributions	<u>10,790,483.76</u>	308,992,481.85	<u>9,888,148.03</u>	288,462,177.48
Investment Income:				
Interest	\$ 88,836,083.41		\$ 72,758,494.25	
Dividends	21,607,514.21		16,007,538.52	
Net Discount and (Premium) Amortization	8,496,285.54		3,538,582.42	
Net Profit (Loss) on Sale of Investments	<u>5,982,967.29</u>	124,922,850.45	<u>6,548,440.91</u>	98,853,056.13
Total Revenues		<u>\$ 433,915,332.30</u>		<u>\$ 387,315,233.61</u>
Expenditures:				
Annuity Benefits	\$113,563,849.71		\$103,632,870.39	
Death Benefits	1,165,675.56		1,043,306.58	
Refunds	21,676,930.35		17,613,455.66	
TIAA Payments	<u>10,790,483.76</u>	147,196,939.38	<u>9,872,490.53</u>	132,162,123.16
Total Expenditures		<u>\$ 147,196,939.38</u>		<u>\$ 132,162,123.16</u>
Excess of Revenues over Expenditures		<u>\$ 286,718,392.92</u>		<u>\$ 255,153,110.45</u>
Other Financing Sources:				
Operating Transfer from Special Revenue Fund		<u>\$ 30,266.47</u>		<u>\$ 37,133.13</u>
Excess of Revenues and Other Sources over Expenditures		<u>\$ 286,748,659.39</u>		<u>\$ 255,190,243.58</u>
Cumulative Effect on Prior Years of Changes in Accounting Principles		<u>\$ 0</u>		<u>\$ 1,123,762.93</u>
Excess of Revenues and Other Sources over Expenditures		<u>\$ 286,748,659.39</u>		<u>\$ 256,314,006.51</u>
Fund Balance, End of Year		<u><u>\$1,745,595,337.48</u></u>		<u><u>\$1,458,846,678.09</u></u>

NOTES TO FINANCIAL STATEMENTS

Market Value of Investments

The market value of the Tennessee Consolidated Retirement System Investments as of June 30, 1979 and June 30, 1980 is as follows:

	June 30, 1980	June 30, 1979
Bonds-Marketable	\$ 949,111,020	\$ 801,346,720
Mortgages	7,943,740	8,667,632
Bonds-Private Placements (Estimated Market Value)	131,185,026	119,530,077
Stock	419,850,550	357,817,397
Total	<u>\$1,508,090,336</u>	<u>\$1,287,361,826</u>

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.

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, 1980 the State contributed \$216.6 million to the pension plan while the employees contributed \$81.7 million. 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, 1979. The APB #8 liability information per that report is as follows:

	State	Political Subdivisions	Total
Present value of vested benefits including cost-of-living	\$2,297,778,371	\$235,862,194	\$2,533,640,565
Net assets (valued at five-year moving market average)	<u>1,272,038,512</u>	<u>118,464,719</u>	<u>1,390,503,231</u>
APB #8 liability in excess of net assets	<u>\$1,025,739,859</u>	<u>\$117,397,475</u>	<u>\$1,143,137,334</u>

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 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 increase 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.

Other than TCRS

Teachers of the State University and Community College System may elect to become members of the TIAA/CREF Retirement Plan. The state assumes no liability for this retirement plan other than payment of matching contributions. During the year ended June 30, 1980 the state contributed \$5.4 million in matching contributions to the plan while employees contributed an additional \$5.4 million.

OTHER SUPPLEMENTAL TCRS INFORMATION

Actuarial Balance Sheet—Schedule I

	June 30, 1980 Unaudited	
	Resources	
Net Assets		\$1,390,503,231
Present Value of Future Level Payroll Contributions		
Member	\$716,564,116	
Employer	<u>663,461,572</u>	1,379,980,688
Accumulated Prior Level Payroll Contributions to be Financed		<u>2,086,620,979</u>
Total		<u><u>\$4,857,104,898</u></u>

Requirements

Present Value of Benefits (Past and Future Service For):		
Present Retired Members and Contingent Annuitants		\$1,120,664,944
Present Active Members		3,689,566,769
Former Members		<u>46,873,185</u>
Total		<u><u>\$4,857,104,898</u></u>

Funding Ratios

June 30, 1977	49.7%
June 30, 1979	52.8%

The Actuarial Balance Sheet was prepared from the actuary's report as of June 30, 1979, the date of the most recent actuarial study. 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. 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 \$2,086,620,979 at June 30, 1979 which includes \$230,114,678 attributable to political subdivisions for which the State assumes no liability. This compares to a supplemental liability of \$1,742,655,000 at June 30, 1977 of which \$190,078,000 was attributable to political subdivisions.

Statement of Cash Receipts and Disbursements—Schedule II

	For the Year Ended June 30, 1980	For the Year Ended June 30, 1979
Cash Balance at Beginning of Year	\$ 95,763,735.57	\$ 97,112,643.38
Add Cash Receipts:		
Member Contributions	\$ 81,527,235.60	\$ 76,153,129.96
Employer Contributions	189,863,678.29	180,685,917.73
Political Subdivisions Contributions	26,670,903.64	19,837,218.21
Investment Income—Interest	87,251,071.94	68,861,352.18
Investment Income—Dividends	21,305,778.71	15,774,718.16
Investments Sold (Net Book Value)	533,109,693.01	184,499,859.50
TIAA Contributions	10,790,483.76	9,888,148.03
Total Cash Receipts	<u>\$950,518,844.95</u>	<u>\$555,700,343.77</u>
Deduct Cash Disbursements:		
Annuity Benefits	\$113,563,849.71	\$103,632,870.39
Death Benefits	1,165,675.56	1,043,306.58
Refunds	21,176,930.35	17,413,455.66
Investments Purchased	777,640,748.75	425,921,611.13
TIAA Payments	10,689,395.51	9,038,007.82
Total Cash Disbursements	<u>\$924,236,599.88</u>	<u>\$557,049,251.58</u>
Cash Balance at End of Year	<u>\$122,045,980.64</u>	<u>\$ 95,763,735.57</u>

CASH MANAGEMENT OF STATE FUNDS

Operation of the cash management program of the State of Tennessee is an important function of the Treasurer's Office. Cash management involves maximizing interest earnings on state investments by investing idle funds to the fullest extent possible, ensuring availability of funds to meet state expenditures by forecasting cash requirements and selecting securities that can be promptly converted into cash, and safeguarding state funds.

During 1979-80, receipts from idle cash investments totaled \$78,838,293. This total is 25% higher than 1978-79 short term investment earnings, even though the average total investments during the year were 8.7% less than during 1978-79. The percent of total available cash invested for the year ended June 30, 1980 was 92.4%.

Of this \$78.8 million, \$66.8 million was derived from cash invested in certificates of deposit with Tennessee banks and savings and loan organizations. Additional income was gained from overnight repurchase agreements with major institutions. These agreements allow the state to earn overnight interest while enabling the banks to maintain the level of reserves required by the Federal Reserve System.

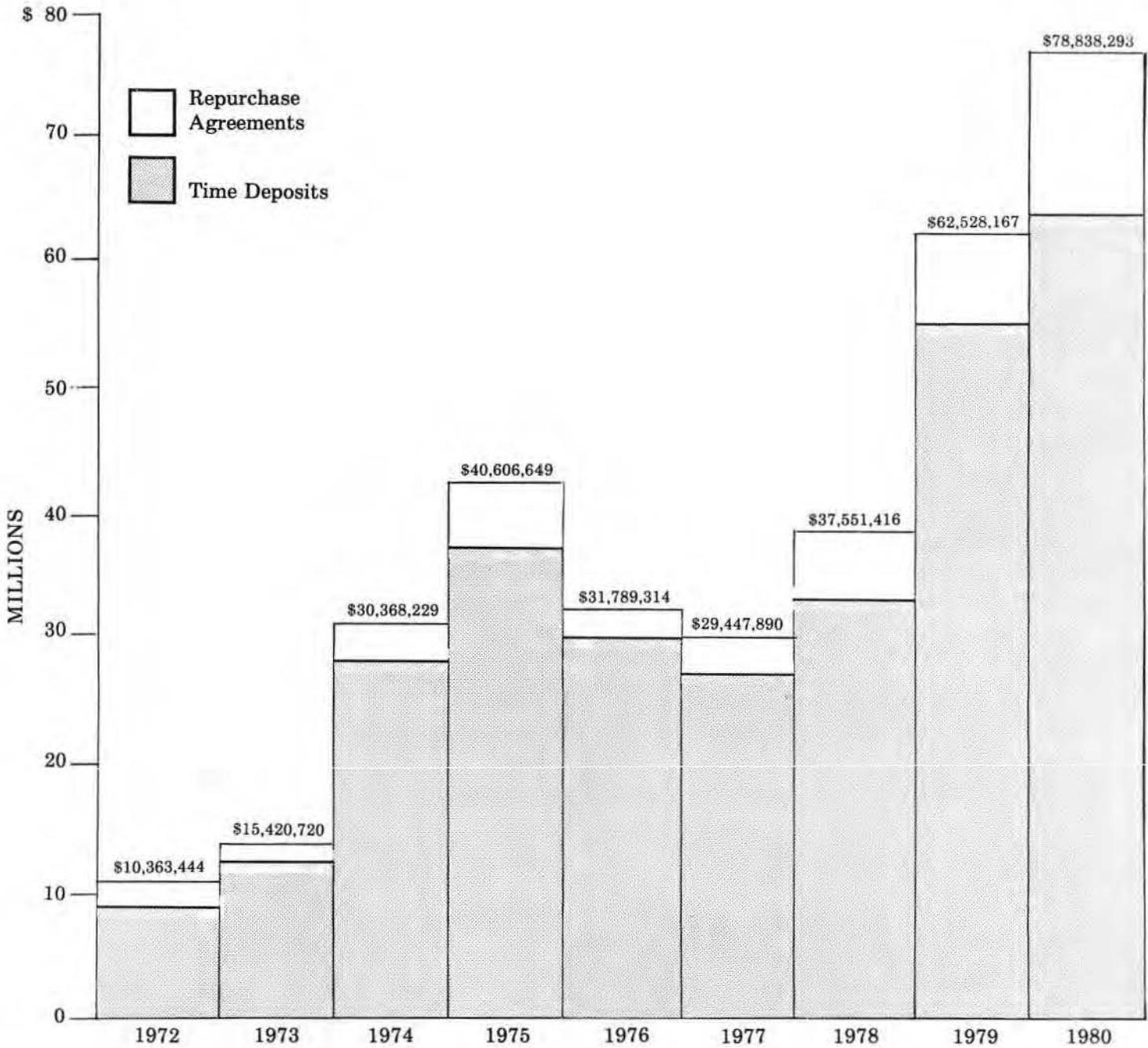
Due to the short duration of these investments, returns are closely tied to the rate curve which develops over a year. Funds invested this year, while close to 1978 levels, yielded almost double the income because of market conditions.

The Treasurer maintains bank accounts throughout the State of Tennessee for the receipt of funds deposited to the state. At June 30, 1980, the state had 405 bank demand deposit accounts. There are three banks in Nashville which are specifically designated to pay state warrants and which are also used as concentration points for funds transferred from outlying banks and maturing investments. The concentration and investment of idle cash is performed by the Treasurer's cash management office under guidelines established by the State Funding Board.

Tennessee law requires any investment or deposit with banking institutions or savings and loan organizations to be collateralized. The face value of such collateral must be an amount 10% in excess of the deposit to be secured, less any insurance coverage provided by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation. During its 1980 session, the General Assembly passed a bill allowing banking institutions to create a collateral pool.

The control of the state's cash transactions managed by the Treasury Department is accomplished by monthly reconciliations to the Department of Finance and Administration of all bank statements and warrants paid.

Growth of Short Term Investment Earnings



ANALYSIS OF CASH MANAGEMENT OPERATIONS

Fiscal Year Ended

	June 30, 1980	June 30, 1979	June 30, 1978	June 30, 1977	June 30, 1976	June 30, 1975
Avg. Investment in Time Deposits	\$618,513,957	\$689,174,857	\$613,377,489	\$469,542,386	\$378,653,184	\$436,871,936
Avg. Investment in Repurchase Agreements	<u>96,967,724</u>	<u>95,030,067</u>	<u>95,822,272</u>	<u>88,427,788</u>	<u>51,838,985</u>	<u>39,479,178</u>
Average Total Funds Invested	<u>\$715,481,681</u>	<u>\$784,204,924</u>	<u>\$709,199,761</u>	<u>\$557,970,174</u>	<u>\$430,492,169</u>	<u>\$476,351,114</u>
Earnings on Time Deposits	\$ 66,879,117	\$ 54,459,731	\$ 31,854,178	\$ 24,847,902	\$ 29,318,124	\$ 37,643,580
Earnings on Repurchase Agreements	<u>11,959,176</u>	<u>8,319,193</u>	<u>5,697,238</u>	<u>4,599,988</u>	<u>2,471,190</u>	<u>2,963,069</u>
Total Cash Management Earnings	<u>\$ 78,838,293</u>	<u>\$ 62,778,924</u>	<u>\$ 37,551,416</u>	<u>\$ 29,447,890</u>	<u>\$ 31,789,314</u>	<u>\$ 40,606,649</u>
Percent of Total Available Cash Invested	92.4%	93.1%	93.2%	92.9%	94.0%	91.9%
Average Rate of Return on Time Deposits	11.26%	7.87%	5.19%	5.29%	7.74%	8.62%
Average Rate of Return on Repurchase Agreement	12.49%	8.75%	5.95%	5.20%	4.77%	7.50%
Composite Weighted Average Rate of Return	11.39%	8.64%	6.41%	5.78%	7.38%	8.53%

INVESTMENT ANALYSIS OF IDLE CASH

FISCAL YEAR ENDED JUNE 30, 1980

MONTH	AVERAGE CASH		INVESTMENTS		
	Average Funds in Paying Banks	Average Funds in Other Depositories	Average Repurchase Agreements	Average Time Deposits	Percentage of Funds Invested
July	\$15,939,858	\$44,766,722	\$143,834,839	\$689,209,459	93.21%
August	25,720,071	36,387,212	136,946,613	690,386,878	93.02%
September	34,537,977	26,543,826	89,780,000	663,500,379	92.50%
October	29,357,886	24,171,147	108,457,250	637,944,484	93.31%
November	28,176,280	21,783,111	98,740,000	609,915,333	93.41%
December	35,973,654	24,316,107	56,302,645	593,129,323	91.51%
January	25,009,736	22,937,958	79,087,258	608,801,903	93.48%
February	40,083,448	24,655,277	89,252,069	593,301,414	91.34%
March	33,187,182	23,002,126	62,090,806	588,918,355	92.05%
April	35,444,006	29,228,415	95,706,867	585,695,667	91.33%
May	32,293,573	29,618,610	132,200,419	575,370,290	91.95%
June	30,335,813	26,027,456	71,208,167	585,994,000	92.10%

CASH AND CASH EQUIVALENTS

June 30, 1980
(Expressed in Thousands)

Cash and Cash Equivalents per Department of Finance and Administration	\$1,030,979
Less: Petty Cash and Travel Advances	(186)
Departmental Revolving Accounts	(875)
Departmental Cash in Other Accounts	(208,725)
Net Reconciling items to Bank Statements	(8,601)
Timing on Chase Manhattan	(11,223)
Total	\$(229,610)
Cash and Cash Equivalents per Department of the Treasury	\$ 801,369

NOTE: The cash and cash equivalents per Finance and Administration is reported in the State of Tennessee Annual Financial Report as \$1.03 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, 1980 cash and cash equivalents as follows:

Cash in banks	\$ 65,079
Plus: Adjustments to banks	1
Adjusted cash in banks	\$ 65,080
Time deposits	621,289
Repurchase agreements	115,000
Total	\$ 801,369

UNCLAIMED PROPERTY AND ESCHEAT

The 1978 General Assembly enacted the Uniform Disposition of Unclaimed Property Act to be administered by the Treasury Department. First reports under the Act were due in the Treasurer's Office May 1, 1979 and subsequent reports are due May 1 of each year.

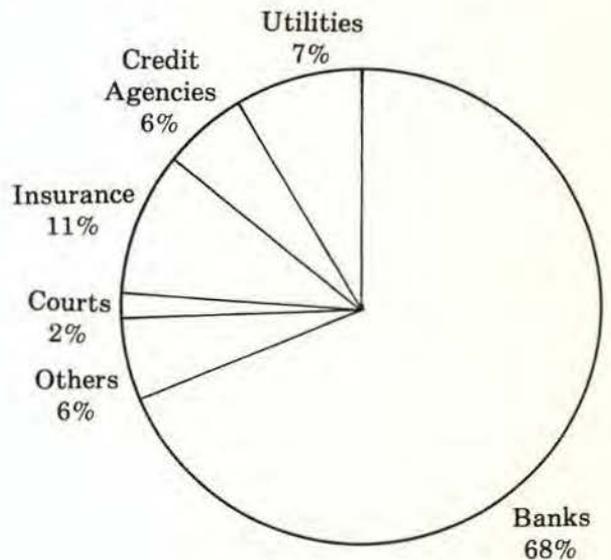
The Act affects personal property which an entity is holding for another person. Property which is being held for another person comes under the law if the holder of the property has had no contact with the owner for a period of seven years (two years for safe deposit boxes) and, if the holder cannot now locate the owner. This property is reported to the Treasurer who then advertises the names and last known addresses of the owners and attempts to contact owners by mail. Property which is not claimed from the holder as a result of advertising is turned over to the Treasurer's custody to be held until it is claimed by the owner.

During the fiscal year ending June 30, 1980, \$4,227,691.97 of property in the form of cash was turned over to the Treasurer. \$1,132,105.59 or 22% of the reported property was returned to the owners or their heirs. In addition, the contents of approximately 3,400 safe deposit boxes were delivered to the Treasurer. If the owners of these items cannot be located through additional efforts, these non-cash items will be sold at public sale and the proceeds will be held for the owners or their heirs.

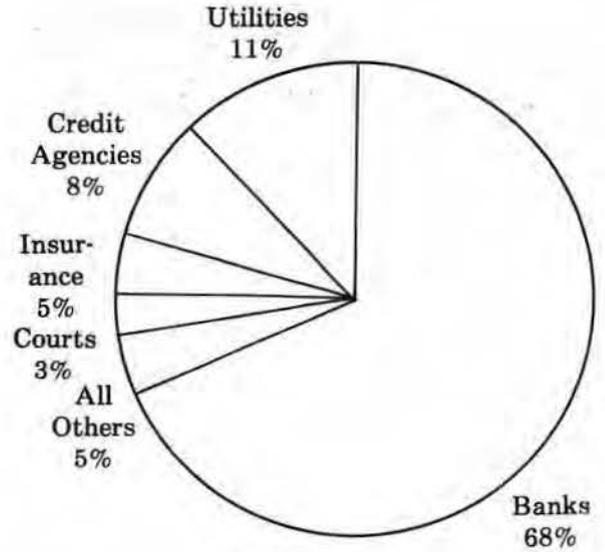
Administration of the State's escheat law is also the responsibility of the Treasurer's Office as a result of legislation passed in 1979, which became effective January 1, 1980. Formerly, this responsibility was with the Comptroller's Office. Anytime an individual in Tennessee dies without heirs, by law, their property becomes the property of the State: it "escheats" to the State. The law provides that this property will be reported to the Treasurer by the administrator of the estate. The Attorney General's Office at the request of the Treasurer will then institute a court action for a formal declaration of escheat.

Unclaimed Property Collected

Reporting Entity	Number of Accounts
Utilities	1,324
Banks	13,348
Credit Agencies	1,144
Insurance Companies	2,155
Courts	288
All Others	1,151
Total	19,410

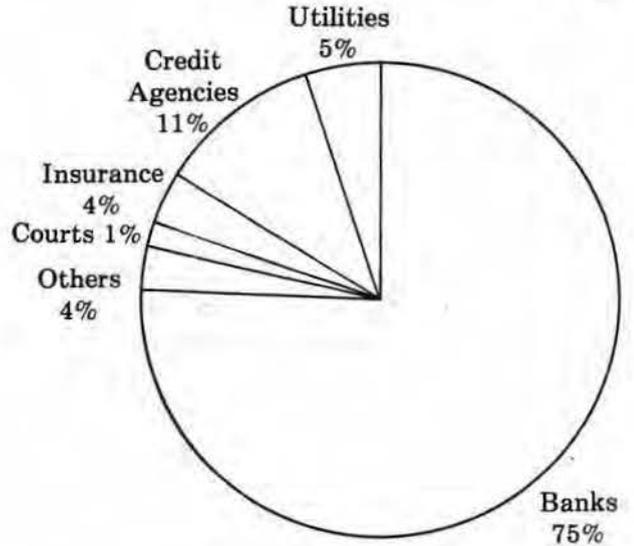


Reporting Entity	Final Value Of Property
Utilities	\$ 484,651
Banks	2,884,819
Credit Agencies	332,018
Insurance Companies	214,965
Courts	93,650
All Others	217,589
Total	\$4,227,692

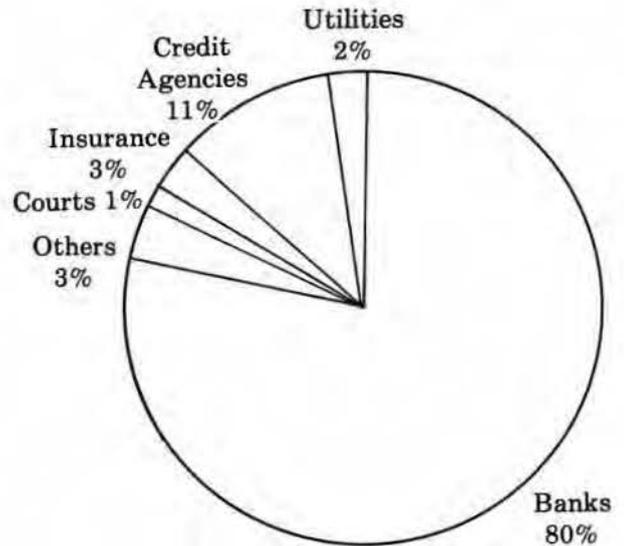


Claims Paid

Reporting Entity	Number of Accounts
Utilities	374
Banks	5,424
Credit Agencies	792
Insurance Companies	346
Courts	22
All Others	296
Total	7,254



Reporting Entity	Value of Claims Paid
Utilities	\$ 26,805
Banks	910,353
Credit Agencies	122,481
Insurance Companies	34,843
Courts	2,770
All Others	34,854
Total	\$1,132,106



INDEX OF CODE REFERENCES TO THE 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.

	Tennessee Code Annotated Section
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	8-34-301—8-34-318
Council on Pensions and Retirement Funding Board	3-9-101 9-901
Investment Advisory Council	8-37-108
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
Deferred Compensation	8-31-801—8-31-802
Escheat	8-25-101—8-25-108
Investment of State Idle Cash Funds	9-406, 9-515
Old Age and Survivors Insurance Agency	8-38-118—8-38-119
Receipt and Disbursement of Public Funds	8-5-106—8-5-110, 9-533
Tennessee Consolidated Retirement System	4-340, 8-37-102
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