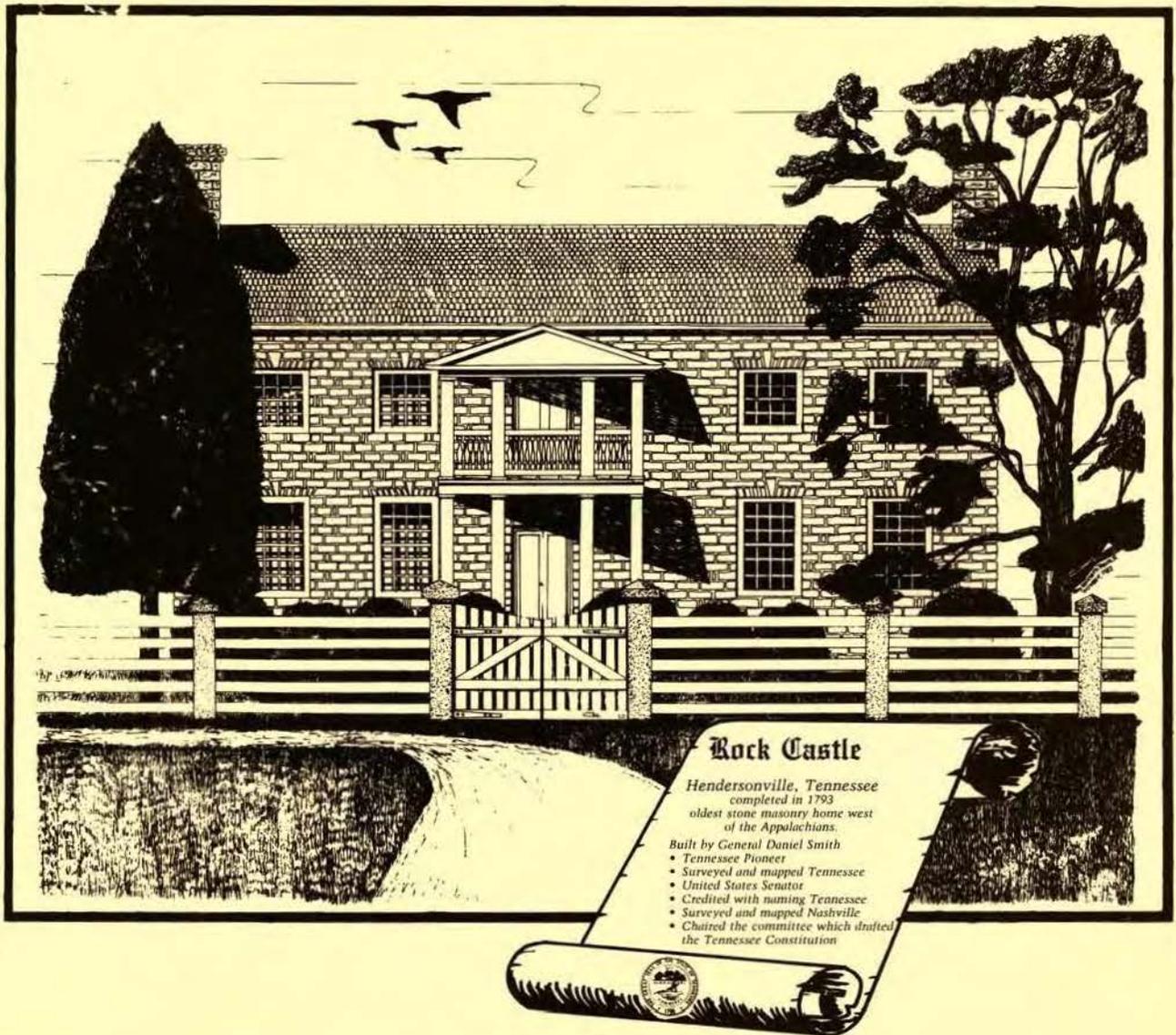


TREASURER'S REPORT 1982



Rock Castle

Hendersonville, Tennessee
completed in 1793
oldest stone masonry home west
of the Appalachians.

- Built by General Daniel Smith
- Tennessee Pioneer
 - Surveyed and mapped Tennessee
 - United States Senator
 - Credited with naming Tennessee
 - Surveyed and mapped Nashville
 - Chaired the committee which drafted the Tennessee Constitution

HARLAN MATHEWS
TREASURER
STATE CAPITOL
NASHVILLE, TENNESSEE 37219

FOR THE FISCAL YEAR JULY 1, 1981 THROUGH JUNE 30, 1982

1982 Report of the Treasurer

**Harlan Mathews, Treasurer
State of Tennessee**

Year Ended June 30, 1982



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LETTER OF TRANSMITTAL

STATE OF TENNESSEE



HARLAN MATHEWS
TREASURER

TREASURY DEPARTMENT

DAVID MANNING
EXECUTIVE ASSISTANT

January 11, 1982

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

Gentlemen:

The Annual Financial Report of the Treasurer's Office for the fiscal year ended June 30, 1982, is submitted herewith. This report contains a summary of all the programs administered by the Treasury Department as well as statistical information and financial statements reflecting the current condition of these programs. In addition to reporting on the operation of programs included in previous Treasurer's Reports, the 1982 Report contains for the first time statistical data for the State of Tennessee Deferred Compensation Plan and the Board of Claims.

As has been the case since I was initially elected Treasurer in 1974, our Investment Program had an increasingly important role in financing state government. I am extremely proud of the performance of the Treasury Department. Earnings on uncommitted state funds available for investment and funds from the Tennessee Consolidated Retirement System have exceeded \$1.2 billion during the 1974-82 period. During the most recent fiscal year, earnings on uncommitted state funds provided the state with income of \$90.3 million with a rate of return of 14.21% on the monies invested.

We will continue to make every effort to made further improvements in the Investment Program as well as the administration of the Tennessee Consolidated Retirement System and the other programs for which we have responsibility. Thank you for your continuing support of our efforts.

Sincerely,

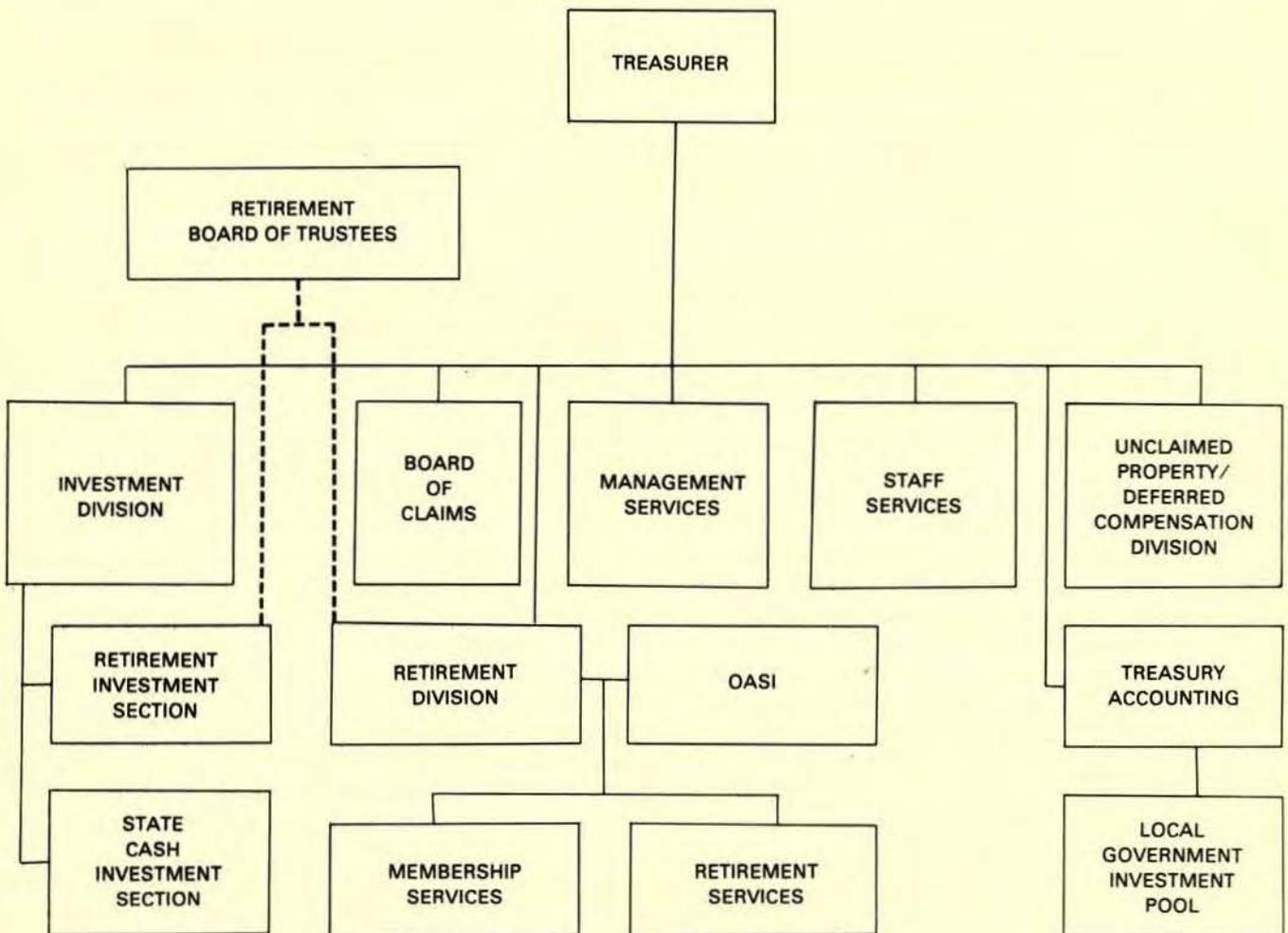
A handwritten signature in cursive script that reads "Harlan Mathews".

Harlan Mathews
State Treasurer

INTRODUCTION

The 1982 Treasurer's Report contains reports on various programs administered by the Treasury Department, including the Investment Program, Tennessee Consolidated Retirement System, Local Government Investment Pool, Board of Claims, Deferred Compensation Plan, Unclaimed Property and Escheat Program.

In order to carry out the duties assigned to the Treasurer's Office, the department is organized according to the following plan.



The following comments on each program administered by the department represents a brief recap of its purpose and operations. The remainder of this report gives detailed data regarding each of these program's activities during the 1981-82 fiscal year.

Investment Program: This division of the Treasury Department has the responsibility for investing funds from two primary sources: uncommitted state funds available for investment and the Tennessee Consolidated Retirement System's funds. During the 1981-82 fiscal year the investment of uncommitted

INTRODUCTION

state funds yielded earnings of \$90,389,685, despite the fact that the average total funds available for investment during the year were 6.5% less than during 1980-81. The rate of return on retirement investments was in excess of 10%, producing \$215,770,205 in investment income for the TCRS.

Local Government Investment Pool: The LGIP allows the investment of uncommitted funds by local governments along with the State Treasurer's cash portfolio. In addition to uncommitted funds, local governments may now deposit and earn interest on their estimated share of the cost of a construction project that they have jointly entered into with the Department of Transportation. Assets of the LGIP increased to \$15.7 million during the fiscal year and the average net rate of return was 13.78%, producing income in excess of \$957,000 to participating local governments.

Tennessee Consolidated Retirement System: The TCRS was established to provide retirement coverage to state employees, teachers and employees of political subdivisions who have elected to participate in the plan. As of June 30, 1982, there were 141,047 active members and 40,678 retirees.

Board of Claims: The duties of the Board of Claims include hearing all claims against the state for personal injuries and property damages resulting from work connected accidents and negligent acts or omissions of state officers and employees. Over 4,800 new claims were filed with the Board in FY 1981-82.

Deferred Compensation Plan: The State of Tennessee Deferred Compensation Plan provides an opportunity to state employees to defer income tax payments on a portion of their current salary by investing in an annuity product with Aetna Life Insurance and Annuity Company or in a time deposit product with Fidelity Federal Savings and Loan Association. At June 30, 1982, there were 1,891 participants in the plan and contributions made during the fiscal year totaled \$3.9 million.

Unclaimed Property and Escheat: This division administers the Uniform Disposition of Unclaimed Property Act. Through this program the state takes custody of abandoned property (bank accounts, insurance policies, safe deposit box contents, etc.) and attempts to locate the rightful owner or their heirs. During the 1981-82 fiscal year, \$802,574 of cash property reported to the Treasurer since the program began in 1979 was returned to the owners or their heirs. This represents a 54% increase over funds returned during the 1980-81 fiscal year.

INVESTMENT PROGRAM

The Investment Program of the Treasury Department has two primary responsibilities: the analysis of the day-to-day cash flows of the state and subsequent investment of uncommitted available funds according to the market conditions and expected liquidity needs and the investment of funds from the Tennessee Consolidated Retirement System. As reflected in the following schedule, the investment of these monies from 1974-82 has resulted in earnings in excess of \$1.2 billion.

Summary of Investment Program Earnings Fiscal Year 1974-75 through 1981-82

Fiscal Year	Cash Management Earnings	TCRS Portfolio Earnings*	Total Treasury Earnings
1981-82	\$ 90,389,685	\$215,770,205	\$ 306,159,890
1980-81	84,147,227	148,999,887	233,147,114
1879-80	81,284,530	116,398,527	197,683,057
1978-79	67,773,913	90,841,030	158,614,943
1977-78	37,551,416	68,745,446	106,296,862
1976-77	29,447,890	60,445,532	89,893,422
1975-76	31,789,314	50,880,908	82,670,222
1974-75	40,606,649	31,269,152	71,875,801
Total	\$462,990,624	\$783,350,687	\$1,246,341,311

*The earnings noted above for the TCRS represent only those earnings generated directly by the pension investment portfolio. Total TCRS earnings as reported in the TCRS financial section of this report include a portion of the state cash investment earnings which is based on the TCRS cash balance in the state cash investment pool.

In order to insure the timely investment of these funds the State Trust of Tennessee was created. The State Trust of Tennessee is a not-for-profit corporation chartered in the State of Tennessee on April 20, 1979, by virtue of enabling Public Acts Chapter 683 by the 90th General Assembly of the State of Tennessee. Its primary purpose is to serve the public benefit by gaining access to the Federal Reserve System's wire transfer system and other services. The State Trust of Tennessee began operations through the Federal Reserve Bank of Atlanta, Nashville Branch, December 15, 1980. The Trusts' wire operations are now a daily function of the State Treasurer's Department for funds receipt and disbursement for the state's cash investments as well as the funds of the Tennessee Consolidated Retirement System.

The primary contribution this system has afforded the state's Investment Program is the increased time horizon for making investments that has been extended from approximately 10:30 a.m. to 3:30 p.m. Uncommitted funds can be quickly reinvested in these extremely volatile markets. The ability to transact business in a few moments time has resulted in more flexibility of staff time and helped to provide the best investment return to the state.

In addition to handling funds transfers, the Trust has a number of safekeeping accounts at the Federal Reserve Bank to handle securities that are transmittable in book entry form. The Trust is thus able to settle repurchase agreements through the Federal Reserve account by holding securities in book entry form. The

INVESTMENT PROGRAM

Trust also has safekeeping accounts to hold all Treasury securities for the Tennessee Consolidated Retirement System in book entry form. This provides a considerable reduction to the state in custodial charges.

Services performed for the state by the Trust include concentration of funds from outlying and central banks, receipt of principal and interest of maturing investments, disbursement of funds creating new investments, payment of state debt, payment of part of the state payroll, payment of social security transfers to the Federal Government and the receipt and disbursement of funds for investments for the Tennessee Consolidated Retirement System.

In the rapidly changing financial markets, access to the Federal Reserve wire system allows the State Treasurer to continue to obtain the best return available on state investments.

The State Trust of Tennessee operates on all the accounting policies and procedures used by the State of Tennessee and is audited as an operating unit during the normal audits of the State Treasurer's department.

For the fiscal year ended June 30, 1982, \$9.5 billion in receipts and another \$9.5 billion in disbursements were processed through the State Trust account.

State Cash Investment Section

The Treasurer maintains bank accounts throughout the State of Tennessee for the receipt of funds deposited to the state. At June 30, 1982, the state had 340 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, in addition to the State Trust of Tennessee, for funds transferred from outlying banks and maturing investments. The concentration and investment of uncommitted cash is performed by the Treasurer's State Cash Investment Section 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 110% 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.

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.

The staff of the State Cash Investment Section is responsible for managing the State of Tennessee's cash portfolio. Within the limitations prescribed by law, all state funds not expended immediately are invested at the highest rate available to increase state revenues. While continuous management is applied to seek the best available return, liquidity management is equally important to provide immediate cash for state expenditures.

Treasury earnings on the investment of state cash increased during the year to a record rate of return of 14.21% to provide the State with investment income of \$90,389,685. This record return is indicative of the prevailing high level of interest rates during the year as the average funds available for investment by the state declined for the third consecutive year.

INVESTMENT PROGRAM

In addition to investing uncommitted state cash, this section also invests the funds of the Local Government Investment Pool. These funds are invested with the Treasurer's cash portfolio in certificates of deposit and repurchase agreements. A weighted average by volume of state investments into time deposits and repurchase agreements in the current month is used to calculate the LGIP average earnings less an administrative fee. The average net LGIP monthly rate of return was 13.78% and net interest credited on LGIP funds totaled \$957,620.

Rate of Return on Treasury Investments July 1980—June 1982



————— Average Rate of Return for Funds Invested in that Month

..... Average Rate of Return of Total Funds Invested

INVESTMENT PROGRAM

Investment Analysis of State Funds For the Fiscal Year Ended June 30, 1982

Month	Total Average Funds Available To Treasury Per Books	Total Average Uncollected and Committed Cash Balances	Net Total Average Funds Available for Investment	Average Investments:		Percentage Of Net Funds Available Invested
				In Repurchase Agreements	In Time Deposits	
July	\$ 664,456,000	\$ 32,824,283	\$ 631,631,817	\$ 58,258,064	\$ 556,455,906	97.32%
August	692,886,929	39,793,349	653,093,580	79,535,484	560,390,073	97.98
September	683,566,790	38,474,019	645,092,771	68,582,233	563,191,857	97.94
October	646,058,682	35,866,158	610,192,524	50,542,667	542,614,804	97.21
November	603,448,409	38,964,799	564,483,610	37,297,167	505,380,027	96.14
December	643,081,376	40,307,149	602,774,227	49,464,000	535,585,458	97.06
January	712,072,754	37,836,624	674,236,130	63,372,097	593,862,968	97.48
February	694,978,806	38,018,862	656,959,944	66,571,071	575,384,429	97.72
March	671,618,616	35,643,887	635,974,729	78,191,903	544,627,935	97.93
April	717,652,132	43,798,718	673,853,414	106,991,547	553,274,333	97.98
May	733,468,905	38,120,523	695,348,382	101,531,855	575,532,774	97.37
June	740,943,021	35,474,608	705,468,413	97,820,933	594,079,333	98.07

INVESTMENT PROGRAM

Analysis of State Cash Investments

Fiscal Year	Average Amount Invested	Amount Earned	Percentage Earned
----------------	----------------------------	------------------	----------------------

TIME DEPOSITS

1981-82	\$558,364,991	\$79,936,649	14.19%
1980-81	592,266,466	72,898,198	12.32
1979-80	618,513,957	69,891,101	11.26
1978-79	689,174,857	59,244,303	7.87
1977-78	613,377,489	31,854,178*	5.19

REPURCHASE AGREEMENTS

1981-82	\$71,513,252	\$10,453,036	14.24%
1980-81	81,148,409	11,249,029	14.23
1979-80	96,967,724	11,393,429	12.49
1978-79	95,030,067	8,529,610	8.75
1977-78	95,822,272	5,697,238*	5.95

TOTAL FUNDS

Fiscal Year	Average Total Funds Invested	Total Cash Management Earnings	Percent of Total Available Cash Invested	Composite Weighted Average Rate of Return
1981-82	\$629,878,243	\$90,389,685	97.5%	14.21%
1980-81	673,414,875	84,147,227	97.2	12.50
1979-80	715,481,681	81,284,530	97.0	11.39
1978-79	784,204,924	67,773,913	96.9	8.64
1977-78	709,199,761	37,551,416*	97.2	6.41

*Cash Basis Earnings

INVESTMENT PROGRAM

State Cash Investment Analysis For the Year Ended June 30, 1982

Month & Year	Average Rates On Invest- ments Made		Weighted Average Rate On Invest- ments Made	LGIP Rate Of Return Net Of Admin. Fee
	Time Deposits	Repurchases		
7/81	16.39%	17.97%	17.11%	16.61%
8/81	17.06	17.41	17.26	16.76
9/81	16.78	15.17	15.72	15.22
10/81	15.06	14.39	14.70	14.20
11/81	13.35	12.58	12.89	12.39
12/81	11.81	11.82	11.81	11.31
1/82	12.85	12.34	12.57	12.07
2/82	14.32	14.06	14.16	13.66
3/82	13.94	14.04	14.00	13.50
4/82	13.97	14.33	14.21	13.71
5/82	13.76	13.53	13.61	13.11
6/82	13.58	13.22	13.37	12.87
Average	14.41	14.24	14.28	13.78

The average rate received on investments made each month during the year was 14.28% as shown above. This is the gross average earnings rate used for interest allocations to LGIP participants and other state agencies. The rate of return on the total portfolio of investments for 1981-82 was 14.21% reflecting the carryover of lower rates from the 1980-81 fiscal year.

INVESTMENT PROGRAM

Reconciliation of Cash and Cash Equivalents

June 30, 1982

(Expressed in Thousands)

Cash and Cash Equivalents per Department of Finance and Administration		\$1,018,528
Add: Net reconciling items to Bank Statements		4,163
Deduct: Petty cash and travel advances		(170)
Departmental revolving accounts		(4,801)
Departmental cash in other accounts		(225,647)
Timing on Chase Manhattan Account		<u>(3,147)</u>
Cash and Cash Equivalents per Treasury		<u>\$ 788,926</u>
Represented by:		
Cash in banks	\$ 60,904	
Time deposits	628,261	
Repurchase agreements	<u>99,761</u>	
Total		<u>\$ 788,926</u>

The cash and cash equivalent per Finance and Administration as reported in the State of Tennessee Annual Financial Report for June 30, 1982 is \$1,018,528. The items above adjusted to that balance represent cash and cash equivalents under control of the State of Tennessee but not in possession of the Treasurer.

INVESTMENT PROGRAM

Retirement Investment Section

The assets of the Tennessee Consolidated Retirement System are also invested by the Investment Division of the Treasury Department. Funds in the retirement system are placed in selective investments by the investment staff through careful analysis of the stocks and bonds of high quality American companies.

All money deposited into the retirement system and not yet placed in a longer term investment is actively managed to get the best return available in high quality, short-term debt instruments. In the past fiscal year earnings of the total fund increased by 36% to total \$220,079,030. During the year most new funds were placed in high quality corporate and U.S. Treasury securities in the 8-10 year maturity range with an average yield to maturity of 14.50%.

Book Value of Retirement Fund Investments

	June 30, 1982	June 30, 1981
Bonds-Marketable	\$1,737,922,979	\$1,366,903,235
Mortgages	6,789,051	7,361,560
Bonds-Private Placements	175,264,775	153,252,408
Stocks	467,129,104	447,068,952
Total	<u>\$2,387,105,909</u>	<u>\$1,974,586,155</u>

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 staff.

INVESTMENT PROGRAM

Rate of Return Analysis on Retirement Investments for the Fiscal Years July 1, 1972 Through June 30, 1982

Fiscal Year	<u>EXCLUDING GAINS AND LOSSES</u>			<u>INCLUDING GAINS AND LOSSES</u>		
	Average Amount Invested	Amount Earned	Percentage Earned	Average Amount Invested	Amount Earned	Percentage Earned
1981-82	\$2,156,483,125	\$219,758,181	10.19%	\$2,156,322,701	\$220,079,030	10.21%
1980-81	1,827,992,630	162,099,561	8.87	1,828,006,525	162,071,771	8.87
1979-80	1,542,751,066	118,939,883	7.71	1,539,759,583	124,922,850	8.11
1978-79	1,284,537,367	92,304,615	7.19	1,281,261,947	98,855,456	7.72
1977-78	1,069,721,675	72,870,213	6.81	1,069,341,125	73,631,313	6.89
1976-77	897,942,919	59,241,243	6.60	896,411,309	62,304,463	6.95
1975-76	760,669,461	51,824,802	6.81	760,029,929	53,103,867	6.99
1974-75	663,571,303	44,005,668	6.63	669,043,343	33,061,588	4.94
1973-74	586,176,926	36,852,911	6.29	588,737,167	31,732,428	5.39
1972-73	515,884,464	30,460,109	5.90	516,642,604	28,943,829	5.60

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:

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

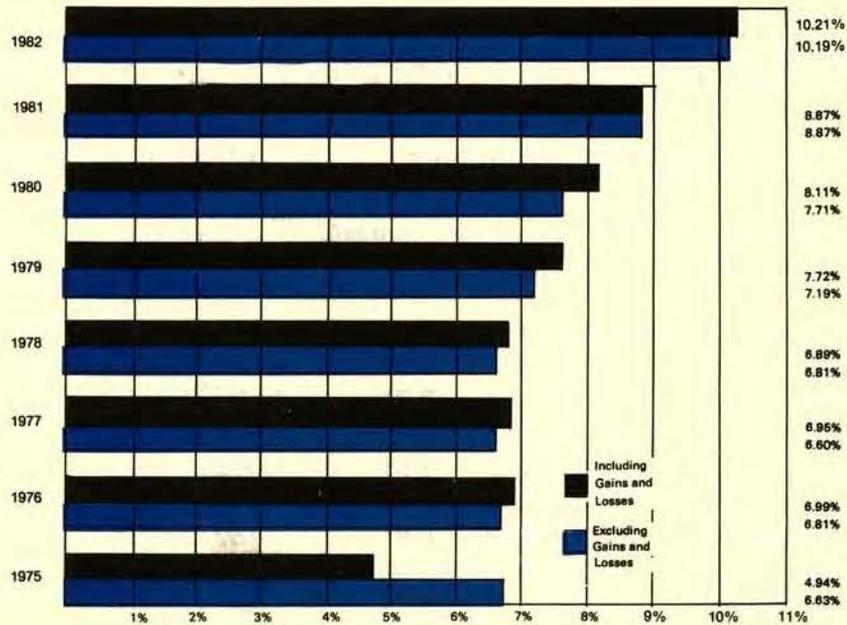
Where

- 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.

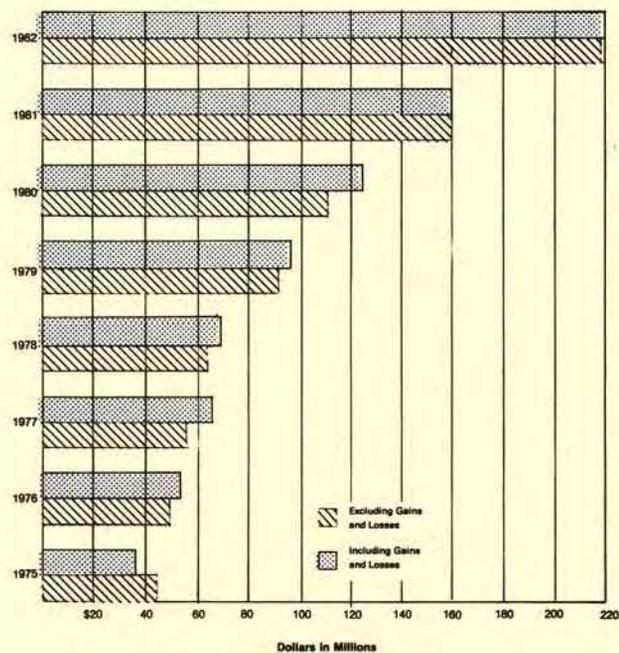
INVESTMENT PROGRAM

Investment Yield Rates



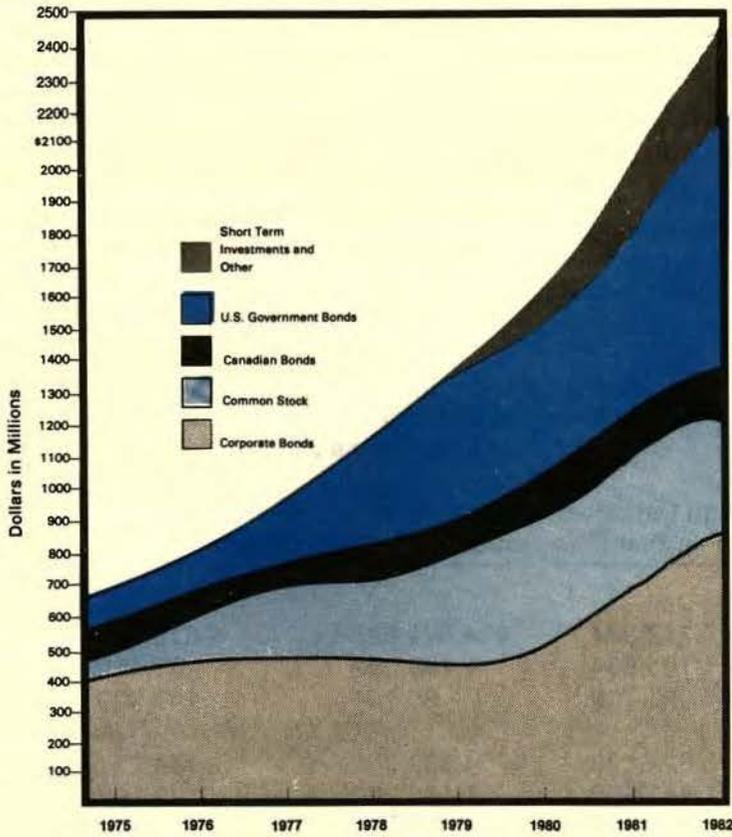
Average yield to maturity on bonds at June 30, 1982, was 13.6% with an average maturity of 12.7 years.

Investment Income Growth



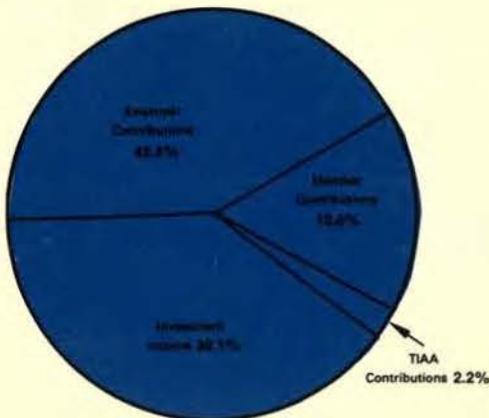
INVESTMENT PROGRAM

Portfolio Distribution

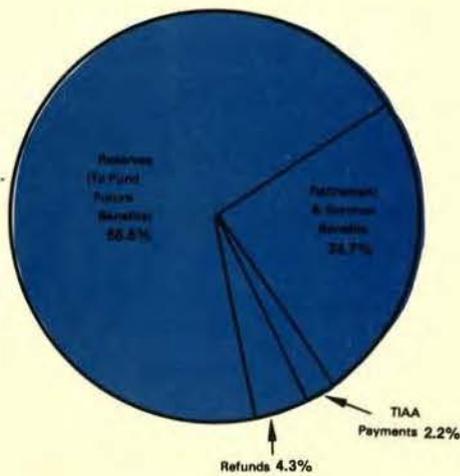


Tennessee Consolidated Retirement System
 1981-82 Revenues: \$563,420,478.80

SOURCES OF FUNDS



USES OF FUNDS



LOCAL GOVERNMENT INVESTMENT POOL

The 1980 General Assembly enacted Public Chapter 545 to provide for the investment of uncommitted cash by local governments and to create a state pooled investment fund. In addition, local governments may now deposit and earn interest on their estimated share of the cost of a construction project that they have jointly entered into with the Department of Transportation. The administration of the LGIP is the responsibility of the State Treasurer.

The LGIP enables all Tennessee municipalities, counties, school districts, utility districts or other local government units and political subdivisions to participate with the state in providing maximum opportunities for the investment of public funds. This allows cash managers who have previously been limited either by the relatively small amount of funds available for investments or the complexities of today's investment environment to take advantage of the volume and expertise of the Treasurer's investment program.

Schedule of Activity by Entity Type Fiscal Year Ended June 30, 1982

	<u>Amount Deposited this Year</u>	<u>Amount With- drawn this Year</u>	<u>Net Interest Credited this Year</u>	<u>Account Balance June 30, 1982</u>
Cities	\$ 7,212,374	\$ 4,671,822	\$ 516,412	\$ 5,621,901
Counties	1,185,834	1,168,088	71,360	601,165
Commitments to DOT	7,087,705	50,261	147,520	7,184,964
Educational				
Institutions	5,622,198	4,283,081	144,221	1,565,783
Other	1,842,500	1,153,200	78,107	767,407
Totals	<u>\$22,950,611</u>	<u>\$11,326,452</u>	<u>\$957,620</u>	<u>\$15,741,220</u>

The funds in the LGIP are invested with the State Treasurer's cash portfolio in certificates of deposit and repurchase agreements. A weighted average by volume of State investments into time deposits and repurchase agreements in the current month is used to calculate the LGIP average earnings less an administrative fee. The average net LGIP monthly rate of return was 13.78% and net interest credited on LGIP funds totaled \$957,620.38.

LOCAL GOVERNMENT INVESTMENT POOL



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1600
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37219**

October 19, 1982

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

Dear Mr. Snodgrass:

We have examined the balance sheets of the Local Government Investment Pool as of June 30, 1982, and June 30, 1981, and the related statements of revenues, expenses and changes in fund equity and financial position for the years then ended. Our examination was made in accordance with generally accepted government 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 Local Government Investment Pool as of June 30, 1982, and June 30, 1981, and the results of its operations and changes in fund equity and financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Sincerely,

A handwritten signature in cursive script, appearing to read "Frank L. Greathouse".

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

LOCAL GOVERNMENT INVESTMENT POOL

Balance Sheet

	<u>June 30, 1982</u>	<u>June 30, 1981</u>
ASSETS		
Cash and Cash Equivalents	\$15,746,606	\$3,160,769
Total Assets	<u>\$15,746,606</u>	<u>\$3,160,769</u>
LIABILITIES AND FUND BALANCE		
Liabilities:		
Member Deposits	\$ 8,556,256	\$3,159,441
Commitments to Department of Transportation	<u>7,184,964</u>	<u>0</u>
Total Liabilities	\$15,741,220	\$3,159,441
Fund Balance	<u>5,386</u>	<u>1,328</u>
Total Liabilities and Fund Balance	<u>\$15,746,606</u>	<u>\$3,160,769</u>

Statement of Revenues, Expenditures & Changes in Fund Balance

	July 1, 1981 Through <u>June 30, 1982</u>	November 1, 1980 Through <u>June 30, 1981</u>
Fund Balance, Beginning of Year	\$ <u>1,328</u>	\$ <u>0</u>
Revenues:		
Investment Income	<u>\$993,287</u>	<u>\$183,377</u>
Total Revenues	<u>\$993,287</u>	<u>\$183,377</u>
Expenditures:		
Interest on Deposits	\$957,621	\$177,524
Administrative Fees	<u>31,608</u>	<u>4,525</u>
Total Expenditures	<u>\$989,229</u>	<u>\$182,049</u>
Excess Revenues over Expenditures	<u>\$ 4,058</u>	<u>\$ 1,328</u>
Fund Balance, End of Year	<u>\$ 5,386</u>	<u>\$ 1,328</u>

LOCAL GOVERNMENT INVESTMENT POOL

Statement of Changes in Financial Position

	July 1, 1981 Through <u>June 30, 1982</u>	Nov. 1 1980 Through <u>June 30, 1981</u>
Sources of Working Capital:		
Working Capital Provided by Net Income from Operations	\$ 4,058	\$ 1,328
Net Increase in Working Capital	<u>\$ 4,058</u>	<u>\$ 1,328</u>
Elements of Net Increase in Working Capital:		
Cash and Cash Equivalents	\$12,585,838	\$3,160,769
Member Deposits	(5,396,815)	(3,159,441)
Commitments to Department of Transportation	<u>(7,184,965)</u>	<u>0</u>
Net Increase in Working Capital	<u>\$ 4,058</u>	<u>\$ 1,328</u>

Notes to the Financial Statements

Description of the Local Government Investment Pool

The LGIP was authorized by the 91st General Assembly to enable local governments and other political subdivisions to participate with the state in providing maximum opportunities for the investment of public funds. LGIP participants can invest any amount for any length of time in the pool. Transfer procedures for making deposits to the pool or withdrawals therefrom specify that an immediate credit process be used i.e. wire transfers or correspondent banking transactions.

Monies deposited in the LGIP are pooled with other state cash for investing. An average rate of return is calculated on the investments made each month from such pool and is used to credit LGIP participants with earnings. An administrative fee of one-half percent is charged against each participants' average daily LGIP balance to provide for recovery of administrative cost. This fee rate may be changed as the ratio of administrative cost to the pool balance changes. Effective July 1, 1982 the fee rate will be fifteen hundredths of one percent.

Some deposits made to the LGIP are contractually committed to the State Department of Transportation. The only withdrawals allowed from these accounts are to pay the Department of Transportation per progress billings for construction projects contracted between the entity and DOT.

Significant Accounting Policies

The LGIP is considered an Expendable Trust Fund and is accounted for on the modified accrual basis, revenues are recorded as received and expenditures are recorded at the time liabilities are incurred.

LOCAL GOVERNMENT INVESTMENT POOL

Schedule of Cash Receipts and Disbursements

	July 1, 1981 Through June 30, 1982	November 1, 1980 Through June 30, 1981
Cash Balance, Beginning of Year	<u>\$ 3,160,768</u>	<u>\$ -0-</u>
Add Cash Receipts:		
Member Deposits	\$22,950,611	\$8,488,226
Investment Income	<u>993,287</u>	<u>183,377</u>
Total Cash Receipts	<u>\$23,943,898</u>	<u>\$8,671,603</u>
Deduct Cash Disbursements:		
Member's Withdrawals	\$11,326,452	\$5,506,310
Administrative Fees Paid	<u>31,608</u>	<u>4,525</u>
Total Cash Disbursements	<u>\$11,358,060</u>	<u>\$5,510,835</u>
Cash Balance, End of Year	<u><u>\$15,746,606</u></u>	<u><u>\$3,160,768</u></u>

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

One of the primary responsibilities of the State Treasurer is the administration of the state's retirement system. Retirement coverage is provided through this system for state employees, teachers and employees of participating local governments. Administration of the retirement system includes the Old Age & Survivors Insurance Agency (OASI) and the areas of membership and contributions, retirement benefits and investment of retirement system funds.

Old Age & Survivors Insurance Agency (OASI)

The Treasurer's Office administers OASI for the purpose of providing social security coverage to state and local government employees. Prior to 1951, public employees were not eligible for social security coverage. The 1950 amendments to the Federal Social Security Act allowed coverage for certain groups of state and local government employees who were not covered by a retirement system. Effective January 1, 1956, social security coverage was extended to include employees in positions under an existing State or local government retirement plan.

There were approximately 1800 reporting entities as of June 30, 1982. The combined contribution rate for both employees and employers was 13.4% and the maximum taxable wage base increased from \$29,700 to \$32,400. These contributions are collected, audited and transmitted to the Social Security Administration.

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	
	<u>June 30, 1982</u>	<u>June 30, 1981</u>
State Employees	39,861	40,868
Higher Education	21,865	22,236
K-12 Teachers	46,029	47,662
Political Subdivisions	<u>114,371</u>	<u>124,436</u>
Total	<u>222,126</u>	<u>235,202</u>

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

Schedule of Salaries Reported to OASI and Funds Transmitted to the Federal Government

Employment Category	1981-82		1980-81	
	Salaries Reported to OASI	Funds Transmitted to Federal Government	Salaries Reported to OASI	Funds Transmitted to Federal Government
State Employees	\$ 476,869,469.14	\$ 63,664,990.74	\$ 458,439,491.56	\$ 58,606,044.93
Higher Education	335,189,845.22	44,753,190.04	317,306,719.94	40,637,824.02
K-12 Teachers	710,421,600.87	94,911,321.85	668,710,666.15	86,080,732.04
Political Subdivisions	1,041,971,171.76	139,112,822.24	1,021,712,572.47	130,676,304.96
Total	<u>\$2,564,452,086.99</u>	<u>\$342,442,324.87</u>	<u>\$2,466,169,450.12</u>	<u>\$316,000,905.95</u>

Membership and Contributions

Effective July 1, 1972, the seven state retirement plans consolidated to form the Tennessee Consolidated Retirement System having three membership classifications: 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.

On 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.

Membership in the Tennessee Consolidated Retirement System is mandatory for state employees, teachers and employees of participating local governments. TCRS membership has grown steadily since 1972 when there were approximately 93,000 members.

Schedule of Active Members

Employment Category	Year Ended 6/30/82	Year Ended 6/30/81
State Employees	38,003	39,451
Higher Education Employees	20,488	20,831
K-12 Teachers	47,388	47,165
Political Subdivision Employees	35,168	34,792
Total	<u>141,047</u>	<u>142,239</u>

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

Retirement benefits 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. Effective July 1, 1981, the TCRS became noncontributory for certain state and local government employees.

The employee reserve account is the fund in which employee contributions plus interest are accumulated and held in trust. During the 1981-82 fiscal year, contributions credited to the employee reserve account totaled \$90.2 million which included \$36.2 million provided by employers for noncontributory members.

The contribution rates for the employers participating in the retirement 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, 1982 were as follows:

State Employees	12.21%
Teachers	15.47%
Political Subdivisions	Individually Determined

The employer reserve account represents the accumulation of employer contributions, investment income and contributions credited to retired members; reduced by benefits paid to retired members and their beneficiaries. 1981-82 contributions credited to the employer reserve account totaled \$240.9 million.

Retirement Benefits

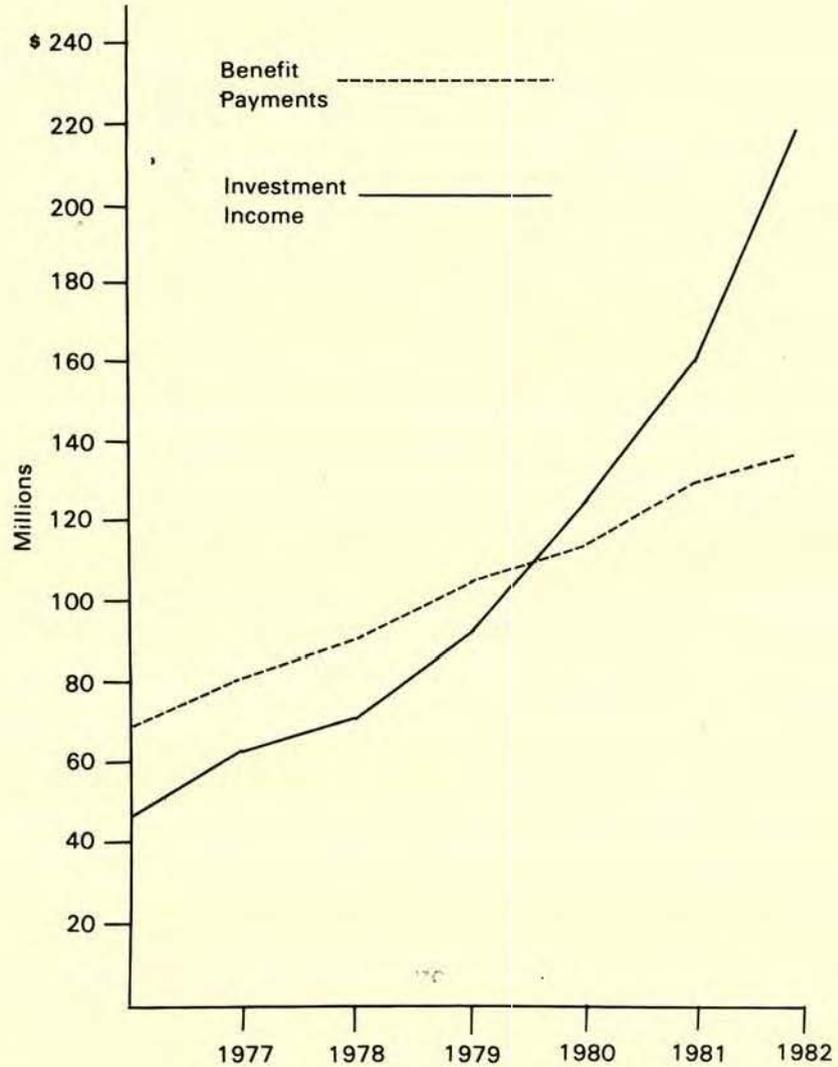
State employees and teachers become eligible to retire from the Tennessee Consolidated Retirement System at age 60 or with 30 years of service. Retirement benefits are based on the average of the member's five highest consecutive years of employment and the years of creditable service. A reduced retirement benefit is available to vested members at age 55.

Disability benefits are available to active members with five years of service who become disabled from engaging in gainful employment. There is no service requirement required for disability benefits paid to active members whose disability is the result of an accident or injury occurring while the member was in the performance of duty.

As of June 30, 1982, 40,678 retirees or survivors were receiving monthly benefit payments. Benefits paid in FY 1981-82 totaled \$139.4 million.

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

Analysis of Investment Income and Retirement and Death Benefit Payments



TENNESSEE CONSOLIDATED RETIREMENT SYSTEM



**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**

October 19, 1982

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 as of June 30, 1982, and June 30, 1981, and the related statements of revenues, expenses and changes in reserve balance and financial position for the years then ended. Our examination was made in accordance with generally accepted government 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 Tennessee Consolidated Retirement System as of June 30, 1982, and June 30, 1981, and the results of its operations and changes in fund equity and financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Very truly yours,

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

**Tennessee Consolidated Retirement System
Comparative Balance Sheet**

(Expressed in Thousands)

ASSETS	<u>June 30, 1982</u>	<u>June 30, 1981</u>
CASH AND CASH EQUIVALENTS	\$ 18,552	\$ 85,755
RECEIVABLES:		
Investments Sold	\$ 548	\$ 305
Member Contributions Receivable	4,527	6,588
Employer Contributions Receivable	4,438	3,392
Accrued Interest Receivable	43,606	30,750
Accrued Dividends Receivable	2,308	1,900
Political Subdivisions Receivable	2,259	2,110
Total Receivables	<u>\$ 57,686</u>	<u>\$ 45,045</u>
INVESTMENTS:		
Government Bonds (Par Value)	\$ 799,580	\$ 601,550
Canadian Bonds (Par Value)	97,705	82,064
Corporate Bonds (Par Value)	839,793	678,334
Net Unamortized Premium and (Discount) on Bonds	(127,232)	(55,765)
Corporate Stocks (Cost)	467,129	446,769
Short Term Investments	296,130	207,634
Savings and Loans	14,000	14,000
Collateral Against Securities Loaned	76,900	-0-
Total Investments	<u>\$2,464,005</u>	<u>\$1,974,586</u>
Total Assets	<u><u>\$2,540,243</u></u>	<u><u>\$2,105,386</u></u>
LIABILITIES AND FUND BALANCE		
CURRENT LIABILITIES:		
Warrants Payable	\$ 1,160	\$ 12,553
Accounts Payable	1,949	20,344
Amounts Held in Custody for Others	76,900	-0-
Total Current Liabilities	<u>\$ 80,009</u>	<u>\$ 32,897</u>
FUND BALANCE:		
Reserved for Member Contributions	\$ 658,975	\$ 590,071
Reserved for Employer Contributions	1,801,259	1,482,418
Total Fund Balance	<u>\$2,460,234</u>	<u>\$2,072,489</u>
Total Liabilities and Fund Balance	<u><u>\$2,540,243</u></u>	<u><u>\$2,105,386</u></u>

Tennessee Consolidated Retirement System
Statement of Revenues, Expenses and Changes in Reserve Balance

(Expressed in Thousands)

		<u>For the Year Ended June 30, 1982</u>	<u>For the Year Ended June 30, 1981</u>
Fund Balance, Beginning of Year		<u>\$2,072,489</u>	<u>\$1,745,595</u>
Revenues:			
Member Contributions	\$ 54,072		\$ 89,452
Employer Contributions	246,995		194,215
Political Subdivisions Contributions	30,147		28,487
TIAA Contributions	<u>12,127</u>	343,341	<u>11,554</u>
Investment Income:			323,708
Interest	\$147,227		\$122,723
Dividends	26,981		22,607
Net Discount and (Premium) Amortization	45,551		16,769
Net Profit (Loss) on Sale of Investments	<u>320</u>	<u>220,079</u>	<u>(28)</u>
Total Revenues		<u>\$ 563,420</u>	<u>\$ 485,779</u>
Expenses:			
Annuity Benefits	\$138,279		\$123,979
Death Benefits	1,098		1,498
Refunds	24,194		21,877
TIAA Payments	<u>12,127</u>	<u>175,698</u>	<u>11,560</u>
Total Expenses		<u>\$ 175,698</u>	<u>\$ 158,914</u>
Excess of Revenues over Expenses		<u>\$ 387,722</u>	<u>\$ 326,865</u>
Other Financing Sources:			
Operating Transfer from Special Revenue Fund		<u>\$ 23</u>	<u>\$ 29</u>
Excess of Revenues and Other Sources over Expenses		<u>\$ 387,745</u>	<u>\$ 326,894</u>
Fund Balance, End of Year		<u><u>\$2,460,234</u></u>	<u><u>\$2,072,489</u></u>

Tennessee Consolidated Retirement System
Statement of Changes in Financial Position

(Expressed in Thousands)

	For the Year Ended <u>June 30, 1982</u>	For the Year Ended <u>June 30, 1981</u>
Sources of Working Capital:		
Working Capital Provided by Net Income from Operations	<u>\$ 387,745</u>	<u>\$ 326,894</u>
Net Increase in Working Capital	<u>\$ 387,745</u>	<u>\$ 326,894</u>
Elements of Net Increase in Working Capital:		
Cash and Cash Equivalents	\$(67,204)	\$(36,290)
Investments	412,520	372,564
Collateral Against Securities Loaned	76,900	-0-
Receivables	12,641	6,906
Warrants Payable	11,392	1,119
Accounts Payable and Accruals	18,396	(17,405)
Amounts Held in Custody for Others	<u>(76,900)</u>	<u>-0-</u>
Net Increase in Working Capital	<u>\$ 387,745</u>	<u>\$ 326,894</u>

Market Value of Investments

The market value of the Tennessee Consolidated Retirement System Investments as of June 30, 1982 and June 30, 1981 is as follows:

	<u>June 30, 1982</u>	<u>June 30, 1981</u>
Bonds-Marketable	\$1,434,467,005	\$1,068,330,356
Mortgages	4,752,013	7,361,560
Bonds-Private Placements (Estimated Market Value)	117,371,516	119,782,082
Stocks -	<u>471,595,613</u>	<u>561,210,856</u>
Total	<u>\$2,028,186,147</u>	<u>\$1,756,684,854</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 retirement plan covering general employees and teachers of the State of Tennessee as well as 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.

Employer 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.

Effective July 1, 1981, pursuant to noncontributory legislation, contributions of up to 5% of the earnable compensation of most classes of general employees and employees of electing political subdivisions, formerly paid by those employees, were assumed by the employer. Members of the plan as of June 30, 1981 covered by this legislation will be credited with the employer provided contributions which are refundable should they leave state service. Employees becoming members on or after July 1, 1981 will not be credited with the employer provided contributions. Members retiring from the plan with annual earnable compensation received after June 30, 1981, or after the date of election by a participating political subdivision for any member covered by the noncontributory provisions of the retirement system shall be increased by three and six-tenths percent (3.6%) for the purpose of computing the average final compensation. However, such increases in the annual earnable compensation shall be discontinued for earnable compensation received after June 30, 1991.

It is the policy of the Retirement System to fund pension costs accrued. For the period ending June 30, 1982, participating employers contributed \$277.1 million to the pension plan of which \$36.2 million was credited to member accounts as provided by noncontributory legislation. This \$36.2 million plus \$54.1 million contributed by members represents total contributions for members of \$90.2 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 July 1, 1975.

Tennessee Consolidated Retirement System

Notes to Financial Statements

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 contributions. For the year ended June 30, 1982 the state contributed \$12.1 million to the TIAA-CREF plan of which \$6.05 million represents members' contributions pursuant to noncontributory legislation.

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.

Investment Lending

Some of the securities owned by the TCRS were contractually loaned to investment brokers at June 30, 1982. The contract for a security loan provides that the TCRS loan a specific security from our holdings to the broker in return for like securities or cash pledged to the TCRS as collateral (cash received as collateral is invested by the TCRS). The broker pays a fee to the TCRS if the loan is collateralized by like securities or if collateralized by cash the TCRS retains a portion of the income received from the investment of that cash.

At June 30, 1982 there were \$101,753,342 (market value) of TCRS securities on loan to brokers. There were \$105,137,362 (market value) of securities pledged to the TCRS as collateral against securities loaned of which \$76,900,000 was registered in the name of the TCRS as noted in the investments on the Balance Sheet. The remaining collateral securities of \$28,237,362 were held by the TCRS custodian for safekeeping.

Actuarial Information

The Actuarial Balance Sheet was prepared from the actuary's report as of June 30, 1981, the date of the most recent actuarial study. The method used for valuing assets for actuarial purposes was changed from valuing all investments at a five-year moving market average used in 1979 to valuing equities at a five-year moving market average with other investments at amortized cost. This change resulted in an increase in assets of approximately \$172 million. The actuarial balance sheet also reflects the changes resulting from the enactment of a noncontributory retirement plan for state employees effective July 1, 1981. 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 \$2.102 billion at June 30, 1981 which includes \$255.0 million attributable to political subdivisions for which the State assumes no liability. This compares to a supplemental liability of \$2.087 billion at June 30, 1979 of which \$230.1 million was attributable to political subdivisions.

An actuarial valuation is made every two years with the last valuation being made as of June 30, 1981. The entry age normal method, a projected benefit cost method, is used to value the plan. The APB #8 liability, including cost of living, is as follows:

Tennessee Consolidated Retirement System
Notes to Financial Statements

	<u>State and Teachers</u>	<u>Political Subdivisions</u>	<u>Total</u>
Present value of vested benefits including cost-of-living	\$2,607,306,057	\$293,168,724	\$2,900,474,781
Net assets (equities at five-year moving market average)	<u>1,911,596,245</u>	<u>213,015,044</u>	<u>2,124,611,289</u>
APB #8 liability in excess of net assets	<u>\$ 695,709,812</u>	<u>\$ 80,153,680</u>	<u>\$ 775,863,492</u>

An experience study of the system is conducted every four years, the most recent as of June 30, 1980. A new set of assumptions resulted from this study, the most significant being a 7% interest rate (formerly 6%), a 6% annual salary growth (formerly 4.5%), greater post-retirement survivorship and increased employee turnover.

Tennessee Consolidated Retirement System
Actuarial Balance Sheet — Schedule I

(Expressed in Thousands)

June 30, 1982
 Unaudited
Resources

Net Assets		\$2,124,611
Present Value of Future Payroll Contributions		
Member	\$ 573,398	
Employer	<u>1,107,912</u>	1,681,310
Accumulated Prior Level Payroll Contributions to be Financed		<u>2,102,353</u>
Total		<u><u>\$5,908,274</u></u>

Requirements

Present Value of Benefits (Past and Future Service for):		
Present Retired Members and Contingent Annuitants		\$1,270,277
Present Active Members		4,593,882
Former Members		<u>44,115</u>
Total		<u><u>\$5,908,274</u></u>

The funding ratio at June 30, 1981 was 71.1% which is based on the new actuarial assumptions. The June 30, 1981 funding ratio computed on the 1980 actuarial assumptions was 60.1% which compares to a funding ratio of 52.8% at June 30, 1980.

This actuarial balance sheet is based on data as of June 30, 1981, the date of the most recent actuarial study.

**Tennessee Consolidated Retirement System
Statement of Cash Receipts and Disbursements—Schedule II**

(Expressed in Thousands)

	<u>For the Year Ended June 30, 1982</u>	<u>For the Year Ended June 30, 1981</u>
Cash Balance at Beginning of Year	\$ 85,756	\$ 122,046
Add Cash Receipts:		
Member Contributions	\$ 56,133	\$ 89,047
Employer Contributions	245,972	194,102
Political Subdivisions Contributions	29,998	28,309
Investment Income-Interest	134,370	116,743
Investment Income-Dividends	26,572	22,618
Investments Sold (Net Book Value)	2,637,654	892,018
TIAA Contributions	12,128	11,555
Total Cash Receipts	<u>\$3,142,827</u>	<u>\$1,354,392</u>
Deduct Cash Disbursements:		
Annuity Benefits	\$ 138,279	\$ 123,979
Death Benefits	1,098	1,498
Refunds	25,258	21,913
Investments Purchased	3,033,298	1,231,812
TIAA Payments	12,098	11,480
Total Cash Disbursements	<u>\$3,210,031</u>	<u>\$1,390,682</u>
Cash Balance at End of Year	<u>\$ 18,552</u>	<u>\$ 85,756</u>

BOARD OF CLAIMS

The Board of Claims has been created to hear and determine all claims against the state for personal injuries and property damages resulting from work connected accidents and negligent acts or omissions of state officers and employees. The State Treasurer is ex-officio chairman, and as of July 1, 1981, the Board of Claims became attached to the Treasury Department.

Title 9, Chapter 8, Tennessee Code Annotated, as amended, sets out the circumstances under which the Board of Claims is authorized to compensate for injuries to persons and damages to property. The three main categories of claims under the jurisdiction of the board are workers' compensation, employee property damage and tort. In addition to its handling of these claims, the board is responsible for the payment of judgments rendered by circuit courts awarding compensation to persons who have been injured through the commission of violent crimes. The statutes providing for the Criminal Injuries Compensation Program have been codified as Sections 29-13-101, et seq., and 40-3207, et seq., Tennessee Code Annotated, as amended.

During the fiscal year ending June 30, 1982, the Board of Claims made payments from the general fund as follows:

Death Claims	\$ 216,772.98
Non-Employee Injuries	127,167.64
Employee Injuries	2,161,812.25
Non-Employee Property Damage	307,330.63
Employee Property Damage	27,134.50
Other	12,388.35
Total	<u>\$2,852,606.35</u>

Claims arising from the acts of omissions of employees or officers of the Department of Transportation and approved by the board are paid out of the general highway fund. The following payments were made by the Department of Transportation during the fiscal year ending June 30, 1982:

Death Claims	\$ 49,917.40
Non-Employee Injuries	50,960.50
Employee Injuries	383,928.60
Non-Employee Property Damage	177,133.16
Employee Property Damage	3,322.26
Other	66.90
Total	<u>\$665,328.82</u>

During the year the board received 4,810 new claims of which 3,969 were workers' compensation claims and 841 were tort claims. The board's staff processed 11,478 warrants for compensation and medical expenses in connection with these claims and other claims from previous years for which the state has continuing liability.

The Criminal Injuries Compensation Program, which is designed to be self-supporting, is funded through privilege taxes assessed in certain courts against criminal defendants and other offenders upon conviction. In addition, the Board of Paroles is vested with authority to order payment into the fund of a percentage of an offender's income, not to exceed 10 percent, and individuals placed on supervised release programs are required to pay \$5.00 each month into the fund. Payments made from the Criminal Injuries

BOARD OF CLAIMS

Compensation Fund to victims of crimes are intended to defray the costs of medical services, loss of earnings, burial costs, and other pecuniary losses to the dependents of deceased victims. There is, however, a statutory limitation of \$10,000 for awards to an individual for each crime.

During the 1981-82 fiscal year, the board made payments to 141 victims of crime in the total amount of \$1,290,146.62. There were 176 criminal injury claims where judgments have been issued by appropriate circuit courts in the state filed with the board. These claims are paid in the order they are received and as funds become available. Throughout the year, most criminal injury claims have been paid within six months after the date the claims were filed.

Criminal Injuries Compensation Fund Schedule of Activity July 1, 1981 - June 30, 1982

<u>MONTH</u>	<u>TAXES¹</u>	<u>DEPOSITS²</u>	<u>INTEREST</u>	<u>AWARDS</u>
July	\$ -0-	\$ 30,372.69	\$ 2,825.28	\$ -0-
August	12,007.53	28,488.84	2,611.71	109,660.13
September	67,026.55	37,045.84	2,641.55	0
October	73,060.48	36,441.10	3,128.19	111,422.48
November	73,319.96	33,018.34	2,641.06	129,656.80
December	77,600.25	36,596.58	2,997.97	-0-
January	72,742.41	30,461.22	3,250.47	233,361.21
February	67,916.08	34,913.37	3,538.74	-0-
March	63,333.91	46,065.78	3,372.98	241,054.99
April	71,097.28	40,611.66	2,672.66	113,812.54
May	79,961.79	36,270.46	2,594.08	113,180.97
June	139,887.11	46,192.52	2,303.62	237,997.50
TOTAL	<u><u>\$797,953.35</u></u>	<u><u>\$436,478.40</u></u>	<u><u>\$34,578.31</u></u>	<u><u>\$1,290,146.62</u></u>

¹Taxes—Revenue collected by court clerks pursuant to Section 40-3207 (a), Tennessee Code Annotated, as amended.

²Deposits of Department of Correction—Revenue collected by the Department of Correction pursuant to Section 40-3207 (b), Tennessee Code Annotated, as amended.

DEFERRED COMPENSATION

The Deferred Compensation Plan completed its first year of operation at the end of the 1981-82 fiscal year. This optional benefit program is administered by the Treasury Department to allow state employees to defer a portion of their current income until after retirement, thereby deferring income tax payments on that portion of salary. The State of Tennessee Deferred Compensation Plan is authorized by Section 457(b) of the Internal Revenue Code and Section 8-25-101, et seq. of Tennessee Code Annotated.

During the 1981-82 fiscal year, participants could invest deferred income in an annuity product with Aetna Life Insurance and Annuity Company or in a time deposit product with Fidelity Federal Savings and Loan Association. Effective July, 1982, an insurance product with National Life and Accident Insurance Company was made available through the program.

During the 1981-82 fiscal year, approximately 5% of state employees participated in the plan. At June 30, 1982, participation was as follows:

<u>Company</u>	<u>Contributions</u>	<u>Participants</u>
Aetna	\$2,914,886.53	1,259
Fidelity Federal	991,496.05	632
Total	<u>\$3,906,382.58</u>	<u>1,891</u>

The Internal Revenue Code permits participants in programs of this type to defer 25% of their salary up to a maximum of \$7500 per year. Participants who are within three years of retirement may be allowed to make additional deferrals under a special catch up provision. Employees may enroll in this program at any time and may adjust or stop contributions at any time; however, previous deferrals may not be drawn out as long as the participant continues in state government, except in the case of severe financial hardship.

Details of the plan are presented to state employees in group meetings around the state.

The average monthly deferral was \$102 and participation was widely spread among age and salary levels as shown in the following schedule.

DEFERRED COMPENSATION

Participation Analysis as of June 30, 1982

<u>Age</u>	<u>Percent of Contributors</u>	<u>Average Monthly Deferral</u>
Less than 26	2.5%	\$ 17.00
26-30	6.2	38.47
31-35	12.0	43.58
36-40	12.4	68.65
41-45	12.1	74.64
46-50	14.4	93.10
51-55	15.6	112.15
56-60	16.6	153.37
60+	8.2	254.39
Total	100.0%	\$102.72
<u>Years of Service</u>	<u>Percent of Contributors</u>	<u>Average Monthly Deferral</u>
1-5	16.9%	\$ 68.23
5-10	25.8	70.49
10-20	35.4	95.02
20+	18.4	122.82
Nonspecified and Judicial	3.5	479.66
Total	100.0%	\$102.72
<u>Monthly Salary</u>	<u>Percent of Contributors</u>	<u>Average Monthly Deferral</u>
Less than \$ 800	7.0%	\$ 59.92
\$ 801-1000	16.0	43.63
1001-1200	20.2	64.33
1201-1400	15.2	72.05
1401-1600	14.0	80.55
1601-1800	7.8	110.00
1801-2000	3.6	154.22
2001-2400	4.9	156.99
2401-2800	3.6	157.84
2801-3200	1.3	186.74
3201-3600	1.9	367.57
3601-4000	1.3	289.86
4001-4500	1.4	267.17
4500+	1.8	654.84
Total	100.0%	\$102.72

UNCLAIMED PROPERTY AND ESCHEAT

The Treasury Department has administered the Uniform Disposition of Unclaimed Property Act since it was enacted in 1978.

The Act provides that personal property which an organization or individual is holding for another person will be reported to the Treasurer 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 locate the owner. The Treasurer then advertises the names and last known addresses of the owners and attempts to direct the owners to their property. Property which is not claimed from the holder as a result of the advertising is turned over to the Treasurer's custody.

The Treasurer then sends a notification to the last known address of each remaining owner. If the owner does not respond, additional search efforts are made through motor vehicle and drivers' license records, telephone directories, employment security records, retirement records, vital statistics, city directories, county court records and a variety of other sources. Cash property which is turned over to the Treasurer may be claimed by the owners or their heirs at any time.

The first reports under this Act were due to the Treasurer's Office on May 1, 1979. Annual reports are due May 1 of each year and unclaimed funds are turned over to the Treasurer's Office in November.

Since the program began in 1979, over \$10 million in unclaimed property has been reported to the Treasurer and over \$2.5 million of that property has been returned to the owners or their heirs.

Following is a schedule of property reported and returned for each of the three report years since the program began.

Analysis of Property Returned by Year Reported

<u>Report Year</u>	<u>Report Value</u>	<u>Total Amount Returned to Owners since Reported</u>	<u>Percentage of Property Returned</u>
1979	\$ 5,382,247.99	\$1,322,759.60	24.6%
1980	1,878,474.29	486,458.38	25.9%
1981	<u>2,809,963.32</u>	<u>730,592.18</u>	<u>26.0%</u>
Total	<u>\$10,070,685.60</u>	<u>\$2,539,810.16</u>	<u>25.5% Average</u>

During the period from July 1, 1981 through June 30, 1982, \$802,574.61 of cash property reported to the Treasurer since the program began in 1979 was returned to the owners or their heirs. This represents a 54% increase over funds returned during the 1980-81 fiscal year. Following is an analysis of the property returned during the 1981-82 fiscal year:

UNCLAIMED PROPERTY AND ESCHEAT

Property Returned July 1, 1981—June 30, 1982

Reporting Entity	Number of Accounts	Percent Paid by Holder	Percent Paid by State	Total Value of Claims Paid
Utilities	208	79%	21%	\$ 9,518.96
Banks	1501	67	33	359,230.54
Credit Agencies	243	66	34	47,895.17
Insurance				
Companies	418	62	38	53,053.15
TCRS	1723	-0-	100	263,958.42
Courts	87	70	30	34,721.46
Other	278	50	50	34,196.91
Total	4458	44%	56%	\$802,574.61

During the period July 1, 1981 through June 30, 1982, \$1,457,550.33 of property in the form of cash was turned over to the Treasurer. In addition, the contents of 560 safe deposit boxes were delivered to the Treasurer. Following is an analysis of these cash collections:

Unclaimed Property Collected July 1, 1981—June 30, 1982

Reporting Entity	Number of Accounts	Final Value	Percentage of Total
Utilities	910	\$ 154,118.70	10.5%
Banks	3769	592,867.65	40.7
Credit Agencies	496	150,240.06	10.3
Insurance			
Companies	2338	224,222.43	15.4
Courts	416	170,234.92	11.7
Other	938	165,866.57	11.4
Total	8867	\$1,457,550.33	100.0%

Administration of the State's escheat law is the responsibility of the Legal Division of the Treasurer's office. When an individual in Tennessee dies without any known heirs, his property becomes subject to escheat. The law provides that this property will be reported to the State Treasurer and, after a determination by a court of law that there are no known surviving heirs, the property is deemed to escheat to the State. This property then becomes the property of the State and may be reclaimed by the rightful heirs through a court proceeding.

During the past fiscal year the Treasurer's office has received funds totaling \$15,275.12 representing five (5) estates.

DUTIES OF THE STATE TREASURER

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	45-1-202
Board of Claims	9-8-101
Board of Equalization	4-3-5101
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 9-9-101
Insurance Commission	8-27-101
Investment Advisory Council	8-37-108
Licensing Board of Healing Arts	63-101
Public Records Commission	10-7-302
State Building Commission	4-15-101
State School Bond Authority	49-3514
Tennessee Housing Development Authority	13-23-106
Tennessee Student Assistance Corporation	49-5002
Board of Claims	9-8-101, et seq.
Deferred Compensation	8-25-101, et seq.
Escheat	31-801, et seq.
Investment of State Idle Cash Funds	9-4-101, et seq. and 9-5-101, et seq.
Local Government Investment Pool	9-17-101, et seq.
Old Age and Survivors Insurance Agency	8-38-101, et seq.
Receipt and Disbursement of Public Funds	8-5-106—8-5-110 and 9-5-107
Tennessee Consolidated Retirement System and Miscellaneous Systems	Title 8, Chs 34, 35, 36, 37 and 39
Unclaimed Property	66-29-101, et seq.

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. Stanford	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