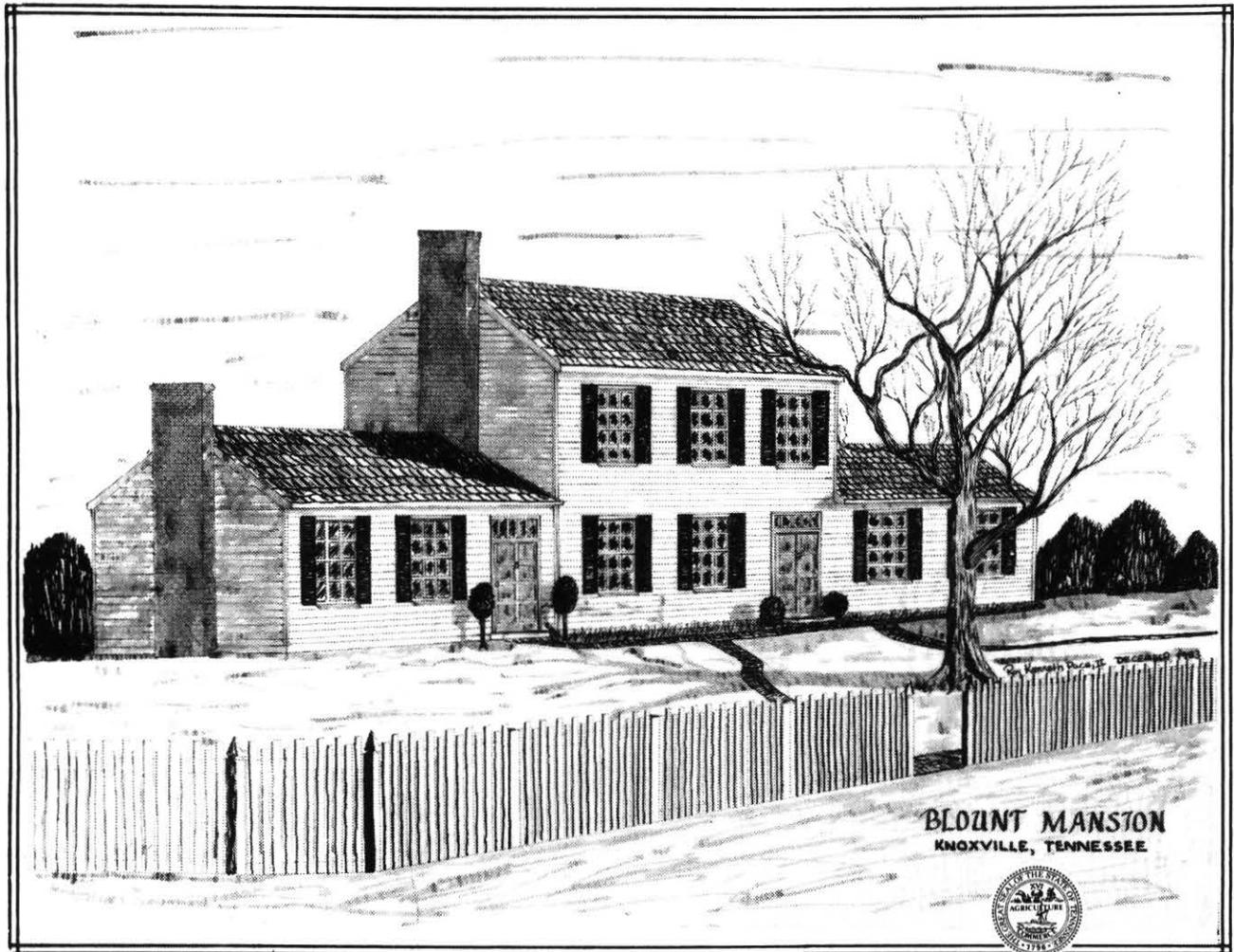


# TREASURER'S REPORT 1983



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

FOR THE FISCAL YEAR JULY 1, 1982 THROUGH JUNE 30, 1983

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# **1983 Report of the Treasurer**

**Harlan Mathews, Treasurer  
State of Tennessee**

**Year Ended June 30, 1983**



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# LETTER OF TRANSMITTAL

## STATE OF TENNESSEE



### TREASURY DEPARTMENT

STATE CAPITOL  
NASHVILLE, TENNESSEE 37219

HARLAN MATHEWS  
TREASURER

DAVID MANNING  
EXECUTIVE ASSISTANT

January 10, 1984

The Honorable Lamar Alexander  
Governor

The Honorable John S. Wilder  
Lieutenant Governor

The Honorable Ned R. McWherter  
Speaker of the House of Representatives  
State of Tennessee  
State Capitol  
Nashville, Tennessee 37219

Gentlemen:

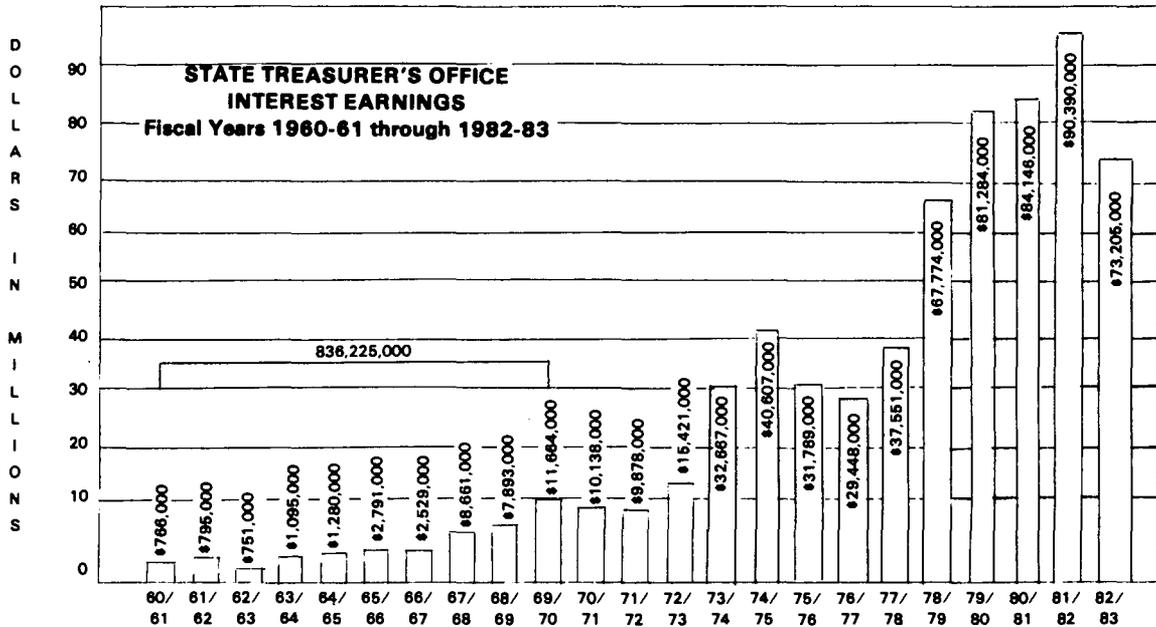
I am pleased to submit to you the annual financial report of the Treasurer's Office for the 1982-83 fiscal year. This report contains a summary of all the programs administered by the Treasury Department as well as statistical information and financial statements reflecting the current condition of these programs.

During the 1982-83 fiscal year the temporary investment of uncommitted state funds by our cash management staff produced income of \$73,205,000 with a rate of return of over 10½%. Investments of the Tennessee Consolidated Retirement System made by our investment staff produced income of \$272,633,000 with a rate of return of 10.75%. The performance of our investment program for state funds as well as TCRS funds for the past several years is illustrated by the following table and graphic illustration:

Summary of Investment Program Earnings  
Fiscal Year 1974-75 through 1982-83

<u>Fiscal Year</u>	<u>Cash Management Earnings</u>	<u>TCRS Portfolio Earnings</u>	<u>Total Treasury Earnings</u>
1982-83	\$ 73,204,971	\$ 272,632,717	\$ 345,837,688
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	<u>40,606,649</u>	<u>31,269,152</u>	<u>71,875,801</u>
Total	<u>\$536,195,595</u>	<u>\$1,055,983,404</u>	<u>\$1,592,178,999</u>

# LETTER OF TRANSMITTAL



The General Assembly should take pride in the performance of both of these investment programs since it is through their active involvement, beginning in the late 1960's, that the programs have excelled. As usual, I am very proud of the performance of the Treasury Department in producing this income, however given the circumstances in our state during the last fiscal year, I am particularly proud of this performance. We have just come through the most serious banking problems in our state since the great depression. Since last February there were twelve banking institutions in our state which failed during 1983. I am pleased to report to you that the safeguards which have been incorporated into the statutes for protecting public funds by the pledge of collateral security have functioned extremely well. Because of these safeguards during the past year we have been able to maintain our investments, maximize the rate of return and avoid placing any of our funds in jeopardy during this serious situation.

We have continued to make improvements in the other programs for which we are responsible including the administration of the Tennessee Consolidated Retirement System, the Unclaimed Property Program, the Deferred Compensation Program, the Defense Counsel Commission and the Board of Claims. With your continuing support we look forward to another successful year in administering the programs for which we are responsible.

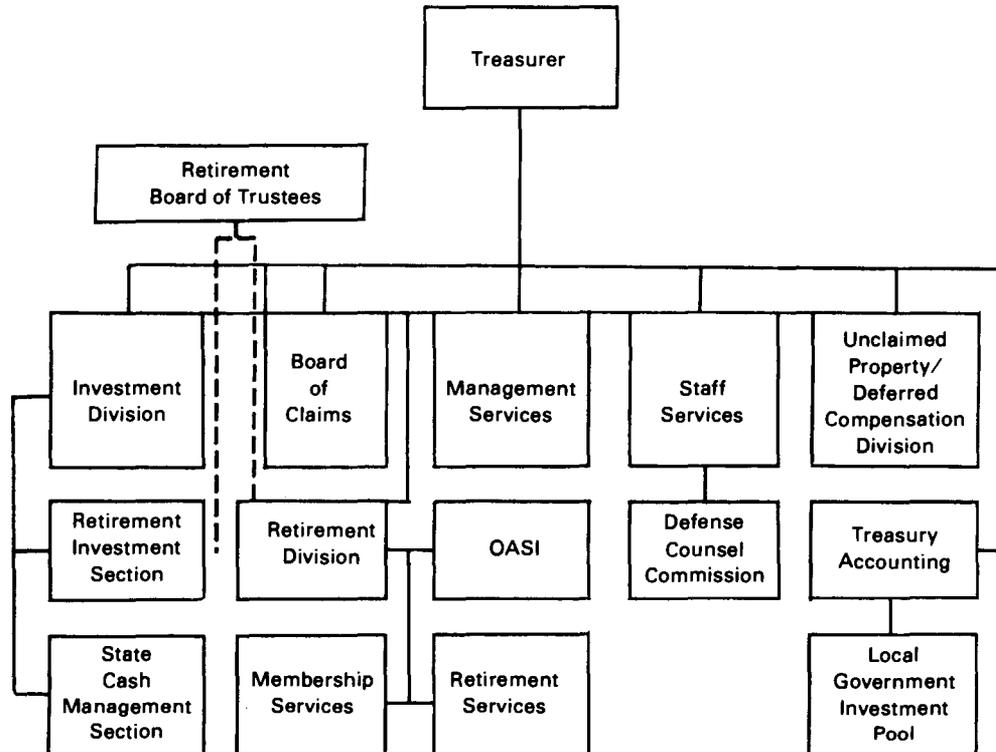
Sincerely,

Harlan Mathews

# INTRODUCTION

The 1983 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 1982-83 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 TCRS funds. During the 1982-83 fiscal year the investment of uncommitted state funds yielded earnings of \$73,204,971 despite the fact that interest rates declined nearly 25%. The rate of return on retirement investments was in excess of 10%, producing \$272,632,717 for the TCRS.

**Local Government Investment Pool:** The LGIP allows the investment of uncommitted funds of 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 \$31.0 million during the fiscal year and the average monthly interest rate paid was 9.06%, producing income in excess of \$2.1 million to participating local governments.

## INTRODUCTION

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**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, 1983, there were 138,439 active members and 42,120 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 4,300 new claims were filed with the Board in FY 1982-83.

**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, in a time deposit product with Fidelity Federal Savings and Loan Association or in a universal life insurance product with National Life & Accident Insurance Company. During the 1982-83 fiscal year 3,282 individuals or 9% of state employees participated in the plan.

**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 owners or their heirs. During the 1982-83 fiscal year, \$678,635 of cash property reported to the Treasurer since the program began in 1979 was returned to the owners or their heirs.

# INVESTMENT PROGRAM

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## State Cash Management Section

The investment policy of the Treasurer is to invest safely all state funds that will not be expended immediately in authorized investments to obtain a maximum return for the state. The State Cash Management Section performs this function. It is responsible for the management of deposits, disbursements and investment of funds in accordance with applicable state law. As shown in the table below, incremental earnings generated by the Treasury Department have become a significant source of state revenue.

### Summary of State Investment Earnings Fiscal Year 1978-79 through 1982-83

<u>Fiscal Year</u>	<u>Cash Management Earnings</u>
1982-83	\$73,204,971
1981-82	90,389,685
1980-81	84,147,227
1979-80	81,284,530
1978-79	67,773,913

To assist the Tennessee economy, funds are placed in Tennessee financial institutions whenever possible.

A primary objective in managing state funds is to keep demand accounts at a minimum. At the same time all other cash is kept invested to obtain the best return available. Excess funds are invested in certificates of deposit in Tennessee banks and savings and loans and U. S. Government guaranteed securities.

An important enhancement to the investment program was begun in this fiscal year. Due to recent changes in banking regulations by the Federal Reserve Board, State Cash Management was able to begin conversion of its non-interest demand accounts to interest bearing accounts. This conversion will be completed in the 1983-84 fiscal year.

Security of state funds is also a primary management objective. Faced with the most severe Tennessee banking crisis since the economic depression of the 1930's, state funds were invested as usual in state institutions without a single loss. All funds placed in non-U. S. Government guaranteed securities are collateralized at 110% of face value and not less than 100% market value, less the applicable federal insurance on the deposit. This requires the management of a collateral portfolio generally exceeding \$500,000,000 in value.

Liquidity is an important process in managing the state's funds. State Cash Management must forecast cash receipts and expenditures and then select investments accordingly to obtain the best return while maintaining adequate liquidity. To assist in the timely investment of these funds the State Trust of Tennessee was created. The State Trust of Tennessee is a not-for-profit public 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 Trust's wire operations are now a daily function of the State Treasurer's department for funds receipt and

# INVESTMENT PROGRAM

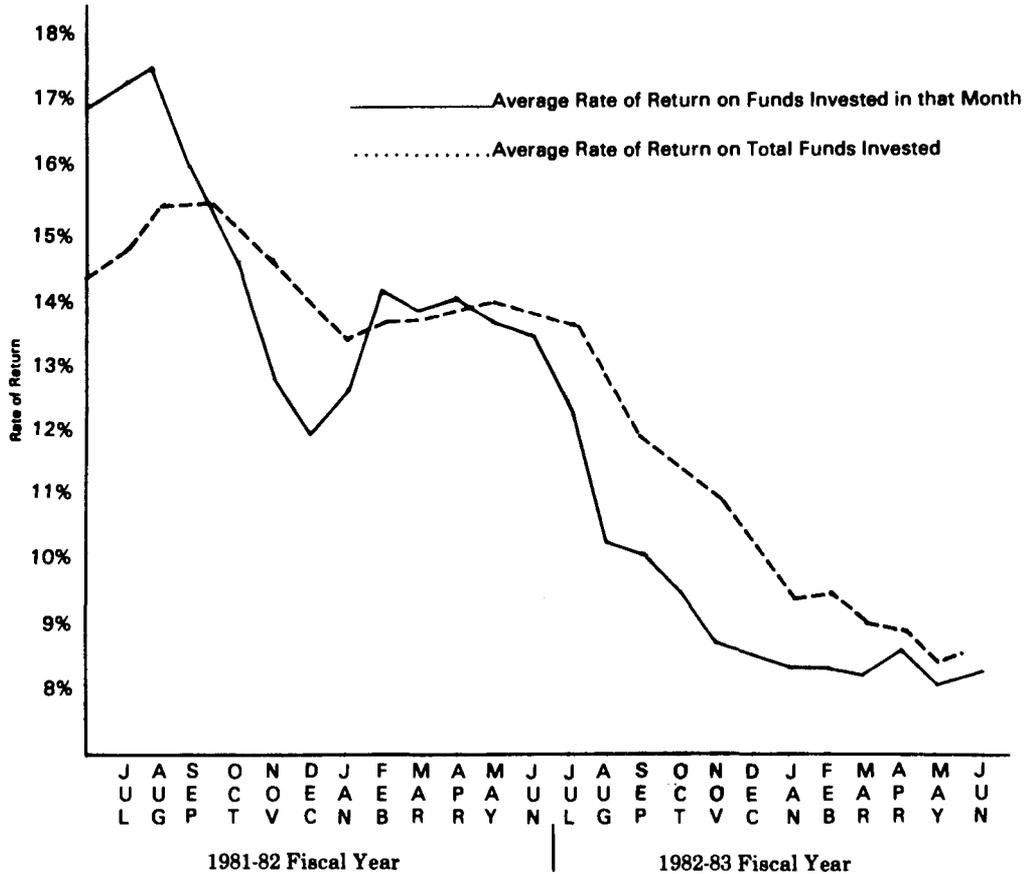
disbursement for the state's cash investments. During 1982-83 almost \$15,000 in service charges were paid to the Federal Reserve Bank. Those same services would have cost in excess of \$92,000 if processed through a commercial bank.

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 State Trust of Tennessee operates under 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.

In addition to investing uncommitted state cash, this section also invests the funds of the Local Government Investment Pool (LGIP). These funds are invested with the Treasurer's cash portfolio in certificates of deposit and repurchase agreements. A weighted average rate of return by volume of state investments into time deposits and repurchase agreements each month is used to calculate the LGIP average earnings less an administrative fee. The average net LGIP monthly interest rate paid was 9.06% and net interest credited on LGIP funds totaled \$2,136,264.

**Rate of Return on Treasury Investments  
July 1981—June 1983**



# INVESTMENT PROGRAM

## Investment Analysis of State Funds For the Fiscal Year Ended June 30, 1983

<u>Month</u>	<u>Total Average Funds Available To Treasury Per Books</u>	<u>Total Average Uncollected and Committed Cash Balances</u>	<u>Net Total Average Funds Available for Investment</u>	<u>Average In Repurchase Agreements</u>	<u>Investments: In Time Deposits</u>	<u>Percentage Of Net Funds Available Invested</u>
July	\$ 789,908,917	\$ 32,188,305	\$ 757,720,612	\$ 105,643,750	\$ 628,318,903	96.86%
August	780,639,814	36,401,479	744,238,335	93,645,250	630,488,258	97.30
September	785,585,619	34,405,716	751,179,903	99,898,433	631,714,333	97.40
October	768,870,727	34,078,659	734,792,068	104,716,354	620,285,032	98.67
November	783,861,615	39,068,816	744,792,799	107,108,113	619,442,000	97.55
December	719,564,967	36,574,764	682,990,203	108,369,717	554,843,258	97.10
January	662,865,382	33,367,362	629,498,020	125,225,208	485,763,581	97.06
February	634,825,523	34,262,437	600,563,086	101,154,708	491,905,286	98.75
March	656,120,842	35,378,034	620,742,808	102,912,683	490,635,032	95.62
April	711,737,942	36,634,521	675,103,421	176,925,276	468,199,793	95.56
May	735,669,295	32,500,640	703,168,655	220,426,806	457,399,452	96.40
June	728,975,573	36,448,062	692,527,511	203,538,067	463,687,333	96.35
*Average	729,885,518	35,109,066	694,776,452	129,132,864	545,223,522	97.06

# INVESTMENT PROGRAM

## Analysis of State Cash Investments

<u>Fiscal Year</u>	<u>Average Amount Invested</u>	<u>Amount Earned</u>	<u>Percentage Earned</u>
<b><u>TIME DEPOSITS</u></b>			
1982-83	\$545,223,522	\$61,557,242	10.87%
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

<b><u>REPURCHASE AGREEMENTS</u></b>			
1982-83	\$129,132,864	\$11,647,729	9.10%
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

<b><u>TOTAL FUNDS</u></b>				
<u>Fiscal Year</u>	<u>Average Total Funds Invested</u>	<u>Total Cash Management Earnings</u>	<u>Percent of Total Available Cash Invested</u>	<u>Composite Weighted Average Rate of Return</u>
1982-83	\$674,356,386	\$73,204,971	97.1%	10.59%
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

## INVESTMENT PROGRAM

### **Cash Management Analysis For the Year Ended June 30, 1983**

<u>Month &amp; Year</u>	<u>Average Rates On Investments Made</u>		<u>Weighted Average Interest Rate</u>	<u>LGIP Interest Rate Net of Admin. Fee</u>
	<u>Time Deposits</u>	<u>Repurchases</u>		
7/82	13.60%	11.67%	12.17%	12.02%
8/82	10.75	9.51	10.07	9.92
9/82	10.13	9.93	10.02	9.87
10/82	9.42	9.42	9.42	9.27
11/82	9.06	8.73	8.86	8.71
12/82	8.77	8.82	8.81	8.66
1/83	8.47	8.58	8.56	8.41
2/83	8.63	8.35	8.48	8.33
3/83	8.45	8.51	8.49	8.34
4/83	8.76	8.61	8.65	8.50
5/83	8.22	8.36	8.33	8.33
6/83	8.79	8.67	8.69	8.54
Average	9.42	9.10	9.21	9.06

The average rate on investments made each month during the year was 9.21% 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 1982-83 was 10.59% reflecting the carryover of higher rates from the 1981-82 fiscal year.

## INVESTMENT PROGRAM

### Reconciliation of Cash and Cash Equivalents

June 30, 1983

(Expressed in Thousands)

Cash and Cash Equivalents per Department of Finance and Administration	\$1,348,379
Add: Net reconciling items to Bank Statements	840
Deduct: Petty cash and travel advances	( 153)
Departmental revolving accounts	( 4,827)
Departmental cash in other accounts	(326,200)
Timing on Chase Manhattan Account	<u>2</u>
Cash and Cash Equivalents per Treasury	<u>\$1,018,041</u>

Represented by:

TCRS Short Term Investments	\$ 190,049
Cash in banks	63,543
Time deposits	464,939
Repurchase agreements	<u>299,510</u>

Total \$ 1,018,041

The cash and cash equivalent per Finance and Administration as reported in the State of Tennessee Annual Financial Report for June 30, 1983 is \$1,348,379. 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. The one hundred ninety million shown as short term investments for TCRS is invested in U. S. Treasury bills, commercial paper and repurchase agreements of the TCRS investment program.

# INVESTMENT PROGRAM

## Retirement Investment Section

The assets of the Tennessee Consolidated Retirement System are managed by the Retirement Investment Section which is staffed with professional money managers. Funds in the retirement system are actively managed with a portfolio of high quality bonds, mortgages and stocks. Total earnings of the system increased 24% from the previous year to total \$272,632,717.

### Book Value of Retirement Fund Investments

	June 30, 1983	June 30, 1982
Bonds-Marketable	\$2,064,100,548	\$1,737,922,979
Mortgages	5,682,625	6,789,051
Bonds-Private Placements	119,987,364	175,264,775
Stocks	<u>654,859,325</u>	<u>467,129,104</u>
Total	<u>\$2,844,629,862</u>	<u>\$2,387,105,909</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 of new monies received by the pension plan during 1982-83 was at a yield to maturity of 11.08%.

The five largest stock and bond holdings of the System at market value as of June 30, 1983 were as follows:

<u>Par Value/Shares</u>	<u>Security</u>	<u>Market Value</u>
<u>Stocks</u>		
200,000	IBM	24,050,000
400,000	Baxter Travenol	24,000,000
158,000	Digital Equipment	18,881,000
430,000	H. J. Heinz	18,705,000
382,800	American Hospital Supply	18,230,850
<u>Bonds</u>		
95,000,000	US Treasury Bonds 10 3/8% due 11/15/2012	89,952,650
62,000,000	US Treasury Notes 14 5/8% due 1/15/89	71,067,500
57,000,000	US Treasury Notes 14 5/8% due 2/15/92	67,331,250
62,000,000	US Treasury Bonds 8 3/8% due 8/15/2000	49,307,500
48,000,000	US Treasury Bonds 11 5/8% due 11/15/2002	49,320,000

## INVESTMENT PROGRAM

### Rate of Return Analysis on Retirement Investments for the Fiscal Years July 1, 1972 Through June 30, 1983

Fiscal Year	<u>EXCLUDING GAINS AND LOSSES</u>			<u>INCLUDING GAINS AND LOSSES</u>		
	<u>Average Amount Invested</u>	<u>Amount Earned</u>	<u>Percentage Earned</u>	<u>Average Amount Invested</u>	<u>Amount Earned</u>	<u>Percentage Earned</u>
1982-83	\$2,545,242,008	\$256,280,401	10.07%	\$2,537,065,851	\$272,632,717	10.75%
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

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The following chart provides additional analysis on TCRS investments pursuant to several popular methods of measuring investment performance.

### TCRS Investments Rate of Return Analysis

<u>Fiscal Year</u>	<sup>1</sup> Becker Balanced Public Fund Index <u>Median Total Return</u>	<sup>2</sup> TCRS Time Weighted <u>Total Return</u>	<sup>3</sup> Income Yield On Average <u>Available Funds</u>	<sup>4</sup> Yield To Maturity <u>New Bonds</u>
1982-83	37.6%	35.4%	8.64%	11.80%
1981-82	4.1	5.6	8.08	14.50
1980-81	3.1	1.4	7.95	12.83
1979-80	8.1	9.6	7.16	11.05
1978-79	8.3	8.9	6.91	9.12
1977-78	1.7	0.5	7.43	7.90
1976-77	7.6	5.3	7.16	7.89
1975-76	10.4	31.9	7.12	8.32

<sup>1</sup>This index most closely resembles TCRS' structure and objectives. However, many of the public funds counted in the Becker universe are only a part of an entity's total assets

<sup>2</sup>This is the method Becker uses to calculate returns and is the most accurate way to measure performance.

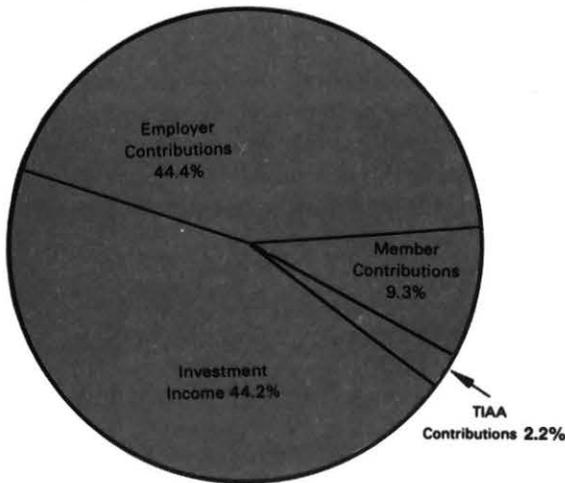
<sup>3</sup>This is the total dividend and interest income earned in one year and expressed as a percent of average funds available to invest at amortized cost.

<sup>4</sup>This is the yield to maturity on bonds acquired with new funds during each fiscal year.

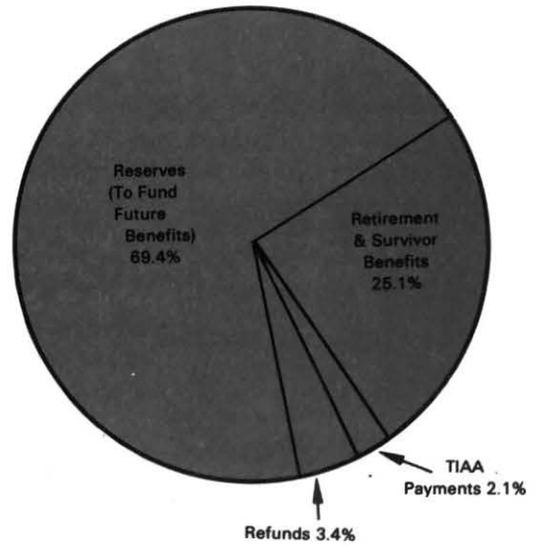
# INVESTMENT PROGRAM

## Tennessee Consolidated Retirement System 1982-83 Revenues: \$614,592,564.90

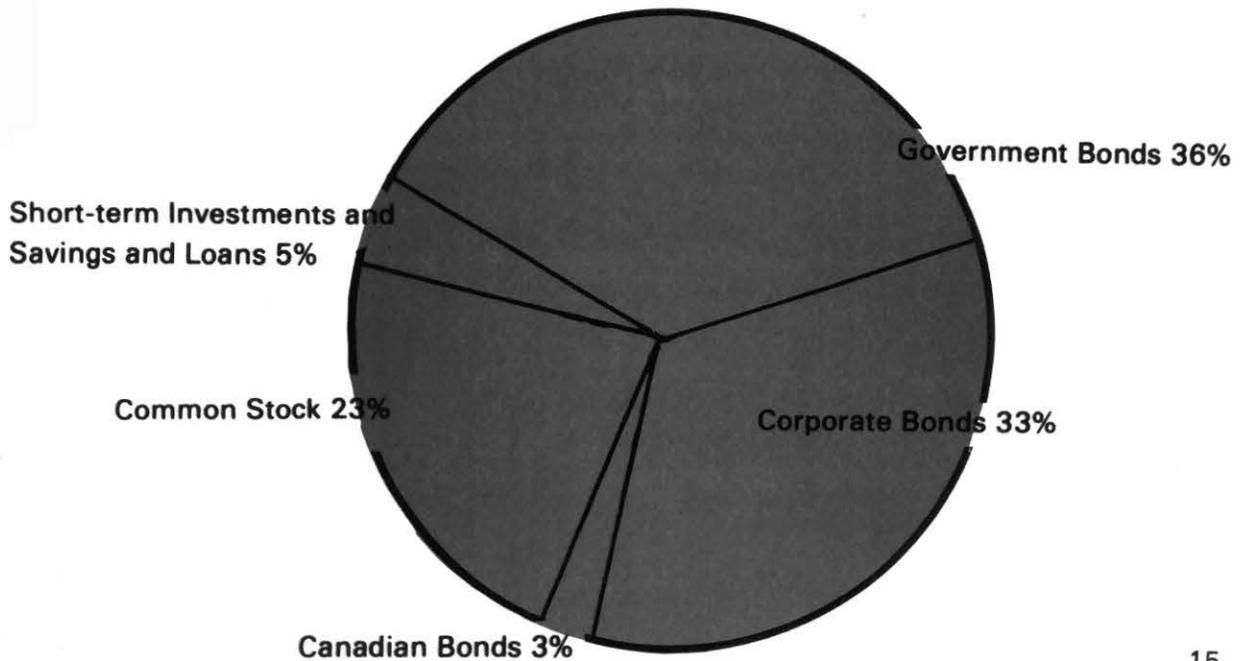
### SOURCES OF FUNDS



### USES OF FUNDS



### Portfolio Distribution



## 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, 1983

	Account Balance <u>July 1, 1982</u>	Amount Deposited <u>FY 1982-83</u>	Amount Withdrawn <u>FY 1982-83</u>	Net Interest Credited <u>FY 1982-83</u>	Account Balance <u>June 30, 1983</u>
Cities	\$5,621,901	\$23,453,532	\$16,654,533	\$ 848,599	\$13,269,499
Counties	601,166	6,653,237	4,446,450	136,156	2,944,109
Commitments to DOT	7,184,964	3,918,570	831,511	717,975	10,989,998
Educational Institutions	1,565,782	12,719,145	12,669,116	333,170	1,948,981
Commitments to OASI	0	37,602	0	3,322	40,924
Other	<u>767,408</u>	<u>2,625,158</u>	<u>1,613,932</u>	<u>97,042</u>	<u>1,875,676</u>
Totals	\$15,741,221	\$49,407,244	\$36,215,542	\$2,136,264	\$31,069,187

The funds in the LGIP are invested with the State Treasurer's cash portfolio in certificates of deposit and repurchase agreements. A weighted average rate of return by volume of State investments into time deposits and repurchase agreements in each month is used to calculate the LGIP average earnings less an administrative fee. The average net LGIP monthly interest rate paid was 9.06% and net interest credited on LGIP funds totaled \$2,136,264.

# LOCAL GOVERNMENT INVESTMENT POOL

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STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT  
SUITE 1500  
JAMES K. POLK STATE OFFICE BUILDING  
NASHVILLE, TENNESSEE 37219-5047  
PHONE (615) 741-3697

December 9, 1983

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

Dear Mr. Snodgrass:

We have examined the balance sheet of the Local Government Investment Pool as of June 30, 1983, and June 30, 1982, and the related statements of revenues, expenditures, and changes in fund balance and changes in financial position for the years then ended. Our examinations were 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 the Local Government Investment Pool of June 30, 1983, and June 30, 1982, and the results of its operations and changes in its financial position for the years then ended, in conformity with generally accepted accounting principles.

Sincerely,

A handwritten signature in cursive script, reading "Frank L. Greathouse".

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

# LOCAL GOVERNMENT INVESTMENT POOL

## Balance Sheet

	<u>June 30, 1983</u>	<u>June 30, 1982</u>
<b>ASSETS</b>		
Cash and Cash Equivalents	<u>\$31,069,187</u>	<u>\$15,746,606</u>
<b>Total Assets</b>	<u><u>\$31,069,187</u></u>	<u><u>\$15,746,606</u></u>
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities:		
Member Deposits	\$20,079,186	\$8,556,256
Commitments to Department of Transportation	<u>10,990,001</u>	<u>7,184,964</u>
<b>Total Liabilities</b>	<u>\$31,069,187</u>	<u>\$15,741,220</u>
Fund Balance	<u>0</u>	<u>5,386</u>
<b>Total Liabilities and Fund Balance</b>	<u><u>\$31,069,187</u></u>	<u><u>\$15,746,606</u></u>

## Statement of Revenues, Expenditures & Changes in Fund Balance

	July 1, 1982 Through <u>June 30, 1983</u>	July 1, 1981 Through <u>June 30, 1982</u>
Fund Balance, Beginning of Year	<u>\$ 5,386</u>	<u>\$ 1,328</u>
Revenues:		
Investment Income	<u>\$ 2,172,242</u>	<u>\$993,287</u>
<b>Total Revenues</b>	<u>\$ 2,172,242</u>	<u>\$993,287</u>
Expenditures:		
Interest on Deposits	\$ 2,136,264	\$957,621
Administrative Fees	<u>41,364</u>	<u>31,608</u>
<b>Total Expenditures</b>	<u>\$ 2,177,628</u>	<u>\$989,229</u>
Excess in Revenues over Expenditures	<u>\$( 5,386)</u>	<u>\$ 4,058</u>
Fund Balance, End of Year	<u><u>\$ 0</u></u>	<u><u>\$ 5,386</u></u>

# LOCAL GOVERNMENT INVESTMENT POOL

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## Statement of Changes in Financial Position

	July 1, 1982 Through <u>June 30, 1983</u>	July 1, 1981 Through <u>June 30, 1982</u>
Sources of Working Capital:		
Working Capital Provided by Net Income from Operations	<u>\$( 5,386)</u>	<u>\$ 4,058</u>
Net Increase (Decrease) in Working Capital	<u><u>\$( 5,386)</u></u>	<u><u>\$ 4,058</u></u>
Elements of Net Increase (Decrease) in Working Capital:		
Cash and Cash Equivalents	\$ 15,322,580	\$ 12,585,838
Member Deposits	(11,522,930)	( 5,396,815)
Committments to Department of Transportation	<u>( 3,805,036)</u>	<u>( 7,184,965)</u>
Net Increase in Working Capital	<u><u>\$( 5,386)</u></u>	<u><u>\$ 4,058</u></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 through the Federal Reserve Bank or correspondent banking transactions through the local bank to First American Bank in Nashville.

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 .15 percent is charged against each participant's 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.

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.

Some deposits are contractually committed to the office of Old Age and Survivors Insurance. Withdrawals from these accounts require authorization by OASI.

## LOCAL GOVERNMENT INVESTMENT POOL

### 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.

### Schedule of Cash Receipts and Disbursements

	July 1, 1982 Through <u>June 30, 1983</u>	July 1, 1981 Through <u>June 30, 1982</u>
Cash Balance, Beginning of Year	<u>\$15,746,606</u>	<u>\$ 3,160,768</u>
Add Cash Receipts:		
Member Deposits	\$49,407,244	\$22,950,611
Investment Income	<u>2,172,242</u>	<u>993,287</u>
Total Cash Receipts	<u>\$51,579,486</u>	<u>\$23,943,898</u>
Deduct Cash Disbursements:		
Member's Withdrawals	\$36,215,542	\$11,326,452
Administrative Fees Paid	<u>41,363</u>	<u>31,608</u>
Total Cash Disbursements	<u>\$36,256,905</u>	<u>\$11,358,060</u>
Cash Balance, End of Year	<u>\$31,069,187</u>	<u>\$15,746,606</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 2,000 reporting entities as of June 30, 1983. The combined contribution rate for both employees and employers was 13.4% and the calendar year 1982 maximum taxable wage base increased from \$32,400 to \$35,700 in 1983. These contributions are collected, audited and transmitted to the Social Security Administration.

The following tables show the salaries reported to OASI and the funds transmitted to the Federal Government.

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

<u>Employment Category</u>	<u>Salaries Reported</u>	
	<u>June 30, 1983</u>	<u>June 30, 1982</u>
State Employees	\$ 511,897,478	\$ 476,869,469
Higher Education	375,622,896	335,189,845
K-12 Teachers	759,762,224	710,421,601
Political Subdivisions	<u>1,107,171,015</u>	<u>1,041,971,172</u>
TOTALS	\$2,754,453,613	\$2,564,452,087
	<u>Funds Transmitted</u>	
State Employees	\$ 68,594,262	\$ 63,664,991
Higher Education	50,333,468	44,753,190
K-12 Teachers	101,808,138	94,911,322
Political Subdivisions	<u>148,360,916</u>	<u>139,112,822</u>
TOTALS	\$369,096,784	\$342,442,325

## 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

# TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

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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 Contributorial 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 <u>6/30/83</u>	Year Ended <u>6/30/82</u>
State Employees	38,099	38,003
Higher Education Employees	19,758	20,488
K-12 Teachers	45,417	47,388
Political Subdivision Employees	<u>35,165</u>	<u>35,168</u>
Total	138,439	141,047

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 1982-83 fiscal year, contributions credited to the employee reserve account totaled \$93.3 million which included \$36.0 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, 1983 were as follows:

Non Contributory State Employees	11.07%
K—12 Teachers	15.01%
Non Contributory Higher Education Teachers	20.42%
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. 1982-83 contributions credited to the employer reserve account totaled \$235.4 million.

# TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

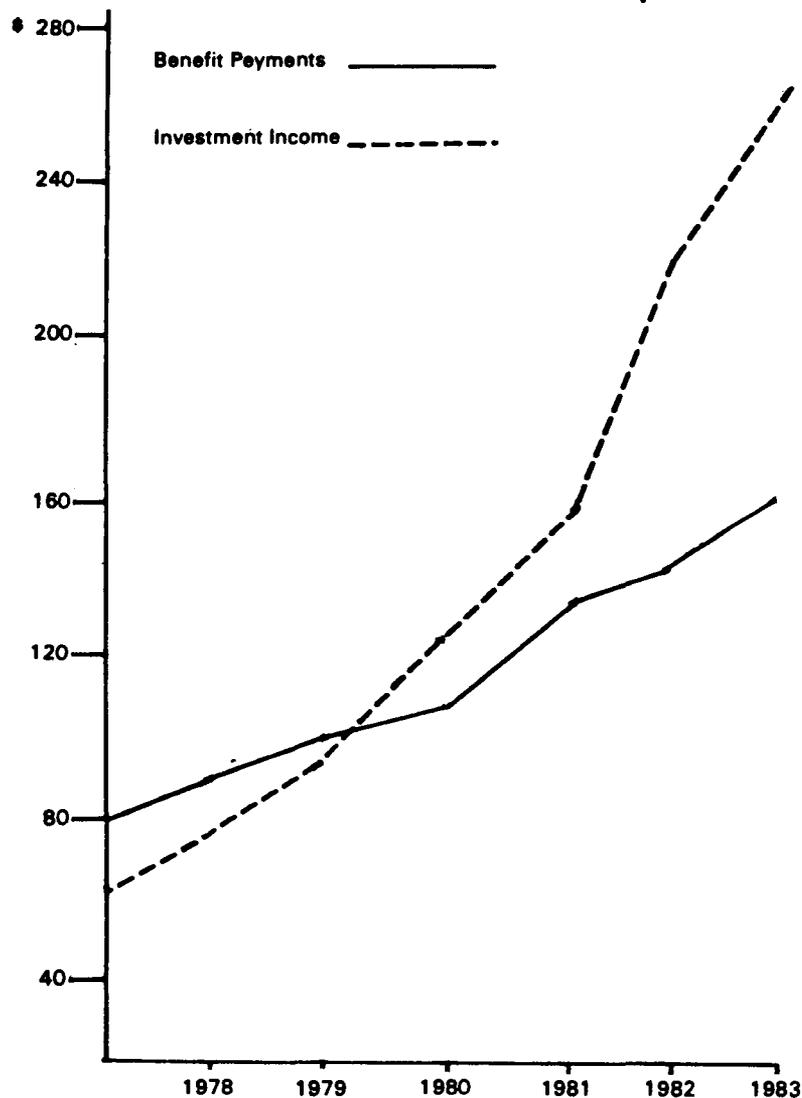
## Retirement Benefits

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, 1983, 42,120 retirees were receiving monthly benefit payments. Benefits paid in FY 1982-83 totaled \$153 million.

**Analysis of Investment Income  
and Retirement and Death Benefit Payments**



# TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

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**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT  
SUITE 1500  
JAMES K. POLK STATE OFFICE BUILDING  
NASHVILLE, TENNESSEE 37219-5047  
PHONE (615) 741-3897**

December 9, 1983

The 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, 1983, and June 30, 1982, and the related statements of revenues, expenditures, and changes in fund balance and changes in financial position for the years then ended. Our examinations were 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 the Tennessee Consolidated Retirement System of June 30, 1983, and June 30, 1982, and the results of its operations and changes in its financial position for the years then ended, in conformity with generally accepted accounting principles.

Sincerely,

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

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

Tennessee Consolidated Retirement System  
**Comparative Balance Sheet**

(Expressed in Thousands)

	June 30, 1983	June 30, 1982
<b>ASSETS</b>		
CASH AND CASH EQUIVALENTS	<u>\$ 186,831</u>	<u>\$ 310,209</u>
INVESTMENTS:		
Government Bonds (Amortized Cost)	\$ 959,599	\$ 784,002
Canadian Bonds (Amortized Cost)	96,530	95,895
Corporate Bonds (Amortized Cost)	929,293	734,422
Corporate Stocks (Cost)	654,859	467,129
Savings and Loans	<u>14,300</u>	<u>14,000</u>
Total Long Term Investments	<u>\$ 2,654,581</u>	<u>\$ 2,095,448</u>
COLLATERAL AGAINST SECURITIES LOANED	<u>\$ 148,715</u>	<u>\$ 76,900</u>
RECEIVABLES:		
Investments Sold	\$ -0-	\$ 548
Member Contributions Receivable	4,558	4,527
Employer Contributions Receivable	3,887	4,438
Accrued Interest Receivable	52,444	43,607
Accrued Dividends Receivable	1,850	2,308
Political Subdivisions Receivable	<u>2,394</u>	<u>2,258</u>
Total Receivables	<u>\$ 65,133</u>	<u>\$ 57,686</u>
<b>Total Assets</b>	<b><u>\$ 3,055,260</u></b>	<b><u>\$ 2,540,243</u></b>
<b>LIABILITIES AND FUND BALANCE</b>		
CURRENT LIABILITIES:		
Warrants Payable	\$ 947	\$ 1,160
Accounts Payable	2,898	1,949
Collateral Against Securities Loaned	148,715	76,900
Investments Purchased	<u>16,171</u>	<u>-0-</u>
Total Current Liabilities	<u>\$ 168,731</u>	<u>\$ 80,009</u>
FUND BALANCE:		
Reserved for Member Contributions	\$ 730,605	\$ 658,975
Reserved for Employer Contributions	<u>2,155,924</u>	<u>1,801,259</u>
Total Fund Balance	<u>\$ 2,886,529</u>	<u>\$ 2,460,234</u>
<b>Total Liabilities and Fund Balance</b>	<b><u>\$ 3,055,260</u></b>	<b><u>\$ 2,540,243</u></b>

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

(Expressed in Thousands)

	For the Year Ended June 30, 1983		For the Year Ended June 30, 1982	
Fund Balance, Beginning of Year		<u>\$2,460,234</u>		<u>\$2,072,489</u>
Revenues:				
Member Contributions	\$ 57,318		\$ 54,072	
Employer Contributions	238,083		246,995	
Political Subdivisions Contributions	33,356		30,147	
TIAA Contributions	<u>13,202</u>	341,959	<u>12,127</u>	343,341
Investment Income:				
Loan Revenue	\$ 967		\$ 208	
Options Revenue	347		-0-	
Interest	192,747		147,019	
Dividends	27,329		26,980	
Net Discount and (Premium) Amortization	34,891		45,551	
Net Profit (Loss) on Sale of Investments	<u>16,352</u>	<u>272,633</u>	<u>321</u>	<u>220,079</u>
Total Revenues		<u>\$ 614,592</u>		<u>\$ 563,420</u>
Expenses:				
Annuity Benefits	\$153,039		\$138,279	
Death Benefits	1,404		1,098	
Refunds	20,708		24,193	
TIAA Payments	<u>13,202</u>	<u>188,353</u>	<u>12,127</u>	<u>175,697</u>
Total Expenses		<u>\$ 188,353</u>		<u>\$ 175,697</u>
Excess of Revenues over Expenses		<u>\$ 426,239</u>		<u>\$ 387,723</u>
Other Financing Sources:				
Operating Transfer from Special Revenue Fund		\$ 56		\$ 22
Excess of Revenues and Other Sources over Expenses		<u>\$ 426,295</u>		<u>\$ 387,745</u>
Fund Balance, End of Year		<u><u>\$2,886,529</u></u>		<u><u>\$2,460,234</u></u>

**Tennessee Consolidated Retirement System  
Statement of Changes in Financial Position**

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**(Expressed in Thousands)**

	For the Year Ended June 30, 1983	For the Year Ended June 30, 1982
<b>Sources of Working Capital:</b>		
Working Capital Provided by Net Income from Operations	<u>\$ 426,294</u>	<u>\$387,745</u>
Net Increase in Working Capital	<u>\$ 426,294</u>	<u>\$387,745</u>
<b>Elements of Net Increase in Working Capital:</b>		
Cash and Cash Equivalents	\$(123,377)	\$16,819
Investments	559,131	328,497
Collateral Against Securities Loaned	71,815	76,900
Receivables	7,446	12,641
Warrants Payable	213	11,392
Accounts Payable and Accruals	( 949)	18,396
Accounts Held in Custody for Others	( 71,815)	( 76,900)
Investment Purchases	<u>( 16,170)</u>	<u>-0-</u>
Net Increase in Working Capital	<u>\$ 426,294</u>	<u>\$387,745</u>

Tennessee Consolidated Retirement System  
**Notes to Financial Statements**

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**SIGNIFICANT ACCOUNTING POLICIES**

- A. **BASIS OF PRESENTATION**—The accompanying financial statements have been prepared in conformity with generally accepted accounting principles. Certain amounts presented for the preceding year have been reclassified for comparative purposes.
- B. **BASIS OF ACCOUNTING**—The TCRS is accounted for on the modified accrual basis of accounting.
- C. **CASH AND CASH EQUIVALENTS**—In addition to cash, this classification includes all short term investments such as repurchase agreements, U. S. Treasury Bills, and commercial paper. These investments are stated at amortized cost which at June 30, 1983 and June 30, 1982 approximated market. At June 30, 1983 the TCRS had a negative cash balance of \$3,218,198.42. A clerical error occurred which resulted in a failure to transfer sufficient cash to cover the direct deposit position of the retired payroll for June 30, 1983. This shortage was covered by the state cash pool.

The market value of cash and cash equivalents as of June 30, 1983 and June 30, 1982 is as follows:

	June 30, 1983	June 30, 1982
Cash	\$( 3,218,198.42)	\$ 18,551,750.87
Short Term Investments (Amortized Cost)	<u>190,049,259.72</u>	<u>291,656,920.52</u>
Cash and Cash Equivalents	<u>\$ 186,831,061.30</u>	<u>\$310,208,671.39</u>

**D. MARKET VALUE OF LONG-TERM INVESTMENTS**

The market value of the long-term investments as of June 30, 1983 and June 30, 1982 is as follows:

	June 30, 1983	June 30, 1982
Bonds-Marketable	\$1,749,874,892	\$1,142,810,084
Mortgages	4,263,041	4,752,013
Bonds-Private Placements (Estimated Market Value)	116,809,738	117,371,516
Stock	<u>883,660,491</u>	<u>471,595,613</u>
Total	<u>\$2,754,608,162</u>	<u>\$1,736,529,226</u>

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

- E. **RECEIVABLES**—Receivables primarily consist of interest which is recorded when earned.
- F. **INVESTMENT LENDING.**

Some of the securities owned by the TCRS were contractually loaned to investment brokers at June 30, 1983. 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, 1983 there was \$140,177,123 (market value) of TCRS securities on loan to brokers. There was \$148,715,431 (market value) of securities pledged to the TCRS as collateral against

Tennessee Consolidated Retirement System  
**Notes to Financial Statements**

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securities loaned all of which were registered in the name of the TCRS as noted in the investments on the Balance Sheet.

**G. OPTIONS**

During the 1983 fiscal year the TCRS engaged in the issuance of options. Activity is limited, by policy, to selling covered call options. At June 30, 1983 there were no outstanding options.

**OTHER ACCOUNTING DISCLOSURES**

- A. Tennessee Consolidated Retirement System**—The Tennessee Consolidated Retirement System (TCRS) is a defined benefit retirement plan covering general employees and teachers of the state as well as employees of political subdivisions who have elected coverage. Benefits are determined by a formula using the high five-year average salary and years of service of each employee. Contributions to the system are determined on an actuarial reserve basis and provide funding for both normal and accrued liability costs. The frozen initial liability method, a projected benefit cost method, is used to value the plan. By using the frozen initial liability method it was assumed that the accrued liability was frozen as of June 30, 1981. For prior actuarial valuations the entry age normal cost method was used. Effective July 1981, pursuant to non-contributory legislation, contributions of up to 5% of the earnable compensation of most classes of general employees, formerly paid by those employees, were assumed by the state. This legislation similarly affected electing political subdivisions and their employees.

It is the policy of the state to fund pension costs accrued. For the year ended June 30, 1983 the state contributed \$238 million to the plan and state employees and teachers contributed \$42.5 million. Political subdivisions contributed \$33.4 million to the plan and the employees of political subdivisions contributed \$14.8 million. The employer contributions included funding for a cost-of-living provision and amortization of the accrued liability on an actuarial basis over a 40-year period which began in 1975.

An experience study of the system is conducted every four years, the most recent being 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 1/2%), greater post-retirement survivorship and increased employee turnover. The new assumptions were used in the 1981 actuarial valuation as well as the 1983 actuarial valuation.

An actuarial valuation is made every two years, the most recent having been completed as of June 30, 1983. For actuarial purposes, investments were valued using a five-year moving market average for equity securities and amortized cost for debt securities. At June 30, 1983 the actuarially computed present value of vested benefits exceeded the net assets of the pension fund by \$523 million of which \$46 million is attributable to political subdivisions for which the state assumes no liability. This amount also includes the liability associated with a closed group of University of Tennessee faculty who participate in the Teachers Insurance and Annuity Association retirement plan (TIAA-CREF), described in B below. The unamortized accrued liability of the retirement system, based on the present value of benefits for past and future service, was estimated to be \$2.05 billion at June 30, 1983. Of this amount \$185 million is attributable to political subdivisions for which the State assumes no liability.

- B. 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.

Tennessee Consolidated Retirement System  
**Notes to Financial Statements**  
**Actuarial Balance Sheet — Schedule I**

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

For the year ended June 30, 1983 the state contributed \$13.2 million to the TIAA-CREF plan.

**(Expressed in Thousands)**

	<b>State and Teachers</b>	<b>Political Subdivisions</b>	<b>Total</b>
<b>RESOURCES:</b>			
Net Assets	\$2,675,645	\$332,026	\$3,007,672
Present Value of Future Contributions:			
Members	505,738	136,389	642,127
Employer	1,094,919	157,082	1,252,000
Unamortized Accrued Liability	<u>1,861,579</u>	<u>184,645</u>	<u>2,046,225</u>
Total Resources	<u><u>\$6,137,881</u></u>	<u><u>\$810,142</u></u>	<u><u>\$6,948,024</u></u>
<b>REQUIREMENTS:</b>			
Present Value of Benefits (Past and Future Service) For:			
Present Retired Members and Contingent Annuitants	\$1,419,093	\$143,904	\$1,562,997
Present Active Members	4,673,696	656,627	5,330,323
Former Members	<u>45,092</u>	<u>9,611</u>	<u>54,704</u>
Total Requirements	<u><u>\$6,137,881</u></u>	<u><u>\$810,142</u></u>	<u><u>\$6,948,024</u></u>

The actuarial assets to plan termination liability funding ratio at June 30, 1983 was 83.3% which compares with a funding ratio at June 30, 1981 of 71.1%.

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

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(Expressed in Thousands)

	For the Year Ended June 30, 1983	For the Year Ended June 30, 1982
Cash Balance at Beginning of Year	\$ <u>18,551</u>	\$ <u>85,755</u>
Add Cash Receipts:		
Member Contributions	\$ 57,287	\$ 56,133
Employer Contributions	238,690	245,972
Political Subdivisions Contributions	33,220	29,999
Investment Income-Interest	183,908	134,370
Investment Income-Dividends	27,787	26,572
Investments Sold (Net Book Value)	4,683,072	2,637,654
TIAA Contributions	13,203	12,127
Loan Revenue	967	0
Option Revenue	<u>347</u>	<u>0</u>
Total Cash	<u>\$ 5,238,481</u>	<u>\$3,142,827</u>
Deduct Cash Disbursements:		
Annuity Benefits	\$ 153,039	\$ 138,278
Death Benefits	1,404	1,098
Refunds	20,073	25,258
Investments Purchased	5,072,633	3,033,298
TIAA Payments	<u>13,101</u>	<u>12,099</u>
Total Cash Disbursements	<u>\$ 5,260,250</u>	<u>\$3,210,031</u>
Cash Balance at End of Year	<u>\$ ( 3,218)</u>	<u>\$ 18,551</u>

## BOARD OF CLAIMS

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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 a division of 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, 1983, the Board of Claims made payments from the general fund as follows:

Death Claims	\$ 39,911
Non-Employee Injuries	62,967
Employee Injuries	2,333,528
Non-Employee Property Damage	351,639
Employee Property Damage	19,722
Other	<u>128</u>
Total	<u>\$2,807,895</u>

Claims pertaining to employees or officers of the Department of Transportation are paid out of the general highway fund. The following payments were approved by the Board of Claims and paid from the general highway fund during the fiscal year ending June 30, 1983:

Death Claims	\$ 32,503
Non-Employee Injuries	31,850
Employee Injuries	475,184
Non-Employee Property Damage	192,498
Employee Property Damage	<u>2,106</u>
Total	<u>\$734,141</u>

During the year the board received 4,347 new claims as follows: 3112 workers' compensation claims; 947 tort claims, 280 employee property damage claims; and 8 claims requesting reimbursement for judgments rendered against state employees. The board's staff processed 10,057 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 payments 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 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.

## BOARD OF CLAIMS

During the 1982-83 fiscal year, the board made payments to 178 victims of crime in the total amount of \$1,391,136. There were 290 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 were paid within nine months after the date the claims were filed; however, claims which were filed near the end of the fiscal year are expected to require at least 12 months before funds become available for payment.

### Criminal Injuries Compensation Fund Schedule of Activity July 1, 1982 - June 30, 1983

<u>MONTH</u>	<u>TAXES<sup>1</sup></u>	<u>DEPOSITS<sup>2</sup></u>	<u>INTEREST</u>	<u>AWARDS</u>
July	\$ 0	\$ 21,626	\$ 221	\$ 0
August	70,575	35,039	1,339	176,881
September	69,258	24,414	1,504	0
October	69,927	25,515	1,716	136,005
November	69,517	24,458	1,464	118,177
December	71,845	30,592	1,167	163,935
January	70,001	24,757	709	168,972
February	74,174	21,619	862	0
March	76,056	28,917	737	264,387
April	79,101	24,404	240	117,931
May	86,153	28,424	311	103,589
June	<u>79,645</u>	<u>25,826</u>	<u>625</u>	<u>141,259</u>
<b>TOTAL</b>	<u><b>\$816,252</b></u>	<u><b>\$315,591</b></u>	<u><b>\$10,895</b></u>	<u><b>\$1,391,136</b></u>

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

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

## **DEFENSE COUNSEL COMMISSION**

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By Chapter 128, Tennessee Public Acts of 1973, the legislature established the Defense Counsel Commission and empowered it to pay attorney's fees incurred by state employees in defense of certain civil actions for damages brought against them. The State Treasurer became Chairman on April 22, 1982.

The circumstances under which the Commission is authorized to pay attorney's fees is set out in Tennessee Code Annotated, Section 8-42-103. This section was amended on April 8, 1983 to establish specific standards for approval of requests for private counsel and standards for determining a reasonable fee. Tennessee Code Annotated, Section 8-42-107 provides an annual appropriation of a sum sufficient to make payments to counsel and payments for court costs.

During the fiscal year ending June 30, 1983 the Defense Counsel Commission made payments totaling \$245,664. During the year 110 new requests for private counsel were received and 61 were approved. As of June 30th there were 83 pending cases in which payment of fees and expenses had been approved.

## DEFERRED COMPENSATION

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The Deferred Compensation Plan completed its second year of operation at the end of the 1982-83 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.

Under this plan participants may invest deferred income in an annuity product with Aetna Life Insurance and Annuity Company, in a time deposit product with Fidelity Federal Savings and Loan Association, or in a newly available universal life insurance product with National Life and Accident Insurance Company.

The Internal Revenue Code permits participants in this program 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.

During the 1982-83 fiscal year, 3282 individuals or 9% of state employees participated in the plan. At June 30, 1983, deferrals were as follows:

Company	Deferrals 1982-1983	Deferrals 1980-1982	Total Deferrals
Aetna	\$3,431,248	\$2,914,886	\$6,346,134
Fidelity Federal	1,274,913	991,496	2,266,409
National Life	<u>135,648</u>	<u>0</u>	<u>135,648</u>
Total	\$4,841,809	\$3,906,382	\$8,748,191

The average monthly deferral was \$78 and participation was widely spread among age and salary levels as shown in the following schedule.

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

## DEFERRED COMPENSATION

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### Participation Analysis as of June 30, 1983

<u>Age</u>	<u>Percent of Contributors</u>	<u>Average Deferral</u>
Less than 26	6.6%	\$ 15.38
26-30	9.4	30.19
31-35	13.5	44.96
36-40	13.0	59.48
41-45	13.0	63.72
46-50	13.2	76.36
51-55	13.3	104.97
56-60	12.7	125.64
60+	<u>5.3</u>	<u>225.86</u>
Total	100.0%	\$ 77.90
<u>Years of Service</u>	<u>Percent of Contributors</u>	<u>Average Deferral</u>
Less than 5 yrs.	17.7%	\$ 44.75
5-10	26.7	55.62
10-20	35.7	74.52
20+	17.3	99.62
Special and Judicial	<u>2.6</u>	<u>440.25</u>
Total	100.0%	\$ 77.90
<u>Monthly Salary</u>	<u>Percent of Contributors</u>	<u>Average Deferral</u>
Less than \$ 800	13.3%	\$ 27.05
801-1000	16.7	27.60
1001-1200	21.2	44.45
1201-1400	11.9	56.92
1401-1600	12.2	75.01
1601-1800	7.9	94.16
1801-2000	3.8	110.32
2001-2400	4.0	156.40
2401-2800	3.4	166.46
2801-3200	1.3	192.38
3201-3600	.7	373.10
3601-4000	.8	331.28
4001-4500	.8	321.60
4500+	<u>2.0</u>	<u>501.71</u>
Total	100.0%	\$ 77.90

## 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 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 \$11.9 million in unclaimed property, has been reported to the Treasurer and over \$3.1 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 four report years since the program began.

### Analysis of Property Returned by Year Reported

1979—1982

<u>Report Year</u>	<u>ACCOUNTS RETURNED</u>			<u>CASH RETURNED</u>		
	<u>Accounts Reported</u>	<u>Accounts Returned</u>	<u>Percentage Returned</u>	<u>Cash Reported</u>	<u>Cash Returned</u>	<u>Percentage Returned</u>
1979	26,706	8,177	30.62%	\$5,386,117	\$1,385,799	25.73 %
1980	9,965	2,586	25.95	1,869,555	502,859	26.90
1981	16,278	4,567	28.06	2,811,208	811,707	28.87
<u>1982</u>	<u>10,928</u>	<u>2,945</u>	<u>26.95</u>	<u>1,859,427</u>	<u>465,115</u>	<u>25.01</u>
<b>TOTAL</b>	<b>63,877</b>	<b>18,275</b>	<b>28.61%</b>	<b>\$11,926,307</b>	<b>\$ 3,165,480</b>	<b>26.54 %</b>

## UNCLAIMED PROPERTY AND ESCHEAT

During the period from July 1, 1982 through June 30, 1983, \$678,635 cash property reported to the Treasurer since the program began in 1979 was returned to the owners or their heirs. Following is an analysis of the property returned during the 1982-1983 fiscal year:

### Property Returned July 1, 1982—June 30, 1983

<u>Reporting Entity</u>	<u>Number of Accounts</u>	<u>Value of Claims Paid</u>	<u>Percentage of Total Value</u>
Utilities	609	\$ 40,269	5.92%
Banks	2031	322,635	47.53
Credit Agencies	448	105,896	15.60
Insurance			
Companies	649	67,169	9.90
TCRS	388	62,567	9.27
Courts	51	30,973	4.55
Other	<u>457</u>	<u>49,126</u>	<u>7.23</u>
<b>Total</b>	<b>4633</b>	<b>\$678,635</b>	<b>100.0%</b>

During the period July 1, 1982 through June 30, 1983, \$1,435,657 of property in the form of cash was turned over to the Treasurer. Following is an analysis of these cash collections:

### Unclaimed Property Collected July 1, 1982—June 30, 1983

<u>Reporting Entity</u>	<u>Number of Accounts</u>	<u>Final Value</u>	<u>Percentage of Total Value</u>
Utilities	1262	\$ 136,482	9.51%
Banks	2902	627,168	43.69
Credit Agencies	540	191,034	13.30
Insurance			
Companies	2672	291,129	20.28
TCRS	1	329	.02
Courts	252	105,555	7.35
Other	<u>867</u>	<u>83,960</u>	<u>5.85</u>
<b>Total</b>	<b>8496</b>	<b>\$1,435,657</b>	<b>100.0%</b>

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 \$51,890.35 representing 6 estates.

## **DUTIES OF THE STATE TREASURER**

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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.

<b>Administrative Agencies</b>	<b>Tennessee Code Annotated Section</b>
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
Investment Advisory Council	8-37-108
Public Records Commission	10-7-302
State Building Commission	4-15-101
State Insurance Committee	8-27-101
State School Bond Authority	49-3514
Tennessee Competitive Export Corporation	13-27-104
Tennessee Housing Development Authority	13-23-106
Tennessee Local Development Authority	4-31-101
Tennessee Student Assistance Corporation	49-5002
Board of Claims	9-8-101, et seq.
Deferred Compensation	8-23-101, et seq.
Defense Counsel Commission	8-42-102
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

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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 Murray	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