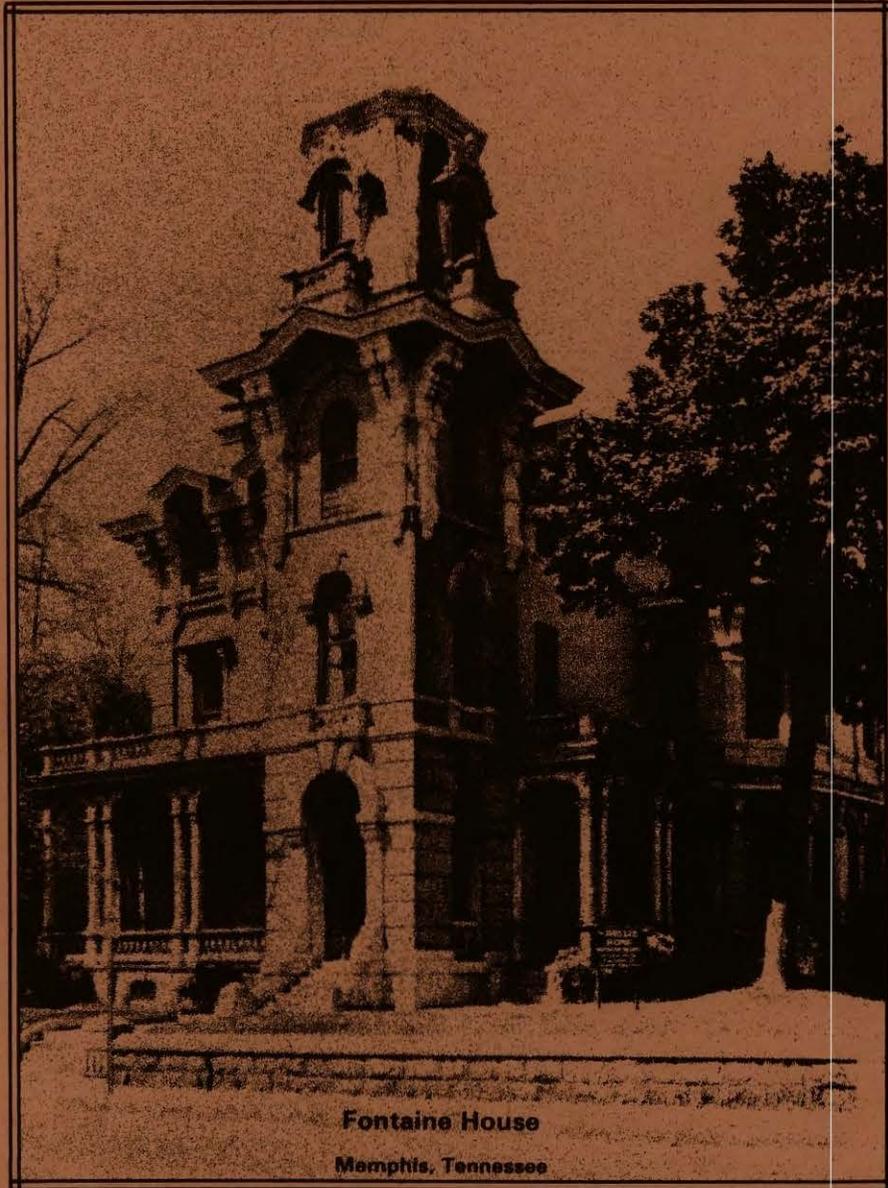


TREASURER'S REPORT 1984



HARLAN MATHEWS
TREASURER
STATE CAPITOL
NASHVILLE, TENNESSEE 37219

FOR THE FISCAL YEAR JULY 1, 1983 THROUGH JUNE 30, 1984

1984 Report of the Treasurer

**Harlan Mathews, Treasurer
State of Tennessee**



Year Ended June 30, 1984

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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 8, 1985

The Honorable Lamar Alexander, Governor

The Honorable John S. Wilder, Lieutenant
Governor & Speaker of the Senate

The 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, 1984 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.

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 proud of the performance of the Treasury Department. During the 1983-84 fiscal year the investment of uncommitted state funds yielded earnings of \$67,469,868 from investments in short-term, collateralized deposits. 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:

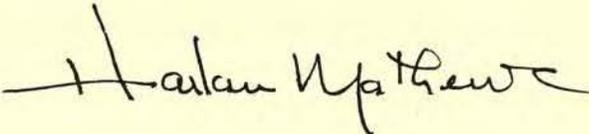
Summary of Investment Program Earnings
Fiscal Year 1974-75 through 1983-84

<u>Fiscal Year</u>	<u>Cash Management Earnings</u>	<u>TCRS Portfolio Earnings</u>	<u>Total Treasury Earnings</u>
1983-84	\$ 67,469,868	\$ 342,868,167	\$ 410,338,035
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>\$603,665,463</u>	<u>\$1,398,851,571</u>	<u>\$2,002,517,034</u>

LETTER OF TRANSMITTAL

We will continue to make every effort to make 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,

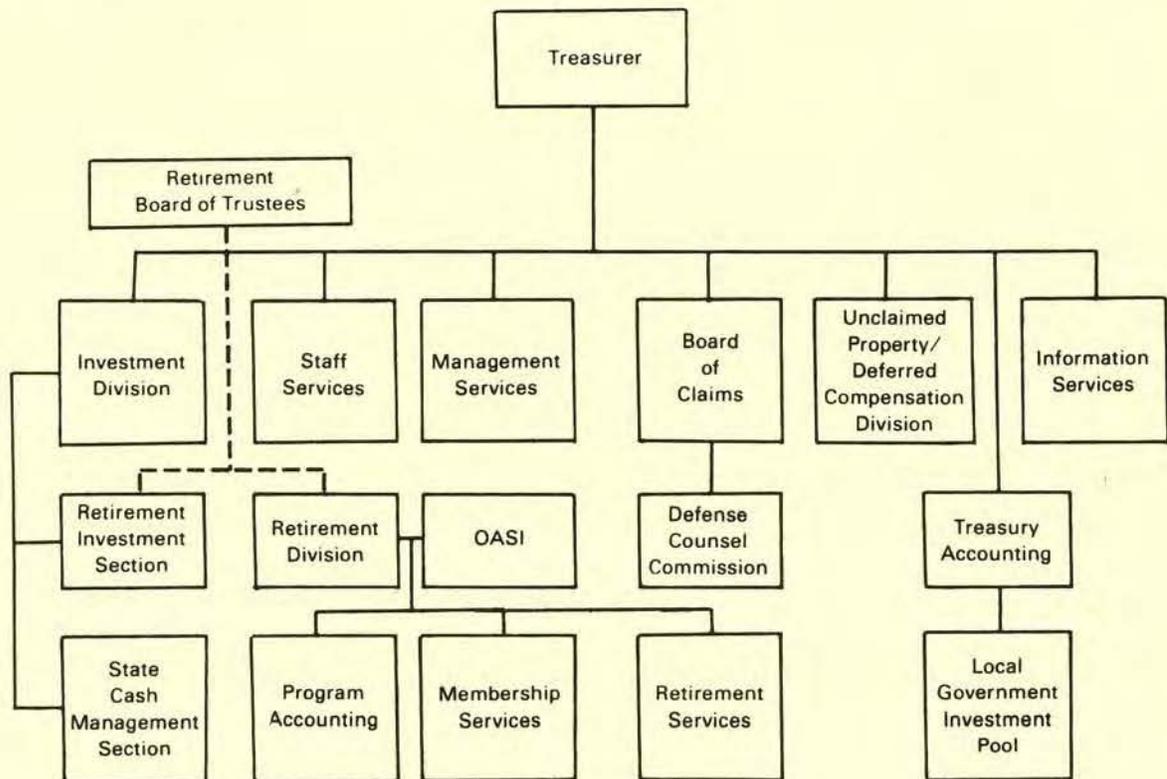
A handwritten signature in black ink that reads "Harlan Mathews". The signature is written in a cursive style with a long horizontal stroke at the beginning.

Harlan Mathews

INTRODUCTION

The 1984 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, Defense Counsel Commission, Deferred Compensation Program, 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 represent 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 1983-84 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 funds of the Tennessee Consolidated Retirement System (TCRS). During the 1983-84 fiscal year the investment of uncommitted state funds produced earnings of \$67,469,868 from investments in short-term, collateralized certificates of deposit, repurchase agreements, U.S. Treasury Securities and collateralized money market accounts. TCRS investments produced total income of \$342,868,167.

Local Government Investment Pool: The LGIP allows local governments to invest their uncommitted funds along with the State Treasurer's cash portfolio. In addition to uncommitted funds, local governments may also deposit and earn interest on their estimated share of the cost of construction projects jointly financed with the Department of Transportation. Assets of the LGIP increased to over \$39.9 million during the fiscal year and the average monthly increase rate net of administrative fee paid was 9.44%, producing income in excess of \$3.5 million to participating local governments.

INTRODUCTION

Tennessee Consolidated Retirement System: The TCRS was established to provide retirement coverage to state employees and teachers. Employees of political subdivisions that have elected to participate in the plan are also eligible. As of June 30, 1984, there were 139,816 active members and 43,644 retirees.

Board of Claims: The duties of the Board of Claims include hearing 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. New claims filed with the Board in FY 1983-84 totaled 5,277.

Defense Counsel Commission: By Chapter 128, Tennessee Public Acts of 1973, the General Assembly 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. During the fiscal year ending June 30, 1984, the Commission made payments in the total amount of \$324,381, an increase of 32% over the previous fiscal year.

Deferred Compensation Program: The State of Tennessee Deferred Compensation Program provides an opportunity to state employees to defer receipt of a portion of their current income, thereby deferring income tax payments on that portion of salary and its earnings. This program now offers employees two plans. Plan I, authorized by Section 457(b) of the Internal Revenue Code and Section 8-25-101, et seq. of **Tennessee Code Annotated**, and Plan II, implemented during the 1983-84 fiscal year, authorized by Section 401(k) of the Internal Revenue Code and Section 8-25-301, et. seq. of **Tennessee Code Annotated**. During the 1983-84 fiscal year, participation in the program included 3,768 individuals or 11% of eligible state employees.

Unclaimed Property: 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. Since the program began in 1979, over \$14.1 million in unclaimed property of 75,930 owners has been reported to the Treasurer and over \$3.8 million of that property has been returned to 20,737 owners or their heirs.

Escheat: 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. During the past fiscal year the Treasurer's Office has received funds totaling \$20,103.52 representing eight estates.

INVESTMENT PROGRAM

State Cash Management Section

It is the policy of the Treasurer to invest all state funds that are not immediately required to honor the State's obligations in secure investments in order to obtain a maximum return. The State Cash Management Section performs this function. It is responsible for the management of state bank accounts, redemption of state warrants, checks and electronic funds transfers authorized by the Commissioner of Finance and Administration, and investment of funds in accordance with applicable state law. The primary objectives in the management of state funds are safety, liquidity and earnings.

Security of state funds is a primary management objective and at no time has it been more important than during the past two years. Disruptions continued in the Tennessee banking system during the fiscal year with 13 banks being closed or merged with other institutions. All state funds in these institutions were fully secured and, as a result, no funds were lost or jeopardized. To insure the safety of state funds, all non U.S. Government investments are fully collateralized at market value, with careful procedural control maintained to insure the continued adequacy of the State's collateral position.

Liquidity is a vital consideration when state funds are invested since adequate cash must be available each day to meet state obligations. The State Trust of Tennessee facilitates the State's liquidity position by enabling the State to move funds from its offices through the national banking system via the Federal Reserve's wire facilities. A not-for-profit public corporation, the State Trust was chartered in the State of Tennessee on April 20, 1979 and began operations on December 15, 1980.

After the safety and liquidity of state funds are insured, the investment staff strives to obtain a superior return on available funds by keeping demand accounts at a minimum and obtaining the best interest rate available on investments. While the amount of earnings varies from year-to-year due to the changing amount of state cash available for investment and changing interest rates, the investment program continues to be an important contributor to state revenue as the following table illustrates:

Summary of State Investment Earnings Fiscal Year 1980 through 1984

<u>Fiscal Year</u>	<u>Cash Management Earnings</u>
1983-84	\$67,469,868
1982-83	73,204,971
1981-82	90,389,685
1980-81	84,147,227
1979-80	81,284,530

INVESTMENT PROGRAM

In order to insure that state investments reflect current market conditions, several market indicators are carefully monitored. Among these are numerous rates as reported daily in the Wall Street Journal, rates on U.S. Treasury securities and institutional money market funds. The following table illustrates state returns compared with two of these indicators:

State Cash Management Comparative Returns (%)

<u>Fiscal Year</u>	<u>Total Funds</u>		<u>New Investments</u>	
	<u>State Cash</u>	<u>Merrill Lynch Institutional Fund</u>	<u>State Cash</u>	<u>90-Day Treasury</u>
1983-84	9.46	9.31	9.59	9.43
1982-83	10.59	9.19	9.21	8.95
1981-82	14.21	14.57	14.28	13.59
1980-81	12.50	13.47	13.79	13.11
1979-80	11.39	12.50	*NA	8.51
1978-79	8.64	8.82	NA	8.92
1977-78	6.41	5.75	NA	6.20
1976-77	5.78	4.39	NA	4.93
1975-76	7.38	5.12	NA	5.62

*Information Not Available.

INVESTMENT PROGRAM

Analysis of State Cash Investments

<u>Fiscal Year</u>	<u>Average Amount Invested</u>	<u>Amount Earned</u>	<u>Percentage Earned</u>
<u>TIME DEPOSITS</u>			
1983-84	\$514,977,198	\$47,797,219	9.41%
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

REPURCHASE AGREEMENTS

1983-84	\$175,794,508	\$17,075,876	9.55%
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

TREASURY BILLS

1983-84	\$ 24,519,251	\$ 2,076,087	10.35%
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MONEY MARKET DEPOSIT ACCOUNTS

1983-84	\$ 17,404,090	\$ 520,686	7.18%
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TOTAL FUNDS

<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>
1983-84	\$704,153,223	\$67,469,868	98.5%	9.46%
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

INVESTMENT PROGRAM

Cash Management Analysis For the Year Ended June 30, 1984

<u>Month & Year</u>	<u>Total Portfolio Cumulative Return</u>	<u>Average Rates on New 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>		
7/83	9.00%	9.30%	9.14%	9.19%	9.04%
8/83	9.21	9.56	9.37	9.44	9.29
9/83	9.30	9.41	9.36	9.37	9.22
10/83	9.27	9.09	9.34	9.26	9.11
11/83	9.23	9.22	9.17	9.19	9.04
12/83	9.36	9.52	9.52	9.52	9.37
1/84	9.41	9.48	9.43	9.45	9.36
2/84	9.36	9.30	9.40	9.38	9.23
3/84	9.47	9.79	9.70	9.72	9.57
4/84	9.73	10.22	9.94	10.01	9.86
5/84	9.89	10.68	9.84	10.06	9.91
6/84	10.22	10.87	10.45	10.52	10.37
Average	9.46	9.70	9.55	9.59	9.44

The average rate on investments made each month during the year was 9.59% 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 1983-84 was 9.46%.

INVESTMENT PROGRAM

Reconciliation of Cash and Cash Equivalents

June 30, 1984

(Expressed in Thousands)

Cash and Cash Equivalents per Department of Finance and Administration	\$1,503,957
Add: Net reconciling items to Bank Statements	(2,266)
Deduct: Petty cash and travel advances	(170)
Departmental revolving accounts	(4,068)
Departmental cash in other accounts	<u>(271,786)</u>
Cash and Cash Equivalents per Treasury	<u>\$1,225,667</u>

Represented by:

TCRS Short Term Investments	\$ 272,907	
Cash in banks	32,701	
Time deposits	569,554	
Repurchase agreements	331,244	
Treasury Bills	<u>19,261</u>	
Total		<u>\$ 1,225,667</u>

The cash and cash equivalent per Finance and Administration as reported in the State of Tennessee Annual Financial Report for June 30, 1984 is \$1,503,957. 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 two hundred, seventy-two 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. To add income to the system, covered call options are written on stock positions and the staff actively lends securities for a fee.

Book Value of Retirement Fund Investments

	June 30, 1984	June 30, 1983
Bonds-Marketable	\$2,269,660,890	\$2,064,100,548
Mortgages	4,567,253	5,682,625
Bonds-Private Placements	93,946,114	119,987,364
Stocks	<u>926,724,990</u>	<u>654,859,325</u>
TOTAL	\$3,294,899,247	\$2,844,629,862

Investment policy for 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 Board of Trustees and the investment staff.

Investment of funds in bonds by the pension plan during 1983-84 was at a yield to maturity of 12.21%.

The five largest stock and bond holdings of the System at market value as of June 30, 1984 were as follows:

<u>Par Value/Shares</u>	<u>Security</u>	<u>Market Value</u>
<u>Stocks</u>		
695,000	H. J. Heinz Co.	\$26,062,500
450,000	Coca Cola Co.	25,931,250
450,000	General Foods Corp.	24,581,250
305,000	CBS Inc.	23,866,250
225,000	International Business Machines	23,793,750
<u>Bonds</u>		
123,000,000	U.S. Treasury 10.375% Bonds due 11/15/12	\$93,249,000
62,000,000	U.S. Treasury 14.625% Notes due 1/15/89	63,938,000
57,000,000	U.S. Treasury 14.625% Notes due 2/15/92	59,066,000
85,186,000	Anheuser-Busch S.F. Debentures 8.55% due 9/1/08	55,279,000
53,000,000	U.S. Treasury 11.625% Bonds due 11/15/02	45,149,000

INVESTMENT PROGRAM

Rate of Return Analysis on Retirement Investments for the Fiscal Years July 1, 1972 Through June 30, 1984

<u>Fiscal Year</u>	<u>EXCLUDING GAINS AND LOSSES</u>			<u>INCLUDING GAINS AND LOSSES</u>		
	<u>Average Amount Invested</u>	<u>Amount Earned</u>	<u>Percentage Earned</u>	<u>Average Amount Invested</u>	<u>Amount Earned</u>	<u>Percentage Earned</u>
1983-84	\$3,010,007,123	\$276,903,188	9.20%	\$2,959,626,328	\$342,868,167	11.58%
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

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>	¹ Becker Balanced Public Fund Index <u>Median Total Return</u>	² TCRS Time Weighted <u>Total Return</u>	³ Income Yield On Average <u>Available Funds</u>	⁴ Yield To Maturity <u>New Bonds</u>
1983-84	-2.1%	-3.3%	8.02%	12.21%
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

¹This 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.

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

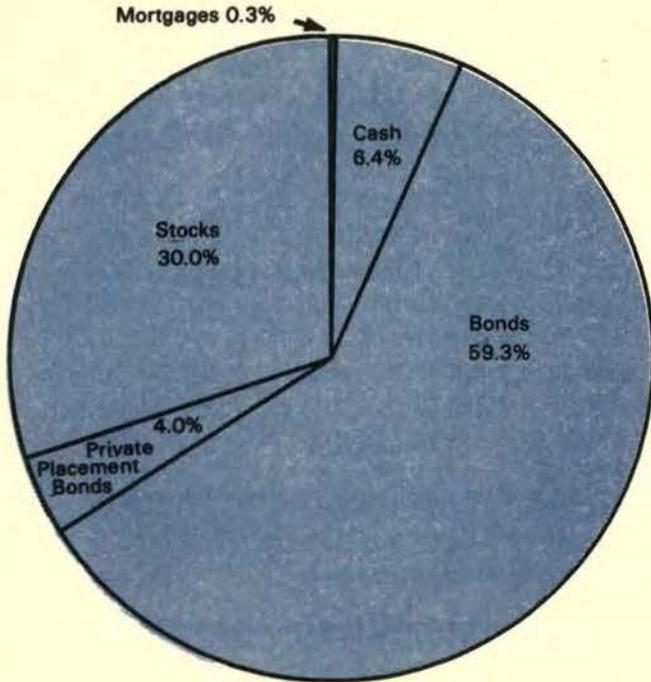
³This is the total dividend and interest income earned in one year and expressed as a percent of average funds available to invest at amortized cost.

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

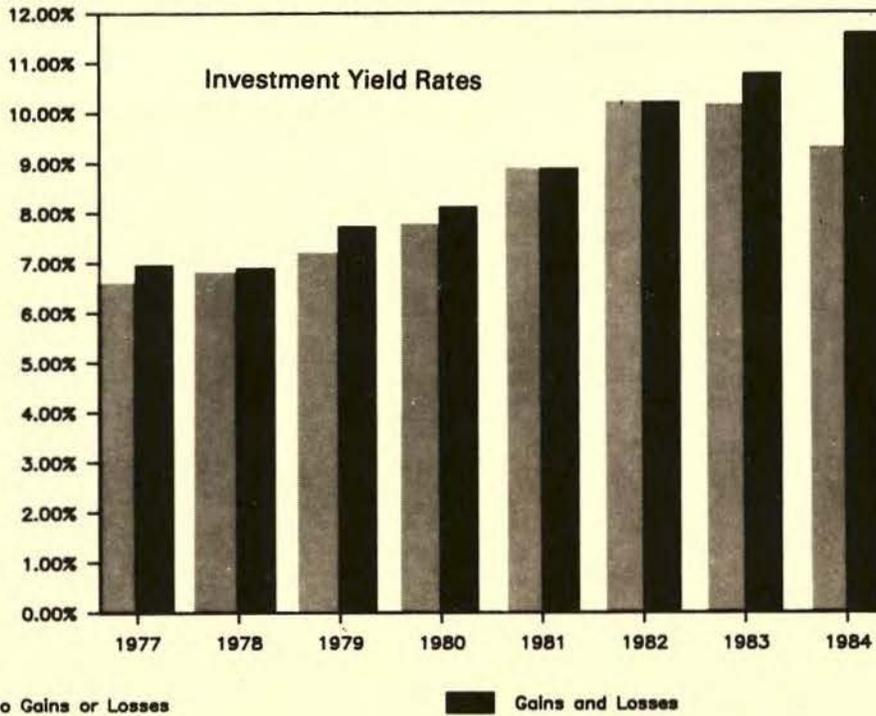
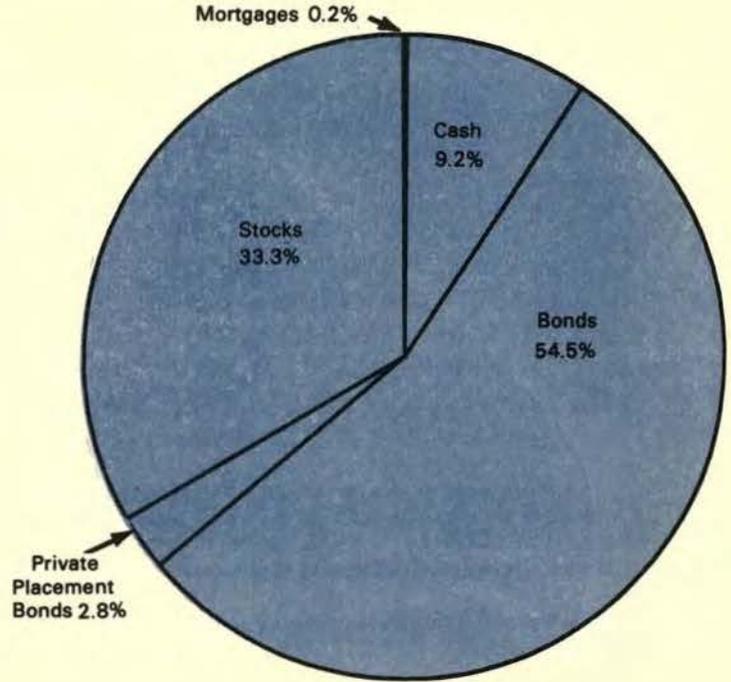
INVESTMENT PROGRAM

PORTFOLIO PERCENTAGE BY MARKET VALUE

June 30, 1983



June 30, 1984

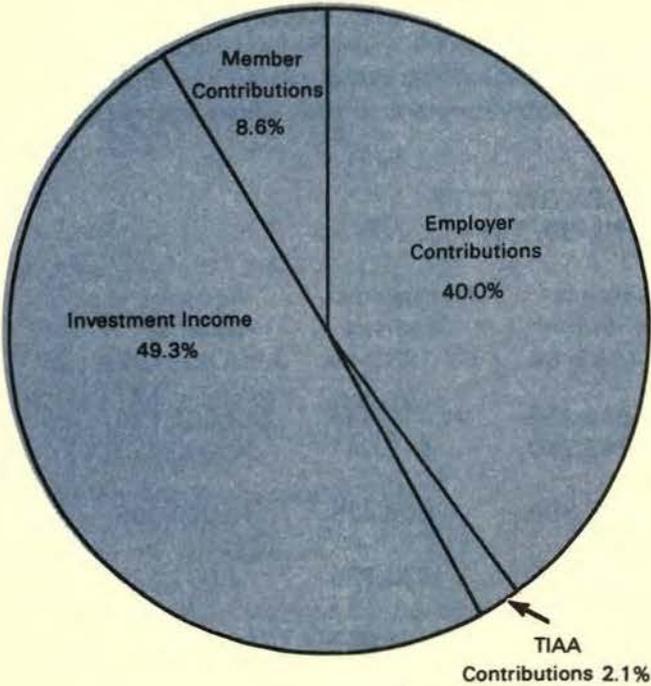


INVESTMENT PROGRAM

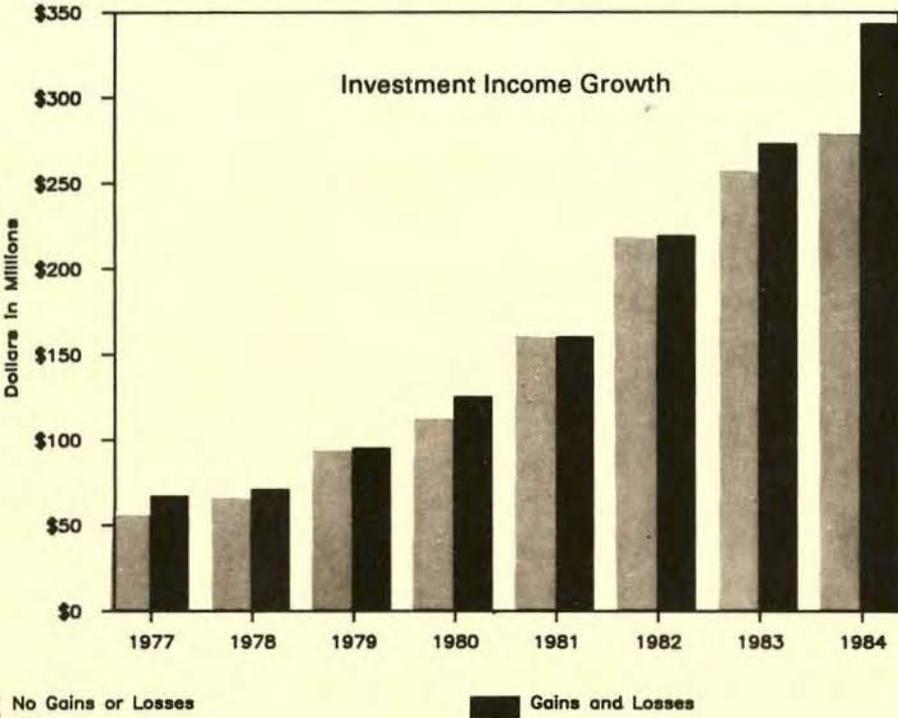
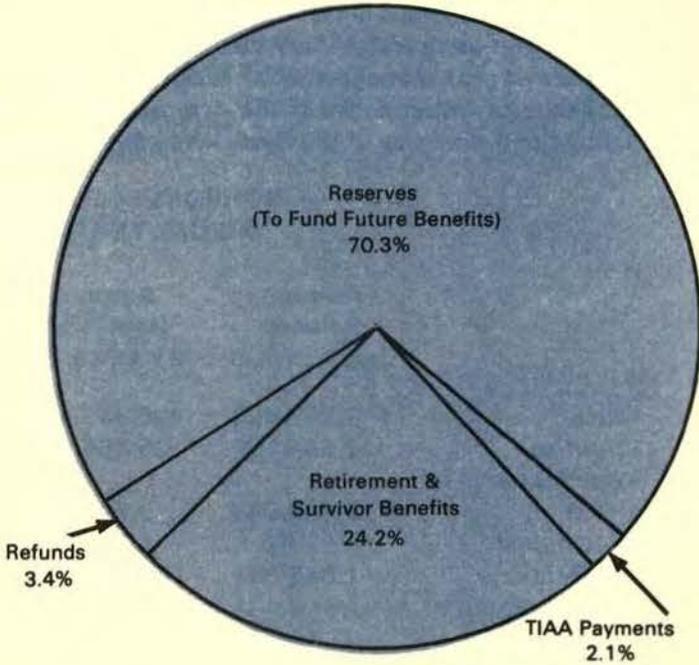
Tennessee Consolidated Retirement System

1983-84 Revenues: \$695,127,371.72

SOURCES OF FUNDS



USES OF FUNDS



LOCAL GOVERNMENT INVESTMENT POOL

The 1980 General Assembly enacted Public Chapter 545 creating a state pooled investment fund into which local governments are authorized to invest. In addition, local governments may now deposit and earn interest on the estimated share of the cost of construction projects jointly financed 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 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 the investment environment to take advantage of the volume and expertise of the State investment program.

SCHEDULE OF ACTIVITY BY ENTITY TYPE FISCAL YEAR ENDED JUNE 30, 1984

	Amount Balance July 1, 1983	Amount Deposited FY 1983-84	Amount Withdrawn FY 1983-84	Net Interest Credited FY 1983-84	Account Balance June 30, 1984
Cities	\$13,269,499	\$26,843,419	\$28,619,336	\$1,412,544	\$12,906,126
Counties	2,944,109	25,486,563	16,745,240	515,041	12,200,473
Committments to DOT	10,989,998	3,521,162	5,449,550	966,425	10,028,035
Educational Institutions	1,948,981	15,163,920	15,505,117	423,736	2,031,520
Committments to OASI	40,924	---	---	4,047	44,971
Other	<u>1,875,676</u>	<u>1,804,412</u>	<u>1,135,004</u>	<u>231,327</u>	<u>2,776,411</u>
TOTALS	\$31,069,187	\$72,819,476	\$67,454,247	3,553,120	\$39,987,536

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 for 1983-84 was 9.44% and net interest credited on LGIP funds totaled \$3,553,120.

LOCAL GOVERNMENT INVESTMENT POOL



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 21, 1984

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 Local Government Investment Pool as of June 30, 1984 and June 30, 1983 and the related statements of revenues, expenditures, and changes in fund balance 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 as of June 30, 1984 and June 30, 1983 and the results of its operations and changes in fund balance for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Sincerely,

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

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

FLG:pf

LOCAL GOVERNMENT INVESTMENT POOL

Balance Sheet

	<u>June 30, 1984</u>	<u>June 30, 1983</u>
ASSETS		
Cash and Cash Equivalents	<u>\$39,987,536</u>	<u>\$31,069,187</u>
Total Assets	<u>\$39,987,536</u>	<u>\$31,069,187</u>
LIABILITIES AND FUND BALANCE		
Liabilities:		
Member Deposits	\$38,159,672	\$28,366,423
Due to Other Government Agencies	<u>1,827,864</u>	<u>2,702,764</u>
Total Liabilities	<u>\$39,987,536</u>	<u>\$31,069,187</u>
Fund Balance	<u>0</u>	<u>0</u>
Total Liabilities and Fund Balance	<u>\$39,987,536</u>	<u>\$31,069,187</u>

See accompanying footnotes to financial statements.

Statement of Revenues, Expenditures & Changes in Fund Balance

	July 1, 1983 Through <u>June 30, 1984</u>	July 1, 1982 Through <u>June 30, 1983</u>
Fund Balance, Beginning of Year	<u>\$ 0</u>	<u>\$ 5,386</u>
Revenues:		
Investment Income	<u>\$3,609,420</u>	<u>\$ 2,172,242</u>
Total Revenues	<u>\$3,609,420</u>	<u>\$ 2,172,242</u>
Expenditures:		
Interest on Deposits	\$3,553,120	\$ 2,136,264
Administrative Fees	<u>56,300</u>	<u>41,364</u>
Total Expenditures	<u>\$3,609,420</u>	<u>\$ 2,177,628</u>
Excess in Revenues over Expenditures	<u>\$ 0</u>	<u>\$ (5,386)</u>
Fund Balance, End of Year	<u>\$ 0</u>	<u>\$ 0</u>

See accompanying footnotes to financial statements.

LOCAL GOVERNMENT INVESTMENT POOL

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.

Certain amounts presented for the preceding year have been reclassified for comparative purposes.

Schedule of Cash Receipts and Disbursements

	July 1, 1983 Through <u>June 30, 1984</u>	July 1, 1982 Through <u>June 30, 1983</u>
Cash Balance, Beginning of Year	<u>\$31,069,187</u>	<u>\$15,746,606</u>
Add Cash Receipts:		
Member Deposits	\$72,819,476	\$49,407,244
Investment Income	<u>3,609,420</u>	<u>2,172,242</u>
Total Cash Receipts	<u>\$76,428,896</u>	<u>\$51,579,486</u>
Deduct Cash Disbursements:		
Member's Withdrawals	\$67,454,247	\$36,215,542
Administrative Fees Paid	<u>56,300</u>	<u>41,363</u>
Total Cash Disbursements	<u>\$67,510,547</u>	<u>\$36,256,905</u>
Cash Balance, End of Year	<u>\$39,987,536</u>	<u>\$31,069,187</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 and Survivors Insurance Agency (OASI), TCRS membership, contributions, retirement benefits and investment of retirement system funds.

Old Age & Survivor's Insurance Agency

The State Old Age & Survivors Insurance Agency (OASI) administers the State's functions under the Federal-State Social Security Agreement, executed on August 16, 1951. 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. The 1954 amendments authorized the coverage of services and employees under a retirement system and prescribed the mechanics for accomplishing such coverage.

Effective January 1, 1956, social security coverage was extended to include employees in positions under the Tennessee State Retirement System and the Tennessee Teachers' Retirement System (super-seeded systems) and on July 1, 1972, to the Tennessee Consolidated Retirement System coverage group.

As of June 30, 1984, there were approximately 2,000 reporting entities. The total contribution rate (employer-employee) was 13.4% for calendar year 1983 and 13.7% for 1984. The maximum taxable wage base increased from \$35,700 in 1983 to \$37,800 in 1984. Semimonthly reports and contribution payments on wages paid are received, reviewed, summarized and transmitted by the State Agency to the Social Security Administration.

The following tables show salaries reported to OASI and funds transmitted to the Social Security Administration.

Schedule of Salaries Reported to OASI and Funds Transmitted to the Social Security Administration

Employment Category	<u>Salaries Reported</u>	
	June 30, 1984	June 30, 1983
State Employees*	\$ 508,024,487	\$ 493,464,090
Higher Education	391,601,476	375,622,896
K-12 Teachers	793,723,064	759,762,224
Political Subdivisions	<u>1,158,121,765</u>	<u>1,107,171,015</u>
TOTALS	\$2,851,470,792	\$2,736,020,225
	<u>Funds Transmitted</u>	
State Employees*	\$ 68,837,318	\$ 66,124,188
Higher Education	53,062,000	50,333,468
K-12 Teachers	107,549,475	101,808,138
Political Subdivisions	<u>156,925,499</u>	<u>148,360,916</u>
TOTALS	\$386,374,292	\$366,626,710

*The June 30, 1983 salaries and funds transmitted for State employees have been restated to reflect correction of a posting error. Funds in the amount of \$2,470,074.10 were posted as June revenue when in fact it was July revenue, resulting in an overstatement of 1982-83 revenue.

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

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 TCRS 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 <u>6/30/84</u>	Year Ended <u>6/30/83</u>
State Employees	36,823*	38,099
Higher Education Employees	21,764*	19,758
K-12 Teachers	46,518	45,417
Political Subdivision Employees	<u>34,711</u>	<u>35,165</u>
TOTAL	139,816	138,439

*Employees of vocational and technical schools have been transferred from the state employee total to the higher education employee total as they are now under the State Board of Regents.

Retirement benefits are financed by both member and employer contributions. Certain members contribute a percentage of their salaries to the Tennessee Consolidated Retirement System. The contribution rate for these 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 1983-84 fiscal year, contributions credited to the employee reserve account totaled \$93.37 million which included \$33.6 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, 1984 were as follows:

Noncontributory State Employees	11.05%
K-12 Teachers	15.03%
Noncontributory Higher Education Teachers	20.23%
Political Subdivisions	Individually Determined

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

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. 1983-84 contributions credited to the employer reserve account totaled \$244.44 million.

Retirement Benefits

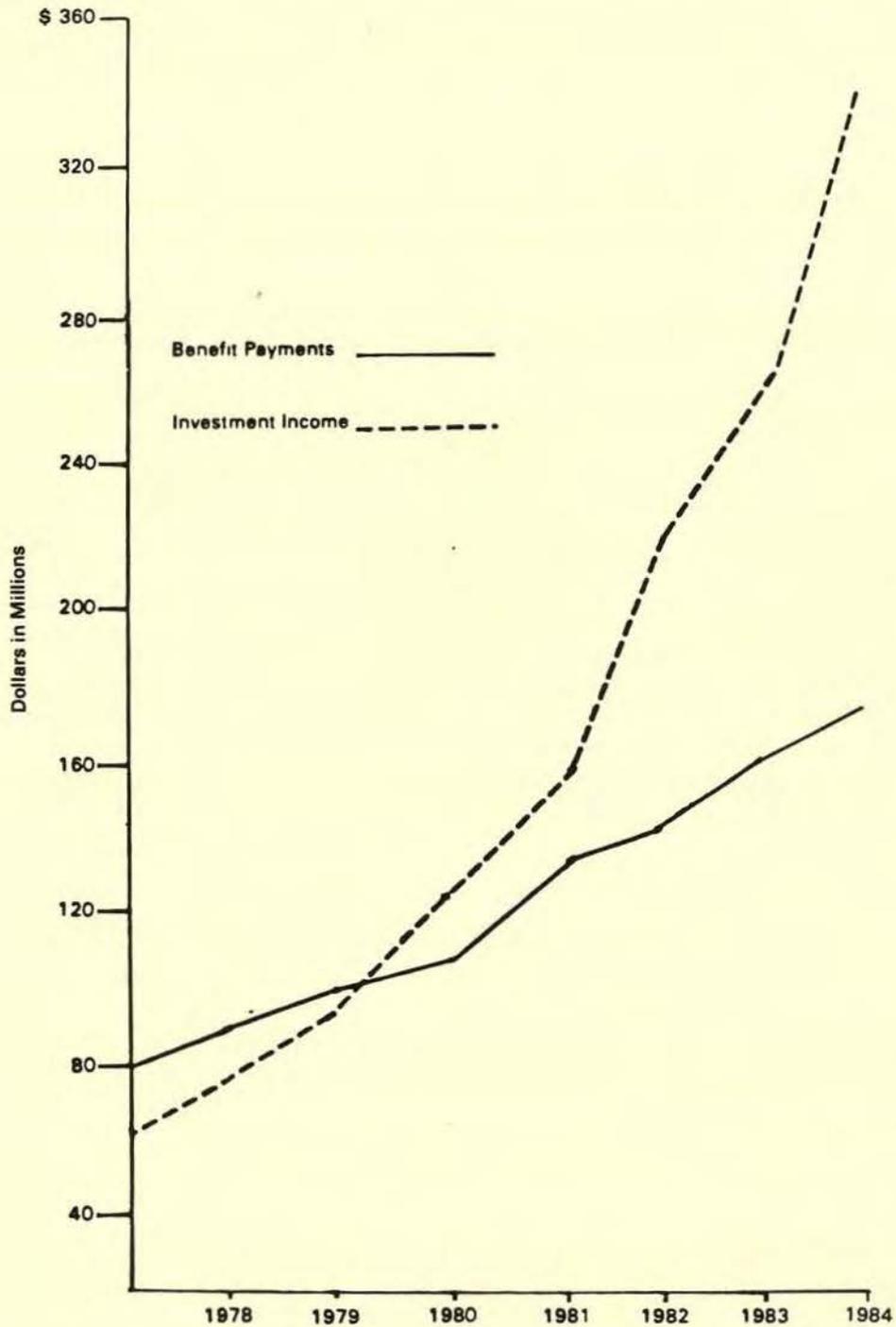
State employees and teachers become eligible to retire from the Tennessee Consolidated Retirement System at age 60 with 10 years of service or at any age with 30 years of service. Retirement benefits are based on the average of the member's five highest consecutive years of employment and the years of 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, 1984, 43,644 retirees were receiving monthly benefit payments. Benefits paid in FY 1983-84 totaled \$168 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 37219-5047
PHONE (615) 741-3897

December 21, 1984

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, 1984 and June 30, 1983 and the related statements of revenues, expenses, 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 as of June 30, 1984 and June 30, 1983 and the results of its operations and changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Sincerely,

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

FLG:pf

Tennessee Consolidated Retirement System
Comparative Balance Sheet

(Expressed in Thousands)

	June 30, 1984	June 30, 1983
ASSETS		
CASH AND CASH EQUIVALENTS	\$ <u>285,022</u>	\$ <u>186,831</u>
INVESTMENTS:		
Government Bonds (Amortized Cost)	\$ 854,884	\$ 820,953
Canadian Bonds (Amortized Cost)	87,284	94,858
Corporate Bonds (Amortized Cost)	1,002,233	923,516
Corporate Stock (Cost)	926,725	654,859
Savings and Loans	14,500	14,300
Securities on Loan		
Government Bonds	130,336	138,646
Canadian Bonds	1,000	1,672
Corporate Bonds	<u>5,031</u>	<u>5,777</u>
Total Long Term Investments	\$ <u>3,021,993</u>	\$ <u>2,654,581</u>
COLLATERAL AGAINST SECURITIES LOANED	<u>137,985</u>	<u>148,715</u>
RECEIVABLES:		
Investments Sold	\$ 27,185	\$ -0-
Member Contributions Receivable	6,064	4,558
Employer Contributions Receivable	4,229	3,887
Accrued Interest Receivable	55,469	52,444
Accrued Dividends Receivable	3,531	1,850
Political Subdivisions Receivable	<u>3,126</u>	<u>2,394</u>
Total Receivables	\$ <u>99,604</u>	\$ <u>65,133</u>
Total Assets	\$ <u>3,544,604</u>	\$ <u>3,055,260</u>
LIABILITIES AND FUND BALANCE		
CURRENT LIABILITIES:		
Warrants Payable	\$ 794	\$ 947
Accounts Payable	3,053	2,898
Collateral Against Securities Loaned	137,985	148,715
Investments Purchased	<u>27,181</u>	<u>16,171</u>
Total Current Liabilities	\$ <u>169,013</u>	\$ <u>168,731</u>
FUND BALANCE:		
Reserved for Member Contributions	\$ 814,426	\$ 730,605
Reserved for Employer Contributions	<u>2,561,165</u>	<u>2,155,924</u>
Total Fund Balance	\$ <u>3,375,591</u>	\$ <u>2,886,529</u>
Total Liabilities and Fund Balance	\$ <u>3,544,604</u>	\$ <u>3,055,260</u>

See accompanying footnotes to financial statements.

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

(Expressed in Thousands)

		For the Year Ended <u>June 30, 1984</u>	For the Year Ended <u>June 30, 1983</u>
Fund Balance, Beginning of Year		<u>\$2,886,529</u>	<u>\$2,460,234</u>
Revenues:			
Member Contributions	\$ 59,777		\$ 57,318
Employer Contributions	242,518		238,083
Political Subdivisions Contributions	35,513		33,356
TIAA Contributions	<u>14,451</u>	352,259	<u>13,203</u>
			341,960
Investment Income:			
Loan Revenue	\$ 764		\$ 967
Options Revenue	73		347
Interest	207,772		192,746
Dividends	33,570		27,329
Net Discount and (Premium) Amortization	34,797		34,891
Net Profit (Loss) on Sale of Investments	<u>65,892</u>	<u>342,868</u>	<u>16,352</u>
			<u>272,632</u>
Total Revenues		<u>\$ 695,127</u>	<u>\$ 614,592</u>
Expenses:			
Annuity Benefits	\$167,184		\$153,039
Death Benefits	1,227		1,404
Refunds	23,259		20,708
TIAA Payments	<u>14,451</u>	<u>206,121</u>	<u>13,202</u>
			<u>188,353</u>
Total Expenses		<u>\$ 206,121</u>	<u>\$ 188,353</u>
Excess of Revenues over Expenses		<u>\$ 489,006</u>	<u>\$ 426,239</u>
Other Financing Sources:			
Operating Transfer from Special Revenue Fund		\$ 56	\$ 56
Excess of Revenues and Other Sources over Expenses		<u>\$ 489,062</u>	<u>\$ 426,295</u>
Fund Balance, End of Year		<u><u>\$3,375,591</u></u>	<u><u>\$2,886,529</u></u>

See accompanying footnotes to financial statements.

Tennessee Consolidated Retirement System
Statement of Changes in Financial Position

(Expressed in Thousands)

	For the Year Ended June 30, 1984	For the Year Ended June 30, 1983
Sources of Working Capital:		
Working Capital Provided by Net Income from Operations	<u>\$ 489,062</u>	<u>\$ 426,294</u>
Net Increase in Working Capital	<u>\$ 489,062</u>	<u>\$ 426,294</u>
Elements of Net Increase in Working Capital:		
Cash and Cash Equivalents	\$ 98,191	\$(123,377)
Investments	367,412	559,131
Collateral Against Securities Loaned	(10,730)	71,815
Receivables	34,471	7,446
Warrants Payable	152	213
Accounts Payable and Accruals	(154)	(949)
Amounts Held in Custody of Others	10,730	(71,815)
Investment Purchases	<u>(11,010)</u>	<u>(16,170)</u>
Net Increase in Working Capital	<u>\$ 489,062</u>	<u>\$426,294</u>

See accompanying footnotes to financial statements.

Tennessee Consolidated Retirement System
Notes to Financial Statements

A. Significant Accounting Policies

1. **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.
2. **Basis of Accounting**—The TCRS is accounted for on the accrual basis of accounting.
3. **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, 1984 and June 30, 1983 approximated market.

The market value of cash and cash equivalents as of June 30, 1984 and June 30, 1983 is as follows:

	June 30, 1984	June 30, 1983
Cash	\$ 12,115,200	\$(3,218,198
Short Term Investments (Amortized Cost)	<u>272,906,795</u>	<u>190,049,259</u>
Cash and Cash Equivalents	<u>\$285,021,995</u>	<u>\$ 186,831,061</u>

4. Market Value of Long-Term Investments

The market value of the long-term investments as of June 30, 1984 and June 30, 1983 is as follows:

	June 30, 1984	June 30, 1983
Bonds-Marketable	\$1,621,119,417	\$1,748,920,415
Mortgages	3,180,419	4,263,041
Bonds-Private Placements (Estimated Market Value)	87,669,178	116,809,738
Stock	<u>989,784,400</u>	<u>884,614,968</u>
Total	<u>\$2,701,753,414</u>	<u>\$2,754,608,162</u>

The amortization of premium and discount on investments was changed from the straight-line basis to the effective interest method on July 1, 1983. The results of the change were immaterial when the two methods were compared, therefore the asset values were not adjusted.

5. **Receivables**—Receivables primarily consist of interest which is recorded when earned.
6. **Investment Lending**—Some of the securities owned by the TCRS were contractually loaned to investment brokers at June 30, 1984. The contract for a security loan provides that the TCRS loan a specific security from our holdings to the broker in return for U.S. Treasury 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, 1984 there was \$106,445,678 (market value) of TCRS securities on loan to brokers. There was \$111,161,820 (market value) of collateral pledged to the TCRS against securities loaned all of which were registered in the name of the TCRS.
7. **Options**—During the 1984 fiscal year the TCRS engaged in the issuance of options. Activity is limited, by policy, to selling covered call options. At June 30, 1984 there were outstanding options on 100,000 shares of stock of the Electronic Data Services Corporation in the amount of \$265,787.50.

Tennessee Consolidated Retirement System

Notes to Financial Statements

B. Other Accounting Disclosures

- 1. 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, 1984 the State contributed \$242.6 million to the plan and State employees and teachers contributed \$43.8 million. Political subdivisions contributed \$35.5 million to the plan and the employees of political subdivisions contributed \$16 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 (2) 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.

- 2. 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.

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 (1) above.

For the year ended June 30, 1984 the state contributed \$14.4 million to the TIAA-CREF plan.

Tennessee Consolidated Retirement System
Actuarial Balance Sheet — Schedule I

(Expressed in Thousands)
June 30, 1984

	State and Teachers	Political Subdivisions	Total
RESOURCES:			
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>\$6,137,881</u>	<u>\$810,142</u>	<u>\$6,948,024</u>
REQUIREMENTS:			
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>\$6,137,881</u>	<u>\$810,142</u>	<u>\$6,948,024</u>

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

*Based on 5 year moving market average for equities. Debt securities carried at amortized cost.

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

(Expressed in Thousands)

	For the Year Ended June 30, 1984	For the Year Ended June 30, 1983
Cash Balance at Beginning of Year	\$(<u>3,218</u>)	\$ <u>18,551</u>
Add Cash Receipts:		
Member Contributions	\$ 127,066	\$ 57,287
Employer Contributions	208,631	238,690
Political Subdivisions Contributions	34,781	33,220
Investment Income-Interest	193,438	183,908
Investment Income-Dividends	109,090	27,787
Investments Sold (Net Book Value)	8,171,154	4,683,072
TIAA Contributions	14,451	13,203
Loan Revenue	765	967
Option Revenue	<u>73</u>	<u>347</u>
Total Cash Receipts	\$ <u>8,859,449</u>	\$ <u>5,238,481</u>
Deduct Cash Disbursements:		
Annuity Benefits	\$ 167,190	\$ 153,039
Death Benefits	1,228	1,404
Refunds	58,712	20,073
Investments Purchased	8,602,536	5,072,633
TIAA Payments	<u>14,450</u>	<u>13,101</u>
Total Cash Disbursements	\$ <u>8,844,116</u>	\$ <u>5,260,250</u>
Cash Balance at End of Year	\$ <u><u>12,115</u></u>	\$ <u><u>(3,218)</u></u>

BOARD OF CLAIMS

The Board of Claims was 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 primary 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 awards by circuit courts providing compensation to persons who have been injured through the commission of violent crime. 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, 1984, the Board of Claims made payments as follows:

	General Fund	Highway Fund	Total
Death Claims	\$98,351	\$389,665	\$488,016
Non-Employee Injuries	142,972	81,257	224,229
Employee Injuries	2,751,289	836,994	3,588,283
Non-Employee Property Damage	553,482	381,864	935,346
Employee Property Damage	17,989	2,728	20,717
Other	<u>1,270</u>	<u> </u>	<u>1,270</u>
TOTAL	<u>\$3,565,353</u>	<u>\$1,692,508</u>	<u>\$2,577,861</u>

During the year the Board received 5,277 new claims as follows: 3,233 workers' compensation claims; 1,860 tort claims and 184 property damage claims.

The Criminal Injuries Compensation Program is funded through privilege taxes assessed in courts against criminal defendants and other offenders upon conviction. Payments made from the Criminal Injuries Compensation Fund to victims of crime are intended to defray the costs of medical services, loss of earnings, burial costs and other pecuniary losses to the defendants of deceased victims.

During the 1983-84 fiscal year, the board made payments to 155 victims of crime in the total of \$1,330,212. There were 355 criminal injury claims filed with the Board where judgments have been issued by appropriate circuit courts in the State. 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 ten 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 21 months before funds become available for payment.

The revenues of the Criminal Injuries Compensation Fund have not been sufficient to meet the increasing number of awards being ordered by the circuit courts. In response to this problem which threatened the integrity of the program, the General Assembly enacted Chapter No. 752 of the Public Acts of 1984. The Act: (1) reduces the maximum award from \$10,000 to \$5,000; (2) provides that a uniform privilege tax of \$26.50 be assessed against criminal defendants in all courts upon conviction; and, (3) increased the amounts payable from convicted persons on supervised work release from \$5.00 to \$30.00 per month. Chapter Number 997 of the Public Acts of 1984 provides for proceeds of bond forfeitures to be deposited for the use of victims of crime. The effective date for all of these amendments was July 1, 1984.

BOARD OF CLAIMS

CRIMINAL INJURIES COMPENSATION FUND SCHEDULE OF ACTIVITY JULY 1, 1983 — JUNE 30, 1984

MONTH	TAXES ¹	DEPOSITS ²	INTEREST	AWARDS	BALANCE
July	\$ 73,911	\$ 37,923	\$ 629	\$ 108,335	\$118,764
August	43,843	40,700	333	125,199	
September	93,287	40,577	311	79,025	
October	72,660	38,709	291	144,111	
November	71,145	17,013	580	250	
December	66,413	61,677	1,050	107,442	
January	55,496	15,085	629	217,134	
February	72,006	65,157	567	0	
March	72,525	43,631	799	181,904	
April	83,521	41,387	760	65,635	
May	76,826	17,522	1,097	68,663	
June	<u>72,836</u>	<u>86,285</u>	<u>986</u>	<u>232,514</u>	
TOTAL	<u>\$854,469</u>	<u>505,666</u>	<u>\$8,032</u>	<u>\$1,330,212</u>	\$ 156,719

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.

DEFENSE COUNSEL COMMISSION

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 was designated Commission Chairman on April 22, 1982 pursuant to Chapter 810 of the Acts of 1982.

The circumstances under which the Commission is authorized to pay attorney's fees are set out in **Tennessee Code Annotated**, Section 8-42-103. This section was amended by Chapter 67 of the Acts of 1983 to establish specific standards for approval of requests for private counsel, to enable the Commission to consolidate counsel requests as appropriate and to prescribe standards for determining a reasonable fee. **Tennessee Code Annotated**, Section 8-42-107 provides for a sum sufficient appropriation to the Commission for the purpose of making payments to attorneys and payments for court costs.

During the fiscal year ending June 30, 1984 the Defense Counsel Commission made payments in the total amount of \$324,380.97, an increase of 32% over the previous fiscal year.

Requests for private counsel received during 1983-84 increased 169% over fiscal year 1982-83; from 110 to 296 requests. During the year ended June 30, 1984, 273 requests for private counsel were approved. The number of requests does not represent total cases as some of these included a number of employees in the same case using one attorney. As of June 30th there were 210 active cases in which payment of fees and expenses has been approved.

DEFERRED COMPENSATION

The Deferred Compensation Program is an optional employee benefit program designed to allow state employees to defer receipt of a portion of their current income until after retirement, thereby deferring income tax payments on that portion of salary and its earnings.

This program now offers employees two plans. Plan I, authorized by Section 457(b) of the Internal Revenue Code and Section 8-25-101, et. seq. of **Tennessee Code Annotated**, completed its third year of operation at the end of the 1983-84 fiscal year. The program was expanded during the 1983-84 fiscal year with the implementation of Plan II, authorized by Section 401(k) of the Internal Revenue Code and Section 8-25-301, et. seq. of **Tennessee Code Annotated**. Tennessee is the first governmental entity to establish a 401(k) plan for employees.

Employees may enroll in either plan at any time and may adjust or stop contributions at any time; however, IRS regulations stipulate that previous deferrals may not be withdrawn as long as the participant continues in state government, except in the case of severe financial hardship.

Although the two plans are similar in concept, the 401(k) plan permits several features including 10 year forward averaging on qualifying lump sum distributions, rollovers to other qualified plans or IRA's, a loan provision (planned for implementation in 1986) and less stringent financial hardship withdrawal rules.

Participants in either plan may direct the investment of their deferred income to an annuity product with Aetna Life Insurance and Annuity Company and/or a time deposit product with Fidelity Federal Savings and Loan Association. Plan I also offers a universal life insurance product with National Life and Accident Insurance Company.

Employees may participate in either plan with a minimum deferral of \$20 per month. IRS regulations allow a maximum deferral in Plan I of 25% of salary up to the maximum annual contribution of \$7500, and a maximum deferral in Plan II of 20% of salary for Group I, II, or III retirement system members.

At June 30, 1984, participants had deferred a total of \$14,968,865 through both plans of the program. These deferrals were distributed as follows:

	Deferrals 1983-84	Deferrals 1980-83	Total Deferrals
Plan I			
Aetna	\$2,904,386	\$6,346,134	\$ 9,250,520
Fidelity Federal	1,207,154	2,266,409	3,473,563
National Life	<u>277,701</u>	<u>135,648</u>	<u>413,349</u>
TOTAL	\$4,389,241	\$8,748,191	\$13,137,432
Plan II			
Aetna	\$1,817,534		\$1,817,534
Fidelity Federal	<u>13,899</u>		<u>13,899</u>
TOTAL	\$1,831,433		\$1,831,433

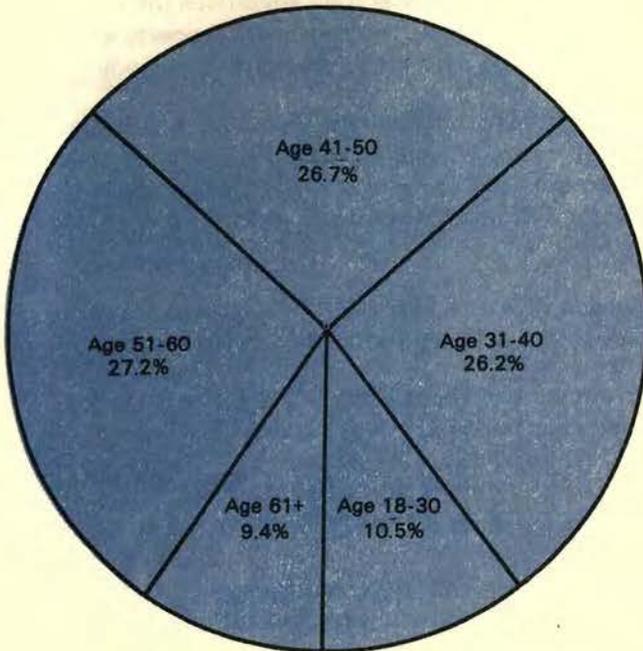
At June 30, 1984, 3768 individuals or 11% of eligible employees were actively participating in the program. The average individual monthly deferral in the combined program was \$85.23 and participation was widely spread among age and salary levels, as illustrated by the following charts:

DEFERRED COMPENSATION

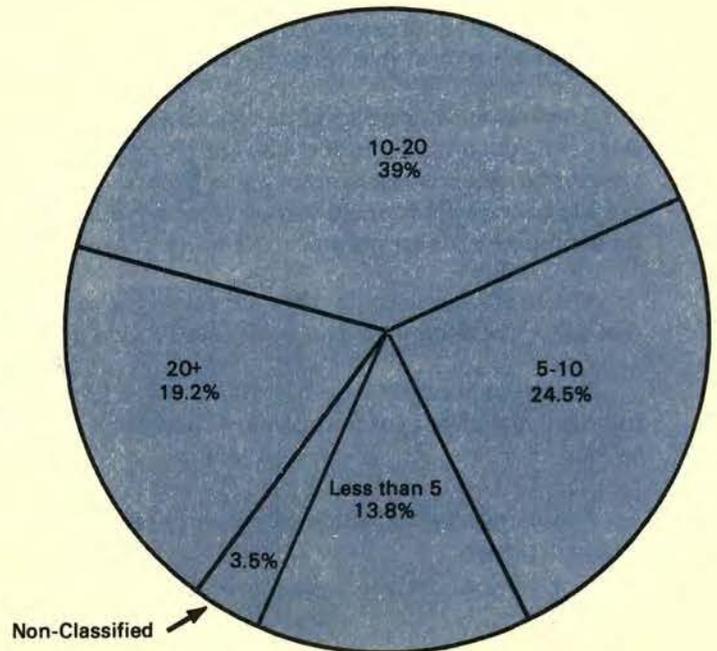
PROGRAM PARTICIPATION DISTRIBUTION

June 30, 1984

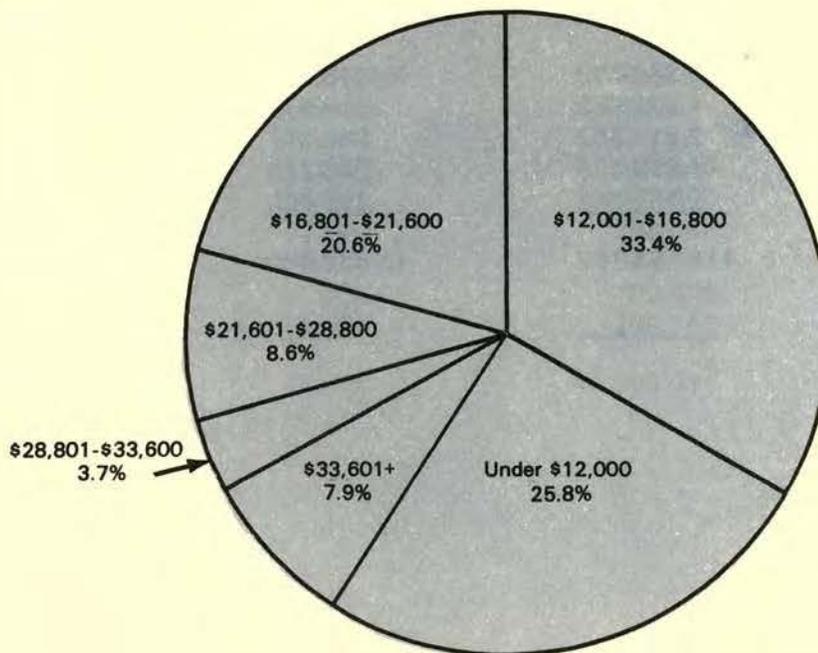
Age Distribution



Years of Service Distribution



Annual Salary Distribution



UNCLAIMED PROPERTY

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 \$14.1 million in unclaimed property for 75,930 owners has been reported to the Treasurer and over \$3.8 million of that property has been returned to 20,737 owners or their heirs.

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

Analysis of Property Returned By Year Reported 1979-1983

Report Year	Report Value	Total Amount Returned to Owners Since Reported	Percentage Property Returned
1979	\$ 5,384,498	\$1,448,067	26.89%
1980	1,878,882	516,579	27.49%
1981	2,811,552	836,391	29.75%
1982	1,859,472	545,238	29.32%
1983	<u>2,256,748</u>	<u>498,405</u>	<u>22.09%</u>
Total	\$14,191,152	\$3,844,680	27.09%

UNCLAIMED PROPERTY

During the period from July 1, 1983 through June 30, 1984, \$660,121 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 1983-1984 fiscal year:

Property Returned July 1, 1983—June 30, 1984

Reporting Entity	Number of Accounts	Value of Claims Paid	Percentage of Total Value
Utilities	343	\$ 15,448	2.34%
Banks	1,054	406,268	61.54
Credit Agencies	181	107,464	16.28
Insurance Companies	563	64,873	9.83
TCRS	39	7,898	1.20
Courts	29	6,796	1.03
Other	<u>343</u>	<u>51,374</u>	<u>7.78</u>
Total	2,552	\$660,121	100.00%

During the period July 1, 1983 through June 30, 1984, \$1,829,631 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, 1983—June 30, 1984

Reporting Entity	Number of Accounts	Final Value	Percentage of Total Value
Utilities	1,526	\$ 160,845	8.79%
Banks	2,521	681,667	37.26
Credit Agencies	1,385	244,695	13.37
Insurance Companies	3,294	348,392	19.04
Courts	222	103,475	5.66
Other	<u>1,432</u>	<u>290,557</u>	<u>15.88</u>
Total	10,380	\$1,829,631	100.00%

ESCHEAT

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 \$20,103.52 representing eight 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.

Administrative Agencies	Tennessee Code Annotated Section
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
Investment Advisory Council	9-9-101
Public Records Commission	8-37-108
State Building Commission	10-7-302
State Insurance Committee	4-15-101
State School Bond Authority	8-27-101
State Trust of Tennessee	49-3-1204
Tennessee Competitive Export Corporation	9-15-106
Tennessee Housing Development Authority	13-27-104
Tennessee Local Development Authority	13-23-106
Tennessee Student Assistance Corporation	4-31-101
	49-4-202
Board of Claims	9-8-101, et seq.
Deferred Compensation	8-23-101, et seq.
Defense Counsel Commission	8-42-102
Escheat	31-6-101, 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. 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