

TREASURER'S REPORT 1985



STATE CAPITOL
NASHVILLE, TENNESSEE

HARLAN MATHEWS

TREASURER



FOR THE FISCAL YEAR JULY 1, 1984 THROUGH JUNE 30, 1985

1985 Report of the Treasurer

**Harlan Mathews, Treasurer
State of Tennessee**



Year Ended June 30, 1985

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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 14, 1986

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

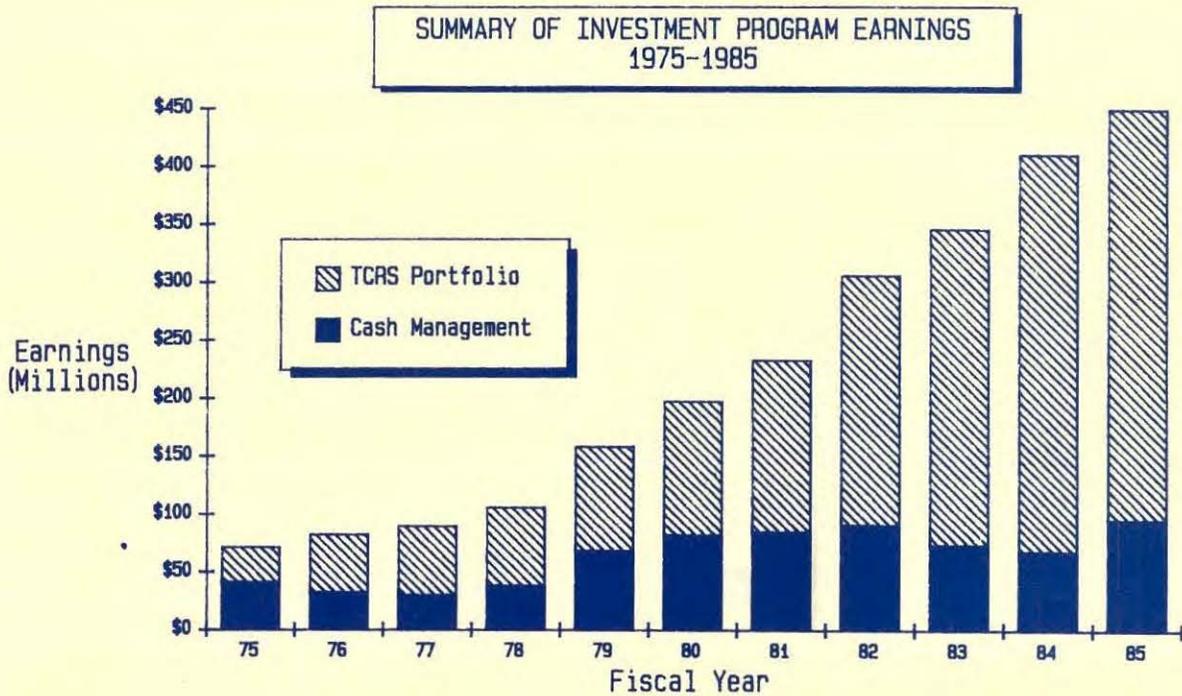
Gentlemen:

The Annual Financial Report of the Treasurer's Office for the fiscal year ended June 30, 1985 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.

During the 1984-85 fiscal year we achieved record investment earnings on both state and TCRS funds. TCRS investments produced \$354,195,992 during the year. Investment of uncommitted state funds yielded earnings of \$95,041,075 from investments in collateralized deposits, U.S. Treasury securities and repurchase agreements. 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 chart:

Summary of Investment Program Earnings
Fiscal Year 1974-75 through 1984-85

Fiscal Year	Cash Management Earnings	TCRS Portfolio Earnings	Total Treasury Earnings
1984-85	\$95,041,075	\$354,195,992	\$449,237,067
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
1979-80	81,284,530	116,398,527	197,683,057
1978-79	67,773,913	90,841,030	158,614,943
1977-78	37,551,416	68,745,446	106,296,862
1976-77	29,447,890	60,445,532	89,893,422
1975-76	31,789,314	50,880,908	82,670,222
1974-75	40,606,649	31,269,152	71,875,801
Total	<u>\$698,706,538</u>	<u>\$1,753,047,563</u>	<u>\$2,451,754,101</u>



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.

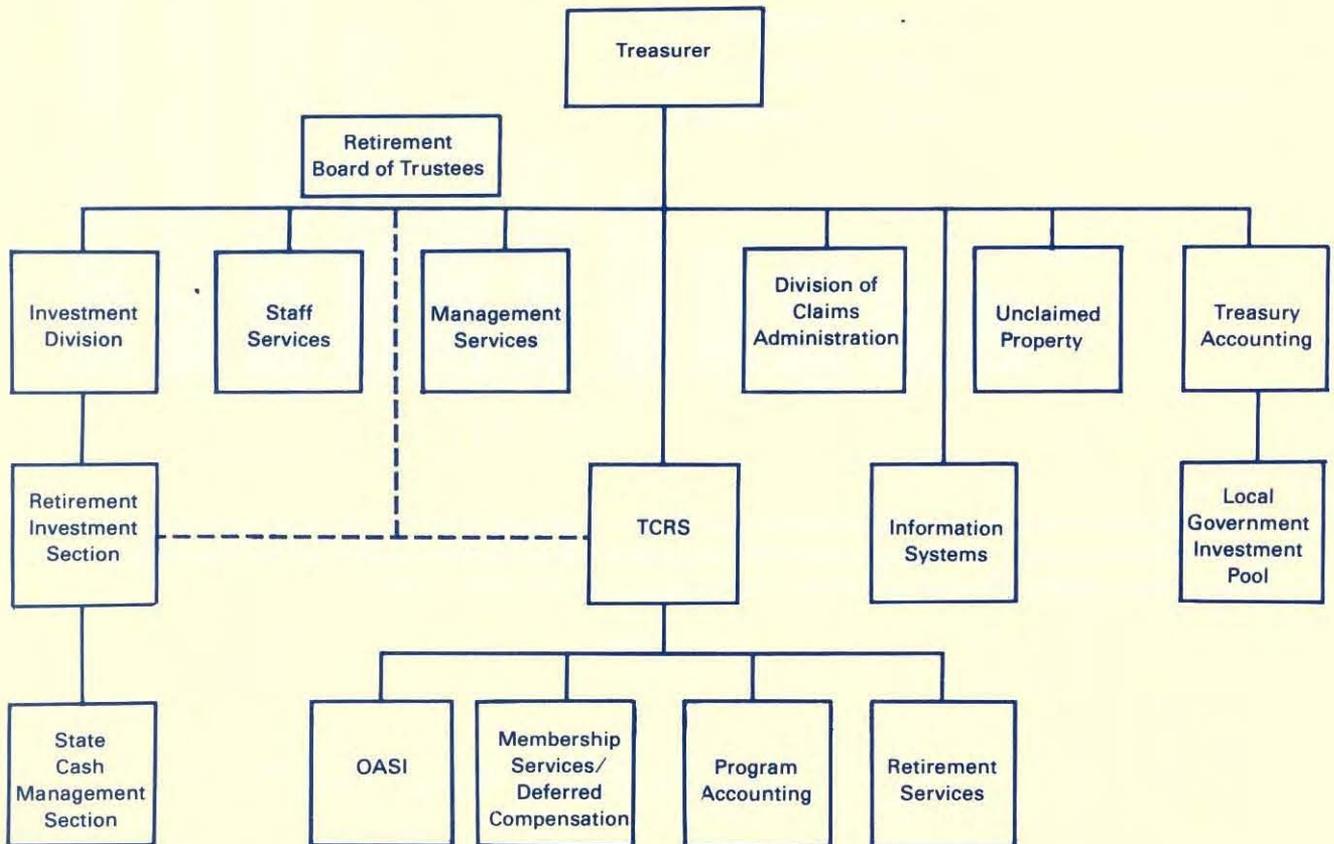
Sincerely,

Harlan Mathews

INTRODUCTION

The 1985 Treasurer's Report contains reports on various programs administered by the Treasury Department, including the Investment Division, Tennessee Consolidated Retirement System, State Trust of Tennessee, Local Government Investment Pool, Division of Claims Administration, Defense Counsel Commission, 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 represent a brief recap of its purpose and operations. The remainder of this report gives detailed data regarding each of these programs' activities during the 1984-85 fiscal year.

Investment Division: This division has the responsibility for investing all funds under management of the Treasury Department.

Pension Fund Investments—This section manages the assets of the Tennessee Consolidated Retirement System (TCRS) which at June 30, 1985 totaled \$4.0 billion. Investments averaged \$3.5 billion for the year producing \$354.2 million in income for a rate of return of 10.16%.

State Cash Management—This section manages the State Pooled Investment Fund which includes the State's cash during the interim between its collection and when it is required to pay for the cost of state government, various dedicated reserves and trust funds of the State including the Chairs of Excellence Endowment Trust, and the Local Government Investment Pool. Investments during 1984-85 averaged \$963 million producing \$95.0 million in income for an average rate of return of 9.98%.

Tennessee Consolidated Retirement System: On July 1, 1972 the seven state retirement plans consolidated to form the TCRS. The TCRS provides retirement coverage to state employees, teachers and employees of political subdivisions that have elected to participate in the plan. Retirement benefits are financed by both employee and employer contributions. Members become eligible for full service retirement upon the attainment of age 60 and 10 years of service or 30 years of service. As of June 30, 1985, there were 144,621 active members and 44,944 retirees.

Division of Claims Administration: The duties of the Division of Claims Administration include investigating and making settlement offers in claims against the State for personal injuries and property damages resulting from work related accidents and negligent acts or omissions of state officers and employees. New claims filed with the Division in fiscal year 1984-85 totaled 4,994. The division is also responsible for review and payment of court orders issued under the Criminal Injuries Compensation Program. In addition, the department provides staff support for the Defense Counsel Commission which is empowered to pay attorneys' fees incurred by state employees in defense of certain civil actions for damages brought against them. During the fiscal year ending June 30, 1985, the Commission made payments in the total amount of \$796,732.38, an increase of 145% 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 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 1984-85 fiscal year, participation in the program included 3,902 individuals or 10% 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, utility deposits, etc.) and attempts to locate the rightful owners or their heirs. Since the program began in 1979, over \$16.6 million in unclaimed property of 87,794 owners has been reported to the Treasurer and over \$4.5 million of that property has been returned to 23,842 owners or their heirs.

Escheat: Administration of the State's escheat law is the responsibility 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 \$50,050.49 representing four estates.

INVESTMENT PROGRAM

State Cash Management Section

It is the policy of the Treasurer to invest immediately all state funds that are not 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, providing funds for redemption of state warrants, checks and electronic fund 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 the primary investment objective in managing the State's cash reserves. Through the State's system of collateral pledging on state certificates of deposit, all state funds were fully secured. To insure the safety of state funds, all non-U.S. Government investments are fully collateralized at market value, with all collateral held directly by the State Trust or in safekeeping with a third party trustee.

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 greatly facilitates the State's liquidity position by enabling the State to move funds through the national banking system via the Federal Reserve's wire facilities without the services of a third party financial institution.

After the safety and liquidity of state funds are insured, the investment staff strives to obtain a market return on available funds by keeping demand accounts at a minimum and obtaining the best interest rate available on investments. In addition to collateralized certificates of deposits in Tennessee financial institutions, investments are permitted in bills, notes and bonds of the U.S. Treasury, Federal Land Bank Bonds, Federal Home Loan Bank notes and bonds, Federal National Mortgage Association notes and debentures, Federal Intermediate Credit Bank debentures, Banks for Cooperative debentures, or any of its other agencies or obligations guaranteed as to principal and interest by the United States or any of its agencies. Funds may also be invested in obligations of the United States or its agencies under a repurchase agreement for a shorter time than the maturity date of the security itself. At the end of the current fiscal year, investments had an average maturity of 251 days, and an average weighted yield of 8.75 percent. Investments were allocated as follows: U.S. Treasury securities, 38%; U.S. Treasury repurchase agreements, 24%; and collateralized certificates of deposit, 38%.

In order to insure that state investment returns 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 (%)

Fiscal Year	Total Fund		New Investments	
	State Cash	Merrill Lynch Institutional Fund	State Cash	90-Day Treasury (C.D. Equivalent Yield)
1984-85	9.98	9.26	9.30	9.22
1983-84	9.46	9.31	9.59	9.51
1982-83	10.59	9.19	9.21	9.02
1981-82	14.21	14.57	14.28	13.75
1980-81	12.50	13.47	13.79	13.25

INVESTMENT PROGRAM

Analysis of State Cash Investments

Fiscal Year	Average Amount Invested	Amount Earned	Percentage Earned
COLLATERALIZED TIME DEPOSITS			
1984-85	\$503,542,609	\$51,317,061	10.23%
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%

REPURCHASE AGREEMENTS

1984-85	\$325,739,767	\$30,817,982	9.43%
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%

U.S. GOVERNMENT SECURITIES

1984-85	\$118,839,175	\$11,652,596	10.76%
1983-84	24,519,251	2,076,087	10.35%

MONEY MARKET DEPOSIT ACCOUNTS

1984-85	\$ 14,880,557	\$ 1,253,436	8.42%
1983-84	17,404,090	520,686	7.18%

TOTAL FUNDS

Fiscal Year	Average Total Funds Invested	Total Cash Management Earnings	Percent of Total Available Cash Invested	Composite Weighted Average Rate of Return
1984-85	\$963,002,108	\$95,041,075	100.0%	9.98%
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%

INVESTMENT PROGRAM

Cash Management Analysis For the Year Ended June 30, 1985

Current Purchases

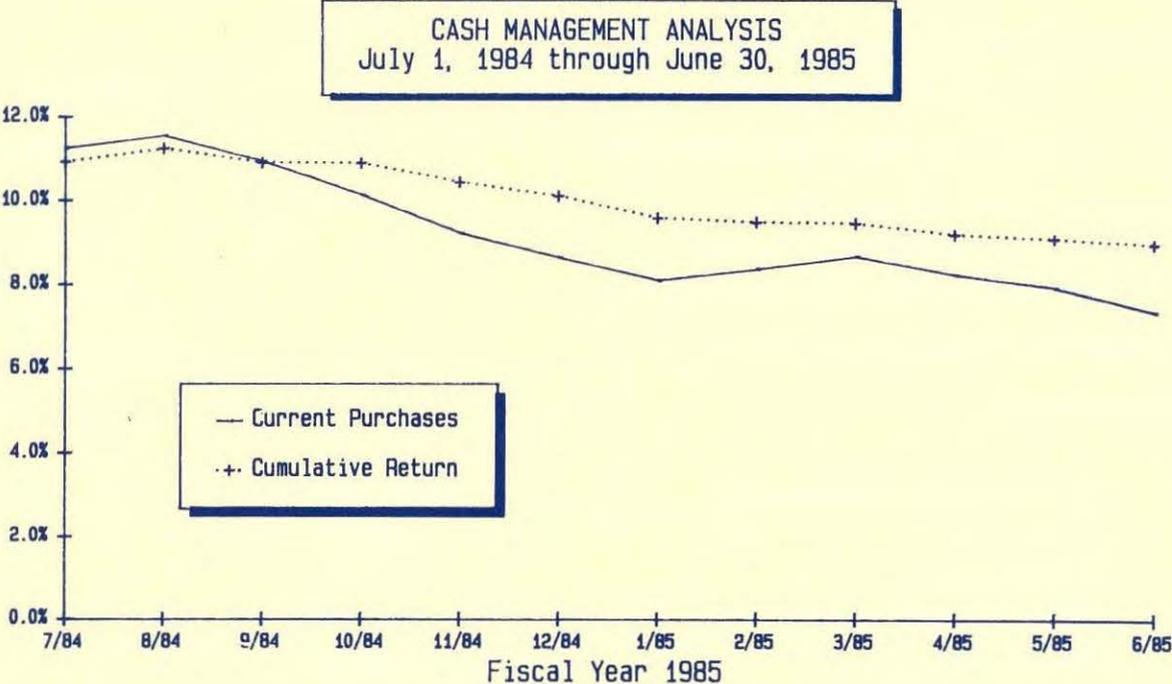
Date	Time Deposits	Repurchases	U.S. Government Securities	MMDDA	Weighted Average Interest Rate	Interest Rate Net of Admin. Fee
7/84	11.66%	11.34%	0%	9.14%	11.41%	11.26%
8/84	11.65%	11.71%	0%	9.55%	11.70%	11.55%
9/84	11.27%	11.05%	0%	9.01%	11.08%	10.93%
10/84	11.09%	10.09%	0%	8.78%	10.27%	10.12%
11/84	10.13%	9.63%	0%	9.10%	9.36%	9.21%
12/84	9.11%	8.58%	10.08%	7.40%	8.78%	8.63%
1/85	8.48%	8.21%	0%	7.32%	8.24%	8.09%
2/85	8.59%	8.48%	10.24%	6.63%	8.51%	8.36%
3/85	9.18%	8.62%	10.88%	6.59%	8.82%	8.67%
4/85	8.76%	8.20%	8.80%	6.85%	8.38%	8.23%
5/85	8.20%	7.75%	9.26%	7.01%	8.08%	7.93%
6/85	7.63%	7.45%	7.99%	5.93%	7.51%	7.36%
WEIGHTED AVERAGE	9.82%	9.18%	9.21%	7.78%	9.30%	9.15%

Cumulative

Date	Time Deposits	Repurchases	U.S. Government Securities	MMDDA	Total Portfolio Cumulative Return
7/84	10.67%	11.32%	11.20%	9.14%	10.93%
8/84	10.94%	11.67%	11.20%	9.55%	11.24%
9/84	10.68%	11.15%	11.32%	9.01%	10.89%
10/84	11.13%	10.45%	11.38%	8.78%	10.88%
11/84	10.83%	9.66%	12.47%	9.10%	10.42%
12/84	10.61%	9.00%	10.87%	7.40%	10.09%
1/85	10.35%	8.32%	10.66%	7.32%	9.57%
2/85	10.04%	8.57%	10.63%	6.63%	9.47%
3/85	9.80%	8.72%	10.68%	6.59%	9.45%
4/85	9.51%	8.41%	9.77%	6.85%	9.19%
5/85	9.20%	8.16%	9.53%	7.01%	9.09%
6/85	9.04%	7.75%	9.46%	5.93%	8.96%
WEIGHTED AVERAGE	10.28%	9.53%	9.87%	7.78%	9.98%

The average rate on investments made each month during the year was 9.30% 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 total portfolio of investments for 1984-85 was 9.98%.

Cash Management Analysis
For the Year Ended June 30, 1985



INVESTMENT PROGRAM

Reconciliation of Cash and Cash Equivalents

June 30, 1985

(Expressed in Thousands)

Cash and Cash Equivalents per Department of Finance and Administration	\$1,900,635
Add: Net reconciling items to Bank Statements	(2,695)
Deduct: Petty cash and travel advances	(384)
Departmental revolving accounts	(4,259)
Departmental cash in other accounts	<u>(320,586)</u>
Cash and Cash Equivalents per Treasury	<u>\$1,572,711</u>

Represented by:

TCRS Short Term Investments	\$ 377,370	
Cash in banks	34,034	
Time deposits	451,290	
Repurchase agreements	263,354	
Treasury Bills	<u>446,663</u>	
Total		<u>\$ 1,572,711</u>

The cash and cash equivalent per Finance and Administration as reported in the State of Tennessee Annual Financial Report for June 30, 1985 is \$1,900,635. 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 three hundred, seventy-seven 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.

Retirement Investment Section

The assets of the Tennessee Consolidated Retirement System are managed by the Retirement Investment Section. 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, 1985	June 30, 1984
Government Bonds	\$1,039,838,100	\$ 980,652,767
Canadian Bonds	83,724,881	88,284,131
Corporate Bonds	1,102,645,343	1,007,263,310
Corporate Stocks	1,230,059,384	895,244,767
International Stocks	49,501,696	31,480,224
Mortgages	3,549,244	4,567,253
Cash Equivalents	<u>423,512,254</u>	<u>437,506,995</u>
TOTAL	\$3,932,830,902	\$3,444,999,447

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. 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 1984-85 was at a yield to maturity of 11.76 %.

The five largest stock and bond holdings of the System at market value as of June 30, 1985 were as follows:

Par Value/Shares	Security	Market Value
Stocks		
335,000	International Business Machine Corp.	\$41,456,000
650,000	General Electric Corp.	40,219,000
1,000,000	K-Mart Corp.	38,375,000
300,000	CBS Inc.	34,875,000
400,000	General Re Corp.	34,000,000
Bonds		
94,200,000	U.S. Treasury 10.375% Bonds due 11/15/12	\$91,374,000
78,965,000	Honeywell Corp. 9.375% S.F. Debentures due 6/15/09	67,321,000
86,586,000	Anheuser-Busch 8.55% S.F. Debentures due 9/1/08	65,048,000
53,000,000	U.S. Treasury 11.625% Bonds due 11/15/02	56,544,000
63,000,000	U.S. Treasury 8.375% Bonds due 8/15/00	52,467,000

INVESTMENT PROGRAM

Rate of Return Analysis On Retirement Investments For the Fiscal Years July 1, 1975 Through June 30, 1985

Fiscal Year	<u>EXCLUDING GAINS AND LOSSES</u>			<u>INCLUDING GAINS AND LOSSES</u>		
	Average Amount Invested	Amount Earned	Percentage Earned	Average Amount Invested	Amount Earned	Percentage Earned
1984-85	\$3,502,888,237	\$321,331,692	9.17%	\$3,486,456,087	\$354,195,992	10.16%
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%

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.

Retirement Investment Section

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>
1984-85	26.8%	28.6%	7.26%	11.76%
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.

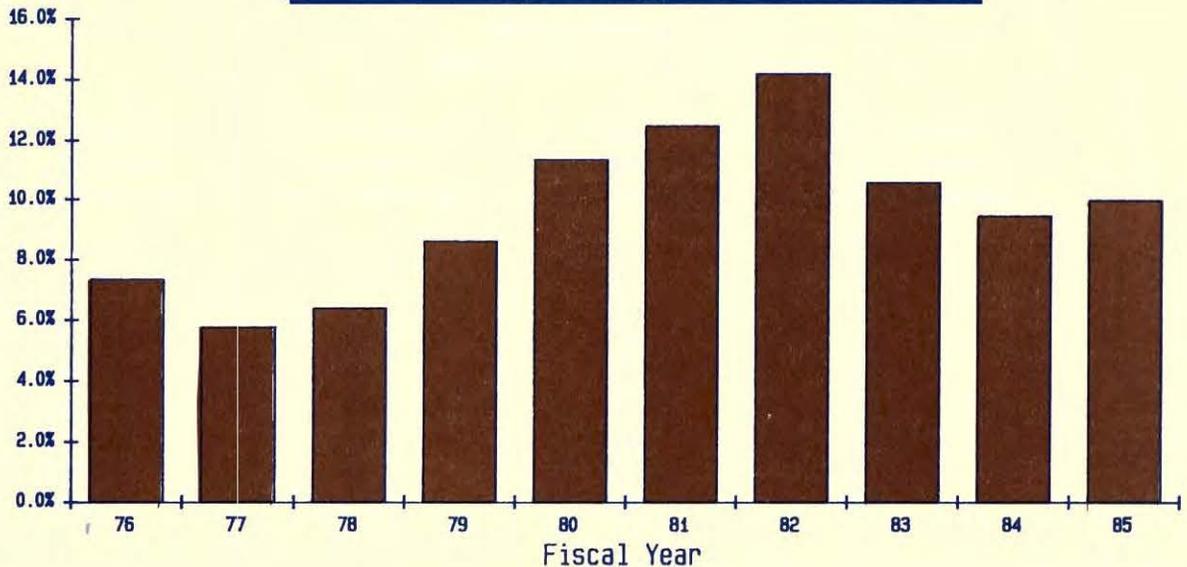
²This is the method Becker uses to calculate returns and is the most accurate way to measure performance.

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. It does not include discount amortization of bonds or lending fees.

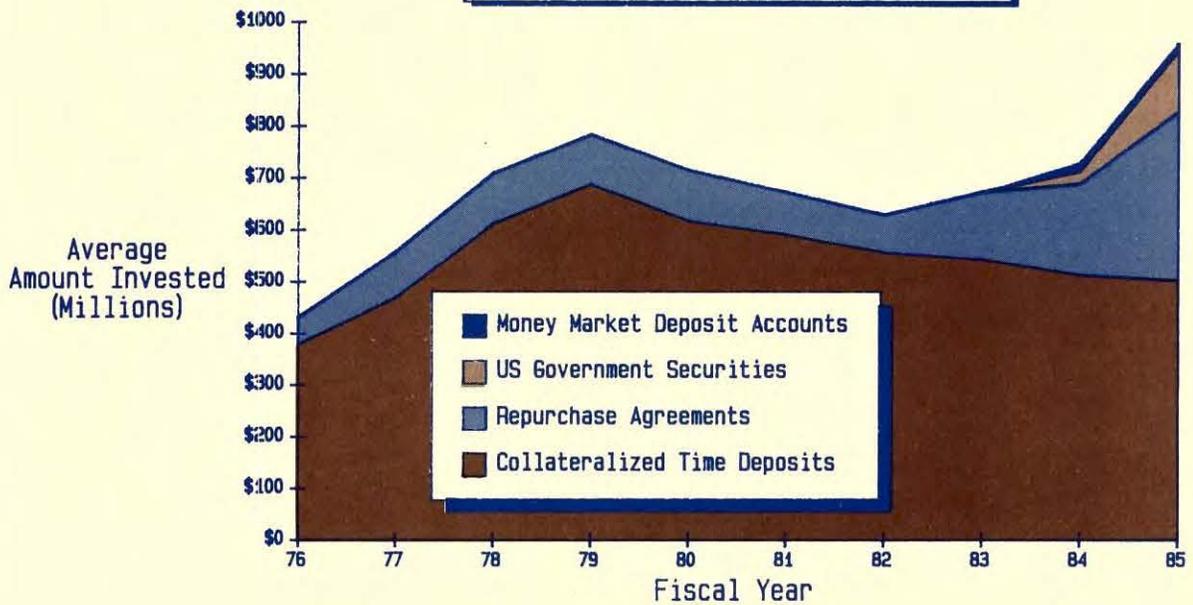
⁴This is the yield to maturity on bonds acquired with new funds during each fiscal year.

INVESTMENT PROGRAM

CASH MANAGEMENT INVESTMENTS
 Composite Weighted Average Rate of Return
 1976-1985

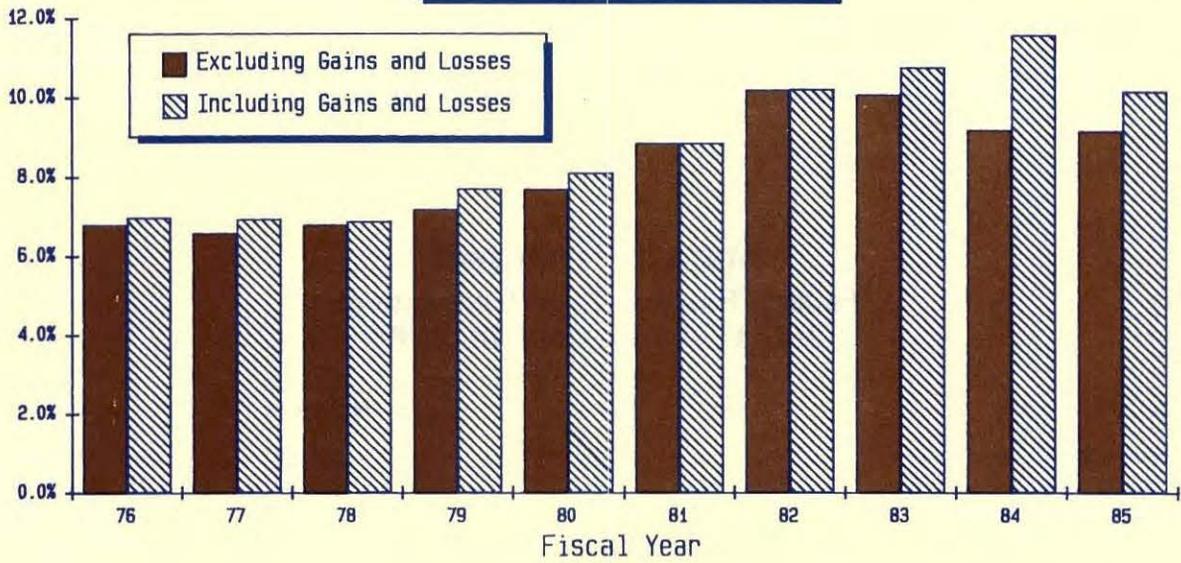


ANALYSIS OF STATE CASH INVESTMENTS
 Fiscal Years 1976 through 1985

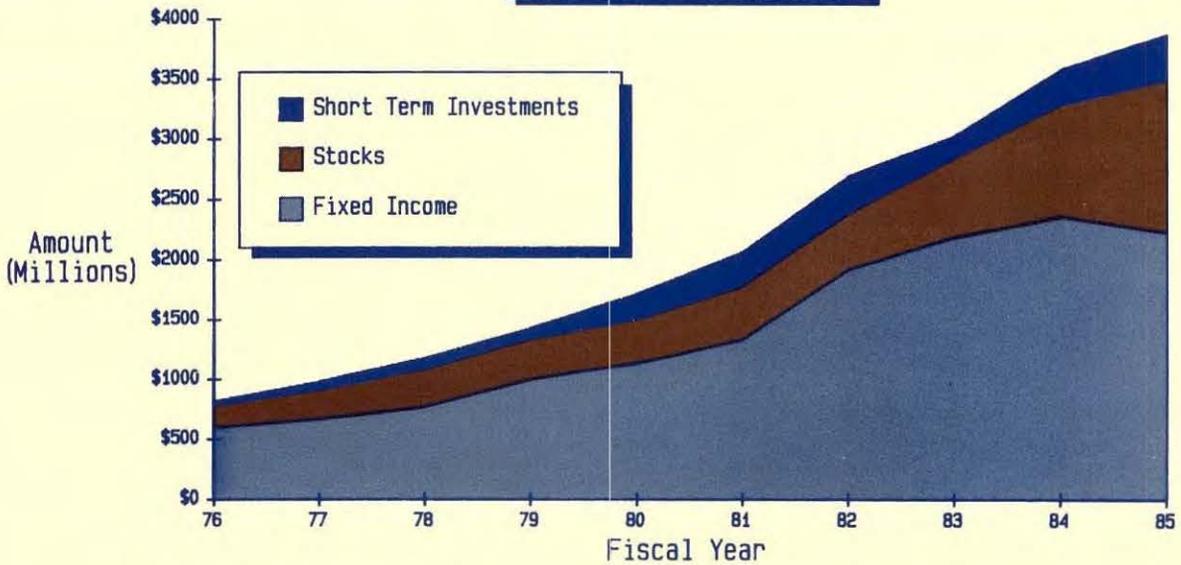


INVESTMENT PROGRAM

RETIREMENT INVESTMENTS
Rate of Return Analysis
1976-1985



RETIREMENT INVESTMENTS
Portfolio Distribution
1976-1985



INVESTMENT PROGRAM

State Trust of Tennessee

A not-for-profit corporation, the State Trust of Tennessee was chartered in the State of Tennessee on April 20, 1979 and began limited operations in December, 1980. The State Trust has enabled the Treasury Department to gain limited membership in the Federal Reserve Bank System. Being a limited member of the Federal Reserve gives the Treasury Department access to the Federal Reserve Wire System. Today, the State Trust of Tennessee is a major participant in this Federal Reserve district and fully utilizes the wire system to send, receive and transfer funds under the State Treasurer's management. In addition, the local Federal Reserve Bank is used to directly safekeep securities in both book entry and definitive form.

State of Tennessee Federal Reserve Bank Transactions July 1, 1984—June 30, 1985

Transaction Type	Number	Amount
Wire Disbursements (1)	2,428	\$ 7,395,456,210
Wire Receipts (2)	9,379	12,367,831,185
Security Disbursements (3)	2,594	28,003,788,516
Security Receipts (4)	2,638	28,860,223,752
ACH Credits (5)	419,800	665,669,176
Check Redemption (6)	<u>890,426</u>	<u>5,042,630,647</u>
TOTAL	1,327,265	\$82,335,599,485

Explanation of Transaction Types

- (1) Disbursements of cash for the purpose of non-Fed eligible securities, payment of TIAA/CREF contributions, and payment of OASI contributions.
- (2) Receipt of cash for payment of interest and principle for non-Fed eligible securities, concentration of cash deposited in local banks, and drawdown of Federal funds.
- (3) Disbursement of cash against the receipt of Fed eligible securities (U.S. Government securities held in book-entry form by the Federal Reserve Bank).
- (4) Receipt of cash against the disbursement of Fed eligible securities.
- (5) Direct deposit of State payroll and TCRS pension payments.
- (6) Redemption of State warrants, TCRS pension checks, etc.

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 also deposit and earn interest on their 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, 1985**

	Amount Balance July 1, 1984	Amount Deposited FY 1984-85	Amount Withdrawn FY1984-85	Net Interest Credited FY 1984-85	Account Balance June 30, 1985
Cities	\$12,906,126	\$34,398,497	\$25,869,202	\$1,281,055	\$22,716,476
Counties	12,200,473	24,971,027	18,157,714	1,351,923	20,365,709
Commitments to DOT	10,028,035	6,518,296	2,550,517	1,054,705	15,050,519
Educational Institutions	2,031,520	44,621,629	35,112,317	684,480	12,225,312
Commitments to OASI	44,971	—	—	4,318	49,289
Commitments to CICF	—	324,979	288,402	4,149	40,726
Other	<u>2,776,411</u>	<u>3,334,183</u>	<u>2,235,150</u>	<u>326,121</u>	<u>4,201,565</u>
TOTAL	<u>\$39,987,536</u>	<u>\$114,168,611</u>	<u>\$84,213,302</u>	<u>\$4,706,751</u>	<u>\$74,649,596</u>

The funds in the LGIP are invested with the State Treasurer's cash portfolio in certificates of deposit and repurchase agreements. A weighted average 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 LGIP monthly interest rate paid for 1984-85, net of a .0015 administrative fee, was 9.20% and net interest credited on LGIP funds totaled \$4,706,751.

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 responsibilities 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, 1985, there were approximately 2,500 reporting entities. The total contribution rate (employer-employee) was 13.7% for calendar year 1984 and 14.1% for 1985. The maximum taxable wage base increased from \$37,800 in 1984 to \$39,600 in 1985. 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 table shows funds transmitted by the State Agency to the Social Security Administration.

SCHEDULE OF 1984—85 FUNDS TRANSMITTED TO THE SOCIAL SECURITY ADMINISTRATION

	FUNDS TRANSMITTED	
State Employees	\$ 82,260,252	\$ 68,837,318
Higher Education	64,908,934	53,062,000
K-12 Teachers	127,002,251	107,549,475
Political Subdivisions	<u>170,082,942</u>	<u>156,925,499</u>
TOTALS	\$444,254,379	\$386,374,292

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 6/30/85	Year Ended 6/30/84
State Employees	38,912	36,823
Higher Education Employees	22,991	21,764
K-12 Teachers	46,846	46,518
Political Subdivision Employees	<u>35,872</u>	<u>34,711</u>
TOTAL	144,621	139,816

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 1984-85 fiscal year, contributions credited to the employee reserve account totaled \$102.7 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, 1985 were as follows:

Noncontributory State Employees	11.05%
K-12 Teachers	15.03%
Noncontributory Higher Education Teachers	20.23%
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. Contributions credited to the employer reserve account during 1984-85 totaled \$327.4 million.

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

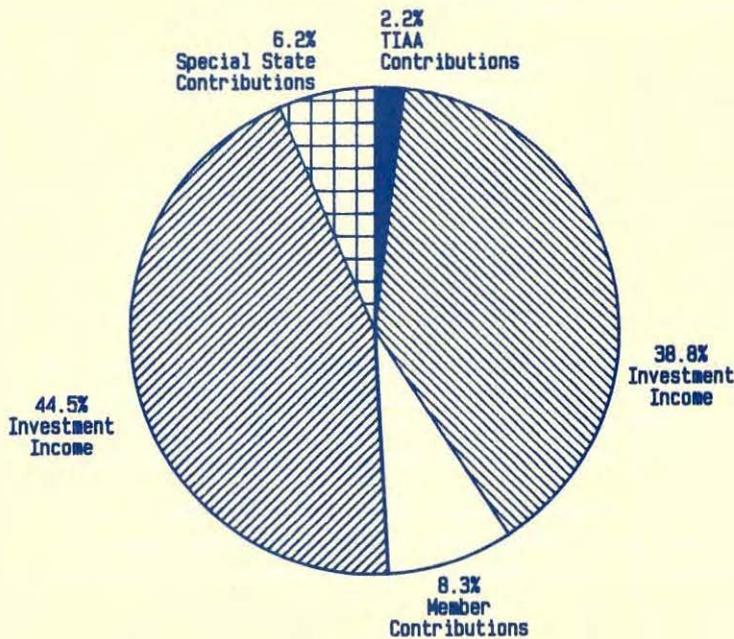
Retirement Benefits

State employees and teachers become eligible to retire from the Tennessee Consolidated Retirement System at age 60 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.

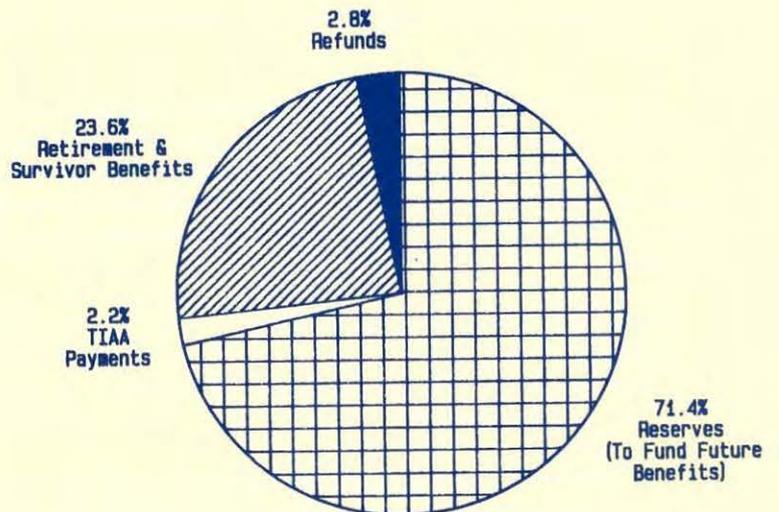
Disability benefits are available to active members with five years of service who became disabled from engaging in gainful employment. There is no service requirement required for disability benefits paid to active members whose disability is the result of an accident or injury occurring while the member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

As of June 30, 1985, 44,944 retirees were receiving monthly benefit payments. Benefits paid in FY 1984-85 totaled \$183 million.

SOURCES OF FUNDS



USES OF FUNDS



DIVISION OF CLAIMS ADMINISTRATION

Claims Against the State

Prior to January 1, 1985, the Board of Claims exercised sole jurisdiction to hear and determine all claims filed against the State for personal injuries and property damages resulting from work connected accidents and negligent acts and omissions of state officers and employees. Pursuant to Chapter 972 of the Acts of 1984, the General Assembly implemented a limited waiver of the State's sovereign immunity and created the Tennessee Claims Commission to hear and determine all claims filed against the State wherein the State has waived its immunity. Actions falling within the waiver of immunity include: the negligent operation of motor vehicles or machinery; negligent care, custody or control of persons or property; professional malpractice; workers' compensation claims by state employees; dangerous conditions on state maintained highways and bridges; and nuisances created or maintained by the State.

Chapter 972 created the Claim Award Fund from which all claims against the State are paid. This fund is supported by premiums paid by each state department, agency and institution with the required funding being based upon an actuarial estimate of the losses which will be incurred during each fiscal year.

The Act also redefined the role of the Board of Claims to be: (a) to review and approve the purchase of insurance policies by any department, agency or institution of the State; (b) to make recommendations to the Commissioner of Finance and Administration and the General Assembly regarding the required funding for the Claim Award Fund; and (c) to hear and determine any claims filed against the State wherein the State has maintained its sovereign immunity. Chapter 972 also created the Division of Claims Administration within the Treasury Department to act as the central intake point for all claims filed against the State of Tennessee.

Tennessee Code Annotated, Title 9, Chapter 8, details under what circumstances the Claims Commission, the Board of Claims and the State Treasurer (through the Division of Claims Administration) may compensate individuals injured by the activities of state government. As a precedent to filing a claim with the Claims Commission or the Board of Claims, an injured party must file a notice of claim with the Division of Claims Administration. The Division immediately refers claims filed under the Board of Claims jurisdiction to the Board. The Division has 90 days to act on all other claims filed. If at the end of this period the Division has failed to act on a claim, the claim is automatically filed with the Claims Commission by the division. The claim is then processed in accordance with the rules and regulations of the Commission.

The activities of the Division of Claims Administration for the fiscal year ended June 30, 1985 included the following:

	CLAIMS FILED	PAYMENTS MADE
Workers' Compensation Claims	3,319	
Death Payments		\$ 245,571
Medical Payments		\$2,498,618
Indemnity Payments		\$1,364,171
Assault Payments		\$ 8,497
Subtotal		<u>\$4,116,857</u>
Employee Property Damage	251	\$ 20,123
Tort Claims	1,424	
Non-Employee Injury		599,542
Non-Employee Property Damage		<u>\$ 423,041</u>
Subtotal		<u>\$1,042,706</u>
TOTALS	<u>4,994</u>	<u>\$5,159,563</u>

DIVISION OF CLAIMS ADMINISTRATION

Criminal Injury Compensation Program

In addition to processing claims filed against the State, the Division of Claims Administration is responsible for the payment of awards made by circuit courts under the criminal injury compensation program pursuant to **Tennessee Code Annotated**, Title 29, Chapter 13. The criminal injury compensation program is funded through privilege taxes assessed in courts against criminal defendants and other offenders upon conviction, fees levied against parolees and probationers and the proceeds of bond forfeitures in felony cases.

Payments made under the criminal injury compensation program are intended to defray the costs of medical services, loss of earnings, burial costs and other pecuniary losses to either the victim of a crime or to the dependents of deceased victims. In the past, the revenues of the criminal injury compensation program have not been sufficient to meet the increasing number of awards being ordered by the circuit courts. In response to this problem the General Assembly enacted Chapters 278, 335 and 403 of the Public Acts of 1985. These Acts: (a) applied the criminal injury privilege tax to persons convicted of reckless driving or driving while intoxicated; (b) made changes in the program to allow the use of available federal funding; (c) clarified under what circumstances the Board may pay emergency awards; and (d) provided the circumstances under which the county criminal injury compensation reserves may be merged into the state criminal injury compensation fund.

During the 1984-85 fiscal year, the Division of Claims Administration made payments of \$3,079,401 to victims of crime. There were 306 criminal injury claims filed with the Division where judgments have been issued by appropriate circuit courts in the State. Claims filed during fiscal year 1985 represent a total dollar value of \$2,116,800. 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 fifteen months after the date the claims were filed; however, claims which were filed near the end of the fiscal year are expected to be paid within six months.

During fiscal year 1985 fund revenues increased by 131 percent while the value of claims filed decreased by 22 percent. As a result, the program ended fiscal year 1985 in better condition than the prior year; however, a balance of approximately \$1.9 million in unpaid claims existed at fiscal year end. The increase in program revenues is due primarily to increases in the rates at which litigation taxes on convicted criminals and fees on parolees and probations are levied. Substantial continued growth in these revenue sources is not anticipated. On the other hand, both the number of claims filed and the dollar value of claims filed decreased during fiscal year 1985; however, the cause of this occurrence is unknown and it is doubtful that this trend will continue.

Presently, one criminal injury compensation award is filed in Tennessee for each 15,000 Tennesseans; the national average is one award for each 4,400 in population. Should Tennessee's rate of awards per capita increase to the national average, the number of awards received annually would exceed 1,000 with an estimated value of approximately \$5.5 million. With the present state revenue base of \$4.0 million, the program would again be in a deficit position and would require substantial new sources of revenue to remain viable. Federal revenue would be available to help fund growth in awards over the short run; however, given the efforts at the national level to reduce federal expenditures, it appears prudent to view federal funds as short term in nature and to avoid basing long term program enhancements on the assumption that federal funds will always be available to fund these changes. These facts tend to support a position of caution when making changes which would improve benefits provided under the current program.

The following schedules outline the activity in the criminal injury compensation program for the 1984-85 fiscal year.

DIVISION OF CLAIMS ADMINISTRATION

CRIMINAL INJURIES COMPENSATION FUND SCHEDULE OF ACTIVITY JULY 1, 1984 THROUGH JUNE 30, 1985

	CIC Taxes	Bond Forfeitures	Dept. of Correction Deposits	Parole Board Deposits	Interest	Payments	Balance
July	\$ 72,041.00	\$.00	\$ 36,161.00	\$ 11,220.00	\$ 1,677.00	\$ 3,272.00	\$156,719.00
August	110,739.00	27,005.00	27,333.00	13,496.00	1,257.00	209,211.00	
September	139,846.00	42,764.00	145,821.00	17,215.00	1,288.00	182,795.00	
October	147,145.00	13,455.00	105,516.00	20,300.00	2,390.00	336,331.00	
November	148,463.00	29,332.00	101,015.00	23,375.00	1,542.00	275,416.00	
December	142,289.00	37,284.00	87,363.00	23,350.00	1,174.00	336,984.00	
January	125,169.00	15,616.00	5,649.00	18,370.00	929.00	300,575.00	
February	118,074.00	48,159.00	90,277.00	20,561.00	1,309.00	.00	
March	140,449.00	28,093.00	168,157.00	26,143.00	3,095.00	197,492.00	
April	137,066.00	49,401.00	88,109.00	27,649.00	3,511.00	259,102.00	
May	208,036.00	33,871.00	98,020.00	22,481.00	2,407.00	637,275.00	
June	212,977.00	16,167.00	95,623.00	29,284.00	1,296.00	536,420.00	
TOTAL	\$1,702,294.00	\$341,147.00	\$1,049,044.00	253,444.00	\$21,875.00	\$3,274,873.00	\$249,650.00

DIVISION OF CLAIMS ADMINISTRATION

ANALYSIS OF CRIMINAL INJURY COMPENSATION AWARDS RECEIVED DURING FISCAL YEAR 1985

Classification of Crime	Number of Awards	Percent of Total	Dollar Value of Awards	Percent of Total	Average Award
Homicide	73	23.86%	\$ 619,608	29.26%	\$8,488
Sexual Assault	59	19.28%	\$ 280,379	13.25%	\$4,752
Robbery by Force	14	4.57%	\$ 75,046	3.55%	\$5,360
Assault	143	46.73%	\$1,042,960	49.27%	\$7,293
Not Classified	17	5.56%	\$ 98,769	4.67%	\$5,810
Total	306	100.00%	\$2,116,762	100.00%	\$6,917

CRIMINAL INJURY COMPENSATION PROGRAM SCHEDULE OF ACTIVITY FISCAL YEARS 1980-81 THROUGH 1984-85

Period	Value of Claims Received	Claims Paid	Balance Of Unpaid Claims
*June 30, 1981			\$ 546,000
FY 1981-82	\$1,441,400	\$1,330,100	\$ 657,300
FY 1982-83	\$2,288,000	\$1,372,900	\$1,572,400
FY 1983-84	\$2,699,900	\$1,330,200	\$2,942,100
FY 1984-85	\$2,116,763	\$3,079,400	\$1,979,463

*Date program began.

Defense Counsel Commission

Chapter 128, Tennessee Public Acts of 1973, established the Defense Counsel Commission and empowered it to pay attorneys' 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 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.

Chapter 166, Tennessee Public Acts of 1985, terminated the Defense Counsel Commission effective April 18, 1985, but continued it for the purposes mandated by **Tennessee Code Annotated**, Section 9-8-107. The Commission retains jurisdiction over all requests for counsel and compensation arising out of incidents occurring before January 1, 1985. The functions and responsibilities of the Commission are transferred to a Subcommittee of the Board of Claims for incidents occurring after January 1, 1985.

During the fiscal year ending June 30, 1985 the Defense Counsel Commission authorized payments in the total amount of \$796,732.38, an increase of 145% over the previous fiscal year. This significant increase was related to both an increase in litigation and budgetary constraints in the Office of the Attorney General which prevented that office from representing many state employees which it would otherwise have represented. Those budgetary constraints were addressed by the General Assembly enabling the Attorney General to resume representing employees in all cases where the circumstances of the litigation permit.

Requests for private counsel received during 1984-85 increased 27% over fiscal year 1983-84; from 296 to 377 requests. During the year ended June 30, 1985, 307 requests for private counsel were approved. The number of requests does not represent total cases since some cases included multiple employees using one attorney. As of June 30th there were 258 active cases in which payment of fees and expenses have 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 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 fourth year of operation at the end of the 1984-85 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 was 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 American General 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 \$7,500, and a maximum deferral in Plan II of 20% of salary for Group I, II or III retirement system members.

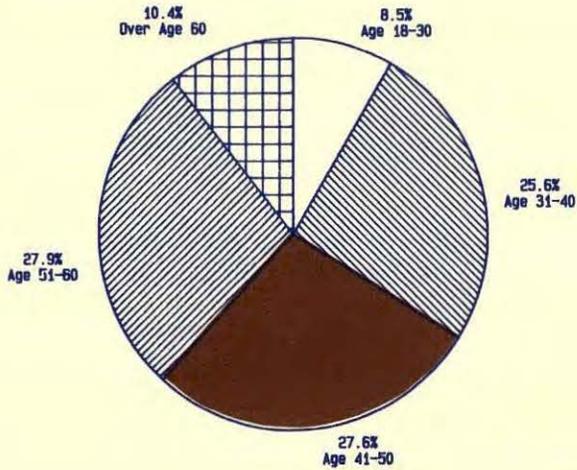
At June 30, 1985, participants had deferred a total of \$22,310,446 through both plans of the program. These deferrals were distributed as follows:

	Deferrals 1984-85	Deferrals 1980-84	Total Deferrals
Plan I			
AETna	\$2,601,660	\$ 9,250,520	\$11,852,180
Fidelity Federal	1,214,890	3,473,563	4,688,453
American General	<u>257,630</u>	<u>413,349</u>	<u>670,979</u>
TOTAL	\$4,074,180	\$13,137,432	\$17,211,612
Plan II			
AETna	\$2,946,684	\$ 1,817,534	\$ 4,764,218
Fidelity Federal	<u>320,717</u>	<u>13,899</u>	<u>334,616</u>
TOTAL	\$3,267,401	\$ 1,831,433	\$ 5,098,834

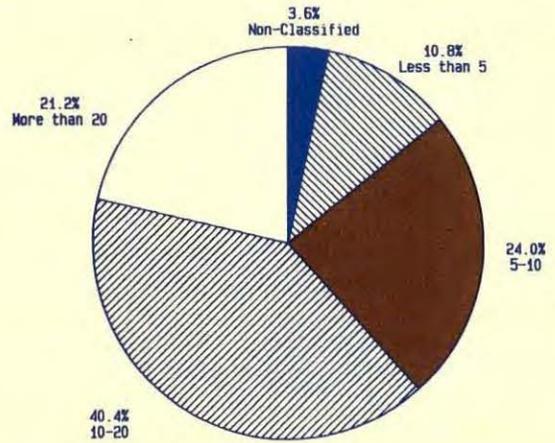
At June 30, 1985, 3,902 individuals or 10% of eligible employees were actively participating in the program. The average individual monthly deferral in Plan I was \$126.79 and \$215.62 in Plan II. Participation was widely spread among age and salary levels, as illustrated by the following charts:

Participation Analysis as of June 30, 1985

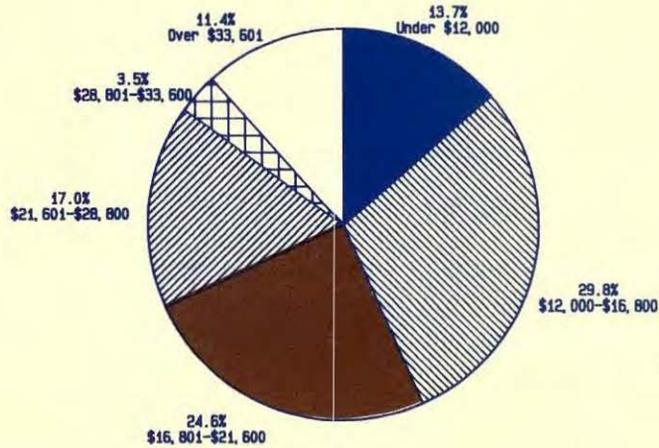
AGE DISTRIBUTION



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 \$16.6 million in unclaimed property for 87,794 owners has been reported to the Treasurer and over \$4.5 million of that property has been returned to 23,842 owners or their heirs.

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

Analysis of Property Returned By Year Reported 1979-1984

Report Year	Report Value	Total Amount Returned to Owners Since Reported	Percentage Property Returned
1979	\$ 5,384,498	\$1,470,763	27.31%
1980	1,878,882	523,453	27.86%
1981	2,805,725	878,524	31.31%
1982	1,861,922	563,690	30.27%
1983	2,255,403	527,759	23.40%
1984	<u>2,468,368</u>	<u>603,986</u>	<u>24.47%</u>
TOTAL	\$16,654,798	\$4,568,175	27.43%

The above information reflects returns of total property reported. Of the accounts which have been reported with an owner's name, 34.4% have been returned; of the accounts which have been reported with an owner's name and social security number, 55.3% have been returned.

UNCLAIMED PROPERTY

During the period from July 1, 1984 through June 30, 1985, \$766,112 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 1984-1985 fiscal year:

Property Returned July 1, 1984—June 30, 1985

Reporting Entity	Number of Accounts	Value of Claims Paid	Percentage of Total Value
Utilities	339	\$18,687	2.44%
Banks	1,236	477,904	62.39
Credit Agencies	287	82,695	10.79
Insurance Companies	630	80,120	10.46
TCRS	188	34,359	4.48
Courts	25	26,978	3.52
Other	<u>406</u>	<u>45,369</u>	<u>5.92</u>
TOTAL	3,111	\$766,112	100.00%

During the period July 1, 1984 through June 30, 1985, \$2,035,895 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, 1984—June 30, 1985

Reporting Entity	Number of Accounts	Final Value	Percentage of Total Value
Utilities	1,713	\$397,187	19.51%
Banks	2,350	704,143	34.59
Credit Agencies	788	215,962	10.61
Insurance Companies	3,263	387,858	19.05
Courts	131	54,420	2.67
Other	<u>1,851</u>	<u>276,325</u>	<u>13.57</u>
TOTAL	10,096	\$2,035,895	100.00%

ESCHEAT

Administration of the State's Escheat Law is the responsibility 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 \$50,050.49 representing four 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 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	49-3-1204
State Trust of Tennessee	9-4-801, et seq.
Tennessee Competitive Export Corporation	13-27-104
Tennessee Housing Development Authority	13-23-106
Tennessee Local Development Authority	4-31-103
Tennessee Student Assistance Corporation	49-4-202
Board of Claims	9-8-101, et seq.
Deferred Compensation	8-25-101, et seq. 8-25-301, et seq.
Defense Counsel Commission	9-8-107
Escheat	31-6-101, et seq.
Investment of State Idle Cash Funds	9-4-602
Local Government Investment Pool	9-4-704
Old Age and Survivors Insurance Agency	8-38-101, et seq.
Receipt and Disbursement of Public Funds	8-5-106—8-5-110 and 9-4-306
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

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) 741-3887**

November 5, 1985

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, 1985, and June 30, 1984, 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, 1985, and June 30, 1984, 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,

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

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

FLG:mb

Local Government Investment Pool
Comparative Balance Sheet

	<u>June 30, 1985</u>	<u>June 30, 1984</u>
Assets		
Cash and Cash Equivalents	<u>\$74,687,631</u>	<u>\$39,987,536</u>
Total Assets	<u><u>\$74,687,631</u></u>	<u><u>\$39,987,536</u></u>
Liabilities and Fund Balance		
Liabilities:		
Member Deposits	\$60,859,469	\$38,159,672
Due to Special Revenue	40,726	-0-
Due to Highway Fund	2,759,344	401,000
Due to Bond Fund	7,158,965	-0-
Due to Colleges and Universities	<u>3,831,092</u>	<u>1,426,864</u>
Total Liabilities	<u>\$74,649,596</u>	<u>\$39,987,536</u>
Fund Balance	<u>\$ 38,035</u>	<u>-0-</u>
Total Liabilities and Fund Balance	<u><u>\$74,687,631</u></u>	<u><u>\$39,987,536</u></u>

See accompanying Footnotes to the Financial Statements.

Local Government Investment Pool

Statement of Revenues, Expenses and Changes in Reserve Balance

	<u>July 1, 1984 Through June 30, 1985</u>	<u>July 1, 1983 Through June 30, 1984</u>
Revenues:		
Investment Income	<u>\$4,786,129</u>	<u>\$3,609,420</u>
Total Revenue	<u>\$4,786,129</u>	<u>\$3,609,420</u>
Expenditures:		
Interest on Deposits	\$4,706,751	\$3,553,120
Administrative Fees	<u>41,343</u>	<u>56,300</u>
Total Expenditures	<u>\$4,748,094</u>	<u>\$3,609,420</u>
Excess in Revenues over Expenditures	<u>\$ 38,035</u>	<u>\$ -0-</u>
Fund Balance, Beginning of Year	<u>\$ -0-</u>	<u>\$ -0-</u>
Fund Balance, End of Year	<u><u>\$ 38,035</u></u>	<u><u>\$ -0-</u></u>

See accompanying Footnotes to the Financial Statements.

Description of the Local Government Investment Pool

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

Monies deposited in the LGIP are pooled with other state cash for investing. An average rate of return is calculated on the investment 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, the Criminal Injuries Compensation Fund, and the Bond Fund. Withdrawals from these accounts require authorization by the administering agency.

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.

Pursuant to NCGA statement #7, the LGIP forms an integral part of state government and in as such has been included as an expendable trust fund in the Tennessee Comprehensive Annual Financial Report.

Schedule of Cash Receipts and Disbursements

	July 1, 1984 Through <u>June 30, 1985</u>	July 1, 1983 Through <u>June 30, 1984</u>
Cash Balance, Beginning of Year	\$ <u>39,987,536</u>	\$ <u>31,069,187</u>
Add Cash Receipts:		
Member Deposits	\$ <u>114,168,611</u>	\$ <u>72,819,476</u>
Investment Income	<u>4,786,129</u>	<u>3,609,420</u>
Total Cash Receipts	\$ <u>118,954,740</u>	\$ <u>76,428,896</u>
Deduct Cash Disbursements:		
Member Withdrawals	\$ 84,213,302	\$67,454,247
Administrative Fees Paid	\$ <u>41,343</u>	\$ <u>56,300</u>
Total Cash Disbursements	\$ <u>84,254,645</u>	\$ <u>67,510,547</u>
Cash Balance, End of Year	\$ <u>74,687,631</u>	\$ <u>39,987,536</u>

See accompanying Footnotes to the Financial Statements.



**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**

November 5, 1985

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 Chairs of Excellence as of June 30, 1985, and the related statements of revenues, expenditures, and changes in fund balance and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Chairs of Excellence as of June 30, 1985, 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,

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

FLG:mb

Chairs of Excellence
Comparative Balance Sheet

ASSETS	JUNE 30, 1985
Cash & Cash Equivalents	\$ 15,332,367
Receivables	-0-
Investments	<u>-0-</u>
Total	<u><u>\$ 15,332,367</u></u>
LIABILITIES & FUND BALANCE	
Liabilities	\$ -0-
Fund Balance	
Contributed Capital	
State	\$ 10,000,000
College & Universities	625,000
Private	<u>3,625,000</u>
Total Contributed Capital	\$ 14,250,000
Special Reserve	
State	\$ 149,392
College & Universities	15,932
Private	<u>133,460</u>
Total Special Reserve	\$ 298,784
Restricted Reserve	
State	\$ 783,583
College & Universities	-0-
Private	<u>-0-</u>
Total Restricted Reserve	<u>\$ 783,583</u>
Total Fund Balance	<u>\$ 15,332,367</u>
Total Liabilities & Fund Balance	<u><u>\$ 15,332,367</u></u>

Chairs of Excellence
Statement of Changes in Financial Position

FOR THE PERIOD JULY 1, 1984 THROUGH JUNE 30, 1985

Sources of Working Capital:

Working Capital Provided by Net Income from Operations	<u>\$ 15,332,367</u>
Net Increase in Working Capital	<u>\$ 15,332,367</u>

Elements of Net Increase in Working Capital:

Cash	<u>\$ 15,332,367</u>
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Chairs of Excellence
Statement of Revenues, Expenses and Changes in Fund Balance

FOR THE PERIOD JULY 1, 1984 THROUGH JUNE 30, 1985

REVENUES:

State Contributions	\$ 10,000,000	
Colleges & Universities Contributions	625,000	
Private Contributions	3,625,000	
Investment Income	<u>1,120,566</u>	
Total Revenue		<u>\$ 15,370,566</u>

EXPENDITURES:

Payments	\$ 20,000	
Administrative Cost	<u>18,199</u>	
Total Expenditures		<u>\$ 38,199</u>

Excess of Revenues Over Expenditures	<u>\$ 15,332,367</u>
--------------------------------------	----------------------

Fund Balance, July 1, 1984	<u>\$ -0-</u>
----------------------------	---------------

Fund Balance, June 30, 1985	<u>\$ 15,332,367</u>
-----------------------------	----------------------

A. Significant Accounting Policies

1. **Basis of Presentation**—The accompanying financial statements have been prepared in conformity with generally accepted accounting principles.
2. **Basis of Accounting**—The COET is accounted for on the accrual basis of accounting.
3. Pursuant to NCGA Statement No. 7 the Chairs of Excellence Trust forms an integral part of state government and in as such has been included as a non-expendable trust fund in the Tennessee Comprehensive Annual Financial Report.

B. Other Accounting Disclosures

1. Chairs of Excellence Endowment Trust—The Chairs of Excellence Trust (COE) is non-expendable trust fund authorized by the 94th General Assembly to further the cause of education in Tennessee. The Trust is set up into two general accounts which equally divide any state appropriations; one for the University of Tennessee and one for the Board of Regents. As each Chair is designated, a portion of the appropriation is transferred to a sub-account for that Chair. The awarding school must provide matching contributions, of which at least 50% of the funds are from private contributions.

At June 30, 1985 eight Chairs had been established with matching contributions totaling \$4,250,000.

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) 741-3697

November 5, 1985

(except for Note C which is dated December 19, 1985)

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 Tennessee Consolidated Retirement System as of June 30, 1985, and June 30, 1984, 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 as of June 30, 1985, and June 30, 1984, 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,

A handwritten signature in blue ink that reads "Frank L. Greathouse".

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

FLG:mb

Tennessee Consolidated Retirement System
Comparative Balance Sheet

(Expressed in Thousands)

	June 30, 1985	June 30, 1984
ASSETS		
CURRENT INVESTMENTS:		
Cash and Cash Equivalents	\$ 380,477	\$ 299,522
Reverse Repurchase Agreements	43,035	46,335
Collateral Against Securities Loaned	-0-	91,650
Total Current Investments	<u>\$ 423,512</u>	<u>\$ 437,507</u>
LONG TERM INVESTMENTS:		
Government Bonds (Amortized Cost)	\$ 831,703	\$ 850,317
Canadian Bonds (Amortized Cost)	83,725	87,284
Corporate Bonds (Amortized Cost)	1,100,146	1,002,233
Corporate Stocks (Cost)	1,222,130	895,245
Corporate Stocks International (Cost)	49,502	31,480
Mortgages	3,549	4,567
Securities on Loan		
Government Bonds	208,135	130,336
Canadian Bonds	-0-	1,000
Corporate Bonds	2,499	5,031
Corporate Stock	<u>7,930</u>	<u>-0-</u>
Total Long Term Investments	<u>\$3,509,319</u>	<u>\$3,007,493</u>
Total Investments	\$3,932,831	\$3,445,000
RECEIVABLES:		
Investments Sold	\$ 15,999	\$ 27,185
Member Contributions Receivable	7,581	6,064
Employer Contributions Receivable	9,384	4,228
Accrued Interest Receivable	55,761	55,039
Accrued Dividends Receivable	4,644	3,531
Accrued Loan Income Receivable	955	431
Political Subdivisions Receivable	<u>2,988</u>	<u>3,126</u>
Total Receivables	\$ 97,312	\$ 99,604
TOTAL ASSETS	<u><u>\$4,030,143</u></u>	<u><u>\$3,544,604</u></u>

Tennessee Consolidated Retirement System
Comparative Balance Sheet

LIABILITIES AND FUND BALANCE

LIABILITIES:

Retired Payroll Payable	\$ 9,755	-0-
Warrants Payable	627	794
Accounts Payable	3,737	3,053
Collateral Against Securities Loaned	-0-	91,650
Obligations Under Reverse Repurchase Agreements	43,035	46,335
Investments Purchased	21,027	27,181
Options Written	<u>450</u>	<u>-0-</u>
Total Liabilities	\$ 78,631	\$ 169,013

FUND BALANCE:

Reserved for Member Contributions	\$ 906,964	\$ 814,426
Reserved for Employer Contributions	<u>3,044,548</u>	<u>2,561,165</u>
Total Fund Balance	<u>\$3,951,512</u>	<u>\$3,375,591</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$4,030,143</u>	<u>\$3,544,604</u>

See accompanying footnotes to the financial statements.

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

(Expressed in Thousands)

	June 30, 1985		June 30, 1984	
Revenues:				
Member Contributions	\$ 66,726		\$ 59,777	
Employer Contributions	277,758		242,574	
Political Subdivisions Contributions	35,680		35,513	
TIAA Contributions	<u>17,598</u>	397,762	<u>14,451</u>	352,315
Investment Income:				
Loan Revenue	\$ 1,516		\$ 764	
Options Revenue	1,599		73	
Interest	215,889		207,772	
Dividends	38,337		33,570	
Net Discount and (Premium) Amortization	59,323		34,797	
Currency Gain (Loss) on Sale of Foreign Investments	(140)		-0-	
Net Profit (Loss) on Sale of Investments	<u>37,672</u>	\$ 354,196	<u>65,892</u>	<u>342,868</u>
Total Revenues		\$ 751,958		\$ 695,183
Expenses:				
Annuity Benefits	\$183,486		\$167,184	
Death Benefits	2,179		1,227	
Refunds	22,774		23,259	
TIAA Payments	17,598	<u>226,037</u>	14,451	<u>206,121</u>
Total Expense		\$ 226,037		\$ 206,121
Excess of Revenues over Expenses		\$ 525,921		\$ 489,062
Other Financing Sources:				
Operating Transfer from Special Revenue Fund		\$ 50,000		\$ -0-
Excess of Revenues and Other Sources over Expenses		<u>\$ 575,921</u>		<u>\$ 489,062</u>
Fund Balance, Beginning of Year		<u>\$3,375,591</u>		<u>\$2,886,529</u>
Fund Balance, End of Year		<u>\$3,951,512</u>		<u>\$3,375,591</u>

See accompanying footnotes to financial statements.

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

(Expressed in Thousands)

	June 30, 1985	June 30, 1984
Sources of Working Capital:		
Working Capital Provided by Net Income from Operations	\$525,921	\$489,062
Operating Transfer from Special Revenue Fund	50,000	-0-
Item Not Requiring (Providing) Working Capital	<u>(59,323)</u>	<u>(34,797)</u>
Total Sources of Working Capital	<u>\$516,598</u>	<u>\$454,265</u>
Uses of Working Capital:		
Purchase of Long Term Investments	<u>(\$442,503)</u>	<u>(\$332,615)</u>
Net Increase (Decrease) in Working Capital:	<u>\$ 74,095</u>	<u>\$121,650</u>
Elements of Net Increase (Decrease) in Working Capital:		
Cash and Cash Equivalents	\$ 80,955	\$ 98,191
Reverse Repurchase Agreements	(3,300)	46,335
Collateral Against Securities Loaned Receivables	(91,650)	(57,065)
	(2,292)	34,471
Warrants Payable	167	153
Retired Payroll Payable	(9,755)	-0-
Accounts Payable	(684)	(155)
Amounts Held in Custody for Others Obligations Under Reverse Repurchase Agreements	91,650	57,065
	3,300	(46,335)
Investment Purchases	6,154	(11,010)
Options Written	<u>(450)</u>	<u>-0-</u>
Net Increase (Decrease) in Working Capital:	<u>\$ 74,095</u>	<u>\$121,650</u>

See accompanying footnotes to the 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. Treasuries, and commercial paper. These investments are stated at amortized cost which at June 30, 1985 and June 30, 1984 is as follows:

	June 30, 1985	June 30, 1984
Cash	\$3,107,359	\$12,115,200
Short Term Investments (Amortized Cost)	<u>377,369,915</u>	<u>287,406,795</u>
Cash and Cash Equivalents	<u>\$380,477,274</u>	<u>\$299,521,995</u>

4. **Market Value of Long-Term Investments**

The market value of the long-term investments as of June 30, 1985 and June 30, 1984 is as follows:

	June 30, 1985	June 30, 1984
Domestic Securities		
Government Bonds	\$1,025,911,635	\$ 799,592,861
Canadian Bonds	83,688,072	69,142,113
Corporate Bonds	1,104,139,243	825,553,621
Corporate Stock	1,465,177,250	961,771,128
Mortgages	<u>2,898,150</u>	<u>3,180,419</u>
Total Domestic Securities	\$3,681,814,350	\$2,659,240,142
International Securities		
American Depository Receipts Stock	\$ 26,547,421	\$ 30,180,605
Local Market		
Stock	\$ 17,122,112	-0-
Currency Gain (Loss)	<u>(625,360)</u>	<u> </u>
Total Local Market	<u>\$ 16,496,752</u>	<u>-0-</u>
Total International Securities	<u>\$ 43,044,173</u>	<u>\$ 30,180,605</u>
Total	<u>\$3,724,858,523</u>	<u>\$2,689,420,747</u>

5. **International Securities**—The TCRS is authorized by policy to invest in international securities. The system actively invests in several international markets as well as the American Depository Receipt (ADR) market. The market value of total international securities held by the TCRS at June 30, 1985 is \$43,044,173. An adjustment was made to June 30, 1984 market value due to a change in the pricing method used. Market valuations are based on custodian pricing rather than broker provided information.
6. **Receivables**—Receivables primarily consist of interest which is recorded when earned.
7. **Securities on Loan**—Some of the securities owned by the TCRS were contractually loaned to investment brokers at June 30, 1985. The contract for a security loan provides that the TCRS loan a specific security from its holdings to the broker in return for U.S. Treasury Securities as collateral. Collateral pledged to the TCRS against securities loaned is registered in the name of the TCRS. The incidence of ownership is retained by the TCRS for securities loaned while the incidence of ownership is retained by the broker for collateral pledged. Securities are returned upon maturity of the loan contract or upon termination by either party. The broker pays a fee to the TCRS for the use of the loaned securities.

At June 30, 1985 the market value of TCRS securities on loan to brokers was \$198,336,730. The market value of collateral pledged by brokers was \$203,196,085.

In the past, TCRS has presented collateral for securities on loan as both an asset and a liability. TCRS believes the presentation of loan collateral as an asset and a liability could mislead the reader.

8. **Options**—During the 1985 fiscal year the TCRS engaged in the issuance of options. Activity is limited, by policy, to selling covered call options. At June 30, 1985 there were outstanding options on 100,000 shares of stock of Phibro Salomon, Inc., in the amount of \$325,000.00 and 50,000 shares of stock of Merck and Co., in the amount of \$125,000.00.
9. **Reverse Repurchase Agreements**—Investment policy permits the TCRS to enter into reverse repurchase agreements. These agreements are made with only a few selected brokers. At June 30, 1985 the TCRS had two reverse repurchase agreements outstanding with Salomon Brothers, Inc. The total market value of the securities is \$43,035,000.
10. Pursuant to NCGA Statement No. 7 the TCRS forms an integral part of state government and in as such has been included as a pension trust fund in the Tennessee Comprehensive Annual Financial Report.

B. OTHER ACCOUNTING DISCLOSURES

1. **Tennessee Consolidated Retirement System**—The 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 noncontributory 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.

Tennessee Consolidated Retirement System

Notes to Financial Statements

It is the policy of the State to fund pension costs accrued. For the year ended June 30, 1985 the State contributed \$327.7 million to the plan and state employees and teachers contributed \$49.8 million. Included in the state contribution was a one time appropriation of \$50 million over and above the amount recommended by the actuary for the purpose of further reducing the State's pension liability. Political subdivisions contributed \$35.6 million to the plan and the employees of political subdivisions contributed \$16.8 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, 1984. A new set of actuarial assumptions resulted from this study, the most significant being an 8 1/2% interest rate (formerly 7%), an 8% annual salary growth (formerly 6%), and improved mortality rates for active and retired members.

An actuarial valuation is made every two years. The valuation as of June 30, 1985 is currently in progress. It will reflect the new assumptions referred to above. The most recently completed valuation, that as of June 30, 1983, incorporated the former assumptions. 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 \$477 million is attributable to the State. The balance of \$46 million is attributable to political subdivisions for which the state assumes no liability. This \$523 million 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, 1985 the state contributed \$17.6 million to the TIAA/CREF plan.

C. SUBSEQUENT EVENTS

The most recent actuarial valuation, as of June 30, 1985, of the Tennessee Consolidated Retirement System has been completed. The valuation incorporated the new assumptions resulting from the June 30, 1984 experience study as discussed in Note B1 above. 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, 1985 the present assets of the pension fund exceeded the actuarially computed present value of vested benefits by \$302 million of which \$239 million is attributable to the state. The balance of \$63 million is attributable to political subdivisions for which the state assumes no liability. The present value of vested benefits 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 Note B2 above. The unamortized accrued liability of the retirement system, based on the present value of benefits for past and future service, was estimated to be \$1.74 billion at June 30, 1985. Of this amount \$95 million is attributable to political subdivisions for which the State assumes no liability.

Tennessee Consolidated Retirement System
Actuarial Balance Sheet — Schedule I

June 30, 1985

TOTAL SYSTEM

	Total	State	Political Subdivisions
ASSETS			
Present assets creditable to:			
State Accumulation Fund	\$3,234,815,535	\$2,880,688,702	\$354,126,833
Members' Fund	<u>958,164,465</u>	<u>830,509,154</u>	<u>127,655,311</u>
Total Present Assets	\$4,192,980,000	\$3,711,197,856	\$481,782,144
Present value of prospective contributions payable to:			
State Accumulation Fund:			
Normal	\$1,235,516,148	\$1,133,498,362	\$102,017,786
Accrued Liability	<u>1,738,837,905</u>	<u>1,643,756,079</u>	<u>95,081,826</u>
Total	\$2,974,354,053	\$2,777,254,441	\$197,099,612
Members' Fund	<u>\$ 703,754,372</u>	<u>\$ 571,060,478</u>	<u>\$132,693,894</u>
Total Prospective Contributions	<u>\$3,678,108,425</u>	<u>\$3,348,314,919</u>	<u>\$329,793,506</u>
Total Assets	\$7,871,088,425	\$7,059,512,775	\$811,575,650
LIABILITIES			
Present value of prospective benefits payable on account of:			
Present retired members and contingent annuitants	\$1,859,003,142	\$1,684,686,348	\$174,316,794
Present active members	5,963,395,342	5,334,185,637	629,209,705
Former members	<u>48,689,941</u>	<u>40,640,790</u>	<u>8,049,151</u>
Total Liabilities	\$7,871,088,425	\$7,059,512,775	\$811,575,650

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

(Expressed in Thousands)

	For the Year Ended June 30, 1985	For the Year Ended June 30, 1984
Cash Balance at Beginning of Year	\$ <u>12,115</u>	\$(<u>3,218</u>)
Add Cash Receipts:		
Member Contributions	\$ 68,359	\$ 127,066
Employer Contributions	332,803	208,631
Political Subdivisions Contributions	35,542	34,781
Investment Income—Interest	225,570	193,438
Investment Income—Dividends	39,451	109,090
Investments Sold (Net Book Value)	10,266,148	8,171,154
TIAA Contributions	17,598	14,451
Loan Revenue	2,281	765
Option Revenue	<u>1,414</u>	<u>73</u>
Total Cash Receipts	<u>\$10,989,166</u>	<u>\$ 8,859,449</u>
Deduct Cash Disbursements:		
Annuity Benefits	\$ 193,827	\$ 167,190
Death Benefits	2,179	1,228
Refunds	22,777	58,712
Investments Purchased	10,761,793	8,602,536
TIAA Payments	<u>17,598</u>	<u>14,450</u>
Total Cash Disbursements	<u>\$10,998,174</u>	<u>\$ 8,844,116</u>
Cash Balance at End of Year	<u>\$ <u>3,107</u></u>	<u>\$ <u>12,115</u></u>

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