

State of Tennessee

Treasurer's
Report
1986



Harlan Mathews, Treasurer

1986 Report of the Treasurer

**Harlan Mathews, Treasurer
State of Tennessee**



Year Ended June 30, 1986

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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 13, 1987

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:

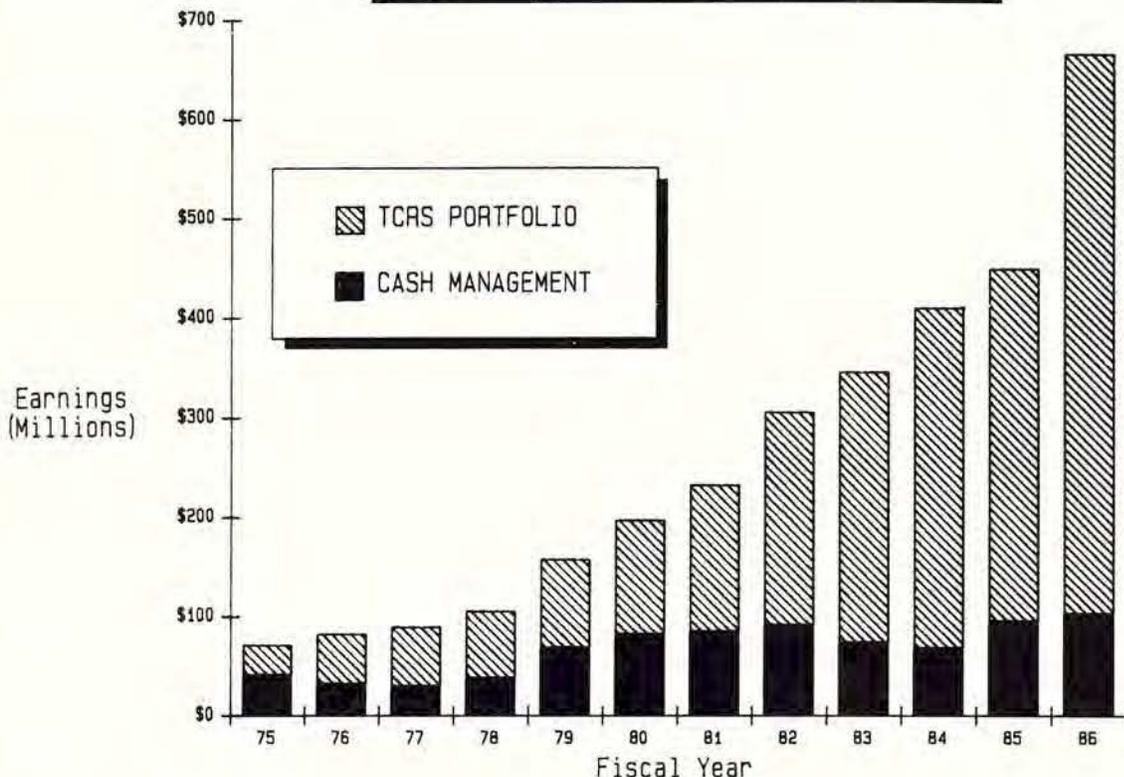
The Annual Financial Report of the Treasurer's Office for the fiscal year ended June 30, 1986 is submitted herewith. This report contains a summary of all the programs administered by the Treasury Department as well as statistical information and financial statements reflecting the current conditions of these programs.

During the 1985-86 fiscal year we achieved record investment earnings on both State and TCRS funds. TCRS investments produced \$564,296,889 during the year. Investment of uncommitted state funds yielded earnings of \$102,595,865 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:

Summary of Investment Program Earnings Fiscal Year 1974-75 through 1985-86

Fiscal Year	Cash Management Earnings	TCRS Portfolio Earnings	Total Treasury Earnings
1985-86	\$102,595,865	\$ 564,296,889	\$ 666,892,754
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>\$801,302,403</u>	<u>\$2,317,344,452</u>	<u>\$3,118,646,855</u>

SUMMARY OF INVESTMENT PROGRAM EARNINGS
1975-1986



I have been privileged to serve as your Treasurer for almost 13 years. The accomplishments of my tenure are best illustrated by the fact that the Treasury Department is a professional organization which has proven to be capable of effectively managing the State's Investment Program, the Tennessee Consolidated Retirement System and the other programs described in this report. With continuing sound leadership, which I am confident the General Assembly will provide, we should be poised to continue this progress into the future. I would, however, also note that the financial markets in which the State of Tennessee functions today are dramatically different from those in which we functioned when I assumed this office. Total assets under the management of the Treasurer today are approximately \$7.1 billion and will exceed \$10 billion in the near future. The current cumulative value of all transactions for the Treasury Department is in excess of \$85 billion annually and growing. Successfully coping with the changing financial environment under these circumstances presents an enormous challenge for the General Assembly and the next Treasurer.

As I leave this office I want to express my gratitude to the members of the General Assembly. It has been your support and leadership which has made possible the progress we have made. I also wish to express my gratitude to the members of my staff. Without their dedication and hard work nothing could have been accomplished.

I look forward to working with you in my new capacity in State Government.

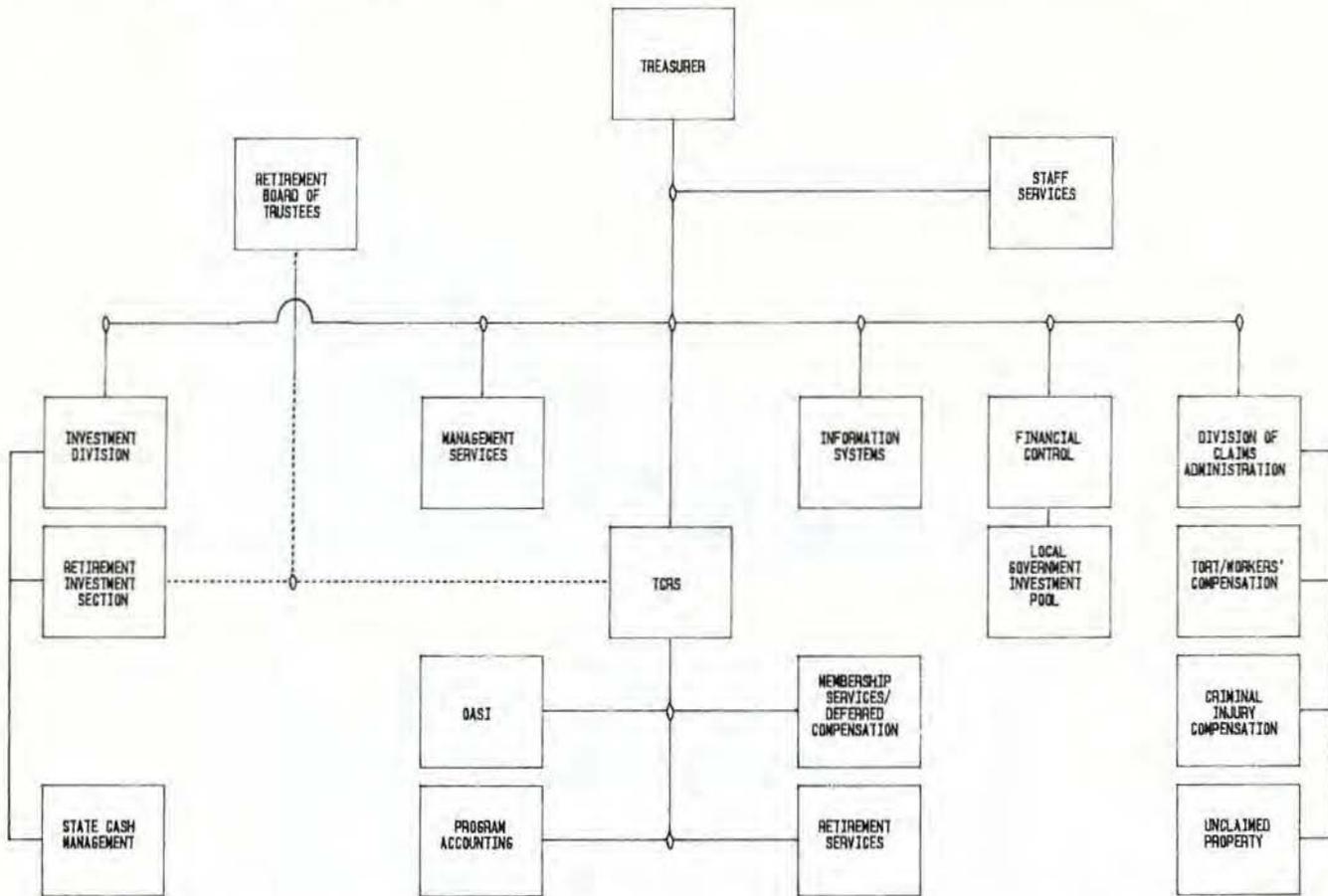
Sincerely,

Harlan Mathews
Treasurer

INTRODUCTION

The 1986 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 1985-86 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, 1986 totaled \$4.8 billion. For the year, investments produced \$564.3 million in income for a rate of return of 13.9%. In addition, the division also manages the investments of the Chairs of Excellence Trust which at June 30, 1986 totaled \$32,754,588.

State Cash Management—This section manages the State Pooled Investment Fund which includes the State's cash and the various dedicated reserves and trust funds of the State, and the Local Government Investment Pool. Investments during 1985-86 averaged \$1.2 billion producing \$102.6 million in income for an average rate of return of 8.39%.

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, 1986, there were 150,140 active members and 46,510 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 1985-86 totaled 5,209. 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, 1986, the Commission made payments in the total amount of \$496,514.71.

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 1985-86 fiscal year, participation in the program included 4,160 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, utility deposits, etc.) and attempts to locate the rightful owners or their heirs. Since the program began in 1979, over \$19.1 million in unclaimed property of 100,507 owners has been reported to the Treasurer and over \$5.4 million of that property has been returned to 26,569 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 \$98,909.82 representing eight 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. In addition to investment of funds in accordance with applicable State law, it is responsible for the management of state bank accounts, administration for the Local Government Investment Pool and providing funds for redemption of state warrants, checks and electronic fund transfers authorized by the Commissioner of Finance and Administration. 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. To insure the safety of state funds, all non-U.S. Government guaranteed 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 expense of a third party financial institution.

After the safety and liquidity of state funds are insured, the investment staff strives to obtain a high return on available funds by obtaining the best interest rate available on investments. In addition to collateralized certificates of deposit 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 327 days, and an average weighted yield of 7.52 percent. Investments were allocated as follows: U.S. Treasury securities, 41%; U.S. Treasury repurchase agreements, 23%; and collateralized certificates of deposit, 35%.

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 of 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 Return (%)

Fiscal Year	Total Fund	New Investments	Merrill Lynch Institutional Fund	90-Day Treasury (C.D. Equivalent Yield)
	State Cash	State Cash		
1985-86	8.35	7.52	7.27	7.06
1984-85	9.98	9.30	9.26	9.22
1983-84	9.46	9.59	9.31	9.51
1982-83	10.59	9.21	9.21	9.02
1981-82	14.21	14.28	9.19	13.75

INVESTMENT PROGRAM

ANALYSIS OF STATE CASH INVESTMENTS

Fiscal Year	Average Amount Invested	Amount Earned	Percentage Earned
COLLATERALIZED TIME DEPOSITS			
1985-86	\$513,425,919	\$41,711,815	8.13%
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%
REPURCHASE AGREEMENTS			
1985-86	\$227,202,051	\$16,723,921	7.43%
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%
U.S. GOVERNMENT SECURITIES			
1985-86	\$482,407,939	\$43,487,272	9.01%
1984-85	118,839,175	11,652,596	10.76%
MONEY MARKET DEPOSIT ACCOUNTS AND OTHER			
1985-86	\$ 12,421,084	\$ 672,858	5.42%
1984-85	14,880,557	1,253,436	8.42%

TOTAL FUNDS

Fiscal Year	Average Total Funds Invested	Total Cash Management Earnings	Percent Of Total Available Cash Invested	Composite Weighted Average Rate of Return
1985-86	\$1,235,456,993	\$102,595,865	100.0%	8.39%
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%

INVESTMENT PROGRAM

Cash Management Analysis For The Year Ended June 30, 1986

Current Purchases

Date	Time Deposits	Repurchases	U.S. Government Securities	MMDDA	Weighted Average Interest Rate	Interest Rate Net of Admin. Fee
7/85	7.58%	7.68%	7.55%	4.89%	7.65%	7.50%
8/85	7.85	7.80	8.24	4.56	7.85	7.70
9/85	7.99	7.74	8.39	6.10	7.91	7.76
10/85	8.12	7.78	8.30	5.56	7.91	7.76
11/85	7.82	8.01	8.19	5.01	7.99	7.84
12/85	7.83	7.84	8.18	6.26	7.85	7.70
1/86	7.78	7.67	8.19	5.78	7.74	7.59
2/86	7.74	7.77	8.27	5.00	7.79	7.64
3/86	7.41	7.43	7.35	6.12	7.42	7.27
4/86	6.91	6.96	6.91	5.46	6.96	6.81
5/86	6.61	6.79	6.90	5.38	6.77	6.62
6/86	6.74	6.85	7.16	5.45	6.88	6.73
DOLLAR WEIGHTED AVERAGE	7.51%	7.40%	7.66%	5.42%	7.52%	7.37%

Cumulative

Date	Time Deposits	Repurchases	U.S. Government Securities	MMDDA	Total Portfolio Cumulative Return
7/85	8.91%	7.89%	9.41%	4.89%	8.93%
8/85	8.70	7.98	9.41	4.56	8.84
9/85	8.52	7.93	9.32	6.10	8.75
10/85	8.37	7.84	9.22	5.56	8.67
11/85	8.22	7.98	9.21	5.01	8.62
12/85	8.13	7.85	9.23	6.26	8.58
1/86	8.07	7.67	9.26	5.78	8.42
2/86	8.03	7.75	9.19	5.00	8.42
3/86	7.90	7.45	9.01	6.12	8.18
4/86	7.78	7.00	8.69	5.46	7.91
5/86	7.58	6.80	8.45	5.38	7.74
6/86	7.48	6.85	8.24	5.45	7.64
DOLLAR WEIGHTED AVERAGE	8.13%	7.43%	9.01%	5.42%	8.35%

The average rate on investments made each month during the year was 7.52% 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 1985-86 was 8.35%.

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, 1986**

	Account Balance July 1, 1985	Amount Deposited FY 1985-86	Amount Withdrawn FY 1985-86	Net Interest Credited FY 1985-86	Account Balance June 30, 1986
Cities	\$22,716,477	\$242,865,612	\$192,848,407	\$4,684,773	\$ 77,418,455
Counties	20,365,709	65,851,115	49,019,922	1,823,299	39,020,201
Commitments to DOT	15,050,520	16,579,993	8,994,696	1,442,212	24,078,029
Educational Institutions	12,225,311	162,589,019	150,661,139	1,628,521	25,781,712
Commitments to OASI	49,289	—	—	3,779	53,068
Commitments to CICF	40,726	—	40,959	233	—
Other	4,201,565	5,548,961	6,401,986	243,520	3,592,060
TOTAL	<u>\$74,649,597</u>	<u>\$493,434,700</u>	<u>\$407,967,109</u>	<u>\$9,826,337</u>	<u>\$169,943,525</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 1985-86, net of a .0015 administrative fee, was 7.37% and net interest credited on LGIP funds totaled \$9,826,337.

INVESTMENT PROGRAM

Reconciliation of Cash and Cash Equivalents

June 30, 1986

(Expressed in Thousands)

Cash and Cash Equivalents per Department of Finance and Administration		\$2,579,043
Add: Net reconciling items to Bank Statements		(3,373)
Deduct: Petty cash and travel advances		(370)
Departmental revolving accounts		(4,096)
Departmental cash in other accounts		<u>(474,047)</u>
Cash and Cash Equivalents per Treasury		<u>\$2,097,157</u>
Represented by:		
TCRS Short Term Investments	\$506,318	
Cash in banks	35,446	
Time deposits	550,246	
Repurchase agreements	359,136	
Treasury Bills	<u>646,011</u>	
Total		<u>\$2,097,157</u>

The cash and cash equivalents per Finance and Administration as reported in the State of Tennessee Annual Financial Report for June 30, 1986 is \$2,579,043. 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 five hundred, six 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. Funds in the retirement system are actively managed with a portfolio of high quality bonds, mortgages, stocks, and international securities. 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, 1986	June 30, 1985
Domestic Securities:		
Government Bonds	\$1,411,076,208	\$1,039,838,100
Corporate Bonds	1,033,757,371	1,102,645,343
Corporate Stocks	1,608,364,122	1,230,059,384
Mortgages	3,198,651	3,549,244
International Securities:		
Government Bonds	\$ 29,234,742	\$ 25,053,089
Corporate Bonds	35,232,523	58,671,792
Corporate Stock	43,616,173	17,474,223
American Depository Receipts	1,670,650	32,027,473
Cash Equivalents	<u>\$ 520,573,101</u>	<u>\$ 423,512,254</u>
Total	<u>\$4,686,723,541</u>	<u>\$3,932,830,902</u>

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 1985-86 was at a yield to maturity of 9.67%. The five largest stock and bond holdings of the System at market value as of June 30, 1986 were as follows:

Par Value/Shares	Security	Market Value
Stocks		
1,100,000	Abbott Laboratories, Inc.	\$ 59,125,000
700,000	General Electric Corp.	56,700,000
375,000	International Business Machine Co.	54,937,500
730,000	Monsanto Co.	54,467,250
500,000	Merck & Co.	52,250,000
Bonds		
94,000,000	U.S. Treasury 12.000%, Bonds due 08/15/13	\$132,833,250
89,945,000	U.S. Treasury 10.375%, Bonds due 11/15/12	112,262,153
97,749,000	Weyerhaeuser Corp. 7.95% S.F. Debentures due 08/15/06	88,018,087
60,000,000	U.S. Treasury 8.750%, Bonds due 11/15/08	65,287,000
50,300,000	U.S. Treasury 10.375%, Bonds due 11/15/09	62,246,250

INVESTMENT PROGRAM

Rate of Return Analysis On Retirement Investments For the Fiscal Years July 1, 1976 Through June 30, 1986

Fiscal Year	EXCLUDING GAINS AND LOSSES			INCLUDING GAINS AND LOSSES		
	Average Amount Invested	Amount Earned	Percentage Earned	Average Amount Invested	Amount Earned	Percentage Earned
1985-86	\$4,159,389,303	\$342,666,987	8.24%	\$4,048,574,353	\$564,296,889	13.94%
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%

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:

$$\frac{1}{(A + B - 1)/2}$$

Where

- 1 = Current earnings plus discount minus premium
- A = Total assets less liabilities at beginning of year
- B = Total assets less current liabilities at end of year

NOTE: Rates are computed where 1 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**

Fiscal Year	¹ SEI Balanced Public Fund Index Median Total Return	² TCRS Time Weighted Total Return	³ Income Yield On Average Available Funds	⁴ Yield To Maturity New Bonds
1985-86	25.2%	27.7%	5.21%	9.67%
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.

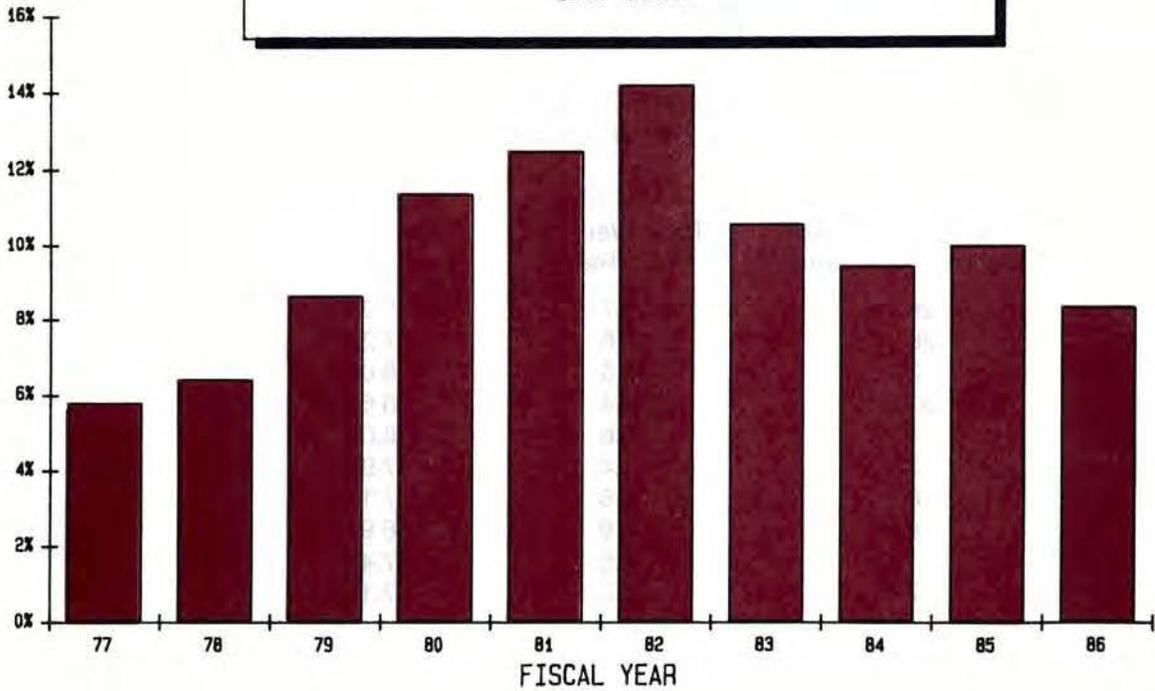
²This is the method SEI uses to calculate returns and is the most accurate way to measure performance.

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.

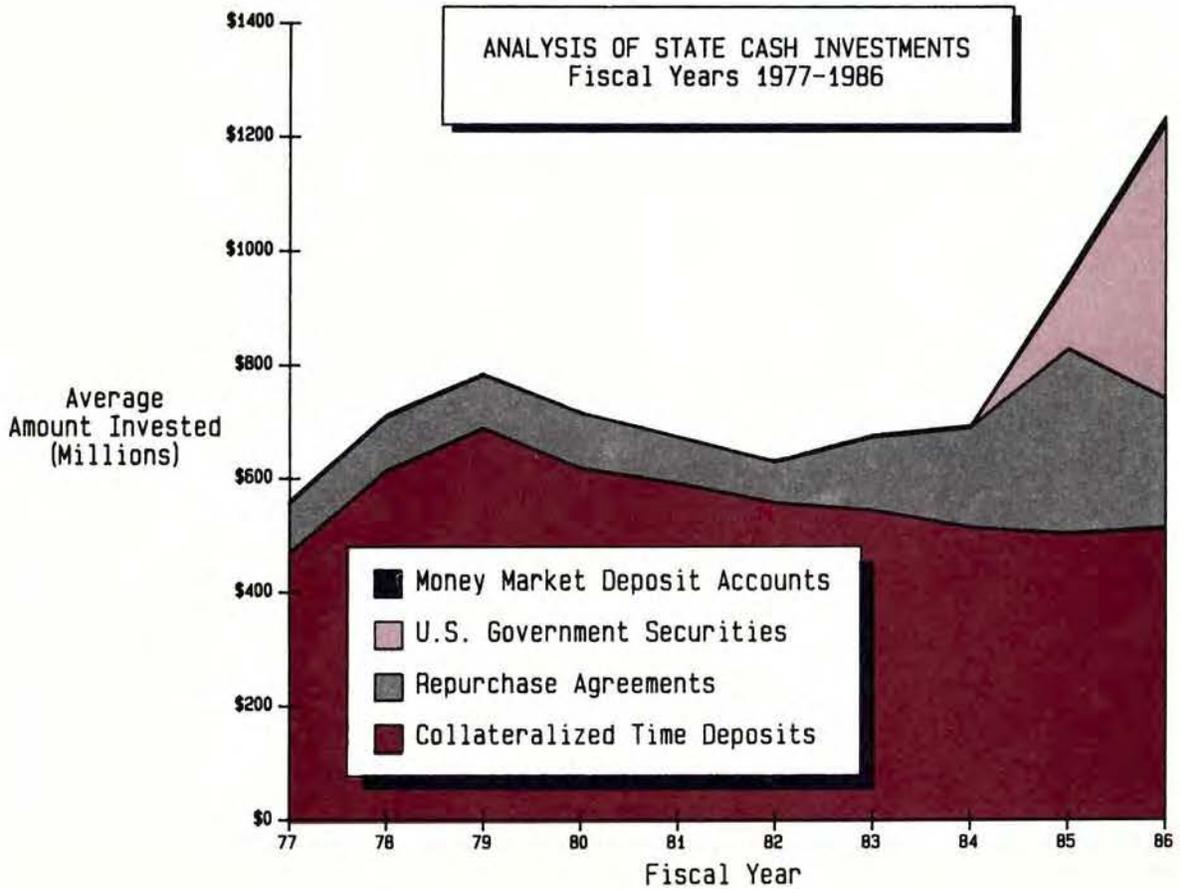
⁴This is the yield to maturity on bonds acquired with new funds during each fiscal year.

INVESTMENT PROGRAM

CASH MANAGEMENT INVESTMENTS
Composite Weighted Average Rate of Return
1977-1986

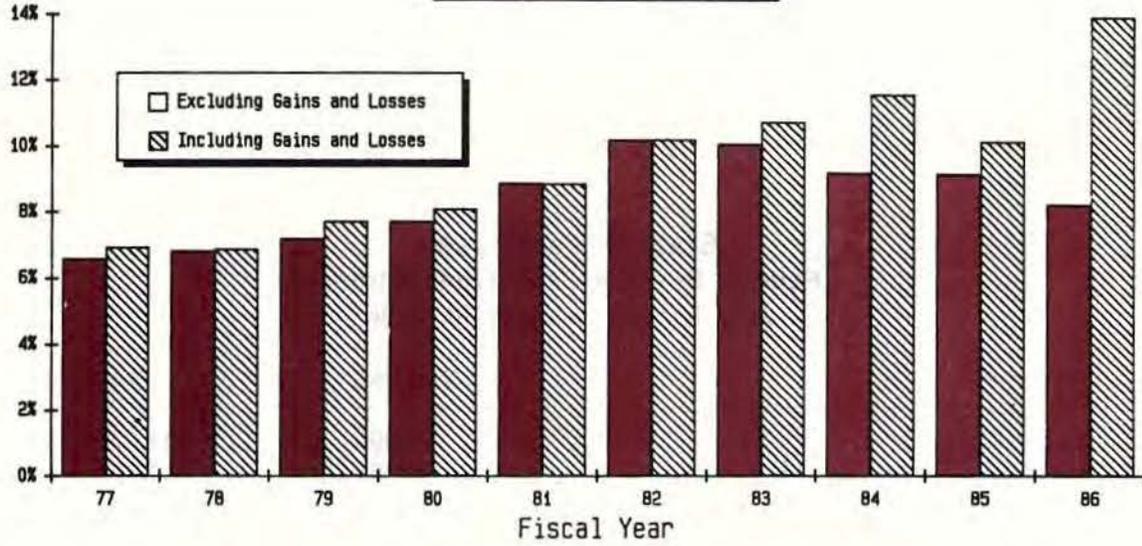


ANALYSIS OF STATE CASH INVESTMENTS
Fiscal Years 1977-1986

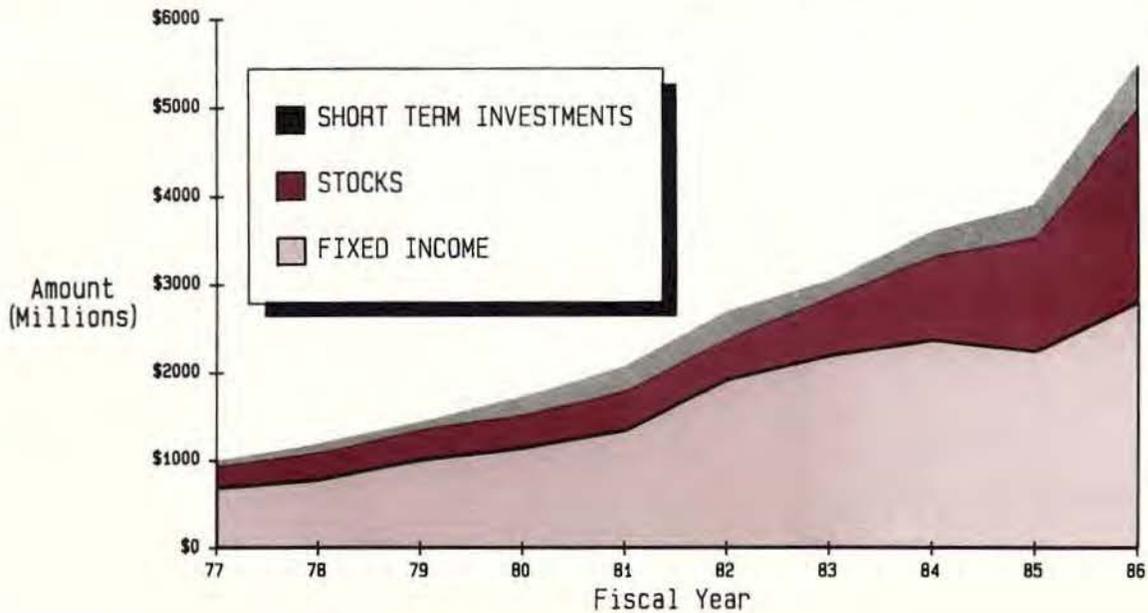


INVESTMENT PROGRAM

RETIREMENT INVESTMENTS
Rate of Return Analysis
1977-1986



RETIREMENT INVESTMENTS
PORTFOLIO DISTRIBUTION
1977-1986



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 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 safekeep securities in both book-entry and definitive form.

State of Tennessee Federal Reserve Bank Transactions July 1, 1985 — June 30, 1986

Transaction Type	Number	Amount
Wire Disbursements (1)	2,589	\$11,022,010,377
Wire Receipts (2)	9,455	17,124,735,086
Security Disbursements (3)	2,443	25,791,102,863
Security Receipts (4)	2,317	26,041,754,902
ACH Transactions(5)	230	776,280,980
Check Redemption (6)	1,077	5,075,714,036
TOTAL	18,111	\$85,831,598,244

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.

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 Survivor Insurance Agency (OASI), TCRS membership, contributions, retirement benefits and investment of retirement system funds.

Old Age & Survivor Insurance Agency

The State Old Age & Survivor 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 (superseded systems) and on July 1, 1972, to the Tennessee Consolidated Retirement System coverage group.

As of June 30, 1986, there were approximately 2,000 reporting entities. The total contribution rate (employer-employee) was 14.1% for calendar year 1985 and 14.3% for 1986. The maximum taxable wage base increased from \$39,600 in 1985 to \$42,000 in 1986. 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 1985—86 FUNDS TRANSMITTED TO THE SOCIAL SECURITY ADMINISTRATION

	FUNDS TRANSMITTED	
	1984-1985	1985-1986
State Employees	\$ 82,260,252	\$ 93,357,661
Higher Education	64,908,934	71,296,381
K-12 Teachers	127,002,251	138,908,037
Political Subdivisions	<u>170,082,942</u>	<u>186,764,595</u>
TOTALS	\$444,254,379	\$490,326,674

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 TCRS 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 6/30/86
State Employees	38,912	41,192
Higher Education Employees	22,991	22,140
K-12 Teachers	46,846	48,887
Political Subdivision Employees	35,872	37,921
TOTAL	144,621	150,140

Retirement benefits are financed by both member and employer contributions. Certain members contribute a percentage of their salaries to the TCRS. 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 1985-86 fiscal year, contributions credited to the employee reserve account totaled \$108.5 million which included \$36.9 million provided by employers for non-contributory 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, 1986 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 1985-86 totaled \$311.5 million.

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

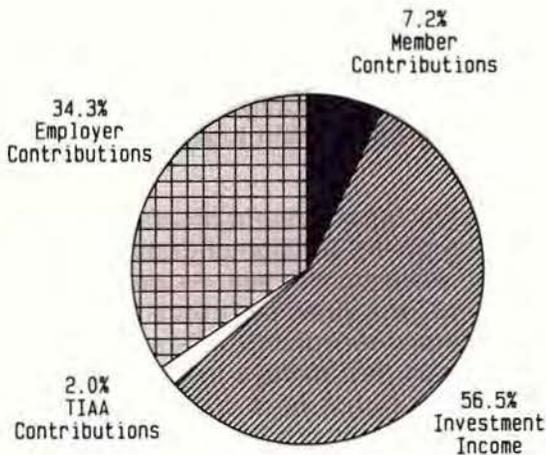
Retirement Benefits

Members 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.

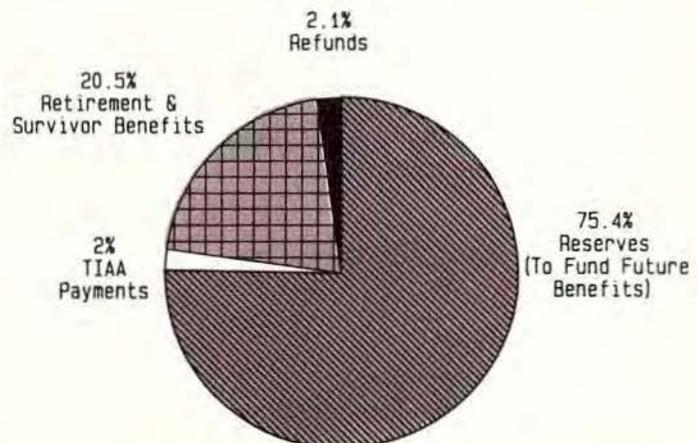
Disability benefits are available to active members with five years of service who become disabled from engaging in gainful employment. There is no service requirement for disability benefits paid to active members whose disability is the result of an accident or injury occurring while the member was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

As of June 30, 1986, 46,510 retirees were receiving monthly benefit payments. Benefits paid in FY 1985-86 totaled \$204.6 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, 1986 included the following:

	CLAIMS FILED	PAYMENTS MADE	
Worker's Compensation Claims	3,450		
Death Payments		\$ 180,348	
Medical Payments		2,466,398	
Assault Injury Payments		2,853	
Temporary Disability (Lost time)		579,874	
Permanent Disability		937,429	
Subtotal			\$4,166,902
Employee Property Damage	226		21,221
Tort Claims	1,533		
Death Payments		\$ 454,908	
Bodily Injury Payments		259,692	
Property Damage Payments		371,161	
Subtotal			\$1,085,761
TOTALS	<u>5,209</u>		<u>\$5,273,884</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, as per **Tennessee Code Annotated**, 40-24-107.

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 1985-86 fiscal year, the Division of Claims Administration made payments of \$3,255,426 to victims of crime. There were 399 new criminal injury claims filed with the Division where judgments have been issued by appropriate Circuit Courts in the State. Claims filed during fiscal year 1986 represent a total dollar value of \$2,033,775. 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 six months after the date the claims were filed provided that the orders were completed upon receipt and contained all information as required by the criminal injury statutes.

The Criminal Injury Compensation Program ended the fiscal year 1986 with a balance of approximately \$758,000 in unpaid claims. In fiscal year 1986, the number of claims paid increased and the average dollar value per claim also increased.

A continued increasing number of criminal injury claims being filed is anticipated. Public knowledge of the Criminal Injuries Compensation Fund has increased as a result of public awareness programs and the utilization of victim-assistance co-ordinators, as established per **TCA** 8-7-206. These co-ordinators, located in each judicial district, are available to assist crime victims in obtaining benefits from the program.

In addition to criminal injuries compensation, assistance is now available to victims of drunk drivers. **TCA** 40-24-107 established the Victims of Drunk Drivers Compensation Fund. When the proximate cause of a death or injury is the operator's intoxication as prohibited by **TCA** 55-10-401, the victim's death or injury shall be eligible for compensation in the same manner as criminal injury compensation and not to exceed a maximum award of \$2,000.

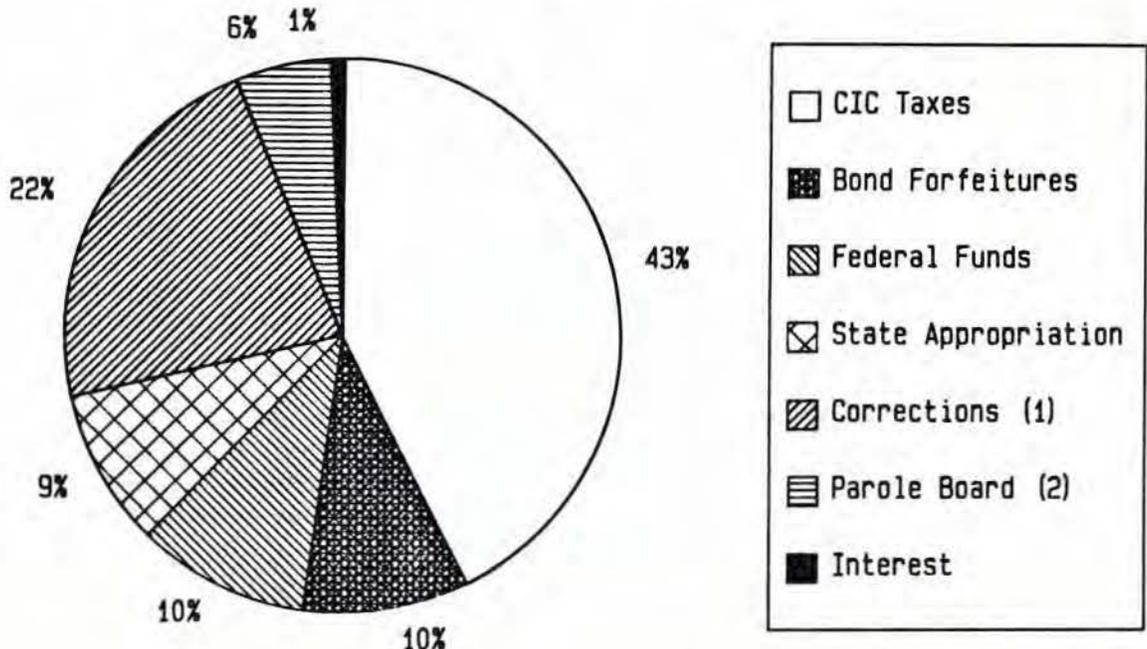
The following schedules outline the activity in the criminal injury compensation program for the 1985-86 fiscal year.

DIVISION OF CLAIMS ADMINISTRATION

**ANALYSIS OF CRIMINAL INJURY
COMPENSATION AWARDS PAID
DURING FISCAL YEAR 1986**

Classification Of Crime	Number Of Awards	Percent Of Total	Dollar Value Of Awards	Percent Of Total	Average Award
Homicide	130	24.19%	\$ 917,705	28.19%	\$7,059
Sexual Assault	109	20.38%	\$ 498,406	15.31%	\$4,573
Robbery by Force	21	4.00%	\$ 119,148	3.66%	\$5,674
Assault	276	51.43%	\$1,720,167	52.84%	\$6,232
Total	536	100.00%	\$3,255,426	100.00%	\$6,074

Sources of Funds



(1) Privilege taxes collected from prisoners.
(2) Percentage of paroled offenders' income.

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 Act 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, 1986 the Defense Counsel Commission authorized payments in the total amount of \$496,514.71. Requests for private counsel have decreased dramatically during the 1985-86 fiscal year. This decrease is related to the Office of the Attorney General now representing many state employees rather than the employee seeking approval of private counsel by the Defense Counsel Commission or subcommittee. During the year ending June 30, 1986, the Defense Counsel approved 40 requests for private counsel. As of June 30th there were 191 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 fifth year of operation at the end of the 1985-86 fiscal year. Plan II, authorized by Section 401(k) of the Internal Revenue Code and Section 8-25-301, et. seq. of **Tennessee Code Annotated** as the first governmental 401(k) plan, completed its third year of operation at the end of 1985-86 fiscal year.

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. Employees may participate in either plan with a minimum deferral of \$20 per month. 1986 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.

Participants in the program may direct the investment of their deferred salary to any of the investment products authorized and contracted by the state. Products under contract through June 30, 1986 included a fixed or variable annuity product with AETna Life Insurance and Annuity Company, a time deposit account with Fidelity Federal Savings and Loan Association and a universal life insurance policy with American General.

The evaluation of proposals received this year resulted in several product changes for the next contract period. Effective July 1, 1986, deferrals may be accumulated in Fidelity Federal's time deposit account, AETna's guaranteed accumulation account, Great-West Life's guaranteed certificate fund and three of Fidelity Investments' mutual funds. Fixed or variable annuity payouts will be available from AETna or Great-West. New enrollments to the life insurance product have been discontinued due to the availability of the state's new optional life insurance program.

At June 30, 1986, 4,160 state employees and 175 University of Tennessee employees were actively participating in the program. The average individual monthly deferral by state employees was \$130.54 in Plan I and \$210.09 in Plan II. Participation was widely spread among age and salary levels, as illustrated by the accompanying charts.

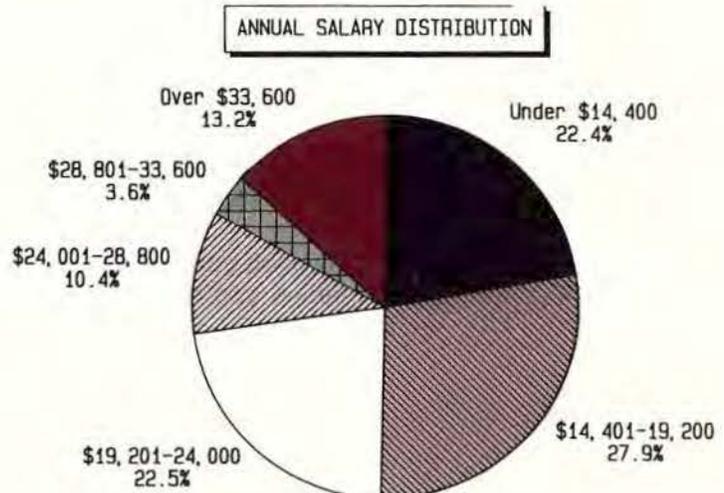
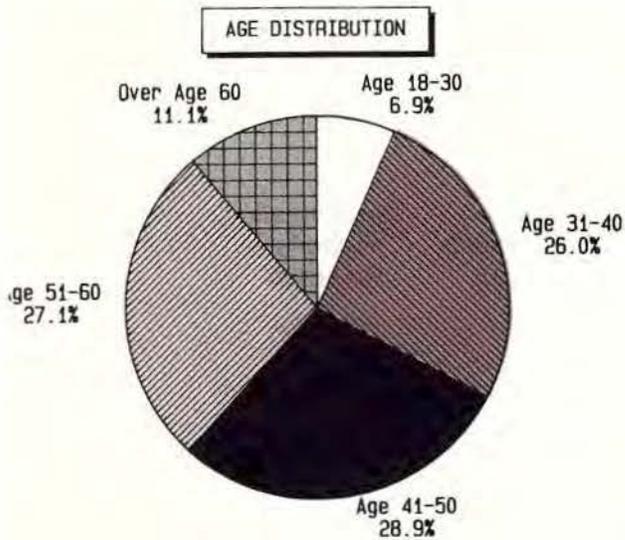
For the year ending June 30, 1986, participants deferred a total of \$8,680,111 through both plans of the program. Accumulated account balances reported by the vendors totaled \$37,489,406. Distribution of these funds is shown on the following schedule.

DEFERRED COMPENSATION

DISTRIBUTION OF DEFERRALS AS OF JUNE 30, 1986

	Deferrals July 1, 1985- June 30, 1986	Market Value of Account Balances as June 30, 1986
Plan I (457)		
AEtna	\$2,465,573	\$18,573,535
Fidelity Federal	1,279,674	6,912,022
American General	<u>269,749</u>	<u>538,757</u>
TOTAL	\$4,014,996	\$26,024,314
Plan II (401k)		
AEtna	\$3,914,261	\$10,331,274
Fidelity Federal	<u>750,854</u>	<u>1,133,818</u>
TOTAL	\$4,665,115	\$11,465,092

DISTRIBUTION OF PARTICIPANTS AS OF JUNE, 1986



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 \$19.1 million in unclaimed property for 100,507 owners has been reported to the Treasurer and over \$5.4 million of that property has been returned to 26,569 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 1979-1985

Report Year	Report Value	Total Amount Returned to Owners Since Reported	Percentage Property Returned
1979	\$ 5,384,498	\$1,511,509	28.07%
1980	1,878,882	531,627	28.29%
1981	2,814,477	935,802	33.25%
1982	1,864,116	576,886	30.94%
1983	2,255,403	558,118	24.75%
1984	2,470,951	640,813	25.93%
1985	2,509,778	697,504	27.79%
TOTAL	\$19,178,105	\$5,452,259	28.43%

The Unclaimed Property Division completed a stock sale in July 1986. The Division sold 5,071 shares of stock in various companies and netted \$139,190.

UNCLAIMED PROPERTY

During the period from July 1, 1985 through June 30, 1986, \$796,603 cash property (which has been 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 1985-1986 fiscal year.

Property Returned			
July 1, 1985 — June 30, 1986			
Reporting Entity	Number of Accounts	Value of Claims*	Percentage of Total Value
Utilities	458	\$ 29,240	3.68%
Banks	730	413,559	51.91
Credit Agencies	268	147,887	18.56
Insurance Companies	789	129,533	16.26
TCRS	38	12,149	1.50
Courts	29	14,313	1.80
Other	415	49,922	6.29
TOTAL	2,727	\$796,603	100.00%

*Paid by holders and the Unclaimed Property Division

During the period July 1, 1985 through June 30, 1986, \$2,142,484 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, 1985 - June 30, 1986			
Reporting Entity	Number of Accounts	Final Value	Percentage of Total Value
Utilities	2,398	\$ 209,412	9.77%
Banks	2,666	807,634	37.70
Credit Agencies	488	235,619	11.00
Insurance Companies	3,797	522,878	24.40
Courts	373	102,446	4.78
Other	1,966	264,495	12.35
TOTAL	11,688	\$2,142,484	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 \$98,909.82 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	3-9-101
Funding Board	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.
Criminal Injury Compensation Fund	29-13-101, et seq.
Victims of Drunk Drivers Compensation Fund	40-24-107, 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	1974-1987



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

SUITE 1600
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37219-5047
PHONE (615) 741-3897

November 5, 1986

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, 1986, and June 30, 1985, and the related statements of revenues, expenditures, and changes in fund balances 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, 1986, and June 30, 1985, and the results of its operations and changes in fund balances 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

**Local Government Investment Pool
Comparative Balance Sheet**

	June 30, 1986	June 30, 1985
ASSETS		
Cash and Cash Equivalents	<u>\$170,108,123</u>	<u>\$74,687,631</u>
Total Assets	<u><u>\$170,108,123</u></u>	<u><u>\$74,687,631</u></u>
LIABILITIES AND FUND BALANCE		
Liabilities:		
Member Deposits	\$144,340,964	\$60,859,469
Due to Special Revenue	0	40,726
Due to Highway Fund	667,165	2,759,344
Due to Bond Fund	7,707,066	7,158,965
Due to College & Universities	<u>17,228,330</u>	<u>3,831,092</u>
Total Liabilities	<u>\$169,943,525</u>	<u>\$74,649,596</u>
Fund Balance	<u>\$ 164,598</u>	<u>\$ 38,035</u>
Total Liabilities and Fund Balance	<u><u>\$170,108,123</u></u>	<u><u>\$74,687,631</u></u>

See accompanying Footnotes to the Financial Statements.

**Local Government Investment Pool
Statement of Revenues, Expenditures and Changes in Fund Balance**

	July 1, 1985 through June 30, 1986	July 1, 1984 through June 30, 1985
Revenues:		
Investment Income	<u>\$10,030,223</u>	<u>\$4,786,129</u>
Total Revenues	\$10,030,223	\$4,786,129
Expenditures:		
Interest on Deposits	\$ 9,826,337	\$4,706,751
Administrative Fees	<u>77,323</u>	<u>41,343</u>
Total Expenditures	<u>\$ 9,903,660</u>	<u>\$4,748,094</u>
Excess of Revenues over Expenditures	<u>126,563</u>	<u>38,035</u>
Fund Balance, Beginning of Year	<u>38,035</u>	<u>0</u>
Fund Balance, End of Year	<u><u>\$ 164,598</u></u>	<u><u>\$ 38,035</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 costs. This fee 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 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.

Pursuant to the Codification of Governmental Accounting and Financial Reporting Standards, Section 2100, the Local Government Investment Pool forms and integral part of the state government and in as such has been included as an expendable trust fund in the Tennessee Comprehensive Annual Financial Report.

Local Government Investment Pool
Schedule of Cash Receipts and Disbursements

	July 1, 1985 through June 30, 1986	July 1, 1984 through June 30, 1985
Cash Balance, Beginning Year	<u>\$ 74,687,631</u>	<u>\$ 39,987,536</u>
Add Cash Receipts:		
Member Deposits	\$493,434,701	\$114,168,611
Investment Income	<u>10,030,223</u>	<u>4,786,129</u>
Total Cash Receipts	\$503,464,924	\$118,954,740
Deduct Cash Disbursements:		
Member Withdrawals	\$407,967,109	\$ 84,213,302
Administrative Fees Paid	<u>77,323</u>	<u>41,343</u>
Total Cash Disbursements	<u>\$408,044,432</u>	<u>\$ 84,254,645</u>
Cash Balance, End of Year	<u><u>\$170,108,123</u></u>	<u><u>\$ 74,687,631</u></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, 1986

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 Chairs of Excellence as of June 30, 1986, and June 30, 1985, and the related statements of revenues, expenses, and changes in fund balances 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 Chairs of Excellence as of June 30, 1986, and 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 applied on a consistent basis.

Sincerely,

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

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

FLG:pf

**Chairs of Excellence
Comparative Balance Sheet**

ASSETS	June 30, 1986	June 30, 1985
Current Investments		
Cash & Cash Equivalents	\$ 3,335,053	\$15,332,367
Long Term Investments		
Government Bonds (Amortized Cost)	\$28,021,120	\$ 0
Corporate Stocks (Cost)	<u>1,398,415</u>	<u>0</u>
Total Long Term Investments	<u>\$29,419,535</u>	<u>\$ 0</u>
Total Investments	\$32,754,588	\$15,332,367
Receivables		
Income Receivable	<u>\$ 440,466</u>	<u>\$ 0</u>
Total Assets	<u><u>\$33,195,054</u></u>	<u><u>\$15,332,367</u></u>
 LIABILITIES AND FUND BALANCE		
Liabilities		
Inter Fund Payable	\$ 46,230	\$ 0
Fund Balance		
Contributed Capital		
State	\$20,000,000	\$10,000,000
College & University	1,250,000	625,000
Private	<u>8,187,500</u>	<u>3,625,000</u>
Total Contributed Capital	\$29,437,500	\$14,250,000
Special Reserve		
State	\$ 622,479	\$ 149,392
College & University	56,260	15,932
Private	<u>322,377</u>	<u>133,460</u>
Total Special Reserve	\$ 1,001,116	\$ 298,784
Restricted Reserve		
State	\$ 2,411,484	\$ 783,583
College & University	24,533	0
Private	<u>274,191</u>	<u>0</u>
Total Restricted Reserve	<u>\$ 2,710,208</u>	<u>\$ 783,583</u>
Total Fund Balance	<u><u>\$33,148,824</u></u>	<u><u>\$15,332,367</u></u>
Total Liabilities & Fund Balance	<u><u>\$33,195,054</u></u>	<u><u>\$15,332,367</u></u>

See accompanying Footnotes to the Financial Statements.

Chairs of Excellence

Statement of Revenues, Expenses and Changes in Fund Balance

	June 30, 1986	June 30, 1985
Operating Revenues:		
Investment Income	\$ 2,940,821	\$ 1,120,566
Operating Expenses:		
Payments	\$ 269,476	\$ 20,000
Administrative Cost	<u>42,388</u>	<u>18,199</u>
Total Operating Expenses	<u>\$ 311,864</u>	<u>38,199</u>
Net Operating Income	\$ 2,628,957	\$ 1,082,367
Transfer of Equity		
State General Fund	\$10,000,000	\$10,000,000
College & University	625,000	625,000
Private	<u>4,562,500</u>	<u>3,625,000</u>
Total Transfers	<u>\$15,187,500</u>	<u>\$14,250,00</u>
Change in Fund Equity	<u>\$17,816,457</u>	<u>\$15,332,367</u>
Fund Balance, Beginning of Year	<u>\$15,332,367</u>	<u>\$ 0</u>
Fund Balance, End of Year	<u><u>\$33,148,824</u></u>	<u><u>\$15,332,367</u></u>

See accompanying Footnotes to the Financial Statements.

Chairs of Excellence
Statement of Changes in Financial Position

	June 30, 1986	June 30, 1985
Sources of Working Capital:		
Working Capital Provided by Net		
Income from Operations	\$ 2,628,957	\$ 1,082,367
Equity Transfer from General Fund	10,000,000	10,000,000
Equity Transfer from College and		
University Fund	625,000	625,000
Equity Transfer from Private Sources	<u>4,562,500</u>	<u>3,625,000</u>
Total Sources of Working Capital	\$17,816,457	\$15,332,367
Uses of Working Capital:		
Purchase of Long-Term Investments	<u>\$29,419,534</u>	<u>\$ 0</u>
Net Increase (Decrease) in Working Capital	<u>(\$11,603,077)</u>	<u>\$15,332,367</u>
Elements of Net Increase in Working Capital:		
Cash and Cash Equivalents	(\$11,997,313)	\$15,332,367
Receivables	440,466	0
Inter Fund Payable	<u>(46,230)</u>	<u>0</u>
Net Increase (Decrease) in Working Capital:	<u>(\$11,603,077)</u>	<u>\$15,332,367</u>

See accompanying Footnotes to the Financial Statements.

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 Chairs of Excellence Trust is accounted for on the accrual basis of accounting.
3. **Market Value of Long-Term Investments**

The market value of the long-term investments as of June 30, 1986 is as follows:

Government Bonds	\$28,229,968.99
Corporate Stocks	<u>\$ 1,617,925.00</u>
Total	\$29,847,893.99

4. Pursuant to the Codification of Governmental Accounting and Financial Reporting Standards, Section 2100, the Chairs of Excellence Trust forms an integral part of state government and 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 a 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.

Income earned on the COE fund is distributed between two reserve accounts: special reserve and restricted reserve. The special reserve consists of income earned on the fixed assets which was not expended by the schools during the year it was earned. At the discretion of the COE Trust Board, this reserve may be used for future payments when current earnings do not meet current needs. The restricted reserve is non-expendable, consisting of income earned on equity investments and profit and loss from both fixed and equity investments. This income becomes part of the Trust corpus.

As of June 30, 1986, 24 Chairs have been established with matching contributions received totaling \$9,437,500.00. This is an increase of 16 Chairs and \$5,187,500.00 since 6/30/85.

DEFERRED COMPENSATION



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT

SUITE 1500
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NASHVILLE, TENNESSEE 37219-5047
PHONE (615) 741-3897

November 5, 1986

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 IRC Section 457 Deferred Compensation Plan as of June 30, 1986. 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 statement referred to above presents fairly the financial position of the IRC Section 457 Deferred Compensation Plan as of June 30, 1986 in conformity with generally accepted accounting principles.

Sincerely,

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

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

FLG:pf

**IRC Section 457 Deferred Compensation Plan
Comparative Balance Sheet**

ASSETS	June 30, 1986
Investments Held by Vendors	
Fidelity Federal	\$ 6,912,022
AEtna	18,573,535
American General	<u>538,757</u>
Total	\$26,024,314
Accounts Receivable	
Fidelity Federal	\$ 53,187
AEtna	11,129
American General	10,863
Fidelity Investments	41,505
Great West	<u>11,246</u>
Total	<u>\$ 127,930</u>
Total Assets	<u><u>\$26,152,244</u></u>
 LIABILITIES	
Amounts Held in Custody for Others	<u>\$26,152,244</u>
Total Liabilities	<u><u>\$26,152,244</u></u>

See accompanying Footnotes to the Financial Statements.

**IRC Section 457 Deferred Compensation Plan
Notes to Financial Statements**

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are solely the property and rights of the State, subject only to the claims of the State's general creditors. Participants' rights under the plan are equal to those of general creditors of the State in an amount equal to the fair market value of the deferred account for each participant.

It is the opinion of the State's legal counsel that the State has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The State believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

CRIMINAL INJURY COMPENSATION PROGRAM



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, 1986

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 Criminal Injuries Compensation Program as of June 30, 1986, and June 30, 1985, and the related statements of revenues, expenditures, and changes in fund balances 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 Criminal Injuries Compensation Program as of June 30, 1986, and June 30, 1985, and the results of its operations and changes in fund balances for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Sincerely,

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

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

FLG:pf

**Criminal Injuries Compensation Program
Comparative Balance Sheet**

ASSETS	June 30, 1986	June 30, 1985
Cash and Cash Equivalents	\$2,250,270	\$817,522
Interfund Receivable	<u>0</u>	<u>40,726</u>
Total Assets	<u>\$2,250,270</u>	<u>\$858,248</u>
 LIABILITIES AND FUND BALANCE		
Liabilities		
Warrants Payable	\$ 326,126	\$194,024
Accounts Payable	<u>757,854</u>	<u>431,664</u>
Total Liabilities	<u>\$1,083,980</u>	<u>\$625,688</u>
Fund Balance		
Reserved for Future Benefits	<u>\$1,166,290</u>	<u>\$232,560</u>
Total Fund Balance	<u>\$1,166,290</u>	<u>\$232,560</u>
Total Liabilities and Fund Balance	<u>\$2,250,270</u>	<u>\$858,248</u>

See accompanying Footnotes to the Financial Statements.

Criminal Injuries Compensation Program
Statement of Revenues, Expenditures and Changes in Fund Balance

	June 30, 1986	June 30, 1985
Revenues:		
State	\$3,945,553	\$3,345,926
Federal	495,000	0
Investment Income	<u>39,325</u>	<u>21,876</u>
Total Revenues	\$4,479,878	\$3,367,802
Expenditures:		
Death Claims	\$ 852,184	\$1,071,973
Personal Injury Claims	2,614,636	1,796,195
Attorney Fees	<u>529,328</u>	<u>423,793</u>
Total Expenditures	<u>\$3,996,148</u>	<u>\$3,291,961</u>
Excess of Revenues Over Expenditures	\$ 483,730	\$ 75,841
Other Financing Sources:		
Operating Transfer from General Fund	<u>\$ 450,000</u>	<u>\$ 0</u>
Excess of Revenues and Other Sources Over Expenditures	<u>\$ 933,730</u>	<u>\$ 75,841</u>
Fund Balance, Beginning of Year	<u>\$ 232,560</u>	<u>\$ 156,719</u>
Fund Balance, End of Year	<u><u>\$1,166,290</u></u>	<u><u>\$ 232,560</u></u>

See accompanying Footnotes to the Financial Statements.

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 Criminal Injuries Compensation Program is accounted for on the modified accrual basis of accounting.
3. Pursuant to the Codification of Governmental Accounting and Financial Reporting Standards, Section 2100, the Criminal Injuries Compensation Program forms an integral part of state government and as such has been included as a special revenue fund in the Tennessee Comprehensive Annual Report.

B. Other Accounting Disclosures

1. **Criminal Injuries Compensation Program**—The Criminal Injuries 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 Injuries 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.

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

November 5, 1986

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, 1986, and June 30, 1985, and the related statements of revenues, expenses, and changes in fund balances 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, 1986, and 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 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)

ASSETS	June 30, 1986	June 30, 1985
CURRENT INVESTMENTS:		
Cash and Cash Equivalents	\$ 509,008	\$ 380,477
Reverse Repurchase Agreements	<u>10,015</u>	<u>43,035</u>
Total Current Investments	\$ 519,023	\$ 423,512
LONG TERM INVESTMENTS:		
Domestic Securities:		
Certificates of Deposit	\$ 1,550	\$ 0
Government Bonds (Amortized Cost)	1,351,076	831,703
Corporate Bonds (Amortized Cost)	1,016,257	1,100,146
Corporate Stocks (Cost)	1,608,364	1,222,130
Mortgages	3,199	3,549
Securities on Loan		
Government Bonds	60,000	208,135
Corporate Bonds	17,500	2,499
Corporate Stocks	0	7,930
International Securities:		
Government Bonds (Amortized Cost)	29,235	25,053
Corporate Bonds (Amortized Cost)	35,232	58,672
Corporate Stocks (Cost)	43,616	17,474
American Depository Receipts (Cost)	<u>1,671</u>	<u>32,028</u>
Total Long Term Investments	<u>\$4,167,700</u>	<u>\$3,509,319</u>
Total Investments	\$4,686,723	\$3,932,831
RECEIVABLES:		
Investments Sold	\$ 40,734	\$ 15,999
Member Contributions Receivable	6,486	7,581
Employer Contributions Receivable	10,212	9,384
Accrued Interest Receivable	52,212	55,761
Accrued Dividends Receivable	4,962	4,644
Accrued Loan Income Receivable	420	955
Political Subdivisions Receivable	<u>3,236</u>	<u>2,988</u>
Total Receivables	<u>\$ 118,262</u>	<u>\$ 97,312</u>
TOTAL ASSETS	<u><u>\$4,804,985</u></u>	<u><u>\$4,030,143</u></u>

**Tennessee Consolidated Retirement System
Comparative Balance Sheet**

LIABILITIES AND FUND BALANCE

	June 30, 1986	June 30, 1985
LIABILITIES:		
Retired Payroll Payable	\$ 10,564	\$ 9,755
Warrants Payable	627	627
Accounts Payable	4,105	3,737
Obligations Under Reverse Repurchase Agreements	10,015	43,035
Investments Purchased	67,663	21,027
Options Written	<u>2,078</u>	<u>450</u>
Total Liabilities	\$ 95,052	\$ 78,631
FUND BALANCE:		
Member Reserve	\$1,003,755	\$ 906,964
Employer Reserve	<u>3,706,178</u>	<u>3,044,548</u>
Total Fund Balance	<u>\$4,709,933</u>	<u>\$3,951,512</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$4,804,985</u>	<u>\$4,030,143</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, 1986	June 30, 1985	
Revenues:			
Member Contributions	\$ 71,692	\$ 66,726	
Employer Contributions	302,932	277,758	
Political Subdivisions Contributions	39,947	35,680	
TIAA Contributions	<u>20,118</u>	<u>17,598</u>	
	\$434,689		\$397,762
Investment Income:			
Loan Revenue	\$ 1,449	\$ 1,516	
Options Gain (Loss)	841	1,599	
Interest	221,553	215,889	
Dividends	50,910	38,337	
Foreign Income	521	0	
Net Discount (Premium) Amortization	64,689	59,323	
Currency Gain (Loss) on Sale of Foreign Investments	5,002	(140)	
Net Profit (Loss) on Sale of Investments	<u>219,332</u>	<u>37,672</u>	<u>\$354,196</u>
	\$998,986		\$751,958
Total Revenues			
	\$998,986		\$751,958
Expenses:			
Annuity Benefits	\$202,905	\$183,486	
Death Benefits	1,740	2,179	
Refunds	21,302	22,774	
TIAA Payments	<u>20,118</u>	<u>17,598</u>	<u>\$ 226,037</u>
	\$ 246,065		\$ 226,037
Total Expenses			
	\$ 246,065		\$ 226,037
Excess of Revenues Over Expenses			
	\$ 752,921		\$ 525,921
Other Financing Sources:			
Operating Transfer from General Fund	\$ 5,500		\$ 50,000
Excess of Revenues and Other Sources Over Expenses	<u>\$ 758,421</u>		<u>\$ 575,921</u>
Fund Balance, Beginning of Year			
	\$3,951,512		\$3,375,591
Fund Balance, End of Year			
	<u>\$4,709,933</u>		<u>\$3,951,512</u>

See accompanying Footnotes to the Financial Statements.

Tennessee Consolidated Retirement System
Statement of Changes in Financial Position

(Expressed in Thousands)

	June 30, 1986	June 30, 1985
Sources of Working Capital:		
Working Capital Provided by Net		
Income from Operations	\$752,921	\$525,921
Operating Transfer from		
General Fund	5,500	50,000
Item Not Requiring (Providing)		
Working Capital Net		
Amortization (Acretion)	<u>(64,689)</u>	<u>(59,323)</u>
 Total Sources of Working Capital	 <u>\$693,732</u>	 <u>\$516,598</u>
 Uses of Working Capital:		
Purchase of Long Term Investments	<u>\$593,692</u>	<u>\$442,503</u>
 Net Increase (Decrease) in		
Working Capital:	<u>\$100,040</u>	<u>\$ 74,095</u>
 Elements of Net Increase (Decrease)		
in Working Capital:		
 Cash and Cash Equivalents	 \$128,531	 \$ 80,955
Reverse Repurchase Agreements	(33,020)	(3,300)
Receivables	20,950	(2,292)
Warrants Payable	0	167
Retired Payroll Payable	(809)	(9,755)
Accounts Payable	(369)	(684)
Due to Other Funds	0	0
Obligations Under Reverse		
Repurchase Agreements	33,020	3,300
Investment Purchases	(46,635)	6,154
Options Written	<u>(1,628)</u>	<u>(450)</u>
 Net Increase (Decrease) in		
Working Capital:	<u>\$100,040</u>	<u>\$ 74,095</u>

See accompanying Footnotes to the Financial Statements.

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 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, 1986 and June 30, 1985 is as follows:

	June 30, 1986	June 30, 1985
Cash	\$ 2,690,030	\$ 3,107,359
Short Term Investments (Amortized Cost)	<u>506,318,071</u>	<u>377,369,894</u>
Cash and Cash Equivalents	<u>\$ 509,008,101</u>	<u>\$ 380,477,253</u>

4. Market Value of Long-Term Investments

The market value of the long-term investments as of June 30, 1986 and June 30, 1985 is as follows:

	June 30, 1986	June 30, 1985
Domestic Securities		
Certificates of Deposit	\$ 1,550,000	\$ 0
Government Bonds	1,598,674,395	1,025,911,635
Corporate Bonds	1,123,779,426	1,104,139,243
Corporate Stocks	2,117,679,038	1,465,177,250
Mortgages	<u>2,892,027</u>	<u>2,898,150</u>
Total Domestic Securities	<u>\$4,844,574,886</u>	<u>\$3,598,126,278</u>
International Securities		
Government Bonds	28,447,000	22,668,440
Corporate Bonds	43,533,754	61,019,632
Corporate Stocks	52,901,845	17,122,112
American Depository Receipts	2,381,687	26,547,421
Currency Gain (Loss)	<u>3,315,227</u>	<u>(625,360)</u>
Total International Securities	<u>\$ 130,579,513</u>	<u>\$ 126,732,245</u>
Total	<u>\$4,975,154,399</u>	<u>\$3,724,858,523</u>

5. **International Securities**—The TCRS is authorized by policy to invest in eight international security markets. The system actively invests in several of these security markets. The market value of total international securities held by the TCRS at June 30, 1986 is \$130,579,513. Market valuations are based on custodian pricing.
6. **Receivables**—Receivables primarily consist of interest which is recorded when earned.

Tennessee Consolidated Retirement System
Notes to Financial Statements

7. **Securities on Loan**—Some of the securities owned by the TCRS were contractually loaned to investment brokers at June 30, 1986. The contract for a security loan provides that the TCRS loan a specific security from its holdings to the broker in return for either cash or 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, 1986 the market value of TCRS securities on loan to brokers was \$86,830,000.00. The market value of collateral pledged by brokers was \$89,532,778.65.

8. **Options**—During the 1986 fiscal year the TCRS engaged in the issuance of options. Activity is limited, by policy, to selling covered call options. Outstanding options at June 30, 1986 are as follows:

Company Name	# of Shares	Cost
Merck & Co.	391,000	\$1,530,371.10
Burlington Northern	440,400	1,350,370.00
Coca Cola Co.	100,000	471,599.47

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, 1986 the TCRS had one reverse repurchase agreement outstanding with Salomon Brothers, Inc. The total market value of the security is \$10,015,000.00.
10. Pursuant to the Codification of Governmental Accounting and Financial Reporting Standards, Section 2100, the Tennessee Consolidated Retirement System forms an integral part of state government and 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 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 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.

It is the policy of the State to fund pension costs accrued. For the year ended June 30, 1986 the State contributed \$308.4 million to the plan and state employees and teachers contributed \$53.6 million. Political subdivisions contributed \$39.9 million to the plan and the

employees of political subdivisions contributed \$18.1 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 8½% 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 most recently completed valuation, that as of June 30, 1985, incorporated the new 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, 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), discussed 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 \$1.74 billion at June 30, 1985. Of this amount, \$95 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, 1986 the State contributed \$20.1 million to the TIAA/CREF plan.

**Tennessee Consolidated Retirement System
Actuarial Balance Sheet — Schedule I**

June 30, 1985

TOTAL SYSTEM

ASSETS	Total	State	Political Subdivisions
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	\$3,678,108,425	\$3,348,314,919	\$329,793,506
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

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