



HARLAN MATHEWS
TREASURER
STATE CAPITOL
NASHVILLE, TENNESSEE 37219

FOR THE FISCAL YEAR JULY 1, 1973 THROUGH JUNE 30, 1974

REPORT
of the
TREASURER
of the
STATE OF TENNESSEE

For the Fiscal Year
July 1, 1973 through June 30, 1974

Harlan Mathews
Treasurer
Nashville, Tennessee



TENNESSEE
TREASURY DEPARTMENT
NASHVILLE

HARLAN MATHEWS
TREASURER

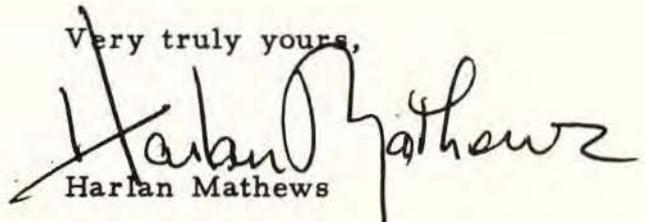
January 6, 1975

Honorable Winfield Dunn
Governor
State of Tennessee
The Capitol
Nashville, Tennessee 37219

Dear Governor Dunn:

Submitted herewith is the Annual Financial Report of
the Treasurer's Office for the Fiscal Year ending
June 30, 1974.

Very truly yours,


Harlan Mathews

HM/z

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COMMENTS

The Office of State Treasurer is a constitutional office established by Article 7, Section 3, of the State Constitution. The duties of the State Treasurer, as outlined by statute, involve three (3) major areas of operation:

1. Accounting for the Receipt and Disbursement of Public Funds

Section 8-507, Tennessee Code Annotated, requires that the Treasurer maintain accounts showing all receipts and disbursements, maintain accounts with banks, and be the custodian of all securities, bonds, and other valuable papers deposited with the state or any department thereof.

Collateral pledged by banks to secure the state deposits made by the Treasurer totaled \$629 million as of June 30, 1974.

2. Investment of State Funds

- a. Investment of Idle Cash

Section 9-406, Tennessee Code Annotated, requires the investment of idle cash by the State Treasurer, under the provisions of investment guidelines established by the Funding Board.

The Treasury has accounts in 378 commercial banks located in every county in the State of Tennessee and accounts in 76 savings and loan associations.

Idle Cash Invested as of June 30, 1974:

Time Deposits	\$ 541,119,800
Re-Purchase Agreements (Overnight Investment)	<u>38,000,000</u>
Total Investment of Idle Cash	\$ 579,119,800

Investment earnings for Time Deposits and Re-Purchase

Agreements are as follows:

	<u>Time Deposits</u>	<u>Re-Purchase Agreement</u>
1970-71	\$ 9,153,891	\$ 229,736
1971-72	9,030,646	1,332,798
1972-73	15,420,721	2,005,172
1973-74	26,441,570	3,926,659

A schedule with more detail is shown on Page 8.

b. Consolidated Retirement System Investments

Section 8-3929, Tennessee Code Annotated, provides that the power of investment of Retirement Fund monies shall be subject to approval by the Board of Trustees and shall further be subject to all terms, conditions, limitations and restrictions imposed by the laws of the State of Tennessee upon domestic life insurance companies in the making and disposing of their investments. This section further provides that the total sum invested in common and preferred stocks cannot exceed fifty (50%) per-cent of the total of the funds of the Retirement System.

The book value of the Retirement Fund investments

as of June 30, 1974 were as follows:

	<u>Amount</u>	<u>Percent of Total</u>
Certificates of Deposit	\$ 30,500,000	4.98
Bonds STOCKS	105,881,110	17.28
STOCKS BONDS	<u>476,216,685</u>	<u>77.74</u>
Total:	\$ 612,604,795	100.00

The Consolidated Retirement Act of 1972 provides for an Investment Advisory Council, the function of which is to provide policy guidance to the Investment staff. The policy statement of the Investment Advisory Council is as follows:

1. The Council considers that, due to the public nature of the fund, undue risks should be carefully avoided.
2. Approximately 50 per-cent of new cash received should be allocated to common stocks.
3. An interim goal of 25 per-cent of total assets in equities is to be maintained.
4. Bond Investments will normally be confined to the top four (4) rating categories, AAA through BAA, and private placements of comparable quality.
5. When market spreads are favorable, older low coupon bonds may be traded for bonds with higher yields.

Average yield on retirement fund investments are as

follows:

	<u>Percentage</u>
1970-71	5.20
1971-72	5.55
1972-73	5.93
1973-74	6.47

Average yield to maturity on bonds purchased during Fiscal Year 1973-74 was 8.41 per-cent.

A schedule with more detail on Retirement funds is shown on Page 8.

3. Administration of the Retirement System

Section 4-340, Tennessee Code Annotated, established the Division of Retirement within the Treasury Department and has delegated to the Treasurer the responsibility for the administration of the division. The Consolidated Retirement Act of 1972, effective July 1, 1972, consolidated the previously existing seven (7) retirement systems into a single system with three (3) classes or groups, i. e. Group I - Teachers and General Employees; Group II - State Policemen, Game and Fish Officers, Firemen and Policement; Group III - State Judges, County Judges and Attorneys General. Prior members of superseded systems were allowed to remain in these systems with all rights, privileges and benefits which were provided therein. This necessitates the administration of not only the new system but also the seven (7) superseded systems.

Since the passage of the Consolidated Retirement Act of 1972, there have been eighteen (18) amendments to the Act. Two (2) of the most significant amendments were Chapters 715 and 796, Public Acts of 1974.

These two (2) amendments did three (3) things:

1. Increased minimum monthly benefits of all retirees
2. Required the recomputation of all retirees' benefits under the present retirement formula
3. Gave a three (3) per-cent cost-of-living increase to all retirees

The cost of these two (2) Acts has been determined to be \$6.5 million for the Fiscal Year 1974-75.

In addition to the above mentioned duties, the State Treasurer is a member of the following entities:

1. Funding Board
2. Board of Claims
3. Board of Equalization
4. State School Bond Authority
5. Tennessee Student Assistance Corporation
6. Licensing Board for Healing Arts
7. Tennessee Housing Development Agency
8. Tennessee Industrial Development Agency
9. Board of Trustees of the Consolidated Retirement System
10. Board of Banking
11. Investment Advisory Council

DEPARTMENT OF THE TREASURY
TREASURER'S BALANCE SHEET
JUNE 30, 1974

ASSETS

Cash		\$ 49,990,745.47
Cash on Deposits with U. S. Government		311,670,555.01
Petty Cash		137,505.00
Cash on Deposit with Airlines		1,700.00
Employee Travel Advances		91,817.78
Investments:		
Time Deposits	\$541,119,800.00	
Repurchase Agreements	38,000,000.00	
Consolidated Retirement	<u>627,040,907.13</u>	
		<u>1,206,160,707.13</u>
Total Assets:		<u>\$ 1,568,053,030.39</u>

LIABILITIES, RESERVES AND FUND BALANCES

Liabilities

Warrants Outstanding		\$ 62,521,101.04
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Reserves and Fund Balances

Reserves:

Employment Security - Future Benefits - State	\$310,914,397.80	
Employment Security - Future Building Construction	756,157.21	
Petty Cash	137,505.00	
Cash on Deposit with Airlines	1,700.00	
Employee Travel Advances	<u>91,817.78</u>	
		\$ 311,901,577.79
General Fund		166,787,262.52
Highway Fund		142,556,275.23
Sinking Fund		2,185,340.80
Bond and Construction Fund		145,711,396.79
Tennessee School Bond Authority Fund		12,791,325.94
Sewage Treatment Facilities Fund		15,527,241.75
Local Government Fund		36,160,484.77
Contingent Revenue Fund		30,529,797.17
Employment Security Fund		1,055,714.37
Consolidated Retirement Fund		632,631,207.13
Board of Equalization Loan Fund		<u>7,694,305.09</u>

Total Liabilities, Reserves and Fund Balances:		<u>\$ 1,568,053,030.39</u>
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DEPARTMENT OF THE TREASURY
 SCHEDULE OF CASH BALANCES, INVESTMENTS AND PERCENTAGE INVESTED
 BY AVERAGE DAILY BALANCES BY THE MONTH
 FOR THE FISCAL YEAR ENDED JUNE 30, 1974

Months	Average Balance In Paying Banks	Average Warrant Payments	Average Available Balance In Paying Banks	Average Available In Open Accounts	INVESTMENTS			Percentage of Funds Invested
					Average Repurchase Agreements	Average Time Deposits	Retirement	
1973 July	\$12,675,430.29	\$ 6,710,128.04	\$ 5,965,302.25	\$ 47,113,281.40	\$ 42,806,451.61	\$ 496,963,164.51	\$ 547,933,919.20	96
August	13,453,865.13	10,921,703.57	2,532,161.56	39,021,870.46	40,000,000.00	484,463,487.09	548,484,939.62	96
September	12,817,383.07	8,898,236.68	3,919,146.39	84,065,687.26	32,850,000.00	459,708,433.33	554,782,438.82	92
October	13,975,575.17	9,175,166.37	4,800,408.80	88,761,127.88	47,048,387.10	437,401,877.41	561,401,801.08	92
November	18,180,692.37	10,532,328.05	7,648,364.32	113,988,099.44	39,933,333.33	404,429,766.67	570,025,007.45	89
December	13,286,524.02	8,735,517.19	4,551,006.83	100,307,584.41	28,741,935.48	397,160,583.87	577,664,929.22	90
1974 January	15,909,170.79	7,641,749.10	8,267,421.69	96,609,010.59	35,693,548.39	380,391,551.61	570,318,069.81	90
February	16,182,883.94	9,963,636.39	6,219,247.55	110,253,893.08	60,750,000.00	406,544,028.57	564,204,871.08	90
March	15,034,928.28	8,202,767.99	6,832,160.29	106,641,021.51	53,309,677.41	418,599,616.12	568,520,734.89	90
April	18,033,211.77	7,357,209.90	10,676,001.87	87,664,436.96	40,100,000.00	483,386,766.67	590,676,335.83	92
May	15,200,506.07	9,840,127.04	5,360,379.03	57,720,240.48	33,096,774.19	509,923,487.09	606,176,437.00	95
June	14,619,829.77	7,583,615.11	7,036,214.66	122,582,822.91	30,266,666.67	519,450,736.60	627,040,907.13	90

DEPARTMENT OF THE TREASURY
ANALYSIS OF PERCENTAGE RETURN ON FUNDS INVESTED
FOR THE FISCAL YEARS ENDED JUNE 30, 1971 THROUGH 1974

Fiscal Years Ended	<u>Time Deposits</u>		<u>Re-Purchase Agreements</u>		<u>Consolidated Retirement</u>	
	<u>Totals</u>	<u>Percentage</u>	<u>Totals</u>	<u>Percentage</u>	<u>Totals</u>	<u>Percentage</u>
1971 Earnings Average Invested	\$ 9,153,891 159,138,600	5.75	\$ 229,736 13,250,000	1.73	\$ 22,191,944 426,742,579	5.2
1972 Earnings Average Invested	9,030,646 224,642,786	4.02	1,332,798 34,500,000	3.86	26,096,288 469,379,722	5.55
1973 Earnings Average Invested	15,420,721 359,006,062	4.29	2,005,172 32,769,090	6.11	30,458,120 513,288,990	5.93
1974 Earnings Average Invested	26,441,570 382,773,768	6.91	3,926,659 40,383,065	9.72	35,826,000 554,056,250	6.47

STATE OF TENNESSEE
CONSOLIDATED RETIREMENT FUND
COMPARATIVE BALANCE SHEET
JUNE 30, 1974 AND JUNE 30, 1973

<u>Assets</u>	<u>June 30, 1974</u>	<u>June 30, 1973</u>
Cash	\$ 16,800,461.66	\$ 23,689,725.67
Receivables		
Employee Contributions	\$ 2,586,274.74	\$ 2,297,000.06
Employer Contributions	1,499,511.03	1,309,920.90
Investment Income	9,154,855.89	7,899,651.91
Political Subdivisions	<u>23,186.10</u>	<u>.00</u>
Total Receivables	\$ 13,263,827.76	\$ 11,506,572.87
Investments		
Government Bonds	\$ 500,000.00	\$ 2,265,000.00
Federal Land Bank Bonds	650,000.00	650,000.00
Federal National Mortgage Association Bonds	1,925,000.00	2,925,000.00
Federal Merchant Marine Insured Bonds	2,994,000.00	2,010,000.00
U. S. Insured Business Bonds	2,856,383.34	1,947,733.34
Municipal and County Bonds	1,000.00	1,000.00
International Bank Bonds	6,175,000.00	9,744,000.00
Foreign Government Bonds	23,515,000.00	23,515,000.00
Foreign Utility Bonds	13,050,000.00	13,800,000.00
Foreign Industrial Bonds	11,350,000.00	5,850,000.00
Corporate Industrial Bonds	154,483,008.44	134,729,874.80
Corporate Bank and Credit Co. Bonds	44,724,626.09	38,679,634.28
Corporate Utility Bonds	175,783,635.53	156,861,581.27
Corporate Railroad Bonds	37,169,303.38	39,258,491.97
Mortgages	14,555,894.11	15,738,169.02
Short Term Investments	30,500,000.00	5,000,000.00
Convertible Debentures	1,472,000.00	972,000.00
Common Stock	105,336,056.24*	87,676,357.35
Unamortized Premium	2,883,519.89	1,871,591.57
Unamortized Discount	<u>(17,319,632.15)</u>	<u>(12,815,711.36)</u>
Total Investments:	\$ 612,604,794.87	\$ 530,679,722.24
Total Assets	<u>\$ 642,669,084.29</u>	<u>\$ 565,876,020.78</u>

State of Tennessee
 Consolidated Retirement Fund
 Comparative Balance Sheet
 June 30, 1974 and June 30, 1973
 Page Two

	<u>June 30, 1974</u>	<u>June 30, 1973</u>
<u>Liabilities and Reserves</u>		
Liabilities - Deferred Credit		\$ 33.33
Reserve - Members Accumulation	\$ 209,114,537.00	191,477,719.75
Reserve - Employers Accumulation	433,272,426.62	374,110,079.50
Reserve - Former Members Accumulation	<u>282,120.67</u>	<u>288,188.20</u>
Total Reserves and Liabilities	<u>\$ 642,669,084.29</u>	<u>\$ 565,876,020.78</u>

Marked Value of Common Stock was \$94,041,700 as of 6-28-74.

STATE OF TENNESSEE
CONSOLIDATED RETIREMENT FUND
STATEMENT OF CHANGE IN FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 1974

Fund Balance, June 30, 1973	\$ 565,875,987.45
Add: Total Revenues	<u>128,745,313.84</u>
Total:	\$ 694,621,301.29
Less: Total Expenditures	<u>51,952,217.00</u>
Fund Balance, June 30, 1974	<u><u>\$ 642,669,084.29</u></u>

STATE OF TENNESSEE
 CONSOLIDATED RETIREMENT FUND
 SCHEDULE OF REVENUE BY SOURCE
 FOR THE FISCAL YEAR ENDED JUNE 30, 1974

Members Contributions	\$	29,883,960.11
Employers Contributions		64,099,109.80
Prior Service Contributions		2,324,662.63
Earnings on Investments		36,540,660.43
Discount Amortization		352,471.32
Profit or Loss on Sale of Investments	(5,120,482.47)
Cost-of-Living Increase		580,000.00
Public Service Commission Revenue		31,056.95
State Contributions - Former Governors and Widows		45,000.00
Employee - Miscellaneous Revenue		65.95
Employer - Miscellaneous Revenue		<u>8,809.12</u>
TOTAL:	\$	<u><u>128,745,313.84</u></u>

STATE OF TENNESSEE
CONSOLIDATED RETIREMENT FUND
SCHEDULE OF DISBURSEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 1974

Retired Payroll	\$ 45,336,798.02
Payment to Former Members	5,300.37
Payments to Beneficiaries of Deceased Retired Members	284,083.82
Amortization of Premium	37,952.70
Professional Fees	18,750.00
Refund of Overpayment by Retiring Members	4,968.15
Payments to Deceased Members' Beneficiary - State Matching	691,356.36
Widows Pension Payroll	1,800.00
Refund of Members Contributions	4,916,106.16
Payments for Cost-of-Living Increase	610,101.42
Former Governors and Widows Payroll	<u>45,000.00</u>
TOTAL:	<u><u>\$ 51,952,217.00</u></u>