

TREASURER'S REPORT



HARLAN MATHEWS
TREASURER
STATE CAPITOL
NASHVILLE, TENNESSEE 37219

For the Fiscal Year July 1, 1974 Through June 30, 1975

REPORT
of the
TREASURER
of the
STATE OF TENNESSEE

For the Fiscal Year
July 1, 1974 through June 30, 1975

Harlan Mathews
Treasurer
Nashville, Tennessee



TENNESSEE
TREASURY DEPARTMENT
NASHVILLE

HARLAN MATHEWS
TREASURER

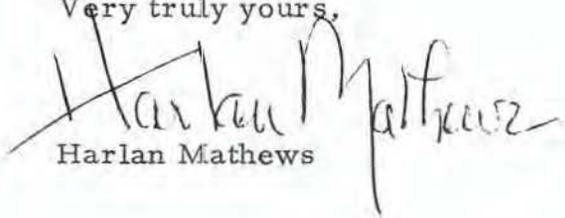
January 13, 1976

Honorable Ray Blanton
Governor
State of Tennessee
The Capitol
Nashville, Tennessee 37219

Dear Governor Blanton:

Submitted herewith is the Annual Financial Report of
the Treasurer's Office for the Fiscal Year ending
June 30, 1975.

Very truly yours,


Harlan Mathews

HM:lw

TABLE OF CONTENTS

	<u>Page</u>
Comptroller's Letter of Certification	1
Comments	2 - 6
Treasurer's Balance Sheet.	7
Schedule of Cash Balances, Investments, and Percentage Invested.	8
Analysis of Percentage Return on Funds Invested.	9
Earnings on Time and Repurchase Agreements	10
Consolidated Retirement Comparative Balance Sheet	11
Consolidated Retirement Statement of Change in Fund Balance	12
Schedule of Salaries Reported to OASI and Funds Transmitted to the Federal Government	13



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

William R. Snodgrass
Comptroller

1533 ANDREW JACKSON STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37219
PHONE (615) 741-3697

Frank L. Greathouse, Director
Division of State Audit

January 2, 1976

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

Dear Mr. Snodgrass:

We have examined the balance sheet of the Department of Treasury as of June 30, 1975 and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended. Our examination was made in accordance with generally accepted 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 Department of the Treasury as of June 30, 1975 and the changes in fund balances and the current funds revenues, expenditures, and other changes for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Very truly yours,

Frank L. Greathouse

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

FLG:mem

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 \$655 million as of June 30, 1975.

2. Investment of State Funds

- a. Investment of Idle Cash

Section 9-406, Tennessee Code Annotated, requires the investments 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, 1975:

Time Deposits	\$ 502,957,436
Repurchase Agreements (Overnight Investment)	<u>44,500,000</u>
Total Investment of Idle Cash	\$ 547,457,436

Investment earnings for Time Deposits and Repurchase Agreements are as follows:

	<u>Time Deposits</u>	<u>Repurchase Agreement</u>	<u>Total</u>
1970-71	\$ 8,924,155	\$ 229,736	\$ 9,153,891
1971-72	7,697,841	1,332,798	9,030,639
1972-73	13,415,548	2,005,172	15,420,720
1973-74	26,441,570	3,926,659	30,368,229
1974-75	37,643,580	2,963,069	40,606,649

The above amount for 1974-75 does not include \$1,792,436 that was allocated to the Consolidated Retirement Fund. Earnings on Time Deposits and Repurchase Agreements for 1974-75, including retirement funds, totaled \$42,399,085.

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%) percent of the total of the funds of the Retirement System.

The book value of the Retirement Fund investments as of June 30, 1975 were as follows:

	<u>Amount</u>	<u>Percent of Total</u>
Certificates of Deposit	\$ 35,000,000	5.04
Stocks	121,183,978	17.46
Bonds	<u>537,998,014</u>	<u>77.50</u>
Total:	\$ 694,181,992	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 percent of new cash received should be allocated to common stocks.
3. An interim goal of 25 percent 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
1974-75	6.65

Average yield to maturity on bonds purchased during Fiscal Year 1974-75 was 8.81 percent.

A schedule with more detail on Retirement Funds is shown on page 11.

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 Policemen; Group III - State Judges, County Judges, Attorneys General, County Officials and Public Service Commissioners. 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.

Salaries of all state employees, including teachers and employees of political subdivision are reported to the Social Security Administration on a quarterly basis and funds are transmitted that have been collected for the Federal Insurance Contribution Act as required in Section 8-3800, T. C. A. A schedule of the above information is included on page 13 of this report.

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

STATE OF TENNESSEE
DEPARTMENT OF THE TREASURY
BALANCE SHEET
AS OF JUNE 30, 1975

ASSETS

Cash		\$ 59,261,965.34	
Cash on Deposit With U. S. Government		- 241,541,909.33	
Petty Cash		158,636.00	
Cash on Deposit With Airlines		1,700.00	
Employee Travel Advances		130,704.10	
State School Bond Authority Investments		58,050,000.00	
Investments			
Time Deposits	\$502,957,436.24		
Repurchase Agreements	44,500,000.00		
Consolidated Retirement	<u>694,181,991.55</u>	<u>1,241,639,427.79</u>	
 Total Assets:			 <u>\$1,600,784,342.56</u>

LIABILITIES, RESERVES AND FUND BALANCE

Liabilities

Warrants Outstanding	\$ 67,097,100.17		
*Less Adjustment to Warrants Outstanding	<u>1,773,119.30</u>	<u>\$ 65,323,980.87</u>	

Reserves and Fund Balances

Reserves:

Employment Security Future Benefit-State	\$240,898,086.87		
Employment Security-Future Building Construction	643,822.46		
Petty Cash	158,636.00		
Cash on Deposit With Airlines	1,700.00		
Employee Travel Advances	<u>130,704.10</u>	<u>241,832,949.43</u>	
 General Fund		 65,471,668.31	
Highway fund		167,978,603.87	
Sinking Fund		3,245,555.75	
Bond and Construction Fund		174,930,907.99	
School Bond Authority Fund		66,006,095.42	
Sewage Treatment Facilities Fund		18,166,752.37	
Local Government Fund		33,657,451.56	
Contigent Revenue Fund		38,550,408.82	
Employment Security Fund		7,039,339.06	
Consolidated Retirement Fund		711,773,854.45	
Board of Equalization Loan Fund		<u>6,806,774.66</u>	

Total Liabilities, Reserves and Fund Balance		<u>\$1,600,784,342.56</u>	
--	--	---------------------------	--

*The adjustment to warrants outstanding represents unlocated errors in book-keeping which could have been a failure to properly record warrants canceled, or failure to properly record the redemption of warrants. However, the State of Tennessee must recognize a potential liability for this amount.

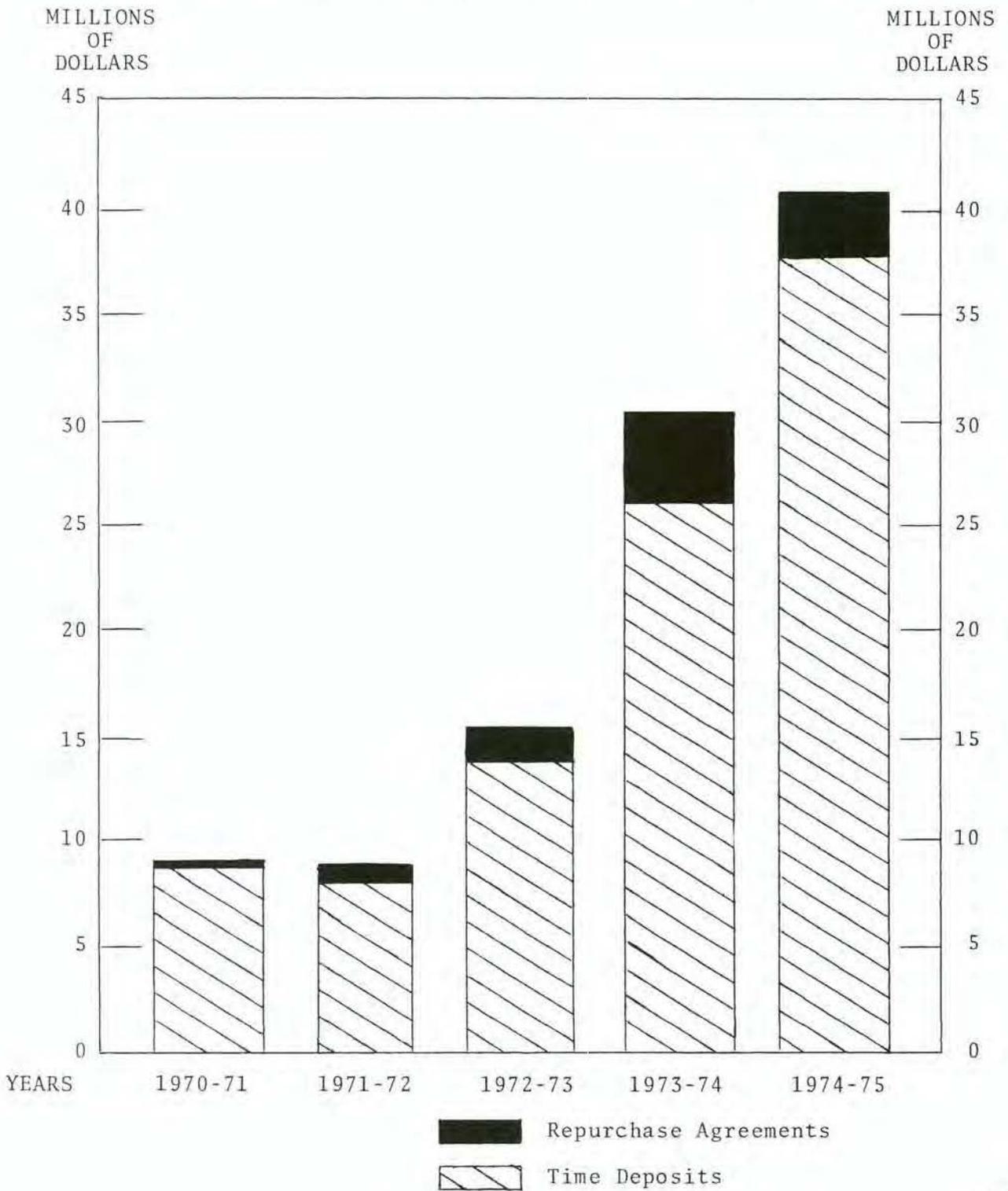
STATE OF TENNESSEE
DEPARTMENT OF THE TREASURY
SCHEDULE OF CASH BALANCES, INVESTMENTS AND PERCENTAGE INVESTED
BY AVERAGE MONTHLY BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 1975

1974	Months	Average Available Balance In <u>Paying Banks</u>	Average Available In <u>Open Accounts</u>	<u>Investments</u>		Percentage Of Funds Invested
				Average Repurchase Agreements	Average Time Deposits	
	July	\$ 15,874,278.43	\$ 16,660,799.89	\$ 36,967,741.94	\$ 522,506,251.62	95
	August	20,654,537.51	17,574,418.66	44,080,645.16	493,862,380.69	93
	September	16,377,078.46	18,874,935.31	26,466,666.67	460,114,799.95	93
	October	16,451,649.98	23,168,057.01	33,451,612.90	437,037,033.00	92
	November	20,510,361.57	37,357,738.84	30,500,000.00	431,135,102.89	89
	December	17,202,698.36	22,102,452.19	15,732,258.06	398,869,162.18	91
1975	January	18,206,830.69	23,513,141.15	26,408,064.52	357,017,323.36	91
	February	19,105,168.77	21,191,912.04	36,787,500.00	344,272,614.79	90
	March	18,560,625.01	17,117,060.90	24,870,967.74	334,325,581.43	91
	April	18,713,874.87	25,642,301.75	61,916,666.67	455,079,102.93	92
	May	22,957,899.70	22,794,755.58	88,564,516.13	479,620,016.88	93
	June	15,794,037.54	26,074,225.84	48,033,333.33	505,012,769.57	93

STATE OF TENNESSEE
DEPARTMENT OF THE TREASURY
ANALYSIS OF PERCENTAGE RETURN ON FUNDS INVESTED
FOR THE FISCAL YEARS JULY 1, 1970 THROUGH JUNE 30, 1975

Fiscal Years Ended		Time Deposits		Repurchase Agreements		Consolidated Retirement	
		Totals	Percentage Earned	Totals	Percentage Earned	Totals	Percentage Earned
1971	Earnings	\$ 8,924,155	5.61	\$ 229,736	1.73	\$ 22,191,944	5.2
	Average Invested	159,138,600		13,250,000		426,742,579	
1972	Earnings	7,697,841	3.43	1,332,798	3.86	26,096,288	5.55
	Average Invested	224,642,786		34,500,000		469,379,722	
1973	Earnings	13,415,548	3.74	2,005,172	6.11	30,458,120	5.93
	Average Invested	359,006,062		32,769,090		513,288,990	
1974	Earnings	26,441,570	6.91	3,926,659	9.72	35,826,000	6.47
	Average Invested	382,773,768		40,383,065		554,056,250	
1975	Earnings	37,643,580	8.62	2,963,069	7.5	42,076,402	6.65
	Average Invested	436,871,936		39,479,178		632,635,705	

STATE OF TENNESSEE
DEPARTMENT OF THE TREASURY
EARNINGS ON TIME DEPOSITS AND REPURCHASE AGREEMENTS
FOR THE FISCAL YEARS JULY 1, 1970 THROUGH JUNE 30, 1975



STATE OF TENNESSEE
 CONSOLIDATED RETIREMENT SYSTEM
 COMPARATIVE BALANCE SHEET
 AS OF JUNE 30, 1974 AND JUNE 30, 1975

<u>ASSETS</u>	<u>June 30, 1975</u>	<u>June 30, 1974</u>
Cash	\$ 16,565,885.10	\$ 16,800,461.66
Receivables		
Members' Contributions	\$ 3,838,281.17	\$ 2,586,274.74
Employers' Contributions	1,788,704.29	1,499,511.03
Investment Income	11,351,861.79	9,154,855.89
Political Subdivisions	90,810.28	24,272.65
Total Receivables	<u>\$ 17,069,657.53</u>	<u>\$ 13,264,914.31</u>
Investments ^a		
Government Bonds	\$ 5,500,000.00	\$ 5,000,000.00
Federal Land Bank Bonds	2,350,000.00	2,350,000.00
Federal National Mortgages Associations Bonds	6,925,000.00	1,925,000.00
Federal Merchant Marine Insured Bonds	5,396,305.20	3,010,000.00
U.S. Insured Business Bonds	1,609,700.01	1,840,383.34
Municipal and County Bonds	—	1,000.00
International Bank Bonds	11,287,000.00	10,175,000.00
Foreign Government Bonds	32,065,000.00	28,015,000.00
Foreign Utility Bonds	12,800,000.00	19,050,000.00
Foreign Industrial Bonds	28,841,327.59	14,018,779.99
Corporate Industrial Bonds	187,779,147.17	153,262,059.90
Corporate Bank and Credit Company Bonds	42,341,068.89	42,186,468.54
Corporate Utility Bonds	169,321,200.00	164,782,200.00
Corporate Railroad Bonds	30,436,571.44	28,715,140.99
Mortgages	13,526,605.10	14,555,894.11
Short-Term Investments	35,000,000.00	30,500,000.00
Convertible Debentures	2,697,000.00	1,772,000.00
Common Stock	121,183,978.13	105,888,110.50
Unamortized Premium ^b	2,709,908.82	2,705,020.91
Unamortized Discount ^b	(17,587,820.80)	(16,486,693.21)
Total Investments	<u>\$ 694,181,991.55</u>	<u>\$ 613,265,365.07</u>
TOTAL ASSETS	<u>\$ 727,817,534.18</u>	<u>\$ 643,330,741.04</u>
<u>LIABILITIES AND RESERVES</u>		
Liabilities--Deferred Credits	\$ 3,602.53	\$ —
Reserve--Members' Accumulation	251,086,503.50	209,114,537.00
Reserve--State Accumulation	476,449,461.08	433,934,083.37
Reserve--Former Members' Accumulation	277,967.07	282,120.67
TOTAL LIABILITIES AND RESERVES	<u>\$ 727,817,534.18</u>	<u>\$ 643,330,741.04</u>

The market value as of:

	<u>June 30, 1975</u>		<u>June 30, 1974</u>
Bonds	\$441,004,468	Bonds	\$396,065,577
Common Stock	132,807,357	Common Stock &	
Convertible Debentures	<u>4,975,650</u>	Convertible Debentures	<u>94,041,700</u>
Total	<u>\$578,787,475</u>		<u>\$490,107,277</u>

The premium and discount are amortized using the straight line method over the life of the bond.

The differences between these financial statements and the financial statements of the Department of Finance and Administration, Division of Accounts, are due to adjustments for periods prior to July 1, 1974, which were recorded by the Division of Accounts in the fiscal year ended June 30, 1975. The Department of the Treasury restated their financial statements for the fiscal year ended June 30, 1974 in order to reflect the necessary adjustments.

NOTE

The State of Tennessee has a contributory retirement plan covering salaried and hourly employees. Retirement costs for the year ended June 30, 1975 totaled \$74.6 million, representing provision for normal cost plus interest on the unfunded prior service cost. The State's Policy is to fund Retirement costs accrued. The actuarially computed value of vested benefits exceeded the Retirement Fund Reserves by approximately \$450 million at June 30, 1975, which is not reflected as a liability in this statement.

93.7

STATE OF TENNESSEE
 CONSOLIDATED RETIREMENT SYSTEM
 STATEMENT OF CHANGE IN FUND BALANCE
 FOR THE FISCAL YEAR ENDED JUNE 30, 1975

Fund Balance, July 1, 1974	\$ 643,330,741.04
Add: Revenues	<u>153,516,970.00</u>
Total	\$ 796,847,711.04
Less: Expenditures	<u>69,033,779.39</u>
Fund Balance, June 30, 1975	<u><u>\$ 727,813,931.65</u></u>

NOTE: The difference between these financial statements and the financial statements of the Department of Finance and Administration, Division of Accounts, are due to adjustments for periods prior to July 1, 1974, which were recorded by the Division of Accounts in the fiscal year ended June 30, 1975. The Department of the Treasury restated their financial statements for the fiscal year ended June 30, 1974 in order to reflect the necessary adjustments.

STATE OF TENNESSEE
DEPARTMENT OF THE TREASURY
SCHEDULE OF SALARIES REPORTED TO OASI AND FUNDS TRANSMITTED
TO THE FEDERAL GOVERNMENT
FOR THE FISCAL YEARS JULY 1, 1972 THROUGH JUNE 30, 1975

Categories Of Employees	1972 - 73		1973 - 74		1974 - 75	
	Salaries Reported To <u>Social Security</u>	Funds Transmitted To the Federal <u>Government</u>	Salaries Reported To <u>Social Security</u>	Funds Transmitted To the Federal <u>Government</u>	Salaries Reported To <u>Social Security</u>	Funds Transmitted To the Federal <u>Government</u>
State Employees	\$185,714,005.21	\$ 20,619,993.24	\$ 241,530,935.32	\$ 28,259,119.44	\$ 284,597,769.55	\$ 33,297,939.04
Teachers	310,815,135.36	35,004,769.90	369,116,722.61	43,169,675.11	437,684,444.94	51,203,464.75
Political Subdivision	<u>477,914,032.73</u>	<u>53,000,882.64</u>	<u>540,583,913.84</u>	<u>63,191,735.54</u>	<u>641,334,964.27</u>	<u>75,009,501.09</u>
Grand Total	<u>\$974,443,173.30</u>	<u>\$108,625,645.78</u>	<u>\$1,151,231,571.77</u>	<u>\$134,620,530.09</u>	<u>\$1,363,617,178.76</u>	<u>\$159,510,904.88</u>