

Looking Up

1999-2000 Annual Report

of Dr. J. Wade Gilley, President
to the University of Tennessee
Board of Trustees



The University of Tennessee

The University of Tennessee is a statewide system of higher education comprising three institutions:

- The University of Tennessee (main campus at Knoxville, Health Science Center at Memphis, Space Institute at Tullahoma, and institutes of agriculture and public service)
- The University of Tennessee at Chattanooga
- The University of Tennessee at Martin

The University of Tennessee is the state's flagship institution, offering comprehensive programs of undergraduate, graduate, and professional education, research, and public service throughout the state. Enrollment in the statewide university is approximately 42,000. Students come from every county in Tennessee, every state in the nation, and many foreign countries. The university is the only public university in Tennessee to hold the Carnegie Doctoral/Research-Extensive classification. The oldest and largest institution of higher education in the state, the university was founded in Knoxville in 1794, two years before Tennessee became a state.

Looking Up

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This past year, using the title of former President Joe Johnson's June 17, 1999, final report to the Board of Trustees, saw the University of Tennessee reach *A Point of Crisis*.

After a decade of little or no increase in state funding, we were behind in faculty and staff salaries and losing highly valued members of our university community.

We had fallen well behind our competitors and failed to adequately invest in information technology for our students. We had grown less competitive in research.

We were failing the challenge of keeping Tennessee's best

Looking Up

and brightest students at home,

and our investment in facilities

had not kept pace with other

southern universities. We definitely were at *A Point of Crisis*.

However, at the end of the year, things began looking up.

With the support of Governor Don Sundquist and the General Assembly, the university received its most favorable state budget in a decade. The budget represents real progress for the university, given the state's budget situation. Also positioning UT for a better year in 2001 were actions of the Board of Trustees, and our own efforts to streamline and reallocate resources.

As the result of increased state appropriations and the university's initiative, several defining changes materialized.

- Starting in September, faculty will receive average salary increases of 6.5 percent and staff, 5.0 percent.
- The university received a \$2 million increase in operating funds.
- A special appropriation of \$9.7 million will be used for equipment purchases in veterinary medicine, the colleges of dentistry and pharmacy at the Health Science Center in Memphis, and at the Space Institute.



Signs of a Turnaround

- UT Chattanooga's \$28.8 million building for engineering and science will be constructed.
- Capital maintenance projects totaling more than \$12.5 million will take place throughout the UT system.

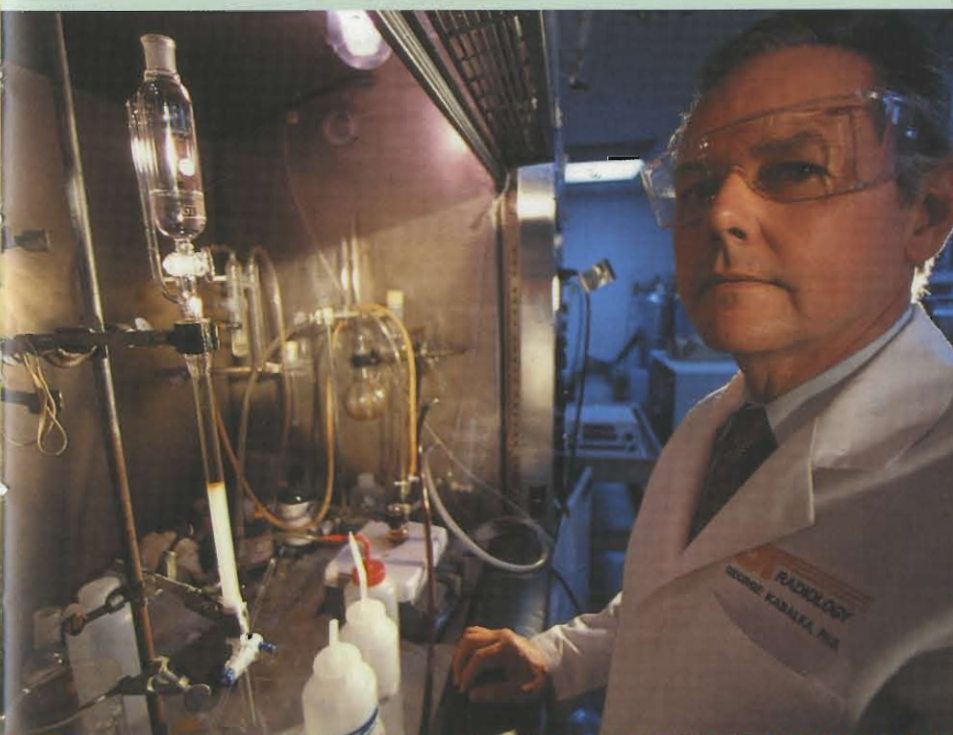
Oak Ridge Contract Invigorates UT Research

On April 1, 2000, UT-Battelle began operating Oak Ridge National Laboratory. This achievement gave the university extraordinary new opportunities in research and made UT one of the few universities that manage Department of Energy laboratories.

UT has more than a half-century-long working relationship with ORNL. The university and the lab jointly conduct some \$20 million in scientific research annually and share Distinguished Scientists, Collaborating Scientists, and joint institutes.

Battelle Memorial Institute, an international research and development firm headquartered in Columbus, Ohio, operates three other national labs, either as primary contractor or in partnerships similar to the one with UT.

Tennessee state government and Tennessee's congressional delegation strongly supported the UT-Battelle bid to manage the lab.



- A new fee will allow the College of Engineering at Knoxville to improve its operating budget and meet competition from engineering programs at institutions such as Georgia Tech, Virginia Tech, North Carolina State, and Auburn.
- The university will use the revenues generated by our alumni through the affinity credit card to create a \$10 million fund to attract more of Tennessee's best students to UT's three undergraduate campuses.
- The General Assembly approved and Governor Sundquist signed legislation that will make it easier for UT to attract research contracts.

These initiatives have the potential to help create a more competitive University of Tennessee system in the 21st century.

Higher education, after taking a budgetary backseat to TennCare and K-12 education for a decade, was considered deserving of new state money this year. In the budget he submitted to the General Assembly, Governor Sundquist recommended a 14 percent increase in UT operating funds.

In one of its longest sessions ever, the General Assembly finally passed the state budget June 22. The governor had vowed that he would veto any budget that did not embrace significant tax reform, and he made good on his promise June 26. Both houses of the legislature overrode the veto, adjourned on June 28, and the budget became law.

Buchanan Participates in Inauguration

Nobel Laureate James Buchanan, a 1941 graduate and former faculty member, paid a rare visit to the university last fall to participate in the presidential inauguration.

Buchanan, Harris professor of economics at George Mason University in Fairfax, Virginia, gave a pre-inaugural lecture and challenged UT to use the new century as a starting point to improve itself.

Buchanan won the Nobel Prize in economics in 1986. He holds the master's degree from UT and was on the faculty from 1948 to 1951.

Signs of a Turnaround

1999-2000 in Review

- August 1 — UT's new president starts work
- September 10 — Governor Don Sundquist, legislative leaders, and state constitutional officers speak at forum on higher education financing at UT
- October 5 — UT National Alumni Association alerts alumni to UT's funding needs with a mass mailing
- October 7 — Hiring freeze imposed on nonacademic jobs
- November 1 — UT students rally on campus for funding reform
- November 2 — Committee formed to look at streamlining the university and cutting administrative costs
- November 5 — Presidential inauguration, announcement of Tennessee Plan for Academic Excellence, funded by a combination of public and private dollars, to move UT into the ranks of the top 25 public research universities; Committee for the Future of UT formed to establish strategic directions

- December 8 — Enrollment capped at the Knoxville campus for fall 2000
- December 13 — Restructuring eliminates seven top administrative positions to save \$8 million over six years
- February 1 — Governor Don Sundquist recommends \$53 million in new funds for UT and \$74.5 million for capital projects in his budget address; more than 100 UT students attend address urging better funding for UT
- February 2 — Governor Sundquist holds forum on higher education in Memphis
- February 3 — UT Board of Trustees reorganizes the university; UT streamlining committee says \$40 million can be saved on administration in five years
- March 21 — UT National Alumni Association President Ron Kirkland calls on alumni to express concern to their legislators about funding for UT
- April 25 — Committee for the Future submits report, calls for better faculty, students, graduate programs; recommends areas of distinctiveness in information technology, partnerships with Oak Ridge National Laboratory, partnerships with industry

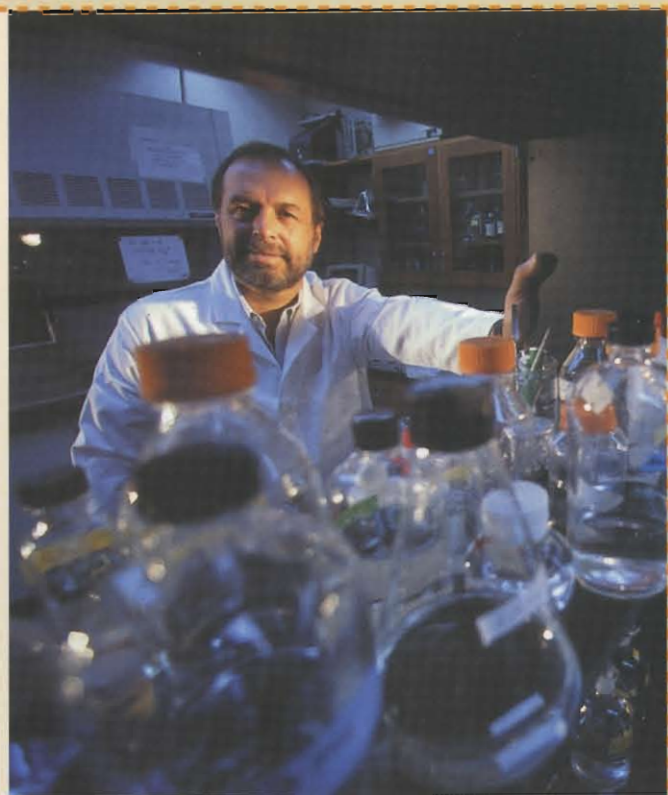
- June 21 — UT Board of Trustees holds previously scheduled meeting to set 2001 budget, reschedules budget deliberations on July 5
- June 22 — General Assembly ends its session by passing a budget that includes \$7.5 million for UT research initiatives, \$9.7 million for special equipment for UT, funding for the new science and engineering building at UT Chattanooga, and 3.5 percent pay raises for all state employees; Governor Sundquist promises a veto
- June 26 — Governor vetoes the budget
- June 27 — House overrides veto
- June 28 — Senate overrides veto, both houses adjourn
- July 5 — Board of Trustees approves \$890 million budget for UT

The 2001 state budget helps UT on its way to achieving major goals

• Become a top 25 public research university

The university has begun implementing the Tennessee Plan for Academic Excellence, which will be funded by \$30 million in administrative savings, \$30 million from new revenue sources, \$60 million from extramural funding, and \$30 million from the state of Tennessee. As mentioned earlier, the state appropriated \$7.5 million of its share this year.

- Double annual research funding from about \$75 million to about \$150 million
- Become the leading public research university in the Southeast
- Increase graduation rates to 65-70 percent
- Establish five new research centers of excellence of \$20 million each and eight to 10 smaller centers. Two of the large centers will be funded in fall 2000; the small centers and three more large centers will be funded next spring.



Goals Guide University

• Recruit the top 10 percent of Tennessee high school graduates

- Provide first-rate opportunities for the best and brightest Tennessee students
- Keep them at home in Tennessee for college and beyond to build a better Tennessee
- Make the UT student body distinctive
- Initiate a \$10 million trustees scholars program to help keep the top 10 percent of Tennessee high school graduates in state
- Enroll more than 300 National Merit scholars

• Play a leading role in the economic development of Tennessee

- Increase the number of college graduates in Tennessee
- Help working adults earn degrees via New College, a primarily online program that would allow Tennesseans with some college but no degree to earn degrees without leaving their jobs or communities
- Become the state's primary economic development partner
- Improve the quality of life for Tennesseans

• Pay faculty and staff competitively

- Attract the best faculty from throughout the nation and world
- Improve start-up funds for faculty
- Provide adequate matching funds and equipment for faculty competing for research grants. The state appropriated this year a special \$9.7 million for equipment in veterinary medicine, the colleges of dentistry and pharmacy, and at the Space Institute.
- Improve fellowships and assistantships
- Improve research and instructional space
- Increase the number of faculty who are members of national academies

- **Be a leader in the use of information technology**

- Establish a model environment for the effective use of information technology
- Enhance the information technology infrastructure
- Increase and improve on-line services and information resources to students and make the competent utilization of information technology a way of life for students.
- Use information technology to better customize and individualize learning, also as a tool to enhance research, communication, and management of the university

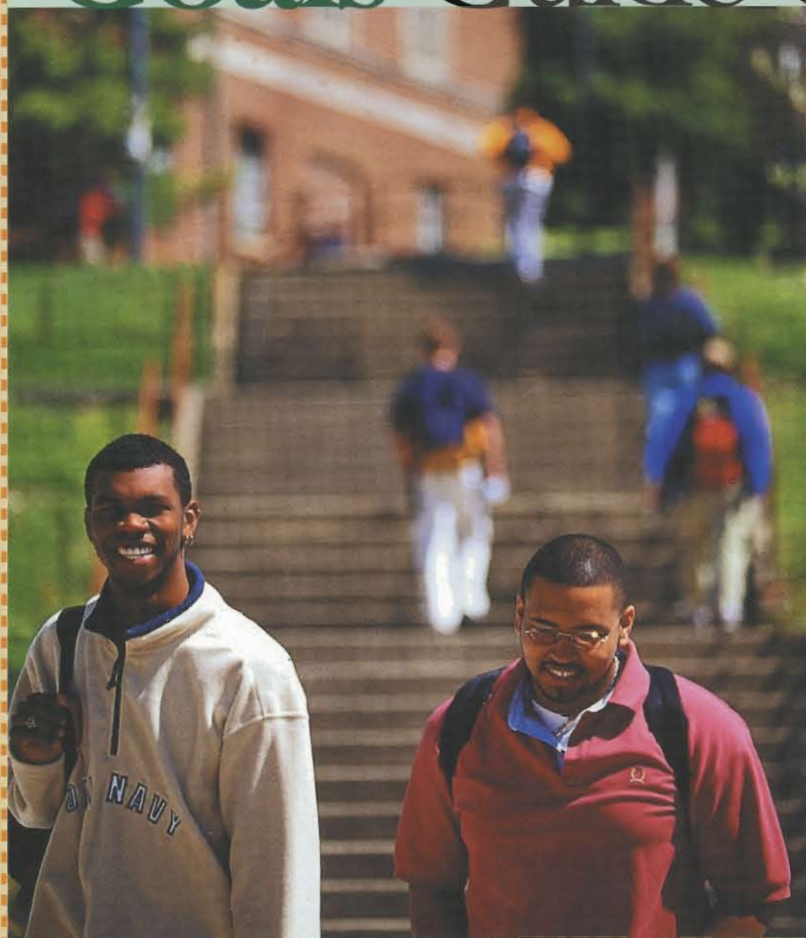
- **Be one of America's best-managed universities**

- Use sound, proactive, entrepreneurial management
- Continue restructuring and streamlining to save money to be redirected to academics. The university this year eliminated levels of administration by consolidating the Knoxville, Memphis, and Tullahoma campuses and the institutes of agriculture and public service into a single university—the University of Tennessee. The Chattanooga and Martin campuses remain part of the university system but with greater autonomy. Each has a liaison committee composed of citizens and members of the Board of Trustees that has limited authority.
- Spend less on administration than do our peer institutions and more on instruction, research, and scholarships
- Seek to enhance revenue from all sources

- **Champion diversity**

- To maximize students' educational experience and prepare them to contribute to the global economy, UT should increase the number of minority and international students and faculty
- Provide a curriculum for all students that fosters an understanding of and ability to work effectively with people of diverse cultures and languages
 - Increase the number of students from other states, regions, and countries

Goals Guide University



Why are these goals important?

Because this university must be prepared to lead in the new science-driven, knowledge-based, and information-technology-facilitated economy.

In this new era, the regions, the states, and the nations with the best minds, the best ideas, the best products, and the best-educated populations will experience the best economies, the least poverty, and the best quality of lives for their citizens. Tennessee can be a 21st century leader with the help of the University of Tennessee.

Only 17 percent of Tennessee's work force has a college degree, compared with 21 percent nationally. This is a critical shortcoming higher education must address. Scores of economic studies reveal a direct connection between education level and per capita income.

To meet its obligation as Tennessee's principal public university, UT must be competitive nationally with the best public universities in America, providing specialized education, research, and service. UT must pursue true national competitiveness. The benefits to Tennessee and its citizens should be profound and long lasting.

We are proud of the progress we have made this year, but we must not think the war is won. The next five years will require great effort. But UT—Tennessee's principal

Particular thanks should go to students and alumni who gave of their personal time to talk to legislators about UT's serious need for better funding. Many students and alumni traveled to the State Capitol in Nashville to work in behalf of their university.

All of us who are members of the UT family—alumni and friends, students, faculty and staff—must continue to work together to make the case for increased investment in the university by the state of Tennessee. Tight financial times are not over; state budget problems may be worse next year. But, investing in the university is the equivalent of buying a ticket to a more prosperous future for Tennesseans. We will have to make this case again and again in the months and years ahead.

statewide land-grant university—has the potential to produce extraordinary results for the people of Tennessee.

Much Work Remains

The university will continue to restructure and streamline to save \$30 million in administrative costs and make more effective use of the resources available to us. We must pick up the pace in this effort and achieve our goal of being recognized as one of America's best-run universities.

We must make the most of our new resources, following our plan of attracting Tennessee's best and brightest students, improving support for faculty, staff and programs, and reinvigorating the university's research mission.

Finally, we must ensure quality and high standards in everything we do from admissions to classroom instruction to research and service activities and most certainly in a cost effective, entrepreneurial administration.

It has taken a full year of hard work on the part of all of the university community to reach the point where we can afford to look up and to focus on the challenges of the 21st century. I remain convinced, as I have been from the beginning, that our future depends primarily on our own hard work, imagination, and unity of purpose. Together the University of Tennessee family can provide leadership for both the state of Tennessee and the nation in the 21st century.

J. Wade Sullivan



Financial Highlights 1999-2000

Prepared by the Office of the Treasurer

A major goal of the University of Tennessee, as stated earlier in this report, is to be one of America's best-managed universities. Our financial statements are prepared in general conformance with *College and University Business Administration*, which sets forth generally accepted accounting principles for colleges and universities. Financial statements are audited by the State of Tennessee, Comptroller of the Treasury, Division of State Audit.

We invite you to scrutinize the following balance sheet and other information about the university's fiscal operations. The complete University of Tennessee financial statements and footnotes along with auditor's opinion letter and management comments is available in the annual *Report of the Treasurer 2000*, which will be sent to the Board of Trustees. Others wishing copies of the *Report of the Treasurer 2000* may contact the Office of the Treasurer, 301 Andy Holt Tower, Knoxville, Tennessee 37996-0100, telephone 865-974-2302, or e-mail CPeccolo@Tennessee.edu.

Balance Sheets (dollars in thousands)
Year ending June 30, 2000, with comparative totals for 1999

	2000	1999
Assets		
Current Funds		
Cash	\$ 171,440	\$ 188,014
Investments	1,168	7,370
Receivables	108,860	138,968
Inventories, prepaid expenses and other	12,718	14,542
	<u>\$ 294,186</u>	<u>\$ 348,894</u>
Loan Funds		
Cash	\$ 4,991	\$ 4,387
Receivables	35,379	34,685
	<u>\$ 40,370</u>	<u>\$ 39,072</u>
Endowment and Similar Funds and Annuity and Life Income Funds		
Cash	\$ 3,714	\$ 5,989
Investments	491,107	426,332
Receivables	2,063	2,051
	<u>\$ 496,884</u>	<u>\$ 434,372</u>
Plant Funds		
Cash	\$ 127,194	\$ 141,736
Investments	508	911
Receivables	35,748	9,022
Land	40,197	37,951
Buildings and Improvements	1,040,506	1,188,200
Equipment	209,692	434,886
Library holdings	253,180	249,544
Livestock	2,055	1,885
	<u>\$1,709,080</u>	<u>\$2,064,135</u>
Liabilities and Fund Balances	2000	1999
Current Funds		
Accounts payable and accrued expenses	\$ 126,283	\$ 136,971
Deposits and other credits	4,812	3,940
Deferred revenue	25,176	26,761
Fund balances:		
Restricted	96,769	83,927
Unrestricted	41,146	\$ 97,295
	<u>\$ 294,186</u>	<u>\$ 348,894</u>
Loan Funds		
Fund balances:		
U.S. Government grants refundable	32,734	\$ 31,721
Institutional funds-restricted	7,636	7,351
	<u>\$ 40,370</u>	<u>\$ 39,072</u>
Endowment and Similar Funds and Annuity and Life Income Funds		
Accounts payable and accrued expenses	\$ 12,104	\$ 10,220
Fund balances:		
Endowment	412,345	355,438
Quasi-endowment-unrestricted	9,878	7,394
Quasi-endowment-restricted	17,935	15,110
Annuities	12,602	13,991
Life Income	32,020	32,219
	<u>\$ 496,884</u>	<u>\$ 434,372</u>
Plant Funds		
Accounts payable and accrued expenses	\$ 12,093	\$ 14,131
Long-term indebtedness	176,690	306,123
Deferred revenue	15,500	
Fund balances:		
Unexpended	25,498	(9,372)
Retirement of indebtedness and		
Renewal and replacement	103,593	147,310
Investment in plant	1,375,706	\$1,605,943
	<u>\$1,709,080</u>	<u>\$2,064,135</u>



Where UT's Money Comes From

Total current fund revenues declined 5.5 percent to \$1.2 billion for the fiscal year ended June 30, 2000. The decline was attributed to the spin-off of the university's hospital in Knoxville during the fiscal year. Under the terms of the spin-off agreement, the university transferred ownership and control of the hospital to University Health Systems Inc., an independent, private, not-for-profit organization operating under its own 501(c)(3) designation.

Educational and general revenues increased 8.3 percent to \$940 million for the 12 months ended in June. State appropriations remained about even for the fiscal year at \$385 million. While the state provided some improvement dollars along with

amounts to fund mid-year raises and increased insurance costs, a reduction in Centers of Excellence funding netted with those increases resulted in static state appropriations over the last two years.

Student fees increased by \$22 million for the year and helped offset the lack of increased state support for much needed faculty and staff salary increases. Gifts, grants, and contracts revenue increased by 9.8 percent to \$256 million, with the most significant increases occurring in federal grants and contracts (\$16.5 million) and private gifts (\$10.1 million).

Other sources increased to \$101.6 million, a 34.1 percent increase, due primarily to University Health Systems funding commitment to graduate medical education

(\$18.4 million) and cash management investment returns (\$3.1 million).

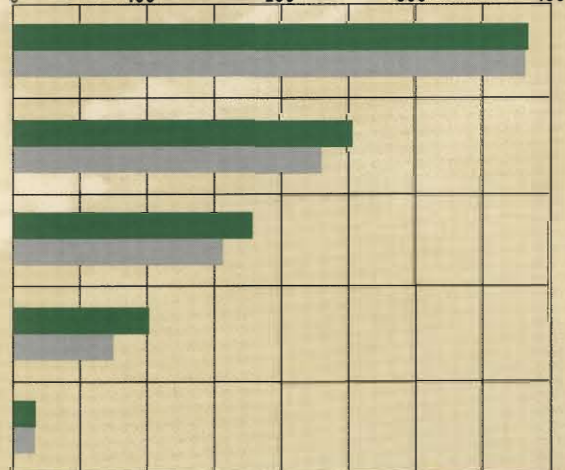
Auxiliary enterprises, including UT Knoxville athletics, reported a 4.3 percent increase in revenues, reflecting modest increases for services provided and utilized. Reported hospital revenues of \$74.4 million declined from \$318 million due to the hospital spin-off mentioned above. All university personnel employed at the hospital had the option to remain university employees or transfer to University Health Systems Inc. Those who elected to remain university employees were leased to UHS for an amount equal to paid wages and benefits. This amount totaled \$95.7 million and is included in the hospital revenue figures on the accompanying graph.

Sources of Current Funds

for the year ended June 30, 2000

(millions of dollars)

0 100 200 300 400



State Appropriations (31.3%)

Legislative appropriations from the Tennessee General Assembly for current operations of the University.

\$ 385,333,500.53

Gifts, Grants, and Contracts (20.8%)

Revenues from federal and non-federal granting entities restricted for specific purposes, primarily for sponsored research and training activities.

\$ 256,014,153.90

Tuition and Fees (14.6%)

Revenues collected from students; includes resident enrollment fees, program and service fees, extension enrollment fees, and other fees.

\$ 179,712,820.20

Other (8.3%)

Revenues generated from sources not included in other classifications, such as sales and services by University departments and investment income.

\$ 101,639,207.04

Federal and Local Appropriations (1.4%)

Appropriations received in support of the University's land-grant missions, used primarily by the Agriculture Experiment Station and Extension Service.

\$ 12,292,148.81

Auxiliary Enterprises (9.8%)

Revenues from operations of auxiliary activities such as housing, dining halls, bookstores, parking, and UT Knoxville athletics.

\$ 121,287,589.93

Hospitals (13.8%)

Net patient revenues from the UT Memorial Hospital—Knoxville and the William F. Bowld—Memphis hospitals. UT Memorial Hospital—Knoxville revenues include operations until transfer date of July 29 and wages and benefits for leased employees.

\$ 170,092,648.00

Legend: 2000
1999

TOTAL \$ 1,231,372,067.70



Investments

Total funds invested to benefit UT grew by 12.6 percent to \$724 million during fiscal 1999-2000. This was the sixth consecutive year of double-digit growth as generous donors and capital markets combined to set a new record. The graph at top depicts the growth of these funds during the last five years, more than doubling from \$348 million in 1995.

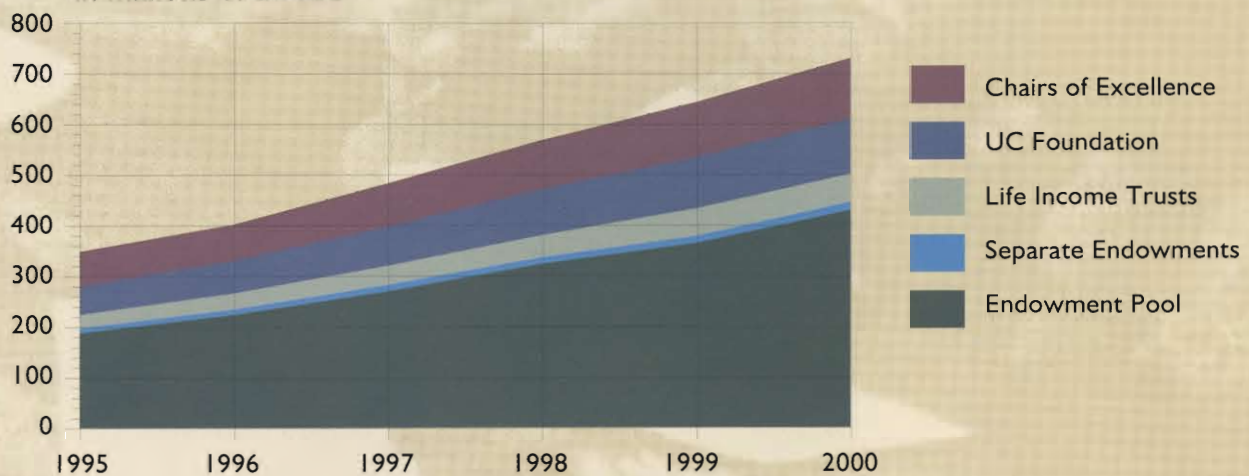
Five components make up UT's long-term investments, as the graph shows. The top two layers of the graph show funds held outside the university—the Tennessee Chairs of Excellence Trust (\$119 million), managed by the state treasurer, and the University of Chattanooga Foundation (\$109 million), managed by the not-for-profit foundation's board. The investments and income of both are devoted solely to the University of Tennessee.

For the Tennessee Chairs of Excellence, \$3.2 million was distributed last year to benefit the 50 chair programs at campuses of the university. The UC Foundation distributed \$4.2 million to support programs and scholarships at the Chattanooga campus.

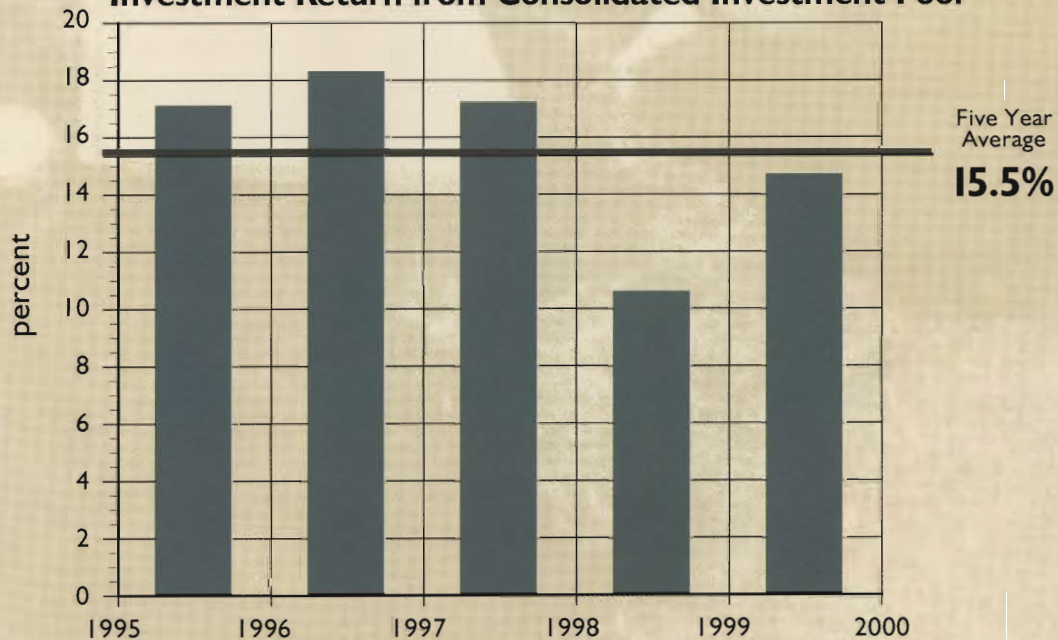
The next three layers of the graph are funds managed by the university: charitable remainder trusts (\$56 million), separately invested endowments (\$16 million), and pooled endowments (\$424 million). The university pooled endowments are managed in a consolidated investment pool created in 1954 to provide the advantages of a well-diversified investment portfolio to all endowments, regardless of size.

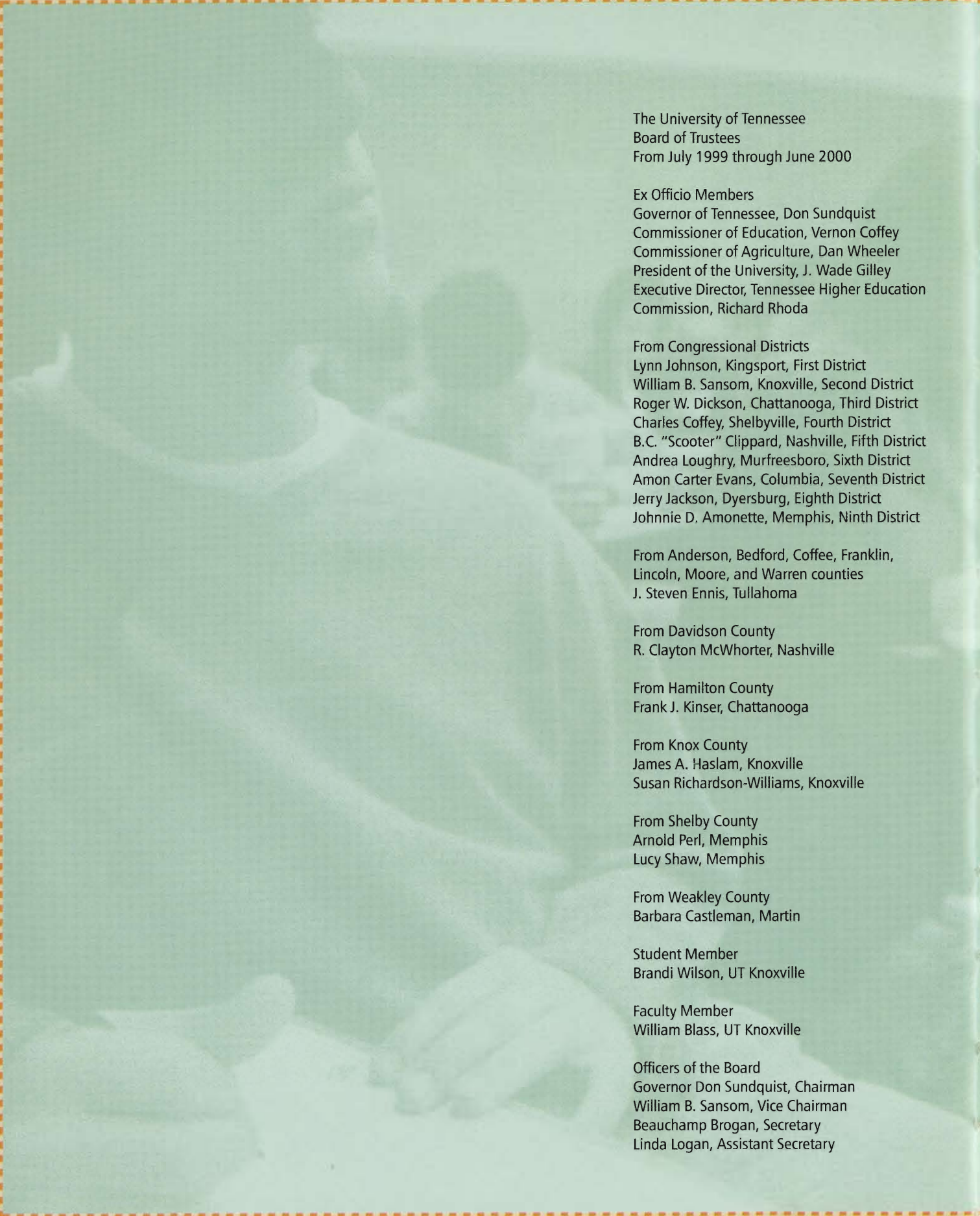
The consolidated investment pool achieved its sixth straight year of double-digit investment return, posting a 14.7 percent return. The five-year average return for this portfolio was 15.5 percent (bottom graph). Income distributed from the consolidated investment pool during the year totaled \$16.2 million, an increase of \$2.5 million over the previous year. The amount distributed was in accordance with the spending plan articulated as 5 percent of a three-year moving average market value calculated at December 31 each year. Over the long term, the consolidated investment pool spending plan will provide for total investment return optimization through asset allocation without current yield constraints to meet spending needs.

Total Funds Invested for Benefit of UT in millions of dollars



Investment Return from Consolidated Investment Pool





The University of Tennessee
Board of Trustees
From July 1999 through June 2000

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Commissioner of Agriculture, Dan Wheeler
President of the University, J. Wade Gilley
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Commission, Richard Rhoda

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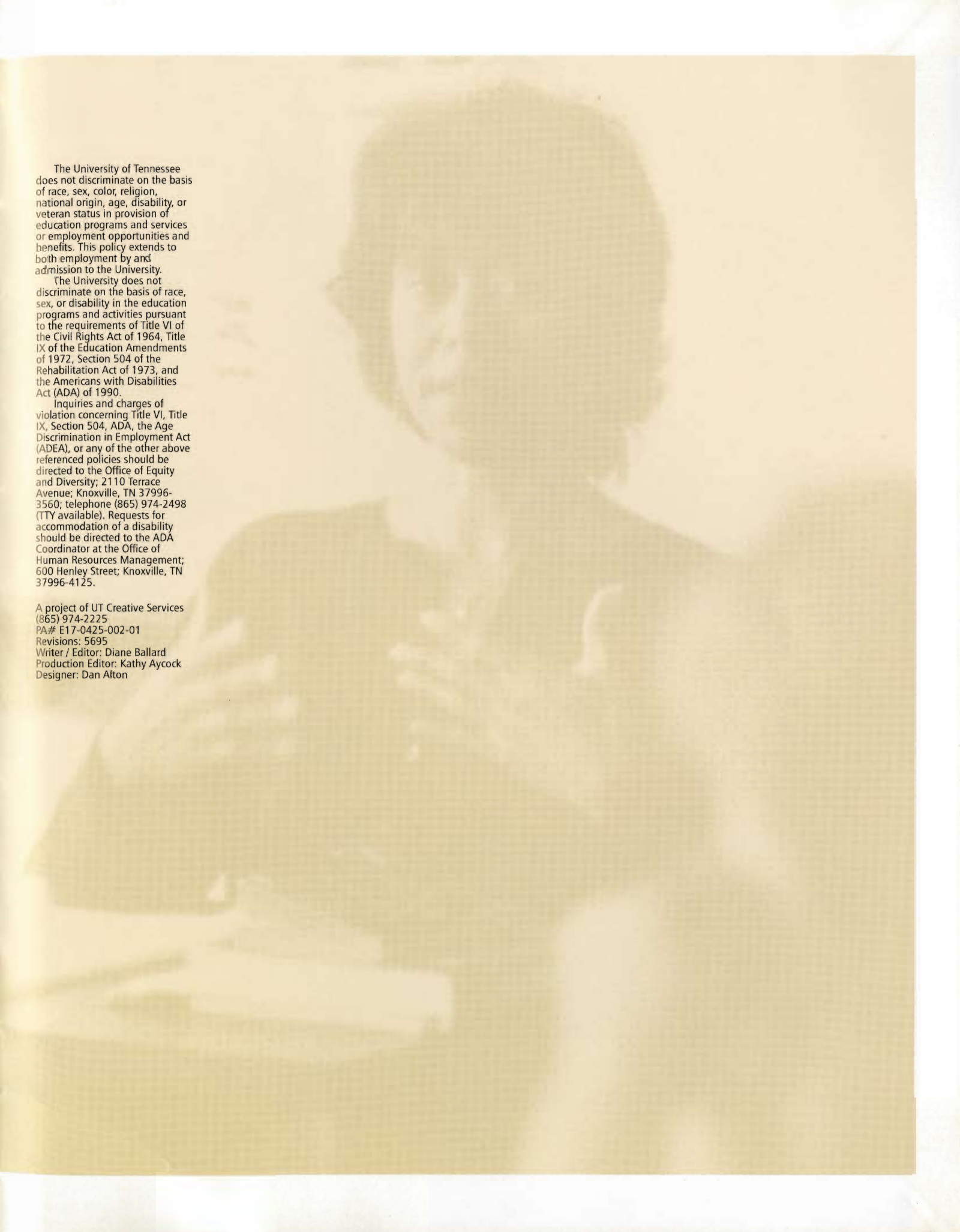
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The University of Tennessee does not discriminate on the basis of race, sex, color, religion, national origin, age, disability, or veteran status in provision of education programs and services or employment opportunities and benefits. This policy extends to both employment by and admission to the University.

The University does not discriminate on the basis of race, sex, or disability in the education programs and activities pursuant to the requirements of Title VI of the Civil Rights Act of 1964, Title IX of the Education Amendments of 1972, Section 504 of the Rehabilitation Act of 1973, and the Americans with Disabilities Act (ADA) of 1990.

Inquiries and charges of violation concerning Title VI, Title IX, Section 504, ADA, the Age Discrimination in Employment Act (ADEA), or any of the other above referenced policies should be directed to the Office of Equity and Diversity; 2110 Terrace Avenue; Knoxville, TN 37996-3560; telephone (865) 974-2498 (TTY available). Requests for accommodation of a disability should be directed to the ADA Coordinator at the Office of Human Resources Management; 600 Henley Street; Knoxville, TN 37996-4125.

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Office of Public Relations
107 Communications Building
The University of Tennessee
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Looking Up

1999-2000 Annual Report
The University of Tennessee

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