

TRADITIONS IN EXCELLENCE

1985-86 ANNUAL REPORT
OF EDWARD J. BOLING, PRESIDENT
THE UNIVERSITY OF TENNESSEE
TO THE BOARD OF TRUSTEES, JUNE 19, 1986

ACKNOWLEDGMENTS

The improvements and accomplishments recorded in this annual report are the result of the diligent efforts of many persons, groups, and organizations. Special appreciation must be expressed to Governor Lamar Alexander, legislative leaders, members of the General Assembly, the Tennessee Higher Education Commission, the UT Board of Trustees, the National Alumni Association, the Development Council and support groups on our campuses/institutes across the state.

The University's administrative staff, which gives day-to-day direction to UT's many programs and operational services, also deserves a large share of credit for the progress we have made. I would particularly like to acknowledge the outstanding work of my administrative staff: Executive Vice President Joseph E. Johnson, General Counsel Beauchamp E. Brogan, Executive Assistant Andrew J. Kozar, and Vice Presidents Charles E. Smith, Emerson H. Fly, John W. Prados, and W.W. Armistead.

I also want to recognize the superb leadership provided by the chancellors of our campuses: Dr. James C. Hunt of UT Memphis, Dr. Fred Obear of UT Chattanooga, Dr. Jack Reese of UT Knoxville, and Nick Dunagan, interim chancellor this year at UT Martin. They and their staffs helped to move this institution to new levels of excellence.

Finally, I want to recognize the faculty and staff from across the state who every day engage in professional pursuits that invigorate the learning/teaching experience and open up new horizons for the academic world. It is exciting to be a part of the University of Tennessee, and I appreciate the opportunity to work with men and women who are committed to excellence.

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Traditions in Excellence

This annual report takes a broader view of the University of Tennessee than reports of previous years. Rather than summarize the year campus by campus, unit by unit, and institute by institute, this report surveys the breadth of the University with a focus on programmatic improvements.

As we reviewed the year, it became apparent that the bulk of activity and accomplishment fell within several broad categories. Each category reflected long-standing UT traditions for high levels of achievement. On that basis, we adopted the theme "Traditions in Excellence."

The "Traditions in Excellence" we identified were undergraduate education, graduate and professional instruction, research, and public service—all of which have been enhanced by a superb tradition of private financial support.

Instruction, public service, research and private financial support are intertwined. Together they are the basis of UT's achievements in the past and the foundation for UT's progress in the future.

The success of these cooperative endeavors and their impact on the economic development of Tennessee were recognized this year when President Ronald Reagan visited the Knoxville campus.

At the President's request, UTK staff prepared a briefing entitled, "Teaming Up for Economic Growth," which described for the chief executive UTK's cooperation with Tennessee business and industry.

UT is proud to be a partner in Tennessee's economic development. We have already seen elsewhere in our society the benefits of such partnerships in the spinoff of NASA research and, more recently, the transfer of technology from our national laboratories, such as Oak Ridge, to the private sector.

Education's relationship with business and industry was also emphasized this year by the General Motors' decision to locate its Saturn plant in Spring Hill.

While UT had no direct role in the decision, the University's stature as a major land-grant institution contributed to GM's perception that public education in Tennessee is a statewide priority.

Thanks to GM's decision, Tennesseans gained a new and special perspective of public education. In the past we supported public education in much the same manner as we purchased life insurance—we paid the premiums (or the taxes) with the only sense of reward, the feeling that we were providing for the next generation.

The General Motors announcement changed that perspective. With Spring Hill's selection as the place where GM would make the largest capital investment ever made by American industry, Tennessee taxpayers realized that public education has tangible value, like money in the bank.

General Motors told us and the world that Tennessee's public education system made a difference in its decision to come here—and that our plans to keep improving the system made an even greater difference. Backed by a $3.5 billion investment, the message was heard, loud and clear.

It's very doubtful the people of any other state have a better understanding of the value of education than the citizens of Tennessee.

It is probably not a coincidence that the governor this year recommended full funding of the higher education funding formula. Nor was it coincidence that the legislature approved the governor's recommendation.

There also was strong support in the legislature for higher education's Chairs and Centers of Excellence, for academic scholarships, for instructional evaluation standards, and for special equipment funding.

We are optimistic that education improvements will continue with the support of the new governor and members of the next General Assembly.

We are heartened especially by full funding of the education formula, which means additional dollars for qualitative improvements. More importantly, full funding of the formula represents a goal achieved.

Eighteen years after the Tennessee Higher Education Commission developed the appropriations formula, it has been fully funded. The University of Tennessee must demonstrate to our state officials why this was a wise decision and why 100 percent funding should continue in the future.

We believe we have already demonstrated the value of increased state support by our significant 1985-86 accomplishments. Consider the five traditions in excellence on which this report focuses.



Undergraduate Instruction



Since the founding of the University in 1794, undergraduate instruction has been a primary focus of this institution. Literally thousands of graduates have carried UT degrees into adult life and successful careers.

Our alumni include Howard H. Baker, former majority leader of the U.S. Senate and a possible presidential candidate; Clarence Brown, the Hollywood director of such motion picture classics as "National Velvet" and "The Yearling"; Robin Hood, winner of the Pulitzer Prize for photography; Chris Whittle and Phillip Moffitt, UTK classmates who carved a new niche in the publishing world by creating publications for the age group 13 to 30; Pat Head Summitt, coach of a gold-medal winning Olympic women's basketball team and coach of Tennessee's Lady Vols; and John W. Fisher, chairman emeritus of the Ball Corporation and a former director of the New York Stock Exchange.

The list could be continued indefinitely, but it is sufficient in this abbreviated form to illustrate the broad scope and effectiveness of UT undergraduate programs. In each case, a UT degree served as the perfect complement to individual effort and initiative. The tradition continues.

Dr. William M. Bass, head of UT Knoxville's Department of Anthropology, this year was named national "Professor of the Year" by the Council for the Advancement and Support of Education. More than 250 educators from 41 states and Canada were nominated for the honor.

Dr. Bass, frequently called upon by law enforcement agencies to identify the remains of crime and accident victims, still teaches each quarter an introductory anthropology course to a student-packed auditorium.

In addition, Dr. Bass has assembled at UTK a collection of skeletons second only to the Smithsonian Institution, Washington, D.C.; and he has taught approximately one-half of the nation's board-certified forensic anthropologists.

In earning the "Professor of the Year" award, Dr. Bass brought honor to himself, this University, and to the people of Tennessee.

At UT Martin graduating seniors continued to reaffirm the quality of that campus' undergraduate program by placing fourth nationally in value-added testing as measured by the College Outcome Measures Project.

Martin has ranked among the top four colleges and universities nationally since it began participating in the testing program in 1980.

The COMP tests are the equivalent of "before" and "after" photographs. Exams are administered to samples of incoming freshmen and outgoing seniors. The difference between scores reflects education gain, or "value added."

UTM also offered a variety of special study opportunities for undergraduates, including such programs as University Scholars, Honors Seminar, and Leaders-In-Residence.

In the University Scholars program, advanced students participated in interdisciplinary study in addition to their regular course work. This year's graduating scholars investigated the causes of math anxiety in grade school children, studied violence in 20th century literature, and examined the current condition of Reelfoot Lake using old photographs for comparison.



Undergraduates at UT Chattanooga took advantage of special opportunities to use computers through that campus' Center for Excellence in Computer Applications. Students in regular university classes from any department used microcomputers for projects involving unusual graphics, rapid response times, or specialized software packages.

Instruction was also enhanced by the Lupton Library, one of the few libraries in the nation using a computerized catalog system. The efficiency of the computerized system has made the standard library card catalog obsolete.

UTC undergraduates also benefited as participants in a program developed to improve writing skills. Entitled, "Writing Across the Curriculum," the program emphasized development of writing skills in a variety of subject areas.



Expanded opportunities for minority students were available this year through a cooperative program of the U.S. Forest Service and the UT Institute of Agriculture's College of Agriculture. The program, now in its third year, increased enrollment of minority students in forestry studies from two in 1983-84 to 11 in 1985-86. Summer employment for the students is provided by the U.S. Forest Service.

Similar work-study opportunities, combined with scholarship awards, helped the UTK College of Engineering raise its minority enrollment. There were 133 blacks enrolled last fall, compared with 26 when the program began in 1973. The students, with the assistance of 44 corporate sponsors, work and attend classes in alternating quarters.



All three undergraduate campuses were participants this year in the state's Performance Funding Program. Proposed by the Tennessee Higher Education Commission and adopted by the General Assembly, the program permits each campus to earn additional appropriations by making instructional improvements. Knoxville earned $3.8 million; Chattanooga, $750,000; and Martin, more than $600,000.

Performance funding, which UT strongly supported, was developed in an effort to tie state higher education appropriations more directly to quality, rather than quantity. The formula funding method is substantially a quantitative allocation system based on student head-counts.

In judging an institution's performance, the THEC considers ratio of accredited programs, tests in general education, tests in majors, outcomes measures such as alumni and student surveys, and new programs for improvements. The incentive for an institution is the opportunity to earn an award of up to five percent of its instructional budget.

The Knoxville campus attracted national and international attention for its efforts to measure instructional effectiveness. UTK was selected as the United States' case study for presentation in Paris at a conference on education improvements.

Making the UTK presentation was Homer Fisher, UTK executive vice chancellor; Dr. C.W. Minkel, vice provost for graduate studies; and Dr. Trudy Banta, professor at the UTK Learning Research Center. The conference, held in May, was attended by more than 100 university presidents, administrative officers, and educators from throughout Europe.

The process of raising undergraduate admissions standards, approved last year by this Board, continued during 1985-86. Full implementation of the higher standards will occur in 1989. We look forward to admitting students who have been better prepared for college-level studies.

Martin and Knoxville are getting ready to shift to the semester system in 1988. The curriculum reviews necessitated by this calendar change should have a significant impact on our instructional programs. Every course is being evaluated to determine whether or how it will fit into the bodies of knowledge to be covered in the new sequencing of material.



Graduate and Professional Instruction

The demand for education at the graduate and professional level has grown tremendously in recent years to meet the demands of an increasingly complex society. One hundred years ago advanced study was the norm only for those pursuing careers in medicine, law, and some levels of teaching. Today, however, advanced study beyond the traditional four years of college is common in many fields.

Alumni of UT graduate and professional programs include three Challenger astronauts, Henry W. Hartsfield, Donald H. Petersen and Rhea Seddon. UTSI is the alma mater of Hartsfield and Petersen, while Seddon is a graduate of the UT Memphis College of Medicine.

Of the various UT campuses and units, Knoxville this year offered the widest range of graduate programs. The 1985-86 UTK Graduate School catalogue listed master's degree programs in 109 fields of study and doctoral work in 51.

Only at UT Memphis, however, was graduate instruction the central focus of a primary campus. As the home and primary base for public health science programs in Tennessee, the campus began in January a year-long observance of its 75th anniversary.

Health science instruction was complemented by excellence in research and patient care, offering a wide and varied range of learning opportunities for students.

Those opportunities were tremendously enhanced by the state's Centers and Chairs of Excellence program. The campus has successfully secured matching funds to equal state appropriations for seven chairs. Faculty appointments to five of those chairs have been made.

A new campus-wide Neuroscience Graduate Program was begun this year, facilitated by the expansion of the Department of Anatomy to include Neurobiology. The graduate program provides interdisciplinary studies and specific research training in neuroscience.

The year also saw the continued development at UT Memphis of two established Centers of Excellence, the Molecular Resource Center and the Center for Neuroscience. A new center, the Center for Pediatric Pharmacokinetics and Therapeutics, was created to investigate the effects of medicines on children.

Graduate instruction at UT Knoxville was also enhanced by the Centers and Chairs of Excellence program. Particularly noteworthy was the continued development of the Science Alliance between UTK and Oak Ridge National Laboratories. The alliance is an inter-disciplinary project involving the physical, chemical, and biological sciences.

More than 80 UTK faculty are now involved in the joint effort, which also supports 100 graduate students and a smaller number of undergraduates.





At UT Chattanooga, the Center for Excellence in Computer Applications provided increased learning opportunities for graduate students. Through the center, graduate students participated in a variety of research programs including artificial intelligence, knowledge engineering, and office/factory automation systems.

Research at the UT Space Institute complemented doctoral programs in aerospace engineering, engineering science, mechanical engineering, and physics; and master's degree programs in aviation systems, chemical engineering, industrial engineering, and mathematics.

Graduate students at UTSI benefited by expansion of the Center of Excellence in Laser Applications to include research on laser applications in materials processing.

At the UT Institute of Agriculture's Veterinary Teaching Hospital, consultation requirements and an increased number of referral cases this year continued to provide students with many diverse learning experiences. Cases involving large animals increased notably.

The Center of Excellence for Livestock Diseases and Human Health continues to exceed expectations. Approval is expected in 1986-87 for an expanded program and additional funding.

The College of Veterinary Medicine has received 300 applications for the 1986-87 class, although only 60 will be admitted. The selective admissions policy helps maintain a high level of instruction and educational achievement.



Research



Research has been defined as critical inquiry and examination aimed at the discovery and interpretation of new knowledge. However, in recent years the word "research" has taken on some esoteric connotations. The word conjures up images of spliced genes, laser beams, and whirling computer tapes. It's all those things, but more.

Research is the process by which we expand all knowledge. It's how we assure ourselves that the instruction we provide our students is based not on last year's knowledge, but today's.

Research is an historian reading through the papers of President Andrew Johnson, it's an anthropologist analyzing a bone fragment, it's UTK's professor Gary Sayler tracking genetically engineered organisms.

The state's agriculture community has long been the beneficiary of research efforts at the UT Institute of Agriculture. Through its pioneering soil conservation studies, the institute earned an international reputation while helping farmers control erosion.

A 20-county area of West Tennessee, where soil erosion is 10 times the national rate, has been the focus of the research. One outcome has been development of a no-till system of farming.

Sponsored research for government and industry worth approximately $9 million was underway this year at the UT Space Institute. The institute's considerable research capacity is expected to further increase as a result of a cooperative agreement signed this year with a major aerospace contractor.

The agreement was between UT and Calspan, Inc., one of the principal engineering operators at the U.S. Air Force's Arnold Engineering and Development Center, also near Tullahoma.

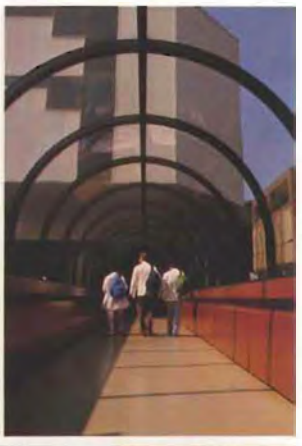
The pact created the UT Calspan Center for Aerospace Research, permitting UT and Calspan to collaborate on attracting research contracts that neither could secure individually.

The UTSI Center of Excellence in Laser Applications completed its first full year of operation by expanding to include research on laser applications in materials processing.

A $597,000 grant to continue UTSI research of energy conversion through magneto-hydrodynamics was awarded by Pittsburgh Energy Technology Center of the U.S. Department of Energy.

At UT Memphis, the Centers and Chairs of Excellence served to make faculty of the UT Memphis College of Medicine more competitive for the acquisition of federal research funds. Faculty investigators this year received $17.9 million in research grant and contract support, an increase of $2.9 million from last year.

The number of funded investigators at UT Memphis increased from 136 to 153 this year, and the number of grants and contracts increased from 231 to 261. The National Institutes of Health remained the primary source of research funding, providing $10.1 million, or more than one-half the total.



A major highlight of the year included UT Memphis' efforts in the successful community-wide campaign to persuade St. Jude Children's Research Hospital to remain in the city. The effort depended in part on expansion of UT Memphis' research capabilities. Toward that goal, the General Assembly approved special funding for five Chairs of Excellence in pediatrics and more than $18 million was appropriated to renovate older buildings to provide expanded research facilities.

Of all UT research efforts, perhaps the most ambitious is UT Knoxville's Science Alliance with Oak Ridge National Laboratory. The goal of the alliance is to further strengthen the quality of the East Tennessee area's science, education, research, and industrial technology development.



An integral part of the Science Alliance is the Distinguished Scientists Program. Its purpose is to attract scientists and engineers of national and international stature to the Knoxville-Oak Ridge area.

Each distinguished scientist carries a dual appointment as a full professor at UTK and as a distinguished scientist within an ORNL research division. Each position is funded by initial total annual support of $210,000, the cost shared equally by UTK and ORNL. The funds are allocated one-half for salary and the remainder for benefits and support of the scientist's research group.

Six distinguished scientists have been appointed. They are: Jerry Mahan in the Department of Physics, David White in the Department of Microbiology, Alan George in the Departments of Mathematics and Computer Science, Bob Uhrig in the Department of Nuclear Engineering, Phil Siemens in the Department of Physics, and Bob Hatcher in the Department of Geology. During the next four to five years a maximum of 30 appointments are planned.

An example of research outside the laboratory is the collaborative effort of three UTK learning researchers. Ohmer Milton, Howard Pollio, and James Eison made an exhaustive national survey of grading practices and attitudes.

Results of their research formed the basis of a book titled *Making Sense of College Grades*, published this year by Jossey-Bass, San Francisco. The researchers talked with students, faculty, parents, and business recruiters about their perceptions and uses of grades.

Dr. Pollio has also achieved considerable notoriety for his research on the subject of laughter.

Research at UT Chattanooga's Center for Excellence in Computer Applications was expanded this year to include a variety of new projects. The expansion will permit work on computer curricular integration, knowledge engineering, and adaptation of computers for use by handicapped persons. The primary focus of the center is development of computer applications using existing combinations of technologies.

Private Giving

It is a particular pleasure to describe in this section the generosity of the University of Tennessee's alumni, friends, corporations, foundations, and other associations.

Thanks to their support, the University's Development Program is the envy of many public institutions. In some gift categories, we set the pace not only for public institutions in the South, but also for major public universities nationwide.

We are extremely proud of the work that is done on behalf of the University by members of the Development Council, the development advisory groups at each campus, and the many other individuals who work in a volunteer capacity in behalf of the University's private fund-raising program.

Private gifts to UT during 1985-86 increased 22 percent and totaled a record $27.8 million. The significance of the new record becomes even more apparent when we recall that only ten years ago we were delighted when annual gifts totaled $5 or $6 million.

Special mention should be made of the UT National Alumni Association's extraordinary achievements in its effort to assist the University. As the association prepared to celebrate its 150th anniversary beginning in October, it achieved yet another benchmark in a series of benchmark years for alumni giving.

Through the UT National Alumni Association, nearly 36,000 contributors gave $3.3 million in 1985-86. Both these figures represent new records and insure that UT will maintain its solid, number-one ranking among public universities in the South. We are also confident that these gift-giving records will maintain our ranking among the top ten public institutions nationwide.

Since the UTNAA's Annual Giving Program was established in 1962, more than $30 million has been given for academic enrichment of UT campuses statewide.

Primary emphasis of the annual giving program has always been to provide scholarships for talented and deserving students and to recognize outstanding faculty. The UTNAA scholarship program began in 1953 with six $100 awards. Since then, thousands of students have received scholarships valued in the millions of dollars.

At UT Memphis two significant deferred gifts were announced. In both cases, the donors requested that no particular publicity be given to the gifts. One gift of $760,000 will eventually benefit the Bowld Hospital programs, and a $1.4 million gift will benefit the College of Medicine.

In addition, the faculty in the College of Medicine's Department of Obstetrics and Gynecology contributed $500,000 to match state funds for a Chair of Excellence in that department.

This year ends the third and final year of UT Martin's Campaign for Quality, the first major capital campaign attempted for that campus. We had hoped to raise $2 million through the campaign—a figure achieved last year with a full year still to go. The final total, expected to be announced soon, is likely to be significantly higher. In addition, Mr. and Mrs. Horace Dunagan of Caruthersville, Missouri, made a gift of $100,000 for Martin

scholarships. A special campaign to solicit gifts and pledges for the Pacer Stadium surpassed its $300,000 goal.

UT Chattanooga was able to match state funds for four Chairs of Excellence, thanks to gifts from American National Bank, Provident Life and Accident, the Tonya Memorial Foundation, and the Westend Foundation. A property transfer by Hospital Corporation of America to UTC was valued at $1.5 million. UTC also received an unrestricted gift commitment of $2 million from a donor who asked for no publicity.

UTC is particularly fortunate to enjoy the support of the University of Chattanooga Foundation, one of the most successful private foundations supporting a state-assisted university. The UC Foundation provides funds for numerous special projects and research programs.

This year more than 100 UTC faculty took advantage of the opportunity to "borrow" UC Foundation funds at no interest for the purchase of computers. The foundation also provided funds for establishment of a Council of Scholars, which distributes cash awards and memberships to deserving professors.



An outstanding gift of $1 million was received by the UT Knoxville College of Engineering from a former chairman of the UT Development Council, Bob Condra, and his wife, Evelyn. The gift will be used to match two Chairs of Excellence.

ALCOA continued its long-standing tradition of support for UTK with gifts totaling $173,000 to the Colleges of Business and Engineering. The Fred M. Roddy Foundation added to its magnificent private support record with gifts of $125,000. The Roddy Foundation has now given the University more than $1.8 million.

Faculty and staff of the UT Institute of Agriculture this year made pledges and gifts of more than $750,000 to lay the foundation for a major fund-raising drive which will be publicly announced in November.

Named the Campaign for Agriculture, the development effort this year had a primarily internal focus. Faculty and staff made their own commitments, solicited major gifts, recruited volunteer leadership, and finalized plans for the three-year campaign. So far, 87 percent of the institute's faculty and staff have contributed or pledged to the campaign.

Considering the correlation between the Chairs of Excellence and private giving, it would be appropriate at this point to summarize the program. The following data describe the 1984-85 and 1985-86 chairs:

Campus	Allocated	Approved and Matched	Unapproved or Unmatched
UTK	6	5	1
UTC	4	3	1
UT Martin	3	1	2
UT Memphis	5	5	0
UTSI	1	0	1
Reserve	2	0	2
Totals	21	14	7

Of the assigned unmatched or unapproved chairs, UTC has a match in hand for one, and UTK for one. UTC has a commitment for one unassigned Chair and UT Memphis has two commitments for two unassigned Chairs.

Public Service

The UT Agricultural Extension Service has long responded to the needs of Tennessee agriculture, but not since the Great Depression has the state faced a farm crisis like the one which occurred during 1985-86.

Caught in a financial bind between high production costs and low prices for farm products, many Tennessee farmers turned to the extension service for assistance.

The extension service responded with financial management programs for farmers facing foreclosure and with marketing meetings to help farmers learn how to sell their products for higher profits.

Distressed farmers in 11 Tennessee counties were the original target of the project, funded by a federal grant. The effort was later enlarged to encompass another 40 counties.

The General Assembly has since provided funding to work with financially distressed farmers throughout the state.

A special effort was made by the extension service to help farmers cope with the stress caused by financial concerns. All extension agents received special training to help them identify stress symptoms, learn stress management techniques, and determine when to refer individuals to mental health counselors.

The UT extension service is just one of three UT components usually associated with the University's "outreach" or public service mission. The other two are the Institute for Public Service and the Division of Continuing Education. All three components are dedicated to helping Tennesseans improve the economic vitality of their local communities.

IPS/CE cooperated this year to provide in-plant training for factory workers learning statistical quality control. Two other offices of IPS and CE, the Municipal Technical Advisory Service and the Center for Government Training, also worked together to provide strategic planning sessions for Tennessee cities.

In addition to new levels of inter-agency cooperation, emphasis was given to enhanced linkages with state government departments. Examples:

- MTAS developed a nationally recognized wastewater technical assistance program for the Tennessee Department of Health and Environment. UT recently was asked by the U.S. Environmental Protection Agency to develop a pilot project, based on the MTAS program, that would have nation-wide application.
- The Center for Government Training managed the final year of a 36-month training program to improve the dispatching efficiency and driving safety of local emergency ambulance services.
- The Center for Government Training and the Center for Industrial Services assisted the Governor's Safe Growth Team and the Tennessee Department of Health and Environment in planning and conducting the first Governor's Conference on Pollution.

We expect UT to become increasingly involved in efforts to assess the abilities of Tennessee communities to provide government services for new industry. The legislature this year appropriated funds to the Tennessee Advisory Commission on Intergovernmental Relations with the expectation that it will contract with IPS and UT Knoxville's Center for Economic and Business Research.

As we noted earlier in this report, UT is already an acknowledged leader in the economic development of the state.

This leadership role placed us in the national spotlight last fall when President Ronald Reagan visited our Knoxville campus to learn first hand about UTK's cooperation with private enterprise.

Participants in the presidential briefing included Dr. Ralph Gonzalez, a UTK engineering professor whose work in image and pattern analysis led to the establishment of the Knoxville firm of Perceptics, Inc.; and Dr. Randy Henke, a UTK botany professor whose research on plant tissue cultures spawned another Knoxville company, Phyton Technologies. We are proud of UTK's association with these businesses, as well as with others.

UT Chattanooga is integrally involved in Chattanooga's effort to increase the economic vitality of that community.

UT Memphis' activities in health care, research, and health science education form the basis of the Biomedical Research Zone in the city's downtown area.

Our commitment to Tennessee's continued economic growth is also reflected in the work of the UT Research Corporation. Founded in 1934, the UTRC assists researchers and inventors through the patent and licensing process. An example is Dr. Preston Dorsett's test for rubella. Marketed as "Rubascan," the test was developed at UT Memphis and is used by physicians throughout the United States.



Last December eight UT Memphis faculty members were recognized for their patents: Dr. Edsel Bucovaz, professor of biochemistry; Dr. Nathan H. Sloane, professor of medicine-endocrinology; Dr. Andrew Lasslo, professor and chairman of medicinal chemistry; Dr. Marion Dugdale, professor of medicine; Dr. Patricia W. Belew-Noah, assistant professor of dermatology; Dr. Edwin H. Beachey, professor of medicine; and, Dr. E. William Rosenberg, professor of dermatology.

Last month, five UT Knoxville professors whose work has produced patents were honored by the UTRC. Honored were Dr. James L. Adcock, associate professor of chemistry; Dr. Mack A. Breazeale, professor of physics; Dr. Leslie G. Hickok, associate professor of botany; Dr. Thomas Kerlin, professor of nuclear engineering; and Dr. Gleb Mamantov, professor and head of chemistry.

UTRC's services are also available to members of the general public. Individuals outside the University can come to UTRC for assistance in commercialization of their inventions.

UT's Venture Capital Center, established at the suggestion of Gov. Lamar Alexander, helps inventors and researchers find financial support to turn their discoveries and ideas into commercial products.

The Venture Capital Center also promotes new business start-ups. Approximately 44 proposed or on-going companies were interviewed this past year for proposed venture capital funding. Three of these companies received a total of $14.5 million, with another $6 million in debt financing. The Research Corporation and the Venture Capital Center serve as models for similar efforts throughout the nation.

University-Wide Developments

Overall University enrollments declined slightly during 1985-86, although the UT Chattanooga campus reported an increase. The general enrollment decline reflected the gradual raising of University admissions standards and a nationwide decline in the number of college applicants.

A comparison of 1984 and 1985 enrollments:

Campus	1984	1985
Chattanooga	7,474	7,564
Knoxville	26,158	25,397
Martin	5,366	5,053
Memphis	1,883	1,800
Total	40,881	39,814

UT allocated funds during 1985-86 for several major capital construction and maintenance projects. Largest of these projects was a $7.5 million consolidated animal facility at UT Memphis. Other allocations included $3.7 million for library equipment at UT Knoxville, and $2 million for renovation of UTK's Dabney Hall.

Capital outlay funds approved this spring by the General Assembly for UT during 1986-87 included the following projects:

• UT Memphis Library Nursing Building	$1,500,000
• UT Memphis Pathology Building Renovation	3,425,000
• UTK Dabney/Buehler Renovation	7,000,000
• UT Memphis Mooney Building Renovation	2,050,000
• UT Agriculture Institute West Tennessee Office Building	4,000,000
• UT Memphis New Surge Space	3,625,000
• UT Memphis Wittenborg Building Renovation	7,675,000
• UT Martin Agriculture Pavilion Addition	700,000



Capital maintenance funds approved for UT during 1986-87 included the following projects:

Knoxville

• Roof repairs and replacement	$395,000
• Glocker Business, replacement of chiller and air conditioning upgrade	450,000
• Electrical system, E. White Ave.	750,000

Chattanooga

• Roof repairs and replacement	210,000
• Grote Hall, modify air conditioning	275,000
• Founders Hall, air conditioning and electrical renovations	650,000
• Patten Chapel, upgrade mechanical systems	170,000

Space Institute
- Resurface roads at main academic building 90,000

Martin
- Cooper Hall Renovation 980,000

Memphis
- Child Development Center, new cooling tower 130,000
- Faculty and Hyman Buildings, extension of hot and chilled water lines 325,000

Institute of Agriculture
- Spinning Laboratory, renovation 150,000
- Fiber Research Laboratory, renovation 120,000

System-wide
- Asbestos removal 316,000

Additional appropriations approved for UT during FY 86-87 are noted below in a comparison with FY 85-86 appropriations.

	Appropriated 1985-86 (Note A)		Appropriated 1986-87 (Note B)
Formula Units			
UT Chattanooga	$ 19,647,600		$ 22,509,000
UT Knoxville	94,803,400		106,133,000
UT Martin	15,763,700		17,506,000
Sub-total formula	$130,214,700		$146,148,000
Non-Formula Units			
Medical Units	$ 29,571,500		$ 34,103,000
College of Medicine	20,454,800		22,652,000
Family Medicine	2,399,800		2,575,000
Agriculture			
Experiment Stations	10,232,300		12,208,000
Extension Services	13,022,900		15,022,750
College of Veterinary Medicine	6,745,300		7,619,000
Public Service and Continuing Education			
Institute for Public Service	1,760,900		2,106,800
MTAS	777,400		891,000
CTAS	574,400		637,000
Continuing Education	1,474,100	(Note C)	1,282,000
UT Space Institute	2,716,100		3,426,000
University-wide Administration	1,783,800		1,972,000
Sub-total non-formula	$91,513,300		$104,494,550
Grand Total	$221,728,000		$250,642,550

NOTES:
A. Does not include $8,222,670 appropriated to UT institutions in FY 1985-86 for Centers of Excellence, nor does it include UT's portion of $10 million for Chairs of Excellence.
B. Does not include $10,401,000 appropriated to UT institutions for FY 1986-87 for Centers of Excellence, nor does it include UT's portion of $10 million for Chairs of Excellence.
C. Included a one-time appropriation.

PROFILES

We have profiled eleven special people whose efforts exemplify the University of Tennessee's traditions in excellence.



Henrietta Bada

Babies born prematurely are at high risk to suffer strokes during the first five days of life. Dr. Henrietta Bada wants to find out why.

An associate professor of pediatrics at UT Memphis' College of Medicine, Bada is principal investigator of a multi-department research team trying to solve the problem.

The researchers use a computer to keep continuous (32 times per second) records of the infants' blood pressure, pulse, oxygen, and nitrogen levels.

Early, and still tentative results, indicate the babies may be almost frightened to death by sudden noises or movement around their cribs.

Bada's research is funded by a $1.2 million grant from the National Institutes of Health.



William M. Bass

Dr. Bill Bass, head of the UTK Department of Anthropology, is 1985-86 "Professor of the Year." Bass was selected for the honor from among 256 nominations received by the Council for the Advancement and Support of Education. The nominees represented 41 states and Canada.

"I think if you are a good teacher, you need to do research in your field," says Bass. "If you are going to do research, you need to share the results of that research with your students and with society.

"I think I should repay society by using some of the things I've learned in anthropology to help solve some of the problems we face today.

"It's exciting to be at a University that is concerned about and is raising its standards in the pursuit of academic excellence. Through Tennessee's Better Schools Program, this institution is receiving the funds to attract and retain the very best faculty.

"Innovative efforts like the Centers and Chairs of Excellence say to the nation that Tennessee is serious about being a leader in educational reform."



Litton Cochran

Litton Cochran gives an annual speech to McDonald Hamburger Restaurants scholarship recipients. Cochran, since 1964, has given nearly $150,000 in academic assistance to UT Knoxville students. Cochran has also served as president of the UT National Alumni Association and on the UT Development Council. An excerpt from his speech—

"In those days, Mr. Jack Walker was treasurer of the University of Tennessee, so I went to see him and I told him my story. It wasn't an especially good story. I couldn't offer any proof that I was exceptionally bright, that I was somehow outstanding. I just told him the truth—that I wanted an education, but I couldn't afford it.

"At the risk of losing his reputation as a man wise with his money, Mr. Walker made me a loan so I could finish my education. There was one stipulation—he made me promise that if I was ever in a position to do the same for someone else, that I would.

"I'm here today, keeping that promise. There's only one stipulation. I don't expect you to repay me. I don't want you to. I do hope, however, that if you're ever in a position to do the same for someone else, you will."



Charles Davis

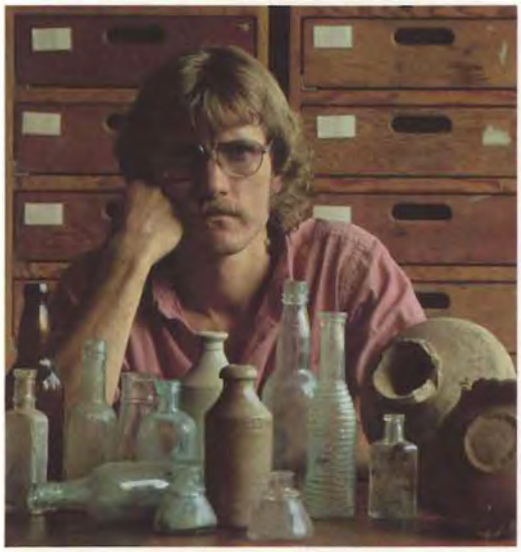
"Anybody who leaves this University saying he's been cheated of a good education, has probably cheated himself," says Charles Davis, free-safety for the football Volunteers. "An education is only as good as what you put into it."

One of seven UT Knoxville students recognized this spring by Chancellor Jack Reese for extraordinary leadership and service to the campus, Davis is proof positive that athletics and scholarship are compatible.

"We're here to get an education just like anyone else," says Davis. "Our scholarship papers make it clear that sports is not the only reason we're here."

With another season to play because he was red-shirted as a freshman by Coach Johnny Majors, Davis completed his undergraduate studies in the spring and will do graduate work in political science this fall.

Davis intercepted three passes during the 1985-86 season. One of the three was during the Vols' romp over the University of Miami in the Sugar Bowl.



Nicholas Honerkamp

If Dr. Nicholas Honerkamp can help his students at UT Chattanooga, he'll do it—even if it means wearing a chicken mask over his head.

The chicken mask sometimes comes in handy on exam day when students are on-edge. Honerkamp uses the mask to "break the ice" so the students will relax and, hopefully, score better on the test.

Honerkamp holds a joint appointment as a UTC professor of anthropology and director of the Jeffrey L. Brown Institute of Archeology.

A graduate of the University of Florida with master's and doctoral degrees in anthropology, Honerkamp recently served as principal archeological investigator for a prehistoric and historic site test program near Savannah, Georgia.

The professor continues to work on historic and prehistoric Heritage Place Site in Chattanooga, sponsored by Stone Fort Land Company.



Joseph L. Huffine

Despite economic problems which faced American agriculture this past year, Joe Huffine and other graduates of the UT Institute of Agriculture's College of Agriculture are optimistic.

"The American agriculture system will overcome its difficulties," says Huffine, a June graduate. "Like many other American industries, agriculture is going through a metamorphosis."

A survey of recent UT College of Agriculture graduates indicated more than 95 percent were pleased with their education and the opportunities that education afforded.

Huffine spent the summer working on the family farm near Jonesboro, but he aspires to a career promoting agriculture.

"What I'd really like to do," says Huffine, "is eventually find a job that would let me be a spokesman for agriculture. I'd like to spread the good word about agriculture."



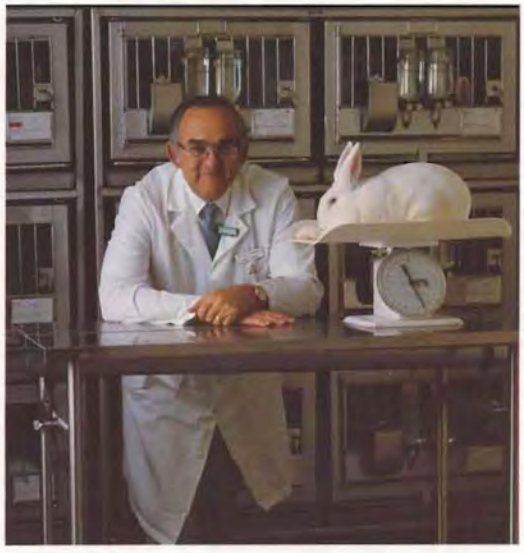
Stephen T. Kitai

Dr. Stephen T. Kitai is an eavesdropper. He listens in on "conversations" to learn the secrets of Parkinson, Huntington and Alzheimer. The conversations are between brain cells and the culprits with the long names, well-known neurological disorders.

Why communication signals within the brain are sometimes interrupted, muddled, or confused has been the focus of Kitai's research for many years.

Director of the UT Memphis Neuroscience Center of Excellence, Kitai offers graduate students in psychology, biology, and biochemistry the opportunity to study in his program while working toward advanced degrees.

Kitai recently received the coveted Jacob Javits Award which assures funding of his research for seven years by the National Institutes of Health.



Ted McDonald

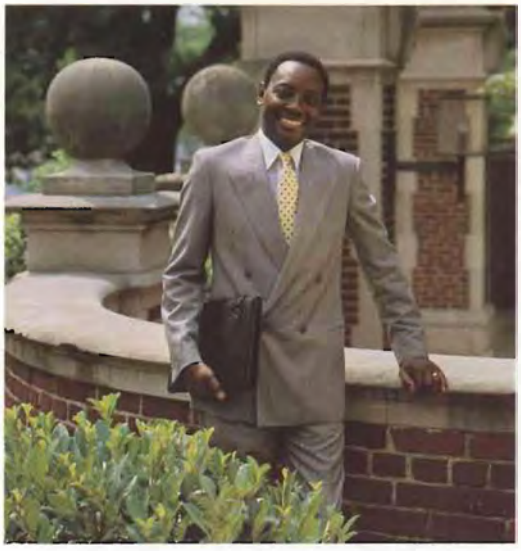
Dr. Ted McDonald, professor of animal science in the UT Institute of Agriculture's College of Veterinary Medicine, is one of the United States' foremost researchers in platelet physiology.

A Loudon County native and UT alumnus, Dr. McDonald is most noted for his discovery of the protein hormone thrombopoietin.

"Thrombopoietin," Dr. McDonald explains, "is critical to the survival of humans and animals—without it we would literally bleed to death."

McDonald hopes his research will lead to production of synthetic thrombopoietin which could help an estimated 50,000 people suffering from certain genetic diseases.

The professor earned his undergraduate degree in animal husbandry. After a two-year stint as an assistant UT Extension agent in Henry County, McDonald earned a master's degree. An interest in pathology/physiology led McDonald to make a career change, followed by more study and a doctorate in animal science/biochemistry at UT in 1965.



Irvin D. Reid

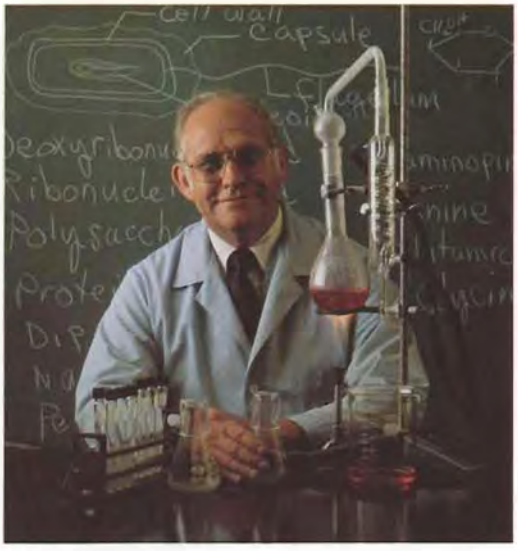
Dr. Irvin D. Reid, dean of the UT Chattanooga School of Business Administration, thinks his faculty and the Chattanooga business community have a lot to learn from each other.

To bring the two groups together, Reid has established community outreach programs for the school.

A program called Executive-In-Residence brings community business leaders to campus to consult with business students and faculty. The executives also teach occasional courses and seminars.

Another insight on "real world" business practices comes through the school's Faculty Fellowship Program. Through the program, faculty members work as interns in the business community.

"Instruction is enhanced by faculty who bring first-hand business experience into the classroom," says Reid, who earned master's and doctorate degrees in business and applied economics at the Wharton Graduate School of the University of Pennsylvania.



Jimmy N. Trentham

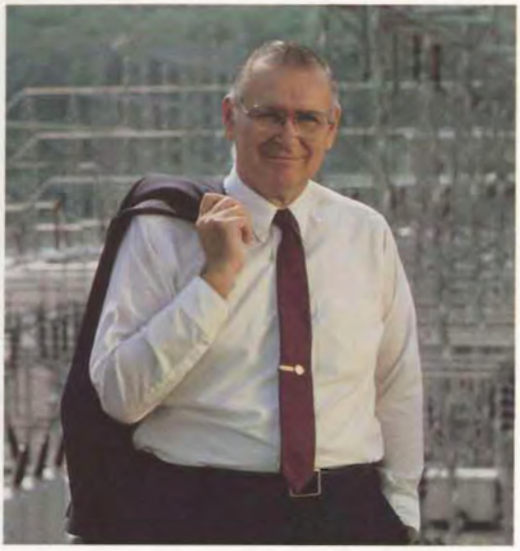
"I'm giving two tests today," Dr. Jimmy N. Trentham sometimes tells his biology classes at UT Martin, "one in biology, the other in honesty. If you fail one, let it be biology."

Trentham believes undergraduate education should go beyond lectures and textbooks, facts and figures, to help students establish the priorities which will guide them through adult life.

Trentham, who came to UT Martin in 1965, is fully committed to UTM's role as an institution dedicated primarily to undergraduate instruction.

"What we do at UTM is teaching," says Trentham, "the public service and research is to keep us alive academically, not necessarily to advance knowledge.

"It's exciting when I can lead a group of students to understand something very complex. Teaching involves taking complex concepts and simplifying them so that others can understand. Teaching is the art of simplifying without distorting."



Robert E. Uhrig

Dr. Robert E. Uhrig is representative of the teaching scientists joining the UT Knoxville faculty as part of the campus' Distinguished Scientist program. An expert in the field of nuclear reactor analysis, Uhrig leads teaching and research programs at UTK and Oak Ridge National Laboratories.

With safety technology based on artificial intelligence systems to quickly evaluate nuclear reactor functions, accidents such as Three Mile Island might never have occurred, says Professor Uhrig.

Uhrig, who came to UTK in early 1986, was vice president of Florida Power and Light for the past 12 years and former dean of the College of Engineering at the University of Florida.

Other Distinguished Scientists at UTK include Dr. Robert D. Hatcher Jr., geologist; Dr. Philip J. Siemens, physics; Dr. J. Alan George, mathematics and computer science; Dr. David White, biologist and physician; and Dr. Gerald Mahan, physics.

UTK and ORNL plan to add up to 30 Distinguished Scientists during the next few years.

Financial Perspective



Increased state appropriations, unprecedented private giving, and sound management combined during 1985-86 to put the University of Tennessee in its best financial condition ever.

The University's improved financial position gave added credence to UT's reputation among peer institutions for astute money management.

UT's reputation for excellence in fiscal management was achieved by individuals committed to progress through responsible decision making and implementation of innovative management techniques.

Evidence of the effectiveness of this financial management approach was represented by many cost reduction measures and millions of dollars saved.

The University has pioneered in several new fiscal management techniques. Among higher education institutions, UT was first in the nation to provide traveling faculty and staff with charge cards to replace an inefficient and costly cash-advance system.

The charge card system earned a Cost Reduction Incentive Award sponsored by the National Association of College and University Business Officers and the United States Steel Foundation.

UT in 1985 also became the first university in the nation to combine a variable rate bond issue with a line of credit to finance major equipment purchases.

The University secured this special arrangement through the Tennessee School Bond Authority, saving more than $1.1 million in interest charges during the first 18 months following issue of the bonds.

For four consecutive years, UT has been ranked first among public institutions in the total market value of funds in charitable remainder trusts, according to the National Association of College and University Business Officers. At June 30, 1986, the University had $18.9 million in remainder trusts.

These trusts represented donations made to the University with the stipulation that periodic payments be made to either the donor or other designated recipient from the income earned by the fund. Upon the death of the beneficiaries of the trust, the trust is terminated and the principal is used for the benefit of the University according to the wishes of the donor.

UT continued to be well represented on national organizations for higher education finance. For example, UT Vice President for Business and Finance Emerson H. Fly recently was appointed chairman of a national committee asked to resolve a dispute about accounting principles for higher education institutions.

Revenue Growth

In the three years since Gov. Lamar Alexander and the General Assembly started the Better Schools Program, the University has received more than $200 million in new state appropriations.

These additional appropriations, together with additional revenues from student fees and income from a variety of other sources, brought more than $248 million in new operating funds to the University.

Capital outlay funds for major construction and renovation projects added another $89 million for a total of more than $337 million in additional funds.

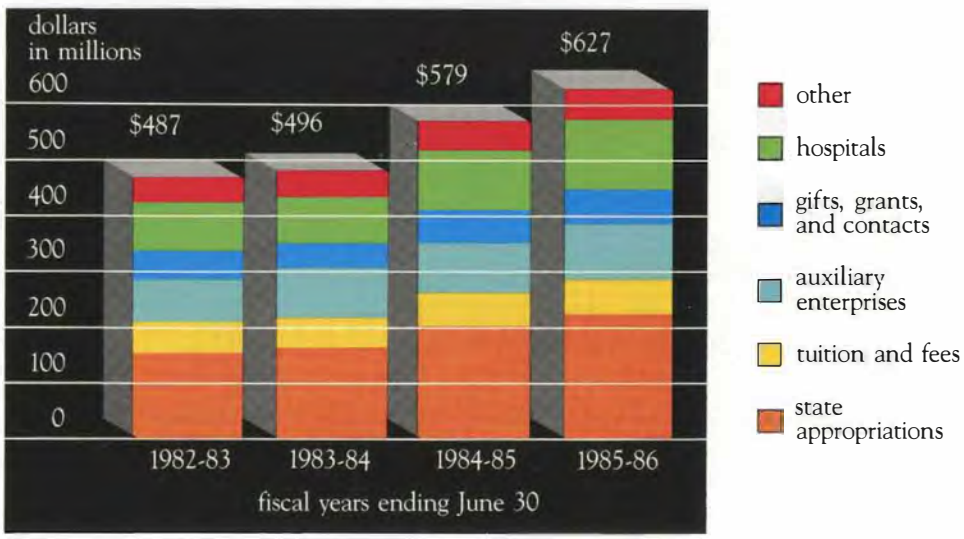
The increase in funding provided by the Better Schools Program afforded the University an opportunity to correct some deficiencies and respond to a number of major funding priorities for improving the quality of academic programs and supporting services.

Student fees were raised in 1985-86, and similar increases are scheduled for next fiscal year. The fee adjustments paralleled rising levels of state appropriations.

Fees are based on a Tennessee Higher Education Commission policy which provides for a 70/30 ratio between state funding and student fees. Fee increases varied campus to campus, ranging from a low of nine percent to a high of 20 percent.

Revenues from auxiliary enterprises, hospitals, grants, contracts, and other sources also increased to bring the University's total revenues to $625 million for the year. The following chart shows the growth in total revenues during recent years.

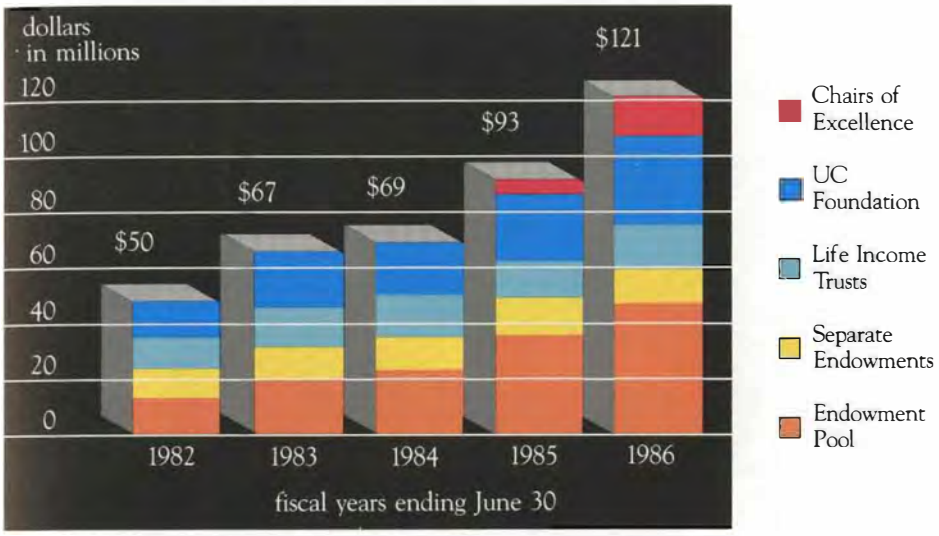
GROWTH IN CURRENT REVENUES



Investment Program

Another element in the financial strength of the University was the growth in endowment and other funds invested for the benefit of the University. The market value of these funds surpassed the $100 million level during 1985-86. The following chart illustrates this growth from $50 million in 1982 to $121 million at June 30, 1986.

FUNDS INVESTED FOR BENEFIT OF UT



The University's philosophy for investment of endowment funds related directly to the perpetual nature of these funds. Consideration was given to current program spending demands and the need to protect the purchasing power of the funds over an unending time horizon.

The University's investment policies reflected an emphasis on increasing the value of individual endowment funds to offset inflation while generating sufficient income to meet the spending needs of programs. The University employed external investment counsel and consultants to help generate superior investment returns.

The University's Consolidated Investment Pool consisted of 641 endowment funds which represented the core of UT's invested funds. By pooling the 641 endowed funds for investment purposes, closer supervision was possible and each eligible endowment and quasi-endowment had the advantages of participation in a diversified portfolio of carefully selected investments.

This endowment pool tripled in value during the past four years, from a total market value of $16 million in 1982 to $48 million at June 30, 1986 (exclusive of income). The growth resulted from $17 million in new gifts for endowment and $15 million from investment performance.

The pooled fund allowed each contributing endowment fund to participate in the income and capital appreciation of the pool on a per share basis equal to its contribution into the pool.

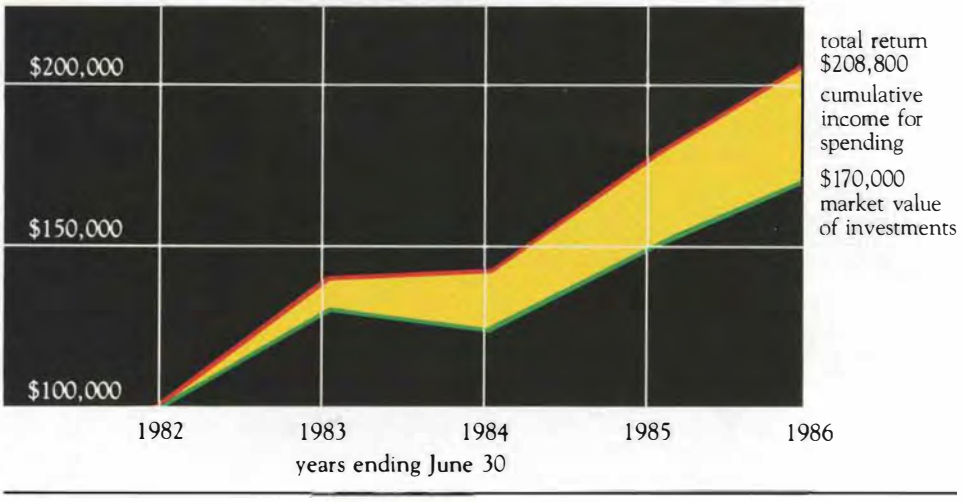
For the year ended June 30, 1986, the pool had appreciation in market value of 14.6 percent and income of 6.3 percent, for a total return of 20.9 percent. The average annualized return for the past four years was 23.3 percent.

This investment performance can be illustrated by the chart on page 26. The chart illustrates a typical endowment fund with a market value of $100,000 at June 30, 1982. Assuming that this endowment fund

purchased shares in the pooled fund at that date, the current market value of the endowment fund at June 30, 1986, would be $170,600.

In addition to market value appreciation, the fund would have earned $38,200 in income. The cumulative income added to the market value growth yielded a total return represented by the top line on this chart. The total investment return was $108,800 over four years on the original investment of $100,000.

ILLUSTRATION OF ENDOWMENT INVESTMENT PERFORMANCE



The University also had $10 million in separately invested endowment funds. These funds were separately invested due to donor restrictions, characteristics of the investments, or other considerations.

The University's total endowment of $58 million, with the $19 million in charitable remainder trusts mentioned earlier, provided a total market value of $77 million for investments reflected on the financial statements.

The University of Chattanooga Foundation

The University of Tennessee at Chattanooga is the sole income beneficiary of the University of Chattanooga Foundation. The foundation is a separately incorporated, not-for-profit entity organized for the purpose of promoting the educational mission of the University of Tennessee at Chattanooga.

The activities of the Foundation are governed by a Board of Trustees. The financial statements of the University do not include financial data of the Foundation.

The market value of the Foundation assets at June 30, 1986, was $29.5 million which compared to $25.5 million the previous year. During the year ended June 30, 1986, the Foundation provided $1.5 million to UTC for support of designated projects. Since the Foundation was created 17 years ago, it has contributed more than $12.6 million to UTC.

Chairs of Excellence Endowment

The General Assembly appropriated $17.5 million during the past three years to establish a Chairs of Excellence Endowment for the University of Tennessee. The appropriations provided for the Chairs of Excellence Endowment were made as an irrevocable trust by the State Treasurer.

For the University to activate the state's portion of the endowment, it must match the appropriation on a one-to-one basis. A UT Chairs of Excellence Endowment totaling $35 million will be established when the matching is completed.

The Chairs of Excellence Endowment was created to enable the University to attract, retain, and support outstanding faculty members.

As of June 30, 1986, the University had matched 14 Chairs of Excellence, each endowed by $1 million. At that time, four commitments for matching additional chairs had been made by donors with matching contributions scheduled for early 1986-87.

The financial statements of the University do not include financial data of the Chairs of Excellence Endowment.

Cash Management

The University of Tennessee, unlike many public universities in other states, has direct responsibility for management of its financial resources.

Because the University directly benefits from interest earnings, the University has carefully structured a centralized cash management program to keep every dollar constantly at work.

Temporary investment of idle cash was an important revenue source for UT, and all campuses and units shared in the returns generated by this program.

The average return on cash management assets during 1985-86 was 8.89 percent compared with 7.27 percent paid by a representative institutional money market fund during that period.

A key factor in the ability to generate this additional return resulted from an investment strategy initiated in 1983. The higher average returns provided by the strategy allowed the University to earn more than $3.5 million in additional interest since 1983 with no significant increase in risk.

Another factor in this cash management success is a system which provided for deposits to be made in local banks across the state and then automatically concentrated in a Knoxville bank account for immediate investment.

In addition, the University Treasurer's Office recently installed a Treasury Management Information System to allow computerized daily monitoring of bank balances and transaction activity.

Self-Supporting Operations

The UT Memorial Research Center and Hospital at Knoxville and the William F. Bowld Hospital at Memphis are self-supporting operations with income provided from patient care activities.

Despite increased competition in the health care industry and a decline in patient census in hospitals in the Memphis and Knoxville areas, both hospitals closed the 1985-86 year with a profit.

The Bowld Hospital, which incurred a $10 million debt to finance working capital in 1983, was significantly ahead of the original repayment schedule.

Although the loan was to be amortized during a 10-year period, more than $4 million in early principal payments have been made by the Bowld Hospital to reduce the remaining balance of the loan to under $4 million. The Bowld Hospital is now five years ahead of the original repayment schedule.

Other self-supporting operations of the University include residence halls, dining facilities, parking, bookstores and the men's intercollegiate athletics program at UT Knoxville. These auxiliary enterprise operations are expected to generate sufficient revenue to cover all operating expenses and retire debt on schedule.

These operations also are expected to cover maintenance and repair expenses from current operations revenues or accumulated reserves. Auxiliary enterprise operations produced $62 million in revenues during 1985-86 and operated at a profit.

Capital Outlay Programs

Expansion of University facilities continued at a record pace during the year. Expenditures for capital projects totaled $46.9 million during 1985-86. During the period, 20 projects were completed at a cost of $11.4 million.

Twenty-six additional projects worth $87.4 million were under construction. Funded for construction and in the design stage were an additional 18 projects with an estimated value on completion of $31.6 million.

All active projects, including those completed during 1985-86 and at various levels of completion, totaled $130.5 million. A summary of major capital construction projects completed and underway can be found on pages 48 and 49 of this report.

UT's major capital maintenance projects were funded by the legislature through a program of restricted appropriations. The program has helped preserve the state's investment in educational facilities by providing for repairs and renovations. The legislature appropriated $5 million for major maintenance and renovation projects during 1986-87 at UT.



FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

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Management Responsibility for Financial Statements

The financial statements on the following pages have been prepared in general conformance with *College and University Business Administration*, which sets forth generally accepted accounting principles for colleges and universities. The management of The University of Tennessee is responsible for the integrity and objectivity of these financial statements.

Management believes that the University's highly developed system of internal accounting controls provides reasonable assurance that assets are protected and that transactions and events are properly recorded. The system of internal controls is maintained by establishment and communication of fiscal policies and procedures, careful selection of qualified financial staff, and an extensive program of internal audits and management reviews.

The financial statements have been audited by the State of Tennessee, Comptroller of the Treasury, Division of State Audit. The auditor's report, as shown on page 41, is based on audit procedures described in the first paragraph of their report, which include obtaining an understanding of University systems, procedures and internal controls, and performing tests and other auditing procedures sufficient to provide reasonable assurance that the financial statements neither are materially misleading nor contain material errors.

The statements contained in this report are intended to provide a picture of the flow of financial resources of the University during the fiscal year 1985-86 and the balances available for the future. A separate publication entitled *Report of the Treasurer 1986* contains additional details, supporting schedules, and appendices and is designed to supply analysis of important items summarized or consolidated in the financial statements of this report. The publication is available for those who wish to make a more extensive analysis of the University's operations.



Respectfully submitted,

A. David Martin
Treasurer



Emerson H. Fly
Vice President for Business and Finance

Balance Sheet

June 30, 1986 — With Comparative Figures at June 30, 1985

ASSETS

CURRENT FUNDS	1986	1985
Unrestricted		
General		
Cash and Cash Equivalents (Note 3)	$ 46,575,201.67	$ 43,799,049.04
Interest Receivable	2,228,526.82	1,858,791.09
Accounts Receivable (Net After Reserve of $908,296.00)	5,382,396.36	4,686,567.65
Inventories (Note 5)	4,750,058.38	4,307,429.80
Prepaid Expenses and Deferred Charges	957,428.18	721,891.38
Due From Other Funds	24,611.73	8,615.83
Total General	$ 59,918,223.14	$ 55,382,344.79
Auxiliary Enterprises		
Cash and Cash Equivalents (Note 3)	$ 11,387,766.16	$ 10,751,337.36
Accounts Receivable (Net After Reserve of $1,572,262.11)	1,407,875.35	1,460,183.61
Inventories (Note 5)	3,464,521.77	3,263,470.80
Deferred Charges	31,795.72	37,419.49
Total Auxiliary Enterprises	$ 16,291,959.00	$ 15,512,411.26
Hospitals		
Cash and Cash Equivalents (Note 3)	$ 10,447,514.12	$ 3,538,062.14
Accounts Receivable (Net After Reserve of $14,150,609.42)	23,237,389.36	27,619,476.93
Inventories (Note 5)	1,204,358.91	1,276,904.51
Deferred Charges	102,228.00	1,784,685.50
Stocks (Note 6)	25,812.49	5,833.33
Total Hospitals	$ 35,017,302.88	$ 34,224,962.41
Total Unrestricted	$111,227,485.02	$105,119,718.46
Restricted		
Cash and Cash Equivalents (Note 3)	$ 15,950,258.91	$ 10,322,695.97
Accounts Receivable-Educational and General	12,183,844.80	12,868,476.41
Accounts Receivable-Hospital	502,116.53	412,673.66
Bonds (Note 6)	395,601.38	390,704.38
Stocks (Note 6)	39,672.26	41,008.25
Other Assets	35,000.00	61,940.00
Total Restricted	$ 29,106,493.88	$ 24,097,498.67
TOTAL CURRENT FUNDS	$140,333,978.90	$129,217,217.13
LOAN FUNDS		
Cash and Cash Equivalents (Note 3)	$ 2,143,244.91	$ 2,132,886.38
Interest Receivable	329,839.51	311,112.01
Notes Receivable (Net After Reserve of $1,352,695.82)	22,919,687.37	22,232,698.07
Real Estate (Note 6)		34,908.83
TOTAL LOAN FUNDS	$ 25,392,771.79	$ 24,711,605.29

LIABILITIES AND FUND BALANCES

CURRENT FUNDS	1986	1985
Unrestricted		
General		
Salaries and Wages Payable	$ 8,803,741.19	$ 8,152,217.78
Accounts Payable	11,378,859.02	10,848,082.31
Payroll Taxes Payable	6,975,296.32	6,007,575.05
Deposits and Advance Payments	1,632,887.77	1,011,229.45
Deferred Revenue	6,339,635.52	5,709,117.47
Revolving Accounts	3,469,617.56	2,587,531.96
Unemployment Compensation Provision	1,490,118.65	1,185,113.44
Fund Balances		
Reserve for Working Capital (Note 7)	9,659,856.86	8,882,601.86
Reserve for Encumbrances	3,413,418.81	4,344,561.34
Reserve for Unexpended Gifts	1,099,118.66	1,036,667.51
Allocated for Reappropriation	1,678,494.92	2,532,234.52
Unallocated	3,977,177.86	3,085,412.10
Total General	$ 59,918,223.14	$ 55,382,344.79
Auxiliary Enterprises		
Deferred Revenues	$ 8,195,118.71	$ 7,527,838.13
Accounts Payable	1,173,188.40	1,116,751.21
Fund Balances		
Reserve for Working Capital (Note 7)	4,872,397.12	4,580,597.83
Reserve for Encumbrances	370,735.92	332,382.30
Unallocated	1,680,518.85	1,954,841.79
Total Auxiliary Enterprises	$ 16,291,959.00	$ 15,512,411.26
Hospitals		
Accounts and Notes Payable	$ 8,746,063.08	$ 11,175,011.52
Accrued Wages Payable	978,240.99	841,968.39
Revolving Accounts	38,436.16	4,856.10
Fund Balances		
Reserve for Working Capital (Note 7)		
Memorial Hospital-Knoxville	21,477,051.01	25,040,674.14
William F. Bowld Hospital-Memphis	2,964,697.26	3,631,088.03
Reserve for Encumbrances		
Memorial Hospital-Knoxville	893,361.89	1,197,188.77
William F. Bowld Hospital—Memphis	953,981.60	382,103.89
Unallocated		
Memorial Hospital-Knoxville	2,323,404.01	(3,321,594.57)
William F. Bowld Hospital-Memphis	(3,357,933.12)	(4,726,333.86)
Total Hospitals	$ 35,017,302.88	$ 34,224,962.41
Total Unrestricted	$111,227,485.02	$105,119,718.46
Restricted		
Deposits	$ 50,538.27	$ 7,428.64
Accounts Payable	1,680,119.57	1,235,569.04
Fund Balances		
General	26,253,807.57	21,720,698.83
Auxiliary Enterprises	156,860.91	141,603.09
Hospitals	965,167.56	992,199.07
Total Restricted	$ 29,106,493.88	$ 24,097,498.67
TOTAL CURRENT FUNDS	$140,333,978.90	$129,217,217.13
LOAN FUNDS		
Privately Sponsored Loan Funds-Restricted	$ 2,227,364.45	$ 2,178,804.27
Institutional Loan Fund Balances-Restricted	1,580,747.64	1,556,697.15
Federal Participation Loan Fund Balances-Restricted	21,584,659.70	20,976,103.87
TOTAL LOAN FUNDS	$ 25,392,771.79	$ 24,711,605.29

Balance Sheet

June 30, 1986 — With Comparative Figures at June 30, 1985

ASSETS

	1986	1985
ENDOWMENT AND SIMILAR FUNDS		
Cash and Cash Equivalents (Note 3)	$ 7,218,701.35	$ 4,469,649.47
Accounts Receivable	505,159.20	
Notes Receivable	363,218.48	630,141.55
Bonds (Note 8)	15,651,463.87	15,220,300.79
Assets With The University of Chattanooga Foundation, Inc.	1,000,000.00	1,000,000.00
Assets Held by Others	125,690.00	125,690.00
Stocks (Note 8)	23,381,626.75	20,460,892.08
Real Estate (Note 8)	2,416,968.50	2,267,668.50
Other Assets	836,014.53	271,014.53
TOTAL ENDOWMENT AND SIMILAR FUNDS	$ 51,498,842.68	$ 44,445,356.92
LIFE INCOME FUNDS		
Cash and Cash Equivalents (Note 3)	$ 2,390,211.69	$ 378,422.46
Accounts Receivable	2,581.90	5,727.50
Notes Receivable	130,717.04	381,149.66
Bonds (Note 8)	9,053,320.10	7,281,745.16
Stocks (Note 8)	4,582,840.47	4,528,742.33
Real Estate (Note 8)	849,865.50	953,365.50
TOTAL LIFE INCOME FUNDS	$ 17,009,536.70	$ 13,529,152.61
PLANT FUNDS		
Unexpended Plant		
Cash and Cash Equivalents (Note 3)	$ 34,694,175.27	$ 12,980,296.36
Accounts Receivable	272,180.86	493,167.62
Notes Receivable	3,977,836.05	6,104,325.56
Bonds (Note 6)	2,250.00	2,250.00
Stocks (Note 6)	26,250.00	26,250.00
Real Estate (Note 6)	194,650.00	194,650.00
State Education Building Bond Appropriations	1,046,882.73	1,328,131.66
Authorized Bond Issues-Tennessee State School Bond Authority	34,302,618.68	19,533,332.51
Total Unexpended Plant	$ 74,516,843.59	$ 40,662,403.71
Retirement of Indebtedness and Renewal and Replacement		
Cash and Cash Equivalents (Note 3)	$ 15,078,991.42	$ 13,382,323.34
Assets With Trustees		
Tennessee State School Bond Authority	21,836,473.16	17,133,750.92
Telephone System Reserve Funds	1,125,773.99	1,155,649.93
Total Retirement of Indebtedness and Renewal and Replacement	$ 38,041,238.57	$ 31,671,724.19
Investment in Plant (Note 10)		
Land	$ 24,444,629.52	$ 24,114,686.28
Buildings	564,750,955.27	526,284,449.87
Improvements Other Than Buildings	31,278,893.93	29,071,389.97
Equipment (Note 17)	146,368,969.85	127,907,848.17
Library Books (At $20.00 Per Volume)	50,304,920.00	49,806,280.00
Livestock (At Market)	1,461,507.00	1,547,108.50
Total Investment in Plant	$818,609,875.57	$758,731,762.79
TOTAL PLANT FUNDS	$931,167,957.73	$831,065,890.69
AGENCY FUNDS		
Cash and Cash Equivalents (Note 3)	$ 227,385.30	$ 122,118.98
Accounts Receivable	13,306.44	181,297.73
Bonds	98,750.00	98,750.00
Stocks (Note 6)	3,505,446.00	3,505,446.00
TOTAL AGENCY FUNDS	$ 3,844,887.74	$ 3,907,612.71

LIABILITIES AND FUND BALANCES

	1986	1985
ENDOWMENT AND SIMILAR FUNDS		
Accounts Payable	$ 260,343.45	
Notes Payable	16,000.00	$ 16,000.00
Reserve for Losses on Consolidated Investment Pool	7,149,406.65	4,897,066.09
Endowment Fund Balances-Restricted	41,081,878.51	36,830,733.11
Quasi-Endowment Fund Balances-Restricted	117,386.41	106,465.31
-Unrestricted	2,873,827.66	2,595,092.41
TOTAL ENDOWMENT AND SIMILAR FUNDS	$ 51,498,842.68	$ 44,445,356.92
LIFE INCOME FUNDS		
Due to Current General Funds	$ 24,611.73	$ 8,615.83
Fund Balances-Restricted	16,984,924.97	13,520,536.78
TOTAL LIFE INCOME FUNDS	$ 17,009,536.70	$ 13,529,152.61
PLANT FUNDS		
Unexpended Plant (Note 16)		
Accounts Payable	$ 3,576,906.99	$ 2,599,608.50
Fund Balances		
Restricted	55,091,576.31	22,124,520.30
Unrestricted		
Designated	15,815,653.94	15,881,201.73
Undesignated	32,706.35	57,073.18
Total Unexpended Plant	$ 74,516,843.59	$ 40,662,403.71
Retirement of Indebtedness and Renewal and Replacement		
Reserve for Interest Payable	$ 2,799,999.31	$ 1,894,336.23
Fund Balances-Restricted	21,480,632.56	18,464,097.34
-Unrestricted	13,760,606.70	11,313,290.62
Total Retirement of Indebtedness and Renewal and Replacement	$ 38,041,238.57	$ 31,671,724.19
Investment in Plant		
Tennessee State School Bond Authority Indebtedness (Note 9)	$216,729,439.65	$187,003,251.28
Notes and Liens Payable	17,500,000.00	
Bonds Payable (Note 9)	205,000.00	230,000.00
Leaseholds Payable (Note 12)	9,732,968.15	14,929,588.59
Net Investment in Plant	574,442,467.77	556,568,922.92
Total Investment in Plant	$818,609,875.57	$758,731,762.79
TOTAL PLANT FUNDS	$931,167,957.73	$831,065,890.69
AGENCY FUNDS		
Accounts Payable	$ 1,608.07	$ 44,076.91
Deposits Held in Custody for Others	3,843,279.67	3,863,535.80
TOTAL AGENCY FUNDS	$ 3,844,887.74	$ 3,907,612.71

Statement of Changes in Fund Balances

Year Ended June 30, 1986

	Current Funds			
	General	Auxiliary Enterprises	Hospitals	Total
FUND BALANCE JULY 1, 1985	$ 19,881,477.33	$ 6,867,821.92	$ 22,203,126.40	$ 48,952,425.65
REVENUES AND OTHER ADDITIONS				
Unrestricted Current Funds Revenues	$ 339,581,593.89	$ 62,469,953.33	$ 119,630,175.76	$ 521,681,722.9
Revenue Transferred From Restricted Current Funds	102,763,031.05	12,809.83	2,197,903.98	104,973,744.8
Restricted Gifts and Grants				
National Direct Student Loan Funds				
Federal Nursing and Health Professions Loan Funds				
Interest on Notes				
Endowment Income				
Income on Investments				
Net Gain (Loss) on Investments				
State Appropriations for Capital Outlay				
Tennessee State School Bond Authority				
Capital Leases				
Gifts and Other Sources				
Student Debt Service Fees				
Federal Interest Subsidy Grants				
Special State Legislature Appropriations				
Plant Acquisitions and Adjustments				
Bonds and Notes Issued and Retired				
TOTAL REVENUES AND OTHER ADDITIONS	$442,344,624.94	$ 62,482,763.16	$ 121,828,079.74	$626,655,467.84
EXPENDITURES AND OTHER DEDUCTIONS				
Unrestricted Current Funds Expenditures	$340,727,867.08	$ 54,179,274.99	$ 105,507,500.73	$ 500,414,642.80
Restricted Current Funds Expenditures	102,763,031.05	12,809.83	2,197,903.98	104,973,744.8
Transferred to Current Funds Revenues				
Indirect Cost Recoveries to Current Funds				
Other Deductions	2,577.52			2,577.5
Revolving Account Funding (Net)	(2,526,616.01)			(2,526,616.0
Collection Expense				
Bad Debt Expense				
Payments to Beneficiaries				
Plant Additions				
Retirement of Bonds and Notes				
Interest Payments				
Improvements Written Off and Adjustments				
Disposal of Land and Adjustments				
Buildings Written Off and Adjustments				
Physical Inventory Adjustments				
Capital Leases				
Bonds and Notes Issued				
TOTAL EXPENDITURES AND OTHER DEDUCTIONS	$440,966,859.64	$ 54,192,084.82	$ 107,705,404.71	$602,864,349.17
TRANSFERS				
Mandatory				
Debt Service Requirements	$ (2,557,666.98)	$ (5,146,593.48)	$ (8,945,174.77)	$ (16,649,435.23
Matching Loan Funds	(24,784.24)			(24,784.24
Restricted Current Funds	(48,080.00)			(48,080.00
Endowment Adjustment	(105,246.46)			(105,246.46
Non-Mandatory				
Operating Transfers	1,350,757.20	(1,166,857.20)	(183,900.00)	
Capital Project Transfers	(46,155.04)	(455,423.46)	(1,942,164.01)	(2,443,742.5
Debt Maintenance Reserves		(1,465,974.23)		(1,465,974.2
TOTAL TRANSFERS	$ (1,431,175.52)	$ (8,234,848.37)	$ (11,071,238.78)	$(20,737,262.67
NET INCREASE (DECREASE) FOR THE YEAR	$ (53,410.22)	$ 55,829.97	$ 3,051,436.25	$ 3,053,856.00
FUND BALANCE JUNE 30, 1986	$ 19,828,067.11	$ 6,923,651.89	$ 25,254,562.65	$ 52,006,281.65

Restricted	Loan Funds	Endowment and Similar Funds	Life Income Funds	Plant Funds: Unexpended	Plant Funds: Retirement of Indebtedness and Renewal and Replacement	Plant Funds: Net Investment in Plant
$ 22,854,500.99	$24,711,605.29	$44,429,356.92	$13,520,536.78	$38,062,795.21	$31,671,724.19	$556,568,922.92
$ 118,940,577.72	$ 23,151.20	$ 3,492,491.09	$ 2,989,201.90			
	451,464.00					
	371.63					
	538,645.57					
2,661,087.66	3,293.84	386,384.07				
	113,335.04		1,036,558.04	$ 944,256.26	$ 3,645,157.27	
		2,256,611.60	593,777.30			
				20,542,943.35		
				30,382,000.00	3,035,094.85	
						$ 6,672,363.77
				5,859,373.70	335,897.04	
					1,542,681.00	
					249,414.00	
					372,466.54	
						72,485,613.90
				17,500,000.00		5,511,903.84
$ 121,601,665.38	$ 1,130,261.28	$ 6,135,486.76	$ 4,619,537.24	$75,228,573.31	$ 9,180,710.70	$ 84,669,881.51
$ 104,973,744.86						
10,422,673.98						
133,851.05	$ 401,286.50	$ 2,984.52	$ 1,665.88	$ 3,938,741.28		
	61,250.40					
	10,483.54					
			972,153.65			
				42,945,171.79		
					$ 5,511,903.84	
					13,930,898.23	
						$ 6,336.00
						777,807.55
						117,446.55
						11,705,911.02
					620,000.00	1,475,743.33
						52,713,092.21
$ 115,530,269.89	$ 473,020.44	$ 2,984.52	$ 973,819.53	$46,883,913.07	$20,062,802.07	$ 66,796,336.66
					$ 16,649,435.23	
	$ 24,784.24					
$ (1,550,060.44)	(128.40)	$ 374,064.09		$ 1,224,204.75		
		286,575.98	$ (181,329.52)			
	(730.18)			730.18		
				3,307,546.22	(863,803.71)	
					1,465,974.23	
$ (1,550,060.44)	$ 23,925.66	$ 660,640.07	$ (181,329.52)	$ 4,532,481.15	$17,251,605.75	
$ 4,521,335.05	$ 681,166.50	$ 6,793,142.31	$ 3,464,388.19	$32,877,141.39	$ 6,369,514.38	$ 17,873,544.85
$ 27,375,836.04	$25,392,771.79	$51,222,499.23	$16,984,924.97	$70,939,936.60	$38,041,238.57	$574,442,467.77

Statement of Current Funds Revenues, Expenditures, and Other Changes

Year Ended June 30, 1986 — **With Comparative Figures at June 30, 1985**

	1986			1985
	Unrestricted	Restricted	Total	Total
CURRENT REVENUES				
General Funds				
Tuition and Fees	$ 62,370,637.69		$ 62,370,637.69	$ 57,524,075.07
Federal Appropriations	11,427,168.57		11,427,168.57	11,018,340.41
State Appropriations	222,548,800.00	$ 6,114,714.47	228,663,514.47	208,916,820.41
Local Appropriations	1,200,000.00		1,200,000.00	1,200,000.00
Federal Gifts, Grants, and Contracts	9,080,089.43	50,758,558.35	59,838,647.78	53,939,510.60
State Gifts, Grants, and Contracts	535,498.68	9,261,818.75	9,797,317.43	7,062,752.22
Local Gifts, Grants, and Contracts	1,585,912.56	1,758,748.09	3,344,660.65	2,919,421.39
Private Gifts, Grants, and Contracts	2,798,392.39	31,231,673.78	34,030,066.17	30,769,744.86
Endowment Income—University and Other	78,085.98	3,637,517.61	3,715,603.59	3,759,672.66
Sales and Services of Educational Activities	15,864,153.85		15,864,153.85	16,322,435.98
Other Sources	12,092,854.74		12,092,854.74	12,614,723.61
TOTAL GENERAL FUNDS	$339,581,593.89	$102,763,031.05	$442,344,624.94	$406,047,497.21
Auxiliary Enterprises Funds	62,469,953.33	12,809.83	62,482,763.16	60,479,863.67
Hospital Funds	119,630,175.76	2,197,903.98	121,828,079.74	112,332,047.20
TOTAL CURRENT REVENUES	$521,681,722.98	$104,973,744.86	$626,655,467.84	$578,859,408.08
CURRENT EXPENDITURES AND TRANSFERS				
General Funds Expenditures				
Instruction	$151,386,135.40	$ 23,703,680.82	$175,089,816.22	$163,432,069.29
Organized Research	20,672,608.56	44,681,693.45	65,354,302.01	58,136,011.27
Public Service	30,038,207.84	15,753,376.59	45,791,584.43	41,835,933.89
Academic Support	40,117,895.13	3,424,981.40	43,542,876.53	39,747,098.01
Student Services	19,464,759.26	454,953.18	19,919,712.44	16,971,352.35
Institutional Support	40,778,006.24	415,457.97	41,193,464.21	36,090,972.19
Operation and Maintenance of Physical Plant	33,482,054.49	26,118.69	33,508,173.18	31,505,061.38
Student Aid	4,788,200.16	14,302,768.95	19,090,969.11	17,492,269.70
General Funds Mandatory Transfers				
To Retirement of Indebtedness Funds	2,557,666.98		2,557,666.98	1,297,064.60
To Loan Funds	24,784.24		24,784.24	49,057.36
To Endowment Funds	105,246.46		105,246.46	26,219.31
To Restricted Funds	48,080.00		48,080.00	5,000.00
General Funds Non-Mandatory Transfers				
To Plant Funds	46,155.04		46,155.04	1,817,738.21
From Auxiliary Enterprises Funds	(1,166,857.20)		(1,166,857.20)	(1,147,388.32)
From Hospital Funds	(183,900.00)		(183,900.00)	(90,000.00)
Working Capital Adjustments (Net)	(2,526,616.01)		(2,526,616.01)	(1,719,622.20)
General Funds (Other Deductions)	2,577.52		2,577.52	
TOTAL GENERAL FUNDS EXPENDITURES AND TRANSFERS	$339,635,004.11	$102,763,031.05	$442,398,035.16	$405,448,837.04
Auxiliary Enterprises Funds				
Expenditures	$ 54,179,274.99	$ 12,809.83	$ 54,192,084.82	$ 52,642,416.61
Mandatory Transfers				
To Retirement of Indebtedness Funds	5,146,593.48		5,146,593.48	4,886,015.92
Non-Mandatory Transfers				
To Retirement of Indebtedness Funds	1,465,974.23		1,465,974.23	1,814,022.19
To Plant Funds	455,423.46		455,423.46	135,313.73
To General Funds	1,166,857.20		1,166,857.20	1,147,388.32
TOTAL AUXILIARY ENTERPRISES FUNDS EXPENDITURES AND TRANSFERS	$ 62,414,123.36	$ 12,809.83	$ 62,426,933.19	$ 60,625,156.77
Hospitals Funds				
Expenditures	$105,507,500.73	$ 2,197,903.98	$107,705,404.71	$101,595,200.19
Mandatory Transfers				
To Retirement of Indebtedness Funds	8,945,174.77		8,945,174.77	6,073,702.61
Non-Mandatory Transfers				
To General Funds	183,900.00		183,900.00	90,000.00
To Plant Funds	1,942,164.01		1,942,164.01	4,181,051.33
TOTAL HOSPITALS FUNDS EXPENDITURES AND TRA SFERS	$116,578,739.51	$ 2,197,903.98	$118,776,643.49	$111,939,954.13
TOTAL CU RENT EXPENDITURES AND TRANSFERS	$518,627,866.98	$104,973,744.86	$623,601,611.84	$578,013,947.94
EXCESS (DEFICIT) CURRENT REVENUES OVER CURRENT EXPENDITURES AND TRANSFERS				
General Funds	$ (53,410.22)		$ (53,410.22)	$ 598,660.17
Auxiliary Enterprises Funds	55,829.97		55,829.97	(145,293.10)
Hospital Funds	3,051,436.25		3,051,436.25	392,093.07
OTHER ADDITIONS AND TRANSFERS				
Restricted Receipts in Excess of Expenditures		$ 16,627,920.52	16,627,920.52	11,480,984.11
Indirect Costs Recovered		(10,422,673.98)	(10,422,673.98)	(9,291,776.16)
Restricted Gifts Transferred to Other Funds		(1,683,911.49)	(1,683,911.49)	(354,001.61)
NET INCREASE IN FUNDS BALANCES	$ 3,053,856.00	$ 4,521,335.05	$ 7,575,191.05	$ 2,680,666.48

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The significant accounting policies, as summarized below, and the financial statements for The University of Tennessee are in accordance with generally accepted accounting principles as prescribed by (1) the National Association of College and University Business Officers in *College and University Business Administration* (1982) and (2) the American Institute of Certified Public Accountants in *Audits of Colleges and Universities* (1973).

Accrual Basis—The financial statements of The University of Tennessee have been prepared on the accrual basis except that depreciation on plant assets is not recorded. The statement of current fund revenues, expenditures, and other changes is a statement of financial activity related to the current reporting period. It does not purport to represent results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

Fund Accounting—The accounts of The University of Tennessee are maintained in accordance with the principles of "fund accounting." Fund accounting is a procedure by which resources for various purposes are classified for accounting and reporting into funds that are in accordance with specified activities or objectives. This enables the institution to ensure observance of limitations and restrictions placed on the use of the resources available. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

All unrestricted funds are reported as revenue in the ye r they are received or accrued, with the exception of certain gifts. All restricted funds are recorded as additions to the fund balances of the appropriate fund groups. Restricted current funds are then recorded as revenues during the period in which they are expended.

A. *Current Funds*—Unrestricted current funds consist of those funds over which the governing board retains full control to use in achieving any of its authorized institutional purposes, as distinguished from externally restricted funds which may be utilized only in accordance with the purposes established by their source.

B. *Loan Funds*—Loan funds consist of resources which have been made available for financial loans to students.

C. *Endowment Funds*—Endowment funds are funds with respect to which donors have stipulated, as a condition of the gift, that the principal is to be maintained inviolate and invested for the purpose of producing income.

Quasi-endowment funds are funds which the governing board of the University, rather than a donor, has determined are to be retained and invested. Since these funds are internally designated rather than externally restricted, the governing board retains the right to alter or amend such designation.

D. *Life Income Funds*—Life income funds are funds held in trust by the University under agreement with donors whereby designated beneficiaries receive specified interests in annual income of the trust. Upon death of the beneficiaries or other termination of the trust, such trust assets become available to the University for use as set forth in each agreement.

E. *Plant Funds*—The plant funds consist of (1) unexpended plant funds which are to be used for the construction or acquisition of physical properties for institutional purposes; (2) retirement of indebtedness and renewal and replacement funds, which are funds set aside for debt service charges and major maintenance items on institutional properties; and (3) investment in plant funds expended for and thus invested in institutional properties.

F. *Agency Funds*—The University acts solely as an agent in the handling of these funds. Consequently, transactions of these funds do not affect the operating statements of the University.

2. Compensated Absences

Financial Accounting Standards Board Statement No. 43, "Accounting for Compensated Absences," which was determined to be applicable to The University of Tennessee beginning with the year ended June 30, 1983, requires that certain accrued vacation benefits, the effect of which are material to the financial statements, be recorded as earned. The University's policy is to record such benefits as paid. This policy is considered not a material departure from Statement No. 43 in that the effect of accruing the $19,982,000.24 of such benefits (of which approximately $3,541,048.45 would be reflected as an adjustment of beginning Current Unrestricted Fund balances, and the remainder would be funded from other sources) is considered not material.

3. Cash and Cash Equivalents

This balance sheet classification includes all readily available sources of cash, such as petty cash, cash in banks, certificates of deposit, and temporary investments in marketable securities.

4. Collateral Security Pledged

In accordance with the laws of the state of Tennessee, commercial banks have pledged securities and placed them in custody with third parties as collateral for University funds on deposit. The face amount and market value of these securities at June 30, 1986, were $78,910,000.00 and $81,574,265.64, respectively.

5. Inventories

Inventories are valued at cost, which is lower than market, based on the retail method or the average cost method. Cost methods are applied on a basis consistent with prior years. Inventories also include assets of the revolving accounts, which are valued at cost less depreciation.

6. Investments

Bonds, stocks, and real estate are valued at cost or, in the case of gifts, fair market value on the date of receipt.

7. Allocat on for Working Capital

The unrestricted fund balance is allocated for the amount of working capital defined as the total of all petty cash, accounts receivable, and inventories in the unrestricted fund at the balance sheet date except for student receivables, accrued interest, and amounts due on federal letters of credit. This is in compliance with the recommendations of the Tennessee Higher Education Commission.

8. Endowment and Life Income Funds

Investments of endowment and life income are carried at cost or, if acquired by gift, at market value on date of acquisition. The book value of endowment funds at June 30, 1986, was $51,498,842.68, and market value was $57,951,561.17. This compares with a June 30, 1985 book value of $44,445,356.92 and market value of $47,680,100.45. Income realized on these funds for the year amount to $3,130,068.65. The book value of life income funds at June 30, 1986 was $17,009,536.70 and market value $18,855,808.63. This compares with a June 30, 1985 book value of $13,529,$152.61 and market value of $13,921,907.77. Income realized in these funds for the year amounted to $1,036,558.04.

9. Bonds and Notes Payable

University of Tennessee and Tennessee State School Bond Authority bond issues, with rates ranging om 3.25% to 9.5% are due serially to 2013, and are secured by pledges of revenue of facilities to which they relate and certain other revenues and fees of the University. The total outstanding bonded indebtedness for the University at June 30, 1986, was $200,557,439.65.

Included in the total outstanding indebtedness is a $22,100,000.00 1985 Daily Variable Rate Demand Bond (VRDB) issue which was completed in January, 1985. These variable rate bonds are due serially over the next fifteen years with monthly interest payments. However, the University is committed to retire the bonds in 10 years. This daily VRDB issue was for the purpose of acquiring and installing equipment for the University's Memorial Hospital in Knoxville. The outstanding balance at June 30, 1986, is $18,700,000.00.

Annual maturities subject to mandatory redemption for the next five years ending June 30 are as follows:

1987	$ 6,215,558.07
1988	6,443,645.40
1989	6,980,039.57
1990	7,435,186.63
1991	7,989,697.39
Subsequent Years	165,493,312.59
	$200,557,439.65

Short-term financing for various University projects has been secured through the Tennessee State School Bond Authority and First Tennessee Bank, Memphis. The Tennessee State School Bond Authority arranged for three-year notes from the liquidity facility on the 1985 Daily Variable Rate Demand Bond issue for University equipment and facilities in the amount of $16,377,000.00. These notes have a variable interest rate calculated at 65% of the prime rate of Morgan Guaranty Trust Company of New York and requires a portion of principal to be repaid each year until December 31, 1988, at which time the remaining principal is due. In addition, a five year note for $17,500,000.00 was secured from First Tennessee Bank, Memphis, Tennessee. This note also has a variable interest rate based upon 65% of the prime rate of First Tennessee Bank, Memphis. The entire principal is due December 31, 1990. Including the short term financing, the total indebtedness of the University at June 30, 1986, is $234,434,439.65.

10. Plant and Equipment

Physical plant and equipment are stated at cost at date of acquisition or fair market value at date of donation in the case of gifts.

11. Operating Leases

The University has entered into various operating leases for buildings and equipment. It is expected that in the normal course of business, such leases will continue to be required. Net expenditures for rent under leases for the years ended June 30, 1986, and June 30, 1985, amounted to $4,422,894.34 and $4,550,202.14 respectively.

12. Capital Lease Obligations

The University is acquiring two buildings under lease agreements which provide for the University to purchase the buildings over a period of years. The University also leases certain items of equipment which are classified as capital leases. Minimum lease payments under capital leases together with the present value of the net minimum lease payments are:

1986-87	$ 2,402,279.42
1987-88	2,394,111.67
1988-89	1,819,004.09
1989-90	1,632,973.83
1990-91	1,415,377.02
Later Years	2,901,701.94
Total	$12,565,447.97
Less Amounts Representing Interest and Executory Costs	2,832,479.82
	$9,732,968.15

13. Insurance Coverage

Since April, 1980, coverage has been provided to the University through the Public Employees Blanket Bond issued to the state of Tennessee providing against loss resulting from infidelity of University employees in the amount of $1,000,000.00. Beginning July 1, 1986, this coverage limitation was reduced to $100,000.00

Since July 1971, insurance coverage on University property has been provided through the State Property Pool Self-Insurance Program. The scheduled value of building coverage under this program is $988,592,200.00, and contents coverage is $198,355,400.00. Public liability insurance coverage is in effect which includes limited medical malpractice coverage. General public liability limits for bodily injury are $300,000.00 each occurrence and $300,000.00 aggregate. Malpractice limits are $200,000.00 each claim and $600,000.00 aggregate. Property damage is $100,000.00 per occurrence. Umbrella liability policies totaling $10,500,000.00 are in effect; they do not cover malpractice. A malpractice umbrella policy is in effect extending coverage beyond the basic policy with limits of $3,000,000.00. Boiler insurance coverage of $5,000,000.00 is carried on all boiler and major pressure vessels. Five University-owned airplanes are covered by individual policies for physical damage and public liability. The policies provide $100,000.00 admitted liability limits for death of any passenger or crew member.

As an agency of the state of Tennessee, The University of Tennessee is subject to the provisions of the Tennessee Claims Commission Act, TCA 9-8-(101) to (406). As such, the liability of The University of Tennessee is limited to the provisions of this Act. Such liability for the negligence of the University for bodily injury and property damage as may be determined under this Act is limited to $300,000 per person and $1,000,000 per accident. Accordingly, The University of Tennessee has not renewed the general public or malpractice liability insurance coverages detailed above which expired on June 30, 1986.

14. Employee Retirement Program

From September 1, 1955, to July 1, 1978, the University, as part of its retirement program, maintained a joint-contributory, fully vested retirement plan covering employees who met eligibility requirements. Effective July 1, 1972, the University's non-participating non-academic employees became eligible for coverage under the provisions of the Tennessee Consolidated Retirement System. Participation in one of the retirement systems was made mandatory for regular staff employed after July 1, 1972. Until July 1, 1978, costs applicable to service accrued prior to September 1, 1955, and costs required to meet statutory minimum retirement benefits under the University's joint-contributory retirement system, were not funded but were paid from current funds each year. Effective July 1, 1978, the University's retirement program was incorporated into the Tennessee Consolidated Retirement System with employer contributions applicable to educational and general employees and unfunded retirement obligations being paid from separate state appropriations to the Tennessee Consolidated Retirement System and the State Retirement Fund. The professional staff of the Agricultural Extension Service is covered by the Federal Civil Service Retirement System.

15. Funds Held In Trust By Others

The University of Chattanooga Foundation, Inc. maintains an endowment fund of which The University of Tennessee at Chattanooga is the sole income beneficiary. During the year ended June 30, 1986, the foundation transferred $1,163,938.40 to the University for support of designated projects at the Chattanooga campus. In addition, $51,452.94 was expended directly by the foundation for the benefit of The University of Tennessee at Chattanooga.

The Tennessee General Assembly appropriated $5 million in 1984 and $5 million in 1985 to begin a Chairs of Excellence Endowment for The University of Tennessee. The appropriation provided that the Chairs of Excellence Endowment be established as an irrevocable trust with the State Treasurer and requires the University to match the appropriation on a dollar-for-dollar basis. The University has fully matched $6 million of the Chairs of Excellence Endowment appropriations as of June 30, 1986. The financial statements of the University include as restricted expenditures the amounts expended to match the state appropriations. The University's balance sheet does not include the amounts held in trust by the State Treasurer.

16. Contingencies and Commitments

The University has contractual obligations for the construction of new buildings, additions to and renovations of existing buildings. The outstanding commitments under such contracts at June 30, 1986,were $28,000,835.91. The University receives capital appropriations from the state of Tennessee and proceeds from Tennessee State School Bond Authority bond issues for the construction, renovation and maintenance of the University's physical plant. At June 30, 1986, amounts to be provided by the state for capital construction, renovations, and maintenance totaled $63,010,874.17.

Encumbrances which represent commitments of prior years funds for goods or services that have been ordered for which delivery has not been made or services not been rendered as of June 30, 1986, are recorded as a reserve of the Current Fund balances. The Reserve for Encumbrances at June 30, 1986, is $5,631,498.22.

The University of Tennessee has entered into financing agreements for the construction of an Assembly Center and Arena to be built on the Knoxville Campus. Under the terms of the financing agreement, Knox County will contribute $10,000,000.00 toward construction of the Assembly Center and Arena. This contribution represents the net proceeds from revenue bonds issued in October 1983 by the Public Building Authority of the county of Knox and the city of Knoxville, Tennessee. The principal and interest on these revenue bonds is to be paid from available Knox County "user taxes" as defined in and in accordance with the terms of the financing agreement. The University of Tennessee guarantees to the Trustee of the revenue bonds, for the benefit of the Authority, the full and prompt payment of principal, interest, and any premium when and after the same shall become due. It is expressly understood and agreed that for purposes of the Guaranty, funds legally available to the Guarantor shall not include funds appropriated by the Tennessee General Assembly for The University of Tennessee academic budgets and salaries.

Various litigation has arisen in the course of conducting University business. The outcome of such litigation is not expected to have a material effect on the financial position of the University.

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

October 16, 1986

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol Building,
First Floor
Nashville, Tennessee 37219

Dear Mr. Snodgrass:

We have examined the balance sheet of The University of Tennessee at June 30, 1986, 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 government auditing standards, and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note 2 to the financial statements, the university has excluded the liability for vested vacation leave from the accompanying balance sheet. In our opinion, vested vacation leave should be included to conform with generally accepted accounting principles. The recognition of this liability would increase the liability of the unrestricted current fund by $19,982,000 at June 30, 1986, and $18,117,730 at June 30, 1985, and would reduce the unallocated fund balances of that fund by $19,982,000 at June 30, 1986, and $18,117,730 at June 30, 1985.

In our opinion, except for the effects of excluding the liability for accrued vacation leave in the accompanying balance sheet, the financial statements referred to above present fairly the financial position of The University of Tennessee as of June 30, 1986, and 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.

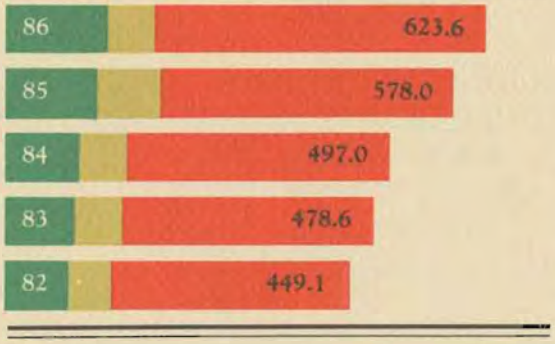
Sincerely,

Frank L. Greathouse

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

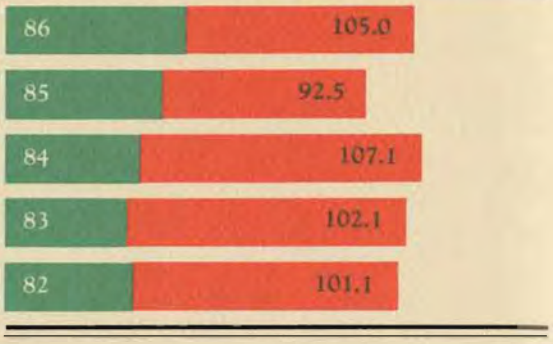
FLG/CKB/laf

Total Current Expenditures and Transfers (in millions of dollars)



Hospitals | Auxiliary Enterprises | Educational and General

Current Restricted Expenditures (in millions of dollars)



Sponsored Research | Other Sponsored Programs

1985-1986 Financial Report

The financial report of The University of Tennessee is prepared to provide a public accounting of the financial affairs of the University for the fiscal year ended June 30, 1986.

The University employs available resources to meet its primary missions of instruction, research, and public service. This report is designed to provide financial information that will assist the reader in determining how effectively resources are managed to meet institutional objectives.

UNIVERSITY FINANCIAL ACCOUNTING

Since the University uses available resources to provide services rather than to make a profit, the purpose of the University financial reporting is to account for resources received, held, and used rather than to determine net income. To achieve this objective, the institution employs "fund" accounting. There are six fund groups: Current Funds, Loan Funds, Endowment and Similar Funds, Life Income Funds, Plant Funds, and Agency Funds. Fund accounting provides the control characteristics needed to ensure that limitations and restrictions placed on the use of available resources by external parties and by the University Board of Trustees will be observed. For additional information on University accounting principles, please refer to Notes to the Financial Statements presented on page 39.

SUMMARY OF FINANCIAL OPERATIONS FOR THE YEAR

Current Funds

Current Funds are expendable for current operating needs and are further segregated between those for general, auxiliary, and hospital purposes. Current Restricted Funds refer to resources that carry an external restriction and may only be utilized for the purposes stipulated by the source of such funds. This is in contrast to Current Unrestricted Funds over which the Board of Trustees retains full control to use in the achievement of institutional goals.

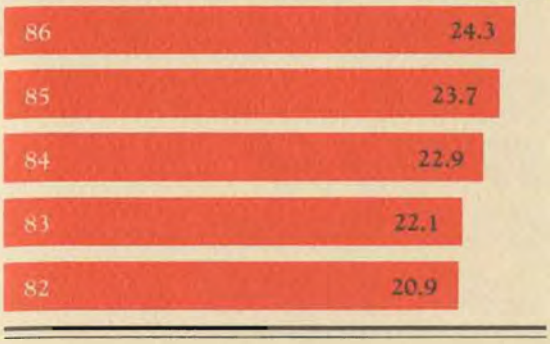
Total Current Funds revenues in 1985-86 increased 8.3 percent over the prior year to $626.7 million. This increase represents continued improvement in the University's ability to maintain and enhance current operating levels. The continuation of relatively low inflation significantly benefited the purchasing power of the University.

The state of Tennessee, through legislative appropriations, continues to provide the most significant amount of University operating funds. Unrestricted state appropriations in 1985-86 amounted to $222.5 million compared to $204.5 million in 1984-85, an increase of 8.8 percent. This increase combined with the record increase of 1984-85 represents two years of the Governor's three-year Better Schools Program and has provided the University with a two-year increase in state appropriations of 32.1 percent, one of the highest in the Southeast and also nationally.

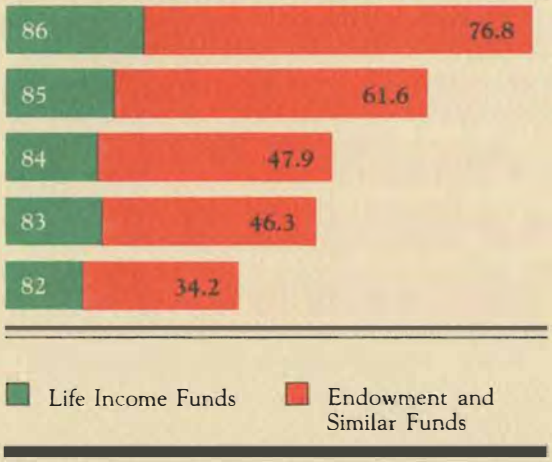
Revenues received from student tuition and fees amounted to $62.4 million, an increase of 8.4 percent over the prior year. This change resulted from higher tuition and maintenance fees and a total enrollment decline of 1,067 students. Increased student fees were called for to keep the University in line with the state's 70-30 ratio of state support to student fees. The largest increase was 20 percent in the College of Law at Knoxville. The maintenance fee at UT Knoxville was upped 15 percent, while the other campuses increased by 9 percent. Out-of-state tuition also increased 9 percent, as did fees for the professional schools other than medicine and veterinary medicine, which went up 10 percent.

Federal government appropriations increased 3.7 percent to $11.4 million, and amounts received from federal agencies in the form of gifts, grants, and contracts increased 10.9 percent to $59.8 million.

Student Loan Funds
Notes Receivable (in millions of dollars)



Total Market Value of Endowment and Similar Funds, and Life Income Funds (in millions of dollars)



Sales and services of educational activities decreased 2.8 percent to $15.9 million. This decline resulted primarily from a decline in the activity of the State Testing and Evaluation Center which had record revenues in 1984-85 due to the implementation of the state teacher testing program.

Income from other sources amounted to $12.1 million in 1985-86, a decrease of 4.1 percent from the $12.6 million reported in 1984-85. Declining interest income resulting from lower short interest rates on invested funds was the primary reason for the decrease. Revenue generated from short-term investments and bank account interest totaled $8.8 million in 1985-86 compared to $10.0 million in 1984-85. The average yield on temporary investments for 1985-86 and 1984-85 was 8.9 percent and 10.4 percent respectively.

Total Current Funds expenditures and transfers in 1985-86 increased 7.9 percent to $623.6 million. A schedule of General Fund expenditures by function (purpose) is provided on page 47.

All Unrestricted Funds revenue is reported in the year received or accrued. All Restricted Funds receipts are recorded as additions to the fund balance of the appropriate fund group. Restricted Current Funds are then recorded as revenues in Current Funds during the period in which they are expended. Total expenditures of Restricted Funds amounted to $105.0 million in 1985-86 compared to $92.5 million in 1984-85, a 13.5 percent increase. The most significant factor which prompted the increase was $6.5 million additional expenditures in sponsored activities due primarily to the successful implementation of the Centers of Excellence and Chairs of Excellence.

Auxiliary Enterprises Funds reflect transactions and funds for activities conducted to provide facilities and services for students, faculty and staff such as housing, food services, bookstores, parking and intercollegiate men's athletics at UT Knoxville.

Total revenues of auxiliary enterprises during 1985-86 amounted to $62.5 million, an increase of 3.3 percent from the prior year's total revenue of $60.5 million. Expenditures and mandatory transfers to meet debt service requirements amounted to $59.3 million, an increase of 3.1 percent from 1984-85.

The University of Tennessee operates two hospitals—the UT Memorial Hospital located in Knoxville and the William F. Bowld Hospital in Memphis. The transactions and funds for these medical facilities are presented separately in the financial statements as Hospital Funds.

Total current revenues from operations of hospitals during 1985-86 amounted to $121.8 million, an increase of 8.5 percent. The revenue increase resulted from a $10.0 million revenue increase at Memorial Hospital. Hospital expenditures and transfers increased 6.1 percent over 1984-85 expenditure levels to $118.8 million. The significant amount of working capital and encumbrance reserves has caused a deficit in the Bowld Hospital fund balance which will be recovered from future operations.

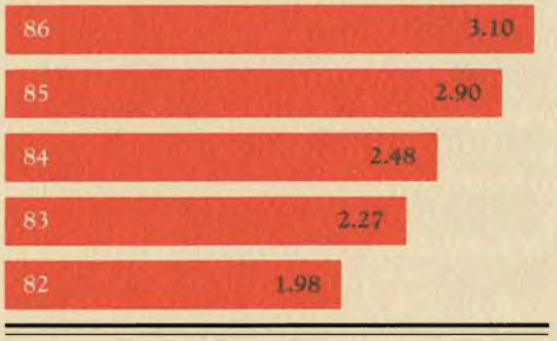
Loan Funds

Loan funds consist of resources made available for financial loans to students of the University. The principal amount of such funds increased $681 thousand. In 1985-86, 2,885 loans amounting to $3.5 million were made to students.

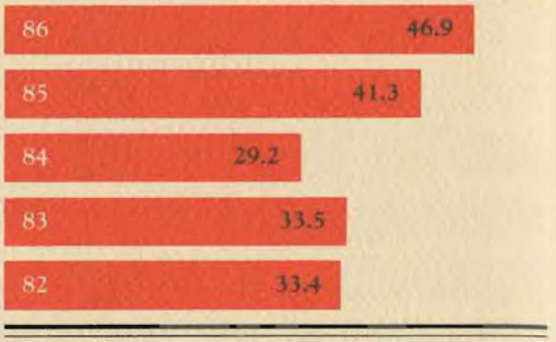
The primary source of student loans was provided through federal programs, including the Health Professions and Nursing Student Loan Program. At June 30, 1986, $21.6 million (or 85.0 percent) of the assets of all University Loan Funds had been provided by the Federal Government. University sources, in conjunction with matching requirements for the federal loan program, provided $1.6 million (or 6.2 percent) of student loan funds. The remaining $2.2 million (or 8.8 percent) represented loan funds established by private donations.

Student loans outstanding at June 30, 1986, totaled $24.3 million, an increase of $612 thousand over the previous year.

Endowment Income
(in millions of dollars)



Plant Funds Expenditures
(in millions of dollars)



Endowment and Similar Funds

The Endowment and Similar Funds group consists of funds that have been received from donors with the stipulation that the principal is to be maintained inviolate and remain invested to produce income for the purposes specified. Quasi-Endowment Funds are funds designated by the Board of Trustees of the University to function as endowment funds. The income earned through the investment of endowment funds is recorded in the appropriate fund group and is available for expenditure according to the purposes specified. If the income is to be added to principal per donor agreement and is not available for expenditure, it is recorded as income in the Endowment and Similar Funds. Assets of this fund group are recorded at book value which is established by the market or appraised value at the time of the gift or by the cost at the time investments are purchased.

The book value of the assets of the Endowment and Similar Funds group at June 30, 1986, was $51.5 million, and the market value was $58.0 million. The book value at June 30, 1985, was $44.4 million, and the market value was $47.7 million. Income earned from investment of funds amounted to $3.1 million for the fiscal year, an increase of 7.8 percent over the amount earned during the prior year. The income represents a return of 6.5 percent on average book value and 5.9 percent on average market value.

Effective July 1, 1954, the University adopted the policy of investing Endowment and Similar Funds over which it had complete investment discretion (those which the donor, the governing gift instrument, or other considerations do not require or warrant separate investment) in a consolidated investment pool. This practice affords closer supervision of the investment portfolio and makes available to all eligible endowment and similar funds, regardless of size, the advantages of participation in a diversified portfolio of carefully selected investments. Each contributing endowment fund participates in the income and capital appreciation of the pool on a per share basis commensurate with its contribution to the pool. Shares are revalued each month in accordance with market changes, and new funds or additions to existing funds are admitted to the pool at the current market share value.

The Consolidated Investment Pool consists of funds from 641 separate endowments with a total book value of $41.8 million at June 30, 1986, and a total market value of $48.0 million. The market value increased by $10.2 million during 1985-86.

The market value of a participating share was $1.621 at June 30, 1986, compared to $1.414 at June 30, 1985, an increase of 14.6 percent. The income earned per share was $.089, which was 6.3 percent on beginning market value.

Life Income Funds

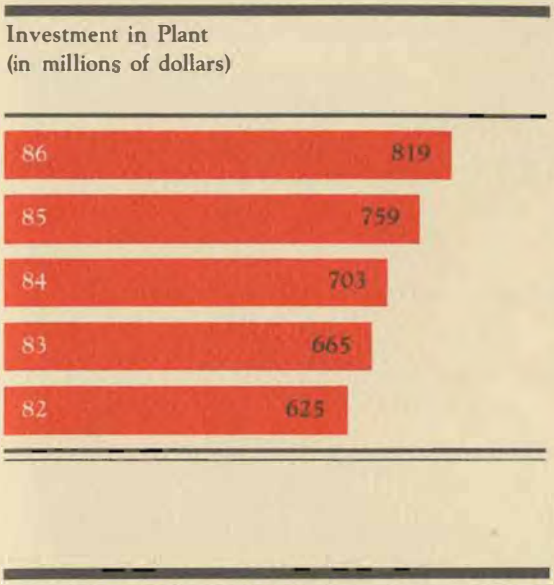
The Life Income Funds group consists of funds contributed to the University with the stipulation that designated beneficiaries receive specified interests in the income produced by the assets of the funds. The income payments terminate at a specified time, usually upon death of the beneficiaries, and the assets become available for use by the University as provided in the donor agreement.

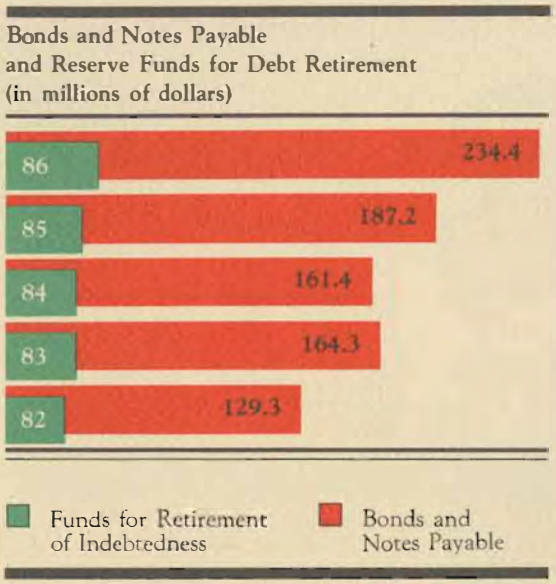
The book value of Life Income Funds at June 30, 1986, amounted to $17.0 million, compared to $13.5 million the prior year. Income payments to beneficiaries during the year amounted to $1.0 million.

Plant Funds

The Plant Funds group of accounts consists of (1) Unexpended Plant Funds which are to be used for the acquisition or construction of physical properties; (2) Retirement of Indebtedness and Renewal and Replacement Funds which are funds set aside for debt service charges and major maintenance projects on facilities that are revenue generating; and (3) Investment in Plant which represents funds expended for and thus invested in institutional properties.

Unexpended Plant Funds balances at June 30, 1986, representing funds previously authorized





or provided for additions to the University's physical plant, were $70.9 million. Of this amount, $1.0 million represents state capital outlay appropriations which have been expended by the University but not reimbursed by the state treasurer at the balance sheet date, and $34.4 million represents unexpended Tennessee State School Bond Authority funding.

Total expenditures and deductions in Unexpended Plant Funds amounted to $46.9 million in 1985-86. Twenty capital construction projects were completed including the $2.3 million Student Center Heating and Cooling System Replacement at Knoxville, the $2.4 million Single Student Housing at UT Chattanooga, the $2.3 million Pathology Building Renovation - Phases IV and V at Memphis, and the $1.1 million Gas-Fired Boiler Installation at the Memorial Hospital. Twenty-six projects were under construction at June 30, 1986, including the $30.0 million Assembly Center and Arena, the $28.5 million Hodges Library Addition and the $1.1 million Outdoor Pool Replacement all at the UT Knoxville campus. Additional projects under construction were the $16.0 million Professional Office Building and Parking Garage at Memorial Hospital, $905 thousand Code Deficiencies and Architectural Barriers at UT Martin, and the $950 thousand Agricultural Museum at the Milan Experiment Station. Additional information regarding the University's capital outlay construction program is provided on page 48.

Retirement of Indebtedness and Renewal and Replacement Funds at June 30, 1986, amounted to $38.0 million of which $21.5 million is restricted to meet minimum contractual reserve requirements of loan, bond, and lease agreements. The remainder of these funds represent debt service and maintenance reserves required by prudent institutional management policy.

Revenues, other additions, and transfers exceeded the amounts deducted for debt service payments and transfers for capital projects by $6.4 million during 1985-86. Approximately half of this increase, or $3.0 million was due to added amounts held by third parties as indebtedness reserve funds and the other half as maintenance reserves held by the University. Total indebtedness for The University of Tennessee at June 30, 1986, amounted to $234.4 million, and retirement obligations continued to be met on schedule. Additional information on the University indebtedness is provided in Note 9 to the Financial Statements on page 39.

With the exception of real estate held as investments in Loan Funds, Endowment and Similar Funds and Life Income Funds, the Investment in Plant section of Plant Funds is used to account for capital assets owned by the University including land, buildings, improvements other than buildings, equipment, library books, and livestock. Investment in Plant as of June 30, 1986 amounted to $818.6 million, an increase of $59.9 million over the prior year.

Agency Funds

The Agency Funds group consists of funds held by the University as fiscal agent for various third parties. Agency Funds are reflected on the Balance Sheet only and not on the Statement of Changes in Fund Balances since the net balances in each agency fund represent liabilities rather than fund balances. The balance of funds held for third parties at June 30, 1986, amounted to $3.8 million as compared to $3.9 million at June 30, 1985. The largest part of these funds, $3.7 million, represents charitable lead trusts. Under the terms of these lead trust agreements, the annual income earned from the trusts while held by the University is provided for University purposes. Upon expiration of these trusts, the principal will be returned to individuals specified by the donors.

Sources of Current Revenues



	1985-86	1984-85
Federal and local appropriations	2.0%	2.1%
Other	5.1%	5.7%
Tuition and fees	9.9%	9.9%
Auxiliary Enterprises	10.0%	10.4%
Gifts, grants and contracts	17.1%	16.4%
Hospitals	19.4%	19.4%
State Appropriations	36.5%	36.1%

Current Revenues

CURRENT REVENUES (in thousands of dollars)	1985-86 Unrestricted	1985-86 Restricted	1985-86 Total	1984-85 Unrestricted	1984-85 Restricted	1984-85 Total
General Funds						
Tuition and Fees	$ 62,371		$ 62,371	$ 57,524		$ 57,524
Federal Appropriations	11,427		11,427	11,018		11,018
State Appropriations	222,549	$ 6,115	228,664	204,487	$ 4,430	208,917
Local Appropriations	1,200		1,200	1,200		1,200
Federal Gifts, Grants, and Contracts	9,080	50,758	59,838	8,100	45,839	53,939
State Gifts, Grants, and Contracts	535	9,262	9,797	256	6,807	7,063
Local Gifts, Grants, and Contracts	1,586	1,759	3,345	1,272	1,647	2,919
Private Gifts, Grants, and Contracts	2,798	31,232	34,030	2,774	27,996	30,770
Endowment Income	79	3,637	3,716	69	3,690	3,759
Sales and Service of Educational Activities	15,864		15,864	16,323		16,323
Other Sources	12,093		12,093	12,615		12,615
Total General Funds	$339,582	$102,763	$442,345	$315,638	$ 90,409	$406,047
Auxiliary Enterprises Fund	62,470	13	62,483	60,443	37	60,480
Hospitals Fund	119,630	2,198	121,828	110,320	2,012	112,332
Total Current Revenues	$521,682	$104,974	$626,656	$486,401	$ 92,458	$578,859

Uses of Current Funds



	1985-86	1984-85
Student aid	3.0%	3.0%
Student services	3.2%	2.9%
Physical plant	5.3%	5.5%
Institutional support	6.6%	6.2%
Academic support	7.0%	6.9%
Public service	7.3%	7.2%
Auxiliary enterprises	10.0%	10.5%
Organized research	10.5%	10.1%
Hospitals	19.0%	19.4%
Instruction	28.1%	28.3%

Current Expenditures and Transfers

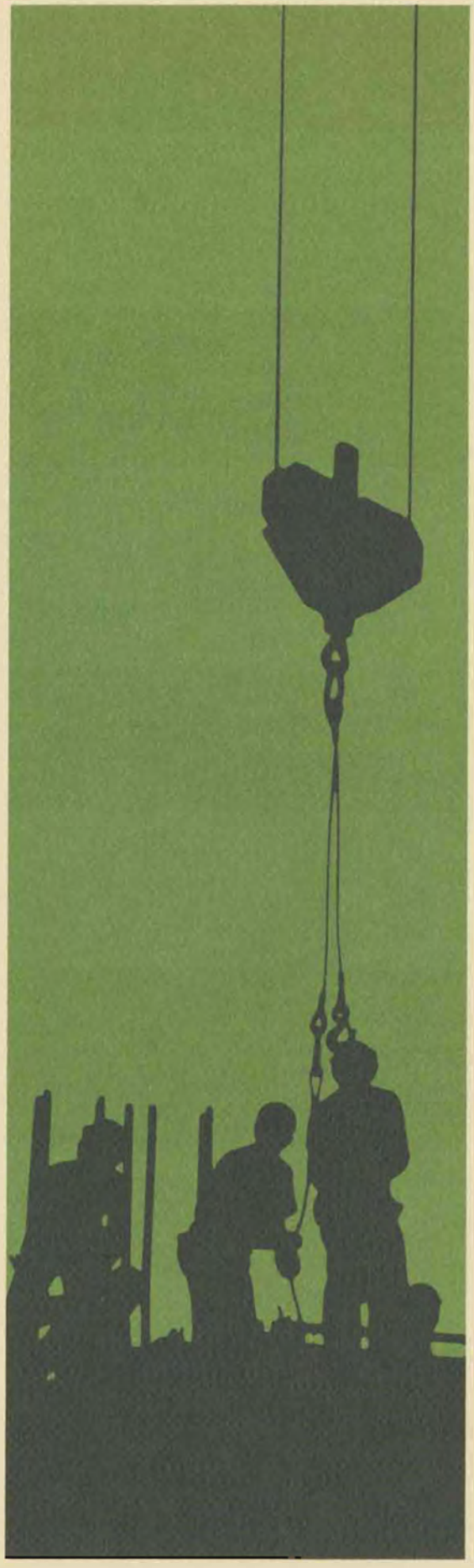
CURRENT EXPENDITURES AND TRANSFERS (in thousands of dollars)	1985-86 Unrestricted	1985-86 Restricted	1985-86 Total	1984-85 Unrestricted	1984-85 Restricted	1984-85 Total
General Funds						
Instruction	$151,386	$ 23,704	$175,090	$141,768	$ 21,664	$163,432
Organized Research	20,673	44,682	65,355	19,915	38,221	58,136
Public Service	30,038	15,753	45,791	27,866	13,970	41,836
Academic Support	40,118	3,425	43,543	36,088	3,659	39,747
Student Services	19,465	455	19,920	16,732	240	16,972
Institutional Support	40,778	415	41,193	35,744	347	36,091
Operation and Maintenance of Physical Plant	33,482	26	33,508	31,500	5	31,505
Student Aid	4,788	14,303	19,091	5,188	12,304	17,492
Transfers	(1,093)		(1,093)	238		238
Total General Funds Expenditures and Transfers	$339,635	$102,763	$442,398	$315,039	$ 90,410	$405,449
Auxiliary Enterprises Fund						
Expenditures	$ 54,179	$ 13	$ 54,192	$ 52,605	$ 37	$ 56,642
Transfers	8,235		8,235	7,983		7,983
Total Auxiliary Enterprises Fund, Expenditures and Transfers	$ 62,414	$ 13	$ 62,427	$ 60,588	$ 37	$ 60,625
Hospitals Fund						
Expenditures	$105,508	$ 2,198	$107,706	$ 99,583	$ 2,012	$101,595
Transfers	11,071		11,071	10,345		10,345
Total Hospitals Fund, Expenditures and Transfers	$116,579	$ 2,198	$118,777	$109,928	$ 2,012	$111,940
Total Current Expenditures And Transfers	$518,628	$104,974	$623,602	$485,555	$ 92,459	$578,014

Major Capital Construction Programs 1985-86

(in thousands of dollars)

Major Capital Construction Completed 1985-86	SOURCE OF FUNDS State Appropriation	TSSBA	Local Appropriation	Federal Grant
Ferris Hall Roof Replacement—Knoxville	$ 102			
Gibbs Hall Code Deficiencies—Knoxville				
Stokely Management Center Completion—Knoxville				
Veterinary Medicine Cooling Towers and Heat Wheels Replacement—Knoxville	300			
Student Center Heating and Air Conditioning System Replacement—Knoxville				
Bakery Improvements and Waterproofing—Knoxville				
Estabrook Hall Roof Replacement—Knoxville	50			
Food Tech Building Roof Replacement—Knoxville	56			
Hot and Chilled Water Lines—Chattanooga	58			
Single Student Housing—Chattanooga		$ 2,420		
Pathology Building Renovation (Phases IV and V)	2,270			
Nash Building Renovations—Memphis				
Professional Office Building and Garage Site Prep. Memorial Hospital		462		
Gas-Fired Boiler Installation—Memorial Hospital				
Steam Lines Replacement—Martin	225			
PE Center Roof Replacement—Martin	381			
Campus Improvements—Martin	34			
University Center Dining Room Renovations—Martin				
Student Housing Roof Replacement—Martin				
Wastewater Treatment Plant—UTSI	300			
MAJOR CAPITAL CONSTRUCTION COMPLETED	**$ 3,776**	**$ 2,882**		
Major Construction in Progress at June 30, 1986 (estimated completion date)				
Assembly Center and Arena—Knoxville (November 1987)	$ 7,000	$ 8,000	$ 10,000	
Hodges Library Expansion—Knoxville (January 1987)	28,500			
Student Aquatic Center Deck Repair—Knoxville (July 1986)				
Alumni Gym and University Center Roof Replacement—Knoxville (August 1986)	153			
Dabney/Beuhler Hall Energy Conservation—Knoxville (July 1986)	470			
Hesler Biology Renovation—Knoxville (September 1986)				
Outdoor Pool Repair—Knoxville (August 1986)				
Walter Life Sciences Heat Wheels Replacement—Knoxville (January 1987)	235			
Tyson House Heating and Cooling Installation—Knoxville (August 1986)				
Central Energy Facility—Chattanooga (November 1986)	4,320			
Child Development Center Energy Conservation—Memphis (July 1986)	470			$202
Whittenborg Renovation—Memphis (November 1986)				
Professional Office Building and Parking Ga age Memorial Hospital (January 1988)		16,000		
Building Automation—Memorial Hospital (July 1986)				
NMR Addition—Memorial Hospital (August 1986)				
Code Deficiencies and Barrier Elimination—Martin (March 1987)	905			
Agricultural Pavilion Classroom Addition—Martin (August 1986)	292			
Plant Pest Identification Lab—Institute of Agriculture (November 1986)	525			
Ellington 4-H Center Repair—Institute of Agriculture (September 1986)	110			
Plateau Experiment Station Renovation—Institute of Agriculture (July 1986)	150			
Milan Agri Museum—Institute of Agriculture (September 1987)	950			
Ellington 4-H Center Dining Hall Renovation—Institute of Agriculture (July 1986)				
Morgan Circle Realignment-Phase II—Institute of Agriculture (September 1986)				
Bovine Clinic Renovation—Vet Medicine (July 1986)				
MAJOR CAPITAL CONSTRUCTION IN PROGRESS	**$44,080**	**$24,000**	**$10,000**	**$202**

University Funds			
Current Unrestricted	Current Restricted	Maintenance Reserves	Project Total
			$ 102
		$273	273
$ 200			200
			300
		2,300	2,300
100			100
			50
			56
20			78
			2,420
			2,270
205			205
			462
1,120			1,120
			225
			381
			34
		365	365
		170	170
			300
$1,645		**$3,108**	**$11,411**
	$5,000		$30,000
			28,500
		$270	270
			153
			470
	257		257
		1,130	1,130
			235
$ 122	43		165
			4,320
			672
	135		135
			16,000
358			358
1,325			1,325
			905
	100		392
			525
42			152
52			202
			950
38			38
133			133
	150		150
$2,070	**$5,685**	**$1,400**	**$87,437**



The University of Tennessee Ten Year Summary

For the Fiscal Year	1985-86	1984-85	1983-84	1982-83
Sources of Operating Revenues (,000)				
State Appropriations	$228,664	$208,917	$173,149	$165,890
Student Fees	62,371	57,524	52,254	51,693
Federal Appropriations	11,427	11,018	11,411	10,812
Other (Gifts, Grants, Sales and Services, etc.)	139,883	128,588	110,825	107,751
Total General Funds	$442,345	$406,047	$347,639	$336,146
Auxiliary Enterprises	62,483	60,480	56,851	57,780
Hospitals	121,828	112,332	91,779	93,042
Total Revenues—Current Funds	$626,656	$578,859	$496,269	$486,968
Current Expenditures and Transfers (,000)				
Instruction	$175,090	$163,432	$141,213	$134,983
Organized Research	65,354	58,136	47,971	44,392
Public Service	45,792	41,836	35,003	36,456
Academic Support	43,543	39,747	31,296	31,187
Student Services	19,920	16,972	15,569	15,084
Institutional Support	41,193	36,091	31,944	30,599
Operation and Maintenance of Physical Plant	33,508	31,505	28,729	26,925
Student Aid	19,091	17,492	16,839	16,103
Staff Benefits*				
Transfers	(1093)	238	(1,835)	(1,181)
Total General Funds-Expenditures and Transfers	$442,398	$405,449	$346,729	$334,548
Auxiliary Enterprises Expenditures and Transfers	$ 62,427	$ 60,625	$ 57,629	$ 57,659
Hospital Expenditures and Transfers	$118,777	$111,940	$92,606	$86,433
Total Current Expenditures and Transfers	$623,602	$578,014	$496,964	$478,640
Expenditures Converted to 1986	(×1.000)	(×1.029)	(×1.069)	(×1.108)
Equivalent by Consumer Price Index Factor	$623,602	$594,776	$531,255	$530.333
Current Unrestricted Fund Assets (,000)				
Educational and General	$ 59,918	$ 55,382	$ 49,123	$ 46,778
Auxiliary	16,292	15,512	15,835	15,427
Hospital	35,017	34,225	36,173	36,942
Total Current Funds	$111,227	$105,119	$101,131	$ 99,147
Student Loan Funds				
Notes Receivable (,000)	$ 24,272	$ 23,661	$ 22,927	$22,150
Loans Issued (by year)	2,885	2,708	2,961	2,919
Endowment Funds (,000)				
Market Value	$ 57,952	$ 47,680	$ 35,899	$33,768
Life Income Funds				
Market Value	$ 18,856	$ 13,922	$ 11,974	$12,578
Plant Funds (,000)				
Long-term Debt	$234,534	$187,233	$161,368	$164,250
Reserves for Debt Service	$ 38,041	$ 31,672	$ 30,813	$ 30,533
Net Invested in Plant	$574,442	$556,569	$525,415	$484,827
Capital Outlay Expenditures	$ 46,884	$ 41,265	$ 29,242	$ 33,539
General Data				
Total Enrollment	39,814	40,881	42,535	42,136
Knoxville	25,397	26,158	27,018	27,041
Chattanooga	7,564	7,474	7,839	7,544
Martin	5,053	5,366	5,690	5,525
Nashville				
Memphis	1,800	1,883	1,988	2,026
Degrees Granted	7,292	7,682	7,618	7,477
Full-Time Employees	12,679	12,340	11,980	11,410
Full-Time Faculty	2,638	2,675	2,679	2,635
% tenured	63.2%	63.4%	63.4%	63.6%
Total Private Gifts (,000)	$ 27,867	$ 22,489	$ 15,724	$ 11,691
Academic Year Student Fees (Knoxville)				
Instate	$ 1,125	$ 999	$ 867	$ 867
Out of state (additional)	$ 2,154	$ 1,974	$ 1,761	$ 1,761
State Appropriation/FTE	$ 4,128	$ 3,699	$ 2,991	$ 2,868

*For years after 1977-78, staff benefits are distributed to all other expenditure functions.

1981-82	1980-81	1979-80	1978-79	1977-78	1976-77
$154,284	$144,384	$134,761	$126,003	$110,759	$ 95,756
46,254	40,050	34,054	31,975	31,445	30,588
10,595	9,662	9,401	8,423	8,425	7,884
104,771	97,718	90,221	76,973	67,786	59,732
$315,904	$291,814	$268,437	$243,374	$218,415	$193,960
52,815	49,192	44,068	39,735	37,287	33,693
84,889	72,993	56,895	50,669	37,585	32,228
$453,608	$413,999	$369,400	$333,778	$293,287	$259,881
$125,808	$112,916	$102,631	$ 95,454	$ 79,945	$ 73,754
44,676	49,339	43,977	37,725	32,444	28,081
34,514	33,433	31,426	28,730	22,287	19,819
27,722	26,060	22,931	20,712	16,217	15,400
13,188	12,207	10,556	9,691	7,912	7,221
27,304	24,406	22,643	22,107	17,959	15,369
26,364	23,821	20,928	19,234	16,444	14,524
16,000	8,707	7,852	7,046	6,517	6,642
				15,202	13,126
7	(187)	6,191	64	587	(221)
$315,583	$290,702	$269,135	$240,763	$215,514	$193,715
$ 52,014	$ 47,932	$ 43,494	$ 40,233	$ 37,288	$ 33,182
$ 81,623	$ 74,079	$ 56,540	$ 46,431	$ 37,447	$ 31,671
$449,220	$412,713	$369,169	$327,427	$290,249	$258,568
(×1.156)	(×1.257)	(×1.402)	(×1.589)	(×1.738)	(×1.854)
$519,298	$518,780	$517,575	$520,282	$504,453	$479,385
$69,806	$ 61,222	$ 62,271	$ 54,825	$ 48,384	$ 41,022
14,757	13,447	12,920	10,303	10,491	9,247
29,576	28,923	18,584	15,844	11,173	9,776
$114,139	$103,592	$ 93,775	$ 80,972	$ 70,048	$ 60,045
$ 20,896	$ 19,760	$ 18,256	$ 17,098	$ 15,276	$ 13,983
2,498	2,814	3,073	3,504	3,111	3,076
$ 24,616	$ 24,165	$ 20,800	$ 17,325	$ 14,888	$ 13,427
$ 9,638	$ 9,511	$ 10,690	$ 10,292	$ 9,249	$ 6,294
$129,280	$113,860	$105,559	$108,325	$111,411	$109,412
$ 21,529	$ 20,155	$ 18,881	$ 17,748	$ 16,516	$ 15,097
$487,072	$434,259	$395,347	$373,788	$349,137	$324,289
$ 33,330	$ 37,229	$ 19,887	$ 15,339	$ 24,298	$ 25,019
43,740	45,402	45,223	49,485	49,864	48,502
28,601	30,282	30,391	29,720	30,468	29,663
7,483	7,600	7,545	7,104	6,628	6,162
5,538	5,328	5,163	5,090	4,957	5,082
			5,419	5,685	5,616
2,118	2,192	2,124	2,152	2,126	1,979
7,950	8,071	8,184	8,128	8,217	8,323
11,952	12,202	11,707	12,121	11,594	11,328
2,681	2,805	2,808	2,909	2,761	2,719
62.0%	57.5%	56.2%	54.6%	53.0%	51.4%
$ 12,078	$ 12,893	$ 17,899	$ 10,376	$ 11,033	$ 4,496
$ 741	$ 657	$ 558	$ 510	$ 510	$ 510
$ 1,530	$ 1,224	$ 1,002	$ 936	$ 936	$ 900
$ 2,521	$ 2,279	$ 2,172	$ 2,043	$ 1,823	$ 1,630

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Additional detailed financial information is provided in the *Report of the Treasurer 1986*, available upon request.

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