

FUTURE



Annual Report of the President to the
University of Tennessee Board of Trustees

2005-2006

Dr. John D. Petersen



THE UNIVERSITY of TENNESSEE
KNOXVILLE, CHATTANOOGA, MARTIN, TULLAHOMA, MEMPHIS



CONTENTS

2	President's Message
4	University of Tennessee, Knoxville
6	UT-Oak Ridge Partnership
7	University of Tennessee at Chattanooga
8	University of Tennessee at Martin
9	University of Tennessee Health Science Center
10	University of Tennessee Institute of Agriculture
11	University of Tennessee Institute for Public Service
12	University of Tennessee Space Institute
13	Financial Highlights
17	University of Tennessee Board of Trustees



The University of Tennessee keeps Tennessee's best students at home and powers the state's economy. With a presence in each of the state's 95 counties, UT improves the lives of Tennessee citizens every day. The University of Tennessee is synonymous with Tennessee's future.

Today's UNIVERSITY of TENNESSEE

The University of Tennessee is a statewide system of higher education that has a presence in each of Tennessee's 95 counties.

Through the combined force of its education, research, and service capabilities, the university serves students, business and industry, schools, governments, organizations, and citizens throughout the state.

The statewide university provides a range of accessible and affordable educational opportunities. Approximately 42,000 students are enrolled, and graduates number more than 9,000 a year.

The university system serves the state in myriad ways in addition to education. It is integrally involved in outreach, economic development, and research that add value to Tennessee.

Offices of the university system administration are located on the Knoxville campus. The university system includes

- *The flagship land-grant campus at Knoxville, Tennessee's oldest and largest public university*
- *The Health Science Center, headquartered in Memphis, a statewide academic health system*
- *University of Tennessee at Martin, an undergraduate-focused university located in northwest Tennessee*
- *University of Tennessee at Chattanooga, a metropolitan university*
- *The Institute of Agriculture, a statewide education, research, and outreach organization serving students, clients, farmers, and families throughout Tennessee*
- *The Institute for Public Service, a statewide organization of agencies serving state and local governments and industries throughout Tennessee*
- *The Space Institute at Tullahoma, a graduate and research institution*



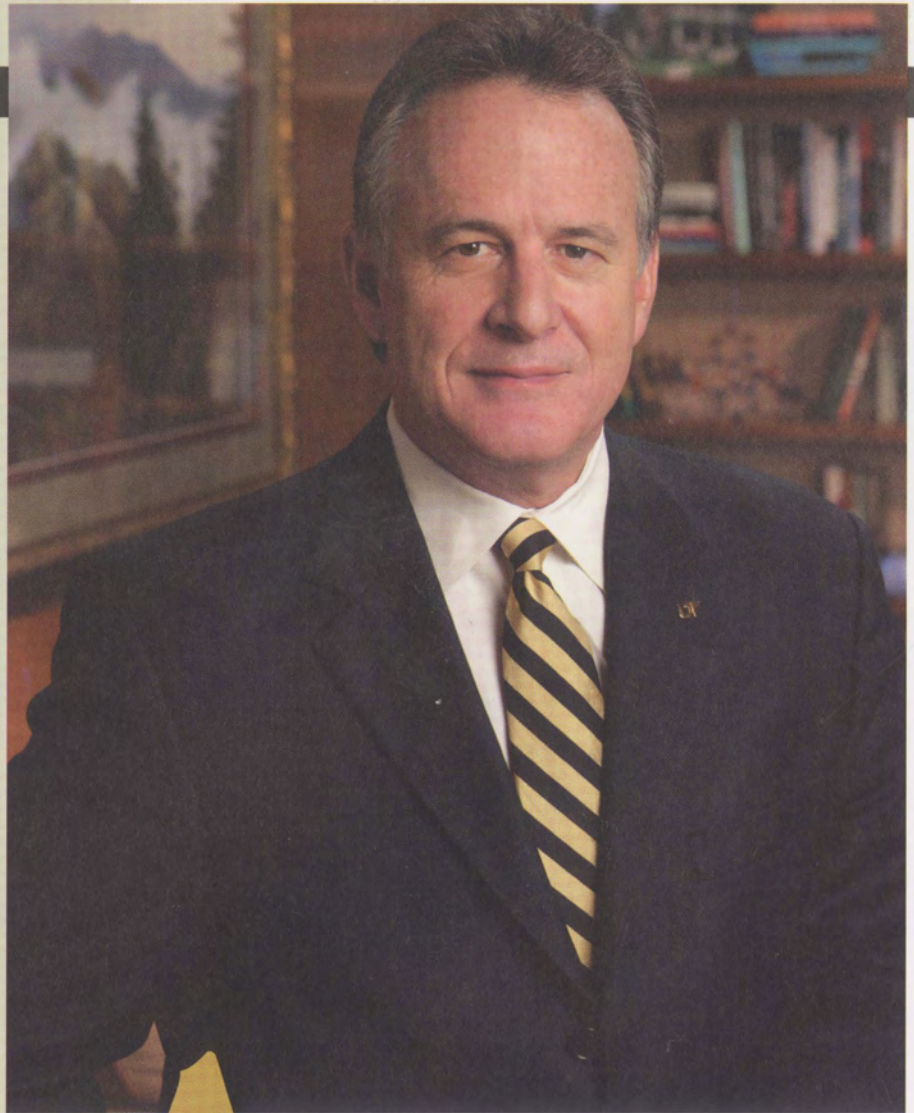
THE STATE IS OUR CAMPUS

Tried but true, that short statement fits today's University of Tennessee better than ever before.

Whether it's a new physician returning to treat patients in her hometown or a researcher who wins a \$1 million grant to improve math instruction, UT people are making Tennessee a better place. UT helps power the state's economy, keep its brightest students at home, and enhance its competitive image.

The university has a presence in each of Tennessee's 95 counties. UT teaches, carries out research, and shares its knowledge with others. Students, business and industry, schools, governments, and just plain citizens benefit daily.

Our Volunteer spirit is without equal. Our promise to Tennesseans is better lives, better jobs, and a better Tennessee.



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s I look back, 2005-2006 was a year of building—building partnerships, completing my university leadership team, constructing a strategic plan to guide the future of the University of Tennessee.

It was my second year as president—a time to take stock and begin to take pride. We felt a rising momentum, a confidence born of solid accomplishments. We defined our tasks and delegated responsibility to build a stronger Tennessee.

As we crafted the UT strategic plan, the overarching goals of the statewide university came into sharp focus.

- *Student access and success. Tennessee needs more college-educated citizens to provide the workforce for the 21st century.*
- *Research and economic development. The end product of research must enhance economic development in Tennessee and beyond.*
- *Outreach and globalization. As a land-grant university, UT needs to increase the number of citizens it serves and prepare its students for success in the global economy.*

These are the avenues by which the University of Tennessee can build a stronger Tennessee. Many elements support these goals.

- *Partnerships. I have called myself the partnership president. I strongly believe we have to leverage our resources and talents to do the best job possible for Tennessee. Joining forces with other organizations makes good sense financially, and it makes good sense for Tennessee.*



THE UNIVERSITY OF TENNESSEE OWES MUCH TO ITS FRIENDS AND PARTNERS.

- *Campaign.* To accomplish the many aspects of our strategic plan, the university must have the resources to put behind it. A major gifts campaign will rally support for academic excellence and supplement our state appropriations.
- *Communications.* The average Tennessean needs to understand the value the University of Tennessee adds to the state. We will initiate a branding campaign to identify the university's strengths and contributions and thus, we hope, increase understanding and appreciation of the role of higher education in the state's economic development.
- *Information technology.* More efficient information technology allows us to work smarter. More coordination of standards and software will benefit the entire university.
- *Personnel development.* The university has to retain and develop its best employees with the help of better compensation and training. And we must work even harder to increase diversity among the faculty and staff.

The UT Board of Trustees approved the strategic plan and even more importantly was closely involved in its development. The Board has been enormously supportive and engaged as we have charted the future course of the university.

Throughout the UT system, many accomplishments highlighted the past year. We made notable strides in enrolling more of the state's best students. We were proud to assist students displaced by Hurricane Katrina. We reached a record \$285 million in research awards, and gifts from our alumni and other friends grew to \$157 million. Our government relations efforts paid off with an increase of almost 5 percent in state appropriations, which held student tuition increases to a minimum. The \$3 billion UT-Oak Ridge partnership continued to grow more cohesive and grab international attention.

But the UT campuses and institutes are the heartbeat of this institution. Their achievements not only reflect positively on them, but collectively add to the reputation of the statewide university. On the following pages, I am proud to spotlight the campuses and institutes that **are** the University of Tennessee.

UT will continue to excel by hiring the best faculty and staff, thinking and acting in a visionary and transformational fashion, thinking strategically and being willing to make the tough decisions on resource allocation, and by building partnerships that will accelerate our ascendancy in the hierarchy of higher education in the U.S. and the world.

Sincerely,

John D. Petersen
President

We are especially grateful to our major donor, the state of Tennessee. The state provides nearly one-third of the university's annual operating budget. Governor Phil Bredesen has been extraordinarily supportive of new initiatives, and our friends in the state legislature appropriated some extra dollars this year that allowed us to keep tuition increases to a minimum. The members of the Tennessee congressional delegation in Washington have also been excellent friends to the university. Our role in the UT-Oak Ridge partnership has been hugely rewarding, and we expect more joint accomplishments that benefit the state of Tennessee.

I also want to salute the students, faculty, and staff of all our campuses and institutes for their spirit and hard work. Thanks as well to the thousands of UT alumni and friends who believe so strongly in this institution and support it with their time and other resources.

I feel extremely positive about the future of the University of Tennessee. This institution is perfectly positioned to move up in the ranks of America's great public universities and in so doing play a pivotal role in shaping the future of Tennessee.



THE FLAGSHIP CAMPUS OF THE UNIVERSITY OF TENNESSEE SCALED NEW HEIGHTS DURING 2005-2006

The university enrolled its best freshman class ever and launched a major initiative to make its students “Ready for the World.”

The 2005 freshman class set records for academic achievement and diversity. First-year students had an average ACT score of 25.6 and a 3.54 high school grade point average. Almost 30 percent had perfect 4.0 high school averages. Nearly 16 percent were minorities.

UT embarked on an ambitious plan to help students gain the international and intercultural knowledge to succeed in today’s world. “Ready for the World: The International and Intercultural Awareness Initiative” set about internationalizing the curriculum, increasing global competency of faculty and staff, recruiting more international students and faculty, and increasing the number of students who study abroad.

The university opened a “one-stop-shop” Student Success Center. The center offers a comprehensive network of support and referral, and its resources also are available online. Increasing the number of graduates is the center’s ultimate goal.

The flagship campus attracted more than \$130 million in research awards—a significant portion of the year’s record \$285 million UT systemwide total. Two departments on the

Knoxville campus—Physics & Astronomy and Materials Science & Engineering—led the increase.

Meanwhile, UT Knoxville advanced to 38th among public research universities in the *U.S. News & World Report* rankings. Eight UT programs were listed among *U.S. News’* top graduate programs: logistics, social work, law, education, audiology, civil engineering, materials engineering, and physical therapy.

\$20 Million To Fund Institute

The federal government appropriated \$20 million for a new Joint Institute for Advanced Materials on campus. The facility will strengthen collaboration between UT and Oak Ridge National Laboratory.

Students Take the Pledge

The first semester of the Tennessee Pledge scholarship program saw 189 students receiving the scholarship package. Tennessee Pledge guarantees qualified students can attend UT for four years without incurring debt. The program offers an aid package of scholarships and other federal, state, and institutional assistance to students near the poverty level.

Holub Named Provost

Dr. Robert C. Holub joined the university as provost and vice chancellor for academic affairs. He formerly was dean of the undergraduate division for the College of Letters and Science at the University of California–Berkeley. He succeeded Anne Mayhew, who retired after 37 years at UT. Holub oversees all academic operations, including eight colleges, all graduate programs, enrollment services, and libraries.

Homeland Security Nursing Debuts

The UT College of Nursing offered the nation's first graduate degree concentration in homeland security nursing. The program teaches how to deal with mass casualty disasters. The U.S. Health Resources Service Administration provided more than \$650,000 for the start-up.

Kao Gives to Engineering

A gift from Dr. Min Kao ('77) will help build a new Electrical and Computer Engineering Building. Kao, chairman and CEO of Garmin Ltd., gave \$12.5 million for the building and \$5 million for programs. The state of Tennessee committed \$25 million toward the new building.

Cheney Attends Groundbreaking

Vice President Dick Cheney was among the dignitaries who helped break ground for UT's Howard H. Baker Jr. Center for Public Policy. Baker ('49) is former Senate majority leader, White House chief of staff, and ambassador to Japan.

Kissinger Highlights Churchill Conference

Henry Kissinger and Winston S. Churchill, grandson of Sir Winston Churchill, headlined "The United States and Great Britain: The Legacy of Churchill's Atlantic Alliance" last March. The conference was jointly sponsored by the Howard H. Baker Jr. Center for Public Policy at UT and the Churchill archives at the University of Cambridge in the United Kingdom.

Microsoft Taps UT

Microsoft named UT one of its 10 new Institutes of High Performance Computing. UT will receive \$300,000 a year, along with computer hardware and software. Other institutions selected include Cornell University, University of Virginia, and University of Stuttgart (Germany).

Library Adds "The Commons"

The new Commons area in Hodges Library offers a 50-workstation computer lab with more than 60 software programs, wireless access, loaner laptops, reference and research services, a media center, and a design studio. During summer 2006, the periodicals section of the library was relocated to allow for an additional computer lab. The Office of Information Technology Help Desk and student computer repair were relocated to The Commons. A second phase of The Commons is planned for next year and will offer a writing center, audio and video conferencing capabilities, and multimedia conference/presentation rooms.



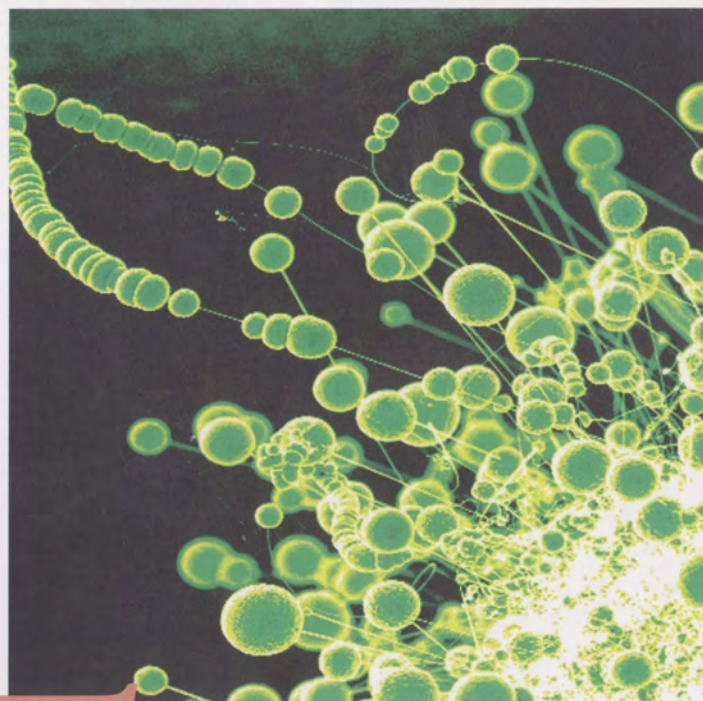
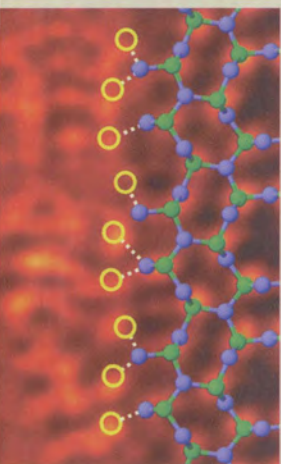
HASLAMs MAKE RECORD GIFT



Jim and Natalie Haslam of Knoxville and the Haslam Family Foundation gave the university \$32.5 million, the largest gift ever from individuals. The Haslams, both 1952 graduates, are known for their civic and philanthropic work. Jim Haslam is chairman of the board of Pilot Travel Centers LLC and chairman of the board and president of Pilot Corp., both headquartered in Knoxville. Their gift will support the College of Arts and Sciences, the College of Business Administration, the Howard H. Baker Jr. Center for Public Policy, the Athletic Department, and the Haslam Endowment.

WHAT IS THE UT-OAK RIDGE PARTNERSHIP?

UT-Battelle manages Oak Ridge National Laboratory for the U.S. Department of Energy. The University of Tennessee, the flagship land-grant institution of the state of Tennessee, teamed with Battelle, a global science and technology company, to win the management contract in 2000. The state of Tennessee actively supports the UT-Oak Ridge partnership and has contributed approximately \$40 million for joint research institutes while also committing \$10 million to attract world class scientists for joint appointments at UT and Oak Ridge. Dr. John Petersen, president of UT, is chairman of the UT-Battelle board of governors.



The UT-Oak Ridge partnership won a second five-year contract to manage Oak Ridge National Laboratory—the nation's largest science and energy lab. With \$3 billion in assets, the partnership continued to increase its contributions to Tennessee's intellectual and economic development.

The \$1.4 billion Spallation Neutron Source came online, and the Oak Ridge supercomputing facilities grew toward the goal of becoming the world's fastest. The UT-Oak Ridge joint institutes in the areas of biological, neutron, computational, and materials science exemplified the direction of scientific inquiry in the 21st century.

Under the partnership, the laboratory's research budget has grown nearly 50 percent, and corporate outreach and economic development have expanded. The U.S. Department of Energy renewed UT-Battelle's management contract with a performance rating of "outstanding," the highest possible assessment.

Since UT moved into its role as the lab's managing partner, ORNL's technology commercialization program, with Technology 20/20, has spun off more than 60 new companies. These companies lead to new jobs and opportunity in Tennessee and beyond.

Support from the state of Tennessee has led to the creation of the Governor's Chair positions, prestigious appointments for world class scientists to serve jointly on the UT faculty and the ORNL staff. Jeremy Smith, an internationally renowned biophysicist, became the first hire. Smith's appointment is in the UT-ORNL Joint Institute for Biological Sciences. He comes from the University of Heidelberg in Germany, where he held the chair of Computational Molecular Biophysics.

Announcing Smith's appointment, Tennessee Governor Phil Bredesen emphasized his commitment to the UT-Oak Ridge partnership: "Our goal, very simply, is to bring some of the best scientists in the world to Tennessee. The impact of their work can make a lasting difference for our state's future."

THE UNIVERSITY of TENNESSEE CHATTANOOGA



Projects Test Alternative Fuels

The Tennessee Valley Authority granted UT Chattanooga and Advanced Transportation Technology Institute use of its research facility and test site in Chattanooga to develop alternative fuels and test electric vehicles. Researchers will study fuel efficiency, endurance, and steering along with performance variables in vehicles. The site could be used to test individual components and systems along with finished vehicles, offering the potential to work with major automobile manufacturers. The announcement was one of several events held in conjunction with the meeting in Chattanooga of the Valley Corridor Summit. The 2006 Chattanooga Summit highlighted technologies aimed at upgrading America's energy independence and economic growth. Earlier in the year, Ion America of Silicon Valley chose UTC to independently test performance of an alternative fuel cell using hydrocarbons. The fuel cell project could help meet national goals for energy independence. Through the federally funded research project, the UT SimCenter at Chattanooga will independently test the fuel cell performance in terms of compliance with Department of Energy standards and long-term usage.

Grant Readies Youngsters for School

A multidisciplinary team of faculty members from UT Chattanooga received a \$3.6 million grant from the U.S. Department of Education's Early Childhood Educator Professional Development grant program to establish Project REEL, a statewide training center for early childhood educators. The program was established to enhance the school readiness of young children, particularly the disadvantaged. The program also prevents children from encountering difficulties after they enter school. UTC's proposal was the top-ranked program of more than 125 applications.

UTC Spurs Economy

According to "The Economic Impact and Return on Investment of UTC: What Tennessee Taxpayers Get for Their Money 2005-2006," written by Dr. J.R. Clark, Scott L. Probasco, Jr., Chair of Free Enterprise, UTC contributes more than \$285 million a year to the local economy and provides 4,337 jobs.

Occupational Therapy Program Begins

Through a partnership with Siskin Hospital for Physical Rehabilitation in Chattanooga and the UT Health Science Center in Memphis, UT Chattanooga established a master's degree program in occupational

therapy. The new program restores professional education in occupational therapy in Chattanooga after UTC's baccalaureate program was discontinued several years ago.

Easy Transfer Good for Students

To promote an easier transfer between the campuses and to encourage students to pursue high tech careers, UT Chattanooga and Chattanooga State Technical Community College initiated a new 2+2 degree program in engineering management. Students are eligible for scholarship assistance provided by local foundations and industries.

Saylor Takes Honors

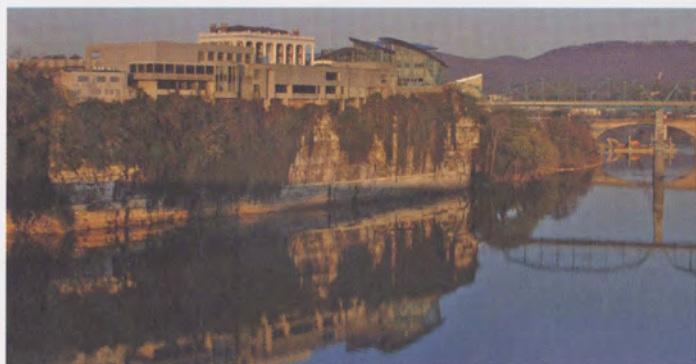
Darris Saylor, a University Honors Program senior, was named a 2006 Portz Scholar by the National Collegiate Honors Council. This prestigious award is given to only three honor students nationally each year in recognition of outstanding research and contributions to scholarship.

Team Places in Engineering Meet

The Running Mocs finished 19th overall of 149 teams entered in the Society of Automotive Engineers 2006 MidWest MiniBaja competition held in Wisconsin. UTC bested participating teams from colleges including Georgia Tech, Michigan, and Purdue. The competition is known as the "Super Bowl" of mechanical engineering education. Engineering students were tasked to design and build an off-road vehicle that would endure the severe punishment of rough terrain.

First African Americans Study Abroad

Chareva McCullough and Keyanna Webb became the first African American students from UT Chattanooga to study abroad when they spent the spring 2006 semester enrolled in the University of KwaZulu-Natal, South Africa.





UT Martin recorded six consecutive record enrollments through the 2006 summer semester. Participation in online studies continued to increase through UT New College. An undergraduate program in university studies, along with graduate programs in agriculture and education, fostered increased access to high-demand courses of study.

Students connected with UT Martin through many off-campus opportunities offered through the Office of Extended Campus and Continuing Education. Dual-credit courses that allow students to earn both high school and college credit through selected courses were taught in 28 high schools. Off-campus centers in Jackson, Selmer, and Ripley brought UT Martin courses to hundreds of students, while the university's growing interactive video network delivered instruction to locations around West Tennessee and beyond.

TRIO Grant Makes Impact

UT Martin completed the first year of a \$1.1 million, five-year U.S. Department of Education TRIO-Student Support Services program. The program aims to increase the number of low-income and first-generation students and students with disabilities who successfully complete a postsecondary program of study. The program helped 12 students who graduated and 83 students who transitioned to the next classification level.

Land Transfer Benefits Agriculture Students

The land, buildings, and equipment of the UT Experiment Station's Martin Research and Education Center were transferred on January 1, 2006, to the UT Martin Department of Agriculture and Natural Resources. The property is now used to support experiential learning.

Articulation Agreement Completed

UT Martin and Jackson State Community College announced an articulation agreement that allows students from Jackson State transferring to UT Martin to complete a bachelor's degree in education. The agreement ensures a seamless transfer of credits.

Engineering Students Get Research Experience

Engineering students Jeff Bunn and Bryan Boggs and their faculty adviser, Dr. Bob LeMaster, conducted research at Oak Ridge National Laboratory. Their work was part of the Department of Energy Faculty and Student Teams (FaST) program. The FaST Team used

X-ray diffraction equipment to try to minimize the effects grinding has on the residual stresses in gears.

WestStar Develops Leaders

UT Martin sets the standard for leadership development and education with its WestStar Leadership Program. The program, which offers seminars to business, education, and government leaders from the 21-county West Tennessee area, has more than 450 alumni. WestStar sponsors conferences that focus on issues impacting working women, youth leadership development, African American leaders, and economic development.

Going Global

The Center for Global Studies and International Education sponsored travel-study programs that took 168 students and 42 community representatives to destinations both in the U.S. and abroad. The center facilitated the signing of student-exchange agreements with the University of Quebec at Chicoutimi and the Autonomous Agrarian University Antonio Narro in Mexico. Also, with the support of a Program Enhancement Grant from the Canadian government, the center scheduled activities to promote UT Martin's new Canadian Studies minor.

Grant Programs Touch Lives

Life was better for children and families in northwest Tennessee thanks to several outreach programs. In 2005-2006, UT Martin's four Child and Family Grant Programs provided outreach services to thousands of clients including parents, developmentally delayed children, and childcare providers.

Campus Is Center of Democracy Project

UT Martin serves as the executive center of the Southern Consortium of the American Democracy Project, which includes more than 60 universities. UT Martin maintains the Web site, manages funds, serves as a communication hub, and plays a central role in planning the annual conference and other activities. The American Democracy Project helps students understand and commit to civic engagement.

REED Center Assists Small Business

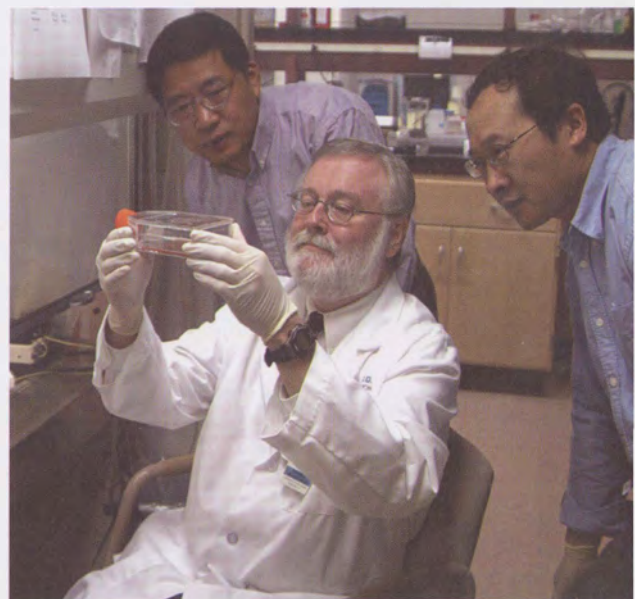
UT Martin's new Regional Entrepreneurship and Economic Development (REED) Center serves existing and prospective entrepreneurs and supports economic development in northwest Tennessee. The center provides individual client contact as well as group seminars.



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t the UT Health Science Center (UTHSC), female and minority enrollment increased among the six health colleges, and the majority of students achieved pass rates of 97 to 100 percent on licensing, certification, and state board examinations.

- Two new College of Pharmacy buildings are being constructed to offer an enhanced educational environment—one in Memphis, due for completion in 2008, and the other in Knoxville, scheduled to be completed in 2007.
- To more effectively integrate educational activities across the College of Medicine campuses, Dr. Steve J. Schwab was selected as the first executive dean. All College of Medicine deans report to him.
- To better coordinate academic policies and procedures and oversee student services, Dr. Cheryl Scheid was selected as the first vice chancellor for academic, faculty, and student affairs.
- UTHSC researchers expended nearly \$103 million in grants and sponsored projects funds, an 11.7 percent increase compared with last year.
- UTHSC received nearly \$18 million from the National Institutes of Allergy and Infectious Disease to build the Regional Biocontainment Laboratory, which will be a site to conduct biomedical and biodefense research and training.
- The UT Cancer Research Building will begin occupancy with federally funded cancer scientists in fall 2006.
- The original downtown Baptist Hospital was imploded to clear space for the UT-Baptist Research Park, a 1.2 million-square-foot laboratory, research, education, and business space. The new College of Pharmacy building and Regional Biocontainment Laboratory will be the first buildings.
- Faculty and staff built upon research collaborations with organizations like Oak Ridge National Laboratory to broker transfer of new technologies and pursue business development.
- UTHSC researchers and physicians filed applications for 75 patents in addition to those already in the review process.
- Business partnerships continued with companies like Siemens and Nano Tek and led to innovations such as novel imaging technologies and microfluidics to produce molecular markers or biomarkers.
- Expenditures for training and patient care by Family Medicine physicians at UT increased by nearly \$1.3 million.
- UTHSC physicians continued to be listed among the Best Doctors in America and to receive clinical achievement awards such as Health Care Heroes.
- In addition to having a global base of students and faculty, UTHSC's international efforts included mission trips, rotations for study abroad, and exchange programs with educational institutions in almost a dozen countries.
- The College of Medicine Council on International & Areas Outreach program awarded grants to more than 30 students to practice their health care skills in medically underserved areas in the Memphis area and in other countries.
- Students in the College of Allied Health Sciences increased their community service activities by 35 percent, donating close to 8,500 hours of service to 90 Memphis-area organizations.
- The College of Dentistry's Tennessee Smiles program provided more than 850 citizens, from infants to seniors, with dental screenings and preventive care.



UT Institute of Agriculture

College of Agricultural
Sciences and Natural
Resources

College of Veterinary
Medicine

Extension

Experiment Station

Research, education, and outreach by the UT Institute of Agriculture help drive Tennessee's \$2.5 billion agriculture and forestry sectors. Following are highlights from 2005-2006.

Investments Pay Dividends

Research activities of UT's College of Veterinary Medicine brought in \$6.3 million in 2005. The Center of Excellence in Livestock Diseases and Human Health produced an 8 to 1 return on the state's financial investment.

Veterinary College Conducts Cancer Trials

UT's is one of only four veterinary colleges participating in the first clinical trial on naturally occurring tumors supported by the National Cancer Institute. Ultimately, the experience may help human and veterinary oncology patients.

Work Benefits Smoky Mountains

The Lindsay Young Beneficial Insects Laboratory at UT reared beetles to control the hemlock woolly adelgid, a parasite that threatens the hemlock population in the Great Smoky Mountains National Park.

Thousands Involved in 4-H

4-H, managed by UT Extension, involved more than 320,000 young people and 17,000 volunteers. Members and adult volunteers completed 58,000 hours of service projects. 4-H is the state's largest youth development program.

Efforts Reduce Foodborne Illness

UT Extension and Experiment Station faculty deliver food safety programs that have decreased foodborne illness by an estimated 10 percent in state child care facilities. The result is a cost savings of about \$2 million in health care expenses for children ages 1-7.

Gardens Delight and Teach

The university's public gardens in Knoxville continued to be popular with the community and also serve as a hands-on learning environment for students in the public horticulture concentration in UT's Department of Plant Sciences. Graduates are prepared for careers in the growing field of horticulture.

Sprayers Curb Pesticide Use

UT Agricultural Experiment Station engineers designed sprayers that reduce pesticide applications in the field, resulting in \$180 million in savings to U.S. producers and reducing environmental contamination from pesticide drift by 45 percent as compared to 12 years ago.

Bioenergy Is the Focus

UT's focus sharpened on bioenergy crops that can reduce reliance on foreign oil and grow the agricultural economy. Experiment Station scientists are helping farmers develop feedstocks that can be used to produce renewable fuels and other bio-based products including pharmaceuticals, building materials, textiles, lubricants, and adhesives. Tennessee's agriculture- and forestry-based sectors are predicted to grow by 50 percent through the production of more than \$1 billion of new biomass and bioenergy crops in coming years.



INSTITUTE for PUBLIC SERVICE

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eaching out to Tennessee, the UT Institute for Public Service had an economic impact of more than \$528 million on the state during 2005-2006. Training and consulting provided by IPS enabled employers statewide to create or retain more than 12,000 jobs. IPS answered more than 26,000 requests for assistance from government, law enforcement, and businesses in Tennessee. Here are some examples of the institute's work.

UT Institute for
Public Service

Center for
Industrial Services

County Technical
Assistance Service

Law Enforcement
Innovation Center

Municipal Technical
Advisory Service

Reducing Gun Crimes

A partnership between UT's Law Enforcement Innovation Center and the U.S. Attorney helped reduce gun crimes in Tennessee. As a result of Project Safe Neighborhoods initiatives, violent crimes involving the use of firearms have fallen 23 percent in East Tennessee. Funding supports prosecutors, investigators, training, and gun lock safety kits.

Saving Rutherford \$21 Million

In Rutherford County, consultants with UT's County Technical Assistance Service analyzed plans for a new juvenile detention center and workhouse. By implementing the consultants' recommendations, Rutherford County saved \$14 million in construction costs and \$7 million annually in administrative costs.

Training Real CSIs

Last year UT's National Forensic Academy began reconstructing elaborate mock crime scenes as a finale to its intense 10-week training program for crime-scene investigators. One scenario, funded by a private donor, saw an airplane fuselage hoisted several stories in the air, then dropped and detonated. The CSIs were tasked to solve the crime using skills learned at the academy. More than 300 CSIs from 43 states have completed the academy.

Bringing \$370 Million in Business to Tennessee

In fiscal 2006, the Center for Industrial Services helped Tennessee businesses procure more than \$370 million in new contracts and subcontracts.

Keeping Citizens Safe

Consultants with the Municipal Technical Advisory Service helped Tennessee cities obtain \$20 million in firefighting grants. The UT consultants partner with the U.S. Fire Administration and conduct workshops to teach cities how to win grants, which make fire protection better and more affordable.

Making State Government Better

The Institute for Public Service provides administrative oversight to two of the Tennessee Department of Personnel's premiere leadership institutes—the Tennessee Government Executive Institute and the Tennessee Government Management Institute. UT's Institute for Public Service administers the Tennessee Department of Transportation's Executive Workforce Development Program, which develops leadership and executive skills within TDOT.

Keeping Jobs in Tennessee

A manufacturer in Jackson, Tennessee, faced moving jobs to Mexico. Through the Procurement Technical Assistance Program at UT's Center for Industrial Services, the company teamed with one of its subcontractors to win a \$3 million contract with the U.S. government. The contract represents nearly 10 percent of the company's annual \$45 million business and allows the company to keep 20 jobs in Tennessee.

Supporting Ethical Government

Consultants with the UT Municipal Technical Advisory Service and County Technical Assistance Service prepared model ethics ordinances for cities and counties. A new state law requires every city and county to adopt a code of ethics by July 1, 2007.



SPACE INSTITUTE



Experiment Runs on NASA “Roller Coaster”

A gravity-free experiment designed by the UT Space Institute could provide adequate drinking water for future astronauts on long space trips. Designed by Dr. Basil Antar, UTSI professor of aerospace engineering, and Dr. Donald Reiss of NASA’s Marshall Space Flight Center, the experiment was performed with the help of UTSI doctoral student Dan Lehman aboard an aerial roller coaster that for two days simulated zero gravity conditions. One of the first flights of NASA’s DC-9, the plane went through up-and-down parabolic arcs over the Gulf of Mexico. While Antar monitored from the ground, Lehman assisted Reiss in operating the airborne experiment.

New Leader Takes UTSI Helm

Dr. Donald C. Daniel succeeded the retiring Dr. John E. Caruthers as associate vice president and chief operating officer of the Space Institute. Daniel assumed responsibility for a revitalization plan intended to position the Space Institute for growth focused on serving needs of the state and nation during the coming decade.

UTSI’s revitalization plan incorporates the institute’s expertise in materials science, aerospace science, and teaching. The materials science focus will capitalize on a world-class reputation in laser technology to enhance materials and on a new effort in producing lower-cost, carbon-based materials for applications in aerospace and transportation industries. The aerospace emphasis will be on new propulsion technologies for planes and rockets. The teaching focus is on developing nationally leading distance education for engineers, pilots, and scientists. Maximizing UTSI’s partnership with Arnold Engineering Development Center and enhancing interaction with Oak Ridge National Laboratory are among Daniel’s top priorities.

The new leader came from a position as a principal research engineer with the Georgia Tech Research Institute. He also was a Distinguished Research Professor with the National Defense University’s Center for Technology and National Security Policy and chairman of NATO’s Research and Technology Board.

Reaching out to Local Business

Outreach to local businesses was a high point of the year. For example, UTSI faculty delivered a lecture series to employees of Fischer USA, a manufacturer of welded stainless steel tubing located in Manchester, Tennessee. The curriculum included basic materials science, the structure of metals, laser-matter interactions, and hands-on opportunities for the Fischer employees.

Students Take Advantage of Enrichment Courses

The Space Institute served as a magnet for area students interested in learning more about science. Fifteen Franklin County high school students and three teachers attended a two-week computational science session.

One hundred fifty middle schoolers from Coffee County attended presentations about light, lasers, and nanomaterials at the UTSI Center for Laser Applications (CLA).

Coffee County High School students attended mini-courses at the laser applications center. CLA is committed to contributing to the science, math, and engineering education of area students.

ASM Materials Camp was a week-long activity for high school students to learn about materials science through hands-on experiments. The camp was co-sponsored by UTSI and ASM International, a society for materials engineers and scientists.

Fifty-three 10-11 year olds from area schools spent a week at the Space Institute exploring many aspects of science during the Mad Science camp. The campers built an electric car, turned a nickel into a penny using electroplating, and constructed a DNA kit and took fingerprints and footprints to solve a crime-scene mystery.

FINANCIAL HIGHLIGHTS

University of Tennessee financial statements are prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. The financial statements will be audited by the state of Tennessee, Comptroller of the Treasury, Division of State Audit.

We invite you to scrutinize the following financial information that summarizes the sources and uses of university operating funds for fiscal year 2006. Complete university financial statements and footnotes, along with the auditor's opinion letter and management comments, is available in the annual *Report of the*

Treasurer 2006. Readers wishing copies of the *Report of the Treasurer 2006* may contact the Office of the Treasurer, 301 Andy Holt Tower, Knoxville, Tennessee 37996-0100, telephone 865-974-2302 or e-mail the university's treasurer, Charles Peccolo, at cpeccolo@tennessee.edu with their requests.

THE UNIVERSITY OF TENNESSEE UNAUDITED STATEMENT OF NET ASSETS *for the year ended June 30, 2006*

Assets

Current assets:

Cash and cash equivalents (Note 2)	\$ 199,505,497.60
Investments (Note 2)	95,851,965.75
Accounts, notes, & grants receivable (net) (Note 4)	80,888,199.17
Inventories	7,997,376.88
Prepaid expenses and deferred charges	2,286,859.23
Total current assets	<u>386,529,898.63</u>

Noncurrent assets:

Cash and cash equivalents (Note 2)	294,745,006.44
Investments (Note 2)	542,273,402.15
Investment in UT-Battelle, LLC (Note 11)	3,377,863.00
Accounts, notes, and grants receivable (net) (Note 4)	85,207,878.07
Lease payments receivable (Note 15)	28,409,243.41
Capital assets (net) (Note 5)	1,024,534,430.59
Prepaid expenses and deferred charges	211,118.26
Total noncurrent assets	<u>1,978,758,941.92</u>
Total assets	<u>\$ 2,365,288,840.55</u>

Liabilities

Current liabilities:

Accounts payable	\$ 74,656,076.86
Accrued liabilities	43,325,595.50
Deferred revenue	64,611,040.67
Deposits payable	8,583,857.26
Annuities payable	1,333,688.32
Long-term liabilities, current portion (Note 7)	52,411,652.94
Deposits held in custody for others	6,877,385.10
Total current liabilities	<u>251,799,296.65</u>

Noncurrent liabilities:

Deferred revenue (Note 7)	15,500,438.71
Long-term liabilities, noncurrent portion (Note 7)	296,658,310.86
Due to grantors (Note 7)	35,490,145.57
Annuities payable (Note 7)	8,140,122.12
Deposits held in custody for component units	6,859,816.99
Total noncurrent liabilities	<u>362,648,834.25</u>
Total liabilities	<u>\$ 614,448,130.90</u>

Net Assets

Invested in capital assets, net of related debt	\$ 743,834,551.63
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Restricted:

Nonexpendable:

Scholarships and fellowships	154,843,671.87
Libraries	13,314,355.71
Research	17,797,498.48
Instructional department uses	113,286,557.01
Academic support	26,393,316.50
Other	32,701,802.96

Expendable:

Scholarships and fellowships	129,906,230.20
Libraries	7,409,033.60
Research	30,742,382.59
Instructional department uses	91,881,965.72
Academic support	45,027,265.93
Loans	9,181,950.95
Capital projects	45,972,195.89
Debt service	517,489.79
Other	84,378,043.61

Unrestricted (Note 18)	<u>203,652,397.21</u>
Total net assets	<u>\$ 1,750,840,709.65</u>

The notes to the financial statements are an integral part of this statement.

SOURCES OF CURRENT FUNDS

for the year ended June 30, 2006

Total: \$1,533,493,251.33



Federal and Local Appropriations

\$18,449,880.06 (1.2%)

Appropriations received in support of the university's land-grant missions; used primarily by the Agriculture Experiment Station and Tennessee Extension

Other

\$70,591,946.86 (4.6%)

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

Independent Operations

\$83,410,150.41 (5.4%)

Revenue collected from the UT Medical Center in Knoxville and the Methodist Hospital in Memphis for leased employees

Auxiliary Enterprises

\$143,906,927.05 (9.4%)

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

Tuition and Fees

\$297,774,513.75 (19.4%)

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

State Appropriations

\$454,953,286.21 (29.7%)

Legislative appropriations from the Tennessee General Assembly for current operations of the university

Gifts, Grants, and Contracts

\$464,406,546.99 (30.3%)

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

USES OF CURRENT FUNDS

for the year ended June 30, 2006

Total: \$1,506,119,196.06



Hospitals

\$206,883.06 (0%)

Expenditures for hospital operations including mandatory transfers for debt service

Long Term Debt and Other Transfers

\$2,280,075.85 (.2%)

Mandatory transfers for debt service and other transfers

Student Services

\$65,284,104.38 (4.3%)

Expenditures include admissions, registrar, student activities, counseling, career guidance, student aid administration, and health services

Independent Operations

\$83,410,150.41 (5.5%)

Expenditures for leased employees for the UT Medical Center in Knoxville and Methodist Hospital in Memphis

Physical Plant

\$87,927,317.72 (5.8%)

Expenditures for operation and maintenance of the physical plant; including utilities and service related to grounds and facilities

Institutional Support

\$88,384,383.69 (5.9%)

Expenditures for executive management, financial operations, personnel services, security, public relations, development activities, and alumni relations

Academic Support

\$109,780,866.80 (7.3%)

Expenditures for libraries, computing support, and academic administration

Student Aid

\$120,385,862.98 (8.0%)

Scholarships and fellowships awarded to students

Public Service

\$130,814,381.70 (8.7%)

Expenditures for non-instructional programs beneficial to individuals and groups external to the university

Auxiliary Enterprises

\$141,179,962.58 (9.4%)

Activities that furnish goods and services to students, faculty, and staff; includes mandatory transfers for debt service

Research

\$207,162,503.08 (13.8%)

Direct expenditures for sponsored research activities funded from federal, state, local, and private sources

Instruction

\$469,302,703.81 (31.2%)

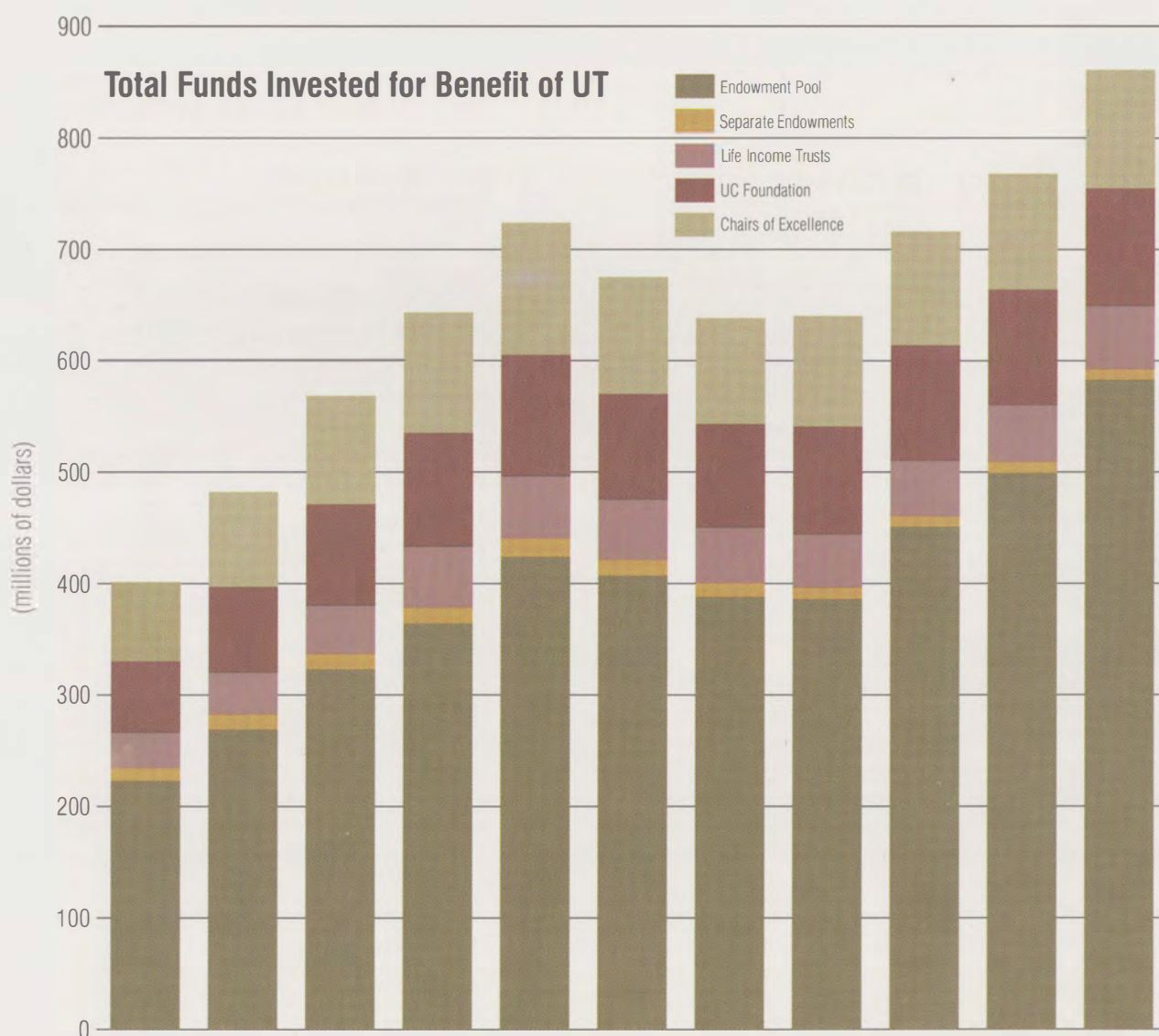
Includes all expenditures, including faculty and staff salaries, incurred in connection with instruction programs for credit and non-credit courses

INVESTMENTS

Total funds invested to benefit UT increased by \$100 million during fiscal year 2006, marking a new high for this important support measurement. Generous private support and favorable capital market investment returns were responsible for this record total. The accompanying graph depicts the growth of these funds over the past ten years, more than doubling the invested assets over this timeframe.

The market value of these funds totaling \$867 million at June 30 comprises five distinct components: university pooled endowments (\$583 million), university separate endowments (\$9 million), life income funds (\$57 million), University of Chattanooga Foundation (\$112 million), and the Tennessee Chairs of Excellence (\$106 million). The top two layers shown on the graph are funds managed outside the university—Tennessee Chairs of Excellence, managed by the state of Tennessee, provided \$3.5 million during the year to support chair programs at all UT campuses, and University of Chattanooga Foundation, managed by the foundation board, provided \$4.2 million for programs at the university's Chattanooga campus.

The bottom three layers are funds managed by the university consistent with the objectives of the funds. The university pooled endowments are managed in a consolidated investment pool created in 1954 to provide the advantages of a well-diversified investment portfolio to all participating endowments regardless of size. Reported June 30, 2006, investment returns for the pooled endowments totaled 13.2 percent and 8.9 percent for the one- and ten-year periods respectively. Income distributed from the pooled endowments for the year totaled \$23.8 million, an increase of \$3.2 million over the previous year. This amount was in accordance with the spending plan articulated as 5 percent of a three-year moving average market value measured each December 31. The long-term goal of the pooled endowment investment program is to provide a sustainable and increasing level of support for university programs while preserving the real purchasing power of the endowment. The measurement of this goal is over a rolling ten-year period and as of June 30, 2006, the goal has been achieved with the reported total return of 8.9 percent adding real value to the fund of 1.0 percent after distributions and inflation.



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

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

Inquiries and charges of violation concerning Title VI, Title IX, Section 504, ADA or the Age Discrimination in Employment Act (ADEA) or any of the other above referenced policies should be directed to the Office of Equity and Diversity (OED), 1840 Melrose Avenue, Knoxville, TN 37996-3560, telephone (865) 974-2498 (V/TTY available) or (865) 974-2440. Requests for accommodation of a disability should be directed to the ADA Coordinator at the UTK Office of Human Resources, 600 Henley Street, Knoxville, TN 37996-4125.

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THE UNIVERSITY of TENNESSEE

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