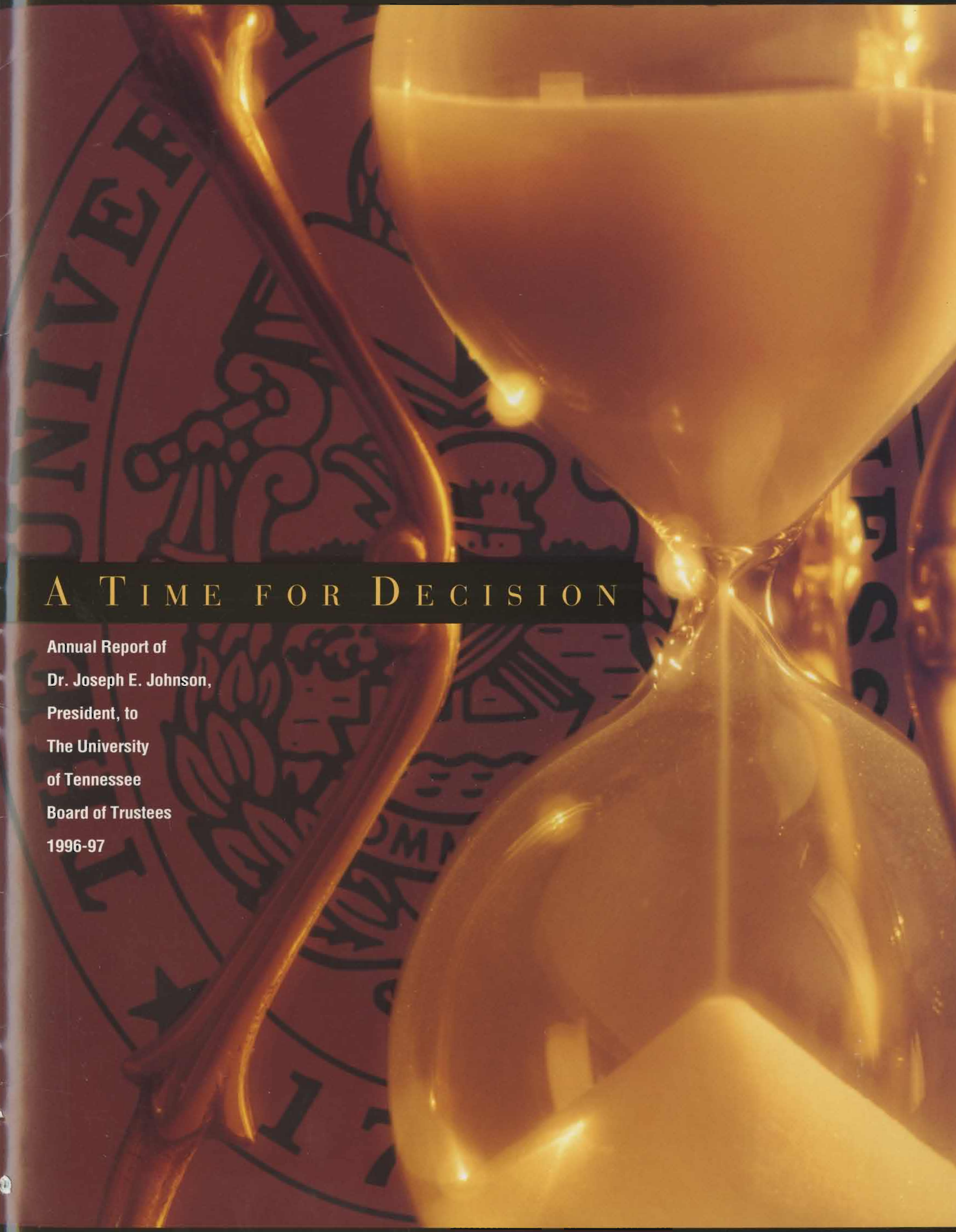


A Time for Decision

Annual Report of
Dr. Joseph E. Johnson,
President, to
The University
of Tennessee
Board of Trustees
1996-97

A Time for Decision

The State Is Our Campus

The University of Tennessee is the state university and federal land-grant institution of the Volunteer State.

The 203-year-old University has four campuses—Knoxville, Memphis, Martin, Chattanooga—and three institutes—agriculture, space, and public service/continuing education. The Universitywide administration, headed by President Joseph E. Johnson, is headquartered at the Knoxville campus. A Board of Trustees governs the University.

UT has more than 41,600 students, 15,000 faculty and staff, 200,000 alumni, and an annual operating budget exceeding $1 billion.

The University is a major research institution, spending nearly $125 million on research in 1995-96.

Contents

FROM THE PRESIDENT

This year has been one of pronounced contrasts at the University of Tennessee:

- We enrolled our best qualified freshman class ever but had to eliminate faculty and administrative positions and reduce administrative and academic expenditures.
- More alumni and friends gave more money than ever before to UT, while state appropriations were reduced.
- Talented faculty continued to attract substantial federal research grants, but fewer faculty and staff members were on the payroll.

This great institution holds fast to its missions of education, research, and service. But it is buffeted by troublesome fiscal uncertainty. One thing is certain though: The University of Tennessee has used its resources wisely this year.

Employing accountability, creativity, and hard work, we have done a lot with the funds we have. Academic programs were nationally recognized. ACT scores of entering freshmen rose (see chart). Resourceful staff managed smarter, eliminated duplication, and outsourced functions where feasible. Faculty and staff formed partnerships with business and with other institutions to enhance educational and funding opportunities. I am proud of our people and their accomplishments.

But as a friend of the University of Tennessee, you should know that we cannot continue to make progress indefinitely without significant additional funding from various sources, including state tax dollars. The University's achievements warrant new investment by the state of Tennessee—an investment that would pay for itself many times over.

For almost eight years, UT's operating appropriations from the state have been basically unchanged except for money for badly needed salary increases in some years. There have been no new dollars for existing programs. Meanwhile demand has mushroomed for computers, software, and wiring to bring buildings online; costs of library materials have soared; and "fixed" costs have increased steadily.

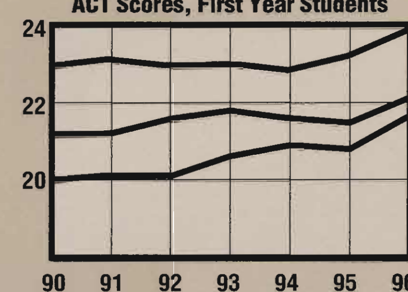
The state's portion of UT's annual operating budget is about 30 percent, certainly the largest sum we receive from any single source, but that percentage has declined as other funding sources have increased. We have asked our students to pay higher fees, and they have done so. The charts show that our faculty has continued to attract substantial research funding, even as competition for grants has intensified. When we have asked our alumni and friends for more and bigger gifts, they have responded enthusiastically with dollars for scholarships, professorships, and other specific programs and purposes. The time is here for an increase in that other major portion of UT's budget: state funds.

The University faces several challenges: to continue to manage better; to continue to be more productive; to decide the appropriate level of student fees; and most importantly, to encourage added state investment. Governor Don Sundquist's creation of the Council for Excellence in Higher Education offers significant hope for the future.

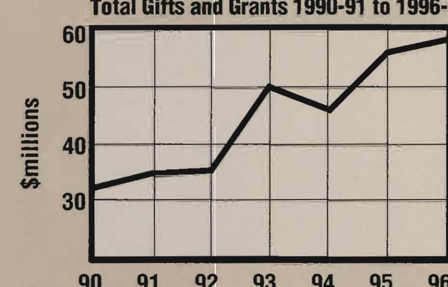
UT continues to do well what it was commissioned to do in 1794. We are making progress but within constraints that need to be removed. It is time for decision. Our performance justifies increased state support. Our future—and Tennessee's future—requires it.

The University's achievements warrant new investment by the state of Tennessee— an investment that would pay for itself many times over.

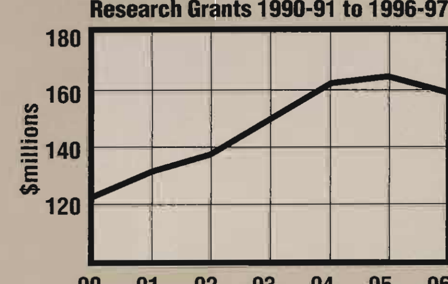
ACT Scores, First Year Students



Total Gifts and Grants 1990-91 to 1996-97



Research Grants 1990-91 to 1996-97



Management Does It Better

Downsizing and outsourcing save money and increase efficiency

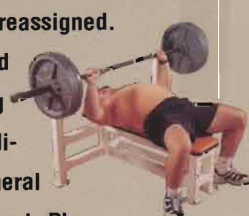
UT Chattanooga ranked third in U.S. News and World Report's best value category among 505 regional universities in the South.

Better management enabled UT to carry on this year even though state appropriations were reduced. Faculty and staff were innovative and smart in devising ways to get the most out of their budgets. For example:

- UT Knoxville consolidated its offices of residence halls and rental properties, saving more than $80,000. The move helped hold the line on costs students pay for housing.

- Outsourcing proved to be economical and efficient in several UTK functions, such as custodial services, waste collection and disposal, elevator maintenance, and painting.

- UT Martin lowered administrative costs in its Office of Academic Affairs by eliminating an associate vice chancellor position and a secretarial position. Responsibilities of the two positions were reassigned. UTM outsourced athletic training to Jackson/Madison County General Hospital and Sports Plus Rehab Centers. The change eliminated two positions and will save $93,000 a year. UTM also outsourced its central stores operation, saving about $10,000 a year. Food services, telephone registration, and peak demand maintenance and renovation projects already were outsourced.



- UT Memphis implemented a strategy of shifting $5 million from recurring to nonrecurring expenditures to reallocate funding in support of academic programs, physical facilities, equipment, and technology. The student affairs division reduced personnel in admissions, financial aid, student life, and the registrar's office. Services were maintained through reorganization and use of computers. The campus began the first phase of an electronic personnel records system that makes more efficient use of staff time.

- At UT Memphis' Bowld Hospital, two administrative staff members who left were not replaced, and two nurse-manager positions were eliminated.

- UT Medical Center in Knoxville outsourced the packaging of supplies for some surgical procedures to DeRoyal Industries of Knoxville. The change should save several thousand dollars a year in labor, inventory, and supply costs.

- Even though research contracts were harder to get, contract funding increased at the UT Space Institute in Tullahoma. Contracts help pay faculty salaries and provide funding to cover overhead costs. UTSI also closed one office after a retirement and redistributed the duties.

- Instead of offering training courses at multiple sites, the UT Center for Government Training began delivering 26 of its courses using distance learning technology. Traditional course delivery costs about $600 per site; using EDNET (UT's statewide interactive video network) costs are about $250 per site, nearly a 60 percent reduction.

- Two units of the Institute for Public Service, the County Technical Assistance Service and the Municipal Technical Advisory Service, cooperated to produce County Private Acts. CTAS saved $80,000.

- By managing smarter in the face of budget constraints, UT Chattanooga increased enrollment from high schools that previously had not sent many students to UTC. Recruiters targeted regions with the greatest potential for the matriculation of outstanding students and focused follow-up efforts on those students. More effective communication with the targeted students via the World Wide Web, telephone, and print materials paid off in higher enrollments and some monetary savings.

- Several UTC offices cooperated to better recruit international students and process their materials for admission to UTC and temporary residency in the United States. Employees shared resources and learned new skills—with no additional compensation or budget—to help these students.

- The Agricultural Experiment Station streamlined research at its branch stations to save on equipment and personnel. Research is focused on agricultural commodities that have the potential to enhance the state's agricultural economy.

- An Agricultural Extension Service program that teaches low income families how to spend their food dollars wisely trained more families last year than it did six years ago, despite no significant increases in funding. The Expanded Food and Nutrition Education Program trained 2,900 families last year, compared to 2,200 in 1990, using fewer staff.

- The management of the UT Knoxville financial aid office again was recognized by the U.S. Department of Education. The department presented its 1996 Institutional Model of Quality Award and its Institutional Achievement Award to the financial aid office's quality assurance team. Margaret Miller, associate director of financial aid, received the 1996 Leadership Award. UTK has won the Institutional Achievement Award every year since 1993. The quality assurance team surveys students who receive financial aid to spot the most frequent errors they make when applying. Then the team plans ways to reduce the errors the next year. The audited students have had a greatly reduced error rate in the last four years.

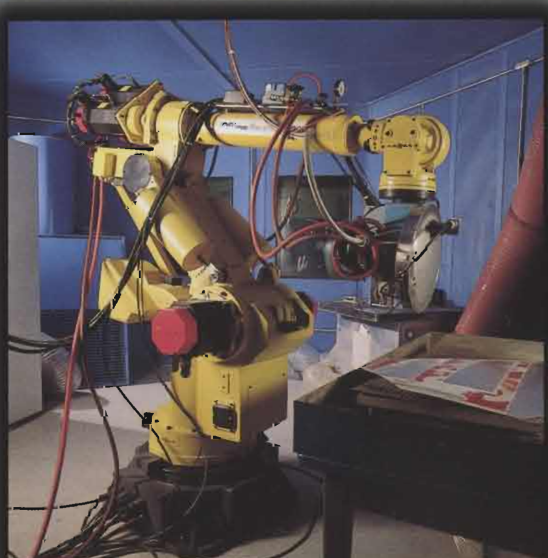
UT's endowment reached $436 million, one of the largest among publicly assisted universities.

Fund Raising Soars

Gifts pay for equipment, scholarships, and other academic enrichment

While state support declined, gifts from UT alumni and other friends continued to increase. Private giving has risen markedly during the 21st Century Campaign, which has passed the $300 million mark. Here are some examples of gifts and grants that help programs survive and thrive.

Buying equipment and furnishing and remodeling facilities is more frequently being paid for by businesses and individuals.



- For instance, at UT Martin, a gift from the Dana Corporation Foundation made possible the purchase of an industrial robot for the School of Engineering. And physicians at the Jackson (Tennessee) Clinic funded a technology classroom for pre-med students.

- The UT Space Institute used gift dollars to buy computers that otherwise would have had to be paid for with state funds. The Thomas Jefferson Endow-

UT Martin began offering a new engineering program to educate licensed engineers in West Tennessee. Area business and industry requested the program.

UT Knoxville's new College of Law building neared completion. The $21.5 million facility contains the law library, classrooms, courtrooms, and seminar rooms.

ment, Federal Express, Micro Craft Corporation, and the UTSI Alumni Council provided funds for computers and other technology.

- The law firm of Baker, Donelson, Bearman & Caldwell made a gift to help furnish and equip the new College of Law building at UTK.

- Business and corporate support for program underwriting at WUOT-FM increased 47 percent in 1997. Individual giving through the station's gift fund reached an all-time high of $304,330, a 21 percent increase over the previous year. As federal and institutional support for public broadcasting declined, WUOT increased its fund raising to offset losses and maintain quality programming.

- The Assissi Foundation made grants to UT Memphis to renovate the Dental Research Center as well as for prostate cancer and other research and for a community health initiative.

- County contributions to the annual UT Agricultural Extension Service budget increased almost 200 percent in the last decade. In 1997, 17.8 percent of the budget came from county dollars versus 8.4 percent in 1986.

- UT Chattanooga's School of Business Administration got a significant boost this year with gifts from the Clarence E. Harris Foundation and the J.C. Bradford and Company Foundation. The Harris Foundation committed $350,000 to fund activities including an entrepreneurial center. The $25,000 Bradford gift endowed a professorship in portfolio management.

- Memorial Hospital in Chattanooga committed more than $1 million to UTC to establish the Memorial Hospital Chair of Nursing Excellence and the Kay Chitty Professorship. Dr. Chitty, former head of the UTC School of Nursing, is a past chair of the hospital board.

- The UTK College of Business Administration received a $2.3 million gift—the largest in its history—for an endowment fund and an accounting professorship. The gift was made anonymously by an alumnus and his wife.

- When the state Viticulture Advisory Board was not funded in 1996, money that it had given to UT for continuing education for an Agricultural Extension Service specialist was replaced by the Tennessee Farm Winegrowers Association. The association of commercial grape growers and wineries supported work done by Extension in 1996-97 at the same level as previously provided by the Viticulture Advisory Board.

- An emeritus dean of the UT Memphis College of Pharmacy, John Autian, established the Zaker Autian fund to fund student activities, enhancing student ability to participate in national pharmacy organizations and resulting in the election of Jay Phipps as president of the American Student Pharmaceutical Association and Michelle Kinner and Lisa McIntire as presidents of the Student National Pharmaceutical Association.

- The Willis Corroon Corporation of Tennessee gave the UTK College of Business Administration $250,000 for a visiting scholar-executive program.

- UTSI added another Chair of Excellence, made possible by the state and private contributions from Sverdrup Technology, ACS Corporation, employees of the nearby Arnold Engineering Development Center, and the local community. The Chair of Excellence in Computational Mechanics will contribute to high tech economic development in the state.

- The UT Medical Center at Knoxville and the UTK College of Business Administration shared a $1 million gift from DeRoyal Industries and its CEO, Pete DeBusk.

- The UT Memphis Department of Urology received $1 million from the J.R. Hyde Family Foundation.

- Four former employees of the Agricultural Extension Service donated more than $2.1 million to Extension for endowments to support scholarships, 4-H work, and other projects.

- Local governments in Sevier County (Tennessee) gave UT $45,000. Gatlinburg, Pigeon Forge, and Sevierville combined in pledging $25,000 to UT's Municipal Technical Advisory Service. Sevier County's $20,000 gift will go the UT County Technical Assistance Service. The gifts will fund consulting services.

Donors were particularly generous with gifts for scholarships. Some of the gifts include

- $150,000 from CSX Corporation to the UTK academic program in transportation and logistics. In addition to scholarships, the gift will fund research, faculty awards, and equipment. The company also created the CSX Corporation Faculty Scholar in Logistics and Transportation Award at UTK.

- A $1 million commitment from the First Tennessee Foundation to UT Knoxville. The gift also will support a professorship and research.

- More than $383,000 in private gifts for scholarships in the new UT Martin engineering program.

- Five endowments for scholarships in the UT Memphis College of Dentistry, one in the College of Nursing, and two in the College of Allied Health Sciences.

- A $100,000 anonymous endowment to establish the McCabe/UT Martin Scholarship.

- $50,000 from the Coca-Cola Foundation for scholarships in the UTK College of Communications.

UT has received more than 85,000 gifts and pledges since the 21st Century Campaign began in 1993, including 57 commitments of a million dollars or more.

Students Pitch In

Technology fees attract student support

Students helped find solutions to funding problems. Their energetic assistance made an appreciable difference. For example:

The Lady Vols basketball team won its fifth national championship.

- Students at UTK needed better Internet access, more computer labs, and more and better hardware and software. Since state appropriations could not pay for all those services, students supported establishing a $100 a semester technology fee. Proceeds are designated to expand and upgrade the on-campus network; upgrade equipment in computing labs; provide more computer support services for students; expand distribution of licensed software; and build and equip an academic technology facility.

- At UT Martin as well, students got behind the technology fee idea. The UTM Technology Fee Advisory Committee put together a plan for a 24-hour computer lab and upgrading existing computer labs.

- The Student Government Association executive council at UT Memphis recommended a student fee increase designated for equipment and facility improvement.

- UTSI student government requested a 25 percent increase in the student programs and services fee to buy computer hardware and software. The increase was approved and was to go into effect this fall.

- The 1997 UTK senior class raised money for a scholarship fund as its Senior Gift Challenge project. The seniors sold bricks that could be inscribed with tributes to friends or family and placed in the Vic Davis Plaza near the Volunteer Statue in Circle Park. Stephen Oliver, a senior in agricultural economics, chaired the Senior Gift Challenge. Each year's senior class raises money for a project or service of benefit to the campus.

- UTSI student Ingo Struckmeyer got involved in several projects to benefit the campus. He led other students in refurbishing the UTSI boathouse, using excess materials supplied by the physical plant. Struckmeyer also solicited a donation of five bicycles that were repaired and made available to students, faculty, and staff. He also organized a UTSI flying club and acquired a $15,000 airplane, a gift from Charles Strong of Dallas, for the club.

- UT Memphis Student Life activities and new student orientation programs were improved with the help of student workers and student volunteers. The student volunteers worked with orientation teams headed by staff to make sure new students paid fees, registered, had ID and yearbook pictures taken, fulfilled health requirements, got computer access accounts, and were familiarized with network and computer access procedures.

- A group of UT Chattanooga computer science students developed an online admissions application for the UTC Undergraduate Admissions Office. The application is part of the UTC homepage. Prospective students can access the application and either print it out for regular mailing or submit it electronically. Also at UTC, student volunteers serve as the production staff for "News Talk," a weekly television program featuring an interview with a newsmaker. The program is produced by the UTC Communications Department and the UTC Office of University Relations for broadcast on the community PBS affiliate. The students get hands-on experience while enabling the University to offer an informational service to the community.

Faculty Work Longer, Harder

Professors work after hours helping students and their communities

Faculty worked harder than ever, many of them taking on extra assignments while continuing to fulfill their teaching, research, and service obligations. For example:

- Faculty and staff from the UT Institute of Agriculture helped define Tennessee's agricultural and forestry industry policy at the behest of Governor Don Sundquist and Commissioner of Agriculture Dan Wheeler. UT agriculture vice president D.M. Gossett and more than 60 institute scientists and Extension staff helped assess Tennessee's major commodities and predict needed adjustments. Their published reports laid the groundwork for recommendations that are in various stages of implementation.

- Dr. Morgan Gray saved his department an estimated $200,000 by developing and installing the departmental computer network. Through the efforts of Dr. Gray and a departmental committee, nearly 100 percent of the faculty, staff, and students in the Department of Agricultural Economics and Rural Sociology have access to computers. All classrooms, offices, and conference rooms are on the network. Perhaps the highest tribute to Dr. Gray, in addition to saving a lot of money, is that the system has never crashed!


Dr. Morgan Gray

- Dr. Carol Harden not only spends the academic year teaching and working with students; she spends summers with them too. Dr. Harden is associate professor and head of the UTK geography department. She has taken students to Ecuador and Costa Rica to study soil erosion in the rain forest and helped with the orientation of graduate students to field work in the Caribbean. Last year she involved students in research closer to home—studying the Second Creek urban watershed in Knoxville. Dr. Harden finds time to fulfill her scholarly duties as well: her work appears in nearly 30 professional journals.


Dr. Carol Harden

- During the last two years, class size of several UT Memphis programs has increased with no additional faculty or increase in funding: pharmacy by 30 (70-100), cytotechnology from 5 to 10, dental hygiene from 23 to 34, physical therapy graduate program from 17 to 23.

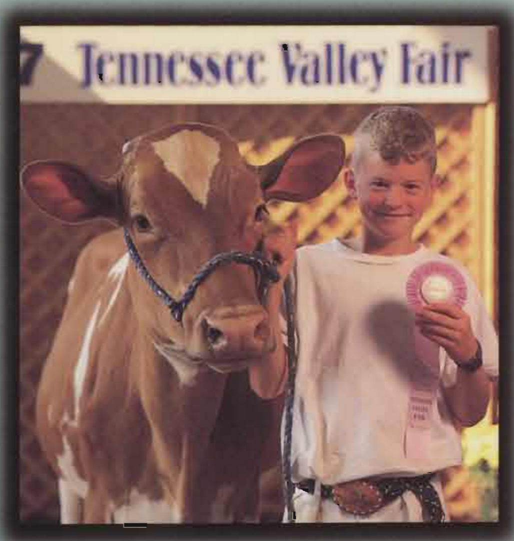
- At the UT Space Institute, faculty received 71 percent more research contract funding than the previous year. The increase is the result of faculty members being more involved in developing proposals to submit to government and industry.

- Dr. Roy Lessly, head of agricultural and extension education, in addition to normal administrative duties teaches three courses and helps supervise more than 50 graduate students. He took on the additional duties when a faculty member retired and was not replaced.


Dr. Roy Lessly

- The College of Agricultural Sciences and Natural Resources sponsors more than 10 competition and judging teams. The faculty who lead the teams take on these duties in addition to their regular classroom and research responsibilities. They spend

Dr. Bill Stacy, president of California State University at San Marcos, was selected as chancellor of UT Chattanooga, succeeding Dr. Fred Obear, who retired.



many hours, mostly at nights and on weekends, with team members preparing for contests. Students benefit because they get experience they could not gain in the classroom. Also, UTK teams in contests are excellent recruiting tools for attracting future students.

Thirty-one percent of UT College of Medicine graduates chose to go into primary care. This percentage ranked the college first in Tennessee and third in the Southeast.

- For many summers, Dr. Charles Faulkner, UTK professor of anthropology, has offered an archaeological fieldschool in Knoxvillle for which he is never paid. The fieldschool helps students who can't travel far from home to get archaeological experience they need to compete for admittance to graduate schools. The work always explores a site in Knoxville, so it serves the further purpose of uncovering (literally!) and preserving community history.

Dr. Charles Faulkner

- UT Memphis faculty and students volunteer at the Church Health Center, a Memphis ecumenical health care ministry that provides affordable health care for the working poor and homeless. The Tennessee Higher Education Commission's 1996 Community Service Award recognized Dr. Pat Wall, College of Medicine associate dean, for his extensive service at the center, including his involvement in its founding, serving as chair of its board, and recruiting and scheduling physicians. Faculty also work with Baptist Memorial Hospital to help the Church Health Center offer more preventive health programs.

- Dr. Eric Davis of the College of Veterinary Medicine six times has lead groups of veterinary students to the Rosebud Sioux Indian Reservation in South Dakota to vaccinate, spay, and neuter the reservation's large population of dogs and cats. Rabies and other animal diseases are a significant problem at Rosebud, where preventive health care for animals is a luxury most people can't afford. Wild dog packs roam the area, and dog bites are common. Five cases of human-contracted rabies were treated last year at the Rosebud hospital. The UT students and vets set up makeshift clinics in any space available and use milk crates to house recovering patients. In one week last December, the students and vets performed operations on 200 dogs and cats and vaccinated nearly 900 animals.

- Drs. Jim Henry and Jim Cunningham are expanding the laboratory facilities available to UTC chemical and environmental engineering students. They did it by developing a grant proposal that the National Science Foundation

Dr. Peter C. Doherty, professor of pediatrics and pathology and chair of the immunology department at St. Jude Children's Research Hospital in Memphis, was named co-winner of the 1996 Nobel Prize for Medicine for discovering how the body's immune system cells identify virus-infected cells. Doherty also is a UT Memphis faculty member. His findings could lead to new vaccines and therapies for cancer, diabetes, and multiple sclerosis.

funded for more than $30,000. The engineering department will get six new personal computers, associated hardware and software for measurement, data acquisition and control, analysis, reporting, and presentation of results, thanks to the professors' creative grantsmanship.

- Dr. Hank Herrod of UT Memphis is directing a Partnership for Women's and Children's Health that is expected to raise $10-15 million during the next five years to marshal Memphis-area resources for new approaches to old problems such as teenage smoking, premature births, and fractures due to osteoporosis. Partners in the effort are Methodist Health Systems, Le Bonheur Children's Medical Center, and UT Memphis. Dr. Herrod is professor of pediatrics and senior vice president for medical affairs at Le Bonheur.

- In the College of Medicine at UT Memphis, faculty volunteered to direct and monitor first-year students who volunteered for a program that allows them to work in patient clinics earlier in their training.

Dr. Susan Riechert

- UTK ecologist Susan Riechert created an environmental area on the grounds of a Knoxville-area elementary school. The area includes a pond, which she built and stocked with plants and fish, and a butterfly garden. She also labeled many of the trees and foliage plants in the area, then developed lesson plans and conducted in-service training sessions to prepare teachers to make maximal use of the area. Dr. Riechert is president-elect of the American Behavior Society and does consulting work, donating almost all her fees to the conservation biology fund in the UTK Department of Ecology and Evolutionary Biology, which supports graduate student research and travel.

UTC athletics unveiled a new graphic identity and mascot. The symbols strongly tie UTC to the Chattanooga community by emphasizing the area's railroad heritage. The new mascot is a mocking-bird dressed as a railroad engineer. No state funds were used to pay for the new designs, and they are helping increase royalty revenue.

Partners Help Strengthen UT

Relationships yield benefits in many areas

Partnerships with industry and with other organizations help keep UT vibrant and responsive. Partnership arrangements also offer opportunities for students to get hands-on experience in their career fields and sometimes job offers at graduation. These collaborative arrangements enhance Tennessee's economic development. Some examples:

- The state and national soybean industries are supporting UT Agricultural Experiment Station studies to develop production of soybean oil, instead of petroleum-based oil, for controlling insect pests in fruit and nursery production. The soybean oil-based sprays not only protect crops from early frost damage and help control pests, but they also are environmentally friendly. Adoption of these sprays would create a new market for a major Tennessee agricultural commodity.

- The Center for Industrial Services has worked for more than four years with the Saturn Corporation to help industry in Tennessee meet the stringent qualifying

The UTK Science and Engineering facility, the largest campus building designed exclusively for research, was dedicated. The structure is a research laboratory of "building behavior": sensors in the foundation monitor settling and wind load.

factors needed to provide quality products to the automotive industry. As a result, Saturn provided an experienced staff member to work exclusively with CIS customers. Also, CIS is working with Saturn to establish a minority supplier development program. This program will help small and disadvantaged businesses to qualify and effectively market their products to Saturn and other automotive manufacturers.

- The UT Knoxville Maintenance and Reliability Center (MRC), a joint effort of the colleges of engineering and business administration, helps companies reduce losses caused by equipment downtime. The MRC sets standards of reliability and does research on projects recommended by its industrial members. They include ALCOA, Duke Power, Eastman Chemical, Nissan, TVA, and US Ecology Inc. UTK students and faculty conduct the projects in collaboration with Oak Ridge National Laboratory and other universities.

- Abbott Laboratories, Bayer Corporation, Bristol Meyers, Ciba Geigy, Hoechst Marion Roussel, Johnson & Johnson, Eli Lilly & Company, Merck, Hoffman-LaRoche Pharmaceutical, Novartis Pharmaceuticals, and SmithKline Beecham provided more than $1.5 million for clinical pharmacy programs in the UT Memphis College of Pharmacy. Several pharmaceutical firms made grants for certificate programs for practicing pharmacists. The programs received outstanding evaluations.

- UT and the state Department of Education worked together to offer workshops to help develop mandated school improvement plans. Instructors, teaching a live class from one of UT's smart classrooms in Nashville, interacted with team participants in eight other locations. The Department of Education saved time and travel money for instructors, as did the participants from the school teams. In a time of budget reductions for both the Department of Education and the University, this partnership was a win-win proposition.

- A program between UT Martin and MTD Products was chosen as an exemplary non-credit program by the Region III National University of Continuing Education Association, which covers a 10-state area. The School of Engineering, Department of Public Service, and MTD worked together to develop a curriculum and a way to deliver classes to meet MTD's training needs in the company's tool and die manufacturing processes.

- The Institute for Public Service continues to do more work for state government. In 1987 the institute had seven contracts with state government for $479,000. In 1997 it had 15 contracts with state government for $4.4 million, an 830 percent increase.

- The UT Memphis School of Biomedical Engineering has partnerships with several industries, including Analogic Corporation, with which the school is developing data acquisition electronics for a clinical digital radiography scanner. Faculty and students' designs for helping people with mobility disabilities are being licensed by Sammons Preston Inc. A recent grant from the Whittaker Foundation will establish an industrial internship program for students in the program. Three companies in Shelby County (Smith & Nephew, Sofamore-Danek, and Wright Medical Technologies) participate in the internship program.

- UTK's Measurement Control and Engineering Center helps increase productivity of U.S. industry by developing new sensors and control systems. Research is concentrated in three areas: analytical instruments, process control, and signal and image processing. In one project, faculty members and students developed fiber-optic-based sensors to test industrial acid mixes on-site. Their research led to the development of acid sensors for DuPont and Dow Chemical. The center is a cooperative venture of the College of Engineering and Oak Ridge National Laboratory, the National Science Foundation, and more than a dozen companies.

- Laser surface treatment technology developed at the UT Space Institute has been licensed to Micro Craft Inc. of Tullahoma. More than 50 other companies have requested help using the technology in their manufacturing processes.

- UTSI continued building its graduate co-op program with internships and cooperative positions established at Worth Sporting Goods, Johnson Control, Eaton Corporation, General Electric, and Hughes Aerospace.

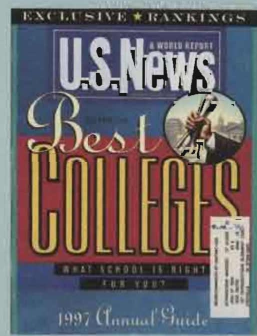
- Research at UTK's Textiles and Nonwovens Development Center (TANDEC) could result in better medical protective apparel like gowns and drapes—and in better diapers and batteries. TANDEC, a partnership between UTK, Exxon Chemical Company, and 20 other companies, works in the areas of meltblowing, spunbonding, thermal bonding, new fabric innovations, and process quality monitoring. The new fabrics for medical apparel pass rigorous tests for resistance to bloodborne viruses. Patents also have been obtained for stretchable webs and composites produced from inelastic fibers. Their elasticity allows them to wrap around curves; their strength and absorbency make them ideal for diapers, personal hygiene products, wound dressings, and towels. The same process that makes diapers more wettable can make battery separators that absorb sulfuric acid like a sponge. Lead-acid batteries would require only half as much acid, so traditional sized batteries would be twice as powerful.

- UT Chattanooga is forging linkages with the private sector through its Institute for Women as Entrepreneurs in the School of Business Administration. The institute received a grant from the Coleman Foundation for entrepreneurship awareness and education. The grant will fund seminars and more resource materials for women entrepreneurs.

- UTK, the U.S. Department of Energy, and Lockheed Martin Energy Research Corporation formed the Joint Transportation Research and Development Center. Activities will include materials science, propulsion, microelectronics, computational mathematics, and transportation logistics, vehicular management, and traffic control systems. UT and ORNL already were cooperating in several million dollars of transportation-related research and development. Other UT/ORNL partnerships include the Science Alliance Center of Excellence and the joint institutes for energy and environment, computational sciences, and heavy ion research.

- UT Chattanooga and the Chattanooga public schools joined forces to improve teaching and learning opportunities. The College of Education and Applied Professional Studies and the public schools, with the help of a National Science Foundation grant, established a center for research, teaching, and learning. Goals are to give precollege minority students opportunities to participate in University research; to provide teachers with professional development activities at UTC summer institutes; and to engage a group of UTC science, math, engineering, and education faculty in a reform initiative aimed at how these subjects are taught in college and the public schools.

- The Institute for Public Service helped the city of Knoxville win a large, multi-year grant for community-oriented policing. The U.S. Department of Justice will award the city police department and Metropolitan Drug Commission $1 million a year for up to five years. IPS will help develop and deliver the training.



For the third straight year, U.S. News and World Report ranked UT Knoxville as a best buy in American higher education.

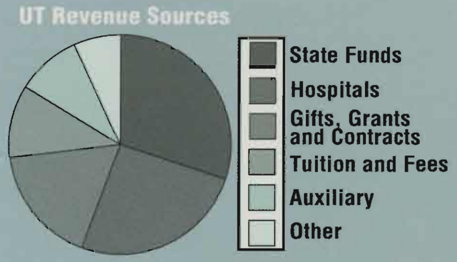
Financial Perspective

UT finances at a glance

University investments post a second year of record growth

UT's 1997 current fund revenues increased by $41 million over the previous year to a record $1.22 billion. The state of Tennessee, through appropriations, continues to provide the largest portion of University revenue—30 percent, or about $368 million. UT's appropriation was reduced by $8 million because of state revenue shortfalls, but by operating efficiently and reducing staff, the University ended the year within its available resources.

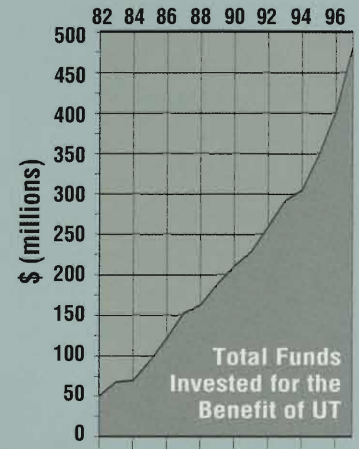
Student fees totaled $131 million for the year, up from $121 million the year before. A small fee increase and enrollment growth were responsible for the increase. Student fees are about 11 percent of total University revenues.



Gifts, grants, and contracts designated primarily for research and training totaled $214 million, or about 18 percent of 1997 total revenue. The University continues to operate two hospitals, which accounted for almost 26 percent of total revenue.

Auxiliary enterprises—student housing, dining halls, bookstores, parking, and UT Knoxville athletics—contributed $115 million to the total, just over 9 percent. Federal and local appropriations and miscellaneous revenues provided the rest of UT's funds. The charts on this page depict the major revenue sources.

University expenditures increased 3.6 percent over the previous year and continue to be directed toward the University's primary missions of instruction, research, and public service. These categories account for more than two-thirds of educational and general expenditures. When included with maintenance of physical plant, libraries, computing support, and student services, the expenditures for these purposes exceed 90 percent of total educational and general expenditures.



The market value of University endowment funds and other funds invested for the benefit of UT increased to $482 million in fiscal 1997. The $81 million increase marked the second consecutive year of record growth, reflecting the success of the University's 21st Century Campaign and continued strong capital markets.

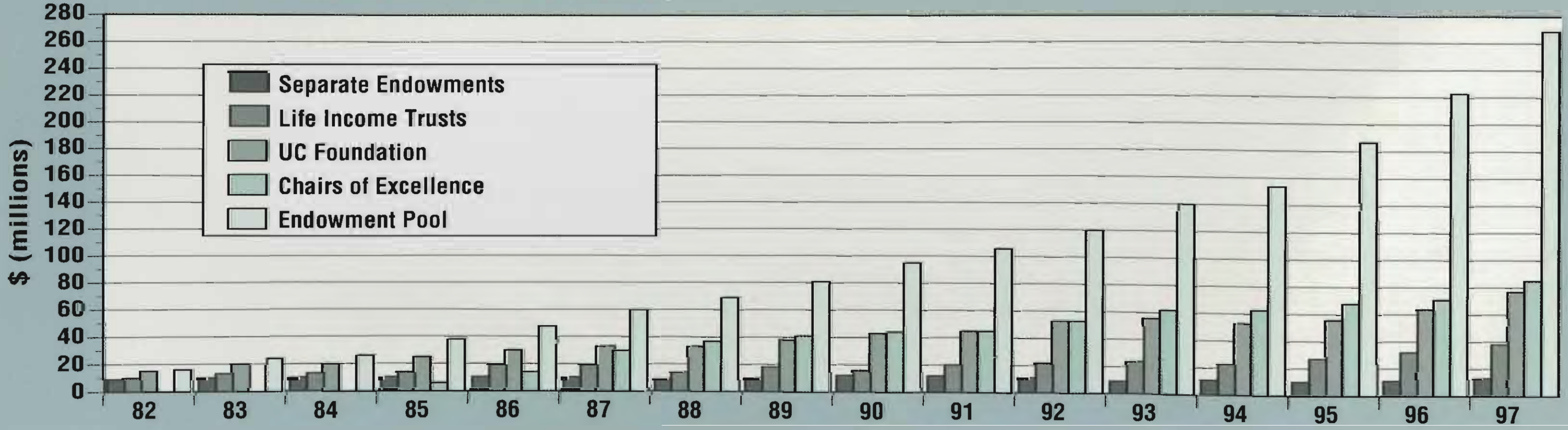
The centerpiece of the University's endowment investment program is the Consolidated Investment Pool, which combines more than 1,500 endowment funds for investment purposes. The pool's market value grew by $46 million to $269 million in fiscal 1997. Investment performance accounted for $32 million of the increase and returned 18.3 percent for the fiscal year. University endowment funds that must be invested separately due to donor restrictions or asset types were valued at $13 million, and life income trusts increased to $38 million.

Two other major funds are invested for the benefit of UT.

Chairs of Excellence Trust—Beginning in 1984 and intermittently until 1990, the state appropriated funds for the University to match dollar for dollar, creating the Chairs of Excellence Trust. The trust is similar to an endowment; the funds are invested and the income supports the chairs. When all of the state funds are matched, there will be 50 chairs at the University. The treasurer of the state of Tennessee manages the trust, which had a June 30, 1997, market value of $85 million.

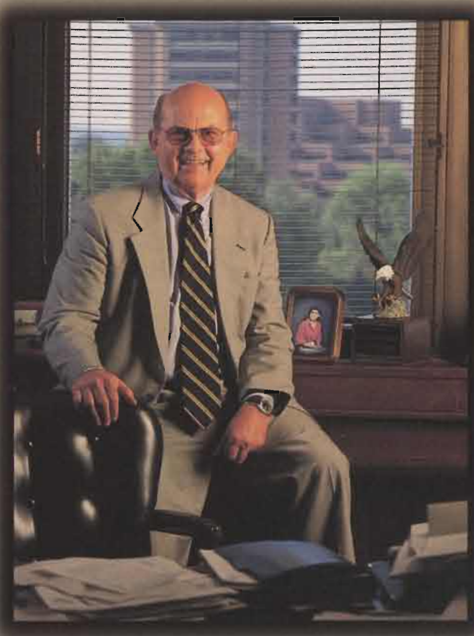
University of Chattanooga Foundation—The UC Foundation distributed $2.5 million for scholarships and programs at UT Chattanooga in fiscal 1997. University financial statements do not include financial data of the UC Foundation. The market value of foundation assets on June 30, 1997, totaled $77 million.

Monies Invested for the Benefit of UT by Fund



IN CONCLUSION

I would like to thank all of the University family and friends for their support this year. To the members of this Board of Trustees, I express my respect and appreciation for your tireless work on behalf of the University of Tennessee. To the faculty, staff, and students-you are the heart of this University. You make it the fine institution that it is. Many thanks, too, to our National Alumni Association and Development Council, particularly their leaders, who devote so much time and energy to UT. Thanks to Governor Don Sundquist and his administration and to the leaders and members of the Tennessee General Assembly. We appreciate the good working relationships we share and look forward to continued cooperation. The University also is grateful for the support of all Tennesseans. UT exists to serve you, and we are proud to do so.



Joseph E. Johnson

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
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Independent Auditor's Report

September 26, 1997

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the University of Tennessee, which is a component unit of the State of Tennessee, as of June 30, 1997, and June 30, 1996, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the year ended June 30, 1997. These financial statements are the responsibility of the university's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2 to the financial statements, the university has excluded the liability for accrued compensated absences from the accompanying balance sheets. In our opinion, accrued compensated absences should be included to conform with generally accepted accounting principles. The recognition of this liability would have increased the liabilities of the unrestricted current fund by $49,805,821.55 at June 30,1 997, and $49,734,929.94 at June 30, 1996, and increased the unrestricted current fund expenditures by $70,891.61 for the year ended June 30, 1997, and $1,625,492.88 for the year ended June 30, 1996.

In our opinion, except for the effects of not including the liability for accrued compensated absences in the accompanying balance sheets, discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Tennessee as of June 30, 1997, and June 30, 1996, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the year ended June 30, 1997, in conformity with generally accepted accounting principles.

As discussed in Note 9 to the financial statements, the university implemented GASB Statement 27, *Accounting for Pensions by State and Local Government Employers*, in conformity with generally accepted accounting principles. As discussed in Note 13 to the financial statements, management reported prior period adjustments for the correction of errors in the June 30, 1996, financial statements.

The schedules and statistical data presented outside of the basic financial statements were not audited by us, and accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 26, 1997, on our consideration of the university's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/th

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 auditors' opinion, as shown opposite this page, is based on audit procedures described in the second paragraph of their opinion letter, 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 1996–97 and the balances available for the future. A separate publication entitled *Report of the Treasurer 1997* contains detailed supporting schedules and appendices and is available for those who wish to make a more extensive analysis of University operations. The supporting schedules and appendices are designed to supply analysis of important items summarized or consolidated in the financial statements of this report.

Respectfully submitted,

Emerson H. Fly
Executive Vice President and
Vice President for Business
and Finance

Charles M. Peccolo
Treasurer

Balance Sheet

June 30, 1997 — With Comparative Figures at June 30, 1996

Assets

	1997	1996
CURRENT FUNDS		
Unrestricted		
General		
Cash and Cash Equivalents (Note 3)	$ 88,567,354.04	$ 93,105,849.15
Accrued Interest Receivable	2,556,141.81	2,073,883.05
Accounts Receivable (Net of Allowance of $2,821,537.64 at June 30, 1997, and $2,618,817.24 at June 30, 1996)	10,930,980.51	9,877,548.28
Inventories	3,820,802.44	5,192,583.93
Prepaid Expenses and Deferred Charges	1,875,069.74	2,782,215.50
Due From Life Income Funds	73,566.65	54,260.14
Total General	$ 107,823,915.19	$ 113,086,340.05
Auxiliary Enterprises		
Cash and Cash Equivalents (Note 3)	$ 17,388,543.43	$ 17,393,511.98
Accounts Receivable (Net of Allowance of $1,042,424.88 at June 30, 1997, and $1,332,295.19 at June 30, 1996)	3,235,872.66	3,392,518.39
Inventories	5,062,875.42	5,562,350.42
Deferred Charges	457,621.93	431,222.76
Total Auxiliary Enterprises	$ 26,144,913.44	$ 26,779,603.55
Hospitals		
Cash and Cash Equivalents (Note 3)	$ 23,962,659.89	$ 28,491,074.13
Accounts Receivable (Net of Allowance of $43,543,055.41 at June 30, 1997, and $53,305,302.38 at June 30, 1996)	66,485,916.93	68,423,874.70
Inventories	1,752,960.83	2,096,558.71
Deferred Charges	1,562,449.00	503,087.00
Assets held by others (Note3)	2,316,038.33	
Total Hospitals	$ 96,080,024.98	$ 99,514,594.54
Total Unrestricted	$ 230,048,853.61	$ 239,380,538.14
Restricted		
Cash and Cash Equivalents (Note 3)	$ 26,706,118.12	$ 23,126,799.20
Accounts Receivable - Educational and General	53,789,224.63	47,579,287.17
Accounts Receivable - Hospitals	341,207.12	759,401.02
Bonds (Note 3)	9,804.10	12,929.54
Stocks (Note 3)		19,750.00
Other Assets (Note 3)	121,910.38	116,097.48
Real Estate Gifts (Note 3)	385,000.00	385,000.00
Total Restricted	$ 81,353,264.35	$ 71,999,264.41
TOTAL CURRENT FUNDS	$ 311,402,117.96	$ 311,379,802.55
LOAN FUNDS		
Cash and Cash Equivalents (Note 3)	$ 5,908,606.81	$ 5,077,745.02
Accrued Interest Receivable	733,505.78	659,055.88
Notes Receivable (Net of Allowance of $1,215,851.79 at June 30, 1997, and $1,810,466.25 at June 30, 1996)	30,120,533.68	29,507,061.29
TOTAL LOAN FUNDS	$ 36,762,646.27	$ 35,243,862.19

Liabilities and fund balances

CURRENT FUNDS	1997	1996
Unrestricted		
General		
Salaries, Wages and Benefits Payable	$ 12,619,318.38	$ 12,898,127.95
Accounts Payable (Note 1)	28,542,099.65	33,567,402.21
Payroll Taxes Payable	11,473,250.98	11,336,786.02
Deposits and Advance Payments	1,937,865.77	1,625,048.10
Deferred Revenue	9,828,673.22	9,041,065.76
Fund Balances		
Allocated for Working Capital	13,632,406.23	13,925,127.45
Allocated for Encumbrances (Note 11)	3,527,030.66	3,896,702.25
Allocated for Unemployment Compensation	160,425.83	621,831.43
Allocated for Revolving Accounts	6,007,558.20	8,060,903.33
Allocated for Unexpended Gifts	1,714,164.88	1,796,359.07
Allocated for Reappropriation	2,830,963.25	3,983,689.57
Unallocated	15,550,158.14	12,333,296.91
Total General	$ 107,823,915.19	$ 113,086,340.05
Auxiliary Enterprises		
Salaries, Wages and Benefits Payable	$ 583,833.18	$ 557,934.18
Accounts Payable	2,042,508.59	1,863,772.32
Deposits and Advance Payments	1,160,257.79	1,165,123.38
Deferred Revenue	11,168,146.78	10,749,022.18
Fund Balances		
Allocated for Working Capital	8,286,355.08	8,943,050.34
Allocated for Encumbrances (Note 11)	852,766.89	597,945.30
Unallocated	2,051,045.13	2,902,755.85
Total Auxiliary Enterprises	$ 26,144,913.44	$ 26,779,603.55
Hospitals		
Accounts Payable	$ 14,993,650.39	$ 14,658,388.14
Salaries, Wages and Benefits Payable	5,880,853.33	5,534,345.01
Fund Balances		
Allocated for Working Capital		
Memorial Hospital - Knoxville	54,924,019.96	55,803,521.42
William F. Bowld Hospital - Memphis	13,312,732.49	14,714,893.24
Allocated for Encumbrances (Note 11)		
Memorial Hospital - Knoxville	4,106,696.16	3,800,740.83
William F. Bowld Hospital - Memphis	452,742.24	433,359.10
Allocated for Revolving Accounts	800,323.64	1,104,069.32
Unallocated		
Memorial Hospital - Knoxville	4,753,984.41	9,905,759.76
William F. Bowld Hospital - Memphis	(3,144,977.64)	(6,440,482.28)
Total Hospitals	$ 96,080,024.98	$ 99,514,594.54
Total Unrestricted	$ 230,048,853.61	$ 239,380,538.14
Restricted		
Salaries, Wages and Benefits Payable	$ 823,733.70	$ 871,585.74
Accounts Payable	2,865,633.03	2,458,405.81
Deposits and Advance Payments		
Fund Balances		
Educational and General	74,364,039.57	65,849,568.52
Auxiliary Enterprises	651,179.18	313,365.48
Hospitals	2,648,678.87	2,506,338.86
Total Restricted	$ 81,353,264.35	$ 71,999,264.41
TOTAL CURRENT FUNDS	$ 311,402,117.96	$ 311,379,802.55
LOAN FUNDS		
Fund Balances		
Privately Sponsored Loan Funds - Restricted	$ 4,379,146.81	$ 4,232,906.20
Institutional Loan Funds - Restricted	2,262,516.75	2,186,888.77
Federal Participation Loan Funds - Restricted	30,120,982.71	28,824,067.22
TOTAL LOAN FUNDS	$ 36,762,646.27	$ 35,243,862.19

Balance Sheet

June 30, 1997 — With Comparative Figures at June 30, 1996

Assets

	1997	1996
ENDOWMENT AND SIMILAR FUNDS (Note 4)		
Cash and Cash Equivalents (Note 3)	$ 30,855,491.86	$ 17,007,084.83
Accounts Receivable	391,651.23	382,320.77
Notes (Note 3)	1,666,197.39	1,733,354.95
Bonds (Note 3)	70,397,387.42	70,828,583.24
Stocks (Note 3)	90,359,042.59	80,607,406.48
Venture Capital (Note 3)	10,523,596.21	7,566,026.36
Assets With The University of Chattanooga Foundation, Inc. (Note 3 and Note 10)	1,716,121.00	1,601,257.00
Assets Held By Others (Note 3)	206,736.02	205,994.05
Real Estate Gifts (Note 3)	4,931,761.28	3,422,247.44
Real Estate Equity (Note 3)	16,369,207.80	5,962,950.00
Other Assets (Note 3)	26,889.00	26,891.00
TOTAL ENDOWMENT AND SIMILAR FUNDS	$ 227,444,081.80	$ 189,344,116.12
LIFE INCOME FUNDS (Note 4)		
Cash and Cash Equivalents (Note 3)	$ 806,311.29	$ 832,487.63
Accounts Receivable	9,914.84	129,427.28
Notes (Note 3)	1,266,123.81	1,313,805.45
Bonds (Note 3)	28,358,922.70	23,088,825.82
Stocks (Note 3)	4,587,732.89	3,393,143.87
Real Estate Gifts (Note 3)	1,962,640.00	1,836,640.00
TOTAL LIFE INCOME FUNDS	$ 36,991,645.53	$ 30,594,330.05
PLANT FUNDS		
Unexpended Plant		
Cash and Cash Equivalents (Note 3)		$ 4,799,187.23
Notes (Note 3)		4,973.81
Real Estate Gifts (Note 3)	$ 82,700.00	82,700.00
State Capital Outlay and Maintenance Receivable	411,411.26	406,719.15
Tennessee State School Bond Authority Debt Proceeds Receivable	3,500,505.79	7,094,202.64
Stocks (Note 3)	670.38	886.15
Total Unexpended Plant	$ 3,995,287.43	$ 12,388,668.98
Retirement of Indebtedness and Renewals and Replacements		
Cash and Cash Equivalents (Note 3)	$ 94,886,200.24	$ 89,083,999.68
Due From Unexpended Plant	2,678,246.81	
Capitalized Interest Receivable	553,101.58	
Unexpended Construction Earnings Receivable	676,015.73	340,995.96
Assets With Trustees (Note 3)		
Tennessee State School Bond Authority	29,529,541.03	22,831,998.90
Department of Education Student Housing Reserve	185,028.79	175,798.18
Total Retirement of Indebtedness and Renewals and Replacements	$ 128,508,134.18	$ 112,432,792.72
Investment in Plant:		
Land	$ 34,481,903.21	$ 32,802,171.21
Buildings	1,007,013,320.69	953,030,875.63
Improvements Other Than Buildings	73,192,212.96	69,798,317.02
Equipment	404,706,660.34	407,970,287.50
Library Holdings (Notes 13 and 14)	240,314,350.00	146,973,083.00
Livestock	1,813,080.00	1,690,348.00
Total Investment in Plant	$1,761,521,527.20	$1,612,265,082.36
TOTAL PLANT FUNDS	$1,894,024,948.81	$1,737,086,544.06
AGENCY FUNDS		
Cash and Cash Equivalents (Note 3)	$ 4,857,620.20	$ 3,780,495.46
Accounts Receivable	828,627.10	368,895.87
Bonds (Note 3)	209,750.00	198,750.00
Stocks (Note 3)	2,988,939.06	3,269,176.38
TOTAL AGENCY FUNDS	$ 8,884,936.36	$ 7,617,317.71

See notes to financial statements.

Liabilities and fund balances

	1997	1996
ENDOWMENT AND SIMILAR FUNDS		
Accounts Payable	$ 958,109.32	$ 403,418.92
Fund Balances:		
Undistributed Gains and Losses on Investment Transactions	61,418,956.61	39,714,120.76
Endowment - Restricted	146,004,222.17	132,529,814.15
Quasi-Endowment - Restricted	16,344.74	16,344.74
Quasi-Endowment - Unrestricted	19,046,448.96	16,680,417.55
TOTAL ENDOWMENT AND SIMILAR FUNDS	$ 227,444,081.80	$ 189,344,116.12
LIFE INCOME FUNDS		
Due To Unrestricted Current Funds - General	$ 73,566.65	$ 54,260.14
Fund Balances - Restricted	36,918,078.88	30,540,069.91
TOTAL LIFE INCOME FUNDS	$ 36,991,645.53	$ 30,594,330.05
PLANT FUNDS		
Unexpended Plant:		
Accounts Payable	$ 4,022,625.54	$ 5,590,904.14
Due To Retirement of Indebtedness	2,678,246.81	
Tennessee State School Bond Authority Indebtedness (Notes 5 and 13)	3,500,505.79	7,094,202.64
Fund Balances (Note 13)		
Restricted	4,198,165.60	4,348,358.26
Unrestricted	(10,404,256.31)	(4,644,796.06)
Total Unexpended Plant	$ 3,995,287.43	$ 12,388,668.98
Retirement of Indebtedness and Renewals and Replacements		
Fund Balances		
Restricted	$ 31,084,744.71	$ 23,531,389.17
Unrestricted	97,423,389.47	88,901,403.55
Total Retirement of Indebtedness and Renewals and Replacements	$ 128,508,134.18	$ 112,432,792.72
Investment in Plant:		
Tennessee State School Bond Authority Indebtedness (Notes 5 and 13)	$ 280,711,403.80	$ 258,569,418.15
Notes Payable (Note 5)	107,239.89	124,920.41
Accrued Interest Payable	2,494,642.42	2,047,776.60
Lease Obligations (Note 7)	2,107,054.07	2,665,042.21
Fund Balance		
Net Investment in Plant (Notes 13 and 14)	1,476,101,187.02	1,348,857,924.99
Total Investment in Plant	$1,761,521,527.20	$1,612,265,082.36
TOTAL PLANT FUNDS	$1,894,024,948.81	$1,737,086,544.06
AGENCY FUNDS		
Accounts Payable	$ 62,706.61	$ 109,950.16
Deposits Held in Custody for Others	8,822,229.75	7,507,367.55
TOTAL AGENCY FUNDS	$ 8,884,936.36	$ 7,617,317.71

Statement of Changes in Fund Balances

Year Ended June 30, 1997

	Current Funds			
	Unrestricted			
	Education and General	Auxiliary Enterprises	Hospitals	Total
REVENUES AND OTHER ADDITIONS				
Unrestricted Current Funds Revenues	$582,883,885.79	$114,802,428.61	$307,184,473.25	$1,004,870,787.65
Restricted Gifts and Grants				
Federal Perkins Loan Funds				
Federal Nursing and Health Professions Loan Funds				
Interest on Notes Receivable				
Endowment Income				
Investment Income				
Net Gain on Investments				
State Appropriations for Capital Outlay				
Tennessee State School Bond Authority Proceeds				
Capital Lease Acquisitions				
Gifts and Other Sources				
Student Debt Service Fees				
Federal Interest Subsidy Grants				
Special State Legislature Appropriations				
Expended for Plant Facilities (Including $44,670,333.66 charged to current fund expenditures)				
Physical Inventory Adjustments				
Retirement of Indebtedness				
TOTAL REVENUES AND OTHER ADDITIONS	$582,883,885.79	$114,802,428.61	$307,184,473.25	$1,004,870,787.65
EXPENDITURES AND OTHER DEDUCTIONS				
Unrestricted Current Fund Expenditures	$570,843,663.02	$ 96,849,693.08	$295,893,485.18	$ 963,586,841.28
Restricted Current Fund Expenditures				
Administration and Collection Costs				
Loan Cancellations and Write-offs				
Payments to Beneficiaries				
Expended for Plant Facilities				
Retirement of Indebtedness				
Interest on Indebtedness				
Disposal of Plant Facilities				
Buildings and Improvements Written Off and Adjustments				
Capital Lease Additions				
Increase in Indebtedness				
Indirect Costs Recovered				
Other				
TOTAL EXPENDITURES & OTHER DEDUCTIONS	$570,843,663.02	$ 96,849,693.08	$295,893,485.18	$ 963,586,841.28
TRANSFERS AMONG FUNDS—ADDITIONS (DEDUCTIONS)				
Mandatory				
Principal and Interest	$ (3,626,494.47)	$ (11,024,776.79)	$ (10,337,134.86)	$ (24,988,406.12)
Loan Funds Matching	(69,523.71)			(69,523.71)
Endowment and Similar Funds				
Nonmandatory				
Unrestricted Current Funds	6,048,239.98	(4,252,251.14)	(1,795,988.84)	
Restricted Current Funds	(823,391.89)	(20,000.00)		(843,391.89)
Endowment and Similar Funds	(7,000.00)		(44,999.50)	(51,999.50)
Unexpended Plant	(1,517,375.83)	(1,003,049.31)	(3,229,205.00)	(5,749,612.14)
Retirement of Indebtedness	(13,239,897.67)	(2,906,242.68)		(16,146,140.35)
TOTAL TRANSFERS	$ (13,235,425.59)	$ (19,206,319.92)	$ (15,407,328.20)	$ (47,849,073.71)
NET INCREASE (DECREASE) FOR THE YEAR	$ (1,195,202.82)	$ (1,253,584.39)	$ (4,116,340.13)	$ (6,565,127.34)
FUND BALANCES AT JULY 1, 1996	$ 44,617,910.01	$ 12,443,751.49	$ 79,321,861.39	$ 136,383,522.89
FUND BALANCES AT JUNE 30, 1997	$ 43,422,707.19	$ 11,190,167.10	$ 75,205,521.26	$ 129,818,395.55

See notes to financial statements.

				Plant Funds		
Restricted	Loan Funds	Endowment and Similar Funds	Life Income Funds	Unexpended	Retirement of Indebtedness and Renewals and Replacements	Investment in Plant
$238,163,510.31		$ 13,533,206.27	$ 6,337,306.96			
	$ 338,753.00					
	33,748.00					
	772,753.07					
7,313,751.20	67,200.81	363,295.64				
140,031.65	186,019.90		2,091,090.99	$ 302,359.00	$ 4,604,697.28	
		24,340,343.09	1,151,555.19			
				19,797,207.25		
				33,208,602.84	6,809,345.05	
						$ 2,966,073.88
	616,342.63			1,254,636.88		8,494,319.83
					2,984,612.17	
					181,564.00	
					248,183.39	
						111,005,932.66
						31,916,247.31
						71,628,068.11
$245,617,293.16	$ 2,014,817.41	$ 38,236,845.00	$ 9,579,953.14	$ 54,562,805.97	$ 14,828,401.89	$ 226,010,641.79
$216,644,582.52						
	$ 200,502.94					
	326,255.82					
			$ 2,381,085.15			
				$ 65,539,183.98	$ 796,415.02	
					19,749,722.10	
					14,572,305.78	
						$ 196,000.00
						2,410,920.78
						2,408,085.74
						93,752,373.24
19,399,567.32						
421,876.52	14,406.26		2,941.95	8,037,963.28		
$236,466,026.36	$ 541,165.02		$ 2,384,027.10	$ 73,577,147.26	$ 35,118,442.90	$ 98,767,379.76
					$ 24,988,406.12	
	$ 69,523.71					
		$ 817,917.07	$ (817,917.07)			
$ (156,642.04)	(24,392.02)	(1,021,623.40)		$ 2,121,049.35	(75,000.00)	
		51,999.50				
				10,983,639.03	(5,234,026.89)	
		(539,862.89)			16,686,003.24	
$ (156,642.04)	$ 45,131.69	$ (691,569.72)	$ (817,917.07)	$ 13,104,688.38	$ 36,365,382.47	
$ 8,994,624.76	$ 1,518,784.08	$ 37,545,275.28	$ 6,378,008.97	$ (5,909,652.91)	$ 16,075,341.46	$ 127,243,262.03
$ 68,669,272.86	$35,243,862.19	$188,940,697.20	$30,540,069.91	$ (296,437.80)	$112,432,792.72	$1,348,857,924.99
$ 77,663,897.62	$36,762,646.27	$226,485,972.48	$36,918,078.88	$ (6,206,090.71)	$128,508,134.18	$1,476,101,187.02

Statement of Current Funds Revenues, Expenditures and Other Changes

Exhibit C

For the Year Ended June 30, 1997 — With Comparative Totals June 30, 1996

	1997			1996
	Unrestricted	Restricted	Total	Total
REVENUES				
Tuition and Fees	$ 131,195,419.92		$ 131,195,419.92	$ 120,943,753.10
Federal Appropriations	13,397,290.02		13,397,290.02	13,073,132.00
State Appropriations	358,672,000.00	$ 9,065,839.06	367,737,839.06	363,791,307.73
Local Appropriations	2,179,554.33		2,179,554.33	2,086,444.16
Federal Grants and Contracts	15,144,816.38	82,491,117.69	97,635,934.07	96,878,005.56
State Grants and Contracts	1,656,453.52	26,681,419.06	28,337,872.58	27,173,599.26
Local Grants and Contracts	2,873,107.85	6,217,112.44	9,090,220.29	8,047,301.94
Private Gifts, Grants and Contracts	4,787,101.51	74,457,673.31	79,244,774.82	72,551,479.63
Endowment Income-University and Other	59,441.55	13,817,178.62	13,876,620.17	11,300,179.26
Sales and Services of Educational Activities	33,956,141.91		33,956,141.91	33,280,889.18
Other Sources	18,962,558.80		18,962,558.80	17,870,098.25
TOTAL EDUCATIONAL AND GENERAL	$ 582,883,885.79	$212,730,340.18	$ 795,614,225.97	$ 766,996,190.07
Sales and Services of Auxiliary Enterprises	114,802,428.61	42,320.00	114,844,748.61	108,160,362.74
Sales and Services of Hospitals	307,184,473.25	3,871,922.34	311,056,395.59	305,736,238.74
TOTAL CURRENT REVENUES	$1,004,870,787.65	$216,644,582.52	$1,221,515,370.17	$1,180,892,791.55
EXPENDITURES AND TRANSFERS				
Educational and General Expenditures:				
Instruction	$ 259,360,511.56	$ 48,786,649.62	$ 308,147,161.18	$ 309,016,133.36
Research	37,998,397.89	91,033,022.93	129,031,420.82	124,606,469.11
Public Service	48,341,079.87	42,193,694.70	90,534,774.57	82,182,216.17
Academic Support	66,817,394.46	5,277,215.75	72,094,610.21	69,313,688.00
Student Services	36,407,941.70	1,089,966.89	37,497,908.59	36,876,157.60
Institutional Support	55,955,828.47	567,351.17	56,523,179.64	58,321,452.95
Operation and Maintenance of Plant	47,030,504.39	71,941.70	47,102,446.09	47,802,813.98
Scholarships and Fellowships	18,932,004.68	23,710,497.42	42,642,502.10	41,178,536.91
Total Educational and General Expenditures	$ 570,843,663.02	$212,730,340.18	$ 783,574,003.20	$ 769,297,495.08
Mandatory Transfers for:				
Principal and Interest	3,626,494.47		3,626,494.47	2,100,400.50
Loan Funds Matching	69,523.71		69,523.71	117,705.70
Nonmandatory Transfers for:				
Retirement of Indebtedness	13,239,897.67		13,239,897.67	1,544,700.39
Endowment and Similar Funds	7,000.00		7,000.00	10,500.00
Restricted Current Funds	823,391.89		823,391.89	511,824.06
Unexpended Plant	1,517,357.83		1,517,357.83	1,203,494.95
Auxiliary Enterprises	(4,252,251.14)		(4,252,251.14)	(3,372,574.84)
Hospitals	(1,795,988.84)		(1,795,988.84)	(1,709,295.03)
TOTAL EDUCATIONAL AND GENERAL EXPENDITURES AND TRANSFERS	$ 584,079,088.61	$212,730,340.18	$ 796,809,428.79	$ 769,704,250.81
Auxiliary Enterprises				
Expenditures	$ 96,849,693.08	$ 42,320.00	$ 96,892,013.08	$ 90,499,392.21
Mandatory Transfers for:				
Principal and Interest	11,024,776.79		11,024,776.79	8,802,783.47
Nonmandatory Transfers for:				
Retirement of Indebtedness	2,906,242.68		2,906,242.68	2,697,300.33
Unexpended Plant	1,003,049.31		1,003,049.31	1,725,112.29
Restricted Current Funds	20,000.00		20,000.00	56,056.00
Educational and General	4,252,251.14		4,252,251.14	3,372,574.84
TOTAL AUXILIARY ENTERPRISES EXPENDITURES AND TRANSFERS	$ 116,056,013.00	$ 42,320.00	$ 116,098,333.00	$ 107,153,219.14
Hospitals				
Expenditures	$ 295,893,485.18	$ 3,871,922.34	$ 299,765,407.52	$ 292,284,639.84
Mandatory Transfers for:				
Principal and Interest	10,337,134.86		10,337,134.86	9,357,177.39
Nonmandatory Transfers for:				
Educational and General	1,795,988.84		1,795,988.84	1,709,295.03
Endowment and Similar Funds	44,999.50		44,999.50	157,496.00
Restricted Current Funds				(49,529.71)
Unexpended Plant	3,229,205.00		3,229,205.00	4,806,304.57
TOTAL HOSPITALS EXPENDITURES AND TRANSFERS	$ 311,300,813.38	$ 3,871,922.34	$ 315,172,735.72	$ 308,265,383.12
TOTAL EXPENDITURES AND TRANSFERS	$1,011,435,914.99	$216,644,582.52	$1,228,080,497.51	$1,185,122,853.07
EXCESS REVENUES AND TRANSFERS OVER REVENUES				
Educational and General	$ (1,195,202.82)		$ (1,195,202.82)	$ (2,708,060.74)
Auxiliary Enterprises	(1,253,584.39)		(1,253,584.39)	1,007,143.60
Hospitals	(4,116,340.13)		(4,116,340.13)	(2,529,144.38)
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS)				
Restricted Receipts in Excess of Expenditures		$ 28,972,710.64	28,972,710.64	24,973,865.21
Indirect Costs Recovered		(19,399,567.32)	(19,399,567.32)	(18,856,452.57)
Restricted Gifts Transferred from (to) Other Funds		(578,518.56)	(578,518.56)	35,001.08
NET INCREASE (DECREASE) IN FUND BALANCES	$ (6,565,127.34)	$ 8,994,518.76	$ 2,429,497.42	$ 1,922,352.20

See notes to financial statements.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

A. *Reporting Entity*—The university is a component unit of the State of Tennessee, and is discretely presented in the *Tennessee Comprehensive Annual Financial Report*. Although the university is a separate legal entity, the state is financially accountable for the university because the state appoints a majority of its governing body and is obligated to provide financial support.

The University of Tennessee System is comprised of the University of Tennessee, Knoxville; the University of Tennessee at Chattanooga; the University of Tennessee at Martin; the University of Tennessee - Center for the Health Sciences, composed of the Memphis campus, the Memorial Research Center at Knoxville, Clinical Education Centers at Chattanooga and Knoxville, Family Practice Centers at Jackson, Knoxville, and Memphis, and hospitals in Knoxville and Memphis; the University of Tennessee Space Institute at Tullahoma; the University of Tennessee Institute of Agriculture, composed of the College of Agriculture at Knoxville, the Agricultural Experiment Stations, the Agricultural Extension Service, and the College of Veterinary Medicine at Knoxville; the Institute for Public Service, which includes the County Technical Assistance Service and the Municipal Technical Advisory Service; and the University-Wide Administration. The university is governed by a board of nineteen members, including one student member, all appointed by the governor, who also serves as chairman. The president is the chief executive officer of the university system.

B. *Basis of Presentation*—The financial statements for The University of Tennessee are prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. The university uses the AICPA College Guide model for accounting and financial reporting.

C. *Basis of Accounting*—The financial statements of The University of Tennessee have been prepared on the accrual basis, except that depreciation on plant assets is not recorded and revenues and expenditures of an academic term encompassing more than one fiscal year are reported solely in the fiscal year in which the term is predominately conducted. All unrestricted resources are reported as revenue in the year they are earned. All restricted resources are recorded as additions to the fund balances of the appropriate fund groups. Restricted current resources are then recorded as revenues during the period in which they are expended. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the 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.

To the extent that current funds are used to finance plant assets, the funds are accounted for as (1) expenditures, for normal replacement of movable equipment and library holdings; (2) mandatory transfers, for required debt amortization and interest and equipment renewal and replacement; and (3) nonmandatory transfers, for all other cases.

D. *Fund Accounting*—To ensure observance of limitations and restrictions placed on the use of resources available, the university maintains accounts in accordance with the principles of fund accounting. With this procedure, resources for various purposes are classified for accounting and reporting purposes into funds for specified activities or objectives. Separate accounts are maintained for each fund, however, in the accompanying financial statements, funds with similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds which are allocated to specific purposes by the governing board. Externally restricted funds may be used only in accordance with the purposes established by the source of such funds and contrast with unrestricted funds over which the governing board retains full control to use in achieving any of its institutional purposes. The allocations of fund balances for unemployment compensation, revolving accounts, unexpended gifts, and reappropriation were made in accordance with university policies.

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owned such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets, except for income derived from investments of endowment and similar funds. This income is accounted for in the fund to which it is restricted or, if unrestricted, as revenues in unrestricted current funds.

All other unrestricted revenue is accounted for in the unrestricted current funds. Restricted gifts, grants, appropriations, endowment income, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

1. *Current Funds*—Unrestricted current funds consist of those funds over which the university retains full control for use in achieving any of its authorized institutional purposes. Auxiliary enterprises activities are included in unrestricted current funds and include student housing, bookstores, food services, parking services, and certain other activities. Hospital activities are also included in unrestricted current funds. Restricted current funds are externally restricted and may be used only in accordance with the purposes established by their source.

2. *Loan Funds*—Loan funds consist of resources made available for student loans.

3. *Endowment and Similar Funds*—Endowment funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and only the income be used. Although quasi-endowment funds have been established by the governing board for the same purpose as endowment funds, any portion of quasi-endowment funds may be expended. Since these funds are internally designated, the governing board retains the right to alter or amend such designation.

4. *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.

5. *Plant Funds*—The plant funds group consists 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 for the retirement of indebtedness on institutional properties, and major maintenance items on institutional properties, respectively; and (3) investment in plant funds which are funds expended for, and thus invested in, institutional properties.

6. *Agency Funds*—The university acts solely as an agent in the handling of these funds; consequently, transactions of these funds do not affect the university's operating statements.

E. *Inventories*—Inventories are valued at cost, which is lower than market, based on the retail, specific identification, average cost, or FIFO basis.

F. *Investments*—Investments are recorded at cost, if purchased, or fair value at the date of receipt, if received as a gift.

G. *Investment in Plant*—Physical plant, equipment, and land are stated at cost at date of purchase or at fair value at date of donation. Depreciation on the physical plant and equipment is not recorded. Purchases of library books and holdings are recorded as current fund expenditures and capitalized at standardized costs in the plant funds. Livestock is valued at estimated market value.

H. *Accounts Payable*—Included in unrestricted current funds - general accounts payable are checks payable in the amount of $5,318,015.84 and $12,077,919.70 as of June 30, 1997 and 1996, respectively. These amounts represent the sum of checks written in excess of the university's checking account balance because of the use of a controlled disbursement account. In this way, the university maximizes interest income by transferring from an investment account only funds necessary to cover the checks that clear the bank daily.

I. *Allocation for Working Capital*—The unrestricted fund balance is allocated for the amount of working capital. "Working capital" is defined as the total of all petty cash, accounts receivable, and inventories in the unrestricted current fund at the balance sheet date except for student receivables credited to deferred revenue, accrued interest, and amounts due on federal letters of credit, less the accrued benefits on accrued faculty salaries.

J. *Income Taxes*—The university, as a public corporation and an instrumentality of the State of Tennessee, is exempt from federal income taxes under Section 115 of the Internal Revenue Code. Contributions to the university are deductible by donors as provided under Section 170 of the Internal Revenue Code.

K. *Tennessee State School Bond Authority Debt Proceeds Receivable*—Tennessee State School Bond Authority Debt Proceeds Receivable in unexpended plant consist of Tennessee State School Bond Authority debt issued for which the proceeds have not yet been received.

Note 2: Compensated Absences

The university's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. Generally accepted accounting principles require that certain accrued compensated absences, the effects 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 not considered a material departure from generally accepted accounting principles in that the effect of accruing the $49,805,821.55 of such benefits, of which approximately $11,502,700.14 would be reflected as a reduction of beginning unrestricted current fund balance, and the remainder would be funded from other sources, is not considered material. The amount of accrued compensated absences as of June 30, 1996, was $49,734,929.94, of which approximately $11,119,330.01 would have been reflected as a reduction of beginning unrestricted current fund balance, and the remainder funded from other sources.

Note 3: Deposits and Investment

Investment Policy. The University of Tennessee maintains in unrestricted current funds a cash management investment pool that is available for use by all fund groups. State statutes and University investment policies authorize the University's cash management pool to invest in collateralized Tennessee bank or savings and loan association certificates of deposit, U.S. treasury obligations, U.S. government agency obligations, repurchase agreements of those securities, highest quality commercial paper, prime bankers' acceptances, and money market mutual funds meeting certain criteria.

In accordance with state statutes, commercial banks and savings and loan associations that do not participate in the State of Tennessee Collateral Pool for Public Deposits must pledge securities with third parties as collateral to secure University time and demand deposits. Market values of these securities are regularly monitored to ascertain that 105% of University deposits, less the amounts protected by the Federal Deposit Insurance Corporation, are secured.

There are two categories of University funds which are subject to long-term investment, the endowment and similar funds and the life income funds. The investment of these funds is governed by the gift instrument and the investment policies established by the Board of Trustees. For a more complete description of these investments, please refer to Note 4, "Endowment and Similar Funds and Life Income Funds".

Cash and Cash Equivalents. In addition to petty cash and demand deposits, this classification includes instruments which are readily convertible to known amounts of cash. At June 30, 1997, cash and cash equivalents consisted of $9,905,936.96 in bank accounts, $1,458,565.01 of petty cash on hand, $2,970,000.00 of certificates of deposit, and $265,346,277.62 in the university's cash management investment pool. At June 30, 1996, cash and cash equivalents consisted of $8,337,312.48 in bank accounts, $1,296,722.00 of petty cash on hand, $2,340,000.00 of certificates of deposit, and $265,651,918.25 in the university's cash management investment pool. Additionally, the university maintains custodial accounts at First Tennessee Bank for funds contractually managed by independent investment counsel. In accordance with the custody agreement, First Tennessee Bank placed cash equivalents of $14,258,126.29 at June 30, 1997, and $5,072,281.58 at June 30, 1996, in the bank's money market mutual fund.

Deposits. Deposits with financial institutions are required to be categorized to indicate the level of custodial risk assumed by the university. Category 1 consists of deposits that are insured or collateralized with securities held by the university or by its agent in the university's name. Category 2 consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the university's name. Category 3 deposits are uncollateralized. This category includes any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the university's name.

Some of the university's bank accounts are in financial institutions which participate in the bank collateral pool administered by the Treasurer of the State of Tennessee. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 1997, the carrying amount of the university's deposits was $12,875,936.96, and the bank balance including accrued interest was $19,991,154.48. The entire bank balance was category 1.

At June 30, 1996, the carrying amount of the university's deposits was $10,677,312.48, and the bank balance including accrued interest was $7,281,435.45. The entire bank balance was category 1.

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits.

Cash Management Investment Pool. The cash management investment pool consists of marketable securities and government repurchase agreements as previously described. The carrying amount and market value of the cash management pool at June 30, 1997, were $265,346,277.62 and $266,175,821.00, respectively. The carrying amount and market value of the cash management pool at June 30, 1996, were $265,651,918.25 and $262,350,507.97, respectively. The securities in the pool are categorized on the following page, listed as cash equivalents, to indicate the level of risk assumed by the university. The university's standard "Master Repurchase Agreements" require that the securities underlying repurchase agreements have fair value equal to or exceeding 100% of the cost of the repurchase agreement and be delivered to its agent's trust account at the Federal Reserve Bank - Memphis. There were no government repurchase agreements for the University's cash management pool at June 30, 1997. The fair value of securities underlying repurchase agreements at June 30, 1996, was $43,917,229.45.

Investments. Investments shown on the balance sheet are classified by type of investment (bonds, stocks, real estate, etc.).

The university's investments are categorized on page 28 to indicate the level of custodial risk assumed by the university at year end. Category 1 consists of insured or registered investments or investments for which the securities are held by the university or its agent in the university's name. Category 2 consists of uninsured or unregistered investments for which the securities are held by the counterparty's trust department or agent in the university's name. Category 3 consists of uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the university's name.

Assets with trustees of $29,714,569.82 and $23,007,797.08 at June 30, 1997, and June 30, 1996, respectively, in retirement of indebtedness consisted of securities held in the Tennessee State School Bond Authority debt service reserve pool and with First Tennessee Bank.

Note 4: Endowment and Similar Funds and Life Income Funds

There are two categories of university funds which are subject to long-term investment, the endowment and similar funds and the life income funds. The investment of these funds is governed by the gift instrument and the investment policies established by the board of trustees.

Effective July 1, 1954, the university adopted the policy of investing endowment and similar funds over which it had full investment discretion (and on which the donor or governing gift instrument does not require separate investment) in the consolidated investment pool. This pooling of investments affords closer supervision of the investment portfolio and provides, regardless of size, the advantages of participation in a well-diversified portfolio of investments. All endowment and similar funds not invested as part of the consolidated investment pool are separately invested to observe requirements or limitations imposed by donors. Income earned and distributed on separately invested endowment and similar funds amounted to $418,624.58 for 1997 and $385,578.00 for 1996. Income distributed in accordance with the approved spending plan to endowment and similar funds invested in the consolidated investment pool amounted to $9,178,103.81 for 1997 and $7,884,912.78 for 1996.

Life income funds are separately invested entities requiring detailed accounting to reflect specific compliance with terms of each trust and applicable federal regulations. The investment

For June 30, 1997

	Category 1	Category 2	Category 3	Carrying Amount	Market Value 6/30/97
Cash Equivalents					
Government securities	$208,671,879.86			$ 208,671,879.86	$209,261,286.00
Commercial paper	56,674,397.76			56,674,397.76	56,914,535.00
	$ 265,346,277.62			$ 265,346,277.62	$266,175,821.00
Investments					
Domestic securities					
Government securities	$ 54,423,932.94			$ 54,423,932.94	$ 54,794,922.52
Corporate bonds	38,932,904.71			38,932,904.71	39,165,535.88
Corporate stock	76,050,894.28			76,050,894.28	122,010,079.76
Mortgages and notes	2,926,829.58		$ 5,491.62	2,932,321.20	2,965,656.51
Other investments	29,057.00			29,057.00	29,057.00
International securities					
Government bonds	15,000.00			15,000.00	14,600.00
Corporate bonds	604,026.57			604,026.57	600,116.00
Corporate stock	3,282,391.53			3,282,391.53	4,166,555.80
	$ 176,265,036.61		$ 5,491.62	176,270,528.23	223,746,523.47
	$ 441,611,314.23		$ 5,491.62		

University cash equivalents and investments not susceptible to categorization:	Carrying Amount	Market Value 6/30/97
Cash equivalents - assets with First Tennessee Bank as custodian	$ 14,258,126.29	$ 14,258,126.29
Limited partnership-venture capital funds	10,523,596.21	9,933,414.89
Mutual funds	5,603,099.11	6,452,141.87
Real estate equity funds	16 ,369,207.80	17,030,803.09
Real estate - gifts	7,362,101.28	7,220,948.72
International equity funds	13,000,000.00	21,279,897.20
Assets with University Health System	2,316,038.33	2,316,038.33
Assets with the University of Chattanooga Foundation	1,716,121.00	1,716,121.00
Assets with First American Bank	119,742.38	140,594.88
Assets with American National Bank	206,736.02	394,848.99
Domestic bond fund	5,000,000.00	5,204,214.50
Total investments and cash equivalents	$ 518,091,574.27	$ 575,869,494.23
Less: Cash equivalents	279,604,403.91	
Total investments on the balance sheet	$ 238,487,170.36	

For June 30, 1996

	Category 1	Category 2	Category 3	Carrying Amount	Market Value 6/30/96
Cash equivalents					
Government securities	$ 133,700,088.81			$ 133,700,088.81	$ 130,029,297.97
Repurchase agreements	43,000,000.00			43,000,000.00	43,000,000.00
Commercial paper	88,951,829.44			88,951,829.44	89,321,210.00
	$ 265,651,918.25			$ 265,651,918.25	$ 262,350,507.97
Investments					
Domestic securities					
Government securities	$ 45,617,236.35			$ 45,617,236.35	$ 47,533,895.98
Corporate bonds	42,023,579.71	$ 12,929.54		42,036,509.25	40,298,914.57
Corporate stock	73,583,954.97			73,583,954.97	116,079,367.92
Mortgages and notes	3,041,396.10		$ 10,738.11	3,052,134.21	3,078,380.38
Other investments	29,059.00			29,059.00	29,059.00
International securities					
Government bonds	375,000.00			375,000.00	351,400.00
Corporate bonds	1,100,343.00			1,100,343.00	1,098,356.90
Corporate stock	2,471,005.09			2,471,005.09	2,361,145.40
	$ 168,241,574.22	$ 12,929.54	$ 10,738.11	168,265,241.87	210,830,520.15
	$ 433,893,492.47	$ 12,929.54	$ 10,738.11		

University cash equivalents and investments not susceptible to categorization:	Carrying Amount	Market Value 6/30/96
Cash equivalents - assets with First Tennessee Bank as custodian	$ 5,072,281.58	$ 5,072,281.58
Limited partnership-venture capital funds	7,566,026.36	8,251,234.02
Mutual funds	3,235,402.82	4,137,129.14
Real estate equity funds	5,962,950.00	5,402,943.08
Real estate - gifts	5,726,587.44	5,761,134.93
International equity funds	8,000,000.00	11,916,180.81
Assets with the University of Chattanooga Foundation	1,601,257.00	1,601,257.00
Assets with First American Bank	113,929.48	124,901.66
Assets with American National Bank	205,994.05	303,385.89
Domestic bond fund	5,000,000.00	5,052,918.50
Total investments and cash equivalents	$ 476,401,588.85	$ 520,804,394.73
Less: Cash equivalents	270,724,199.83	
Total investments on the balance sheet	$ 205,677,389.02	

objectives as reflected in each agreement vary widely since they are affected by the age, income level, and needs of the beneficiaries as well as motives and objectives of the donors. Income realized on these funds for 1997, amounted to $2,091,090.99 and for 1996, amounted to $1,750,201.00.

The book value of endowment and similar funds at June 30, 1997, was $227,444,081.80 and the market value was $282,182,458.34. This compares with a June 30, 1996, book value of $189,344,116.12 and market value of $234,278,784.26. The book value of life income funds at June 30, 1997, was $36,991,645.53 and market value was $38,410,381.31. This compares with a June 30, 1996, book value of $30,594,330.05, and market value of $31,978,590.30.

Note 5: Bonds and Notes Payable

Tennessee State School Bond Authority bonds, with interest rates ranging from 3.0% to 7.0%, are due serially to 2026 and are secured by pledges of the facilities' revenue to which they relate and certain other revenues and fees of the university, including state appropriations. The total outstanding bonded indebtedness for the university was $250,995,071.54 at June 30, 1997, and $184,411,774.79 at June 30, 1996.

Included in the total outstanding indebtedness is a $242,000.00 note with the Department of Education which was issued in March 1989. The note carries an interest rate of 3% and is due semi-annually to 2003. The outstanding notes payable at June 30, 1997, and 1996 were $107,239.89 and $124,920.41, respectively.

The university's debt service requirements to maturity for all bonds and the Department of Education note payable at June 30 are as follows:

Year ending June 30:

1998	$ 13,399,442.58
1999	13,921,838.47
2000	13,363,880.20
2001	12,606,339.17
2002	13,154,238.70
Subsequent Years	184,656,572.31
	$251,102,311.43

Interim and short-term financing for various projects has been secured through the Tennessee State School Bond Authority from the Bond Anticipation Notes (BANs) Program established February 24, 1993, with Prudential Securities, Incorporated as the underwriter and remarketing agent, to fund projects under construction. Under the BANs Program, the notes will mature on March 1, 1998, and may bear interest at a variable rate (daily, weekly, monthly, quarterly, semi-annually, annually), or a fixed rate (long-term) determined by Prudential Securities, Incorporated, for periods selected by the authority. Currently, interest is determined on a weekly basis and payable monthly. The notes are subject to purchase by the remarketing agent on the demand of the holder on any business day pursuant to the conditions established in the Note Resolution as described in the Official Statement relating to the notes. The remarketing agent is to use its best efforts to sell the notes to another holder. If the agent is unable to resell any notes that have been "put", the standby note purchaser is required, subject to certain conditions, to purchase the notes. A standby note purchase agreement was entered into with Union Bank of Switzerland on June 26, 1996, providing liquidity for up to $105,000,000.00 principal amount of the notes with interest coverage for 34 days at the maximum rate of 12%, for a total commitment of $106,173,699.00. The authority contracted to pay UBS 6 basis points per annum for the utilized portion and 5 basis points per annum for the unutilized portion of the commitment. The agreement was extended effective June 26, 1997, through March 1, 1998, based on a reduced maximum available commitment of $64,523,273.42. It is expected that a portion of these notes will be redeemed with the proceeds from a sale of bonds at the end of the construction period for the projects being financed. The outstanding balance of the five year notes was $33,216,838.05 at June 30, 1997, and $81,251,846.00 at June 30, 1996.

The total indebtedness of the University at June 30, 1997, was $284,319,149.48 and at June 30, 1996, was $265,788,541.20.

Note 6: 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 rentals under leases for the years ended June 30, 1997, and June 30, 1996, amounted to $7,336,753.56 and $7,582,225.24, respectively.

The following is a schedule by years of future minimum rental payments required under noncancelable operating leases that have initial or remaining lease terms of more than one year at June 30, 1997.

Year Ending June 30:

1998	$ 711,478.93
1999	701,222.25
2000	701,222.25
2001	669,572.25
2002	468,582.16
Later Years	308,530.00
Total minimum payments required	$ 3,560,607.84

Note 7: Capital Leases

The University leases certain items of equipment which are classified as capital leases. These agreements have beginning and ending dates ranging from April 1995 to January 2001 and imputed interest rates ranging from 5.78% to 18%. Future minimum lease payments under capital leases together with the present value of the net minimum lease payments at June 30, 1997 are:

Year ending June 30:

1998	$ 727,891.86
1999	666,818.10
2000	607,455.60
2001	354,139.45
Total Minimum lease payments	$2,356,305.01
Less amounts representing interest	249,250.94
Present value of net minimum lease payments	$2,107,054.07

The total value of equipment capitalized under lease obligations was $2,413,333.70 at June 30, 1997, and $3,607,971.21 at June 30, 1996.

Note 8: Insurance-related Activities

A. *Risk Management*—The university is exposed to various risks of loss related to general liability; automobile liability; professional malpractice; workers' compensation; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

1. The university carries commercial insurance for losses related to hired and non-owned automobiles, losses related to railroad protection, and losses related to ten university-owned aircraft. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

2. The state purchases commercial insurance for real property losses above $5 million per year and surety bond coverage on the state's officials and employees. In the past three fiscal years, the state has not had any claims filed with the commercial insurer. A designation for casualty losses in the amount of $5 million has been established in the state's general fund to provide for any property losses other than the commercial insurance coverage. At June 30, 1997, the scheduled coverage for the university was $2,171,421,900 for buildings and $738,086,600 for contents. At June 30, 1996, the scheduled coverage for the university was $2,126,090,200 for buildings and $641,143,200 for contents.

3. The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The university participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on a percentage of the university's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Since the university participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the university for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Claims Award Fund. The premium assessed to the university by the Claims Award Fund for the period July 1, 1996, through June 30, 1997, was $8,560,900, and for the period July 1, 1995, through June 30, 1996, was $8,421,538.

B. *Employee Group Insurance*—The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. All full-time and some part-time university employees are eligible to participate in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims. The university pays approximately 80% of the cost of insurance, and the employee pays the remaining 20%. All assets, liabilities, and payments are administered by the state. At June 30, 1997, 13,895 university employees were enrolled in the basic plan or Health Maintenance Organization. At June 30, 1996, 13,341 university employees were enrolled in the basic plan or Health Maintenance Organization.

Note 9: Pension Plans

A. *Defined Benefit Plans*—The university implemented GASB Statement 27, *Accounting For Pensions by State and Local Government Employers*. In accordance with that statement, at transition it was determined that a pension liability or asset does not exist for these plans.

1. *Tennessee Consolidated Retirement System*

Plan Description. The University of Tennessee contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly. The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee, 37243-0230 or by calling (615) 741-8202, Ext. 132.

Funding Policy. Plan members are noncontributory. The university is required to contribute at an actuarially determined rate. The current rate is 7.36% of annual covered payroll. The contribution requirements of the plan members are established by state statute. Contribution requirements for the university are established and may be amended by the TCRS' Board of Trustees. The university's contributions to TCRS for the years ended June 30, 1997, 1996, and 1995 were $16,639,419.22, $14,307,283.36, and $14,399,129.01. Those contributions met the required contributions for each year.

2. *Federal Retirement Program*

Plan Description. The University of Tennessee contributes to the Federal Retirement Program, a cost-sharing multiple-employer defined benefit pension plan administered by the Civil Service Retirement System (CSRS) for participants employed prior to January 1, 1984, and the Federal Employees Retirement System (FERS) for participants employed after December 31, 1983. Both systems provide retirement, death, and disability benefits, as well as annual cost-of-living adjustments, to plan members and their beneficiaries. All regular full-time employees of the University of Tennessee Agricultural Extension Service who hold federal appointments for 51% or more of their time are required to participate in either one of the two Federal Retirement Programs. For both systems, benefit provisions are established in federal statutes. Federal statutes are amended by the U.S. Congress.

CSRS and FERS issue publicly available financial reports that include financial statements and required supplementary information. These reports may be obtained by writing to the Office of Personnel Management, Retirement Information Office, P.O. Box 45, Boyers, PA 16017-0045, or by calling (202) 606-0500.

Funding Policy. Participating employees, with some exceptions, and the university are required by federal statute to contribute 7% of covered payroll to the CSRS plan. Contribution requirements are established and may be amended by federal statute. Contributions to CSRS for the year ended June 30, 1997, were $1,750,892.38, which consisted of $895,705.03 from the university and $855,187.35 from the employees; contributions for the year ended June 30, 1996, were $1,779,920.79, which consisted of $907,561.75 from the university and $872,359.04 from the employees; and contributions for the year ended June 30, 1995, were $1,870,281.08, which consisted of $953,544.65 from the university and $916,736.43 from the employees.

Federal statute requires employees participating in FERS to contribute 8% of their salaries to the Basic Benefit Plan. The university is required to contribute 11.4%. In addition, the university is required to contribute 1% of each participant's salary to the Thrift Savings Plan plus up to an additional 4% depending upon employees' contributions, which can range from 0 to 10% of their salaries. Contributions for the Basic Benefit Plan were $884,462.66 for the year ended June 30, 1997, which consisted of $57,995.03 from employees and $826,467.63 from the university; $841,226.30 for the year ended June 30, 1996, which consisted of $55,135.25 from employees and $786,091.05 from the university; and $792,057.03 for the year ended June 30, 1995, which consisted of $50,480.50 from employees and $741,576.53 from the university. Contributions for the Thrift Savings Plan were $708,032.14 for the year ended June 30, 1997, which consisted of $441,178.00 from employees and $266,854.14 from the university; $650,769.34 for the year ended June 30, 1996, which consisted of $402,722.00 from employees and $248,047.34 from the university; and $589,535.86 for the year ended June 30, 1995, which consisted of $376,161.82 from employees and $213,374.04 from the university. Contributions met the requirements for each year.

B. *Defined Contribution Plans*

1. *Optional Retirement Plans (ORP)*

The university contributes to three defined contribution plans: Tennessee Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF), Aetna Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly.

Plan members are noncontributory. The university contributes an amount equal to 10% of the employee's base salary below the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the university to the plans for the year ended June 30, 1997, was $29,845,004.14, which represented 10.1% of the covered payroll, and for the year ended June 30, 1996, was $29,529,501.89, which represented 10.1% of the covered payroll. Contributions met the requirements for each year.

2. *Joint Contributory Retirement System Plan A-JCRS-A*

The Joint Contributory Retirement System Plan A (JCRS-A) is a defined contribution plan with minimum benefits and is administered by the Tennessee Consolidated Retirement System and TIAA-CREF. Employees who were enrolled in the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF) before July 1977 are members of JCRS-A. Enrollment in this plan for new employees has been closed since July 1977. Although JCRS-A members participate in Aetna, TIAA-CREF, or VALIC, they may also, under certain circumstances, receive a supplementary benefit from the State of Tennessee. Plan provisions are established by *Tennessee Code Annotated*, Chapter 35, Part 4. State statutes are amended by the Tennessee General Assembly.

Plan members are noncontributory. The university's contributions for JCRS-A members were calculated using the base salary amounts of $73,198,878.88 for fiscal year 1997 and $75,717,573.19 for fiscal year 1996. Contribution requirements are established and amended by state statute. The contributions are included in the ORP amounts. University contributions to fund the state supplemental benefit totaled $5,380,011.15 and $4,792,754.90 in fiscal years 1997 and 1996. Contributions met the requirements for each year.

C. *Deferred Compensation Plans*—The University of Tennessee offers its employees three deferred compensation plans. The university, through the State of Tennessee, provides two plans, one established pursuant to Internal Revenue Code (IRC), Section 457, and the other pursuant to IRC, Section 401(k). The third plan is administered by the university and was established in accordance with IRC, Section 403(b). These plans, available to all university employees, permit them to defer a portion of their salaries to future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All costs of administering and funding these plans, with the exclusion of the $20 monthly university match for the Section 401(k) plan, are the responsibility of plan participants.

Section 457 plan balances have been reported in the State of Tennessee financial statements in an agency fund. All amounts of compensation deferred under this plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the State of Tennessee (without being restricted to the provisions of benefits under the plan), subject only to claims of the state's general creditors. Participants' rights under the plan are equal to those of general creditors of the state in an amount equal to the fair value of the deferred account for each participant. It is the opinion of the state's legal counsel that the state has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The state believes it is unlikely that it will use these assets to satisfy such claims of general creditors in the future.

Since Section 401(k) plan assets remain the property of the contributing employees, they are not presented in the State of Tennessee financial statements. IRC Section 401(k) establishes participation, contribution, and withdrawal provisions for the plan. Effective January 1996, the university began providing a $20 monthly Section 401(k) match from unrestricted current funds for employees making a minimum monthly contribution of $20 to the plan. During the year ended June 30, 1997, contributions totaling $5,240,130.17 were made by employees participating in the plan, with a related match of $1,368,900.00 made by the university.

In accordance with the IRC, employee contributions through the 403(b) plan remain the assets of the employee; therefore, these employee contributions are not reflected in the university's financial statements.

D. *Other Post-employment Benefits*

Health care. The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible university retirees. This benefit is provided by and administered by the State of Tennessee. The university assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*.

Note 10: Affiliated Entities

The University of Chattanooga Foundation, Inc., a private non-profit corporation, maintains an endowment fund of which the University of Tennessee at Chattanooga is the sole income beneficiary. The financial records, investments, and other financial transactions are not managed by the university and accordingly are not included in these financial statements except for certain endowment assets. During the years ended June 30, 1997, and June 30, 1996, the foundation transferred $2,479,814.00 and $2,306,012.00, respectively, to the university for support of designated projects at the Chattanooga campus. In addition, $115,150.41 and $167,718.30 were expended in 1997, and 1996, respectively, directly by the foundation for the benefit of The University of Tennessee at Chattanooga.

Since fiscal year 1985, the Tennessee General Assembly has appropriated $22 million to a Chairs of Excellence Endowment for The University of Tennessee. The appropriations provided that the Chairs of Excellence Endowment be established as an irrevocable trust with the state treasurer and require the university to match the appropriation on a dollar-for-dollar basis. The university has fully matched 49 chairs as of June 30, 1997. The financial statements of the university include as restricted expenditures the amounts expended in the current year to match the state appropriations. The university's balance sheets do not include the amounts held in trust by the state treasurer.

Note 11: Contingencies and Commitments

A. *Construction Commitments*

At June 30, 1997, outstanding commitments under construction contracts totaled $22,478,119.19 for the construction of new buildings and renovation/addition projects, which will be funded by future state capital outlay appropriations. At June 30, 1996, these commitments were $39,729,663.80. At June 30, 1997, amounts due from or receivable from the state and the School Bond Authority for capital construction, renovations, and maintenance totaled $47,545,253.13 and $3,500,505.79, respectively. At June 30, 1996, amounts due from or receivable from the state and the School Bond Authority totaled $26,788,768.27 and $7,094,202.64, respectively.

B. *Construction In Progress*—Construction in progress is included in buildings and improvements other than buildings in investment in plant. Fifty-one projects and forty projects were under construction at June 30, 1997, and June 30, 1996, respectively. Construction in progress totaled $51,037,430.46 at June 30, 1997, and $46,039,884.04 at June 30, 1996.

C. *Encumbrances*—Encumbrances which represent commitments of prior-year funds for goods or services that have been ordered for which delivery has not been made or services have not been rendered as of June 30, 1997, are recorded as an allocation of the current fund balances. The allocation for encumbrances at June 30, 1997, is $8,939,235.95. The allocation for encumbrances at June 30, 1996, was $8,728,747.48.

D. *Sick Leave*—The university's policy is to record the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent due to illness, or injury, there is no liability for sick leave at June 30, 1997. The amount of unused sick leave at June 30, 1997, and June 30, 1996, was $153,893,713.50 and $149,607,387.98, respectively.

E. *Grants and Contracts*—The university receives grants and contracts from various federal and state agencies to fund research and other activities. The costs, both direct and indirect, charged to these grants and contracts are subject to audit and disallowance by the granting agency. The university administration believes that any disallowance or adjustments would not have a material effect on the university's financial position.

F. *Nonvested Equipment*—Equipment in the possession of the university valued at $8,288,627.86 and $8,167,125.86 as of June 30, 1997, and June 30, 1996, respectively, is not reflected in the financial statements. This equipment was purchased with restricted grant and contract funds and other funds, and title has not yet transferred to the university.

G. *Litigation*—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.

Note 12: Pledges

Pledges totaling $24,086,896.39, restricted to instruction, research, public service, library, operation and maintenance of physical plant, student aid, property, buildings, equipment, endowment, loans, and other restricted purposes, are due to be collected over the next five fiscal years in the amounts of $8,072,564.15, $4,838,764.07, $6,340,892.25, $2,869,038.77, and $1,965,637.15, respectively. It is not practicable to estimate the net realizable value of such pledges, and therefore, they are not reflected in the accompanying financial statements.

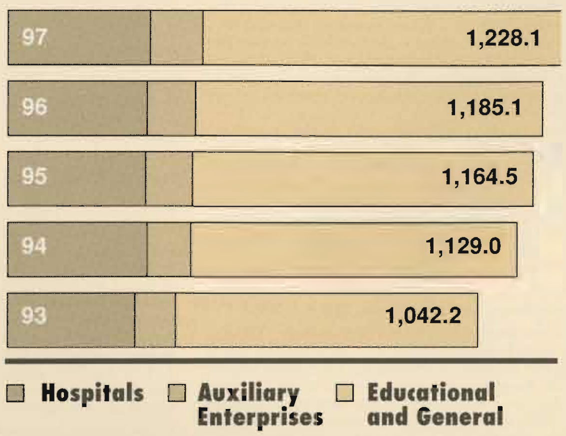
Note 13: Prior Period Restatements

The June 30, 1996, balance sheet was restated to correct for errors in the application of accounting principles. The university capitalized library books but failed to capitalize library holdings. As a result, library holdings and net investment in plant under the investment in plant subgroup, were increased by $83,588,063.00. In addition, the university recorded the indebtedness liability incurred to finance plant acquisition, construction, and the like in the investment in plant subgroup before the proceeds of the indebtedness were expended. As a result, under the unexpended plant funds subgroup, Tennessee State School Bond Authority Indebtedness was increased by $7,094,202.64, and fund balance was decreased by $7,094,202.64. Under the investment in plant subgroup, Tennessee State School Bond Authority Indebtedness was decreased by $7,094,202.64 and net investment in plant was increased by $7,094,202.64. The beginning fund balances were appropriately adjusted on the June 30, 1997, Statement of Changes in Fund Balances.

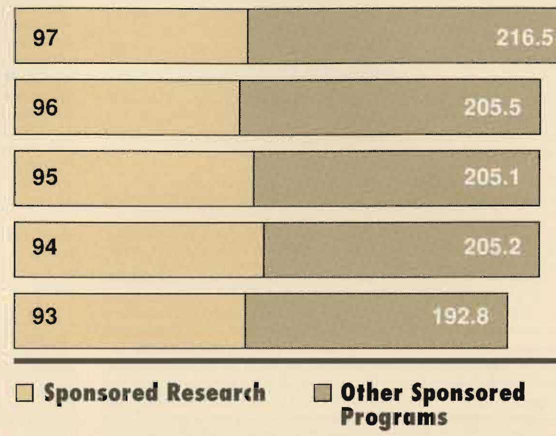
Note 14: Changes in Estimage—Library Boosk Standardized Values

At June 30, 1996, library books were valued at $20 per volume. The valuation was reassessed at June 30, 1997, and the value was increased to $48 per volume. As a result of the revaluation, library holdings and net investment in plant, under the investment in plant subgroup, increased by $90,208,972 at June 30, 1997.

TOTAL CURRENT EXPENDITURES AND TRANSFERS (in millions of dollars)



CURRENT RESTRICTED EXPENDITURES (in millions of dollars)



1996-1997 Financial Report

The University of Tennessee financial report is prepared to provide a public accounting of the University's financial affairs for the fiscal year ended June 30, 1997.

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 these resources are managed to meet institutional objectives.

UNIVERSITY FINANCIAL ACCOUNTING

Since the University uses available resources to provide services rather than make a profit, the purpose of the University's financial reporting is to account for resources received, held, and used rather than determine net income. To achieve this objective, the University employs "Fund" accounting, which involves the segregation of revenues and expenditures into separate funds by source and/or purpose. Each fund is a self-balancing set of accounts for recording assets, liabilities, fund balances, and changes in fund balances. The six fund groups include: 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. Additional information on University accounting principles is provided in the Notes to the Financial Statements on page 23.

SUMMARY OF FINANCIAL OPERATIONS FOR THE YEAR

Current Funds

Current Funds are expendable resources for current operating needs and are further segregated for general, auxiliary, and hospital purposes. Current Restricted Funds refer to resources that carry an external restriction and may only be used for the purposes stipulated by the source of such funds. Conversely, the Board of Trustees retains full control and discretion over Current Unrestricted Funds in achieving institutional goals.

For the fourth year in a row, the University's current fund revenues exceeded one billion dollars. Total Current Funds revenues for 1996-97 were $1.221 billion compared to $1.181 billion in 1995-96, an increase of 3.4 percent. These revenues consist of $795.6 million general funds, $114.8 million auxiliary funds and $311.1 million hospital funds.

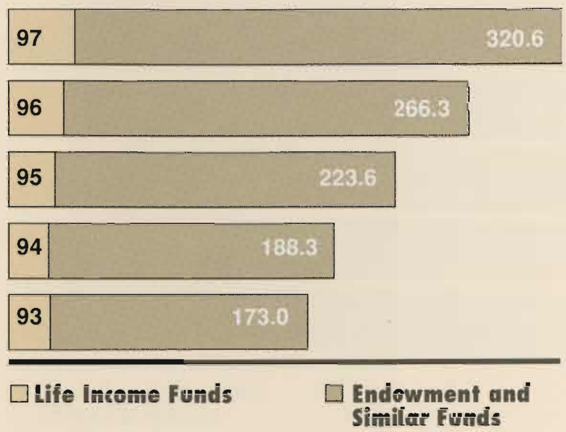
Through legislative appropriations, the state of Tennessee continues to provide the most significant amount of University general funds. Unrestricted state appropriations in 1996-97 amounted to $367.7 million or 30.1 percent of total revenues.

The second largest source of general Current Funds revenues is gifts, grants and contracts which totals $214.3 million. These funds represent 17.5 percent of the total Current Funds revenues. Grants and contracts received from federal agencies amounted to $97.6 million.

The third largest source of general Current Funds revenues is student tuition and fees. These

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)



fees amounted to $131.2 million, or 10.7 percent of the total Current Funds revenues. The $10.3 million increase over last year resulted from higher tuition and maintenance fees, approximately 5 percent at all campuses and a new technology fee at Knoxville.

Sales and services of educational activities increased 2.0 percent to $34.0 million. Income from other sources amounted to $19.0 million in 1996-97, an increase of 6.1 percent from $17.9 million in 1995-96. This increase resulted from a $450,000 increase in UT Knoxville conference revenues, a $400,000 increase in UT Memphis rents and a $200,000 increase in indicia licensing revenues. Revenue generated from short-term investments and bank account interest fell to $10.9 million in 1996-97 compared to $11.3 million in 1995-96, evidencing declining interest rates over that time period. The average yield on temporary investments decreased from 5.78 percent in 1995-96 to 5.67 percent in 1996-97.

Total Current Funds expenditures and transfers in 1996-97 increased 3.6 percent to $1.228 billion. A schedule of Current Funds expenditures by function (purpose) is provided on page .

All Unrestricted Funds revenues are 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 $216.6 million in 1996-97 compared to $205.5 million in 1995-96, a 5.4 percent increase.

Auxiliary Enterprises Funds reflect transactions and funds for activities that provide facilities and services for students, faculty, and staff such as housing, food service, bookstores, parking, and intercollegiate athletics at UT Knoxville. The revenues of auxiliary enterprises during 1996-97 totaled $114.8 million, an increase of 6.1 percent from the prior year's total revenue of $108.2 million. Expenditures and mandatory transfers to meet debt service requirements amounted to $116.1 million, an increase of 8.3 percent from 1995-96.

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

Current Revenues from operations of hospitals during 1996-97 totaled $311.1 million, an increase of 1.8 percent. The static revenue at Memorial Hospital resulted from capitation and lower fees and the $5.9 million increase at the William F. Bowld Hospital resulted from increased inpatient revenues. Hospital expenditures and transfers increased 2.2 percent from the 1995-96 expenditures levels to $315.2 million. The Bowld Hospital shows a deficit fund balance due to significant amounts allocated for working capital and encumbrances.

Loan Funds

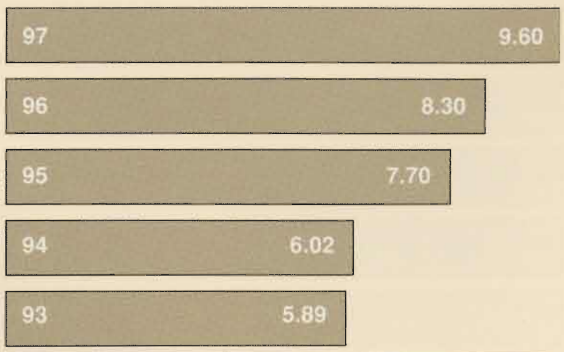
Loan Funds consist of resources made available for financial loans to students of the University. These resources include federal funds, funds from other external sources, and required University matching funds. Total Loan Funds increased $1.5 million to $36.7 million in 1996-97. Two thousand six hundred and sixty-nine student loans totaling $4.6 million were made during 1996-97. Student loans outstanding at June 30, 1997, totaled $31.3 million.

Federal programs provided the primary source of student loans. At June 30, 1997, the federal government had provided $30.1 million (or 82.0 percent) of the assets of all University loan funds. University sources, in conjunction with matching requirements for the federal loan program, provided $2.2 million (or 6.0 percent) of student loan funds. The remaining $4.4 million (or 12.0 percent) represented loan funds established by private donations.

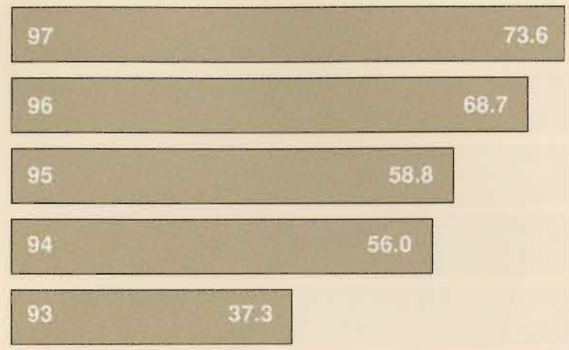
Endowment and Similar Funds

The Endowment and Similar Funds group consists of funds that have been received from donors

ENDOWMENT INCOME
(in millions of dollars)



PLANT FUNDS EXPENDITURES
(in millions of dollars)



with the stipulation that the principal 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 established by the market or appraised value at the time of the gift, or cost at the time investments are purchased.

The book value of the assets of the Endowment and Similar Funds group at June 30, 1997, was \$227.4 million, and the market value was \$282.2 million. The book value at June 30, 1996, was \$189.3 million, and the market value was \$234.3 million. Income distribution from investment of funds amounted to \$9.6 million for the fiscal year.

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. The Pool's approved spending plan consists of distributing a predetermined annual amount based upon 5 percent of a three-year average market value. 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 1,581 separate endowments with a total book value of \$214.6 million at June 30, 1997, and a total market value of \$268.7 million. The market value increased by \$45.6 million during 1996-97. The market value of a participating share was \$3.066 at June 30, 1997 compared to \$2.697 at June 30, 1996, an increase of 13.7 percent. The income distributed per share was \$.1081, which was 4.0 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 interest in the income produced by the funds' assets. 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.

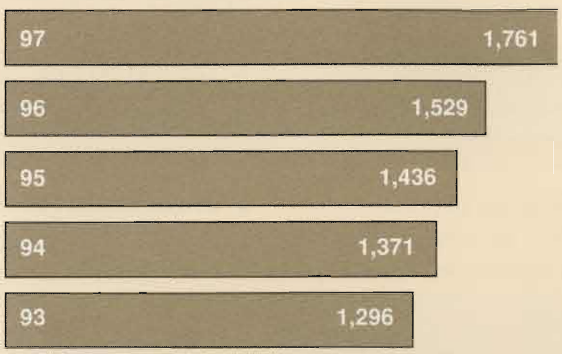
The book value of Life Income Funds at June 30, 1997, was \$36.9 million compared to \$30.5 million the prior year. Income payments to beneficiaries during the year amounted to \$2.39 million.

Plant Funds

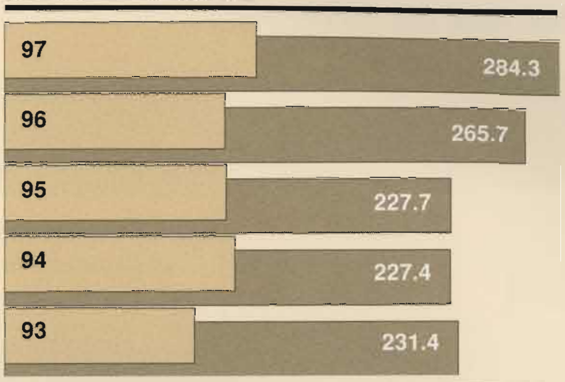
The Plant Funds group of accounts consists of (1) Unexpended Plant Funds, which are used for the acquisition or construction of physical properties; (2) Retirement of Indebtedness and Renewal and Replacement Funds, which are set aside for debt service payments on facilities financed through bonds or notes payable and contingency funds set aside to finance major maintenance projects in the future; and (3) Investment in Plant, which are expended for and invested in institutional properties. Investment in Plant represents the capitalized value of the physical property owned by The University of Tennessee.

Unexpended Plant Funds balances were \$4.0 million at June 30, 1997, and represent funds previously authorized or provided for additions to the University's physical plant. These balances

INVESTMENT IN PLANT
(in millions of dollars)



BONDS AND NOTES PAYABLE AND RESERVE FUNDS FOR DEBT RETIREMENT
(in millions of dollars)



include $121 thousand which 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 $3.5 million which represents unexpended Tennessee State School Bond Authority funding.

Total expenditures and deductions in Unexpended Plant Funds amounted to $73.6 million in 1996-97. Twenty-four projects were completed, including the $22.5 million Taylor Law Building Renovation and Additions and the $9.6 million Neyland Drive Parking Garage at UT Knoxville. Other projects completed consisted of the $8.1 million Boiler Addition and the $2.7 million Tennis Center Addition at UT Knoxville, the $1.0 million Maclellan Gymnasium Improvements at UT Chattanooga, the $1.9 million Space Renovation in Original Hospital Building Phase III at UT Medical Center Knoxville, and the $1.8 million Emergency Room Expansion at Bowld Hospital. Fifty-one projects were under construction at June 30, 1997, including the $7.9 million Fletcher Hall Renovation, the $3.4 million Fifth Street Parking Garage, and the $8.1 million Single Student Housing Phase II in Chattanooga. Other projects under construction include the $9.6 million Biotechnology Research Facility at the Institute of Agriculture, and the $10 million Renovation in Original Hospital Building Phase IV and the $6.7 million Parking Garage at the University of Tennessee Medical Center in Knoxville.

Retirement of Indebtedness and Renewal and Replacement Funds at June 30, 1997, amounted to $128.5 million, of which $31.1 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.

Debt service payments and transfers for capital projects exceeded revenues and other additions by $16 million during 1996-97.

Total indebtedness for The University of Tennessee at June 30, 1997, amounted to $284.3 million, and the retirement obligations continued to be met on schedule. Additional information on the University indebtedness is provided in Notes to the Financial Statements on page 23.

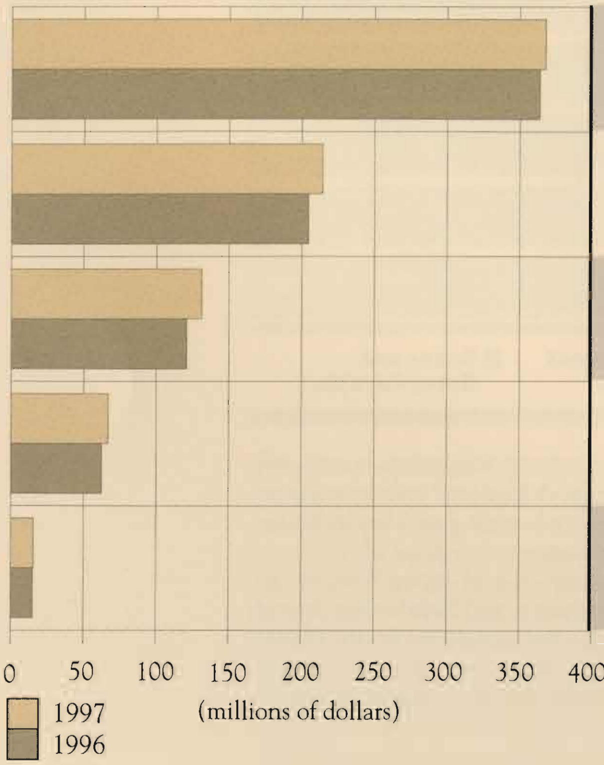
With the exception of real estate held as investments in Endowments and Similar Funds and Life Income Funds, the Investment in Plants section is used to account for capital assets owned by the University, including land, buildings, equipment, library books, and livestock. Investment in Plant as of June 30, 1997, amounted to $1.762 billion, an increase of $233.0 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 represents liabilities rather than fund balances. The balance of funds held for third parties at June 30, 1997 amounted to $8.8 million. One significant part of these funds, $3.4 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 the individuals specified by the donors. Another major portion of these funds, $3.3 million, represent third party funds held as performance guarantees and retainage on construction contracts. The balance at June 30, 1997 of $8.8 million reflects an increase of $1.2 million over the June 30, 1996 balance. The increase resulted primarily from additional retainage on construction contracts earned by the contractors, but held by the University until completion and acceptance of the construction projects, and the recording of Agricultural Extension County checking accounts.

Sources of Current Funds

for the year ended June 30, 1997



State Appropriations (30.1%) $ 367,737,839.06

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

Gifts, Grants, and Contracts (17.5%) $ 214,308,801.76

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

Tuition and Fees (10.7%) $ 131,195,419.92

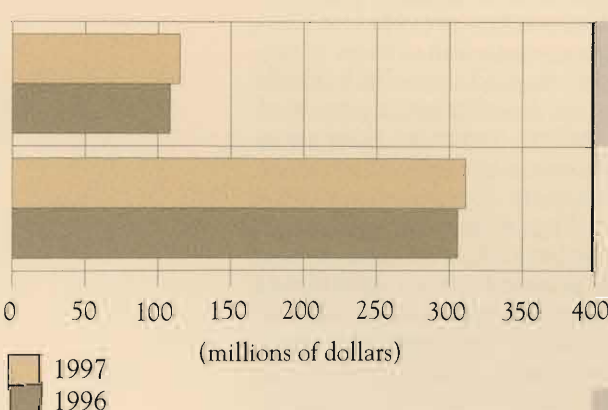
Revenues collected from students; includes resident enrollment fees, program and service fees, extension enrollment fees, and other fees.

Other (5.5%) $ 66,795,320.88

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

Federal and Local Appropriations (1.3%) $ 15,576,844.35

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



Auxiliary Enterprises (9.4%) $ 114,844,748.61

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

Hospitals (25.5%) $ 311,056,395.59

Net patient revenues from the UT Memorial Hospital–Knoxville and the William F. Bowld–Memphis hospitals.

TOTAL $ 1,221,515,370.17

Uses of Current Funds

for the year ended June 30, 1997

Instruction (25.1%) $ 308,147,161.18
Includes all expenditures, including faculty and staff salaries incurred in connection with instruction programs for credit and non-credit courses.

Research (10.5%) $ 129,031,420.82
Direct expenditures for sponsored research activities funded from federal, state, local, and private sources.

Public Service (7.4%) $ 90,534,774.57
Expenditures for non-instructional programs beneficial to individuals and groups external to the University.

Academic Support (5.9%) $ 72,094,610.21
Expenditures for libraries, computing support, and academic administration.

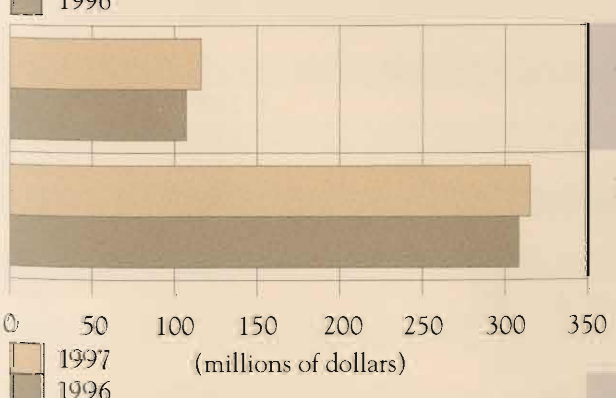
Institutional Support (4.6%) $ 56,523,179.64
Expenditures for executive management, financial operations, personnel services, security, public relations, development activities, and alumni relations.

Physical Plant (3.8%) $ 47,102,446.09
Expenditures for the operation and maintenance of physical plant including utilities and services related to grounds and facilities.

Student Aid (3.5%) $ 42,642,502.10
Scholarships and fellowships awarded to students.

Student Services (3.0%) $ 37,497,908.59
Expenditures for student services, including admissions, registrar, student activities, counseling, career guidance, student aid administration, and health services.

Long-Term Debt Service and Other Transfers (1.0%) $ 13,235,425.59
Mandatory transfers for debt service and other long-term capital project funding.



Auxiliary Enterprises (9.5%) $ 116,098,333.00
Activities that furnish goods and services to students, faculty, and staff. Includes mandatory transfers for debt service.

Hospitals (25.7%) $ 315,172,735.72
Expenditures for hospital operations. Includes mandatory transfers for debt service.

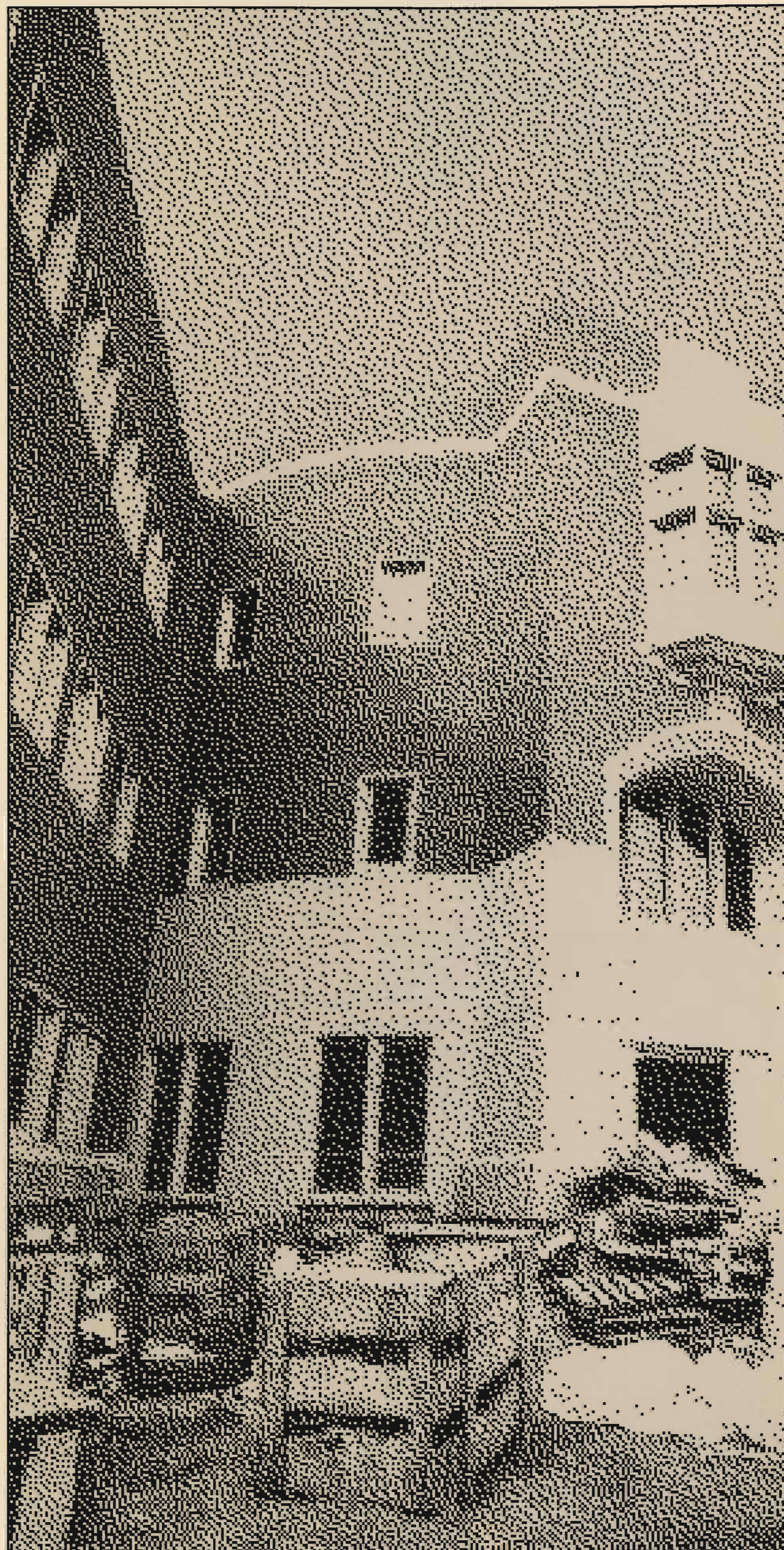
TOTAL $ 1,228,080,497.51

Major Capital Construction Programs 1996-97

(in thousands of dollars)

	SOURCE OF FUNDS		
Major Capital Construction Completed 1996-97	State Appropriation	TSSBA	Federal Grant
Boiler Addition—Knoxville	$ 8,085		
Carrick Hall Chiller Replacement—Knoxville			
Golf Range Apartments Roof Replacement Phase II—Knoxville			
Humanities Building Classroom Improvements—Knoxville			
Neyland Drive Parking Garage—Knoxville		$ 9,600	
Neyland Stadium Graduate Instructional Center—Knoxville			
Recreational and Fitness Facility Replacement—Knoxville			
Residence Halls Lighting Improvements—Knoxville			
Residence Hall Shower Improvements Phase III—Knoxville			
Roof Repair and Replacement 1993-94—Knoxville	465		
Roof Repair and Replacement 1994-95—Knoxville	310		
Taylor Law Building Renovation and Addition—Knoxville	22,550		
Tennis Center Additions and Improvements—Knoxville			
Women's Athletic Fields—Knoxville			
Food Technology Facility Improvements Phase II—Institute of Agriculture	848		
Veterinary Medicine Addition—Institute of Agriculture			
Maclellan Gymnasium Improvements—Chattanooga	930		
Residence Hall Roof Repair and Replacement—Martin			
Clinical Education Building—Memorial Hospital			
Elevator Addition in Professional Office Building II—Memorial Hospital			
Space Renovation in Original Hospital Building Phase II—Memorial Hospital		800	
Space Renovation in Original Hospital Building Phase III—Memorial Hospital		1,900	
Bowld Hospital Emergency Room Expansion—Bowld Hospital		1,800	
Bowld Hospital Fourth Floor Renovation—Bowld Hospital			
MAJOR CAPITAL CONSTRUCTION COMPLETED	$33,188	$14,100	
Major Construction in Progress at June 30, 1997 (estimated completion date)			
Apartment Residence Hall Fire Safety Improvements—Knoxville (October 1997)			
Exterior Masonry Repairs—Knoxville (December 1997)	$ 725		
Greve Hall HVAC Improvements—Knoxville (September 1997)			
Hoskins Library Chiller Replacement—Knoxville (December 1997)	900		
Intramural Fields Improvements—Knoxville (August 1997)			
Morrill Hall Cafeteria HVAC Improvements—Knoxville (July 1997)			
Residence Halls Roof Replacement—Knoxville (August 1997)			
Residence Halls Shower Renovation Phase IV—Knoxville (August 1997)			
Roof Repair and Replacement 1993-94—Knoxville (November 1997)	465		
Women's Athletic Training Room Expansion—Knoxville (September 1997)			
Fletcher Hall Renovation—Chattanooga (October 1997)	7,900		
Fifth Street Parking Garage—Chattanooga (July 1997)		$ 3,400	
Single Student Housing Phase II—Chattanooga (November 1997)		8,100	
Biotechnology Research Facility—Institute of Agriculture (March 1998)	4,794		$ 4,794
Original Hospital Building Renovation Phase IV—Memorial Hospital (August 1998)		10,000	
Existing Surgery Suite Renovation—Memorial Hospital (January 1998)		1,500	
Parking Garage—Memorial Hospital (September 1997)		6,700	
Professional Office Building Renovation of Space Phase III—Memorial Hospital (July 1998)			
Signage, Lighting, and Landscaping Phase I—Memorial Hospital (January 1998)			
Space Renovation in Original Hospital Building Phase II—Memorial Hospital (June 1998)			
Space Renovation in Original Hospital Building Phase III—Memorial Hospital (October 1997)		1,900	
Business Administration Building HVAC Improvements—Martin (February 1998)	750		
Humanities Building Chiller Replacement—Martin (January 1998)	880		
Nash Building Renovation Levels 2 & 4 Phase I—Memphis (July 1997)			
MAJOR CAPITAL CONSTRUCTION IN PROGRESS	$16,414	$31,600	$4,794

University Funds			
Current Unrestricted	Current Restricted	Maintenance Reserves	Project Total
			$ 8,085
		$ 750	750
		175	175
$ 300			300
			9,600
100			100
		650	650
		625	625
565			565
			465
			310
			22,550
350	$ 2,300		2,650
1,475			1,475
42			890
750			750
105			1,035
		380	380
386			386
800			800
			800
			1,900
			1,800
285			285
$5,158	$ 2,300	$2,580	$ 57,326
		$ 625	$ 625
			725
		800	800
			900
		1,820	1,820
		650	650
		350	350
		920	920
			465
$ 350			350
			7,900
			3,400
			8,100
			9,588
			10,000
			1,500
			6,700
1,500			1,500
1,500			1,500
4,800			4,800
			1,900
			750
			880
1,400	$ 600		2,000
$9,550	$ 600	$5,165	$ 68,123



The University of Tennessee Ten Year Summary

For the Fiscal Year	1996-97	1995-96	1994-95
Sources of Operating Revenues (,000)			
State Appropriations	$ 367,738	$ 363,791	$ 354,122
Student Fees	131,195	120,944	116,940
Federal Appropriations	13,397	13,073	13,088
Other (Gifts, Grants, Sales and Services, etc.)	283,284	269,188	273,736
Total General Funds	$ 795,614	$ 766,996	$ 757,886
Auxiliary Enterprise	114,845	108,160	102,216
Hospitals	311,056	305,736	304,376
Total Revenues-Current Funds	$1,221,515	$1,180,892	$1,164,478
Current Expenditures and Transfers (,000)			
Instruction	$ 308,147	$ 309,016	$ 307,676
Research	129,031	124,607	128,801
Public Service	90,535	82,182	80,328
Academic Support	72,095	69,314	67,703
Student Services	37,498	36,876	35,882
Institutional Support	56,523	58,321	50,985
Operation and Maintenance of Physical Plant	47,102	47,801	46,465
Scholarships and Fellowships	42,642	41,179	38 ,402
Transfers	13,236	408	(564)
Total General Funds-Expenditures and Transfers	$ 796,809	$ 769,704	$ 755,678
Auxiliary Expenditures and Transfers	$ 116,098	$ 107,153	$ 103,726
Hospital Expenditures and Transfers	$ 315,173	$ 308,265	$ 305,090
Total Current Expenditures and Transfers	$1,228,080	$1,185,122	$1,164,494
Expenditures Converted to 1997	x1.000	x1.028	x1.056
Equivalent by Consumer Price Index Factor	$1,228,080	$1,218,305	$1,229,706
Current Unrestricted Fund Assets (,000)			
Educational and General	$ 107,824	$ 113,086	$ 123,277
Auxiliary	26,145	26,780	26,987
Hospital	96,080	99,515	95,025
Total Current Funds	$ 230,049	$ 239,381	$ 245,289
Student Loan Funds			
Notes Receivable (,000)	$ 31,336	$ 31,317	$ 30,905
Loans Issued (by year)	2,669	2,717	3,048
Endowment Funds (,000)			
Market Value	$ 282,182	$ 234,278	$ 196,720
Life Income Funds			
Market Value	$ 38,410	$ 31,978	$ 26,945
Plant Funds (,000)			
Long-term Debt	$ 284,319	$ 265,789	$ 227,715
Reserves for Debt Service and Renewal & Replacement	$ 128,508	$ 112,433	$ 113,063
Net Invested in Plant	$1,472,718	$1,258,176	$1,202,223
Capital Outlay Expenditures	$ 73,577	$ 68,739	$ 58,763
General Data			
Total Enrollment	41,651	41,934	41,927
Knoxville	25,534	25,722	25,943
Chattanooga	8,296	8,331	8,281
Martin	5,729	5,801	5,608
Memphis	2,092	2,080	2,095
Degrees Granted	8,544	8,233	8,429
Full-Time Employees	14,993	15,486	15,573
Full-Time Faculty	2,915	2,984	2,899
% tenured (Based on those eligible for tenure)	63.0%	63.0%	62.0%
Total Private Gifts (,000)	$ 63,104	$ 55,838	$ 46,020
Academic Year Student Fees (Knoxville)			
Instate	$ 2,320	$ 2,164	$ 2,052
Out of state (additional)	$ 4,336	$ 4,130	$ 3,934
State Appropriation/FTE	$ 7,493	$ 7,260	$ 6,866

1993-94	1992-93	1991-92	1990-91	1989-90	1988-89	1987-88
$ 331,809	$ 313,075	$ 283,893	$ 299,568	$ 301,437	$ 294,622	$ 269,482
114,704	108,699	101,527	96,500	88,590	82,944	75,228
13,608	13,333	12,787	12,110	11,291	11,402	11,415
265,463	247,485	225,882	210,255	192,419	183,005	165,286
$ 725,584	$ 682,592	$ 624,089	$ 618,433	$ 593,737	$ 571,973	$ 521,411
97,419	90,403	89,614	88,224	79,649	73,368	73,083
311,542	298,253	263,814	240,038	216,323	189,987	168,993
$1,134,545	$1,071,248	$ 977,517	$ 946,695	$ 889,709	$ 835,328	$ 763,487
$ 286,827	$ 262,151	$ 240,222	$ 239,744	$ 237,468	$ 227,996	$ 204,146
130,647	121,411	109,865	105,724	98,405	95,330	85,833
74,895	67,493	61,586	61,344	56,564	55,931	51,084
61,392	58,357	52,495	54,421	54,521	54,855	49,951
32,306	29,886	26,199	26,682	26,346	25,617	23,164
46,553	48,268	46,727	48,789	46,832	47,053	45,092
45,090	39,919	38,778	40,140	41,522	38,851	36,737
37,285	37,502	33,637	29,034	26,168	23,410	21,107
8,607	5,295	9,425	8,934	6,725	3,309	8,759
$ 723,602	$ 670,282	$ 618,934	$ 614,812	$ 594,551	$ 572,352	$ 525,873
$ 97,131	$ 89,927	$ 87,891	$ 86,737	$ 78,001	$ 74,324	$ 72,493
$ 308,300	$ 282,012	$ 259,340	$ 223,560	$ 209,721	$ 187,881	$ 162,678
$1,129,033	$1,042,221	$ 966,165	$ 925,109	$ 882,273	$ 834,557	$ 761,044
x1.087	x1.116	x1.150	x1.186	x1.252	x1.311	x1.372
$1,227,259	$1,163,119	$1,111,090	$1,097,179	$1,104,606	$ 1,04,104	$1,044,152
$ 108,294	$ 100,298	$ 93,493	$ 76,582	$ 75,071	$ 74,677	$ 83,167
27,075	26,348	24,321	21,788	20,455	16,702	17,587
106,511	94,822	80,670	74,034	55,143	46,129	44,497
$ 241,880	$ 221,468	$ 198,484	$ 172,404	$ 150,669	$ 137,508	$ 145,251
$ 29,350	$ 28,544	$ 27,391	$ 27,113	$ 27,130	$ 25,210	$ 24,595
2,765	2,765	2,428	2,033	3,179	2,303	2,551
$ 165,110	$ 148,891	$ 131,164	$ 118,040	$ 107,145	$ 91,216	$ 78,454
$ 23,186	$ 24,110	$ 22,126	$ 19,783	$ 16,016	$ 17,551	$ 14,047
$ 227,370	$ 231,412	$ 230,760	$ 240,543	$ 232,678	$ 232,897	$ 235,551
$ 117,492	$ 96,784	$ 91,659	$ 58,996	$ 51,303	$ 43,846	$ 44,261
$1,140,786	$1,060,947	$1,002,318	$ 940,808	$ 894,298	$ 831,623	$ 745,006
$ 56,037	$ 37,261	$ 39,967	$ 42,331	$ 40,448	$ 50,451	$ 63,527
42,383	42,373	41,489	40,931	39,911	38,936	39,890
26,431	26,579	26,266	26,055	25,512	24,985	25,987
8,325	8,147	7,888	7,725	7,564	7,526	7,355
5,537	5,646	5,479	5,363	5,088	4,653	4,785
2,090	2,001	1,856	1,788	1,747	1,772	1,763
8,237	8,038	7,474	7,041	6,888	6,981	7,180
15,281	14,967	14,772	14,849	14,536	14,254	13,579
2,822	2,731	2,654	2,617	2,819	2,826	2,794
63.0%	64.5%	63.0%	61.4%	62.2%	61.1%	61.3%
$ 49,977	$ 35,153	$ 34,853	$ 32,002	$ 33,527	$ 32,159	$ 29,636
$ 1,962	$ 1,898	$ 1,788	$ 1,712	$ 1,582	$ 1,466	$ 1,404
$ 3,780	$ 3,600	$ 3,364	$ 3,204	$ 2,952	$ 2,734	$ 2,604
$ 6,317	$ 5,961	$ 5,636	$ 6,155	$ 6,156	$ 5,296	$ 4,919

The University of Tennessee Administration

From July 1, 1996, through June 30, 1997

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The University of Tennessee is governed by its Board of Trustees. Board members are appointed by the governor, who also serves as chairman. The board meets at least three times annually, and its sessions are open to the public.

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