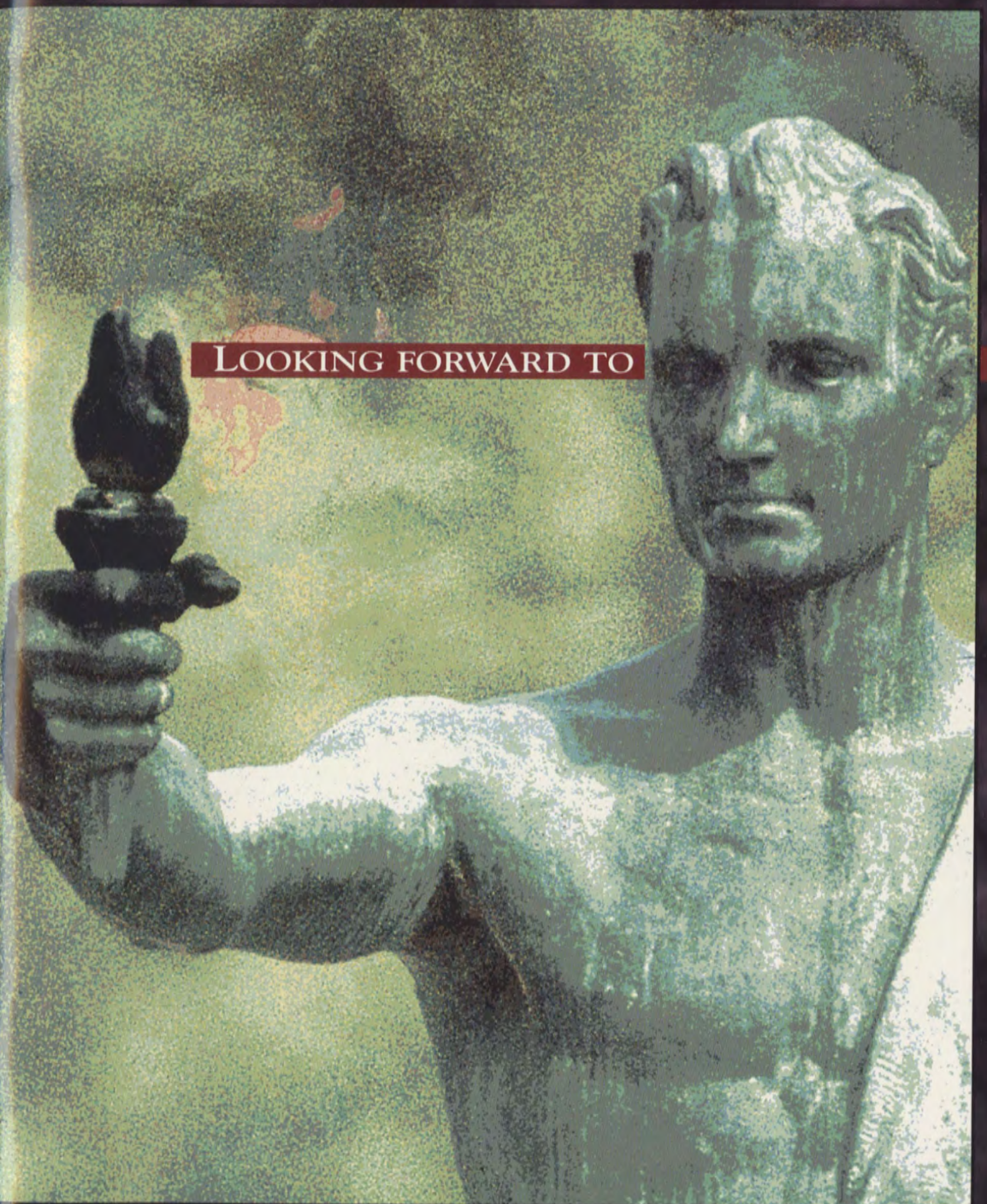
THE UNIVERSITY OF TENNESSEE



LOOKING FORWARD TO OUR THIRD CENTURY

Annual Report of
Dr. Joseph E. Johnson, President,
to the Board of Trustees
1994-1995


THE UNIVERSITY OF TENNESSEE
AGRICULTURE
COMMERCE
1794

The Third Century

Higher education has an awesome responsibility. It is one of the very few institutions that can and must prepare humanity for its future. In higher education repose extraordinary reserves of knowledge and potential. Our daily challenge is to use our resources wisely to deal with a future of limitless possibilities.

This year, the University of Tennessee ended its Bicentennial celebration and turned full face toward the future. With a rich heritage as prologue, we focused on our third century. What we saw was a rapidly changing world, spangled with new technology but tempered by financial limitations.

The challenges presented by the future spawned several initiatives and accomplishments.

The University is "helping itself" by managing smarter.

There is no pot of gold in Washington, D.C., or in Nashville. If we want to start new programs, we must search for the resources by raising more private dollars, streamlining our operations, and increasing our productivity. We continue to compete for dwindling dollars in Washington and for our fair share of state appropriations. But we have to help ourselves. We must examine what we're doing, set priorities, and shift resources.

We are readying the University for the future through our $250 million 21st Century Campaign.

We have increased the numbers of four-year scholarships we offer and the number of teaching awards for our best faculty. What better way to influence tomorrow? Generous gifts to the campaign help ensure that the University can continue to improve.

Technology is helping us make more efficient use of our resources.

As we beam classes across the state using two-way television and two-way audio, we serve students far from our campuses in a cost-effective way. On our campuses, students, faculty, and staff are wired in to the future via free and convenient access to the Internet. They can use resources and information from around the world quickly and inexpensively.

We continue to increase our research funding, even though money is tight.

Money for University of Tennessee research grew $11 million to $162.2 million in 1994. The money comes from grants, contracts, and UT departmental budgets. Increased attention is steadily being given to research relationships with grants from private corporations. Our outstanding faculty and staff have contributed greatly to steady growth in UT research over the first half of the '90s. Having growth in a year when dollars for research are not growing either in the public or the private sector says a lot about the capabilities and creative talents of our faculty.

We are working ever more closely with business and industry, K-12 schools, and other organizations.

Higher education alone cannot shape the future. But working with other institutions, we can make a difference. Partnerships with schools are good for UT and for public education. Each learns from the other. Training opportunities for K-12 teachers help keep them current in their specialties, and enrichment programs that UT offers for students help them prepare for the future. Partnerships with business likewise are good for UT and for the firms involved. The businesses get tailor-made research, faculty and student assistance, and training for their employees. The University's students get better employment opportunities and on-the-job experience, while the University learns more about successful business practices. UT also is in a position to compete for business research grants and contracts.

More and more is demanded of us. As a higher education institution, it is our responsibility to stay ahead of society—to anticipate, guide, and stimulate—and not fall behind the curve or simply react to whatever the future brings. The University of Tennessee does many things very well. Our responsibility is to continue to improve on every campus, in every department and office, in every classroom. To do that, we must use our resources better. That is the overriding challenge of UT's third century.

This report elaborates on the steps UT took this year to meet the future. I invite you to read on.

Management:

Increasing Productivity

The University's resources are stretched thinner and thinner. We must streamline management, break down bureaucracy, and increase productivity.

Our people routinely do a fine and efficient job. Here are some examples of ways they are planning for the future and ways they are saving dollars today.



• The University saves $150,000-$200,000 a year on travel agent fees for airline tickets. The University designed the Preferred Agency Travel Program and took bids from travel agents willing to rebate about 5 percent of their fees to UT. More travel-related savings accrue thanks to an arrangement with Delta Airlines, which discounts ticket prices 5 to 7 percent for employees traveling on University business. In nine months, UT saved $19,000.

• UT's Transportation Services, which provides vehicles for official University business, performs warranty work on its fleet. This arrangement between UT and automobile manufacturers has netted enough savings so that Transportation Services has not raised rates to University users despite rising costs of vehicles. Transportation Services also saves money by buying vehicles with cruise control. A study showed that cost savings on fuel exceeded the cost of cruise control, as well as giving the vehicles higher resale value.





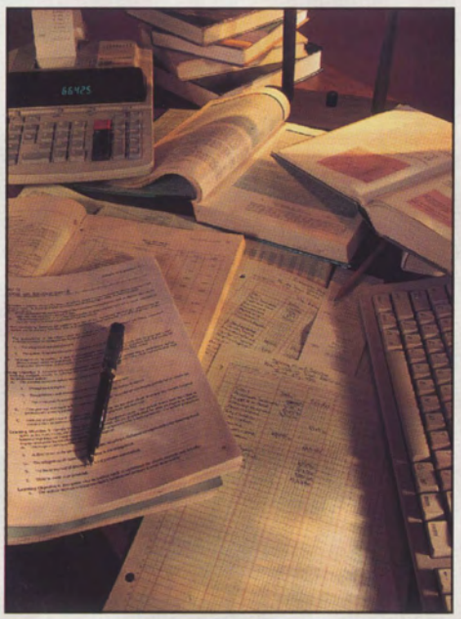
• In spite of recent financial cutbacks, UTSI is graduating more students with master's and Ph.D.s than six years ago with 15 percent fewer faculty and less support staff.

• TennCare has caused UT Memphis to refocus on streamlining clinical training and improving health care. Health care in Tennessee and elsewhere is at a critical stage primarily because of the cost of "services." Basic research at UT Memphis always has had a clinical flavor; this coupled with the growth in health services outcomes research offers opportunities to improve health care for Tennesseans.



• The UTK Libraries have flattened their organizational structure, streamlined bureaucratic requirements, and combined several departments. Since 1988, the libraries have eliminated two associate dean positions and

reallocated the resources to front-line service areas, such as reference and collection development. A team of non-exempt workers, headquartered in Circulation Services, is trained to perform many tasks that have seasonal demands, such as circulation and stacks maintenance, so personnel do not have to be assigned to those tasks full-time. The team also covers for other groups when emergencies deplete staff.



• The College of Agricultural Sciences and Natural Resources' Animal Science Department decided to emphasize nutrition and physiology in its graduate program. To reallocate resources to strengthen these programs, the department eliminated graduate coursework in animal breeding, genetics, and anatomy. The total graduate courses decreased from 33 to 29, allowing the department to offer a nationally competitive, focused graduate program with fewer resources.

• The Board of Trustees approved UT Martin's plans to terminate the bachelor of science in engineering technology program with three majors and replace it with a comprehensive bachelor of science in engineering degree program with one major and no submajors. This would better meet the needs of students and employers in West Tennessee and would reduce the number of courses by 37 percent, increase enrollment by more than 150 percent, and meet accreditation standards with the current faculty. The program now awaits final approval by the Tennessee Higher Education Commission.

• To decrease costly, time consuming "paper pushing," chief financial officers at the UT campuses and institutes are signing business contracts for their units rather than sending them to Knoxville. This took a significant workload off the Office of the Treasurer in Knoxville and placed full responsibility closer to the action.

• In the dean's office in the College of Veterinary Medicine, two deans handle the administrative duties formerly assigned to three. Also, Deans James Brace and Michael Shires teach in addition to their administrative duties. Throughout the college, responsibilities have been reassigned to faculty rather than employing additional administrators.

• A reorganization in UTK's computing and telecommunications area will consolidate units and eliminate conflicting and overlapping roles and responsibilities. The new structure will improve services to the users.

• The Institute for Public Service, which has staff located throughout Tennessee, began using the University's compressed video system for many administrative meetings. For each of the 44 meetings in fiscal 1995, 2.5 staff would have traveled an average of 350 miles to attend in person. Using the video system saved at least 600 hours of staff time and 15,400 miles, resulting in savings of about $24,700. Total cost of using the video system was $6,980. Net savings equaled at least $17,720.

• University Medical Center at Knoxville signed affiliation agreements with the Fort Sanders Health System and Morristown-Hamblen Hospital. The agreements will make health care more accessible and cost effective. Regional hospitals in Etowah and LaFollette also have affiliate relationships with the medical center.

Campaign:

Building a Better University

To help the University enter the next century with an unparalleled base of private support, UT this year launched the 21st Century Campaign, a $250 million private fund-raising effort to benefit the statewide University.

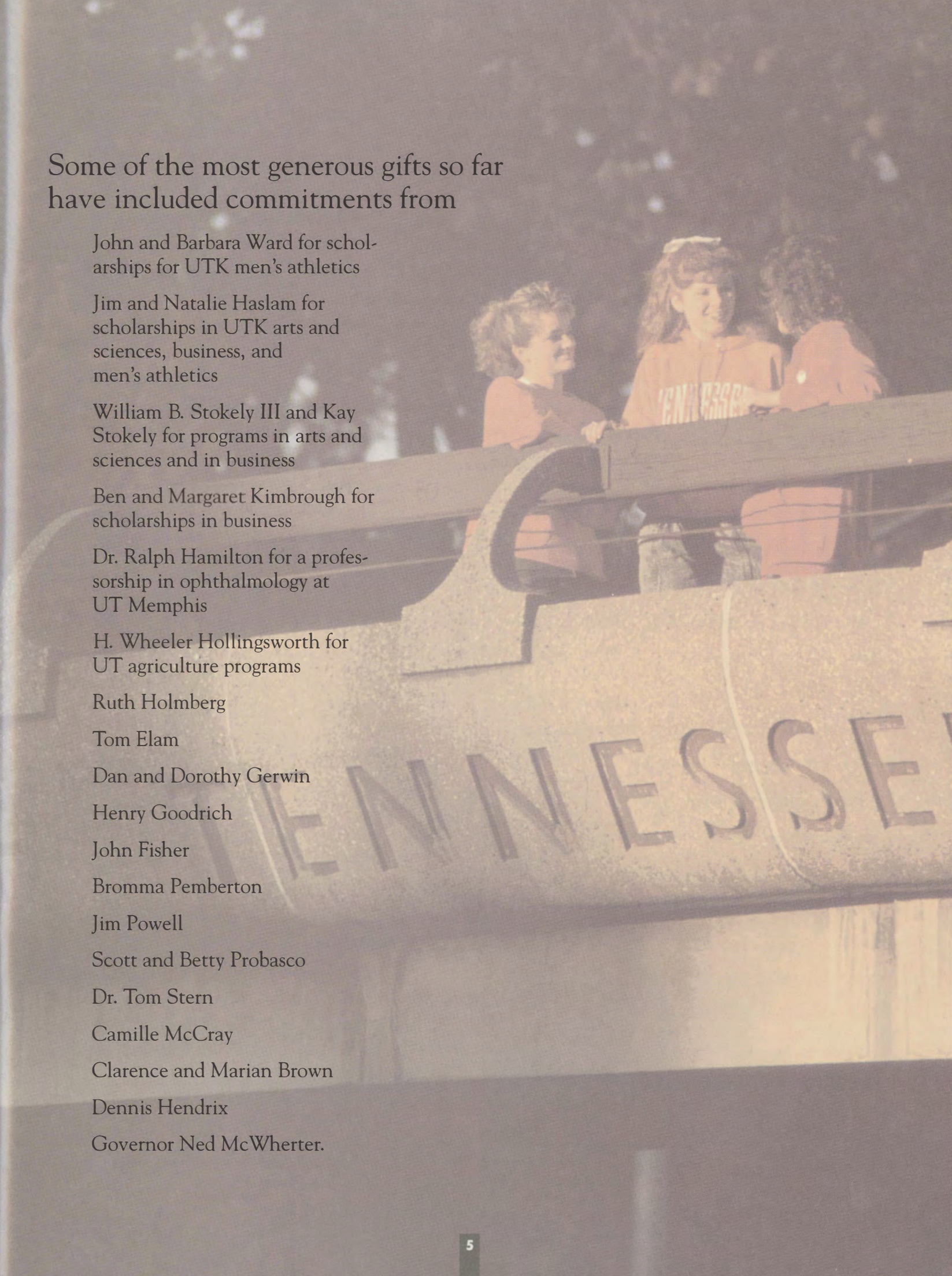
The response has been magnificent. Here are some highlights.

- The campaign so far has received more than $190 million in gifts and pledges.
- Primary goals of the campaign are to
  - —add scholarships for talented and deserving students
  - —recognize and reward faculty teaching and scholarship



  - —help upgrade laboratories and other facilities
  - —enhance libraries
  - —fund more research
  - —provide expanded service to business and industry, K-12 education, and others
- Volunteer leaders for each campus and institute are doing a tremendous job under the overall leadership of Honorary Chair Howard Baker and National Campaign Chair William B. Stokely III.
- Faculty and staff had pledged nearly $6 million to the campaign as of early fall.





Some of the most generous gifts so far have included commitments from

John and Barbara Ward for scholarships for UTK men's athletics

Jim and Natalie Haslam for scholarships in UTK arts and sciences, business, and men's athletics

William B. Stokely III and Kay Stokely for programs in arts and sciences and in business

Ben and Margaret Kimbrough for scholarships in business

Dr. Ralph Hamilton for a professorship in ophthalmology at UT Memphis

H. Wheeler Hollingsworth for UT agriculture programs

Ruth Holmberg

Tom Elam

Dan and Dorothy Gerwin

Henry Goodrich

John Fisher

Bromma Pemberton

Jim Powell

Scott and Betty Probasco

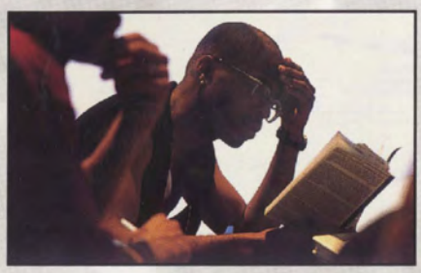
Dr. Tom Stern

Camille McCray

Clarence and Marian Brown

Dennis Hendrix

Governor Ned McWherter.



Students:
Shining Examples

Higher education can help shape the future by teaching students how to analyze and solve problems as well as how to develop to their full potential.

Extraordinary UT students such as these make the future look bright.

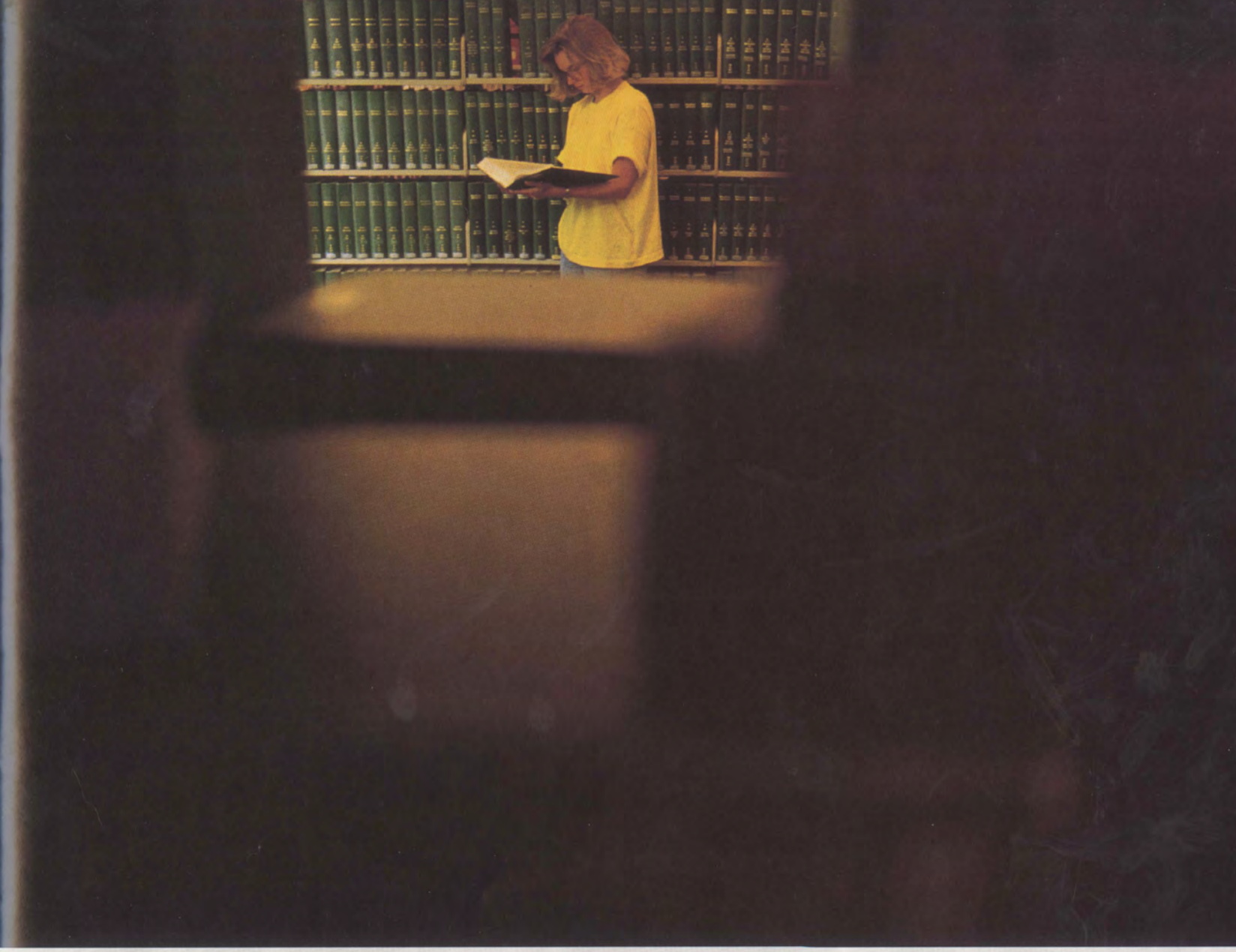
• Judy Martin became the first African-American to graduate from the UT Memphis College of Nursing doctoral program last December. She joined the nursing faculty as an instructor in 1988, shortly after earning the master's from UT Memphis. The Ph.D. program was begun the same year, and Martin took advantage of the opportunity to further her career and become a role model. She plans to remain on the UT Memphis faculty.

• Jennifer Santoro became UT Knoxville's sixth Rhodes Scholar. Santoro, a political science major, was one of 18 women and 14 men who received the prestigious scholarship to study at Oxford University in England. She attended high school in Clarksville, Tennessee, and came to UTK as a Whittle Scholar. She spent her junior year at the London School of Economics, where she earned a master's degree—before getting her bachelor's from UTK! Santoro plans a career combining economic policy and international relations. "I have a lot of energy and ideas. Maybe I can use them to help people who haven't had as many doors open to them as I have," she says.





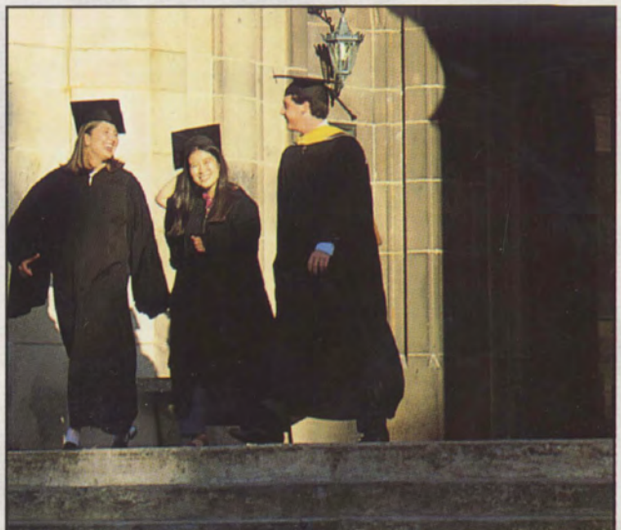
• UT Memphis graduate students in a biomedical engineering class were assigned to develop a mobility device for a child with cerebral palsy. Four-year-old Kristy Lipe now is mobile in Magic Walker I. Graduate student Kimberly Durham, who continued the project with a grant from the Crippled Children's Foundation, received feedback from Kristy to improve the device. Durham is now designing, manufacturing, and testing Magic Walker II. Kristy's general health has improved, due at least partly to being more mobile.



• Students at UT Chattanooga are investing in the future. They are managing the $100,000 Clarence Harris Portfolio Fund donated by Harris, a UTC alumnus. The perpetual trust gives undergraduate business students the opportunity to invest in the stock market. Students research stocks, analyze the facts, and vote on whether to buy. Each new class inherits the work of its predecessors.

• UT Martin's Shelle McCollum worked as a public relations intern in the office of Vice President Al Gore. Last year, she was one of 200 women selected out of 800 applicants to attend the Women as Leaders Seminar in Washington, D.C., and worked with a special assistant to President Bill Clinton. She studied at Cambridge University last fall semester.

Another UT Martin student, John LeTellier, was selected to attend The Juilliard School, the first UTM student ever accepted there. He will study piano for three years.



• Kristey Riemann, a McClanahan scholar in the UTK College of Agricultural Sciences and Natural Resources, was one of four U.S. students chosen by the American Soybean Association to intern in Moscow.



K-12 Collaboration:
Good for Children

• More than 3,000 school children and teachers have blasted off on the ultimate field trip in UT Chattanooga's new $3 million Challenger Center. The facility includes a simulated shuttle, mission control room, and space station. Students discover the importance of math, science, and leadership skills as they work together to bring each mission to a successful conclusion. The center, the first in the U.S. located in its own building on a college campus, expects to host 30,000 youngsters a year.

Any vision of the future has to include children. UT participates in many cooperative ventures with the public schools. These UT-public school collaborations are good for both parties and for the future of education.



• UT Knoxville Chancellor Bill Snyder signed a formal partnership agreement with Knox County Schools Superintendent Allen Morgan. Out of that agreement grew a new College of Arts and Sciences program called Scholars-in-the-Schools, that places UTK faculty in schools to help enrich the curriculum. The first three faculty began the program in August and through private support are released from one University class a semester.



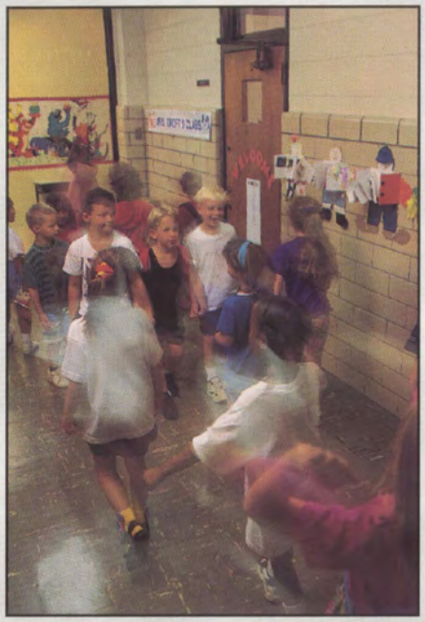
• Faculty with UTK's Energy, Environment, and Resources Center are developing learning materials for use in health, history, and social studies classes at all grade levels. Materials will be available in books, video, on CD-ROM, and on Internet computer programs. This work is sponsored by the Tennessee Department of Environment and Conservation and the Tennessee Solid Waste Management Act of 1991.

• A van donated by Hoechst Celanese is being used by faculty in the UTK College of Engineering and the College of Arts and Sciences in a K-12 outreach program. This program enables faculty to take science exhibits and demonstrations into the public schools in an effort to enhance the science curriculum.



• For the past two summers, the College of Agricultural Sciences and Natural Resources at UTK has cooperated with the Tennessee Farm Bureau in its Ag-in-the-Classroom program. The program involves 25 to 30 elementary teachers who want to increase their knowledge of science principles associated with food production. The teachers in turn conduct in-service training for other teachers.

• The UT Space Institute hosted the largest science expo in memory for south central Tennessee. Nearly 2,000 K-12 students participated in exhibits and discussions on science and mathematics, including presentations by astronauts Roberta Bondar and Richard Linnehan. UTSI faculty, staff, and students also are heavily involved in the Hands-on-Science Center in Tullahoma for the benefit of area school-age children.



• The UT Chattanooga College of Education and Applied Professional Studies has been in the forefront of using technology in the classroom. In addition to the Annenberg Project that was initiated last year to link rural schools to national information sources, UTC received a $241,000 grant from the Tennessee/U.S. Department of Education Goals 2000 program to establish an instructional technology training center for teachers in eight school systems. UTC was the first 21st Century Classroom training site, an initiative funded by Tennessee's education reform legislation.

UTC's Southeast Center for Education in the Arts received several grants this year to continue its work in discipline-based art education in regional districts.



• The UTK College of Education graduate program was ranked 50th by *U.S. News & World Report*. The college has recently undergone a major restructuring of the faculty and programs to better serve and prepare students for both school and non-school professional careers. The college maintains partnership agreements with 14 regional public school systems, encouraging collaborative projects for mutual benefits. The internship that baccalaureate degree candidates serve as part of their five-year preparation involves the college deeply with principals, superintendents, and teachers. The college places about 300 teacher interns a year.

• The UT Martin Center of Excellence in Science and Mathematics Education provided the Weakley County school system with Internet connection through UTM for 20 classrooms, 16 hours of Internet training for science and math teachers, modems, software, and one-year telephone service. The center also trained 20 Carroll County teachers to incorporate technology in their classrooms.

• The UT Medical Center at Knoxville has an extensive pediatric education program. Creative lessons using puppets to discuss nutrition, healthy lifestyles, and safety reached almost 15,000 third-graders, while hundreds of middle and high school students benefited from health career days, tours, seminars, and speakers coordinated by the medical center. The center also participates in the Knox County Adopt a School program, working with three "adopted" schools.



Partnerships:

Getting Jobs Done

UT's future involves much more than just UT. The partnerships that the University has with businesses, governments, and other organizations are mutually productive. They enrich the experience of students and faculty and enliven the educational experience; they also provide valuable expertise and services to the outside agencies.

• UT Knoxville Chancellor Bill Snyder has made partnerships a cornerstone of his administration. Among the successful alliances UTK has with business is its partnership with General Shale. Drs. Bill Hamel and Mongi Abidi have developed and tested robotics systems that General Shale can use for unloading and inspecting bricks. Work on the project has given UTK students practical experience. "Working with General Shale to develop an automated robotic system has been an educational experience for faculty and students," Hamel says.

Other partnerships that UTK entered into this year include SUN Microsystems and IBM, large manufacturers of computer hardware; LOTUS Development Corporation, a software development company; D-Vision Systems Inc., a leading supplier of video editing systems; Software AG, one of the world's largest software firms; the Knoxville Museum of Art; the Arts Council of Greater Knoxville; and Pilot Corporation, which owns travel centers and convenience stores.



Chancellor Snyder also has established an Advisory Council for Enhancement, a group of 25 business leaders that supports partnership initiatives.

• The Institute for Public Service formed a new relationship with Saturn Corp., which will provide a loaned executive to the IPS Center for Industrial Services. The loaned executive will consult with small and medium-sized automobile industry suppliers to help improve their competitiveness.

IPS also has a relationship with South Central Bell that provides consulting to rural areas regarding access to information technology applications. And the Center for Industrial Services

BELLSOUTH

has a federal grant to work with the Tennessee Department of Economic and Community Development to provide manufacturing assistance to small and medium-sized manufacturers.

sun microsystems

• Scores of women who own small businesses have been helped by a new UT Chattanooga community outreach program. The Institute for Women as Entrepreneurs was launched in January by UTC's school of business administration to provide information, consulting, and networking opportunities to businesswomen. UTC faculty and business students, as well as established local entrepreneurs, are making their expertise in accounting, marketing, and human relations available free of charge.



• Another link to Saturn Corp. is through the UT Memphis Department of Biomedical Engineering and the Department of Orthopaedic Surgery's Rehabilitation Engineering Program. The purpose is to stop assembly line injuries that result in permanent restrictions on workers. The injuries are caused by the combination of repetitive motions performed under excessive loads in awkward postures.



The first of its kind approach to design, build, install, and evaluate worksite accommodations promises to define a new methodology for the automobile industry to make the assembly line more user friendly.

SATURN

Also at UT Memphis, occupational therapy students studying ADA accommodations for individuals in the work place helped the Shelby County mayor's Committee on Employment of Persons with Disabilities by surveying accessibility of 30 public buildings. The Black Student Association joined a coalition of Memphis organizations and health care agencies in sponsoring a week of Healthy Lifestyle activities for the inner city population. UT Memphis students provided screening for high blood pressure, cholesterol, sickle cell, and blood glucose.

• Agricultural Extension Service faculty developed a video and teleconferencing marketing system for a seven-county association of cattle producers. During 1993-94, estimates show this marketing technique increased the producers' returns from the sale of 24,000 cattle by $675,000.

• Dr. Nick Honerkamp, continuing the work of the late UTC professor of anthropology Jeffrey Brown, worked with local government and businesses in Chattanooga to create the Bluff Furnace Historical Park, which was dedicated in March. The original site of the furnace, opened in 1850, was discovered by Brown.

GENERAL SHALE BRICK

Research:

Opening Doors to the Future

What could be more future-oriented than research? Exploring vast new areas of knowledge and helping put knowledge to use result in a better future for all of us. UT researchers are involved in hundreds of projects that can improve our world. Here are a few of them.

• No-till agriculture, researched and demonstrated for years by the Agricultural Experiment Station, conserves soil and energy resources and protects water quality. The largest demonstration of no-till comes each July when thousands of producers gather at the Milan Experiment Station to see demonstrations and hear reports on the latest research on no-till production. Last July a record crowd of more than 10,000 attended. Perry Butler, a producer from Tiptonville, says what UT has done "to help the American farmer is tremendous."





• Discovering non-invasive ways to resolve medical problems can save patients time and money, as well as reduce their discomfort. The University Medical Center at Knoxville participated in clinical trials to study the effectiveness of a machine that successfully dissolves urinary stones. The Food and Drug Administration approved the Storz Modulith SL20 Lithotripter for use in dissolving the stones. University Medical Center was one of four clinical trial sites to evaluate the equipment.

• Dr. Charles Glisson of the UTK Department of Social Work received a $2.5 million grant from the National Institute of Mental Health to establish the



Children's Mental Health Services Research Center at UTK. The center will study Tennessee children "at risk" because they have been referred to juvenile and family courts because of abuse, neglect, unruly behavior, delinquency, or mental illness. There are 60,000 referrals a year, almost double ten years ago. "We hope policies at the federal level will be influenced by our research showing that the number of children entering custody is dramatically increasing, and resources are inadequate to prevent a lifetime of behavior and mental health-related problems," Glisson says.

• A select group of undergraduate biology students was the first to enter a UTK program designed to produce "fearless scientists"—creative researchers experienced in the laboratory. The Threshold Program in the biological sciences is a pilot project for developing a research-oriented undergraduate curriculum at UTK. A $1 million grant from the Howard Hughes Medical Institute supports the program.

• A primary focus of research in the College of Pharmacy at UT Memphis is developing new drugs and drug delivery systems. An example of technology and research focus is a cooperative venture in which the college helps TennCare comply with federal mandates by using statewide data to inform and alert TennCare to practice patterns or other findings that are unusual and might require intervention.



Campus and Institute 1994-95 Achievements

UT Chattanooga

• UTC received a $525,000 federal grant to help as many as 150 local welfare recipients make the transition from government assistance to full-time employment and independence. Chattanooga Project Success will target Aid to Families with Dependent Children recipients, offering services such as job training and day care, says project coordinator Dr. Reginald Avery. UTC professors from such disciplines as social work, criminal justice, nursing, and psychology will take part.



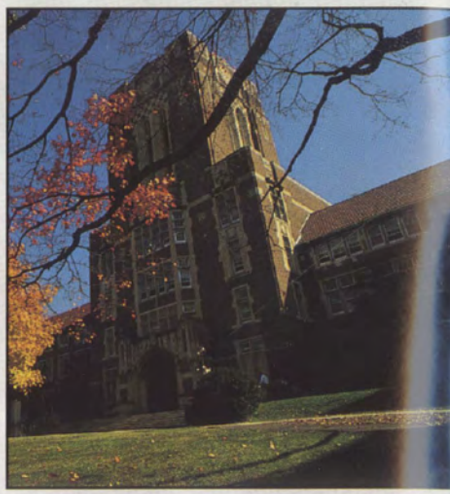
• Graduate studies has experienced dramatic growth, from 969 students in 1989 to 1,280 in 1994—a 32 percent increase.

• Working with Erlanger Medical Center in Chattanooga, the UTC School of Nursing initiated a nurse anesthetist master's degree program.

• The West Chair of Excellence, held by Dr. David Sachsman, sponsored a national conference at UTC on "Communication and Our Environment." The two-day event included speakers from throughout the United States.

• Engineering professor James Henry was one of 40 experts at a NATO Advanced Research Workshop in Kaliningrad, Russia. The scientists examined the problem of chemical weapons that were dumped in the Baltic Sea and elsewhere after World War II.

• To meet the needs of international students, the UTC English department initiated a 10-week intensive English language program. The program is open to students from around the world, as well as to foreign business people.



UT Knoxville

• UTK was cited by *U.S. News and World Report* as the seventh best educational buy among national universities.

• Three UTK graduate programs ranked in the *U.S. News and World Report* Top 50: master of business administration; education; and law.

• Dr. Gerald Mahan was elected to the National Academy of Sciences, the first UTK faculty member ever to earn that honor. Mahan is a UT-Oak Ridge National Laboratory Distinguished Scientist. He holds a joint appointment in the UTK physics department and the ORNL Solid State Division. Mahan was the first UT/ORNL Distinguished Scientist, joining UTK's Science Alliance in 1984.

• The Engineering Manpower Commission ranked UTK among the nation's top institutions producing black engineering graduates.

• A team of UTK engineering students placed first in the U.S. in the 1995 Hybrid Vehicle Challenge, the University's fourth first place finish in eight alternative fuels competitions.

• Diversity was at the forefront of campus issues as Chancellor Bill Snyder distributed a new brochure, "Toward a Climate for Enhancing Diversity." Appreciating differences among people is a message that was and will continue to be emphasized.

• The Career Services Department expanded its operating hours to include evenings and Saturday mornings to better serve students.

• Many initiatives promoted safety on campus. The blue light emergency telephone system was expanded and now has 38 units. The escort van service operates continuously to provide safe transportation. Safety programs were presented to various campus groups.

• UTK is attracting Tennessee's best and brightest students, with 30 McWherter Scholars, 25 Tennessee Scholars, 10 Whittle Scholars, 145 Bicentennial Scholars, and 20 African-American Achiever Scholars enrolled for fall 1995. The University Honors Program had 140 students enrolled for fall semester, almost triple the size of the previous year's class.

• A growing number of National Merit Scholars selected UTK as their first choice institution. Thirty-eight enrolled in 1994-95 and 43 chose UTK for the 1995-96 academic year.

• The UTK Community Partnership Center (CPC) received a $500,000 grant from the U.S. Department of Housing and Urban Development. The CPC's activities under the HUD grant will focus on providing research and outreach assistance to community-based organizations in Knoxville and Knox County.

UT Martin

• The new Paul Meek Library, which doubles UTM's library space, opened in June. The facility features the Alliene and Jimmie Corbitt Special Collections, American History, Historical Documents, and Genealogy Area. The Area includes the Ed Jones Room, where Congressman Jones' Washington office is reproduced and all his Congressional papers are housed, and the Ned McWherter Room, where his Governor's office is reproduced and the papers from his years as speaker of the house and his two terms as governor are housed.

• A dedication ceremony highlighted the naming of the West Tennessee Agricultural Pavilion, stalling facility, and proposed swine feed and grain research center as the Ned McWherter Agricultural Complex.

• October 29, 1994, was a special day for UTM as well as for Tom and Kathleen Elam. UTM launched its 21st Century Capital Campaign with a kickoff luncheon, and the Elams, longtime University patrons, had the largest building on campus, the Physical Education Convocation Center, named for them. The Kathleen and Tom Elam Center was dedicated for the couple's many years of service to and support of UTM. At the kickoff luncheon, Colonel Elam announced that an additional $700,000 bequest would be set aside for UTM, which brings the Elams' total donations to $1 million.



• The campus graduation rate is at its highest level ever, and UT Martin ranks second among Tennessee public universities in graduating students.

• Robbie Kendall-Melton was named 1994 Tennessee Professor of the Year by the Council for Advancement and Support of Education and the Carnegie Foundation for the Advancement of Teaching. Dr. Kendall-Melton is assistant dean of the School of Education and associate professor.

• UTM ranked as the safest campus community in the state and the sixth safest in the U.S., according to Crime at College: Student Guide to Personal Safety.

• A former ranch became the new UTM Equine Center. The center enhances equine science in the academic program and provides better practice facilities for the UTM intercollegiate rodeo team. Equine Inc., a not-for-profit corporation, purchased the ranch with Reelfoot Bank as a financial backer.

• UTM has a new mascot and logo for its athletic teams. The Skyhawks replaced the Pacers and Lady Pacers.



• UTM successfully completed a pilot performance of VoiceFx Telephone Registration. All students preregistering for spring semester 1996 can use telephone registration.

• The Department of Human Environmental Sciences received a $261,000 grant for a pilot project to educate first-time parents. The project, called Healthy Start, is part of a national effort emphasizing family well-being. Federal funding comes through the Tennessee Department of Finance and Administration; the state Department of Health directs the project.

• The School of Business Administration became the first business program in Tennessee to receive accreditation from the American Assembly of Collegiate Schools of Business under new guidelines set down in 1991.

• Dr. Saul Barr was named chairholder of the Tom E. Hendrix Chair of Excellence in Free Enterprise, and Dr. James D. Tripp is the new chairholder of the Horace and Sara Dunagan Chair of Excellence in Banking.

UT Memphis

• A three-year, $750,000 Whitaker Foundation grant will promote development of the UT Memphis/University of Memphis joint curriculum in biomedical engineering with the aim of developing a formal joint Ph.D. program. The grant will fund four junior faculty positions—two at each university—and joint courses at the two institutions.

• For the third consecutive year, the College of Pharmacy was named in the top ten in the nation by *U.S. News & World Report*. The College of Pharmacy tied for eighth among pharmacy colleges offering doctoral degrees.

• In another *U.S. News & World Report* ranking, the UT College of Medicine ranked 15th among the nation's comprehensive medical schools, that is, those institutions whose chief mission is training primary care doctors.

• The UT-Campbell Clinic Department of Orthopaedic Surgery was ranked 10th in the nation among orthopaedic surgery departments in yet another annual survey conducted by *U.S. News & World Report*.

• The Memphis area's first islet cell transplant—a possible alternative to pancreas transplants—was performed at UT's Bowld Hospital by a team headed by Dr. A. Osama Gaber.

• The rehabilitation engineering building was named for the late Margaret Hyde. Her involvement through the Crippled Children's Foundation and the J.R. Hyde Foundation resulted in more than $4.5 million in support for the rehabilitation engineering program.



UT Medical Center at Knoxville

• In January, UT Medical Center at Knoxville announced plans to develop a cancer program with the goal of achieving Clinical Cancer Center designation by the National Cancer Institute. Once certified, the UT Clinical Cancer Center would become one of approximately 60 in the U.S. and only the second in Tennessee.

• Hundreds of East Tennesseans earned the degree of "honorary medical expert" after attending an eight-week mini-medical school that featured a layperson's guide to medicine as presented by some of the Medical Center's top faculty. Topics ranged from basic anatomy to medical ethics.

• Medical Center employees raised more than $1 million in the One Family...One Future campaign, a component of the University's 21st Century Campaign.

• More than 56 percent of the physicians participating in programs at the medical center's Graduate School of Medicine remain in East Tennessee to practice. More than 50 percent of these graduates are primary care physicians, helping ease a critical shortage of these practitioners in many underserved East Tennessee counties.



Institute of Agriculture

College of Agricultural Sciences and Natural Resources



• Enrollment in the college increased for the sixth consecutive year and is now 1,278.

• Research by the Racheff Chair of Excellence in Plant Molecular Genetics led to the issuance of three U.S. patents. The chair attracted $351,000 in grants, contracts, and gifts, while also hosting five international guest scientists.

College of Veterinary Medicine

• The Department of Pathology in the College of Veterinary Medicine has received a five-year, $750,000 National Institutes of Health training grant, which will provide up to four years of molecular pathobiology research training for veterinarians who have previously completed two years of residency training in pathology. The goal of the grant is to emphasize issues related to environmental health sciences in training molecular pathologists.

• Dr. Kathy Wright received one of two awards as Outstanding Resident of the Year in the U.S. and Canada from the American Association of Veterinary Clinicians. She completed her residency at UT June 30 and will become a cardiology fellow at the University of Alabama School of Medicine.

In Conclusion...

Friends and relationships made possible the many accomplishments of 1994-95. We cannot begin to thank everyone who deserves it, but we shall try.

First of all, thank you to the members of the immediate UT family: the students, faculty and staff, trustees, and alumni. Without any one of these groups, the University could not exist.

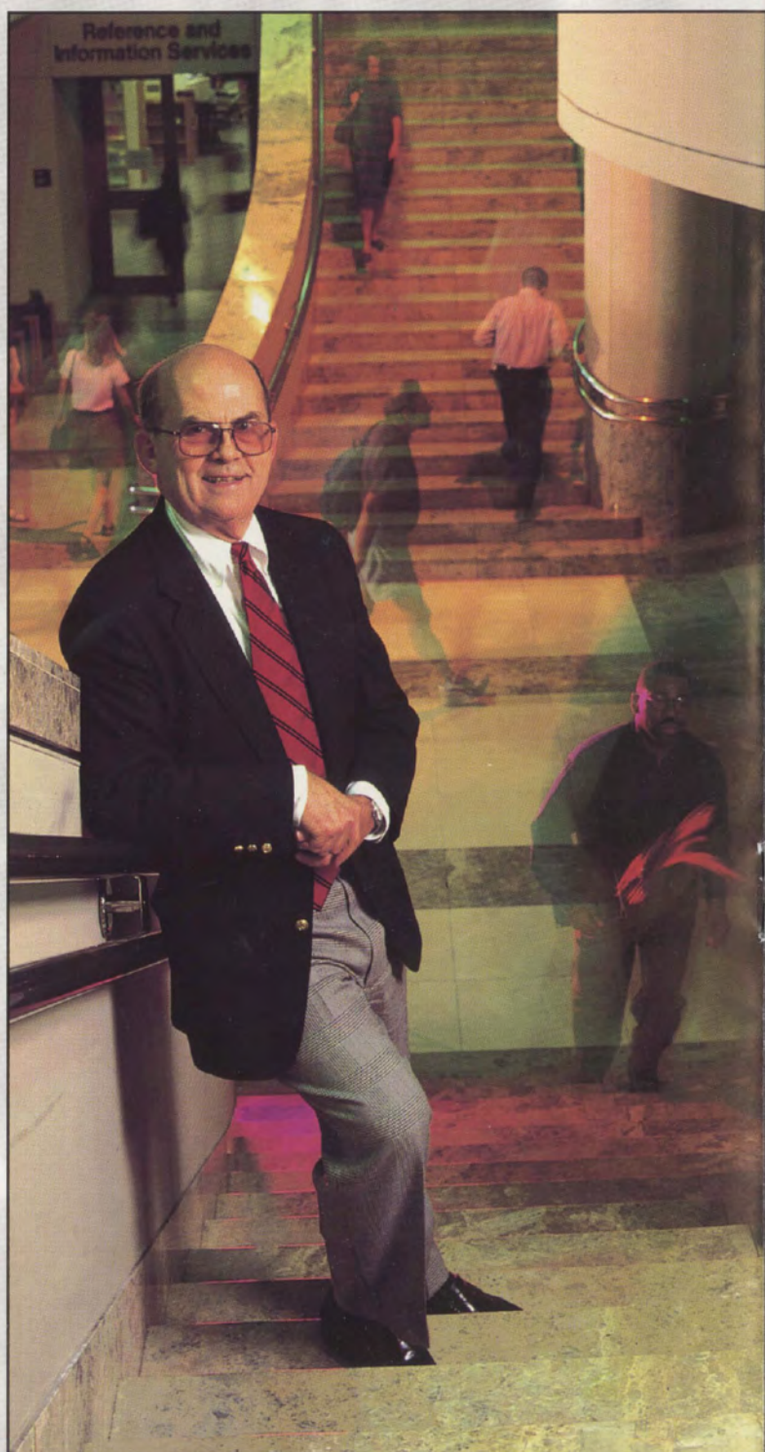
Sincere thanks to the General Assembly and to the administrations of Governor Don Sundquist and of former Governor Ned McWherter. Tennessee and UT are fortunate to have such talented leaders, and we value their input.

Thank you to our corporate friends who support our academic programs, share technology with us, and hire our graduates. We also appreciate the other institutions and organizations with which we have productive working relationships.

The leaders of our 21st Century fund raising campaign deserve more praise than we can ever give them for their hard work and dedication to the University. And to all our contributors, we say a special thank you.

Higher education has an awesome responsibility. With the involvement of all of the groups I've mentioned and of UT's thousands of other friends throughout the world, we have the strength to help lead society confidently into the future.

Joseph E. Johnson
President



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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
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DIVISION OF STATE AUDIT
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Independent Auditor's Report
September 21, 1995

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capital
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, 1995, and June 30, 1994, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the year ended June 30, 1995. 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 government auditing standards. 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 vacation leave from the accompanying balance sheets. In our opinion, accrued vacation leave 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 $48,109,437.06 at June 30, 1995, and $45,009,059.59 at June 30, 1994, and increased the unrestricted current fund expenditures by $3,100,377.47 for the year ended June 30, 1995.

In our opinion, except for the effects of not including the liability for accrued vacation leave in the accompanying balance sheets, as 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, 1995, and June 30, 1994, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the year ended June 30, 1995, in conformity with generally accepted accounting principles.

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 generally accepted government auditing standards, we have also issued reports dated September 21, 1995, on our consideration of the university's internal control structure and on its compliance with laws and regulations.

Sincerely,

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

AAH/acp

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 1994–95 and the balances available for the future. A separate publication entitled *Report of the Treasurer 1995* 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, 1995 — With Comparative Figures at June 30, 1994

ASSETS

CURRENT FUNDS	1995	1994
Unrestricted		
General		
Cash and Cash Equivalents (Note 3)	$ 101,651,695.31	$ 87,563,123.78
Accrued Interest Receivable	2,188,422.88	1,760,019.79
Accounts Receivable (Net of Allowance of $2,856,895.00 at June 30, 1995, and $2,737,520.68 at June 30, 1994)	12,408,741.16	12,699,039.45
Inventories (Note 1)	4,614,146.83	4,580,871.80
Prepaid Expenses and Deferred Charges	2,361,645.39	1,636,260.86
Due From Life Income Funds	52,414.46	55,019.26
Total General	$ 123,277,066.03	$ 108,294,334.94
Auxiliary Enterprises		
Cash and Cash Equivalents (Note 3)	$ 18,872,040.06	$ 19,292,912.85
Accounts Receivable (Net of Allowance of $2,503,591.98 at June 30, 1995, and $2,161,429.65 at June 30, 1994)	2,814,110.95	3,005,812.39
Inventories (Note 1)	4,971,643.48	4,580,859.37
Deferred Charges	328,818.44	195,714.44
Total Auxiliary Enterprises	$ 26,986,612.93	$ 27,075,299.05
Hospitals		
Cash and Cash Equivalents (Note 3)	$ 24,113,191.00	$ 30,558,603.30
Accounts Receivable (Net of Allowance of $52,015,099.91 at June 30, 1995, and $40,472,721.61 at June 30, 1994)	68,372,908.10	73,416,830.85
Inventories (Note 1)	2,320,796.40	2,207,665.96
Deferred Charges	217,835.67	328,235.00
Total Hospitals	$ 95,024,731.17	$ 106,511,335.11
Total Unrestricted	$ 245,288,410.13	$ 241,880,969.10
Restricted		
Cash and Cash Equivalents (Note 3)	$ 17,262,769.98	$ 19,844,409.35
Accounts Receivable - Educational and General	44,896,119.33	38,342,190.93
Accounts Receivable - Hospitals	1,382,897.88	1,168,138.19
Bonds (Note 3)	14,051.06	66,364.84
Stocks (Note 3)	19,750.00	78,499.00
Other Assets (Note 3)	133,216.63	146,785.73
Real Estate Gifts (Note 3)	1,265,000.00	500,000.00
Total Restricted	$ 64,973,804.88	$ 60,146,388.04
TOTAL CURRENT FUNDS	$ 310,262,215.01	$ 302,027,357.14
LOAN FUNDS		
Cash and Cash Equivalents (Note 3)	$ 4,173,503.36	$ 3,848,428.45
Accrued Interest Receivable	610,007.82	545,095.37
Notes Receivable (Net of Allowance of $1,805,304.75 at June 30, 1995, and $1,805,078.21 at June 30, 1994)	29,100,010.50	27,545,787.43
TOTAL LOAN FUNDS	$ 33,883,521.68	$ 31,939,311.25

LIABILITIES AND FUND BALANCES

CURRENT FUNDS	1995	1994
Unrestricted		
General		
Salaries, Wages and Benefits Payable	$ 9,117,294.27	$ 11,153,309.50
Accounts Payable (Note 1)	43,888,981.49	31,227,541.64
Payroll Taxes Payable	13,406,485.58	12,591,433.20
Deposits and Advance Payments	1,393,622.04	1,321,488.62
Deferred Revenue	8,144,711.90	6,881,650.06
Fund Balances		
Allocated for Unemployment Compensation	979,194.15	867,457.41
Allocated for Revolving Accounts	7,790,519.45	4,074,547.98
Allocated for Working Capital (Note 1)	15,700,833.28	16,001,604.28
Allocated for Encumbrances (Note 12)	4,737,382.88	4,593,738.61
Allocated for Unexpended Gifts	1,606,787.63	1,509,858.68
Allocated for Reappropriation	4,218,142.57	3,487,257.13
Unallocated	12,293,110.79	14,584,447.83
Total General	$ 123,277,066.03	$ 108,294,334.94
Auxiliary Enterprises		
Salaries, Wages and Benefits Payable	$ 31,067.03	$ 590,471.80
Accounts Payable	2,235,624.85	2,186,084.14
Deposits and Advance Payments	1,322,571.76	1,164,193.83
Deferred Revenue	11,960,741.40	10,188,175.70
Fund Balances		
Allocated for Working Capital (Note 1)	7,777,510.17	7,578,387.87
Allocated for Encumbrances (Note 12)	430,647.10	738,914.02
Unallocated	3,228,450.62	4,629,071.69
Total Auxiliary Enterprises	$ 26,986,612.93	$ 27,075,299.05
Hospitals		
Accounts Payable	$ 11,619,042.29	$ 19,419,905.20
Salaries, Wages and Benefits Payable	1,554,683.11	4,527,150.28
Fund Balances		
Allocated for Revolving Accounts	871,536.75	574,310.45
Allocated for Working Capital (Note 1)		
Memorial Hospital - Knoxville	59,518,631.52	66,580,433.95
William F. Bowld Hospital - Memphis	7,333,358.79	8,408,414.79
Allocated for Encumbrances (Note 12)		
Memorial Hospital - Knoxville	3,541,635.29	5,118,568.97
William F. Bowld Hospital - Memphis	590,614.35	1,047,540.95
Unallocated		
Memorial Hospital - Knoxville	9,995,229.07	835,010.52
Total Hospitals	$ 95,024,731.17	$ 106,511,335.11
Total Unrestricted	$ 245,288,410.13	$ 241,880,969.10
Restricted		
Salaries, Wages and Benefits Payable	$ 289,076.01	$ 904,726.45
Accounts Payable	2,087,869.73	2,307,792.73
Deposits and Advance Payments	80,000.00	80,000.00
Fund Balances		
Educational and General	59,608,826.45	54,084,254.05
Auxiliary Enterprises	291,496.30	245,822.47
Hospitals	2,616,536.39	2,523,792.34
Total Restricted	$ 64,973,804.88	$ 60,146,388.04
TOTAL CURRENT FUNDS	$ 310,262,215.01	$ 302,027,357.14
LOAN FUNDS		
Fund Balances		
Privately Sponsored Loan Funds - Restricted	$ 3,963,804.28	$ 3,185,765.53
Institutional Loan Funds - Restricted	2,065,641.96	1,954,648.61
Federal Participation Loan Funds - Restricted	27,854,075.44	26,798,897.11
TOTAL LOAN FUNDS	$ 33,883,521.68	$ 31,939,311.25

Balance Sheet

June 30, 1995 — With Comparative Figures at June 30, 1994

ASSETS

	1995	1994
ENDOWMENT AND SIMILAR FUNDS (Note 4)		
Cash and Cash Equivalents (Note 3)	$ 12,748,967.54	$ 6,159,534.86
Accounts Receivable	76,107.43	440,353.93
Notes Receivable (Note 3)	1,704,286.94	364,253.19
Bonds (Note 3)	62,788,550.11	62,430,143.69
Stocks (Note 3)	74,660,625.15	66,927,977.09
Venture Capital (Note 3)	5,793,990.36	4,797,564.34
Assets With The University of Chattanooga Foundation, Inc. (Note 3 and Note 10)	1,348,304.00	1,257,638.00
Assets Held By Others (Note 3)	202,627.00	200,465.00
Real Estate Gifts (Note 3)	3,160,356.28	4,028,856.28
Real Estate Equity (Note 3)	6,003,700.00	5,403,700.00
Other Assets (Note 3)	26,892.00	26,892.00
TOTAL ENDOWMENT AND SIMILAR FUNDS	$ 168,514,406.81	$ 152,037,378.38
LIFE INCOME FUNDS (Note 4)		
Cash and Cash Equivalents (Note 3)	$ 392,742.72	$ 951,554.33
Accounts Receivable	8,969.97	635.78
Notes Receivable (Note 3)	1,551,736.76	942,055.91
Bonds (Note 3)	19,718,750.66	17,568,284.00
Stocks (Note 3)	2,552,917.01	1,986,124.02
Real Estate Gifts (Note 3)	1,210,000.00	1,456,600.00
TOTAL LIFE INCOME FUNDS	$ 25,435,117.12	$ 22,905,254.04
PLANT FUNDS		
Unexpended Plant		
Notes Receivable (Note 3)	$ 268,710.97	$ 272,093.92
Real Estate Gifts (Note 3)	99,530.00	99,530.00
State Capital Outlay and Maintenance Receivable	3,416,350.19	1,603,592.04
Tennessee State School Bond Authority Debt Proceeds Receivable	6,847,632.42	6,413,623.24
Stocks (Note 3)	1,142.37	
Total Unexpended Plant	$ 10,633,365.95	$ 8,388,839.20
Retirement of Indebtedness and Renewals and Replacements		
Cash and Cash Equivalents (Note 3)	$ 77,774,249.14	$ 92,583,374.27
Due From Unexpended Plant	11,878,048.53	1,622,814.98
Unexpended Construction Earnings Receivable	240,873.52	103,604.27
Assets With Trustees (Note 3)		
Tennessee State School Bond Authority	22,920,053.35	22,942,602.73
Department of Education Student Housing Reserve	250,247.42	239,438.67
Total Retirement of Indebtedness and Renewals and Replacements	$ 113,063,471.96	$ 117,491,834.92
Investment in Plant (Note 1)		
Land	$ 30,440,266.21	$ 30,034,041.21
Buildings	899,966,618.57	861,742,205.69
Improvements Other Than Buildings	63,662,404.56	58,507,407.87
Equipment	378,089,194.78	358,286,231.71
Library Books	61,861,200.00	60,583,240.00
Livestock	1,858,940.00	1,750,539.00
Total Investment in Plant	$1,435,878,624.12	$1,370,903,665.48
TOTAL PLANT FUNDS	$1,559,575,462.03	$1,496,784,339.60
AGENCY FUNDS		
Cash and Cash Equivalents (Note 3)	$ 3,086,671.07	$ 2,164,928.21
Accounts Receivable	414,311.98	260,247.99
Bonds (Note 3)	198,750.00	198,750.00
Stocks (Note 3)	3,505,446.00	3,505,446.00
TOTAL AGENCY FUNDS	$ 7,205,179.05	$ 6,129,372.20

See notes to financial statements.

LIABILITIES AND FUND BALANCES

	1995	1994
ENDOWMENT AND SIMILAR FUNDS		
Accounts Payable	$ 270,624.38	$ 250,000.00
Fund Balances		
Undistributed Gains and Losses on Investment Transactions	32,365,487.18	28,037,536.30
Endowment - Restricted	120,987,753.20	109,672,639.54
Quasi-Endowment - Restricted	16,344.74	315,868.47
Quasi-Endowment - Unrestricted	14,874,197.31	13,761,334.07
TOTAL ENDOWMENT AND SIMILAR FUNDS	$ 168,514,406.81	$ 152,037,378.38
LIFE INCOME FUNDS		
Due To Unrestricted Current Funds - General	$ 52,414.46	$ 55,019.26
Fund Balances - Restricted	25,382,702.66	22,850,234.78
TOTAL LIFE INCOME FUNDS	$ 25,435,117.12	$ 22,905,254.04
PLANT FUNDS		
Unexpended Plant		
Accounts Payable	$ 5,716,396.78	$ 3,267,212.57
Due To Retirement of Indebtedness	11,878,048.53	1,622,814.98
Fund Balances		
Restricted	(8,907,002.46)	1,913,593.20
Unrestricted		
Designated	1,912,664.62	1,540,947.59
Undesignated	33,258.48	44,270.86
Total Unexpended Plant	$ 10,633,365.95	$ 8,388,839.20
Retirement of Indebtedness and Renewals and Replacements		
Fund Balances		
Restricted	$ 23,577,820.57	$ 23,436,468.48
Unrestricted	89,485,651.39	94,055,366.44
Total Retirement of Indebtedness and Renewals and Replacements	$ 113,063,471.96	$ 117,491,834.92
Investment in Plant		
Tennesssee State School Bond Authority Indebtedness (Note 5)	$ 227,572,803.85	$ 227,210,981.90
Notes Payable (Note 5)	142,082.22	158,740.53
Accrued Interest Payable	2,257,092.62	2,322,605.25
Lease Obligations (Note 7)	3,683,505.08	425,037.77
Fund Balance		
Net Investment in Plant	1,202,223,140.35	1,140,786,300.03
Total Investment in Plant	$1,435,878,624.12	$1,370,903,665.48
TOTAL PLANT FUNDS	$1,559,575,462.03	$1,496,784,339.60
AGENCY FUNDS		
Accounts Payable	$ 25,583.62	$ 95,505.66
Deposits Held in Custody for Others	7,179,595.43	6,033,866.54
TOTAL AGENCY FUNDS	$ 7,205,179.05	$ 6,129,372.20

Statement of Changes in Fund Balances

Year Ended June 30, 1995

	Current Funds			
	Unrestricted			
	Education and General	Auxiliary Enterprises	Hospitals	Total
REVENUES AND OTHER ADDITIONS				
Unrestricted Current Funds Revenues	$557,631,330.80	$102,197,623.97	$299,598,578.68	$959,427,533.45
Restricted Gifts and Grants				
Federal Perkins Loan Funds				
Federal Nursing and Health Professions Loan Funds				
Interest on Notes Receivable				
Endowment Income				
Investment Income				
Realized Gain (Loss) 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				
Plant Acquisitions and Adjustments (Including $42,119,533.21 charged to current fund expenditures)				
Retirement of Indebtedness				
TOTAL REVENUES AND OTHER ADDITIONS	$557,631,330.80	$102,197,623.97	$299,598,578.68	$959,427,533.45
EXPENDITURES AND OTHER DEDUCTIONS				
Unrestricted Current Fund Expenditures	$555,988,486.30	$ 88,160,246.92	$284,610,004.68	$928,758,737.90
Restricted Current Fund Expenditures				
Indirect Costs Recovered				
Other Deductions				
Collection Costs				
Bad Debt Expense				
Payments to Beneficiaries				
Expended for Plant Facilities				
Retirement of Indebtedness				
Interest on Indebtedness				
Disposal of Plant Facilities				
Buildings and Improvements Written Off and Adjustments				
Physical Inventory Adjustments				
Capital Lease Additions				
Bonds and Notes Issued				
TOTAL EXPENDITURES & OTHER DEDUCTIONS	$555,988,486.30	$ 88,160,246.92	$284,610,004.68	$928,758,737.90
TRANSFERS AMONG FUNDS—ADDITIONS (DEDUCTIONS)				
Mandatory				
Debt Service Requirements	$ (2,013,487.34)	$ (9,232,444.64)	$ (9,735,661.74)	$ (20,981,593.72)
Loan Funds	(114,489.68)			(114,489.68)
Endowment and Similar Funds				
Restricted Current Funds				
Non-Mandatory				
Unrestricted Current Funds	4,427,760.44	(2,977,560.44)	(1,450,200.00)	
Restricted Current Funds	(537,327.85)		55,764.31	(481,563.54)
Endowment and Similar Funds	(1,242.08)		(119,997.00)	(121,239.08)
Unexpended Plant	(1,105,281.06)	(783,453.53)	(4,451,753.43)	(6,340,488.02)
Retirement of Indebtedness	(91,718.10)	(2,553,684.13)		(2,645,402.23)
TOTAL TRANSFERS	$ 564,214.33	$ (15,547,142.74)	$ (15,701,847.86)	$ (30,684,776.27)
NET INCREASE (DECREASE) FOR THE YEAR	$ 2,207,058.83	$ (1,509,765.69)	$ (713,273.86)	$ (15,980.72)
FUND BALANCE JULY 1, 1994	$ 45,118,911.92	$ 12,946,373.58	$ 82,564,279.63	$140,629,565.13
FUND BALANCE JUNE 30, 1995	$ 47,325,970.75	$ 11,436,607.89	$ 81,851,005.77	$140,613,584.41

See notes to financial statements.

Restricted	Loan Funds	Endowment and Similar Funds	Life Income Funds	Plant Funds: Unexpended	Plant Funds: Retirement of Indebtedness and Renewal and Replacement	Plant Funds: Net Investment in Plant
$222,632,827.36		$ 11,791,902.17	$ 3,296,167.98			
	$ 407,550.00					
	178,327.00					
	777,536.65					
7,338,018.75	52,198.73	287,194.43				
90,034.35	111,890.54		1,576,809.54	$ 528,486.29	$ 3,304,025.38	
		4,635,821.79	161,547.97			
				17,858,250.04		
				12,233,131.23		
						$ 344,255.54
	73,276.18			1,832,365.02		4,881,933.43
					2,155,445.93	
					206,078.00	
					405,408.68	
						94,584,122.95
						12,494,836.36
$230,060,880.46	$ 1,600,779.10	$ 16,714,918.39	$ 5,034,525.49	$ 32,452,232.58	$ 6,070,957.99	$ 112,305,148.28
$205,050,192.56						
19,166,180.28						
737,546.49	$ 237,947.83	$ 12.00	$ 2,024.00	$ 6,388,284.38		
	14,577.40					
	64,151.38					
			1,571,924.23			
				52,375,117.67	$ 89,472.07	
					12,494,836.36	
					12,718,984.96	
						$ 153,625.00
						781,010.00
						33,490,950.11
						3,602,722.85
						12,840,000.00
$224,953,919.33	$ 316,676.61	$ 12.00	$ 1,573,948.23	$ 58,763,402.05	$ 25,303,293.39	$ 50,868,307.96
					$ 20,981,593.72	
	$ 639,572.94		$ (525,083.26)			
		$ 386,787.85	(386,787.85)			
$ 16,238.27			(16,238.27)			
539,790.88	20,535.00	(766,529.27)		$ 687,766.93		
		121,239.08				
				15,163,511.53	(8,823,023.51)	
					2,645,402.23	
$ 556,029.15	$ 660,107.94	$ (258,502.34)	$ (928,109.38)	$ 15,851,278.46	$ 14,803,972.44	
$ 5,662,990.28	$ 1,944,210.43	$ 16,456,404.05	$ 2,532,467.88	$(10,459,891.01)	$ (4,428,362.96)	$ 61,436,840.32
$ 56,853,868.86	$31,939,311.25	$151,787,378.38	$22,850,234.78	$ 3,498,811.65	$117,491,834.92	$1,140,786,300.03
$ 62,516,859.14	$33,883,521.68	$168,243,782.43	$25,382,702.66	$ (6,961,079.36)	$113,063,471.96	$1,202,223,140.35

Statement of Current Funds Revenues, Expenditures and Other Changes

Year Ended June 30, 1995 — With Comparative totals at June 30, 1994

	1995			1994
	Unrestricted	Restricted	Total	Total
REVENUES				
Tuition and Fees	$116,939,537.49		$ 116,939,537.49	$ 114,704,368.39
Federal Appropriations	13,088,358.62		13,088,358.62	13,608,241.92
State Appropriations	344,820,624.00	$ 9,301,180.58	354,121,804.58	331,809,249.25
Local Appropriations	2,031,653.36		2,031,653.36	1,903,690.48
Federal Grants and Contracts	15,817,495.33	86,276,783.34	102,094,278.67	107,068,673.45
State Grants and Contracts	1,313,148.67	23,388,398.04	24,701,546.71	22,491,595.89
Local Grants and Contracts	3,458,577.87	4,863,264.77	8,321,842.64	7,884,278.76
Private Gifts, Grants and Contracts	4,315,799.40	65,621,001.02	69,936,800.42	67,248,808.16
Endowment Income-University and Other	67,442.33	10,803,017.70	10,870,460.03	10,756,746.71
Sales and Services of Educational Activities	36,627,364.57		36,627,364.57	33,565,202.77
Other Sources	19,151,329.16		19,151,329.16	14,543,121.33
TOTAL EDUCATIONAL AND GENERAL FUNDS REVENUES	$557,631,330.80	$200,253,645.45	$ 757,884,976.25	$ 725,583,977.11
Sales and Services of Auxiliary Enterprises	102,197,623.97	18,842.82	102,216,466.79	97,419,087.82
Sales and Services of Hospitals	299,598,578.68	4,777,704.29	304,376,282.97	311,541,969.96
TOTAL CURRENT REVENUES	$959,427,533.45	$205,050,192.56	$1,164,477,726.01	$1,134,545,034.89
EXPENDITURES AND TRANSFERS				
Educational and General Expenditures				
Instruction	$261,976,197.97	$ 45,699,654.83	$ 307,675,852.80	$ 286,826,950.62
Organized Research	35,285,625.34	93,515,310.33	128,800,935.67	130,647,190.68
Public Service	47,680,264.40	32,647,812.98	80,328,077.38	74,895,356.61
Academic Support	63,683,953.69	4,019,504.11	67,703,457.80	61,392,129.09
Student Services	34,885,490.15	996,503.33	35,881,993.48	32,305,564.39
Institutional Support	50,502,267.84	482,378.64	50,984,646.48	47,240,714.35
Operation and Maintenance of Physical Plant	46,450,265.78	14,350.02	46,464,615.80	45,090,596.08
Scholarships and Fellowships	15,524,421.13	22,878,131.21	38,402,552.34	37,284,910.42
Educational and General Expenditures	$555,988,486.30	$200,253,645.45	$ 756,242,131.75	$ 715,683,412.24
Mandatory Transfers for:				
Retirement of Indebtedness	2,013,487.34		2,013,487.34	1,971,718.86
Loan Funds	114,489.68		114,489.68	70,144.53
Nonmandatory Transfers for:				
Retirement of Indebtedness	91,718.10		91,718.10	7,497,850.97
Endowment and Similar Funds	1,242.08		1,242.08	24,799.55
Restricted Current Funds	537,327.85		537,327.85	495,900.00
Unexpended Plant	1,105,281.06		1,105,281.06	1,289,776.10
Loan Funds				(25,753.50)
Auxiliary Enterprises	(2,977,560.44)		(2,977,560.44)	(2,007,844.04)
Hospitals	(1,450,200.00)		(1,450,200.00)	(1,397,570.08)
TOTAL EDUCATIONAL AND GENERAL EXPENDITURES AND TRANSFERS	$555,424,271.97	$200,253,645.45	$ 755,677,917.42	$ 723,602,434.63
Auxiliary Enterprises				
Expenditures	$ 88,160,246.92	$ 18,842.82	$ 88,179,089.74	$ 80,162,150.06
Mandatory Transfers for:				
Retirement of Indebtedness	9,232,444.64		9,232,444.64	8,684,463.23
Nonmandatory Transfers for:				
Retirement of Indebtedness	2,553,684.13		2,553,684.13	3,911,107.52
Unexpended Plant	783,453.53		783,453.53	2,365,577.12
Educational and General	2,977,560.44		2,977,560.44	2,007,844.04
TOTAL AUXILIARY ENTERPRISES EXPENDITURES AND TRANSFERS	$103,707,389.66	$ 18,842.82	$ 103,726,232.48	$ 97,131,141.97
Hospitals				
Expenditures	$284,610,004.68	$ 4,777,704.29	$ 289,387,708.97	$ 274,071,605.64
Mandatory Transfers for:				
Retirement of Indebtedness	9,735,661.74		9,735,661.74	8,943,718.00
Nonmandatory Transfers for:				
Educational and General	1,450,200.00		1,450,200.00	1,397,570.08
Endowment and Similar Funds	119,997.00		119,997.00	136,663.00
Restricted Current Funds	(55,764.31)		(55,764.31)	1,517,113.98
Unexpended Plant	4,451,753.43		4,451,753.43	6,233,687.98
Retirement of Indebtedness				16,000,000.00
TOTAL HOSPITALS EXPENDITURES AND TRANSFERS	$300,311,852.54	$ 4,777,704.29	$ 305,089,556.83	$ 308,300,358.68
TOTAL CURRENT EXPENDITURES AND TRANSFERS	$959,443,514.17	$205,050,192.56	$1,164,493,706.73	$1,129,033,935.28
EXCESS CURRENT REVENUES OVER CURRENT EXPENDITURES AND TRANSFERS				
Educational and General	$ 2,207,058.83		$ 2,207,058.83	$ 1,981,542.48
Auxiliary Enterprises	(1,509,765.69)		(1,509,765.69)	287,945.85
Hospitals	(713,273.86)		(713,273.86)	3,241,611.28
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS)				
Restricted Receipts in Excess of Expenditures		$ 25,010,687.90	25,010,687.90	22,755,000.73
Indirect Costs Recovered		(19,166,180.28)	(19,166,180.28)	(18,581,551.37)
Restricted Gifts Transferred from (to) Other Funds		(181,517.34)	(181,517.34)	1,618,125.91
NET INCREASE (DECREASE) IN FUND BALANCES	$ (15,980.72)	$ 5,662,990.28	$ 5,647,009.56	$ 11,302,674.88

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 composed 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. The University does not have any component units.

The University also benefits from a number of organizations that exist mainly to support the various purposes and activities of the University system. These organizations include: student organizations, the University of Tennessee Research Corporation, the University Faculty Association, Inc., the University Physicians Foundation, the University of Chattanooga Foundation, the UT Health Plan, and the Tennessee Geographic Alliance. Each of these organizations is legally independent and fully self-governing. Consequently, none of these organizations is included in the financial statements of the University.

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 and the American Institute of Certified Public Accountants in *Audits of Colleges and Universities* (1975).

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 for summer sessions are reported within the fiscal year in which the program is predominately conducted. All unrestricted resources are reported as revenue in the year they are received or accrued, with the exception of certain gifts. 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 activity related to the current reporting period. It does not purport to represent results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

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

D. Fund Accounting

The accounts of The University of Tennessee are maintained in accordance with the principles of "fund accounting". Fund accounting is a procedure by which resources for various purposes are classified for accounting and reporting into funds that are in accordance with specified activities or objectives. This enables the institution to ensure observance of limitations and restrictions placed on the use of the resources available. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group. The University's fund balance allocations and designations represent those portions of the fund balances that are reserved, restricted and/or otherwise designated for specific future use by legal covenants, state policies, or University policies. The Unemployment Compensation, Revolving Accounts, Unexpended Gifts, and Reappropriation Allocation of Fund Balances were made in accordance with University policies.

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 which have been made available for financial loans to students.

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

Quasi-endowment funds are funds which the governing board of the University, rather than a donor, has determined are to be retained and invested. Since these funds are internally designated, 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 consist of (1) unexpended plant funds which are to be used for the construction or acquisition of physical properties for institutional purposes; (2) retirement of indebtedness and renewal and replacement funds, which are funds set aside for debt service charges and major maintenance items on institutional properties, respectively; and (3) investment in plant 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 operating statements of the University.

E. *Inventories*—Inventories are valued at cost, which is lower than market, based on the retail method, the average cost method, or FIFO. Cost methods are applied on a basis consistent with prior years.

F. *Investments*—Investments are recorded at cost, if purchased, or fair market 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 acquisition or fair market value at date of donation in the case of gifts. Depreciation on physical plant and equipment is not recorded. Purchases of library books are recorded as current fund expenditures and capitalized at standardized costs in the plant funds. Livestock is valued at current market value.

H. *Construction In Progress*—Construction in progress is included in buildings in investment in plant. Twenty-seven projects were under construction at June 30, 1995. Construction in progress totaled $71,772,182.90 at June 30,1995 and $49,783,305.60 at June 30, 1994.

I. *Nonvested Equipment*—Equipment in the possession of the University valued at $8,845,824.82 and $12,253,704.39 as of June 30, 1995 and 1994, respectively is not reflected in these financial statements. This equipment was purchased with restricted grant and contract and other funds, and title has not yet transferred to the University.

J. *Accounts Payable*—Included in unrestricted current funds - general accounts payable are checks payable in the amount of $20,774,890.34 and $12,789,803.09 as of June 30, 1995 and 1994, 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.

K. *Allocation for Working Capital*—The unrestricted fund balance is allocated for the amount of working capital defined as the total of all petty cash, accounts receivable, inventories, and prepaid expenses in the unrestricted fund at the balance sheet date except for summer term student receivables credited to deferred revenue, accrued interest, accrued benefits, and amounts due on federal letters of credit. This allocation is in compliance with the recommendations of the Tennessee Higher Education Commission.

L. *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.

M. *Pledges*—Outstanding pledges amounted to $25,036,912.43 and $14,799,259.05 as of June 30, 1995 and 1994, 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 2: Accrued Annual Leave Benefits

Generally accepted accounting principles require that certain accrued vacation benefits, 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 considered not a material departure from generally accepted accounting principles in that the effect of accruing the $48,109,437.06 of such benefits of which approximately $11,059,353.28 would be reflected as a reduction of beginning Unrestricted Current Fund balance, and the remainder would be funded from other sources is considered not material. The amount of accrued annual leave benefits as of June 30, 1994 was $45,009,059.59, of which approximately $9,996,913.58 would have been reflected as a reduction of beginning unrestricted current fund balance, and the remainder funded from other sources.

Note 3: Deposits and Investments

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 have pledged 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 and Life Income Funds".

Cash and Cash Equivalents. The balance sheet classification "cash and cash equivalents" includes all readily available sources of cash, including petty cash, demand deposits, and 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 the current cash and cash equivalents of $3,797,880.95 in these accounts at June 30, 1995 in the bank's money market mutual fund. Petty cash funds at June 30, 1995 totaled $1,298,592.34.

Deposits. Deposits with financial institutions are categorized to indicate the level of 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 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.

At June 30, 1995 the carrying amount of University deposits was $11,193,569.53 and the bank balance was $10,354,086.77. At June 30,1995, $10,343,644.59 is reported as category 1 and $10,442.18 is reported as category 3.

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, 1995 were $243,785,787.36 and $245,056,136.25 respectively. The securities in the pool are categorized as described below 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 market 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. The market value of securities underlying repurchase agreements at June 30, 1995 was $32,476,584.25.

Investments. Investments shown on the balance sheet are classified by type of investment (bonds, stocks, real estate, etc.) and are valued at cost or, in the case of gifts, fair market value on the date of gift.

Investments are categorized to indicate the level of risk assumed by the University. Category 1 consists of investments that are insured or registered or 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 includes 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. Detailed below are these categorizations.

At June 30, 1995 the carrying amount of cash equivalents including trust assets not susceptible to credit risk categorization was $247,583,668.31, and the carrying amount of investments was $186,228,333.30.

Funds on deposit with trustee of $ 23,170,300.77 in Retirement of Indebtedness consist of securities held in the Tennessee State School Bond Authority debt service reserve pool and with First Tennessee Bank.

INVESTMENTS

	Category 1	Category 2	Category 3	Carrying Amount	Market Value 6/30/95
Cash Equivalents					
Government Securities	$138,538,261.25			$138,538,261.25	$139,341,446.25
Repurchase Agreements	32,000,000.00	$ 210,000.00		32,210,000.00	32,210,000.00
Commercial Paper	73,037,526.11			73,037,526.11	73,504,690.00
	$243,575,787.36	$ 210,000.00		$243,785,787.36	$245,056,136.25
Investments					
Domestic Securities					
Government Securities	$ 31,935,889.54			$ 31,935,889.54	$ 33,144,898.42
Corporate Bonds	44,169,268.23	$ 13,131.06		44,182,399.29	44,987,693.20
Corporate Stock	69,132,687.05	40,716.25		69,173,403.30	96,501,532.85
Mortgages and Notes	3,549,099.25			3,549,099.25	3,665,748.65
Other Investments	29,060.00			29,060.00	29,060.00
International Securities					
Government Bonds	501,470.00			501,470.00	477,840.00
Corporate Bonds	1,100,343.00			1,100,343.00	1,094,930.75
Corporate Stocks	1,783,409.22			1,783,409.22	1,853,425.00
	$152,201,226.29	$ 53,847.31		$152,255,073.60	$181,755,128.87
	$395,777,013.65	$ 263,847.31			
University cash equivalents and investments not susceptible to credit risk categorization:					
Cash Equivalents - Assets with First Tennessee Bank as Custodian				3,797,880.95	3,797,880.95
Limited Partnership-Venture Capital Funds				5,793,990.36	5,097,402.94
Mutual Funds				2,283,068.01	2,624,857.38
Real Estate Equity Funds				6,003,700.00	5,638,962.79
Real Estate - Gifts				5,734,886.28	5,446,193.75
International Equity Funds				7,500,000.00	9,391,133.59
Assets with the Univ. of Chattanooga Foundation				1,348,304.00	1,348,304.00
Assets with First American Bank				106,684.05	108,981.50
Assets with American National Bank				202,627.00	253,084.99
Domestic Bond Fund				5,000,000.00	5,076,599.00
Total Investments and Cash Equivalents				$433,812,001.61	$465,594,666.01

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 funds amounted to $411,742.07 for the year. Income distributed in accordance with the approved spending plan to endowment and similar funds invested in the Consolidated Investment Pool amounted to $7,347,171.43 for the year.

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 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 the year amounted to $1,576,809.54.

The book value of Endowment and Similar Funds at June 30, 1995 was $168,514,406.81 and the market value was $196,719,677.38. This compares with a June 30, 1994 book value of $152,037,378.38 and market value of $165,110,893.94. The book value of Life Income Funds at June 30, 1995 was $25,435,117.12 and market value of $26,945,206.49. This compares with a June 30, 1994 book value of $22,905,254.04 and the market value was $23,185,975.65.

Note 5: Bonds and Notes Payable

Tennessee State School Bond Authority bonds, with interest rates ranging from 3.0% to 9.5%, are due serially to 2022 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 $194,635,957.85 at June 30, 1995 and $204,556,635.90 at June 30, 1994.

Included in the total outstanding indebtedness is a $242,000 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 balances at June 30, 1995 and 1994 were $142,082.22 and $158,740.53, respectively.

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

1996	$ 10,241,344.85
1997	10,526,234.60
1998	10,693,335.90
1999	11,099,455.55
2000	11,567,750.69
Subsequent Years	140,649,918.48
	$194,778,040.07

Interim and short-term financing for various University construction projects and equipment purchases have been secured through the Tennessee State School Bond Authority from the Bond Anticipation Notes (BANs) Program established February 24, 1993, with Prudential Securities Incorporated to fund projects under construction. Under the BANs Program, the notes may bear interest at a variable rate (daily, monthly, quarterly, semi-annually, annually, or long-term) determined by the remarketing agent, 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 set forth in the Official Statement. The remarketing agent is authorized to use its best efforts to sell the repurchased notes. If it is unable to resell any notes that are "put," Swiss Bank Corporation, New York Branch, under a standby note purchase agreement, is required, subject to certain conditions, to purchase the notes. The standby note purchase agreement will expire on February 23, 1996, unless terminated earlier. It is expected that a portion of these notes will be replaced with bonds at the end of the construction period for the projects being financed. The notes mature on March 1, 1998. The outstanding balance of the five year notes was $32,936,846.00 at June 30, 1995 and $22,654,346.00 at June 30, 1994. Including the short-term financing, the total indebtedness of the University at June 30, 1995 was $227,714,886.07 and $227,369,722.43 at June 30, 1994.

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, 1995 and June 30, 1994 amounted to $7,744,897.42 and $8,848,399.58, respectively.

The following is a schedule by years of future minimum rental payments required under operating leases that have remaining noncancelable lease terms in excess of one year as of June 30, 1995.

Year Ending June 30:	
1996	$778,537.96
1997	731,179.24
1998	518,089.18
1999	480,086.00
2000	480,086.00
Later Years	1,137,374.00
Total Minimum Payments Required	$ 4,125,352.38

Note 7: Capital Lease Obligations

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

	Buildings	Equipment	Total
1995-96	$ 197,341.25	$ 1,015,390.32	$ 1,212,731.57
1996-97	22,246.33	1,015,390.32	1,037,636.65
1997-98		1,015,390.32	1,015,390.32
1998-99		846,158.60	846,158.60
Minimum Lease Payments	$ 219,587.58	$3,892,329.56	$4,111,917.14
Less Amounts Representing Interest	5,288.72	423,123.34	428,412.06
Present Value of Net Minimum Lease Payments	$ 214,298.86	$3,469,206.22	$3,683,505.08

The total value of buildings capitalized under leaseholds payable was $3,824,165.70 as of June 30, 1995 and 1994. The total value of equipment capitalized under leaseholds payable was $3,602,722.85 at June 30, 1995.

Note 8: Insurance-related Activities

A. *Risk Management*—The University is exposed to various risks of loss related to general liability; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The University participates in the State of Tennessee's limited self-insurance program for risks of employee dishonesty, losses related to boilers and major pressure vessels, and property damage or loss. 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.

As recommended in Chapter 425 of the 1971 Public Acts, the State of Tennessee adopted a limited self-insurance program by purchasing insurance policies with substantial deductibles (described below) and establishing a $5,000,000 designation of fund balance to provide for losses not covered by the policies. This designation is not reflected in the financial statements of the University.

Pursuant to Section 4-4-108, *Tennessee Code Annotated*, the State of Tennessee has a blanket surety bond that covers all officers and employees of the University. Surety bond coverage is provided by the Royal Insurance Company. The policy is in effect until canceled and has a limit of $100,000 per employee and a $5,000 deductible for each loss. There is also a $5,000,000 annual aggregate deductible.

Boiler insurance is provided by the Royal Insurance Company. There is a $5,000 deductible for each loss, and the insured loss per accident is $5,000,000 (explosion only).

Property insurance coverage includes all state-owned buildings and state property in both state-owned and -leased buildings. State property is insured for its current replacement value by the Royal Insurance Company. There is a $5,000 deductible per occurrence, which applies to the annual aggregate deductible of $5,000,000 mentioned above.

At June 30, 1995, the scheduled coverage for the University was $1,961,223,200 for buildings and $621,152,200 for contents. At June 30, 1994, the scheduled coverage for the University was $1,914,920,300 for buildings and $609,311,800 for contents.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

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 payments 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, 1994 through June 30, 1995 was $1,323,800. The University was not assessed a premium for the period July 1, 1993 through June 30, 1994.

B. *Employee Group Insurance*—All full-time and some part-time University employees are eligible to participate in the State of Tennessee Employee Group Insurance Fund. This fund was established as an internal service fund for the State of Tennessee in 1979 to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. 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, 1995, 13,684 university employees were enrolled in the basic plan or Health Maintenance Organization.

Note 9: Retirement Programs

The University of Tennessee offers four retirement plans and three deferred compensation plans fully described herewith. All regular full-time employees are required to participate in one of the retirement plans. Regular part-time faculty and staff have the option to participate. Term employees are eligible to join a retirement plan upon completion of six months' continuous active service.

A. *Tennessee Consolidated Retirement System*—All University of Tennes-

see regular faculty and staff employees, except those on Federal appointments, are eligible to participate in the Tennessee Consolidated Retirement System (TCRS), a cost-sharing multiple-employer, defined benefit public employee retirement system. The payroll for employees covered by the system for the year ended June 30, 1995 was $227,255,746.16 and for the year ended June 30, 1994 was $212,536,177.22. The University's total payroll was $627,487,294.16 and $583,433,139.58, respectively.

The TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year salary and years of service. Members are eligible to retire at age 60 with five years' service or upon completion of 30 years service. Early retirement with reduced benefits is available to vested members who are at least age 55 or have 25 years of service. Death and disability benefits are available to active and inactive vested members. There is no service requirement for disability that is the result of an accident or injury occurring while the member was performing duties. Members vest after five years of service. Benefit provisions are established and amended by state statute. Effective July 1, 1981, the University assumed full responsibility for the payment of all contributions to TCRS. Prior to that date, TCRS participants contributed 5% of their salary, and the University contributed remaining amounts necessary to pay benefits when due. The actuarially determined contribution requirements as provided by TCRS were made by the University. The University's contributions for the year ended June 30, 1995 were $14,399,129.01, which represented 6.33% of covered payrolls. The University's contributions for the year ended June 30, 1994 were $14,217,728.34, which represented 6.69% of covered payrolls. State statutes provide that the contribution rates be adopted by the Board of Trustees of TCRS.

The "pension benefit obligation" is the standardized disclosure measure of the present value of pension benefits adjusted for the effects of projected salary increases and step rate benefits, estimated to be payable in the future as a result of employee's service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the system's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among public employee retirement systems and among employers. TCRS does not make separate measurements of assets and pension benefit obligations for individual state employers. Please refer to the June 30, 1994 State of Tennessee Comprehensive Annual Financial Report for pension benefit obligation for TCRS as a whole and the net assets available for benefits on that date. The University's 1995 contributions, as authorized by The University of Tennessee's participation in accordance with Tennessee Code Annotated (TCA) Section 8-39-301, represented 4.33% of total contributions required of all participating entities.

Ten year historical trend information showing TCRS's progress in accumulating sufficient assets to pay benefits when due is presented in the TCRS's June 30, 1995 Comprehensive Annual Financial Report.

B. *Optional Retirement Plan*—All regular University employees who are classified as staff exempt, faculty or other academic can enroll in the Optional Retirement Plan (ORP) in lieu of participation in the Tennessee Consolidated Retirement System (TCRS) detailed above. In prior years this retirement plan was only through Teachers Insurance and Annuity Association College Retirement Equities Fund (TIAA-CREF), but effective July 1, 1992, two additional companies were offered: Aetna Life Insurance and Annuity Company and The Variable Annuity Life Insurance Company (VALIC). This gave employees the opportunity to participate in any or all of the three available companies. The optional retirement plan is a defined contribution plan. Accordingly, benefits depend solely on amounts contributed to the plan plus investment earnings.

Effective July 1, 1981, the University assumed full responsibility for the payment of all contributions to ORP. The participants have personal contracts with Aetna, TIAA-CREF and/or VALIC and personally own the annuities with immediate vesting. This full vesting allows participants to transfer to other employers which participate in these companies and continue to accumulate retirement benefits.

The University's total payroll in fiscal year 1995 was $627,487,294.16, and $583,433,139.58 in fiscal year 1994. The University contributions, as authorized by TCA 8-35-401 Section through 409, to ORP were calculated using the base salary amount of $284,301,905.57 in 1995 and $261,440,832.34 in 1994 and resulted in contributions of $28,627,971.61 (10.1% of covered payrolls) for 5,727 employees electing this optional retirement plan in 1995 and contributions of $26,302,289.16 (10.1% of covered payrolls) for 5,564 employees electing this optional retirement plan in 1994.

C. *Joint Contributory Retirement System - JCRS-A*—Employees who were enrolled in the Teachers Insurance and Annuity Association College Retirement Equities Fund (TIAA-CREF) before July 1977 are members of the Joint Contributory Retirement System Plan A (JCRS-A), a defined contribution plan with minimum defined benefits. Enrollment in this plan for new employees has been closed since July 1977.

As in the case of the TCRS and ORP plans, the University since July 1981 pays all retirement premiums for those enrolled in JCRS-A. The primary difference in the JCRS-A plan and the present ORP plan is that JCRS-A members, upon retirement, receive benefits from Aetna, TIAA-CREF, or VALIC and may receive a supplementary benefit from the State of Tennessee. To determine if a JCRS-A member is due a state supplement after retiring, a formula is used which considers years of creditable service and average salary for the highest five consecutive years. JCRS-A members may retire with unreduced formula benefits at age 60 or upon completion of 30 years of creditable service.

The University's contributions, as authorized by TCA Section 8-39-301, for JCRS-A members were calculated using the base salary amounts of $78,687,596.00 and $78,141,848.82 for fiscal years 1995 and 1994 respectively. The contributions are included in the ORP amounts. University contributions to fund the state supplemental benefit totaled $4,984,187.94 and $5,227,415.71 in fiscal years 1995 and 1994, respectively.

D. *Federal Retirement Program*—The Federal Retirement Program is a cost-sharing multiple-employer defined benefit retirement program composed of two retirement systems: 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 are defined benefit systems with benefits vesting at different levels, the maximum of which is five years of service. For both systems, benefits are established and contribution requirements are determined by federal statutes.

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 the CSRS or FERS of the Federal Retirement Program. The payroll for employees covered by the Federal Retirement Program for the year ended June 30, 1995 was $19,986,552.15 and for the year ended June 30, 1994 was $18,976,278.15. The total University contributions in 1995 to the Federal Retirement Program, $1,908,495.22, represented 9.6% of covered payrolls. The total University contributions for 1994, $1,828,009.43, represented 9.6% of covered payrolls.

Employees who retire under the CSRS will receive annual benefits for life, equal to 1.5% of the "high-three" average pay for each service year up to five years, 1.75% of the same "high-three" average pay for service year between five and ten years, and 2% of the same "high-three" average pay for each service year greater than ten. The "high-three" average pay is the highest pay obtainable by averaging the rates of basic pay in effect during any three consecutive years of service. Participating employees and the University are required to contribute 7% of salary to the plan. 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. Contributions for the year ended June 30, 1994 were $1,848,697.45, which consisted of $938,278.03 from the University and $910,419.42 from the employees.

Employees who retire under the FERS will receive annual benefits for life, equal to 1.0% (1.1% if the employee retires at age 62 or later with 20 years service) of the "high-three" average pay for each year of creditable service (Basic Benefit Plan) plus Social Security benefits, plus an amount from a defined contribution plan (denoted as Thrift Savings Plan managed by the Federal Retirement Thrift Investment Board). The "high-three" average pay is the highest pay obtainable by averaging the rates of basic pay in effect during any three consecutive years of service. Participating employees are required to contribute .80% and the University 11.4% of their salary to the Basis Benefit Plan. These rates became effective October 1, 1994. In addition, the University is required to contribute 1.0% of 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 salary. Contributions for the Basic Benefit Plan were $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, and $757,573.97 for the year ended June 30, 1994, which consisted of $44,237.59 from employees and $713,336.38 from the University. The contribution requirements for the Thrift Savings Plan were $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, and $510,676.91 for the year ended June 30, 1994, which consisted of $334,281.89 from employees and $176,395.02 from the University.

Pension benefit obligation, net assets available for benefits, and ten-year historical trend information is not available to the University.

E. *Deferred Compensation*—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). All costs of administering and funding these plans 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 market value of the deferred account for each participant. 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. *An IRC Section 401 (k) plan is considered to be a defined contribution plan.* In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. IRC Section 401 (k) establishes participation, contribution and withdrawal provisions for the plan. During the year ended June 30, 1995, contributions totaling $1,713,816.33 were made by employees participating in the plan. The current covered payroll for participating employees was $36,694,528.09 while the total payroll for all eligible university employees during the year was $627,487,294.16.

In accordance with 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.

F. *Other Postemployment Benefits*—Health care: The State of Tennessee administers a group health insurance program which provides postemployment 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 year ended June 30, 1995, the Foundation transferred $2,854,304.00 to the University for support of designated projects at the Chattanooga campus. In addition, $1,320,936.66 was expended 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 requires the University to match the appropriation on a dollar-for-dollar basis. The University has fully matched 47 Chairs as of June 30, 1995. 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 sheet does not include the amounts held in trust by the State Treasurer.

Note 11: 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.

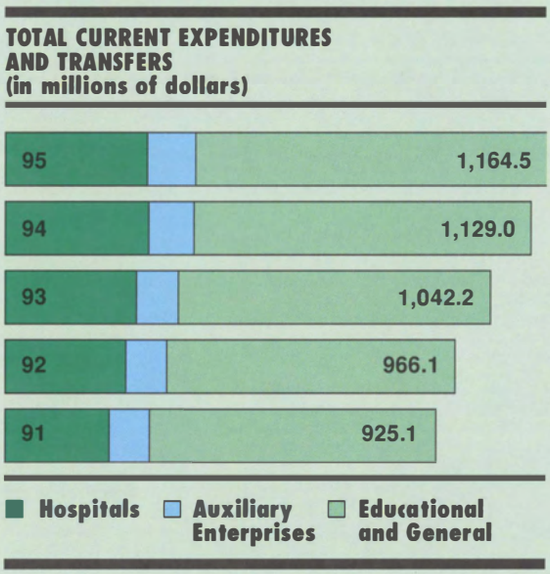
Note 12: Contingencies and Commitments

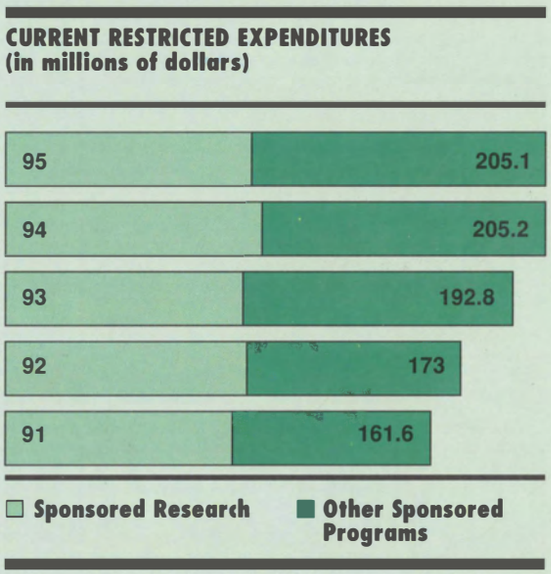
A. *Construction Commitments*—The University has contractual obligations for the construction of new buildings, and additions to and renovations of existing buildings. The outstanding commitments under such contracts at June 30, 1995 were $31,275,948.02. The University receives capital appropriations from the State of Tennessee and proceeds from Tennessee State School Bond Authority bond issues for the construction, renovation, and maintenance of the University's physical plant. At June 30, 1995, amounts to be provided by the State and the School Bond Authority for capital construction, renovations, and maintenance totaled $42,899,929.17 and $6,847,632.42 respectively.

B. *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, 1995, are recorded as an allocation of the Current Fund balances. The Allocation for Encumbrances at June 30, 1995 is $9,300,279.62.

C. *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, injury, or related family death, there is no liability for sick leave at June 30, 1995. The amount of unused sick leave at June 30, 1995, and June 30, 1994, was $141,239,835.43 and $130,049,842.65 respectively.

D. *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.





1994–1995 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, 1995.

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 35.

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.

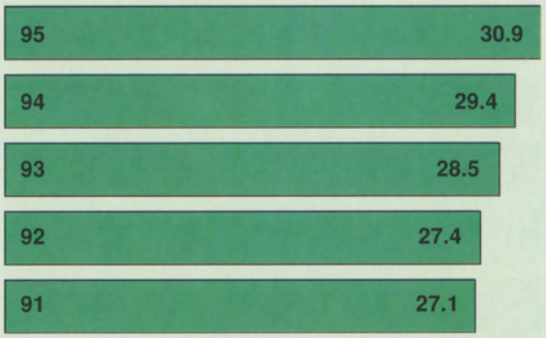
For the second year in a row, the University's current fund revenues exceeded one billion dollars. Total Current Funds revenues for 1994-95 were $1.164 billion compared to $1.134 billion in 1993-94, an increase of 2.6%. These revenues consist of $757.9 million general funds, $102.2 million auxiliary funds and $304.4 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 1994-95 amounted to $354.1 million or 30.4% of total revenues.

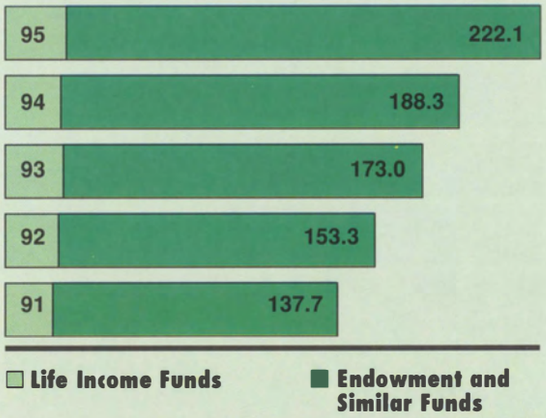
The second largest source of general Current Funds revenues is gifts, grants and contracts which totals $205.0 million. These funds represent 17.6% of the total Current Funds revenues. Grants and contracts received from federal agencies amounted to $102.1 million.

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

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)



amounted to $116.9 million, or 10.1% of the total Current Funds revenues. The $2.0 million increase over last year resulted from higher tuition and maintenance fees, approximately 3% at all campuses.

Sales and services of educational activities increased 8.9% to $36.6 million. Income from other sources amounted to $19.2 million in 1994-95, an increase of 32.5% from $14.5 million in 1993-94. Improved earnings on short term investments and bank accounts provided most of the increase. Revenue generated from short-term investments and bank account interest totaled $10.8 million in 1994-95 compared to $7.8 million in 1993-94. The average yield on temporary investments increased from 4.13% in 1993-94 to 5.53% in 1994-95.

Total Current Funds expenditures and transfers in 1994-95 increased 3.1% to $1.164 billion. A schedule of Current Funds expenditures by function (purpose) is provided on page 43.

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 $205.1 million in 1994-95 compared to $205.2 million in 1993-94, a slight decrease.

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 1994-95 totaled $102.2 million, an increase of 4.9% from the prior year's total revenue of $97.4 million. Expenditures and mandatory transfers to meet debt service requirements amounted to $103.7 million, an increase of 6.8% from 1993-94.

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 1994-95 totaled $304.5 million, a decrease of 2.2%. The revenue decreases of $5.6 million at Memorial Hospital and $1.7 million at the William F. Bowld Hospital resulted from capitation and lower fees. Hospital expenditures and transfers decreased 1.0% from the 1993-94 expenditures levels to $305.1 million. The Bowld Hospital's fund balance is allocated entirely for working capital and encumbrances, resulting in no Unallocated Fund Balance shown on the balance sheet.

Loan Funds

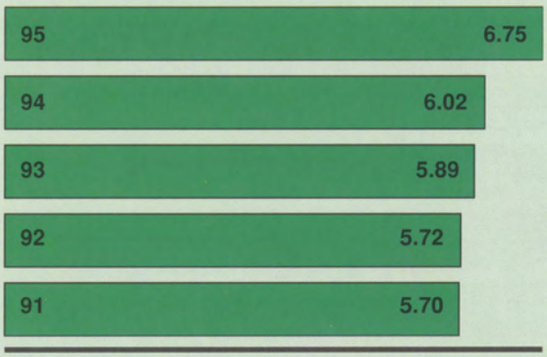
Loan Funds consist of resources made available for financial loans to students of the University. These resources include federal funds, funds from other external sources, and required University matching funds. Total Loan Funds increased $1.9 million to $33.9 million in 1994-95. Three thousand and forty-eight student loans totaling $4.9 million were made during 1994-95. Student loans outstanding at June 30, 1995, totaled $30.9 million.

Federal programs provided the primary source of student loans. At June 30, 1995, the federal government had provided $27.8 million (or 82.0%) of the assets of all University loan funds. University sources, in conjunction with matching requirements for the federal loan program, provided $2.1 million (or 6.2%) of student loan funds. The remaining $4.0 million (or 11.8%) represented loan funds established by private donations.

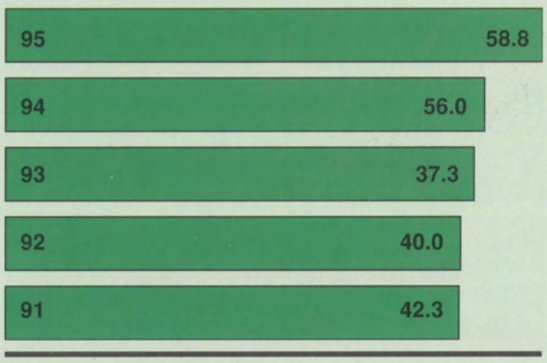
Endowment and Similar Funds

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

ENDOWMENT INCOME
(in millions of dollars)



PLANT FUNDS EXPENDITURES
(in millions of dollars)



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, 1995, was $168.5 million, and the market value was $196.7 million. The book value at June 30, 1994, was $152.0 million, and the market value was $165.1 million. Income distribution from investment of funds amounted to $7.7 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% 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 1,366 separate endowments with a total book value of $158.7 million at June 30, 1995, and a total market value of $186.5 million. The market value increased by $32.1 million during 1994-95. The market value of a participating share was $2.398 at June 30, 1995 compared to $2.151 at June 30, 1994, an increase of 10%. The income distributed per share was $.0995, which was 4.6% on beginning market value.

Life Income Funds

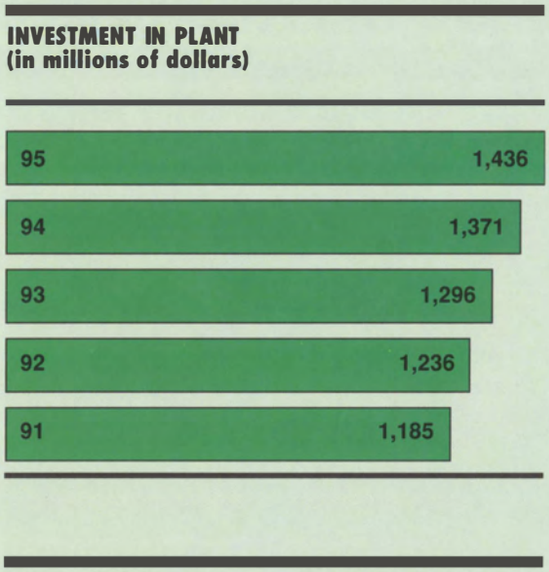
The Life Income Funds group consists of funds contributed to the University with the stipulation that designated beneficiaries receive specified interest in the income produced by the funds' assets. The income payments terminate at a specified time, usually upon death of the beneficiaries, and the assets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

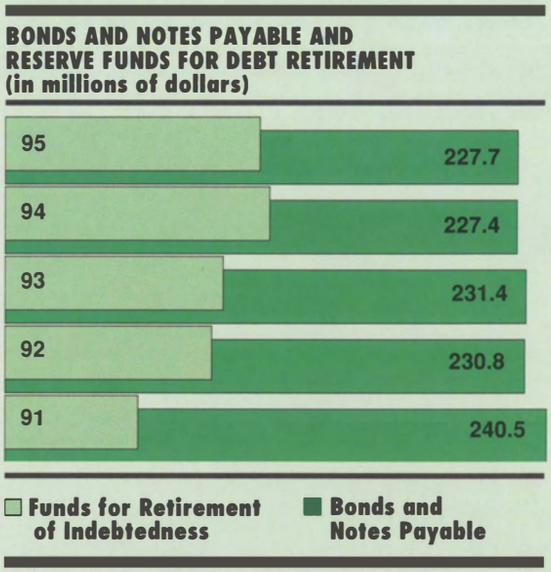
The book value of Life Income Funds at June 30, 1995, was $25.4 million compared to $22.9 million the prior year. Income payments to beneficiaries during the year amounted to $1.6 million.

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 $10.6 million at June 30, 1995, and represent funds previously authorized or provided for additions to the University's physical plant. These balances include $3.4 million 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 $6.8 million which represents unexpended Tennessee State School Bond Authority funding.

Total expenditures and deductions in Unexpended Plant Funds amounted to $58.8 million in 1994-95. Nineteen projects have been completed, including the $28.4 million Science/Engineering Research Facility at UT Knoxville and the $1.2 million Space Renovation in Original Hospital Building Phase I at UT Medical Center Knoxville. Other projects completed consisted of the $1.2 million Nash Building 5th Floor Renovation at UT Memphis; the $9.9 million Paul Meek Library Addition and the $1.2 million Residence Halls HVAC System Improvements Phase I at UT Martin; the $1.1 million Food Technology Facilities Renovation UT Institute of Agriculture; and the $1 million Siskin Property Renovation at UT Chattanooga. Thirty-eight projects were under construction at June 30, 1995, including the $19.6 million Taylor Law Building Renovation and Addition, the $6.5 White Avenue Parking Garage, the $6.8 million Conference Center Renovation Phase II, and the $8.2 million Boiler Addition at UT Knoxville. Other projects under construction include the $7.9 million Fletcher Hall Renovation, the $3.4 million Fifth Street Parking Garage, and the $4.5 million Single Student Housing Phase II at UT Chattanooga; the $5 million Van Vleet Addition at UT Memphis; and the $4.1 million Swine Unit Headquarters Facility at UT Institute of Agriculture.

Retirement of Indebtedness and Renewal and Replacement Funds at June 30, 1995, amounted to $113.1 million, of which $23.6 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 $4.4 million during 1994-95.

Total indebtedness for The University of Tennessee at June 30, 1995, amounted to $227.7 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 36.

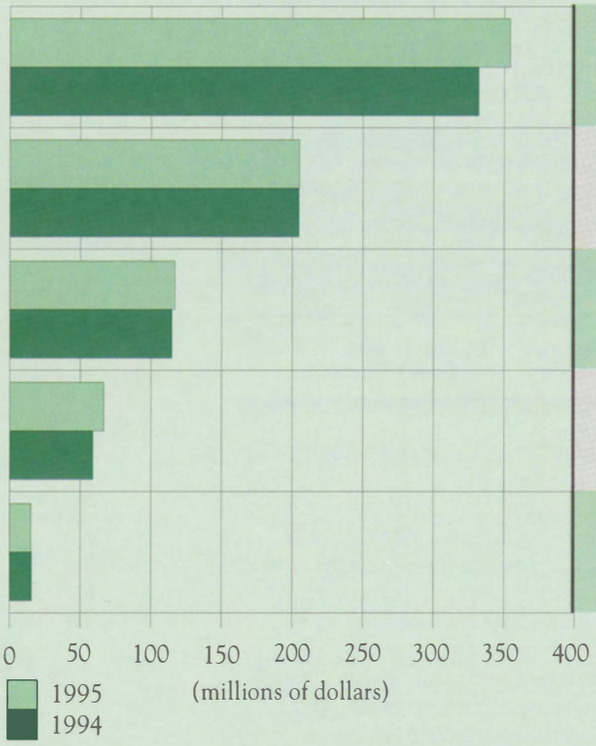
With the exception of real estate held as investments in Endowments and Similar Funds and Life Income Funds, the Investment in Plants section is used to account for capital assets owned by the University, including land, buildings, equipment, library books, and livestock. Investment in Plant as of June 30, 1995, amounted to $1.436 billion, an increase of $65.0 million over the prior year.

Agency Funds

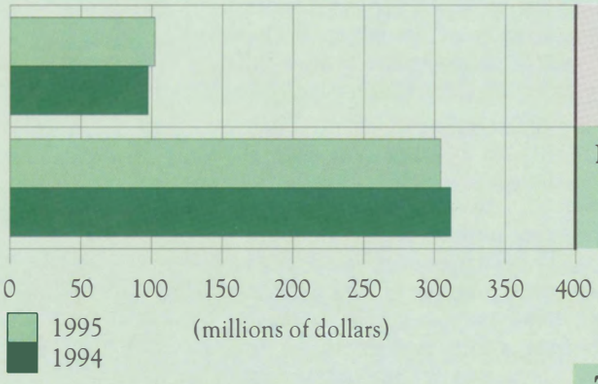
The Agency Funds group consists of funds held by the University as fiscal agent for various third parties. Agency Funds are reflected on the Balance Sheet only and not on the Statement of Changes in Fund Balances since the net balances in each Agency Fund represents liabilities rather than fund balances. The balance of funds held for third parties at June 30, 1995 amounted to $7.2 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, $2.6 million, represent third party funds held as performance guarantees and retainage on construction contracts. The balance at June 30, 1995 of $7.2 million reflects an increase of $1.1 million over the June 30, 1994 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.

Sources of Current Funds

for the year ended June 30, 1995



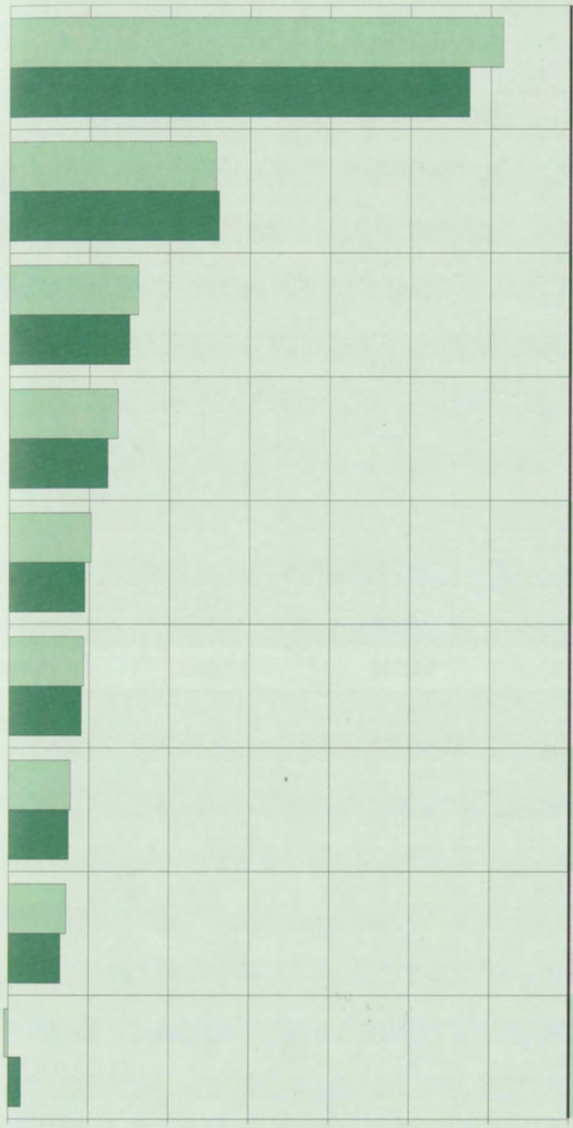
State Appropriations (30.4%) Legislative appropriations from the Tennessee General Assembly for current operations of the University.	$ 354,121,804.58
Gifts, Grants, and Contracts (17.6%) Revenues from federal and non-federal granting entities, restricted for specific purposes, primarily for sponsored research and training activities.	$ 205,054,468.44
Tuition and Fees (10.1%) Revenues collected from students; includes resident enrollment fees, program and service fees, extension enrollment fees, and other fees.	$ 116,939,537.49
Other (5.7%) Revenues generated from sources not included in other classifications, such as sales and services by University departments and endowment income.	$ 66,649,153.76
Federal and Local Appropriations (1.3%) Appropriations received in support of the University land-grant missions, used primarily by the Agricultural Experiment Station and Extension Service.	$ 15,120,011.98

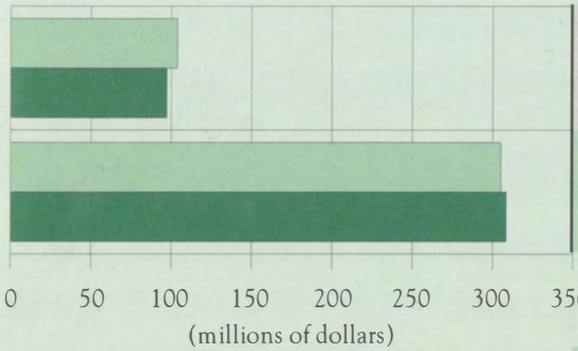


Auxiliary Enterprises (8.8%) Revenues from operations of auxiliary activities such as housing, dining halls, bookstores, parking, and UT Knoxville athletics.	$ 102,216,466.79
Hospitals (26.1%) Net patient revenues from the UT Memorial Hospital–Knoxville and the William F. Bowld Hospital–Memphis.	$ 304,376,282.97
TOTAL	$ 1,164,477,726.01

Uses of Current Funds

for the year ended June 30, 1995





Instruction (26.4%) $ 307,675,852.80
Includes all expenditures, including faculty and staff salaries incurred in connection with instruction programs for credit and noncredit courses.

Research (11.0%) $ 128,800,935.67
Direct expenditures for sponsored research activities funded from federal, state, local, and private sources.

Public Service (6.9%) $ 80,328,077.38
Expenditures for non-instructional programs beneficial to individuals and groups external to the University.

Academic Support (5.8%) $ 67,703,457.80
Expenditures for libraries, computing support, and academic administration.

Institutional Support (4.4%) $ 50,984,646.48
Expenditures for executive management, financial operations, personnel services, security, public relations, development activities, and alumni relations.

Physical Plant (4.0%) $ 46,464,615.80
Expenditures for the operation and maintenance of physical plant including utilities and services related to grounds and facilities.

Student Aid (3.3%) $ 38,402,552.34
Scholarships and fellowships awarded to students.

Student Services (3.1%) $ 35,881,993.48
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 (0.0%) $ (564,214.33)
Mandatory transfers for debt service and non-mandatory transfers for other long-term capital project funding and operations.

Auxiliary Enterprises (8.9%) $ 103,726,232.48
Activities that furnish goods and services to students, faculty, and staff. Includes mandatory transfers for debt service.

Hospitals (26.2%) $ 305,089,556.83
Expenditures for hospital operations. Includes mandatory transfers for debt service.

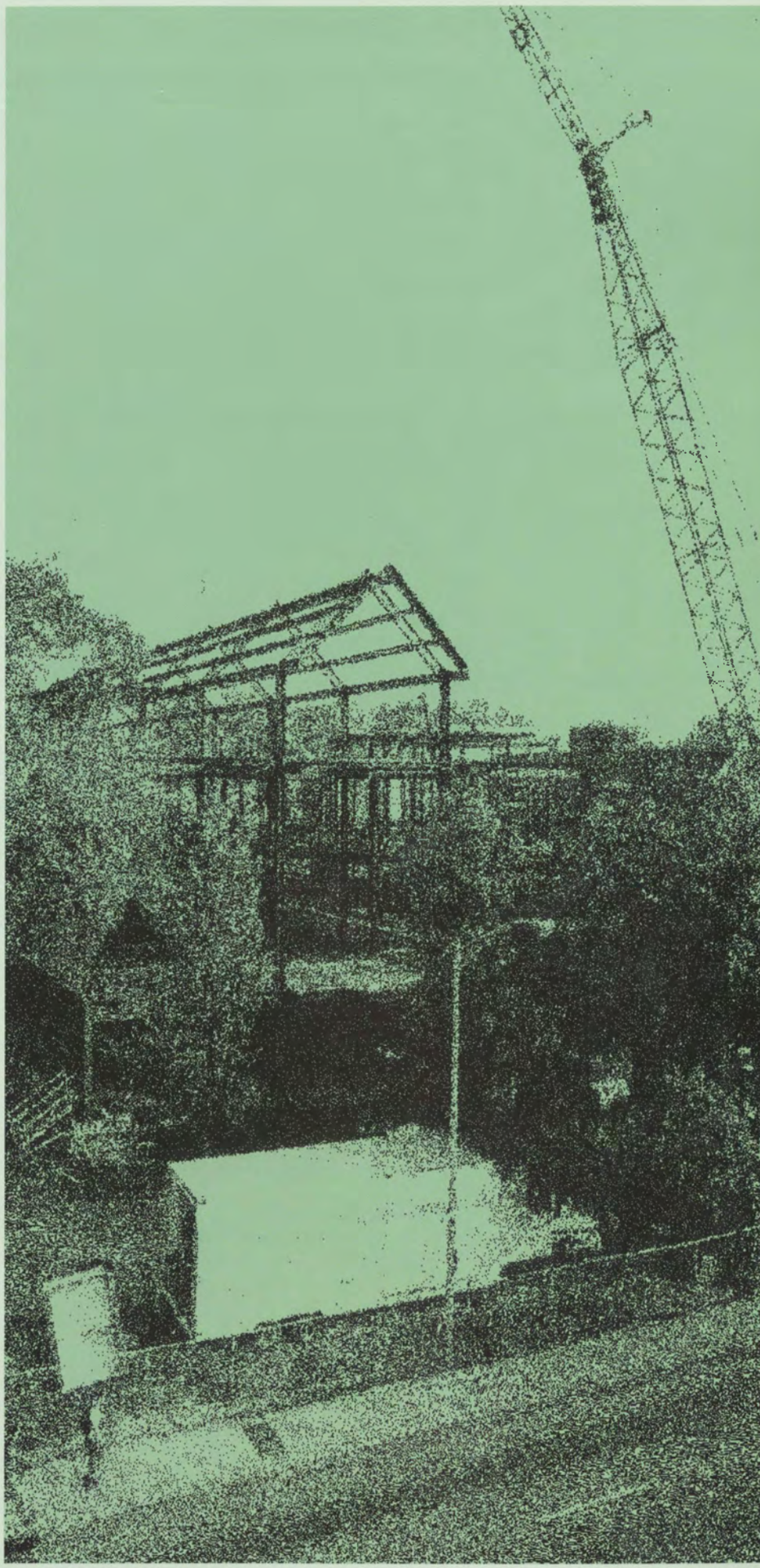
TOTAL $ 1,164,493,706.73

Major Capital Construction Programs 1994-95

(in thousands of dollars)

Major Capital Construction Completed 1994-95	SOURCE OF FUNDS State Appropriation	TSSBA	Federal Grant
Electrical Substation and Distribution System Improvements - Knoxville	$1,010		
Hess Hall Roof Replacement - Knoxville			
Humanities Complex HVAC System Improvements - Knoxville	990		
Laurel Apartments Improvements - Knoxville			
Melrose Hall International - Knoxville			
Residence Halls Shower Improvements Phase I - Knoxville			
Roof Repairs and Replacement 1992-93 - Knoxville	940		
Sutherland Avenue Apartments Renovation Phase II - Knoxville			
University Center Space Renovation - Knoxville			
Food Technology Facilities Renovation - Institute of Agriculture	1,140		
Roof Repairs and Replacement 1993-94 - Institute of Agriculture	280		
Siskin Property Renovation - Chattanooga	1,025		
Parking Lot Improvements - Martin			
Residence Halls HVAC System Improvements Phase I - Martin		$1,000	
Entry Road Improvements - Memorial Hospital			
Space Renovation in Original Hospital Building Phase I - Memorial Hospital			
Staff Parking Lots Repaving - Memorial Hospital			
Surgery Suite Expansion - Memorial Hospital		1,000	
Nash Building 5th Floor Renovation - Memphis			$ 496
MAJOR CAPITAL CONSTRUCTION COMPLETED	$5,385	$2,000	$ 496
Major Construction in Progress at June 30, 1995 (estimated completion date)			
Boiler Addition - Knoxville (May 1996)	$8,230		
Carrick Hall Chiller Replacement - Knoxville (June 1996)			
Conference Center Renovation of Space Phase II - Knoxville (September 1995)		$6,750	
Exterior Masonry Repairs - Knoxville (February 1996)	725		
Golf Range Apartments Roof Replacement - Knoxville (September 1995)			
Golf Range Apartments Swimming Pool Renovation - Knoxville (July 1995)			
International House - Knoxville (August 1995)			
Neyland Stadium North End Zone Expansion - Knoxville (August 1995)		1,300	
Neyland Stadium Painting and Waterproofing Phase III - Knoxville (August 1995)			
Music Building HVAC System Improvements - Knoxville (August 1995)	880		
White Avenue Parking Garage - Knoxville (October 1995)		6,000	
Residence Hall Shower Improvements Phase II - Knoxville (August 1995)			
Roof Repair and Replacement 1993-94 - Knoxville (December 1995)	465		
Roof Repair and Replacement 1994-95 - Knoxville (December 1995)	310		
Science/Engineering Research Facility - Knoxville (July 1995)	24,200	4,000	
Steam Line Replacement - Knoxville (October 1995)	1,770		
Taylor Law Building Renovation and Addition - Knoxville (September 1996)	19,550		
Patten House Renovation Phase II - Chattanooga (September 1995)			
Original Hospital Building Renovation Phase IV - Memorial Hospital (August 1995)		400	
Modular Buildings for Interim Lab Space - Memorial Hospital (August 1995)			
Professional Office Building Renovation of Space Phase III - Memorial Hospital (June 1996)			
Sewage Lift Station Expansion - Memorial Hospital (September 1995)			
Space Renovation in Original Hospital Building Phase II Memorial Hospital (December 1995)		800	
Housing Central Chilled Water Plant Phase II - Martin (October 1995)		1,390	
Paul Meek Library Addition - Martin (September 1995)	9,850		
Steam Plant Improvements and Phase II Steam Line Replacement Martin (June 1996)	1,020		
Elevator Improvements Phase I - Memphis (August 1995)	740		
Hazardous Materials Storage Area-Beale Building - Memphis (August 1995)			
Roof Repair and Replacement 1993-94 - Memphis (November 1995)	800		
Main Academic Building Chiller Replacement - Space Institute (July 1996)	405		
Main Academic Building Improvements - Space Institute (August 1995)	1,075		
MAJOR CAPITAL CONSTRUCTION IN PROGRESS	$70,020	$20,640	

University Funds			
Current Unrestricted	Current Restricted	Maintenance Reserves	Project Total
			$ 1,010
		$ 375	375
			990
		185	185
$ 110		540	650
		650	650
			940
		145	145
150		150	300
			1,140
			280
			1,025
		300	300
		225	1,225
820			820
1,250			1,250
550			550
			1,000
704			1,200
$3,584		$2,570	$14,035
			$ 8,230
		$ 750	750
			6,750
			725
		200	200
		250	250
$1,430			1,430
			1,300
290			290
			880
		500	6,500
		690	690
			465
			310
	$ 200		28,400
			1,770
			19,550
	630		630
			400
900			900
1,500			1,500
445			445
			800
			1,390
			9,850
			1,020
			740
140			140
			800
			405
100			1,175
$4,805	$ 830	$2,390	$98,685



The University of Tennessee Administration

From July 1, 1994, through June 30, 1995

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The University does not discriminate on the basis of sex or handicap in its educational programs and activities, pursuant to requirements of Title IX of the Education Amendments of 1972, Public Law 92-318, and Section 504 of the Rehabilitation Act of 1973, Public Law 93-112, and the Americans with Disabilities Act of 1990, Public Law 101-336, respectively. This policy extends both to employment by and admission to the University.

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The University of Tennessee



Technology:

Changing Education Forever

Education will never be the same. Technology has brought about changes and improvements that open doors to even more change and to greater accomplishments.

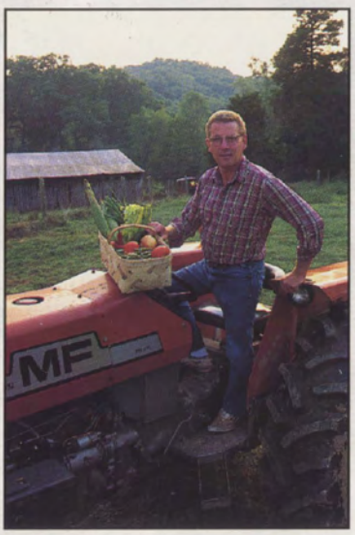
Efficient use of technology is a cornerstone of our efforts to streamline operations and increase productivity.

How appropriate that — as UT enters its third century — we find ourselves in the thick of a technological revolution few could have imagined.

Here are some examples.

• Scientists in the Agricultural Experiment Station say farming "by satellite" will increase efficiency and help the environment. Signals transmitted to Earth by the Global Positioning System satellite fleet can be used to determine yield variability in fields.

UT agricultural engineer John Wilkerson says: "By developing a yield map of a field, the producer has the ability to adjust agricultural input rates based on the needs of individual areas of the field rather than using constant rates across the whole field. First, there will be an increase in the economic production efficiency as producers vary fertilizer application rates based on yield potential. And secondly, this will help the environment as it will minimize over-application of chemicals."



Producers can receive the satellite signals free, but must purchase the receiver.

• UT Memphis was part of an interstate transmission of a live ultrasound examination last November as participants in a Radiological Society meeting in Chicago observed the examination by Dr. Donald Emerson, who was in the downtown Memphis medical center, of a patient in a clinic 15 miles away. The three locations were linked by fiber-optic video and audio network. The demonstration was believed to be a first.



• The UT Medical Center in Knoxville is developing LifeLink, a telemedicine network that will link its specialists and subspecialists directly to rural physicians and their patients. This technology uses two-way video and audio communication to electronically transport the patient over telephone lines to a physician at another location.

"A medical specialist in Knoxville can see every step in the exam, just as they would if that patient was sitting in the Knoxville physician's office," says Samuel Burgiss, telemedicine services manager.

Another component, teleradiology, uses high speed, digitized imaging to transmit detailed X-rays and CAT scans. LifeLink will help rural hospitals expand their services to include specialty care.



• EdNet is extending UT courses and other training by providing two-way TV and two-way audio. Campus continuing education divisions work cooperatively to electronically extend degree programs, credit courses, and non-credit professional development programs to adult students in Tennessee. Statewide, UT has twelve classrooms, three conference rooms, one auditorium, and two multipurpose facilities connected via telephone lines and multipoint switches.

UT Knoxville is extending its

—social work degree program to Nashville and Memphis,

—graduate program in library and information science to Memphis,

—M.S. in communications to Chattanooga,

—graduate program in audiology and speech pathology to teachers in Knoxville, Oak Ridge, Chattanooga, and Tullahoma.

UT Chattanooga is offering MBA and criminal justice degree programs in Knoxville and Tullahoma.

UT Martin is offering nursing, education, business, agriculture, and social work programs at UT's Jackson center.

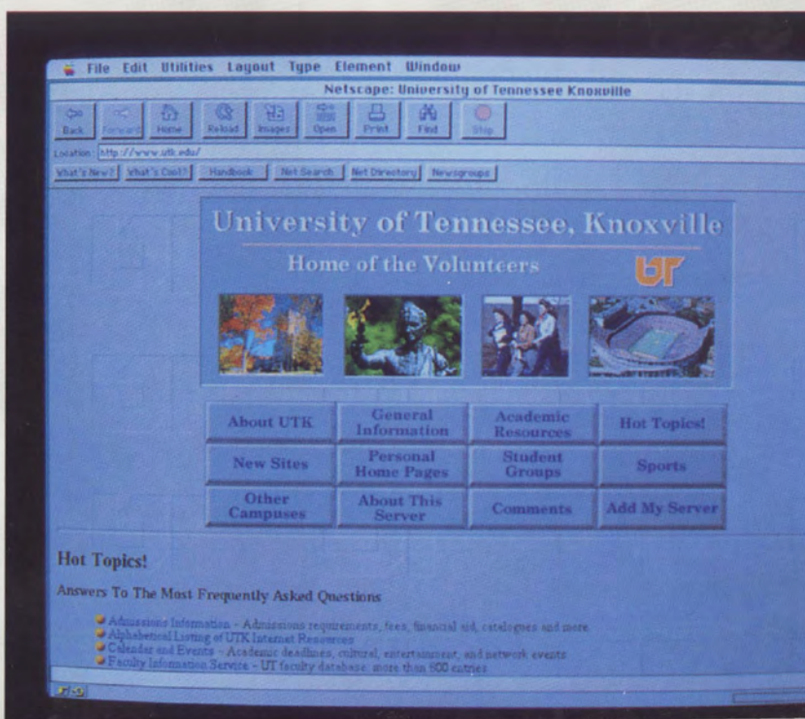
UT Memphis is extending its nursing programs. UTSI is working with UT Knoxville to deliver graduate courses in engineering management to selected EdNet sites, including UT's Oak Ridge and Kingsport centers. The Institute for Public Service uses EdNet to deliver training programs to professional groups.

• UTK and UTSI have installed the first university video interview system in the U.S., allowing UTSI students to interview with company representatives visiting the Knoxville campus. The system uses video conferencing with a high-speed personal computer, a small video camera mounted on the monitor, a microphone, and a PC speaker system. Phone lines are used for the transmission.

• Planetree Center at UT Memphis provides a collection of computer tools and programs to help health sciences students learn, research, and practice scientific and prevention-oriented clinical medicine. The center has computers, laser discs, and CD-ROMs and uses case-based problem solving. There are 38,000 cross-section slides of the human body that appear at the touch of a computer key. A simulated dissection can be undertaken at slow or fast pace. Computers also enable students to "join" an emergency room team and make life or death decisions.



• UT Martin is the only public university in Tennessee to have every residential room wired for campus cable TV, telephone, and Internet services.



• Dr. Barry Rouse of the Department of Microbiology received a $1.7 million grant from the U.S. Department of Health and Human Services for additional research in herpes virus infections.

Agricultural Experiment Station

• The Blasingame Chair of Excellence in Agricultural Policy was integrally involved in developing the next Farm Bill to be considered by Congress. Dr. Daryll Ray and his research team studied the outcomes of various policy options. Ray also testified at a hearing before the House Agriculture Committee's subcommittee on General Agricultural Commodities.

• A team studying dogwood anthracnose found that some trees have some resistance to the disease and that a tree's environment influences the severity of anthracnose. They also learned that insects can transport the fungus and identified effective chemical control strategies.



Agricultural Extension Service

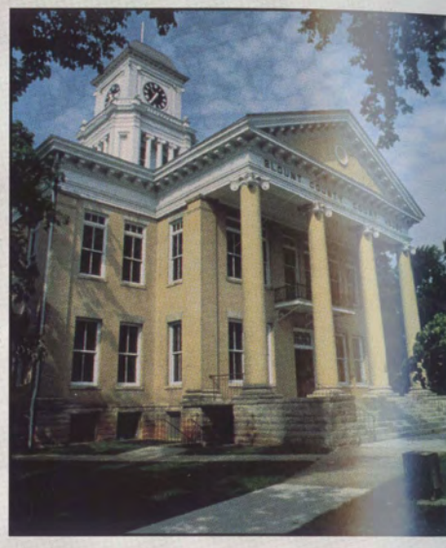
• More than 700 new master gardeners graduated from the intensive Extension course taught at 13 locations. The graduates volunteered more than 21,000 hours back to Extension through program support.

• Extension food safety educational programs trained 1,200 food service workers. These workers in turn impacted more than 100,000 additional employees.

• Extension home economics offered parent education classes in 37 counties with 2,259 parents participating. Extension helped Child Care Services offer training for child care providers on the topic of discipline.

Institute for Public Service/ Division of Continuing Education

• The five agencies of the Institute for Public Service responded to more than 41,000 requests for information or assistance from government and business.



• The Center for Industrial Services received manufacturing extension program funding to create 13 new positions to work with Tennessee industries in areas such as industrial engineering, ergonomics, electronic data exchange, auto industry suppliers, activity-based cost accounting, and the environment. CIS will be able to deliver more service to small and medium-sized manufacturers to help increase their competitiveness.

• Statewide Continuing Education sponsored a one-day conference on Outreach and Technology Transfer for UT's Continuing Education faculty and staff at all campuses and institutes. More than 100 participants discussed issues and strategies affecting UT's distance learning efforts. Distance education experts and telecommunications industry vendors participated.

• As part of the 21st Century Campaign, the Tennessee Municipal League's Risk Management Pool pledged $100,000 to a fund that will honor the late TML executive director Herbert J. Bingham. Proceeds will bring visiting consultants to the University's Municipal Technical Advisory Service, which serves Tennessee cities. They will consult with Tennessee cities, provide training for the MTAS staff, and participate in training programs for city officials. The TML Risk Management Pool is a self-insurance fund for Tennessee cities.

• The Center for Government Training in cooperation with the state Department of Education, provided support for the Tennessee Education Technology Conference , which was attended by more than 2,800 teachers and other education professionals.

Space Institute

• A scholarship fund honoring the late Jordan Ennis, a longtime Tullahoma businessman, was endowed by his son and daughter-in-law, Mr. and Mrs. J. Steven Ennis, and his wife, Mary. The fund will provide fellowships for academically outstanding UTSI students. J. Steven Ennis is a member of the UT Board of Trustees and the UTSI Support Council.

• UTSI formed an industrial relations office and an industrial resources panel to use internal resources to better serve faculty, staff, and students working with industrial firms and to apply UTSI's strengths to the needs of industrial partners.



• In the latest astronaut selection by NASA, three of the 19 chosen were aviation system graduates from UTSI. They were selected from nearly 3,000 applicants.

• UTSI reorganized faculty into six research groups to develop interdisciplinary research teams to meet the needs of society. The groups are laser applications, computational information processing, computational mechanics, applied fluid dynamics, flight systems, and industrial systems.

Development and Alumni Affairs

• The $250 million 21st Century Campaign attracted more than $190 million in gifts and pledges in less than nine months. The campaign is uniting alumni and other friends in their support of the University and eliciting strong volunteer leadership.



• The University's Development Council continued its outstanding record of fund raising leadership. The council's work has resulted in total private gifts to the University over the last five years averaging $39.6 million a year. The 1994-95 chair was Tim Epps, vice president of people systems at Saturn Corporation in Spring Hill, Tennessee.

• The National Alumni Association, led by James L. Jackson, president of Jackson, Johnson & Murphey Certified Public Accountants in Chattanooga, approached its 160th year of service to the University.

• Alumni participation in University activities reached an all-time high. More alumni than ever before attended on- and off-campus events.

• Alumni contributions to the University through the Annual Giving Program topped $11.4 million from 49,699 contributors, both figures being all-time records for UT, and representing increases of 2,865 contributors and $1 million over 1993-94.

Financial Perspective

UT is a publicly aided university and as such receives the largest part of its annual budget from the state of Tennessee. For the fiscal year ended June 30, 1995, the University received about 30 percent of its $1.2 billion budget from state appropriations. The remaining 70 percent comes from four other major categories, the largest being hospital revenue. Two University hospitals, one in Memphis and one in Knoxville, account for about 26 percent of the University's annual revenue. Gifts, grants, and contracts provide about 18 percent, while auxiliary enterprises and some smaller miscellaneous categories add about 16 percent. Student fees, while consistently increasing over the years, continue to average about 10 percent of total University revenues.

Though total revenues grow every year, the percentages change only gradually, if at all. Larger economic conditions sometimes affect the percentages. For fiscal year 1995, state appropriations increased more than $22 million, even after a $6 million impoundment. Meanwhile, hospital revenues declined more than $7 million, reflecting local and national changes in the TennCare and Medicare programs. While federal grants and contracts constricted by $5 million during fiscal 1995, state, local, and private sources of grants and contracts grew by $5.3 million to show a slight dollar increase in that category.

The market value of University endowment funds and other funds invested for the benefit of the University increased to $348 million in 1994-95. This was the single largest increase ever, amounting to $44 million.

Expenditures

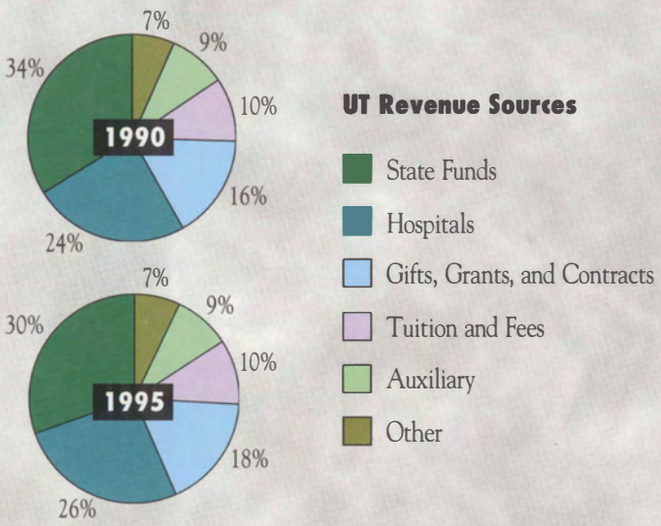
University educational and general expenditures grew by 4.4 percent during fiscal 1995 with the major expenditure classifications paralleling the University's three-fold mission of instruction, research, and public service. Auxiliary enterprise expenditures increased by 6.8 percent, while hospital expenditures, reflecting the University's response to the changing health care environment, decreased 1 percent.

University Investments

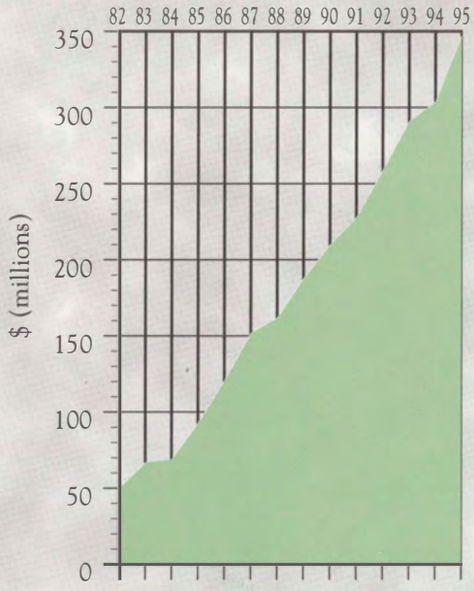
The market value of University endowment funds and other funds invested for the benefit of the University increased to $348 million in 1994-95. This was the single largest increase ever, amounting to $44 million.

The centerpiece of the University endowment investment program is the Consolidated Investment Pool, which combines almost 1,400 endowment funds

for investment purposes. The pool's market value grew by more than $32 million to $187 million in 1994-95. Investment performance for the University's pool reflected the strong capital markets of 1995 and reported a return of 16.1 percent for the year ended June 30, 1995. University endowment funds that must be invested separately were valued at $10 million and life income trusts at $27 million.



Total Funds Invested for the Benefit of UT

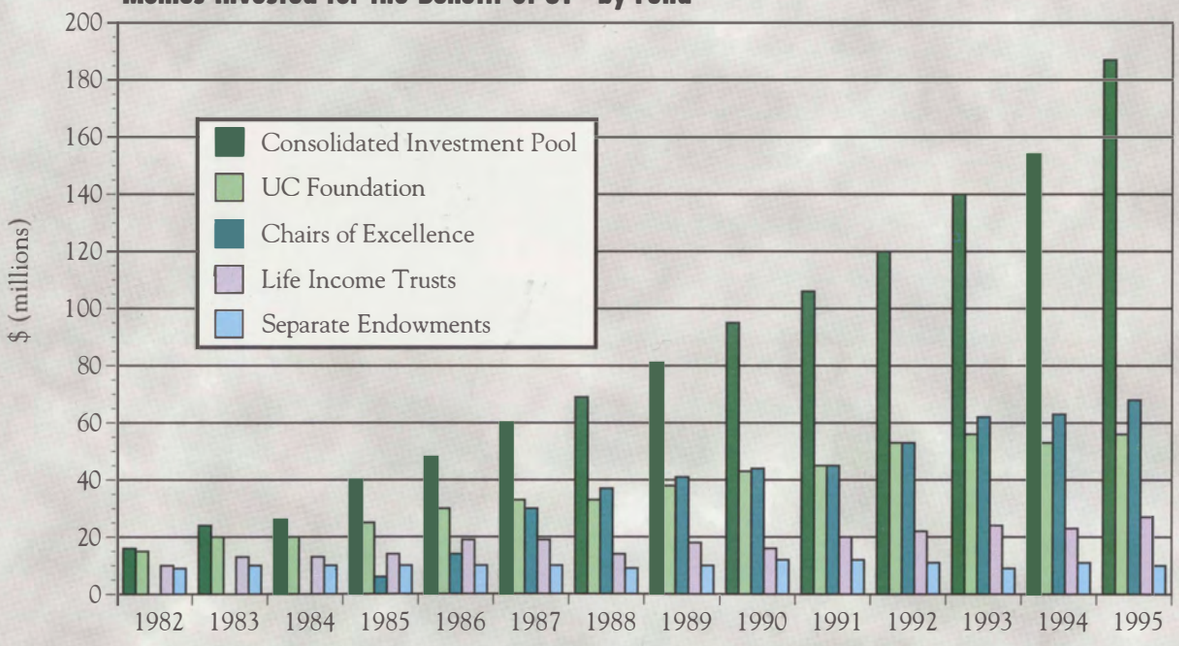


Two other major funds invested for the benefit of UT are:

The Chairs of Excellence Trust. Beginning in 1984 and intermittently since, the state has appropriated funds for the Chairs of Excellence endowment. The University has matched dollar for dollar the state funds for a total of 49 chairs. The state of Tennessee manages the trust, which had a market value of about $68 million at the end of fiscal 1995.

The University of Chattanooga Foundation. The foundation benefits UT Chattanooga and for fiscal 1995 distributed $3 million for scholarships and programs at UTC. University financial statements do not include financial data of the UC Foundation. Market value of the foundation's assets on June 30, 1995, was $56 million.

Monies Invested for the Benefit of UT - by Fund



1991-92	1990-91	1989-90	1988-89	1987-88	1986-87	1985-86
$ 283,893	$ 299,568	$ 301,437	$ 294,622	$269,482	$ 256,896	$ 228,664
101,527	96,500	88,590	82,944	75,228	69,318	62,371
12,787	12,110	11,291	11,402	11,415	10,699	11,427
225,882	210,255	192,419	183,005	165,286	152,028	139,883
$ 624,089	$ 618,433	$ 593,737	$ 571,973	$521,411	$488,941	$442,345
89,614	88,224	79,649	73,368	73,083	65,509	62,483
263,814	240,038	216,323	189,987	168,993	142,561	121,828
$ 977,517	$ 946,695	$ 889,709	$ 835,328	$763,487	$ 697,011	$ 626,656
$ 240,222	$ 239,744	$ 237,468	$ 227,996	$204,146	$ 193,414	$ 175,090
109,865	105,724	98,405	95,330	85,833	75,459	65,354
61,586	61,344	56,564	55,931	51,084	48,006	45,792
52,495	54,421	54,521	54,855	49,951	46,508	45,543
26,199	26,682	26,346	25,617	23,164	22,091	19,920
46,727	48,789	46,832	47,053	45,092	45,897	41,193
38,778	40,140	41,522	38,851	36,737	35,451	33,508
33,637	29,034	26,168	23,410	21,107	19,498	19,091
9,425	8,934	6,725	3,309	8,759	(1,345)	(1,093)
$ 618,934	$ 614,812	$ 594,551	$ 572,352	$525,873	$484,979	$444,398
$ 87,891	$ 86,737	$ 78,001	$ 74,324	$ 72,493	$ 64,742	$ 62,427
$ 259,340	$ 223,560	$ 209,721	$ 187,881	$162,678	$ 140,726	$ 118,777
$ 966,165	$ 925,109	$ 882,273	$ 834,557	$761,044	$ 690,447	$ 625,602
x1.088	x1.123	x1.185	x1.241	x1.298	x1.352	x1.382
$1,051,188	$1,038,897	$1,045,494	$1,035,685	$987,835	$ 933,484	$ 864,582
$ 93,493	$ 76,582	$ 75,071	$ 74,677	$ 83,167	$ 77,439	$ 59,918
24,321	21,788	20,455	16,702	17,587	16,803	16,292
80,670	74,034	55,143	46,129	44,497	37,262	35,017
$ 198,484	$ 172,404	$ 150,669	$ 137,508	$145,251	$ 131,504	$ 111,227
$ 27,391	$ 27,113	$ 27,130	$ 25,210	$ 24,595	$ 24,081	$ 24,272
2,428	2,033	3,179	2,303	2,551	2,576	2,885
$ 131,164	$ 118,040	$ 107,145	$ 91,216	$ 78,454	$ 70,332	$ 57,952
$ 22,126	$ 19,783	$ 16,016	$ 17,551	$ 14,047	$ 19,053	$ 18,856
$ 230,760	$ 240,543	$ 232,678	$ 232,897	$235,551	$ 219,903	$ 234,434
$ 91,659	$ 58,996	$ 51,303	$ 43,846	$ 44,261	$ 40,792	$ 38,041
$1,002,318	$ 940,808	$ 894,298	$ 831,623	$745,006	$ 660,298	$ 574,442
$ 39,967	$ 42,331	$ 40,448	$ 50,451	$ 63,527	$ 56,126	$ 46,884
41,489	40,931	39,911	38,936	39,890	39,955	39,814
26,266	26,055	25,512	24,985	25,987	25,842	25,397
7,888	7,725	7,564	7,526	7,355	7,484	7,564
5,479	5,363	5,088	4,653	4,785	4,923	5,053
1,856	1,788	1,747	1,772	1,763	1,706	1,800
7,474	7,041	6,888	6,981	7,180	6,988	7,292
14,772	14,849	14,536	14,254	13,579	13,042	12,679
2,654	2,617	2,819	2,826	2,794	2,716	2,638
63.0%	61.4%	62.2%	61.1%	61.3%	61.1%	63.2%
$ 34,853	$ 32,002	$ 33,527	$ 32,159	$ 29,636	$ 30,922	$ 27,867
$ 1,788	$ 1,712	$ 1,582	$ 1,466	$ 1,404	$ 1,323	$ 1,125
$ 3,364	$ 3,204	$ 2,952	$ 2,734	$ 2,604	$ 2,433	$ 2,154
$ 5,636	$ 6,155	$ 6,156	$ 5,296	$ 4,919	$ 4,666	$ 4,331

The University of Tennessee Administration

From July 1, 1994, through June 30, 1995

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