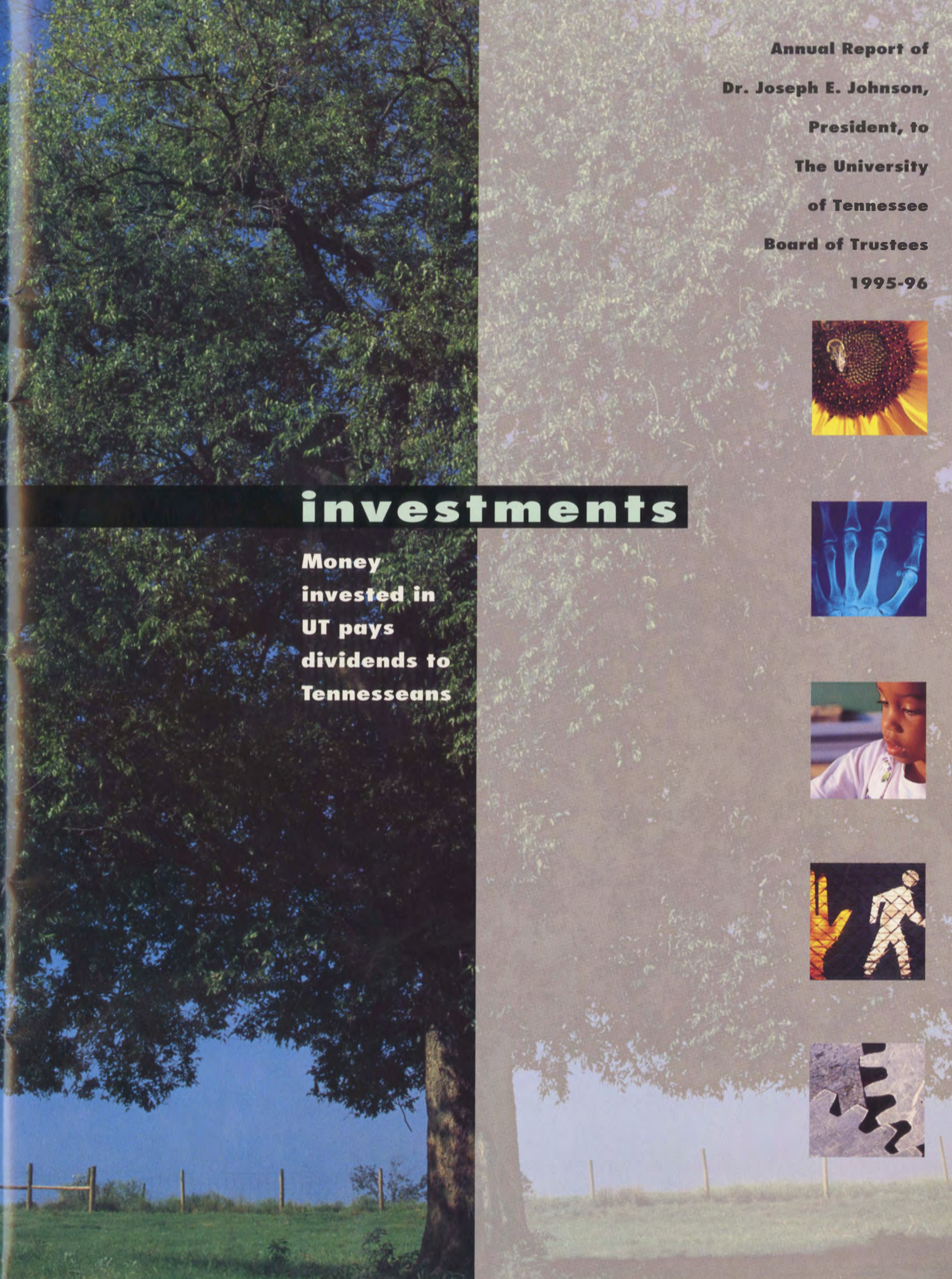
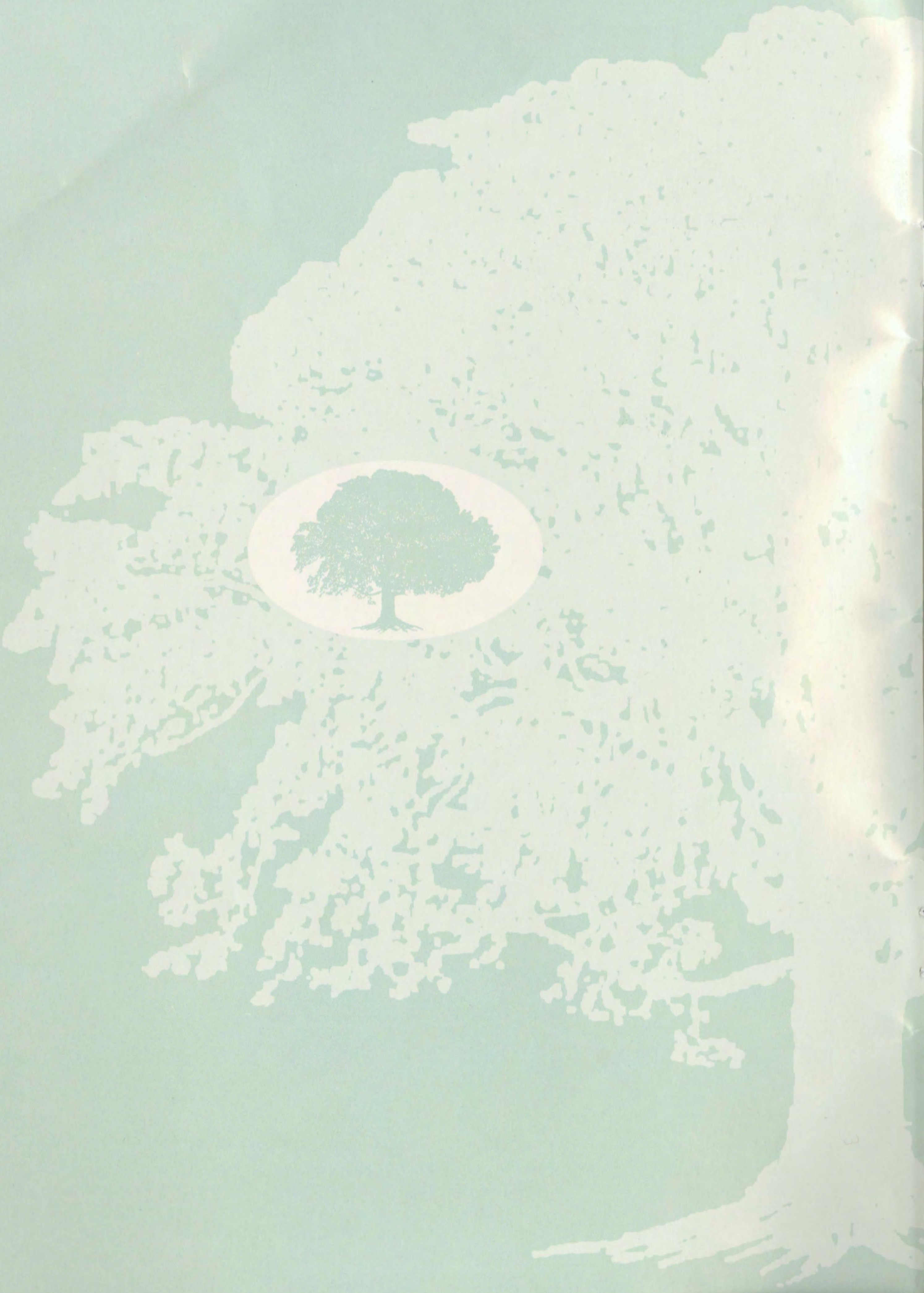
Annual Report of
Dr. Joseph E. Johnson,
President, to
The University
of Tennessee
Board of Trustees
1995-96



investments

Money invested in UT pays dividends to Tennesseans



When you consider making an investment, you weigh the variables: how much to commit, what to invest in, and what return you can expect.

It's much the same when the state of Tennessee, a student, a potential donor, or a research contractor thinks about investing in the University of Tennessee. They expect a good return on their money—a high quality education, useful research results, new knowledge that benefits society. We at UT work hard to provide the best possible education, research, and service. But today more than ever, every dollar matters. We make sure our "investors" get their money's worth and then some.

You have to be careful with your money.

Even though our fees are relatively low, some students find it difficult to afford a UT education. Those students and their families couldn't make better use of their money though. As a news magazine said recently in an article about the value of higher education:

"What is more expensive than a college degree?

"Not having a college degree."

A college graduate has the potential to be a physician, a teacher, an attorney, an excellent farmer, anything that graduate wants. Higher education is the best investment a student can make in his or her future and the best investment the state can make in human capital.

Let me tell you about just four of our students whose accomplishments exemplify the terrific promise they offer our state and nation.

- Jennifer Harper, a UT Knoxville transportation engineering graduate student from Chattanooga. Jennifer won the outstanding student award from the Southeastern Transportation Center for her work investigating the environmental impact of roads in the Great Smoky Mountains, setting up a computer simulation of Knoxville traffic, and developing transportation safety plans for a uranium cleanup in Utah. She also was ranked one of the top 10 transportation engineering students in the U.S.
- Scott Kelly and Charles Hobaugh from the UT Space Institute. Both were named to NASA's 1996 astronaut class and will be trained as space shuttle pilots. They were among just 35 candidates chosen from more than 2,400 applicants.
- Michael Holland McGhee, who recently graduated from the College of Medicine at UT Memphis. He was nationally recognized for his contributions to the Memphis community. He was Big Brothers/Big Sisters Regional Big Brother of the Year and received the Meritorious Service Award for his leadership at UT Memphis. He was a student member of this Board's Public Service, Continuing Education, and University Relations Committee. He hopes to practice medicine in the Memphis area.

Money that government and private sources put into UT research pays dividends such as better health and better environment. Our water is cleaner, thanks to scientists like Dr. Spiro Alexandratos of UT Knoxville, whose molecularly altered polystyrene beads—basically the same material as disposable coffee cups—absorb radioactive materials from contaminated water. And women will be healthier as a result of UT Memphis's leading role in a huge, nationwide research study of ways to prevent heart disease and cancer.

As president, I am responsible for making sure that investments in UT are used wisely. We saved or reallocated about $6.8 million last year by shifting funds from administration to academic priorities and by managing more efficiently. UT administrative costs have declined over the past decade. The University considers reducing administrative costs and reallocating resources to be an ongoing process.

A wise investment by the state, and one for which we are very grateful, is the infusion of dollars for capital outlay and capital maintenance in 1996-97. This money will make possible some badly needed improvements to our physical plant as well as provide new buildings. We are also grateful to the state administration and legislature for the funds appropriated for a well-deserved pay raise for UT employees.

Several things that occurred last year made me very proud.

- Last fall, the University admitted its best qualified freshman class in history. That achievement was a result of investments made over time, particularly in reallocating resources so that we could offer more scholarships.
- Our 21st Century Campaign achieved spectacular results. With $265 million already given or pledged toward our original goal of $250 million, we raised our goal to $308 million. Of the commitments already in hand, some $90 million is for scholarships.
- Several of our academic programs received national recognition. Law, business administration, medicine, arts education, textiles and clothing, nursing, agricultural extension, pharmacy, and advertising were nationally ranked for their quality. The state has obviously invested wisely in these programs. And internationally, our "Friends and Partners" World Wide Web site, a project linking the U.S. and Russia, has been accessed almost 200 million times and recognized as an outstanding web site.
- The Lady Vols won their fourth national championship. They did it with hard work and with class, and I salute the members of the team, Coach Pat Summitt, and her staff.

Investments in UT are investments in human capital, in knowledge, and in economic growth. Tennessee is a better place because of them.

In this report, you will learn how investments in the University pay dividends in areas of crucial importance to Tennessee—our environment, health care for all Tennesseans, better teachers for our youth, safer roads, and robust economic development.

Investments in UT result in
better environment

Majestic mountains, fertile fields, free flowing streams—Tennessee has them all. But the beauty many of us take for granted won't last unless we care for it. UT's programs of environmental education, research, and outreach help protect—even make better—the state we call home.

Researchers are looking at the life of a car—from creation to disposal—to increase recyclability and promote environmentally friendly manufacturing.

Water quality is crucial to the well-being of humans and animals. UT Knoxville researchers are working to clean up polluted waters.

Dr. Spiro Alexandratos' tiny molecularly altered plastic beads are making a huge contribution to solving water pollution problems. The beads are made from polystyrene, much like disposable coffee cups. They remove toxic and radioactive pollutants. They are being used to treat low-level radioactive waste in a pilot plant facility at the Argonne National Laboratory and in the copper mining industry.

Environmental monitoring is essential to water cleanup efforts. Testing at the site is preferable to tests done in laboratories, but hasn't achieved reliable results. Now Dr. Mike Sepaniak of the UTK chemistry department is testing a new technique called capillary electrophoresis that in essence performs a chemical separation in the sample on site so the suspect chemical can be monitored without interference. The technique could be used to monitor streams surrounding Department of Energy facilities, such as those at Oak Ridge.

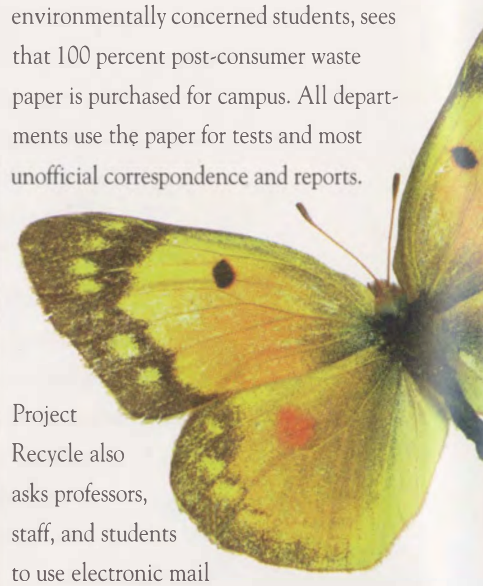
Dr. Don Byerly's research focuses on improving and maintaining water quality in construction areas by containing acid drainage from excavated rocks. Byerly, associate professor of geological sciences, devised a technique of encapsulating the rocks. His method was used at the Olympic white water rafting venue on the Ocoee River in southeast Tennessee to eliminate adverse environmental impacts on water quality.

Erosion robs Tennessee of valuable topsoil, but UT agricultural extension agents have helped farmers cut erosion by 75 percent on more than a million acres of cropland using conservation tillage techniques. Total reduction in soil loss is more than 10 million tons a year. The value in terms of reduced water pollution surpasses $20 million a year. No-till, a type of conservation tillage, has been particularly well accepted in Tennessee and is showcased each year at No-Till Field Day held at the Milan Agricultural Experiment Station.

In another effort, the Agricultural Extension service organized a waste management association that pumped 34 lagoons and spread 32 million gallons of effluent on crop and pasture land in an environmentally safe manner. The crop nutrients in the effluent have saved producers $108,000 in fertilizer costs.

Send e-mail, not paper

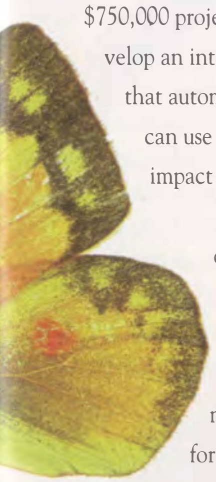
UT Martin's Project Recycle, a university-sponsored organization of environmentally concerned students, sees that 100 percent post-consumer waste paper is purchased for campus. All departments use the paper for tests and most unofficial correspondence and reports.



Project Recycle also asks professors, staff, and students to use electronic mail to send day-to-day messages. Energy conservation measures instituted at UT Martin in 1993 continued to produce

savings—more than $348,000 in 1994-95 and nearly $187,000 in the first six months of fiscal 1995-96. The measures include lighting retrofits, equipment updates, and an Energy Management System that turns off heating and cooling equipment when not needed.

UT, Saturn Corporation, and the Environmental Protection Agency are showing the way to design a "green" car. Researchers are looking at the life of a car—from creation to disposal—to increase recyclability and promote environmentally friendly manufacturing. UT's Center for Clean Products and Clean Technologies directs the two-year, $750,000 project. Researchers will develop an interactive computer program that automobile designers at Saturn can use to assess the environmental impact of all phases of a car's life.



Decisions made by public officials affect environmental quality. The more training officials have, the better decisions they can make. Enter UT's Institute for Public Service. In cooperation with the Tennessee Department of Environment and Conservation, three IPS agencies train city and county officials on environmental topics. This year the Center for Government Training, Municipal Technical Advisory Service, and County Technical Assistance Service delivered 11 courses to more than 300 persons on topics such as solid waste projects and garbage disposal.

Another IPS agency, the Center for Industrial Services, helped link TVA with a manufacturer of sheetrock, to the advantage of both. TVA creates 1.1 million tons a year of synthetic "gypsum" when ground limestone is used to clean power plant smokestacks to meet clean air regulations. When the limestone mixes with the chemicals in the smokestacks, a compound with the molecular make-up of gypsum forms. Instead of having to pay to haul it to a landfill and deal with the resulting environmental concerns, TVA, with CIS help, sold 300,000 tons of the gypsum to the sheetrock manufacturer. Mined gypsum is expensive to prepare; this is ready to use. Savings to the manufacturer are projected at $1.2 million a year. TVA expects to market the rest of the gypsum, save $500,000 in disposal costs, and potentially gain $3 million in secondary material sales.

Environmental decisions require study

UTK is home to a new research center that helps states and local governments make better environmental decisions. A five-year, $5 million grant from the National Science Foundation funded the National Center for Environmental Decision Making Research. Researchers from UT, Oak Ridge National Laboratory, and the Tennessee Valley Authority study how to streamline decision-making for issues such as hazardous waste remediation, pollution, and landfills.

Dr. David Folz in the UTK political science department tells policy makers how to encourage recycling and effective methods of hazardous waste reduction. He evaluates the effectiveness of municipal recycling and solid waste programs and, based on survey results, makes recommendations for improving programs and designing new ones.

More than 1,500 students and 700 teachers have learned more about solid waste issues since September 1995 through the Tennessee Solid Waste Education Project. The goal is to help K-12 students become environmentally literate and help teachers incorporate solid waste education into the curricula. The UTK Waste Management Research and Education Institute runs the project for the Tennessee Department of Environment and Conservation.

UT Chattanooga students have a unique opportunity for environmental education at the Tennessee Aquarium. Collaborative efforts with the aquarium include faculty serving as consultants and workshop presenters. UTC is a partner in the new Southeast Aquatic Research Institute, and students have helped catalog wildlife for the Tennessee River Gorge Trust, a nature conservancy working to preserve the ecological system of the area.

At UTK, faculty and students worked in a nationally recognized project to improve water quality in nearby Second Creek. Students in engineering, ecology, sociology, communications, planning, and geography classes did projects and field research and volunteered for creek cleanups. Drs. Jim Smoot and Bruce Tschantz of civil and environmental engineering focused student involvement through their courses.

Investments in UT result in **better health care**

For decades, UT has been the major supplier of Tennessee health professionals. And research in University labs has helped Tennesseans live longer, healthier lives.

UT Memphis is committed to turning out more primary care physicians to care for Tennesseans, and that commitment has produced results. The Association of American Medical Colleges ranked the UT College of Medicine first in Tennessee, second in the South, and 14th in the nation in the number of graduates choosing primary care as their specialty. Also, the college ranked first in the state and 21st in the nation in the number of 1995 graduates intending to practice in-state.

The first 16 clinical scholars graduated from the College of Medicine last spring virtually debt-free in return for agreeing to practice in the communities or hospitals that sponsored their education.

UT Memphis is proud of family physicians it has trained, physicians like Dr. Lee Carter in Huntingdon, Tennessee. Dr. Carter is giving back part of what his community and state gave him. His hometown hospital, Baptist Memorial in Huntingdon, sponsored his education at UT Memphis. Now he cares for the people of Huntingdon through his family practice and as an emergency room physician at Baptist Memorial.

The Underserved Areas Clinical Scholars program, directed by Dr. James C. Hunt, now includes 190 students—or 17 percent of UT Memphis medical students—committed to train in primary care specialties and practice in underserved areas in the state. The first 16 clinical scholars graduated from the College of Medicine last spring virtually debt-free in return for agreeing to practice in the communities or hospitals that sponsored their education.

At the UT Medical Center at Knoxville, 75 percent of the family medicine residents stay in Tennessee to practice medicine. Much the same is true of residents in other specialties. This year the Medical Center at Knoxville called its residency matches, in which medical students and institutions select one another, "outstanding."

Dr. Michael Caudle, dean of the Graduate School of Medicine, says the benefits of the residency program in Knoxville are two-fold. Top-notch medical school graduates come to train, and when they choose to live and work nearby, physician shortages in the surrounding rural area are reduced.

At the Chattanooga unit of the College of Medicine, a new medical residents program in family medicine obtained provisional accreditation and will accept six residents this year. Dr. Mack Worthington was appointed as chair of the department in Chattanooga, and a freestanding family practice center is being built.

It starts with research

New knowledge that results from UT research enhances health care in Tennessee. Several projects offer promise in critical areas, for example, women's health.

Dr. William Applegate at UT Memphis received a $13 million grant from the National Institutes of Health for a Women's Health Initiative, a major research study involving 160,000 women from about 45 centers across the country for an eight- to 12-year period. The study will help decide how diet, hormone replacement therapy, calcium, and vitamin D might prevent heart disease, cancer, and bone fractures.

Two Knoxvillians were tested with a new medical imaging agent that could be part of pretreatment planning for a new cancer treatment. Dr. George Kabalka, a UT Knoxville professor of chemistry, says the agent is detected by positron emission tomography (PET scans), and he and his colleagues were the first in the U.S. to use the procedure. Dr. Kabalka also is developing new agents for detecting and possibly treating Alzheimer's disease. Funding is from the Robert H. Cole Foundation.

Research in the College of Veterinary Medicine often has human health applications. One example is a study of lung cancer that focuses on early detection, prevention, and therapy. The work has helped explain why some smokers have a high incidence of certain forms of lung cancer that are rare in nonsmokers. A treatment based on this research is being tested. A second project explores an often fatal kidney disease that is essentially identical in mice

and young children. Research on the mouse model is helping improve understanding of the disease in youngsters.

Yet another project involves Dr. Jill Sackman, who received her Ph.D. in the combined program between the College of Veterinary Medicine and the UT Medical Center in Knoxville. Now she holds a dual position with the two and researches ways to keep blood clots from forming in synthetic vascular grafts. The American Heart Association funds the work.

Not all work is in labs

While many UT people work in laboratories to improve the health of Tennesseans, others are out and about all around the state.

In Chattanooga, UTC faculty, administrators, and students helped spearhead the opening of the Westside Medical Home, part of a community revitalization effort that was inspired by the work of members of the UTC nursing faculty who began a D.A.R.E. program to help parents deal with drug abuse in children.

Drs. Tim Pauly, Timothy Self, Vickie Shelton, and Tiffany Kelso, faculty in the Department of Clinical Pharmacy at UT Memphis, presented six programs across Tennessee last year to teach pharmacists how to improve the care of asthmatic patients. The program resulted from research aimed at reducing emergency room visits and hospitalizations and improving the quality of life of adult African-American asthmatics.

The Pediatric Pharmacology Research Unit at UT Memphis is conducting clinical trials to investigate the use of new drugs in children. The UT Memphis PPRU is one of seven networked across the U.S. Currently less than 25 percent of all drugs in the U.S. have indications for use in pediatric patients. It is anticipated that all new drugs receiving FDA approval will have pediatric indications in the future as a result of the PPRUs work.

People in Chattanooga who have ambulatory challenges and physical therapy needs get help from UTC physical therapy students and faculty who collaborate with the Siskin Rehabilitation Hospital. UTC's Walter Cline Chair of Excellence and the Gait Lab are integral parts of this effort.

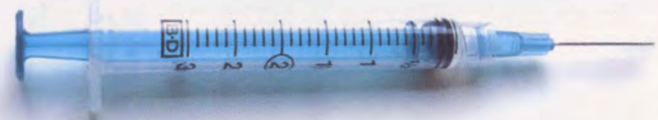
Making health care better for Tennesseans includes mental health care as well. The UTK psychology department and the Psychological Clinic provide more mental health practitioners for the state than any other college or university in the state. College of Social Work students do field experiences in places such as Knoxville's Helen Ross McNabb Center, the Tennessee Association of Legal Services in Nashville, and St. Jude's and the Veterans Affairs Medical Center in Memphis. The hours these students work enable the agencies to provide more services than they otherwise could.

Children, families guided to services

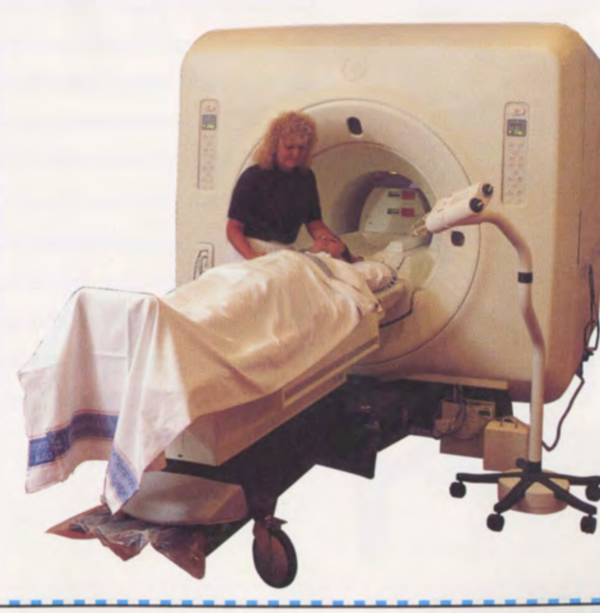
The Tennessee Early Intervention System in the College of Human Ecology at UTK coordinates services for the families of special needs children up to three years old. The system has received 470 referrals since July 1995, and 70 percent of those qualified for services. TEIS will, for example, help a mother whose child has been identified as drug- or alcohol-exposed get herself and her child into a treatment program.

Promoting good health is another important part of UT's work. Recruitment began this year for a $2.3 million research projected headed by Dr. William Applegate at UT Memphis to investigate methods of motivating people to exercise to decrease the chance of developing heart disease. The grant was one of three in the nation from the National Heart, Lung, and Blood Institute of the National Institutes of Health.

Twenty-six years ago, UT Memphis performed the first transplant surgery in Memphis. More than 1,800 such surgeries have been done since. Last year, Memphis businessman David D. "Mickey" Coleman funded a trust valued at $1.5 million to establish the David D. Coleman Endowed Professorship in Transplantation Research. UT Bowld Hospital, Memphis's only medical facility for liver, kidney, and pancreatic transplant services, recently completed its 100th pancreas transplant. One of the most active pancreatic transplant centers in the region, the program has a 99 percent survival rate within the first year.



While the transplant program is well established, others are just beginning. The UT Medical Center at Knoxville conducted its first telemedicine patient consultation this year in conjunction with Woods Memorial Hospital in Etowah, Tenn. Audio and video technology enabled a patient at Woods Memorial to consult with dermatologist Dr. Clark Julius at the Medical Center. The patient benefited from the specialist's expertise while avoiding a two-hour drive to Knoxville. Her physician was able to begin treatment immediately.



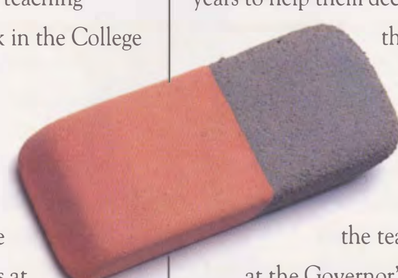
Nowhere do investments in UT pay more long-lasting dividends than in teacher training. Whether preparing a new teacher or helping a current teacher update skills, UT provides expertise that will be passed on to hundreds of students. So, with a relatively small investment by the state, the University trains educators whose influence will continue well into the next century.

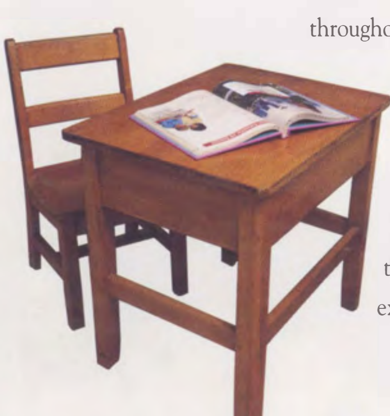
Investments in UT result in better k-12 teachers

School systems say that UTK interns are their best hires because they already have a year's actual teaching experience.

Schools are eager to hire interns from the UTK College of Education. These prospective teachers complete a five-year program of study that includes a four-year bachelor's degree in an academic discipline capped with a year's teaching internship and coursework in the College of Education.

Hardy DeYoung, a biology teacher and graduate of the program's precursor at UTK, says the UTK interns he supervises at Alcoa (Tennessee) High School receive invaluable preparation. And, he says, there is an added benefit: They push him to grow professionally and find new teaching approaches. Former Dean Richard Wisniewski says school systems throughout Tennessee and in contiguous states tell him that UTK interns are their best hires because they already have a year's actual teaching experience that is much more comprehensive than the old "student teacher" experience.





It takes a special kind of person to be a really good teacher, and a new program at UT Chattanooga helps students decide if they have what it takes. The UTC College of Education and Applied Professional Studies, in cooperation with Hamilton County Schools, places education majors in public school classrooms during their freshman and sophomore years to help them decide if teaching is their professional calling. And each summer, top high school students explore the teaching profession at the Governor's School for Prospective Teachers.

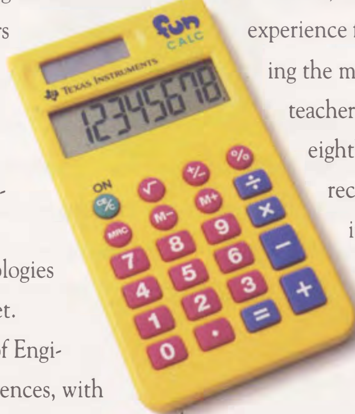
Putting computers to work

One of the biggest challenges K-12 teachers face is learning how to make computers work for them and their students. UT is helping in many ways.

More than 3,300 teachers and administrators attended the 1996 Tennessee Educational Technology Conference cosponsored by the Tennessee Department of Education and UT's Center for Government Training. There were four days of conference sessions, 23 hands-on seminars by experts in technology applications, and exhibits by vendors. Continuing education and academic affairs professionals from UT teamed up with staff of the Tennessee Department of Education, the State Board of Regents, Vanderbilt University, the state Office of Information Resources, and several public school systems to further state Education Commissioner Jane Walters' vision for ConnecTEN, the K-12 Internet project to provide local access to the World Wide Web for all Tennessee public schools. UT staff helped plan and coordinate a train-the-trainer workshop, which ultimately will reach about 46,000 Tennessee teachers. Dr. Dale Doak, UTK professor of education, designed and wrote the workshop curriculum.

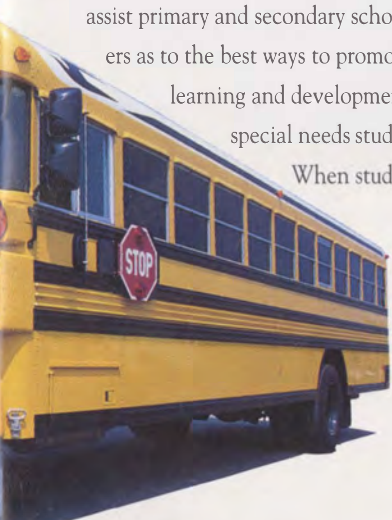
UTK departments collaborated formally and informally with Knox County schools to win 10 "Goals 2000" grants from the state Department of Education. Halls Elementary School, sponsored by UTK, received $60,000 for a computer linkup with a school in Russia. The UTK geology department trained teachers throughout the Knox County system to use computers to produce maps and graphs.

The UT Martin Center of Excellence in Science and Mathematics Education provided Internet training for 20 science and math teachers in Weakley County. The center also branched out to train teachers throughout Tennessee and in contiguous states on learning technologies that included the Internet.



The UTK Colleges of Engineering and Arts and Sciences, with Hoechst Celanese Corporation, developed the K-12 Science/Engineering Outreach program. Purpose is continuing education for teachers and motivation for students to pursue careers in science and engineering. In a year and a half, the College of Engineering sponsored 88 demonstrations reaching 24 elementary schools and 15 middle and high schools, 16 workshops for teachers, and 33 community events and environmental fairs. Almost 5,000 students and more than 1,250 teachers participated. The program has a World Wide Web site and a newsletter to help teachers improve their science and engineering knowledge and skills.

Teachers of special needs children benefit from UT training. Occupational therapists from the UT Memphis College of Allied Health Sciences educate and assist primary and secondary school teachers as to the best ways to promote learning and development of special needs students. When students are more independent, equipped with learning and performance tools, they have better self-esteem, creating a positive learning experience for students and increasing the motivation of both teachers and students. For the eighth year, UT Chattanooga received a grant for educating teachers about children with special needs. Teachers throughout Tennessee can earn up to six hours of graduate credit while learning to work with infants, toddlers, and preschool children with disabilities.



The UT Martin School of Education received a grant from THEC to recruit, advise, and mentor minority students for careers in education. The program goal is to increase the number of minority teachers in Northwest Tennessee. Thirty minority students participate in this project, which provides tuition, books, and stipends. The School of Education has a minority mentoring component that enhances the academic and social skills of minority students.

UT Martin offered the Governor's Academy for Teachers as Leaders in a Diverse Society. The program increased elementary teachers' knowledge and skills in becoming role models and instructional agents for addressing cultural diversity in schools and communities. The academy trained teachers in designing, integrating, and implementing cultural diversity themes and curriculum units.

UT Martin grant funds school improvement

The UT Martin School of Education received a Title One grant for $100,000 from the Tennessee Department of Education to provide a system of school support teams to Title One school-wide programs and schools identified as needing improvement. Teams work with schools as they develop and implement their improvement plans, periodically review the progress of the schools, and make recommendations for improvement. Teams also offer staff development activities to help improve instruction.

UTK professors Gerald Vaughan, Charles Clark, and Tamara Miller taught in the Knox County schools this year as the first Scholars-in-the-Schools. The program was created by the College of Arts and Sciences. The three also worked with faculty in the schools sharing ideas to improve the teaching/learning process. Private gifts supported the program.

UTK offers numerous summer programs for K-12 teachers including the Academy for Teachers of Science and Mathematics, the Governor's Academy for Teachers of Writing, Geography Summer Institute, Implementing Science Learning Technologies, two Lyndhurst programs for alternative teacher preparation, the Stokely Conference for Teaching Writing, agriculture and forestry workshops, and many more.

UT Chattanooga's Challenger Learning and Teaching Center marked its first anniversary. The center includes a simulated space shuttle, mission control room, and space station. More than 6,500 middle school students flew missions during the center's first year.

We are lucky to have an excellent system of roads in Tennessee. UT plays a significant role in making our streets and highways safe.

Investments in UT result in safer roads

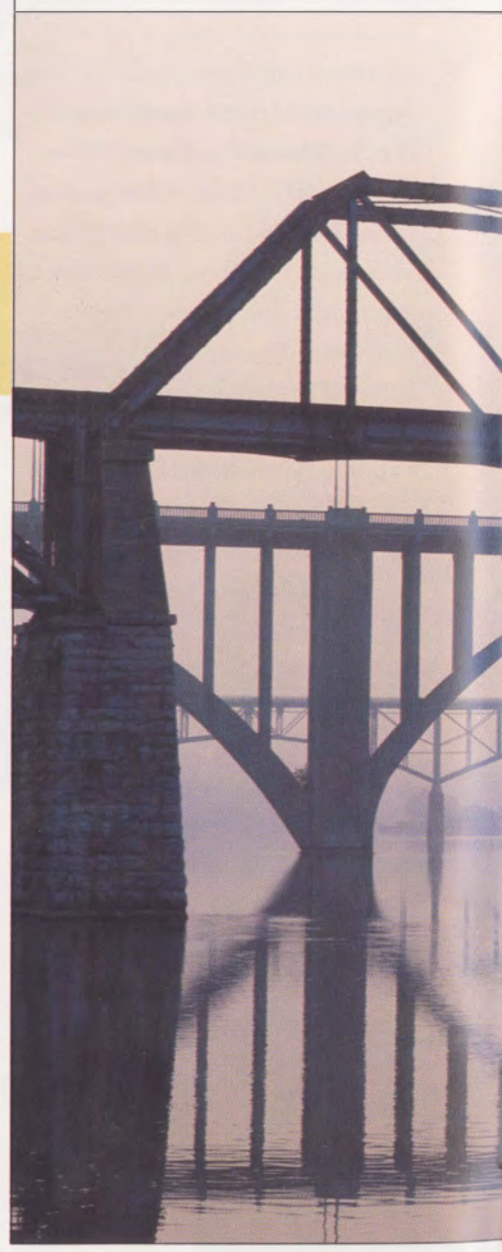
With funds from the Tennessee Department of Transportation and the Federal Highway Administration, UTK's Transportation Center operates the statewide Tennessee Transportation Assistance Program. Each year TTAP trains hundreds of city, county, and state officials on how to safely design, maintain, and operate streets throughout the state. Popular courses address topics such as work zone safety, highway drainage, and pothole repair. TTAP also works directly with local governments to eliminate safety problems at intersections and on local streets, and it disseminates technical information, video training tapes, and updates on new products and procedures. Last year, faculty and staff working through TTAP helped smaller cities identify intersections that needed traffic signals to prevent accidents and improve traffic flow. The cities receiving the service were Dandridge, Dickson, Dyersburg, Gatlinburg, Jefferson City, Newport, Maryville, Monterey, and Mountain City.

The Transportation Center is an interdisciplinary research and service unit. Dr. Steve Richards, director of the Transportation Center, also heads the Southeastern Transportation Center, a U.S. Department of Transportation-sponsored research group representing Alabama, Florida, Georgia, Kentucky, Mississippi, North and South Carolina, and Tennessee.

The Transportation Center also houses the Pedestrian Safety Institute, which serves as a national clearinghouse for information on pedestrian safety research.

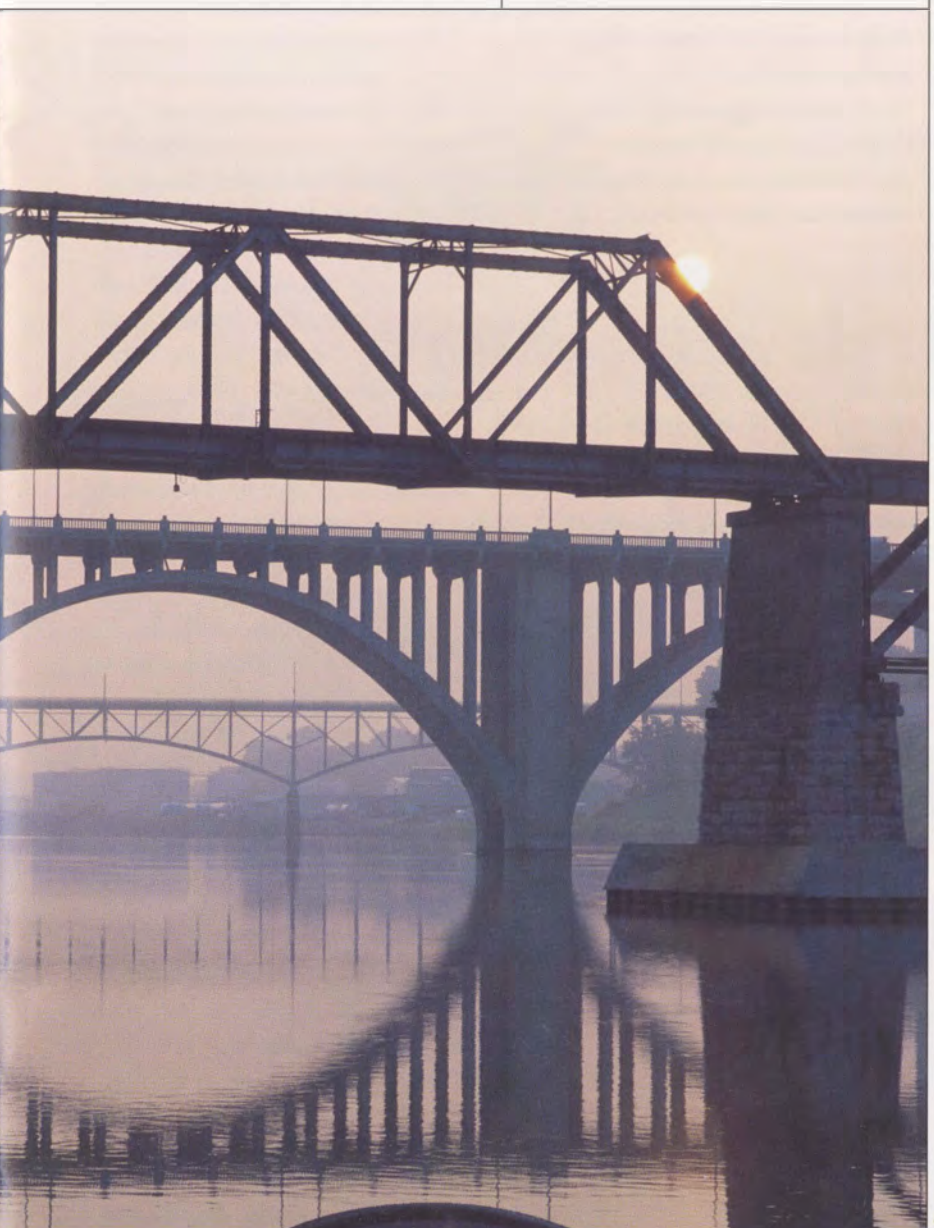
The UTK College of Engineering worked with the Tennessee Department of Transportation to predict how the state's thousands of highway bridges would perform in a major earthquake.

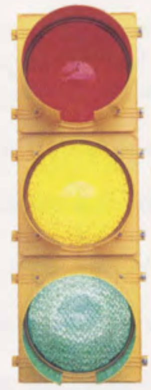
The UTK College of Engineering worked with the Tennessee Department of Transportation to predict how the state's thousands of highway bridges would perform in a major earthquake. By instrumenting existing bridges, the researchers—Drs. Ed Burdette, Hal Deatherage, and David Goodpasture—studied how earthquake forces are transmitted from rock and soil into bridge piers. The results of this research are being used to develop seismic retrofit designs and to prioritize bridges for retrofitting.



Researchers study bridge safety

Drs. Burdette, Deatherage, and Goodpasture also were involved in a three-year study of the I-40 bridge over the Holston River in Knox County. They studied the stresses brought on by truck traffic and the adequacy of the bridge. Repairs to the bridge were found to be adequate to reduce stress at critical locations. Not all state bridges, though, are so large and sophisticated. Forestry scientists in the Agricultural Experiment Station, led by Dr. Paul Winistorfer, compiled a Timber Bridge Inspection Manual and Field Inspection Guide to help local governments that do not have personnel with technical training in bridge inspection.





Two UTK political science researchers, Drs. Lilliard Richardson and David Houston, studied the effectiveness of methods designed to reduce traffic accidents. They found that states that more strenuously enforce traffic safety laws seem to have fewer accidents. They looked at state laws requiring usage of seat belts and child safety seats, at minimum drinking ages, and at how strictly laws are enforced, then compared the number of injuries.

Even a unit of the University that produces educational video programming contributed to safer roads in Tennessee. The Center for Telecommunications and Video produced a series of television and radio spots and artwork for outdoor advertising as part of a safe driving campaign targeted at young drivers, ages 16-24. The spots were to air last summer in Tri-Cities for evaluation and be offered statewide in the fall. The project was produced for the Governor's Highway Safety Program.

And at UT Memphis, medical technology faculty Paulette Sutton, Bobbie Stacks, and David Stafford (all UT alumni) are active in Driving Under the Influence instrument training for law enforcement officials in the state.

Keeping roads in good shape is a costly proposition, and UT's County Technical Assistance Service developed a way for county highway departments to better monitor the cost. CTAS developed a job costing database that is being installed in counties all across Tennessee and a similar system for noncomputerized highway departments.

Investments in UT result in
enhanced economic development

Investments made in UT pay back much more than face value to the state. A recent study showed that for every dollar Tennessee appropriates to UT, the University pumps $3 into the state economy. Not only does UT supply Tennessee with well-educated professionals; it also helps its businesses grow and prosper.

The Community Partnership Center at UT Knoxville helps stimulate community development while at the same time training graduate and professional students. Students collaborate with community groups on development projects in low-income areas—for example, helping with small-business development, gathering neighborhood histories, and exploring job training programs. Working through the Legal Clinic and the School of Planning, CPC has provided legal and technical assistance to community development efforts such as a small-business incubator in Hancock County and a Knoxville redevelopment project that aims to build a center-city business park.

UT Chattanooga's Institute for Women as Entrepreneurs helped 125 women improve their business skills last year.

Working with businesses throughout the state is one of the most direct and effective ways in which the University influences and enhances economic development. Helping businesses operate more efficiently and profitably means a higher standard of living for Tennesseans.

For nine years, the U.S. Department of Defense has contracted with UT's Center for Industrial Services to provide procurement assistance to Tennessee business and industry. During fiscal 1995, CIS worked with 1,700 clients and documented $17.5 million in contract awards. One Chattanooga-area manufacturer received an $8 million contract to make gloves for the troops in Bosnia. During the nine years, Tennessee clients have won more than $540 million in contracts working directly with DOD.

Partners in training, employment

UT Martin's relationship with MTD Products Inc. exemplifies a cooperative partnership between higher education and industry. The Martin plant, which opened in 1985 and employs more than 750 workers, manufactures and distributes lawnmowers worldwide and produces automobile parts for Chrysler, Ford, and Toyota. The University's presence was a primary reason MTD located the plant in Martin. Highlights of the relationship include a series of training programs provided to MTD by the UT Martin School of Business Administration and a part-time employment program that allows university students to work in the plant while pursuing their degrees.

Corporate-level and international training are the cornerstones of a highly successful partnership between UT Martin and Goodyear Tire and Rubber Co., which has a plant in Union City, Tennessee. UT Martin offers career development for Goodyear executives through the Goodyear Management Institute.

The UT Space Institute, Arnold Engineering Development Center, and Sverdrup Inc. cooperated to develop a process that uses laser technology to produce a "stainless steel" surface on mild steel, thus eliminating the need for costly cleaning and replacement of the rusted piping in wind tunnel air ducts. UTSI has applied for a patent on the process, which has been licensed to a Tennessee company for commercial use in rust protection of steel structures and aircraft wings and landing gear.

UTSI also is working with a Tennessee company, Worth Inc., to design a better softball. UTSI researchers are doing computational and experimental work to investigate the effect of stitch patterns on aerodynamic performance. Determining the effect that stitching has on ball trajectory will point the way to design of an improved ball.

One of the most high-profile University/industry ties is the UTK-Exxon Chemical Company partnership in the Textiles and Nonwovens Development Center. New products developed at TANDEC include an improved fabric for medical gowns and drapes and other protective medical apparel. The new fabric, which is close to test-market production, is more economical than current products that prevent the transfer of bloodborne viruses. Through funding provided by Exxon Chemical Company, Dr. Randall Bresee has developed an on-line image analysis system to characterize nonwoven web structures. The system is controlled by the Webpro software, which is now commercially available.

Through the Center for Industrial Services, UT Memphis faculty members Jack Buchanan and Michael Rosen (associate professors of biomedical engineering and orthopaedic surgery respectively) have contracted to help small firms in the state with the focus of their work in industrial health and electronic commerce.

What a spectrometer can do

The UTK chemistry department helped Fleetguard, a small Tennessee firm that makes engine coolants and lubricants, identify the sources of variability in raw materials. A new spectrometer was perfect for the job: Scientists analyzed the materials and found the problem. Fleetguard also asked for analysis of other, more complex materials to find why some were more effective than others. Dr. Kelsey Cook, professor of chemistry, said the methods the department developed "should have applicability well beyond the scope of Fleetguard's problems. In the course of solving a problem for a Tennessee constituent, we developed methodology that should be of broad utility for important areas of chemical analysis."

Growing new businesses is an excellent way to stimulate economic development. UT Chattanooga's Institute for Women as Entrepreneurs helped 125 women improve their business skills last year. Women account for the fastest growing segment of small-business owners. The institute, part of the school of business administration, provides information, advice, counseling, consulting, and networking opportunities free.

UTC's partnership with the Southside redevelopment initiative encompasses the community stadium project which, when opened in fall 1997, will provide a major boost to an economically depressed section of Chattanooga.

Rural economic development is another area in which UT is involved. Agricultural extension faculty have helped 29 rural counties develop strategic plans for economic and social development. Two pairs of counties achieved Economic Community designation, and each pair received initial federal assistance of $2.95 million. The pairs are Fayette and Haywood counties and Scott County and its Kentucky neighbor, McCreary County. Initial assistance stimulated an additional $12 million in infrastructure development in Scott County and more than $6.8 million in economic and social improvements in Fayette and Haywood counties.

Extension faculty helped other state agencies recruit a poultry firm, Hubbard Farms, to rural Bledsoe County. The economic impact could exceed $25 million a year.

Extension helps fight flood damage

When Mississippi River flooding caused a planting delay on more than 40,000 acres in five West Tennessee counties, Extension specialists and agents worked with farmers and agribusiness people to turn to alternative crops and to handle residual herbicides. Rather than a total loss on these acres, farmers received about $7.9 million from this once-flooded land.

The WestNet leadership development program and UT Martin's School of Arts and Sciences sponsored West Tennessee's largest economic development conference in history last year in Jackson. The conference attracted 270 participants and featured a keynote address by Wilbur Hawkins, deputy assistant secretary for economic development of the U.S. Department of Commerce.

Internet access is an important element of community and economic development. UT is helping in projects in two of Tennessee's major cities. Dr. Jack Buchanan of UT Memphis works with the Memphis Educational Computer Connectivity Alliance. This research combines the efforts of several Memphis universities and colleges to enhance medical education and nutrition in the inner city using computer networks. Dr. Buchanan received a $1.3 million grant from the National Science Foundation for the work.

In Knoxville, UTK is a major player in KORRnet, the Knoxville-Oak Ridge Regional Network. This grassroots effort provides access to community information for and about Knoxville, Oak Ridge, and the surrounding area. The network came on-line in spring 1996 and presents Internet opportunities for citizens who once might never have considered using computer networks.

Perhaps the oldest formal economic development arm of the University is UT Knoxville's Center for Business and Economic Research. CBER, founded in 1937, annually prepares the Economic Report to the Governor and maintains the Tennessee econometric model of the state economy, which provides quarterly, annual, and long-term economic and fiscal forecasts. A monthly economic indicator series, the Tennessee Economic Overview, is prepared for the state and for the state's metropolitan statistical areas. The center also projects monthly tax collections for the state Department of Finance and Administration; does economic and fiscal impact studies for the state, local governments, and the private sector; and analyzes economic development incentives for the state Department of Economic and Community Development.

More highlights of 1995-96

UT Chattanooga

UTC's Southeast Center for Education in the Arts will receive $875,000 over the next five years as part of the Annenberg Foundation's $4.3 million challenge grant to place arts education at the core of elementary and secondary school reform. The grant will support an initiative, "Transforming Education through the Arts Challenge," by providing funds for schools in six regions, including the Southeast, to demonstrate how education in the arts can improve student achievement.

A federal grant to the Chattanooga Family Services Corps, a project developed by UTC social work professor Jim McDonnell, provided tutors to 500 at-risk children in inner-city schools. The project helped the youngsters improve their academic performance while instilling in the tutors a commitment to community service.

The Southeast Institute for Education in Theatre conducted the nation's first invitational conference on discipline-based theatre education. The J. Paul Getty Trust and local foundations supported the conference, which included the participation of 24 distinguished theatre educators from throughout the U.S.

UTC proposed a master of science degree in environmental science. The program would help prepare students to address issues such as sustainable development, conservation, and efficient management of resources.

Dr. Irven Resnick, holder of UTC's Chair of Excellence in Judaic Studies, and Chancellor Frederick Obear were appointed by Governor Don Sundquist to subcommittees of the Tennessee-Israel Cooperation Committee.

UTC again hosted the Southeastern Conference Women's Basketball Tournament—with record-breaking attendance.

UTC's Communication Department was recommended for full accreditation by the Accrediting Council on Education in Journalism and Mass Communication.

The campus established a Teaching Resource Center with the support of the UC Foundation. The center, directed by Dr. Karen Adsit, helps faculty enhance teaching skills.

UT Knoxville

For the second year in a row, UTK was ranked as one of the best education values among the nation's major universities. *U.S. News and World Report* ranked UTK eighth in its best value index based on quality ratings of top universities divided by the total of tuition, required fees, and room and board.

The new International House was dedicated in February. The new facility welcomes people and groups from throughout the campus population, not just international students. Student activity fees paid for the new building. The old International House on Cumberland Avenue was displaced by the expansion of the College of Law.

Several UTK programs received national recognition.

—*U.S. News and World Report* ranked three UTK graduate programs in the top 50 in their respective categories—advertising, eighth; business, 47th; and law, 47th. Rankings are based on faculty resources, research activity, test scores, and reputation.

—The American College of Trial Lawyers ranked the law college No. 1 in the nation in 1996 for the way in which it trains trial attorneys. Past winners of the ACTL's annual Emil Gumpert Award for Excellence in Teaching Trial Advocacy include Harvard, Yale, New York University, and UCLA.

—The textiles and clothing program in the College of Human Ecology was ranked No. 1 in the U.S. by the *Clothing and Textiles Research Journal*. The journal assessed 183 programs on the number and quality of faculty, students, publications, and other criteria. Cornell and Ohio State ranked second and third. The UTK College of Human Ecology has the world's only on-campus non-woven textile processing laboratory with melt-blown and spun-bond lines.

—*Public Accounting Report* called UTK's master of accountancy program the 17th best in the nation and 12th best among public universities.

A team of master's of business administration students from UTK won the National Black MBA Association's annual Council for Advancement and Support of Education competition against a field that included 11 business schools rated in the nation's top 20 by *Business Week* magazine. Second place went to Johns Hopkins University and third to Stanford University.

Last fall's freshman class ranked as UTK's best ever. The class had the highest ever ACT score, grade-point average, and percentage of students in the top 10 percent of their high school graduating classes. The new Bicentennial Scholarship program helped recruit outstanding students.

UTK and the University of Virginia launched the first cooperative master's degree program in information sciences via distance education technology. Using teleconference communications systems, Tennessee students can earn a master of science degree in information sciences in Chattanooga, Kingsport, and Memphis. Classes at multiple locations in Virginia will enable students to earn an advanced degree without crossing state lines.

UT Martin

UT Martin received $600,000 of a $1.2 million gift to the University of Tennessee from Clayton McWhorter, chairman of Columbia/HCA and University of Tennessee trustee. The first awards were available for fall semester 1996 to students who work part-time. This gift and others brought UT Martin to the $9.2 million mark toward its $11 million goal for the 21st Century Campaign.

The new Skyhawk softball field was named in April for long-time UT Martin women's athletic director Bettye Giles. Giles was a member of the University's faculty for 42 years and served as athletic director for 25 years. She was inducted into the UT Martin Athletic Hall of Fame in 1985.

UT Martin set a record head-count enrollment for fall semester 1995 with 5,812 undergraduate and graduate students. This eclipsed the previous high of 5,696 students in 1983.

UT Martin's department of communications was fully accredited by the Accrediting Council on Education in Journalism and Mass Communications. All UT Martin programs eligible for accreditation are presently accredited.

The Faculty Multimedia Center in the Paul Meek Library opened spring semester and allows faculty members to develop and test state-of-the-art multimedia instructional materials and teaching methods for the classroom. The technology was made possible by a gift from Harry and Rosemary Crisp. Dr. Glenn Everett, associate professor of English, manages the new center.

The Student Affiliates of the American Chemical Society (SAACS) chapter was named an outstanding chapter for the 18th straight year. Only 18 chapters out of 900 chapters at colleges and universities in the U.S. and Puerto Rico won the outstanding rating.

UT Memphis

For the sixth consecutive year, pharmacy graduates achieved a 100 percent pass rate on the national pharmacist licensing exams. Also 100 percent of the 1995 occupational therapy graduates (23 students) passed the January 1996 certification exam.

The UT Memphis College of Nursing is one of three Southern sites receiving funding from the Kellogg Foundation to educate tenured, doctoral-level faculty in nursing schools to be family nurse practitioners. The college is ranked as the best faculty practice in the nation by the National Organization of Nurse Practitioner Faculties.

American Health magazine named five UT Memphis faculty among the 1,019 Best Doctors in America in its March 1996 issue: Dr. William Applegate, professor and chair of preventive medicine for his work in geriatric care; Dr. Walter Hughes, professor of pediatrics for his efforts in pediatric AIDS; Dr. Fred Barrett, professor of pediatrics for the field of pediatric infectious diseases; Dr. Larry Kun, professor and acting chair of radiation oncology for pediatric oncology; and Dr. Thom Lobe, professor of surgery for pediatric surgery.

UT Memphis researchers found that "imitation is the sincerest form of flattery." The prestigious journal *The Scientist* (November 1995) listed the faculty seventh among Southern universities and 36th nationally in the number of times their published research work was cited by other researchers. UT researchers ranked 12th nationally in the increase in the number of times faculty were cited by other researchers when compared to the four-year period 1981-85, the last time the journal did the comparisons.

UT Memphis received four-year funding totaling $776,000 from the U.S. Department of Education through the Ronald E. McNair Postbaccalaureate Achievement Program. The funding will be used to help undergraduates attending local institutions prepare for graduate studies in biomedical sciences. This is one of 14 health careers programs that provide training, science enrichment, or apprenticeships that reached 502 elementary through college-age students aspiring to careers in the health professions.

Institute of Agriculture

Eight hundred 4-H members and adults from throughout the nation participated in the first national 4-H Congress held in Tennessee last November. Tennessee will again host the national congress this year and next.

Charles Graves, professor of crop production in the Department of Plant and Soil Science, was named Man of the Year in Service to Tennessee Agriculture by the editors of *Progressive Farmer* magazine. His research led to the adoption of 30-inch rows by many state corn producers, which has increased the income of state food producers by about $7.5 million a year.

More than 4,000 Tennessee families that receive food stamps participated in a nutrition education program provided by the Agricultural Extension Service. About 92 percent said they had improved their diets. During the year, the families saved more than $400,000 on food while eating more nutritious diets.

Two scientists from the Institute of Agriculture were named fellows in the American Association for the Advancement of Science. Dr. John Foss, professor of plant and soil science, was honored for his research in soil science and soil archaeology. He recently completed a term as president of the American Society of Agronomy. Dr. Peter Gresshoff, who holds the Racheff Chair of Excellence in Plant Molecular Genetics, was recognized for his studies of developmental genetics of nodulation in legumes, genome analysis, and technology developments for molecular mapping and DNA fingerprinting in plants.

Institute for Public Service/ Continuing Education

The Institute for Public Service was the first UT unit to exceed its 21st Century Campaign goal. Nearly $3 million was given or pledged by the end of fiscal 1996, surpassing the $2 million goal. IPS agencies received major commitments from the Tennessee Municipal League Risk Management Pool, PESA Switching Systems, Mr. and Mrs. W. Dwight Kessel, and Mr. and Mrs. Eugene Puett. The Municipal Technical Advisory Service received gifts or commitments ranging from $400 to $25,000 from nearly one-third of Tennessee's 342 cities. A fund-raising dinner to celebrate Mr. and Mrs. Kessel's gift to the County Technical Assistance Service added almost $11,000 to the Kessel Special Project Consultants Endowment. Pledges during the IPS family campaign totaled more than $300,000.

Statewide Continuing Education was instrumental in developing guidelines for distance education, leading to the graduation this year of the first class of part-time students receiving the MBA via distance education. The students were from the Knoxville area. They took UT Chattanooga courses by two-way interactive video and received the MBA from UTC without going to that campus. Cooperation of the UTC Division of Continuing Education and the UTK campus, using UT EDNET, made the program possible.

The 1996 annual Solid/Hazardous Waste Conference marked the silver anniversary of the partnership between IPS and the Tennessee Department of Environment and Conservation. The organizations work to bring state and local government leaders, regulatory enforcement personnel, technical assistance providers, environmentalists, business and industry representatives, and environmental experts together to share information on innovations and best practices in waste management. The conference has grown from 200 to 1,200 participants and 110 exhibitors.

UT Space Institute

Faculty began working on a new method of burning coal to increase efficiency and reduce emissions. The four-year, $9.2 million project is supported by the U.S. Department of Energy. DOE also funded a three-year, $4 million UTSI research effort testing high-temperature superconductivity to help commercialize technology being developed at the National Laboratories.

UTSI surpassed the halfway mark of its $2 million goal as part of the University-wide 21st Century Campaign. Major gifts included $264,000 from the Thomas Jefferson Endowment Fund to upgrade the library and endow two fellowships and an annual lecture series; $139,000 from UTSI faculty and staff; $75,000 from Sverdrup Corp. for a Chair of Excellence; $50,000 from ACS, also for a Chair of Excellence; $62,000 from Dr. Robert Young; $32,000 from Mr. and Mrs. Bill Housholder; $10,000 from the Coffee County Bank; and $12,720 from Alumni Council members to equip a computer lab for students.

UTSI recorded 141 direct consultations with industry and other technology-oriented organizations. Of this number, 73 are located in Tennessee.

Researchers continued work with Westinghouse Corporation to develop a commercial combustor for power generating facilities. Funding for last year was $525,000.

Medical Center, Knoxville

Dr. Michael Caudle was named dean of the Graduate School of Medicine, replacing Dr. Reid Collmann, who retired. Caudle continues as chair of the Department of Obstetrics and Gynecology.

The Cancer Center of the UT Medical Center at Knoxville received a $16,650 grant to fund a year-long pilot program by the Avon Breast Health Awareness Fund. The program will test the effectiveness of promoting breast health for women over age 40 in Loudon and Monroe counties through local churches. The counties were selected because of their high rates of breast cancer.

The Tom and Katherine Black Intensive Care Nursery celebrated its 25th year of providing care to high-risk infants. In its 25-year history, the nursery has cared for 13,000 critically ill and premature infants.

The Lifestar emergency helicopter service recorded its 10,000th flight.

Two more regional hospitals, Hawkins County Memorial Hospital and Morristown Hamblen Hospital, affiliated with UT Medical Center. Initial cooperative efforts may include telecommunications, continuing medical education, employee training, and administrative support. Already affiliated with the Medical Center are LaFollette Medical Center, Woods Memorial Hospital in Etowah, Jefferson County Hospital, and Harriman City Hospital.

Development and Alumni Affairs

Gifts to the University totaled $55.8 million during 1995-96. This is an all-time record for UT and only the second time gifts have exceeded $50 million in a single year.

The 21st Century Campaign, begun in 1994, has gifts and pledges of more than $265 million. The campaign goal of $250 million was raised to $308 million. Thanks to campaign gifts and pledges, UT has many new scholarships and faculty endowments.

The University endowment continues to rank in the top 12 or 15 nationally among public universities. Having an endowment of more than $380 million puts UT in select company.

In addition to gifts actually received, $12-$15 million in expectancies (wills and bequests) were added. The University has a total of more than $210 million in expectancies.

Increasing numbers of alumni participated in events held on the University campuses and throughout the U.S. and the world.

For the 33rd consecutive year, alumni gave more money to the University through the alumni annual giving program than they did the year before, contributing $13.5 million— a $2.1 million increase over the previous year. Gifts came from 52,075 alumni and other friends, 2,400 more than the year before.

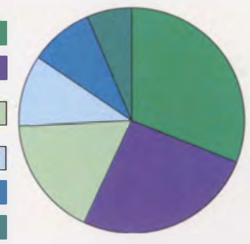
The annual giving staff, in coordination with the 21st Century Campaign office and campus development officers, planned for the kickoff of the National Gifts Campaign in January 1997. A goal of this closing phase of the 21st Century Campaign is to generate a broad base of participants from among all UT alumni. The campaign will end June 30, 1998.

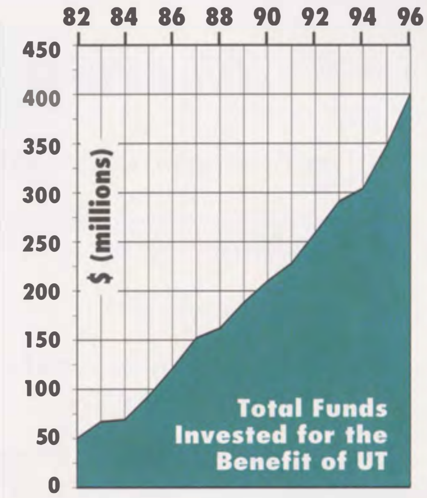
Revenues set a record

UT revenues increased $16.4 million in fiscal 1996, reaching a total of $1.2 billion. The largest part of this record total came from the state of Tennessee—$363.8 million, or 31 percent. The rest came from four other major sources.

- Two University hospitals, one in Memphis and one in Knoxville, accounted for 26 percent of the University's annual revenue.
- Gifts, grants, and contracts provided 17 percent.
- Auxiliary enterprises and some smaller miscellaneous categories added another 16 percent.
- Student fees provided about 10 percent. Revenues from fees increased about $4 million, reflecting a three percent rate increase and some minor enrollment growth.

UT Revenue Sources





Financial perspective

A quick look at UT finances reveals investments performing handsomely and revenues at an all-time high. Detailed financial statements follow in the second half of this report.

Expenditures mirror UT missions

University educational and general expenditures grew by two percent during fiscal 1996, with the major expenditures paralleling the University's three missions—instruction, research, and public service. Auxiliary enterprise expenditures increased by three percent, while hospital expenditures increased only one percent as the health care industry adapted to the new cost-controlled business environment of managed care.

University investments prosper

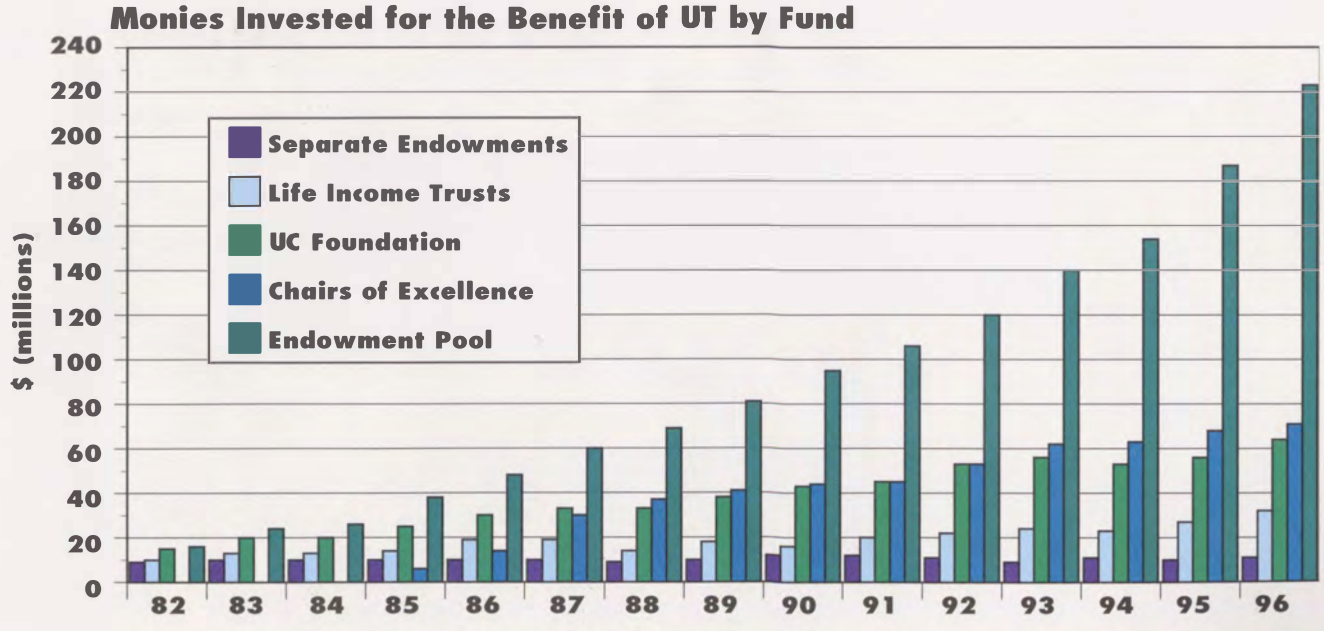
The market value of University endowment funds and other funds invested for the benefit of UT increased to $401 million in fiscal 1996. The $53 million increase was the largest ever, mirroring the success of the University's 21st Century Campaign as well as continued strong capital markets.

The centerpiece of the University's endowment investment program is the Consolidated Investment Pool, which combines almost 1,500 endowment funds for investment purposes. The pool's market value grew by $36 million to $223 million last year. Investment performance for the pool compared very favorably to similar funds, with an annual return of 16.8 percent. University endowment funds that must be invested separately due to donor restrictions or asset types were valued at $11 million, and life income trusts increased to $32 million.

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

- Chairs of Excellence Trust. Beginning in 1984 and intermittently until 1990, the state appropriated funds for the Chairs of Excellence endowment. The University is required to match dollar for dollar the state funds, and when fully matched, there will be 49 chairs. The treasurer of the state of Tennessee manages the trust, which had a June 30, 1996, market value of $71 million.
- University of Chattanooga Foundation. The UC Foundation benefits UT Chattanooga and for fiscal year 1996 distributed $2.3 million for scholarships and programs at UT Chattanooga. University financial statements do not include financial data of the UC Foundation. The market value of foundation assets on June 30, 1996, totaled $64 million.

Monies Invested for the Benefit of UT by Fund



In conclusion, I would like to thank some very important groups for their support last year.

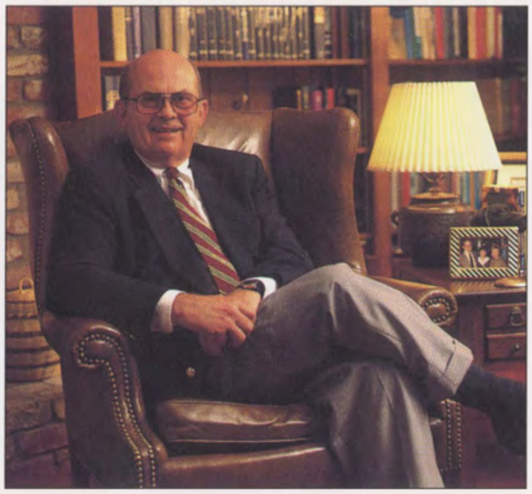
First of all, thank you to the members of the immediate UT family: trustees, students, faculty and staff, and alumni. The wise counsel of the members of this Board of Trustees guides our institution in the most effective way possible. Your willingness to devote your time and energy to the University advances the cause of all of higher education in Tennessee.

Without students, there would be no University, and our students on all of our campuses are second to none. Our faculty deserve sincere thanks for their hard work in carrying out the University's missions of instruction, research, and service. They are the backbone of our University. The staff make possible the efficient operation of the University, providing services that are necessary for our statewide institution to flourish. They are a talented and hardworking group.

Many thanks

And to our alumni, we owe a continuing debt of gratitude. They give of their time and money, send us good students, and help us form valuable partnerships with other organizations. Their involvement and interest is vital.

Sincere thanks to the General Assembly and to the administration of Governor Don Sundquist. The state is UT's primary funding source, and we are grateful for its support. We value the input and encouragement of the leaders of state government and look forward to continued cordial relationships.



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 enjoy productive working relationships.

The leaders of our 21st Century fund-raising campaign deserve special thanks for their hard work and dedication to the University. The dollars that the campaign leaders have raised will help UT meet the challenges of the coming century. And to all of our contributors, both alumni and other friends, we say a special thank you. Your gifts allow UT to provide "extras"—such as scholarships, faculty awards, and library enhancements—that make a truly outstanding university.

Each of these groups invests in UT. They may invest time, money, or both. Their investments are critical to the University's success. We are proud of the dividends those investments pay.

Joseph E. Johnson

Joseph E. Johnson
President

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 741-3697
FAX (615) 532-2765

Independent Auditor's Report

September 20, 1996

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

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the University of Tennessee, which is a component unit of the State of Tennessee, as of June 30, 1996, and June 30, 1995, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the year ended June 30, 1996. 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 compensated absences from the accompanying balance sheets. In our opinion, accrued compensated absences should be included to conform with generally accepted accounting principles. The recognition of this liability would have increased the liabilities of the unrestricted current fund by $49,734,929.94 at June 30, 1996, and $48,109,437.06 at June 30, 1995, and increased the unrestricted current fund expenditures by $1,625,492.88 for the year ended June 30, 1996, and $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 compensated absences in the accompanying balance sheets, discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Tennessee, as of June 30, 1996, and June 30, 1995, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the year ended June 30, 1996, 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 20, 1996, on our consideration of the university's internal control structure and on its compliance with laws and regulations.

Sincerely,

Arthur A. Hayes, Jr.

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

AAH/tp

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 1995–96 and the balances available for the future. A separate publication entitled *Report of the Treasurer 1996* 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, 1996 — With Comparative Figures at June 30, 1995

Assets

	1996	1995
CURRENT FUNDS		
Unrestricted		
General		
Cash and Cash Equivalents (Note 3)	$ 93,105,849.15	$ 101,651,695.31
Accrued Interest Receivable	2,073,883.05	2,188,422.88
Accounts Receivable (Net of Allowance of $2,618,81724 at June 30, 1996, and $2,856,985.00 at June 30, 1995)	9,877,548.28	12,408,741.16
Inventories	5,192,583.93	4,614,146.83
Prepaid Expenses and Deferred Charges	2,782,215.50	2,361,645.39
Due From Life Income Funds	54,260.14	52,414.46
Total General	$ 113,086,340.05	$ 123,277,066.03
Auxiliary Enterprises		
Cash and Cash Equivalents (Note 3)	$ 17,393,511.98	$ 18,872,040.06
Accounts Receivable (Net of Allowance of $1,332,295.19 at June 30, 1996, and $2,503,591.98 at June 30, 1995)	3,392,518.39	2,814,110.95
Inventories	5,562,350.42	4,971,643.48
Deferred Charges	431,222.76	328,818.44
Total Auxiliary Enterprises	$ 26,779,603.55	$ 26,986,612.93
Hospitals		
Cash and Cash Equivalents (Note 3)	$ 28,491,074.13	$ 24,113,191.00
Accounts Receivable (Net of Allowance of $53,305,302.38 at June 30, 1996, and $52,015,099.91 at June 30, 1995)	68,423,874.70	68,372,908.10
Inventories	2,096,558.71	2,320,796.40
Deferred Charges	503,087.00	217,835.67
Total Hospitals	$ 99,514,594.54	$ 95,024,731.17
Total Unrestricted	$ 239,380,538.14	$ 245,288,410.13
Restricted		
Cash and Cash Equivalents (Note 3)	$ 23,126,799.20	$ 17,262,769.98
Accounts Receivable - Educational and General	47,579,287.17	44,896,119.33
Accounts Receivable - Hospitals	759,401.02	1,382,897.88
Bonds (Note 3)	12,929.54	14,051.06
Stocks (Note 3)	19,750.00	19,750.00
Other Assets (Note 3)	116,097.48	133,216.63
Real Estate Gifts (Note 3)	385,000.00	1,265,000.00
Total Restricted	$ 71,999,264.41	$ 64,973,804.88
TOTAL CURRENT FUNDS	$ 311,379,802.55	$ 310,262,215.01
LOAN FUNDS		
Cash and Cash Equivalents (Note 3)	$ 5,077,745.02	$ 4,173,503.36
Accrued Interest Receivable	659,055.88	610,007.82
Notes Receivable (Net of Allowance of $1,810,466.25 at June 30, 1996, and $1,805,304.75 at June 30, 1995)	29,507,061.29	29,100,010.50
TOTAL LOAN FUNDS	$ 35,243,862.19	$ 33,883,521.68

Liabilities and fund balances

	1996	1995
CURRENT FUNDS		
Unrestricted		
General		
Salaries, Wages and Benefits Payable	$ 12,898,127.95	$ 9,117,294.27
Accounts Payable (Note 1)	33,567,402.21	43,888,981.49
Payroll Taxes Payable	11,336,786.02	13,406,485.58
Deposits and Advance Payments	1,625,048.10	1,393,622.04
Deferred Revenue	9,041,065.76	8,144,711.90
Fund Balances		
Allocated for Working Capital	13,925,127.45	15,700,833.28
Allocated for Encumbrances (Note 11)	3,896,702.25	4,737,382.88
Allocated for Unemployment Compensation	621,831.43	979,194.45
Allocated for Revolving Accounts	8,060,903.33	7,790,519.15
Allocated for Unexpended Gifts	1,796,359.07	1,606,787.63
Allocated for Reappropriation	3,983,689.57	4,218,142.57
Unallocated	12,333,296.91	12,293,110.79
Total General	$ 113,086,340.05	$ 123,277,066.03
Auxiliary Enterprises		
Salaries, Wages and Benefits Payable	$ 557,934.18	$ 31,067.03
Accounts Payable	1,863,772.32	2,235,624.85
Deposits and Advance Payments	1,165,123.38	1,322,571.76
Deferred Revenue	10,749,022.18	11,960,741.40
Fund Balances		
Allocated for Working Capital	8,943,050.34	7,777,510.17
Allocated for Encumbrances (Note 11)	597,945.30	430,647.10
Unallocated	2,902,755.85	3,228,450.62
Total Auxiliary Enterprises	$ 26,779,603.55	$ 26,986,612.93
Hospitals		
Accounts Payable	$ 14,658,388.14	$ 11,619,042.29
Salaries, Wages and Benefits Payable	5,534,345.01	1,554,683.11
Fund Balances		
Allocated for Working Capital		
Memorial Hospital - Knoxville	55,803,521.42	59,518,631.52
William F. Bowld Hospital - Memphis	14,714,893.24	11,173,162.43
Allocated for Encumbrances (Note 11)		
Memorial Hospital - Knoxville	3,800,740.83	3,541,635.29
William F. Bowld Hospital - Memphis	433,359.10	590,614.35
Allocated for Revolving Accounts	1,104,069.32	871,536.75
Unallocated		
Memorial Hospital - Knoxville	9,905,759.76	9,995,229.07
William F. Bowld Hospital - Memphis	(6,440,482.28)	(3,839,803.64)
Total Hospitals	$ 99,514,594.54	$ 95,024,731.17
Total Unrestricted	$ 239,380,538.14	$ 245,288,410.13
Restricted		
Salaries, Wages and Benefits Payable	$ 871,585.74	$ 289,076.01
Accounts Payable	2,458,405.81	2,087,869.73
Deposits and Advance Payments		80,000.00
Fund Balances		
Educational and General	65,849,568.52	59,608,826.45
Auxiliary Enterprises	313,365.48	291,496.30
Hospitals	2,506,338.86	2,616,536.39
Total Restricted	$ 71,999,264.41	$ 64,973,804.88
TOTAL CURRENT FUNDS	$ 311,379,802.55	$ 310,262,215.01
LOAN FUNDS		
Fund Balances		
Privately Sponsored Loan Funds - Restricted	$ 4,232,906.20	$ 3,963,804.28
Institutional Loan Funds - Restricted	2,186,888.77	2,065,641.96
Federal Participation Loan Funds - Restricted	28,824,067.22	27,854,075.44
TOTAL LOAN FUNDS	$ 35,243,862.19	$ 33,883,521.68

Balance Sheet

June 30, 1996 — With Comparative Figures at June 30, 1995

Assets

	1996	1995
ENDOWMENT AND SIMILAR FUNDS (Note 4)		
Cash and Cash Equivalents (Note 3)	$ 17,007,084.83	$ 12,748,967.54
Accounts Receivable	382,320.77	76,107.43
Notes Receivable (Note 3)	1,733,354.95	1,704,286.94
Bonds (Note 3)	70,828,583.24	62,788,550.11
Stocks (Note 3)	80,607,406.48	74,660,625.15
Venture Capital (Note 3)	7,566,026.36	5,793,990.36
Assets With The University of Chattanooga Foundation, Inc. (Note 3 and Note 10)	1,601,257.00	1,348,304.00
Assets Held By Others (Note 3)	205,994.05	202,627.00
Real Estate Gifts (Note 3)	3,422,247.44	3,160,356.28
Real Estate Equity (Note 3)	5,962,950.00	6,003,700.00
Other Assets (Note 3)	26,891.00	26,892.00
TOTAL ENDOWMENT AND SIMILAR FUNDS	$ 189,344,116.12	$ 168,514,406.81
LIFE INCOME FUNDS (Note 4)		
Cash and Cash Equivalents (Note 3)	$ 832,487.63	$ 392,742.72
Accounts Receivable	129,427.28	8,969.97
Notes Receivable (Note 3)	1,313,805.45	1,551,736.76
Bonds (Note 3)	23,088,825.82	19,718,750.66
Stocks (Note 3)	3,393,143.87	2,552,917.01
Real Estate Gifts (Note 3)	1,836,640.00	1,210,000.00
TOTAL LIFE INCOME FUNDS	$ 30,594,330.05	$ 25,435,117.12
PLANT FUNDS		
Unexpended Plant		
Cash and Cash Equivalents (Note 3)	$ 4,799,187.23	
Notes Receivable (Note 3)	4,973.81	$ 268,710.97
Real Estate Gifts (Note 3)	82,700.00	99,530.00
State Capital Outlay and Maintenance Receivable	406,719.15	3,416,350.19
Tennessee State School Bond Authority Debt Proceeds Receivable	7,094,202.64	6,847,632.42
Stocks (Note 3)	886.15	1,142.37
Total Unexpended Plant	$ 12,388,668.98	$ 10,633,365.95
Retirement of Indebtedness and Renewals and Replacements		
Cash and Cash Equivalents (Note 3)	$ 89,083,999.68	$ 77,774,249.14
Due From Unexpended Plant		11,878,048.53
Unexpended Construction Earnings Receivable	340,995.96	240,873.52
Assets With Trustees (Note 3)		
Tennessee State School Bond Authority	22,831,998.90	22,920,053.35
Department of Education Student Housing Reserve	175,798.18	250,247.42
Total Retirement of Indebtedness and Renewals and Replacements	$ 112,432,792.72	$ 113,063,471.96
Investment in Plant (Note 1)		
Land	$ 32,802,171.21	$ 30,440,266.21
Buildings	953,030,875.63	899,966,618.57
Improvements Other Than Buildings	69,798,317.02	63,662,404.56
Equipment	407,970,287.50	378,089,194.78
Library Books	63,385,020.00	61,861,200.00
Livestock	1,690,348.00	1,858,940.00
Total Investment in Plant	$1,528,677,019.36	$1,435,878,624.12
TOTAL PLANT FUNDS	$1,653,498,481.06	$1,559,575,462.03
AGENCY FUNDS		
Cash and Cash Equivalents (Note 3)	$ 3,780,495.46	$ 3,086,671.07
Accounts Receivable	368,895.87	414,311.98
Bonds (Note 3)	198,750.00	198,750.00
Stocks (Note 3)	3,269,176.38	3,505,446.00
TOTAL AGENCY FUNDS	$ 7,617,317.71	$ 7,205,179.05

See notes to financial statements.

Liabilities and fund balances

	1996	1995
ENDOWMENT AND SIMILAR FUNDS		
Accounts Payable	$ 403,418.92	$ 270,624.38
Fund Balances		
Undistributed Gains and Losses on Investment Transactions	39,714,120.76	32,365,487.18
Endowment - Restricted	132,529,814.15	120,987,753.20
Quasi-Endowment - Restricted	16,344.74	16,344.74
Quasi-Endowment - Unrestricted	16,680,417.55	14,874,197.31
TOTAL ENDOWMENT AND SIMILAR FUNDS	$ 189,344,116.12	$ 168,514,406.81
LIFE INCOME FUNDS		
Due To Unrestricted Current Funds - General	$ 54,260.14	$ 52,414.46
Fund Balances - Restricted	30,540,069.91	25,382,702.66
TOTAL LIFE INCOME FUNDS	$ 30,594,330.05	$ 25,435,117.12
PLANT FUNDS		
Unexpended Plant		
Accounts Payable	$ 5,590,904.14	$ 5,716,396.78
Due To Retirement of Indebtedness		11,878,048.53
Fund Balances		
Restricted	4,348,358.26	(8,907,002.46)
Unrestricted		
Designated	2,393,935.56	1,912,664.62
Undesignated	55,471.02	33,258.48
Total Unexpended Plant	$ 12,388,668.98	$ 10,633,365.95
Retirement of Indebtedness and Renewals and Replacements		
Fund Balances		
Restricted	$ 23,531,389.17	$ 23,577,820.57
Unrestricted	88,901,403.55	89,485,651.39
Total Retirement of Indebtedness and Renewals and Replacements	$ 112,432,792.72	$ 113,063,471.96
Investment in Plant		
Tennesssee State School Bond Authority Indebtedness (Note 5)	$ 265,663,620.79	$ 227,572,803.85
Notes Payable (Note 5)	124,920.41	142,082.22
Accrued Interest Payable	2,047,776.60	2,257,092.62
Lease Obligations (Note 7)	2,665,042.21	3,683,505.08
Fund Balance		
Net Investment in Plant	1,258,175,659.35	1,202,223,140.35
Total Investment in Plant	$1,528,677,019.36	$1,435,878,624.12
TOTAL PLANT FUNDS	$1,653,498,481.06	$1,559,575,462.03
AGENCY FUNDS		
Accounts Payable	$ 109,950.16	$ 25,583.62
Deposits Held in Custody for Others	7,507,367.55	7,179,595.43
TOTAL AGENCY FUNDS	$ 7,617,317.71	$ 7,205,179.05

Statement of Changes in Fund Balances

Year Ended June 30, 1996

	Current Funds			
	Unrestricted			
	Education and General	Auxiliary Enterprises	Hospitals	Total
REVENUES AND OTHER ADDITIONS				
Unrestricted Current Funds Revenues	$566,266,308.89	$108,148,427.91	$300,974,888.79	$975,389,625.59
Restricted Gifts and Grants				
Federal Perkins Loan Funds				
Federal Nursing and Health Professions Loan Funds				
Interest on Notes Receivable				
Endowment Income				
Investment Income				
Net Gain on Investments				
State Appropriations for Capital Outlay				
Tennessee State School Bond Authority Proceeds				
Capital Lease Acquisitions				
Gifts and Other Sources				
Student Debt Service Fees				
Federal Interest Subsidy Grants				
Special State Legislature Appropriations				
Expended for Plant Acquisitions (Including $47,829,674,35 charged to current fund expenditures)				
Retirement of Indebtedness				
TOTAL REVENUES AND OTHER ADDITIONS	**$566,266,308.89**	**$108,148,427.91**	**$300,974,888.79**	**$975,389,625.59**
EXPENDITURES AND OTHER DEDUCTIONS				
Unrestricted Current Fund Expenditures	$568,567,613.90	$ 90,487,457.38	$287,523,289.89	$946,578,361.17
Restricted Current Fund Expenditures				
Administration and Collection Costs				
Loan Cancellations and Write-offs				
Payments to Beneficiaries				
Expended for Plant Facilities				
Retirement of Indebtedness				
Interest on Indebtedness				
Disposal of Plant Facilities				
Buildings and Improvements Written Off and Adjustments				
Physical Inventory Adjustments				
Capital Lease Additions				
Bonds and Notes Issued				
Indirect Costs Recovered				
Other				
TOTAL EXPENDITURES & OTHER DEDUCTIONS	**$568,567,613.90**	**$ 90,487,457.38**	**$287,523,289.89**	**$946,578,361.17**
TRANSFERS AMONG FUNDS—ADDITIONS (DEDUCTIONS)				
Mandatory				
Principal and Interest	$ (2,100,400.50)	$ (8,802,783.47)	$ (9,357,177.39)	$ (20,260,361.36)
Loan Funds Matching	(117,705.70)			(117,705.70)
Endowment and Similar Funds				
Non-Mandatory				
Unrestricted Current Funds	5,081,869.87	(3,372,574.84)	(1,709,295.03)	
Restricted Current Funds	(511,824.06)	(56,056.00)	49,529.71	(518,350.35)
Endowment and Similar Funds	(10,500.00)		(157,496.00)	(167,996.00)
Unexpended Plant	(1,203,494.95)	(1,725,112.29)	(4,806,304.57)	(7,734,911.81)
Retirement of Indebtedness	(1,544,700.39)	(2,697,300.33)		(4,242,000.72)
TOTAL TRANSFERS	**$ (406,755.73)**	**$ (16,653,826.93)**	**$ (15,980,743.28)**	**$ (33,041,325.94)**
NET INCREASE (DECREASE) FOR THE YEAR	$ (2,708,060.74)	$ 1,007,143.60	$ (2,529,144.38)	$ (4,230,061.52)
FUND BALANCE JULY 1, 1995	$ 47,325,970.75	$ 11,436,607.89	$ 81,851,005.77	$140,613,584.41
FUND BALANCE JUNE 30, 1996	$ 44,617,910.01	$ 12,443,751.49	$ 79,321,861.39	$136,383,522.89

See notes to financial statements.

				Plant Funds		
Restricted	Loan Funds	Endowment and Similar Funds	Life Income Funds	Unexpended	Retirement of Indebtedness and Renewal and Replacement	Net Investment in Plant
$223,088,885.00		$ 10,912,851.47	$ 5,298,004.10			
	$ 464,959.54					
	119,918.51					
	757,418.97					
7,258,720.12	56,334.49	313,973.36				
129,426.05	146,171.62		1,750,201.00	$ 490,493.88	$ 4,583,900.07	
		8,175,873.86	185,916.22			
				16,719,315.31		
				50,612,695.80		
						$ 1,023,711.23
	97,808.14			659,041.56	18,651.00	7,547,478.42
					2,740,023.84	
					206,078.00	
					386,119.07	
						111,256,886.27
						12,451,344.87
$230,477,031.17	$ 1,642,611.27	$ 19,402,698.59	$ 7,234,121.32	$ 68,481,546.55	$ 7,934,771.98	$ 132,279,420.79
$205,503,165.96						
	$ 164,970.56					
	225,669.15					
			$ 1,772,812.30			
				$ 63,092,519.01	$ 334,692.91	
					12,451,344.87	
					12,824,218.61	
						$ 340,675.00
						1,150,422.14
						24,305,556.29
						5,248.36
						50,525,000.00
18,856,452.57						
819,417.18	22,914.02	750.00	3,900.21	5,646,078.26		
$225,179,035.71	$ 413,553.73	$ 750.00	$ 1,776,712.51	$ 68,738,597.27	$ 25,610,256.39	$ 76,326,901.79
					$ 20,260,361.36	
	$ 117,705.70					
		$ 300,041.56	$ (300,041.56)			
$ 854,418.26	13,577.27	(197,671.00)		$ (151,974.18)		
		167,996.00				
				14,167,869.10	(6,432,957.29)	
		1,024,599.62			3,217,401.10	
$ 854,418.26	$ 131,282.97	$ 1,294,966.18	$ (300,041.56)	$ 14,015,894.92	$ 17,044,805.17	
$ 6,152,413.72	$ 1,360,340.51	$ 20,696,914.77	$ 5,157,367.25	$ 13,758,844.20	$ (630,679.24)	$ 55,952,519.00
$ 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
$ 68,669,272.86	$35,243,862.19	$188,940,697.20	$30,540,069.91	$ 6,797,764.84	$112,432,792.72	$1,258,175,659.35

Statement of Current Funds Revenues, Expenditures and Other Changes

Year Ended June 30, 1996 — **With Comparative totals at June 30, 1995**

	1996 Unrestricted	1996 Restricted	1996 Total	1995 Total
REVENUES				
Tuition and Fees	$120,943,753.10		$ 120,943,753.10	$ 116,939,537.49
Federal Appropriations	13,073,132.00		13,073,132.00	13,088,358.62
State Appropriations	354,693,300.00	$ 9,098,007.73	363,791,307.73	354,121,804.58
Local Appropriations	2,086,444.16		2,086,444.16	2,031,653.36
Federal Grants and Contracts	15,538,357.99	81,339,647.57	96,878,005.56	102,094,278.67
State Grants and Contracts	1,459,069.77	25,714,529.49	27,173,599.26	24,701,546.71
Local Grants and Contracts	3,083,783.46	4,963,518.48	8,047,301.94	8,321,842.64
Private Gifts, Grants and Contracts	4,180,015.16	68,371,464.47	72,551,479.63	69,936,800.42
Endowment Income-University and Other	57,465.82	11,242,713.44	11,300,179.26	10,870,460.03
Sales and Services of Educational Activities	33,280,889.18		33,280,889.18	36,627,364.57
Other Sources	17,870,098.25		17,870,098.25	19,151,329.16
TOTAL EDUCATIONAL AND GENERAL	$566,266,308.89	$200,729,881.18	$ 766,996,190.07	$ 757,884,976.25
Sales and Services of Auxiliary Enterprises	108,148,427.91	11,934.83	108,160,362.74	102,216,466.79
Sales and Services of Hospitals	300,974,888.79	4,761,349.95	305,736,238.74	304,376,282.97
TOTAL CURRENT REVENUES	$975,389,625.59	$205,503,165.96	$1,180,892,791.55	$1,164,477,726.01
EXPENDITURES AND TRANSFERS				
Educational and General Expenditures:				
Instruction	$262,870,050.51	$ 46,146,082.85	$ 309,016,133.36	$ 307,675,852.80
Research	36,684,913.41	87,921,582.70	124,606,469.11	128,800,935.67
Public Service	45,973,988.02	36,208,228.15	82,182,216.17	80,328,077.38
Academic Support	64,854,570.40	4,459,117.60	69,313,688.00	67,703,457.80
Student Services	35,944,244.74	931,912.86	36,876,157.60	35,881,993.48
Institutional Support	57,842,371.20	479,081.75	58,321,452.95	50,984,646.48
Operation and Maintenance of Plant	47,768,186.97	34,627.01	47,802,813.98	46,464,615.80
Scholarships and Fellowships	16,629,288.65	24,549,248.26	41,178,536.91	38,402,552.34
Total Educational and General Expenditures	$568,567,613.90	$200,729,881.18	$ 769,297,495.08	$ 756,242,131.75
Mandatory Transfers for:				
Principal and Interest	2,100,400.50		2,100,400.50	2,013,487.34
Loan Funds Matching	117,705.70		117,705.70	114,489.68
Nonmandatory Transfers for:				
Retirement of Indebtedness	1,544,700.39		1,544,700.39	91,718.10
Endowment and Similar Funds	10,500.00		10,500.00	1,242.08
Restricted Current Funds	511,824.06		511,824.06	537,327.85
Unexpended Plant	1,203,494.95		1,203,494.95	1,105,281.06
Auxiliary Enterprises	(3,372,574.84)		(3,372,574.84)	(2,977,560.44)
Hospitals	(1,709,295.03)		(1,709,295.03)	(1,450,200.00)
TOTAL EDUCATIONAL AND GENERAL EXPENDITURES AND TRANSFERS	$568,974,369.63	$200,729,881.18	$ 769,704,250.81	$ 755,677,917.42
Auxiliary Enterprises				
Expenditures	$ 90,487,457.38	$ 11,934.83	$ 90,499,392.21	$ 88,179,089.74
Mandatory Transfers for:				
Principal and Interest	8,802,783.47		8,802,783.47	9,232,444.64
Nonmandatory Transfers for:				
Retirement of Indebtedness	2,697,300.33		2,697,300.33	2,553,684.13
Unexpended Plant	1,725,112.29		1,725,112.29	783,453.53
Restricted Current Funds	56,056.00		56,056.00	
Educational and General	3,372,574.84		3,372,574.84	2,977,560.44
TOTAL AUXILIARY ENTERPRISES EXPENDITURES AND TRANSFERS	$107,141,284.31	$ 11,934.83	$ 107,153,219.14	$ 103,726,232.48
Hospitals				
Expenditures	$287,523,289.89	$ 4,761,349.95	$ 292,284,639.84	$ 289,387,708.97
Mandatory Transfers for:				
Principal and Interest	9,357,177.39		9,357,177.39	9,735,661.74
Nonmandatory Transfers for:				
Educational and General	1,709,295.03		1,709,295.03	1,450,200.00
Endowment and Similar Funds	157,496.00		157,496.00	119,997.00
Restricted Current Funds	(49,529.71)		(49,529.71)	(55,764.31)
Unexpended Plant	4,806,304.57		4,806,304.57	4,451,753.43
TOTAL HOSPITALS EXPENDITURES AND TRANSFERS	$303,504,033.17	$ 4,761,349.95	$ 308,265,383.12	$ 305,089,556.83
TOTAL EXPENDITURES AND TRANSFERS	$979,619,687.11	$205,503,165.96	$1,185,122,853.07	$1,164,493,706.73
EXCESS REVENUES OVER EXPENDITURES AND TRANSFERS				
Educational and General	$ (2,708,060.74)		$ (2,708,060.74)	$ 2,207,058.83
Auxiliary Enterprises	1,007,143.60		1,007,143.60	(1,509,765.69)
Hospitals	(2,529,144.38)		(2,529,144.38)	(713,273.86)
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS)				
Restricted Receipts in Excess of Expenditures		$ 24,973,865.21	24,973,865.21	25,010,687.90
Indirect Costs Recovered		(18,856,452.57)	(18,856,452.57)	(19,166,180.28)
Restricted Gifts Transferred from (to) Other Funds		35,001.08	35,001.08	(181,517.34)
NET INCREASE (DECREASE) IN FUND BALANCES	$ (4,230,061.52)	$ 6,152,413.72	$ 1,922,352.20	$ 5,647,009.56

See notes to financial statements.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

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

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

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

C. *Basis of Accounting*—The financial statements of The University of Tennessee have been prepared on the accrual basis, except that depreciation on plant assets is not recorded and revenues and expenditures of an academic term encompassing more than one fiscal year are reported solely in the fiscal year in which the term is predominately conducted. All unrestricted resources are reported as revenue in the year they are received or earned. All restricted resources are recorded as additions to the fund balances of the appropriate fund groups. Restricted current resources are then recorded as revenues during the period in which they are expended. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period, as would a statement of income or a statement of revenues and expenses. To the extent that current funds are used to finance plant assets, the amounts are accounted for as (1) expenditures, for normal replacement of movable equipment and library holdings; (2) mandatory transfers, for required debt amortization and interest and equipment renewal and replacement; and (3) nonmandatory transfers for all other cases.

D. *Fund Accounting*—To ensure observance of limitations and restrictions placed on the use of resources available, the university maintains accounts in accordance with the principles of fund accounting. With this procedure, resources for various purposes are classified for accounting and reporting purposes into funds for specified activities or objectives. Separate accounts are maintained for each fund, however, in the accompanying financial statements, funds with similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group. Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds which are allocated to specific purposes by the governing board. Externally restricted funds may be used only in accordance with the purposes established by the source of such funds and contrast with unrestricted funds over which the governing board retains full control to use in achieving any of its institutional purposes. The allocations of fund balances for unemployment compensation, revolving accounts, unexpended gifts, and reappropriation were made in accordance with university policies. All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owned such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets, except for income derived from investments of endowment and similar funds. This income is accounted for in the fund to which it is restricted or, if unrestricted, as revenues in unrestricted current funds.

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

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

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

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

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

5. *Plant Funds*—The plant funds 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 for the retirement of indebtedness on institutional properties, 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 university's operating statements.

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 value at the date of receipt, if received as a gift.

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

H. *Accounts Payable*—Included in unrestricted current funds - general accounts payable are checks payable in the amount of $12,077,919.70 and $20,774,890.34 as of June 30, 1996 and 1995, respectively. These amounts represent the sum of checks written in excess of the university's checking account balance because of the use of a controlled disbursement account. In this way, the university maximizes interest income by transferring from an investment account only funds necessary to cover the checks that clear the bank daily.

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

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

Note 2: Compensated Absences

The university's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. Generally accepted accounting principles require that certain accrued 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 not considered a material departure from generally accepted accounting principles in that the effect of accruing the $49,734,929.94 of such benefits, of which approximately $11,119,330.01 would be reflected as a reduction of beginning unrestricted current fund balance, and the remainder would be funded from other sources, is not considered material. The amount of accrued annual leave benefits as of June 30, 1995, was $48,109,437.06, of which approximately $11,059,353.28 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. In addition to petty cash and demand deposits, this classification includes instruments which are readily convertible to known amounts of cash. At June 30, 1996, cash and cash equivalents consisted of $8,337,312.48 in bank accounts, $1,296,722.00 of petty cash on hand, $2,340,000.00 of certificates of deposit, and $265,651,918.25 in the university's cash management investment pool. At June 30, 1995, cash and cash equivalents consisted of $8,483,569.53 in bank accounts, $1,298,592.34 of petty cash on hand, $2,710,000.00 of certificates of deposit, and $243,785,787.36 in the university's cash management investment pool. Additionally, the university maintains custodial accounts at First Tennessee Bank for funds contractually managed by independent investment counsel. In accordance with the custody agreement, First Tennessee Bank placed cash equivalents of $5,072,281.58 at June 30, 1996, and $3,797,880.95 at June 30, 1995, in the bank's money market mutual fund.

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

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

At June 30, 1995, the carrying amount of the university's deposits was $11,193,569.53, and the bank balance including accrued interest was $10,354,086.77. Of the bank balance, $10,343,644.59 was category 1 and $10,442.18 was category 3.

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

Cash Management Investment Pool. The cash management investment pool consists of marketable securities and government repurchase agreements as previously described. The carrying amount and market value of the cash management pool at June 30, 1996, were $265,651,918.25 and $262,350,507.97, respectively. 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 on the following page, listed as cash equivalents, to indicate the level of risk assumed by the university. The university's standard "Master Repurchase Agreements" require that the securities underlying repurchase agreements have fair value equal to or exceeding 100% of the cost of the repurchase agreement and be delivered to its agent's trust account at the Federal Reserve Bank - Memphis. The fair value of securities underlying repurchase agreements was $43,917,229.45 at June 30, 1996, and was $32,476,584.25 at June 30, 1995.

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

The university's investments are categorized below to indicate the level of custodial risk assumed by the university at year end. Category 1 consists of insured or registered investments or investments for which the securities are held by the university or its agent in the university's name. Category 2 consists of uninsured or unregistered investments for which the securities are held by the counterparty's trust department or agent in the university's name. Category 3 consists of uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the university's name. Please see tables "For June 30, 1996" and "For June 30, 1995" on page 28.

Funds on deposit with trustee of $23,007,797.08 and $23,170,300.77 at June 30, 1996, and June 30, 1995, respectively, in retirement of indebtedness consisted of securities held in the Tennessee State School Bond Authority debt service reserve pool and with First Tennessee Bank.

Note 4: Endowment and Similar Funds and Life Income Funds

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

Effective July 1, 1954, the university adopted the policy of investing endowment and similar funds over which it had full investment discretion (and on which the donor or governing gift instrument does not require separate investment) in the consolidated investment pool. This pooling of investments affords closer supervision of the investment portfolio and provides, regardless of size, the advantages of participation in a well-diversified portfolio of investments. All endowment and similar funds not invested as part of the consolidated investment pool are separately invested to observe requirements or limitations imposed by donors. Income earned and distributed on separately invested endowment funds amounted to $385,578.00 for 1996 and $411,742.07 for 1995. Income distributed in accordance with the approved spending plan to endowment and similar funds invested in the consolidated investment pool amounted to $7,884,912.78 for 1996 and $7,347,171.43 for 1995.

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 1996, amounted to $1,750,201.00 and the year 1995, amounted to $1,576,809.54.

The book value of endowment and similar funds at June 30, 1996, was $189,344,116.12 and the market value was $234,278,784.26. This compares with a June 30, 1995, book value of $168,514,406.81 and market value of $196,719,677.38. The book value of life income funds at June 30, 1996, was $30,594,330.05 and market value of $31,978,590.30. This compares with a June 30, 1995, book value of $25,435,117.12, and market value of $26,945,206.49.

For June 30, 1996

	Category 1	Category 2	Category 3	Carrying Amount	Market Value 6/30/96
Cash Equivalents					
Government Securities	$133,700,088.81			$ 133,700,088.81	$130,029,297.97
Repurchase Agreements	43,000,000.00			43,000,000.00	43,000,000.00
Commercial Paper	88,951,829.44			88,951,829.44	89,321,210.00
	$ 265,651,918.25			$ 265,651,918.25	$262,350,507.97
Investments					
Domestic Securities					
Government Securities	$ 45,617,236.35			$ 45,617,236.35	$ 47,533,895.98
Corporate Bonds	42,023,579.71	$ 12,929.54		42,036,509.25	40,298,914.57
Corporate Stock	73,583,954.97			73,583,954.97	116,079,367.92
Mortgages and Notes	3,041,396.10		$ 10,738.11	3,052,134.21	3,078,380.38
Other Investments	29,059.00			29,059.00	29,059.00
International Securities					
Government Bonds	375,000.00			375,000.00	351,400.00
Corporate Bonds	1,100,343.00			1,100,343.00	1,098,356.90
Corporate Stocks	2,471,005.09			2,471,005.09	2,361,145.40
	$168,241,574.22	$ 12,929.54	$ 10,738.11	$168,265,241.87	$210,830,520.15
	$433,893,492.47	$ 12,929.54	$ 10,738.11		
University cash equivalents and investments not susceptible tocategorization:					
Cash Equivalents - Assets with First Tennessee Bank as Custodian				$ 5,072,281.58	$ 5,072,281.58
Limited Partnership-Venture Capital Funds				7,566,026.36	8,251,234.02
Mutual Funds				3,235,402.82	4,137,129.14
Real Estate Equity Funds				5,962,950.00	5,402,943.08
Real Estate - Gifts				5,726,587.44	5,761,134.93
International Equity Funds				8,000,000.00	11,916,180.81
Assets with the University of Chattanooga Foundation				1,601,257.00	1,601,257.00
Assets with First American Bank				113,929.48	124,901.66
Assets with American National Bank				205,994.05	303,385.89
Domestic Bond Fund				5,000,000.00	5,052,918.50
Total Investments and Cash Equivalents				$476,401,588.85	$ 520,804,394.73
Less: Cash Equivalents				270,724,199.83	
Total Investments and Cash Equivalents				$205,677,389.02	

For June 30, 1995

	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 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 University 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
Less: Cash Equivalents				247,583,668.31	
Total Investments and Cash Equivalents				$186,228,333.30	

Note 5: Bonds and Notes Payable

Tennessee State School Bond Authority bonds, with interest rates ranging from 3.0% to 7.0%, are due serially to 2022 and are secured by pledges of revenue of facilities 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 $184,411,774.79 at June 30, 1996, and $194,635,957.85 at June 30, 1995.

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 notes payable at June 30, 1996, and 1995 were $124,920.41 and $142,082.22, respectively.

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

1997	$ 10,526,234.60
1998	10,693,335.90
1999	11,099,455.55
2000	11,567,750.69
2001	10,753,628.30
Subsequent Years	129,896,290.16
	$184,536,695.20

Interim and short-term financing for various projects has been secured through the Tennessee State School Bond Authority under 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 will mature on March 1, 1998, and may bear interest at a variable rate (daily, weekly, monthly, quarterly, semi-annually, annually), or a fixed rate (long-term) determined by the underwriter and 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 established in the Note Resolution as described in the Official Statement relating to the notes. The remarketing agent is to use its best efforts to sell the notes to another holder. If the agent is unable to resell any notes that have been "put", the Standby Note Purchaser is required, subject to certain conditions, to purchase the notes. A standby note purchase agreement with Swiss Bank Corporation, New York Branch, was terminated on June 25, 1996, and a new note purchase agreement was entered into with Union Bank of Switzerland on June 26, 1996. The authority contracted with Union Bank of Switzerland at a rate of .06 of 1% per annum on the available commitment and .05 of 1% per annum on the excess, if any, of $106,173,699 over the available commitment provided that each of the foregoing rates shall each be increased by .10 of 1% per annum effective prospectively to the termination of this agreement. The agreement will terminate on June 25, 1997, unless extended. It is expected that a portion of these notes will be redeemed with the proceeds of the sale of bonds at the end of the construction period for the projects being financed. The terms of the terminated agreement with Swiss Bank Corporation were at a rate of .15% per $1,000 prior to February 24, 1996, and .13% per $1,000 thereafter of the principal and interest commitment of $75,961,644.00; the fee is payable quarterly in arrears. The outstanding balance of the five year notes was $81,251,846.00 at June 30, 1996, and $32,936,846.00 at June 30, 1995. Including the short-term financing, the total indebtedness of the University at June 30, 1996, was $265,788,541.20 and $227,714,886.07 at June 30, 1995.

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, 1996, and June 30, 1995, amounted to $7,582,225.24 and $7,744,897.42, respectively. The following is a schedule by years of future minimum rental payments required under noncancelable operating leases that have initial or remaining lease terms of more than one year at June 30, 1996.

Year Ending June 30:

1997	$ 736,883.44
1998	529,342.68
1999	519,086.00
2000	519,086.00
2001	489,836.00
Later Years	657,288.00
Total minimum payments required	$ 3,451,522.12

Note 7: Capital Leases

The university has a capital lease agreement which provides for the university to purchase a building over a period of years. The university also has capital lease agreements for certain items of equipment. Future minimum lease payments under capital leases together with the present value of the net minimum lease payments at June 30, 1996 are:

	Buildings	Equipment	Total
1996-97	$ 22,246.33	$ 1,017,672.00	$1,039,918.33
1997-98		1,017,101.58	1,017,101.58
1998-99		846,158.60	846,158.60
Total Minimum Lease Payments	$ 22,246.33	$ 2,880,932.18	$2,903,178.51
Less Amounts Representing Interest	100.34	238,035.96	238,136.30
Present Value of Net Minimum Lease Payments	$ 22,145.99	$ 2,642,896.22	$2,665,042.21

The total value of the building was $3,208,165.70 at June 30, 1996. Two buildings were capitalized under leaseholds payable in the amount of $3,824,165.70 at June 30, 1995. The total value of equipment capitalized under leaseholds payable was $3,607,971.21 at June 30, 1996, and $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; automobile liability; professional malpractice; workers' compensation; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

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

2. The state purchases commercial insurance for real property losses above $5 million per year and surety bond coverage on the state's officials and employees. In the past three fiscal years, the state has not had any claims filed with the commercial insurer. A designation for casualty losses in the amount of $5 million has been established in the state's general fund to provide for any property losses other than the commercial insurance coverage. At June 30, 1996, the scheduled coverage for the university was $2,126,090,200 for buildings and $641,143,200 for contents. At June 30, 1995, the scheduled coverage for the university was $1,961,223,200 for buildings and $621,152,200 for contents.

3. The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The university participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on a percentage of the university's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Since the university participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the university for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Claims Award Fund. The premium assessed to the university by the Claims Award Fund for the period July 1, 1995, through June 30, 1996, was $8,421,538, and for the period July 1, 1994, through June 30, 1995, was $1,323,800.

B. *Employee Group Insurance*—The state has also set aside assets in the Employee Group Insurance Fund, and internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. All full-time and some part-time university employees are eligible to participate in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported.

Employees and providers have 13 months to file medical claims. The university pays approximately 80% of the cost of insurance, and the employee pays the remaining 20%. All assets, liabilities, and payments are administered by the state. At June 30, 1996, 13,341 university employees were enrolled in the basic plan or Health Maintenance Organization. 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 the university's regular employees, except those on federal appointments, may participate in a cost-sharing multiple-employer, defined benefit plan, administered by the Tennessee Consolidated Retirement System (TCRS). The payroll for employees covered by the TCRS plan for the year ended June 30, 1996, was $226,025,636.90 and for the year ended June 30, 1995, was $227,255,746.16. The university's total payroll was $635,095,936.84 for the year ended June 30, 1996, and $627,487,294.16 for the year ended June 30, 1995, 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. TCRS members may retire at age 60 with five years of service or at any age with 30 years of service. Early retirement with reduced benefits is available to vested members who are at least age 55 or have 25 years of service. Members vest after five years of service. Death and disability benefits are available to vested members. Disability benefits are available to members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was performing duties. Benefit provisions are established and amended by state statute. The university is required by state statute, effective July 1, 1981, to contribute the necessary amount to pay benefits when due. Prior to that date, the employee bore a portion of the contribution. Members with contributory service who leave the university are eligible for a refund of their contributions, along with contributions made after July 1, 1981, on the employees' behalf by the university. The university's actuarially required contribution made for the year ended June 30, 1996, was $14,307,283.36, which represented 6.33% of covered payroll. The university's actuarially required contribution made for the year ended June 30, 1995, was $14,399,129.01, which represented 6.34% of covered payroll.

The pension benefit obligation is a 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 service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the funding status of the TCRS 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. The TCRS does not make separate measurements of assets and pension benefit obligation for individual state employers. Therefore, the following information is provided for the entire state employee portion of the TCRS. The pension benefit obligation at June 30, 1996, and at June 30, 1995, determined through an actuarial valuation performed as of June 30, 1996, was $11,610.6 million and through an actuarial update performed as of June 30, 1995, was $10,697.4 million. The net assets, at cost or amortized cost, available for benefits were $12,925 million at June 30, 1996, and $11,566.8 million at June 30, 1995, leaving assets in excess of pension benefit obligations of $1,314.4 million as of June 30, 1996, and $869.4 million at June 30, 1995. The market value of the net assets available for benefits was $14,100.8 million at June 30, 1996, and $14,293.5 million at June 30, 1995. The university's 1996 and 1995 contributions represented 5% of total contributions required of all participating entities in each year.

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

B. *Optional Retirement Plan*—The university has three defined contribution plans offered through the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF), Aetna Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). The plans are available only to eligible faculty and staff exempt from the overtime provision of the Fair Labor Standards Act. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. State statute requires the university to contribute an amount equal to 10% of the employee's base salary below the social security wage base and 11% above the social security wage base. Members are fully vested upon entry into the plans.

The payroll for employees covered by the defined contributed plans was $292,839,493.63 the year ended June 30, 1996, and $284,301,905.52 for the year ended June 30, 1995. The university's total payroll was $635,095,936.84 for the year ended June 30, 1996, and $627,487,294.16 for the year ended June 30, 1995. The required contribution made by the university for the year ended June 30, 1996, was $29,529,501.89, which represented 10.1% of the covered payroll, and for the year ended June 30, 1995, was $28,627,971.61, which represented 10.1% of the covered payroll.

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, since July 1981, the university 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 $75,717,573.19 and $78,687,596.00 for fiscal years 1996 and 1995, respectively. The contributions are included in the ORP amounts. University contributions to fund the state supplemental benefit totaled $4,792,754.90 and $4,984,187.94 in fiscal years 1996 and 1995, 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. Benefits vest 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, 1996, was $19,878,492.38 and for the year ended June 30, 1995, was $19,986,552.15. The total university contribution in 1996 to the Federal Retirement Program, $1,941,700.14, represented 9.8% of covered payroll. The total university contribution for 1995, $1,908,495.22, represented 9.6% of covered payroll.

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 each service year between five and ten years, and 2% of the 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 covered payroll to the plan. Contributions for the year ended June 30, 1996, were $1,779,920.79, which consisted of $907,561.75 from the university and $872,359.04 from the employees. 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.

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 Basic Benefit Plan. These rates became effective October 1, 1994. In addition, the university is required to contribute 1.0% of each participant's salary to the Thrift Savings Plan plus up to an additional 4% depending upon employees' contributions which can range from 0 to 10% of their salary. Contributions for the Basic Benefit Plan were $841,226.30 for the year ended June 30, 1996, which consisted of $55,135.25 from employees and $786,091.05 from the university, and $792,057.03 for the year ended June 30, 1995, which consisted of $50,480.50 from employees and $741,576.53 from the university. The contribution requirements for the Thrift Savings Plan were $650,769.34 for the year ended June 30, 1996, which consisted of $402,722.00 from employees and $248,047.34 from the university, and $589,535.86 for the year ended June 30, 1995, which consisted of $376,161.82 from employees and $213,374.04 from the university.

The pension benefit obligation and related disclosure are not available to the university.

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

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

Since Section 401(k) plan assets remain the property of the contributing employees, they are not presented in the State of Tennessee financial statements. IRC Section 401(k) establishes participation, contribution, and withdrawal provisions for the plan. Effective January 1996, the university began providing a $20 monthly Section 401(k) match from unrestricted current funds for employees making a minimum-monthly contribution of $20 to the plan. During the year ended June 30, 1996, contributions totaling $3,412,034.46 were made by employees participating in the plan, with a related match of $573,530.00 made by the university.

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

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

Note 10: Affiliated Entities

The University of Chattanooga Foundation, Inc., a private non-profit corporation, maintains an endowment fund of which the University of Tennessee at Chattanooga is the sole income beneficiary. The financial records, investments, and other financial transactions are not managed by the university and accordingly are not included in these financial statements except for certain endowment assets. During the years ended June 30, 1996, and June 30, 1995, the foundation transferred $2,306,012.00 and $2,854,304.00, respectively, to the university for support of designated projects at the Chattanooga campus. In addition, $167,718.30 and $1,320,936.66 were expended in 1996, and 1995, respectively, directly by the foundation for the benefit of The University of Tennessee at Chattanooga.

Since fiscal year 1985, the Tennessee General Assembly has appropriated $22 million to a Chairs of Excellence Endowment for The University of Tennessee. The appropriations provided that the Chairs of Excellence Endowment be established as an irrevocable trust with the state treasurer and requires the university to match the appropriation on a dollar-for-dollar basis. The university has fully matched 47 chairs as of June 30, 1996, and 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: Contingencies and Commitments

A. *Construction Commitments*—At June 30, 1996, outstanding commitments under construction contracts totaled $39,729,663.80 for the construction of new buildings and renovation/addition projects, which will be funded by future state capital outlay appropriations. At June 30, 1995, these commitments were $31,275,948.02. At June 30, 1996, amounts due from or receivable from the state and the School Bond Authority for capital construction, renovations, and maintenance totaled $26,788,768.27 and $7,094,202.64, respectively. At June 30, 1995, amounts due from or receivable from the state and the School Bond Authority totaled $42,899,929.17 and $6,847,632.42, respectively.

B. *Construction In Progress*—Construction in progress is included in buildings in investment in plant. Forty projects and forty-three projects were under construction at June 30, 1996, and June 30, 1995, respectively. Construction in progress totaled $46,039,884.04 at June 30, 1996, and $69,901,305.59 at June 30, 1995.

C. *Encumbrances*—Encumbrances which represent commitments of prior-year funds for goods or services that have been ordered for which delivery has not been made or services have not been rendered as of June 30, 1996, are recorded as an allocation of the current fund balances. The allocation for encumbrances at June 30, 1996, is $8,728,747.48. The allocation for encumbrances at June 30, 1995, was $9,300,279.62.

D. *Sick Leave*—The university's policy is to record the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent due to illness, or injury, there is no liability for sick leave at June 30, 1996. The amount of unused sick leave at June 30, 1996, and June 30, 1995, was $149,607,387.98 and $141,239,835.43, respectively.

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

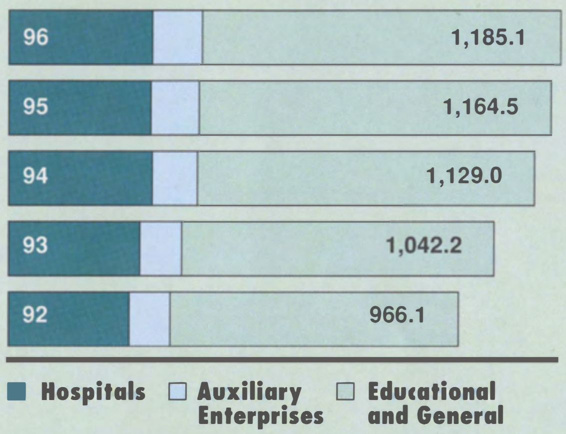
F. *Nonvested Equipment*—Equipment in the possession of the university valued at $8,167,125.86 and $8,845,824.82 as of June 30, 1996 and 1995, respectively, is not reflected in the financial statements. This equipment was purchased with restricted grant and contract funds and other funds, and title has not yet transferred to the university.

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

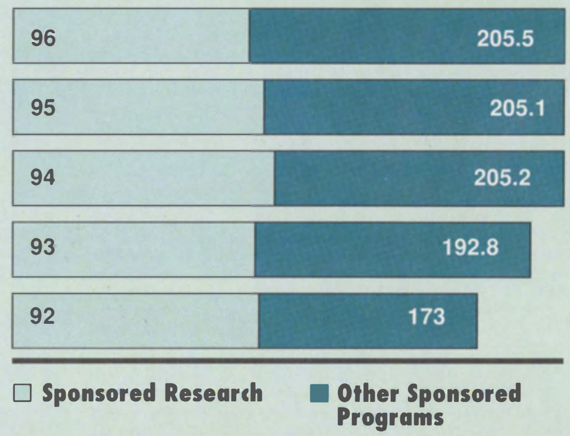
NOTE 12: PLEDGES

Pledges totaling $30,582,558.00, restricted to instruction, research, public service, library, operation and maintenance of physical plant, student aid, property, buildings, equipment, endowment, loans, and other restricted purposes, are due to be collected over the next six fiscal years in the amounts of $9,585,179.00, $7,028,469.00, $4,736,196.00, $5,923,872.00, $2,235,474.00, and $1,073,368.00, 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.

TOTAL CURRENT EXPENDITURES AND TRANSFERS
(in millions of dollars)



CURRENT RESTRICTED EXPENDITURES
(in millions of dollars)



1995-1996 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, 1996.

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 27.

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.

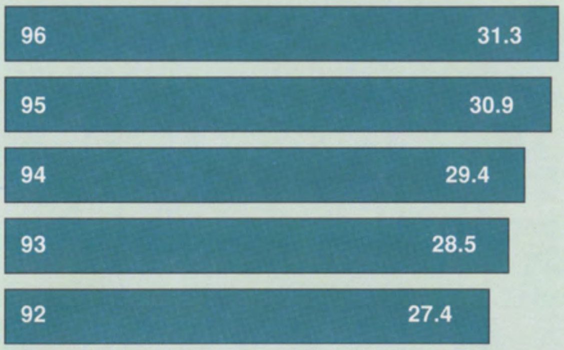
For the third year in a row, the University's current fund revenues exceeded one billion dollars. Total Current Funds revenues for 1995-96 were $1.181 billion compared to $1.164 billion in 1994-95, an increase of 1.5 percent. These revenues consist of $767.0 million general funds, $108.2 million auxiliary funds and $305.8 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 1995-96 amounted to $363.8 million or 30.8 percent of total revenues.

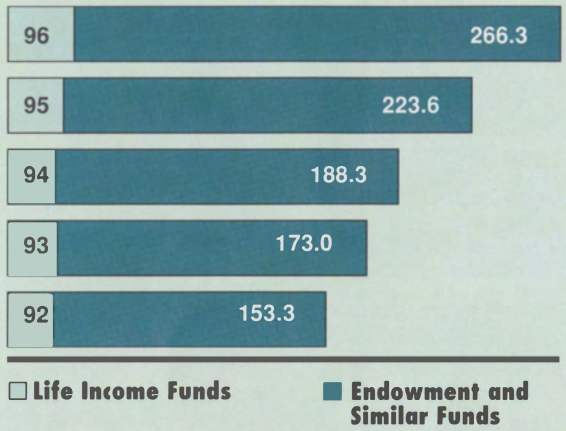
The second largest source of general Current Funds revenues is gifts, grants and contracts, which totals $204.7 million. These funds represent 17.3 percent of the total Current Funds revenues. Grants and contracts received from federal agencies amounted to $96.9 million.

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

STUDENT LOAN FUNDS NOTES RECEIVABLE (in millions of dollars)



TOTAL MARKET VALUE OF ENDOWMENT AND SIMILAR FUNDS, AND LIFE INCOME FUNDS (in millions of dollars)



fees amounted to $120.9 million, or 10.2 percent of the total Current Funds revenues. The $4.0 million increase over last year resulted from higher tuition and maintenance fees, approximately 3 percent at all campuses.

Sales and services of educational activities decreased 9.1 percent to $33.3 million. Income from other sources amounted to $17.9 million in 1995-96, a decrease of 6.7 percent from $19.2 million in 1994-95. A $500,000 increase in earnings on short-term investments and bank accounts helped to offset a $2 million decrease in conference earnings. Revenue generated from short-term investments and bank account interest totaled $11.3 million in 1995-96 compared to $10.8 million in 1994-95. The average yield on temporary investments increased from 5.53 percent in 1994-95 to 5.78 percent in 1995-96.

Total Current Funds expenditures and transfers in 1995-96 increased 1.8 percent to $1.185 billion. A schedule of Current Funds expenditures by function (purpose) is provided on page 35.

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 $205.5 million in 1995-96 compared to $205.1 million in 1994-95, a slight increase.

Auxiliary Enterprises Funds reflect transactions and funds for activities that provide facilities and services for students, faculty, and staff such as housing, food service, bookstores, parking, and intercollegiate athletics at UT Knoxville. The revenues of auxiliary enterprises during 1995-96 totaled $108.2 million, an increase of 7.6 percent from the prior year's total revenue of $102.2 million. Expenditures and mandatory transfers to meet debt service requirements amounted to $107.2 million, an increase of 3.4 percent from 1994-95.

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 1995-96 totaled $305.7 million, an increase of 0.4 percent. The static revenue at Memorial Hospital resulted from capitation and lower fees and the $1.2 million increase at the William F. Bowld Hospital resulted from increased inpatient revenues. Hospital expenditures and transfers increased 1.0 percent from the 1994-95 expenditures levels to $308.3 million. The Bowld Hospital shows a deficit fund balance due to significant amounts allocated for working capital and encumbrances.

Loan Funds

Loan Funds consist of resources made available for financial loans to students of the University. These resources include federal funds, funds from other external sources, and required University matching funds. Total Loan Funds increased $1.3 million to $35.2 million in 1995-96. Two thousand seven hundred and seventeen student loans totaling $4.7 million were made during 1995-96. Student loans outstanding at June 30, 1996, totaled $31.3 million.

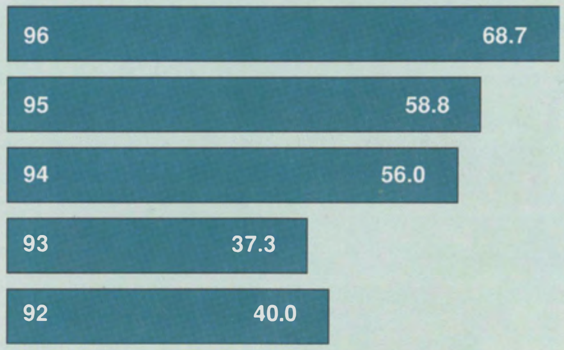
Federal programs provided the primary source of student loans. At June 30, 1996, the federal government had provided $28.8 million (or 82.0 percent) of the assets of all University loan funds. University sources, in conjunction with matching requirements for the federal loan program, provided $2.2 million (or 6.2 percent) of student loan funds. The remaining $4.2 million (or 11.8 percent) represented loan funds established by private donations.

Endowment and Similar Funds

The Endowment and Similar Funds group consists of funds that have been received from donors with the stipulation that the principal be maintained inviolate and remain invested to produce income for the purposes specified. Quasi-Endow-

ENDOWMENT INCOME
(in millions of dollars)

PLANT FUNDS EXPENDITURES
(in millions of dollars)



ment Funds are funds designated by the Board of Trustees of the University to function as endowment funds. The income earned through the investment of endowment funds is recorded in the appropriate fund group and is available for expenditure according to the purposes specified. If the income is to be added to principal per donor agreement and is not available for expenditure, it is recorded as income in the Endowment and Similar Funds. Assets of this fund group are recorded at book value established by the market or appraised value at the time of the gift, or cost at the time investments are purchased.

The book value of the assets of the Endowment and Similar Funds group at June 30, 1996, was $189.3 million, and the market value was $234.3 million. The book value at June 30, 1995, was $168.5 million, and the market value was $196.7 million. Income distribution from investment of funds amounted to $8.3 million for the fiscal year.

Effective July 1, 1954, the University adopted the policy of investing Endowment and Similar Funds over which it had complete investment discretion (those which the donor, the governing gift instrument, or other considerations do not require or warrant separate investment) in a consolidated investment pool. This practice affords closer supervision of the investment portfolio and makes available to all eligible endowment and similar funds, regardless of size, the advantages of participation in a diversified portfolio of carefully selected investments. Each contributing endowment fund participates in the income and capital appreciation of the pool on a per share basis commensurate with its contribution to the pool. The pool's approved spending plan consists of distributing a predetermined annual amount based upon 5 percent of a three-year average market value. Shares are revalued each month in accordance with market changes, and new funds or additions to existing funds are admitted to the pool at the current market share value.

The Consolidated Investment Pool consists of funds from 1,422 separate endowments with a total book value of $179.0 million at June 30, 1996, and a total market value of $223.1 million. The market value increased by $36.6 million during 1995-96. The market value of a participating share was $2.697 at June 30, 1996, compared to $2.398 at June 30, 1995, an increase of 12 percent. The income distributed per share was $.0989, which was 4.1 percent on beginning market value.

Life Income Funds

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

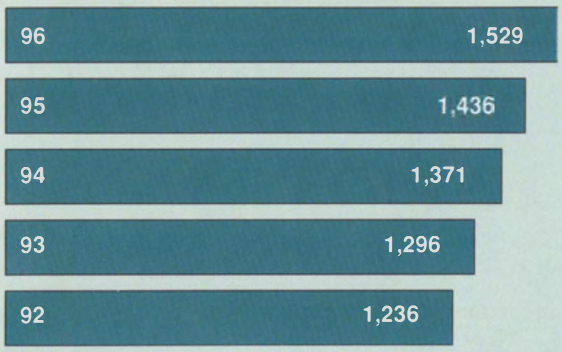
The book value of Life Income Funds at June 30, 1996, was $30.5 million compared to $25.4 million the prior year. Income payments to beneficiaries during the year amounted to $1.75 million.

Plant Funds

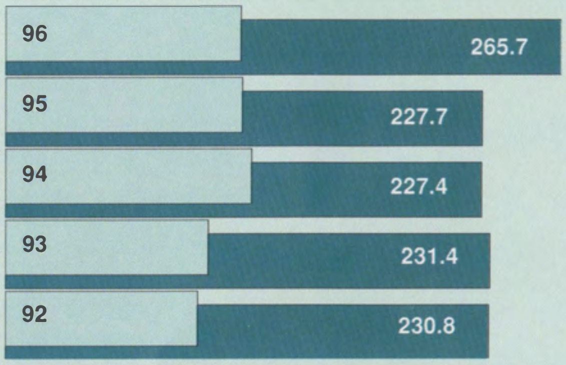
The Plant Funds group of accounts consists of (1) Unexpended Plant Funds, which are used for the acquisition or construction of physical properties; (2) Retirement of Indebtedness and Renewal and Replacement Funds, which are set aside for debt service payments on facilities financed through bonds or 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 $12.4 million at June 30, 1996, and represent funds previously authorized or provided for additions to the University's physical plant. These balances include $407 thousand which represents state

INVESTMENT IN PLANT
(in millions of dollars)



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



capital outlay appropriations which have been expended by the University but not reimbursed by the state treasurer at the balance sheet date; and $7.1 million which represents unexpended Tennessee State School Bond Authority funding.

Total expenditures and deductions in Unexpended Plant Funds amounted to $68.7 million in 1995-96. Twenty-three projects were completed, including the $28.4 million Science/Engineering Research Facility and the $15.4 million Neyland Stadium North End Zone Expansion at UT Knoxville. Other projects completed consisted of the $6.8 million Conference Center Renovation of Space Phase II at UT Knoxville, the $1.4 million Housing Central Chilled Water Plant Phase II at UT Martin, the $1.3 million Modular Buildings for Interim Lab Space at UT Medical Center Knoxville, the $6.5 million White Avenue Parking Garage at UT Knoxville, the $9.9 million Paul Meek Library Addition at UT Martin, and the $1.2 million Main Academic Building Improvements at UT Space Institute. Twenty-eight projects were under construction at June 30, 1996, including the $22.6 million Taylor Law Building Renovation and Addition, the $8.2 million Boiler Addition, and the $9.6 million Neyland Drive Parking Garage at UT Knoxville. Other projects under construction include the $7.9 million Fletcher Hall Renovation and $8.1 million Single Student Housing Phase II at UT Chattanooga, and the $6.7 million Parking Garage at UT Medical Center Knoxville.

Retirement of Indebtedness and Renewal and Replacement Funds at June 30, 1996, amounted to $112.4 million, of which $23.5 million is restricted to meet minimum contractual reserve requirements of loan, bond, and lease agreements. The remainder of these funds represent debt service and maintenance reserves required by prudent institutional management policy.

Debt service payments and transfers for capital projects exceeded revenues and other additions by $630 thousand during 1995-96.

Total indebtedness for The University of Tennessee at June 30, 1996, amounted to $265.7 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 27.

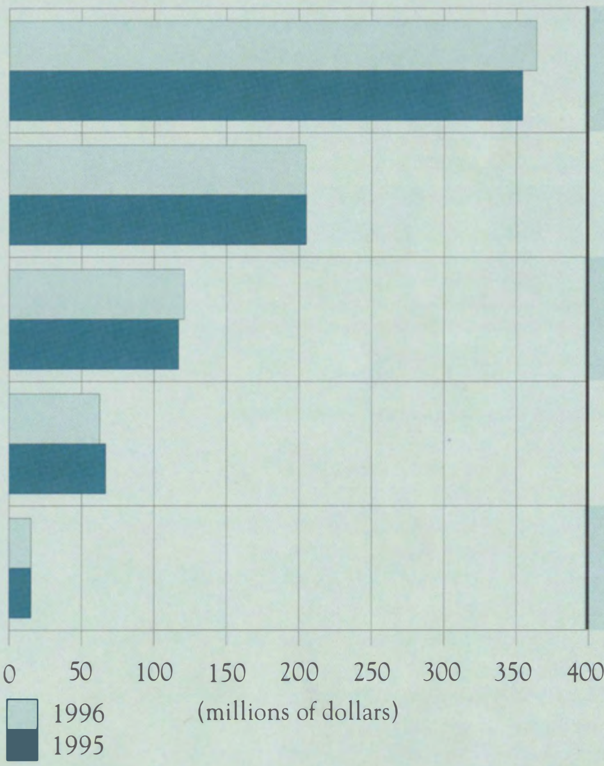
With the exception of real estate held as investments in Endowments and Similar Funds and Life Income Funds, the Investment in Plants section is used to account for capital assets owned by `the University, including land, buildings, equipment, library books, and livestock. Investment in Plant as of June 30, 1996, amounted to $1.529 billion, an increase of $56.0 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 represent liabilities rather than fund balances. The balance of funds held for third parties at June 30, 1996, amounted to $7.6 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, 1996, of $7.6 million reflects an increase of $400 thousand over the June 30, 1995 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, 1996



State Appropriations (30.8%) $ 363,791,307.73

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

Gifts, Grants, and Contracts (17.3%) $ 204,650,386.39

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

Tuition and Fees (10.2%) $ 120,943,753.10

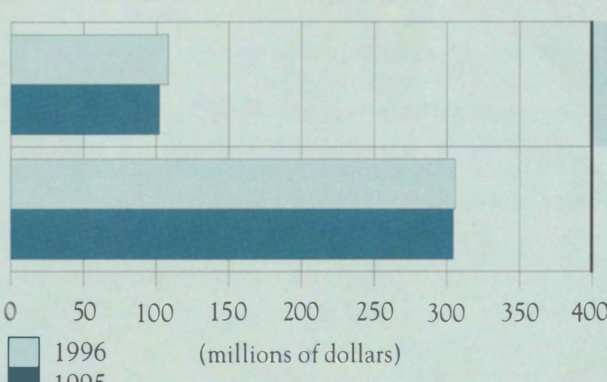
Revenues collected from students; includes resident enrollment fees, program and service fees, extension enrollment fees, and other fees.

Other (5.3%) $ 62,451,166.69

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

Federal and Local Appropriations (1.3%) $ 15,159,576.16

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



Auxiliary Enterprises (9.2%) $ 108,160,362.74

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

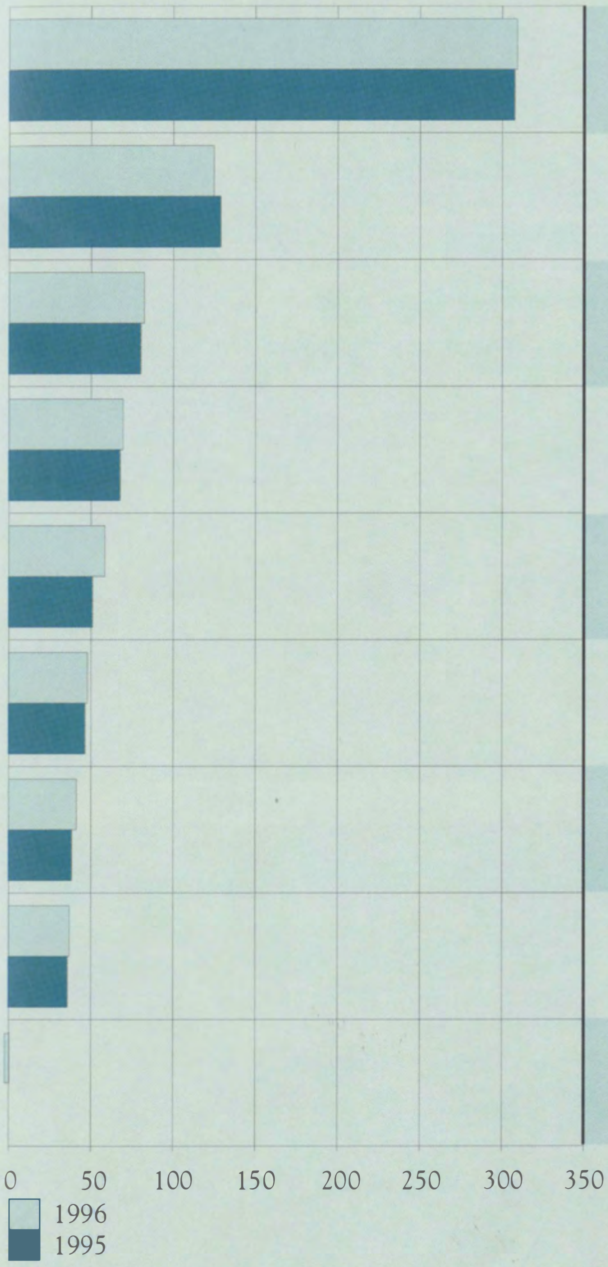
Hospitals (25.9%) $ 305,736,238.74

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

TOTAL $ 1,180,892,791.55

Uses of Current Funds

for the year ended June 30, 1996



Instruction (26.1%) — $ 309,016,133.36
Includes all expenditures, including faculty and staff salaries incurred in connection with instruction programs for credit and non-credit courses.

Research (10.5%) — $ 124,606,496.11
Direct expenditures for sponsored research activities funded from federal, state, local, and private sources.

Public Service (6.9%) — $ 82,182,216.17
Expenditures for non-instructional programs beneficial to individuals and groups external to the University.

Academic Support (5.9%) — $ 69,313,688.00
Expenditures for libraries, computing support, and academic administration.

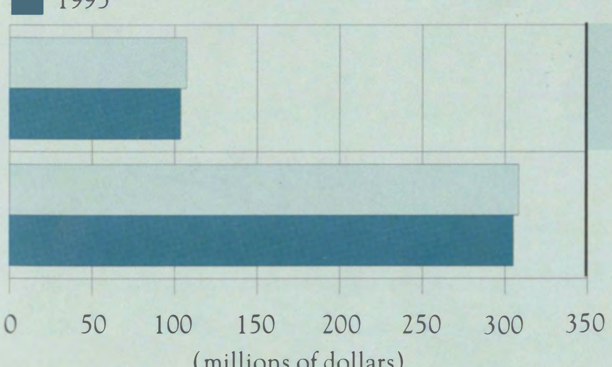
Institutional Support (4.9%) — $ 58,321,452.95
Expenditures for executive management, financial operations, personnel services, security, public relations, development activities, and alumni relations.

Physical Plant (4.0%) — $ 47,802,813.98
Expenditures for the operation and maintenance of physical plant including utilities and services related to grounds and facilities.

Student Aid (3.5%) — $ 41,178,536.91
Scholarships and fellowships awarded to students.

Student Services (3.1%) — $ 36,876,157.60
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%) — $ (408,405.08)
Mandatory transfers for debt service and non-mandatory transfers for other long-term capital project funding and operations.



Auxiliary Enterprises (9.1%) — $ 107,153,219.14
Activities that furnish goods and services to students, faculty, and staff. Includes mandatory transfers for debt service.

Hospitals (26.0%) — $ 308,265,383.12
Expenditures for hospital operations. Includes mandatory transfers for debt service.

TOTAL — $ 1,185,122,853.07

Major Capital Construction Programs 1995-96

(in thousands of dollars)

	SOURCE OF FUNDS	
Major Capital Construction Completed 1995-96	State Appropriation	TSSBA
Conference Center Renovation of Space Phase II - Knoxville		$ 6,750
Golf Range Apartments Roof Replacement - Knoxville		
Golf Range Apartments Swimming Pool Renovation - Knoxville		
International House - Knoxville		
Music Building HVAC System Improvements - Knoxville	$ 880	
Neyland Stadium North End Zone Expansion - Knoxville		15,425
Neyland Stadium Painting and Waterproofing Phase III - Knoxville		
White Avenue Parking Garage - Knoxville		6,000
Residence Hall Shower Improvements Phase II - Knoxville		
Roof Repair and Replacement 1994-95 - Knoxville	310	
Science/Engineering Research Facility - Knoxville	24,200	4,000
Steam Line Replacement - Knoxville	1,770	
Patten House Renovation Phase II - Chattanooga		
Housing Central Chilled Water Plant Phase II - Martin		1,390
Paul Meek Library Addition - Martin	9,850	
Original Hospital Building Renovation Phase IV (Site Preparation) - Memorial Hospital		1,400
Modular Buildings for Interim Lab Space - Memorial Hospital		
Sewage Lift Station Expansion - Memorial Hospital		
Main Academic Building Chiller Replacement - Space Institute	405	
Main Academic Building Improvements - Space Institute	1,105	
Elevator Improvements Phase I - Memphis	740	
Hazardous Materials Storage Area - Beale Building - Memphis		
Roof Repair and Replacement 1993-94 - Memphis	800	
MAJOR CAPITAL CONSTRUCTION COMPLETED	$40,060	$34,965

Major Construction in Progress at June 30, 1996 (estimated completion date)	State Appropriation	TSSBA
Boiler Addition - Knoxville (July 1996)	$ 8,230	
Carrick Hall Chiller Replacement - Knoxville (July 1996)		
Claxton Renovation for Computer and Research Space - Knoxville (August 1996)		
Exterior Masonry Repairs - Knoxville (May 1997)	725	
Golf Range Apartments Roof Replacement Phase II - Knoxville (August 1996)		
Humanities Building Classroom Improvements - Knoxville (August 1996)		
Neyland Drive Parking Garage - Knoxville (July 1996)		$ 9,600
Neyland Stadium Graduate Instructional Center - Knoxville (August 1996)		
Residence Hall Shower Improvements Phase III - Knoxville (August 1996)		
Roof Repair and Replacement 1993-94 - Knoxville (July 1996)	465	
Taylor Law Building Renovation and Addition - Knoxville (September 1996)	22,550	
Tennis Center Additions and Improvements - Knoxville (November 1996)		
Women's Athletic Fields - Knoxville (October 1996)		
Fletcher Hall Renovation - Chattanooga (October 1997)	7,900	
Maclellan Gymnasium Improvements - Chattanooga (January 1997)	930	
Fifth Street Parking Garage - Chattanooga (February 1997)		3,400
Single Student Housing Phase II - Chattanooga (June 1997)		8,100
Food Technology Facility Improvements Phase II - Institute of Agriculture (August 1996)	848	
Veterinary Medicine Addition - Institute of Agriculture (November 1996)		
Original Hospital Building Renovation Phase IV - Memorial Hospital (August 1998)		10,600
Elevator Addition in Professional Office Building II - Memorial Hospital (February 1997)		
Surgery Suite Renovation - Memorial Hospital (February 1997)		1,500
Parking Garage - Memorial Hospital (September 1997)		6,700
Professional Office Building Renovation of Space Phase III - Memorial Hospital (July 1996)		
Space Renovation in Original Hospital Building Phase II - Memorial Hospital (June 1998)		800
Space Renovation in Original Hospital Building Phase III - Memorial Hospital (Feb. 1997)		1,900
Steam Plant Improvements and Phase II Steam Line Replacement - Martin (July 1996)	1,020	
Bowld Hospital Emergency Room Expansion - Bowld Hospital (December 1996)		1,800
Bowld Hospital Fourth Floor Renovation - Bowld Hospital (August 1996)		
MAJOR CAPITAL CONSTRUCTION IN PROGRESS	$42,668	$44,400

University Funds			
Current Unrestricted	Current Restricted	Maintenance Reserves	Project Total
			$ 6,750
		$ 200	200
		250	250
$ 1,430			1,430
			880
			15,425
290			290
		500	6,500
		690	690
			310
	$ 200		28,400
			1,770
	630		630
			1,390
			9,850
			1,400
1,275			1,275
445			445
			405
100			1,205
			740
140			140
			800
$3,680	$ 830	$1,640	$ 81,175
			$ 8,230
		$ 750	750
$ 210			210
			725
		200	200
300			300
			9,600
100			100
565			565
			465
			22,550
350	$ 2,300		2,650
1,325			1,325
			7,900
75			1,005
			3,400
			8,100
42			890
750			750
			10,600
800			800
			1,500
			6,700
1,500			1,500
4,800			5,600
			1,900
			1,020
			1,800
285			285
$11,102	$ 2,300	$950	$101,420

The University of Tennessee Ten Year Summary

For the Fiscal Year	1995-96	1994-95	1993-94
Sources of Operating Revenues (,000)			
State Appropriations	$ 363,791	$ 354,122	$ 331,809
Student Fees	120,944	116,940	114,704
Federal Appropriations	13,073	13,088	13,608
Other (Gifts, Grants, Sales and Services, etc.)	269,188	273,736	265,463
Total General Funds	$ 766,996	$ 757,886	$ 725,584
Auxiliary Enterprise	108,160	102,216	97,419
Hospitals	305,736	304,376	311,542
Total Revenues-Current Funds	$1,180,892	$1,164,478	$1,134,545
Current Expenditures and Transfers (,000)			
Instruction	$ 309,016	$ 307,676	$ 286,827
Research	124,607	128,801	130,647
Public Service	82,182	80,328	74,895
Academic Support	69,314	67,703	61,392
Student Services	36,876	35,882	32,306
Institutional Support	58,321	50,985	46,553
Operation and Maintenance of Physical Plant	47,801	46,465	45,090
Scholarships and Fellowships	41,179	38 ,402	37,285
Transfers	408	(564)	8,607
Total General Funds-Expenditures and Transfers	$ 769,704	$ 755,678	$ 723,602
Auxiliary Expenditures and Transfers	$ 107,153	$ 103,726	$ 97,131
Hospital Expenditures and Transfers	$ 308,265	$ 305,090	$ 308,300
Total Current Expenditures and Transfers	$1,185,122	$1,164,494	$1,129,033
Expenditures Converted to 1995	x1.000	x1.027	x1.057
Equivalent by Consumer Price Index Factor	$1,185,122	$1,195,935	$1,193,388
Current Unrestricted Fund Assets (,000)			
Educational and General	$ 113,086	$ 123,277	$ 108,294
Auxiliary	26,780	26,987	27,075
Hospital	99,515	95,025	106,511
Total Current Funds	$ 239,381	$ 245,289	$ 241,880
Student Loan Funds			
Notes Receivable (,000)	$ 31,317	$ 30,905	$ 29,350
Loans Issued (by year)	2,717	3,048	2,765
Endowment Funds (,000)			
Market Value	$ 234,278	$ 196,720	$ 165,110
Life Income Funds			
Market Value	$ 31,978	$ 26,945	$ 23,186
Plant Funds (,000)			
Long-term Debt	$ 265,789	$ 227,715	$ 227,370
Reserves for Debt Service and Renewal & Replacement	$ 112,433	$ 113,063	$ 117,492
Net Invested in Plant	$1,258,176	$1,202,223	$1,140,786
Capital Outlay Expenditures	$ 68,739	$ 58,763	$ 56,037
General Data			
Total Enrollment	41,934	41,927	42,383
Knoxville	25,722	25,943	26,431
Chattanooga	8,331	8,281	8,325
Martin	5,801	5,608	5,537
Memphis	2,080	2,095	2,090
Degrees Granted	8,233	8,429	8,237
Full-Time Employees	15,486	15,573	15,281
Full-Time Faculty	2,984	2,899	2,822
% tenured (Based on those eligible for tenure)	63.0%	62.0%	63.0%
Total Private Gifts (,000)	$ 55,838	$ 46,020	$ 49,977
Academic Year Student Fees (Knoxville)			
Instate	$ 2,164	$ 2,052	$ 1,962
Out of state (additional)	$ 4,130	$ 3,934	$ 3,780
State Appropriation/FTE	$ 7,260	$ 6,866	$ 6,317

1992-93	1991-92	1990-91	1989-90	1988-89	1987-88	1986-87
$ 313,075	$ 283,893	$ 299,568	$ 301,437	$ 294,622	$ 269,482	$ 256,896
108,699	101,527	96,500	88,590	82,944	75,228	69,318
13,333	12,787	12,110	11,291	11,402	11,415	10,699
247,485	225,882	210,255	192,419	183,005	165,286	152,028
$ 682,592	$ 624,089	$ 618,433	$ 593,737	$ 571,973	$ 521,411	$ 488,941
90,403	89,614	88,224	79,649	73,368	73,083	65,509
298,253	263,814	240,038	216,323	189,987	168,993	142,561
$1,071,248	$ 977,517	$ 946,695	$ 889,709	$ 835,328	$ 763,487	$ 697,011
$ 262,151	$ 240,222	$ 239,744	$ 237,468	$ 227,996	$ 204,146	$ 193,414
121,411	109,865	105,724	98,405	95,330	85,833	75,459
67,493	61,586	61,344	56,564	55,931	51,084	48,006
58,357	52,495	54,421	54,521	54,855	49,951	46,508
29,886	26,199	26,682	26,346	25,617	23,164	22,091
48,268	46,727	48,789	46,832	47,053	45,092	45,897
39,919	38,778	40,140	41,522	38,851	36,737	35,451
37,502	33,637	29,034	26,168	23,410	21,107	19,498
5,295	9,425	8,934	6,725	3,309	8,759	(1,345)
$ 670,282	$ 618,934	$ 614,812	$ 594,551	$ 572,352	$ 525,873	$ 484,979
$ 89,927	$ 87,891	$ 86,737	$ 78,001	$ 74,324	$ 72,493	$ 64,742
$ 282,012	$ 259,340	$ 223,560	$ 209,721	$ 187,881	$ 162,678	$ 140,726
$1,042,221	$ 966,165	$ 925,109	$ 882,273	$ 834,557	$ 761,044	$ 690,447
x1.084	x1.118	x1.154	x1.217	x1.275	x1.334	x1.389
$1,129,768	$1,080,172	$1,067,576	$1,073,726	$1,064,060	$1,015,233	$ 959,031
$ 100,298	$ 93,493	$ 76,582	$ 75,071	$ 74,677	$ 83,167	$ 77,439
26,348	24,321	21,788	20,455	16,702	17,587	16,803
94,822	80,670	74,034	55,143	46,129	44,497	37,262
$ 221,468	$ 198,484	$ 172,404	$ 150,669	$ 137,508	$ 145,251	$ 131,504
$ 28,544	$ 27,391	$ 27,113	$ 27,130	$ 25,210	$ 24,595	$ 24,081
2,765	2,428	2,033	3,179	2,303	2,551	2,576
$ 148,891	$ 131,164	$ 118,040	$ 107,145	$ 91,216	$ 78,454	$ 70,332
$ 24,110	$ 22,126	$ 19,783	$ 16,016	$ 17,551	$ 14,047	$ 19,053
$ 231,412	$ 230,760	$ 240,543	$ 232,678	$ 232,897	$ 235,551	$ 219,903
$ 96,784	$ 91,659	$ 58,996	$ 51,303	$ 43,846	$ 44,261	$ 40,792
$1,060,947	$1,002,318	$ 940,808	$ 894,298	$ 831,623	$ 745,006	$ 660,298
$ 37,261	$ 39,967	$ 42,331	$ 40,448	$ 50,451	$ 63,527	$ 56,126
42,373	41,489	40,931	39,911	38,936	39,890	39,955
26,579	26,266	26,055	25,512	24,985	25,987	25,842
8,147	7,888	7,725	7,564	7,526	7,355	7,484
5,646	5,479	5,363	5,088	4,653	4,785	4,923
2,001	1,856	1,788	1,747	1,772	1,763	1,706
8,038	7,474	7,041	6,888	6,981	7,180	6,988
14,967	14,772	14,849	14,536	14,254	13,579	13,042
2,731	2,654	2,617	2,819	2,826	2,794	2,716
64.5%	63%	61.4%	62.2%	61.1%	61.3%	61.1%
$ 35,153	$ 34,853	$ 32,002	$ 33,527	$ 32,159	$ 29,636	$ 30,922
$ 1,898	$ 1,788	$ 1,712	$ 1,582	$ 1,466	$ 1,404	$ 1,323
$ 3,600	$ 3,364	$ 3,204	$ 2,952	$ 2,734	$ 2,604	$ 2,433
$ 5,961	$ 5,636	$ 6,155	$ 6,156	$ 5,296	$ 4,919	$ 4,666

The University of Tennessee Administration

From July 1, 1995, through June 30, 1996

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Kathryn Aycock

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Penny Brooks

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