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Annual Report of the President, the University of Tennessee to the Board of Trustees, 1997-1998: A Year of Firsts

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University of Tennessee - Knoxville

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Never before had the University of Tennessee raised more than $400 million in a fund-raising campaign. Never before had UT campuses so rapidly upgraded technological infrastructure. Academic programs climbed to the top of national rankings. The University endowment grew larger than ever. The Lady Vols won an unprecedented sixth national basketball championship. Twelve months of accomplishments totaled...
The University of Tennessee is the state university and federal land-grant institution of the Volunteer State.

The 204-year-old University has four campuses—Knoxville, Memphis, Martin, Chattanooga—and three institutes—agriculture, space, and public service. The Universitywide administration, headed by President Joseph E. Johnson, is headquartered at the Knoxville campus. A Board of Trustees governs the University.

UT has about 42,000 students, more than 14,000 faculty and staff, 235,000 alumni, and an annual operating budget exceeding $1 billion.

The University is a major research institution, spending more than $129 million on research in 1996-97.

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The Sears Trophy awarded to the Lady Vols for their sixth NCAA women’s basketball championship.

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One hundred years ago, people eagerly anticipated the new century. They predicted that the 1900s would bring an increase in the human life span, a decline in civilization, and wireless telegraphy that would replace newspapers.

Hovering on the edge of not just a new century, but a new millennium, our minds similarly strain to foresee the days to come. As we think ahead though, we must also pause to consider the accomplishments and the people who made 1997-98 a year of firsts for the University of Tennessee. For as we plan for the new millennium, this year’s solid record of progress will go far toward preparing us for the changes and challenges of 2000 and beyond.

Never before has the University concluded a fund raising campaign attracting more than $400 million. Never before have our campuses experienced such rapid upgrading of their technological infrastructure. The University endowment grew larger than ever. And who could forget the Lady Vols’ triumphant march to an unprecedented sixth national basketball championship?

As the year began last July, we thrilled to the Mars Pathfinder mission’s discoveries and the prominent role that UT Knoxville Professor Hap McSween played in NASA’s evaluation of the data. Dr. McSween represented our university in the best possible way as a scholar and scientist. And in keeping with the University’s public service mission, he continues to share his rare experience by speaking to UT alumni and other groups.

As the year unfolded, more “firsts” and “bests” accrued.

- A survey of senior logistics executives ranked UTK’s logistics and transportation program first in the nation. The survey was conducted by Foster Partners, an affiliate of KPMG Peat Marwick. UTK also ranked sixth among colleges and universities with the strongest marketing skills programs in a survey by Time/The Princeton Review.
- Dr. Peter Doherty of UT Memphis and St. Jude Children’s Research Hospital was named to the National Academy of Sciences, a rare honor in the scientific world. You may remember that Dr. Doherty won the Nobel Prize for medicine in 1996. He is UT’s second member of the National Academy of Sciences (Dr. Gerald Mahan of UTK was our first).
- Dollars from the UT Knoxville technology fee stretched further than expected, allowing the campus to buy more computers than originally thought. Fifty-six computer labs were upgraded and expanded. The Board of Trustees authorized UT Chattanooga to join UT Martin and UT Knoxville in increasing technology fees with enthusiastic support of students.
- The University agreed to adopt an affinity credit card, which promises to bring nearly $17 million to UT over the next seven years.
- The University ranked among the nation’s best in U.S. News and World Report’s surveys of graduate programs in law, business, education, and health disciplines. UT Knoxville and UT Memphis programs ranked high in U.S. News and World Report’s first-time survey of health disciplines, which include speech pathology and nursing anesthesia. The UT Memphis anesthesia program ranked fifth, and speech pathology at UT Knoxville tied with several schools for 21st. Other ranked programs, all at Knoxville, included business, 43rd of 300 schools surveyed; education, 48 of 191 surveyed; and law, 48 of 174 schools surveyed. The UTK legal clinic also placed 22nd in the nation among similar programs.
Another U.S. News and World Report survey found that graduates of UT Knoxville finish college with less debt than students at all but four national universities. The College Board released figures that showed UT in-state undergraduates pay well below the national average in annual fees, room and board. We strive to give our students an excellent education at a reasonable price, and these survey results verify that we are doing a good job.

UT Martin’s School of Education was one of four receiving a national award from the American Association of Colleges for Teacher Education.

The master of accounting program in the College of Business Administration at UTK ranked eighth in a national newsletter. Public Accounting Report also ranked the undergraduate program 18th among U.S. public and private universities.

In a remarkable display of community support for UT Chattanooga, residents of Hamilton County, where UTC is located, said in a survey that 84 percent would welcome the opportunity to attend UTC or send their children there.

UT’s endowments and trusts approached the half billion dollar mark, after gaining a record $81 million the previous year. Of the public schools participating in a recent endowment study by the National Association of College and University Business Officers, UT ranked 21st.

In March, the Lady Vols brought home their sixth NCAA women’s basketball championship. This remarkable squad, under the brilliant direction of Coach Pat Summitt and her staff, dominated the 1997-98 season, brought the University unprecedented good publicity, and served as powerful role models. Also, the Lady Vols turned a profit in 1997-98, the first collegiate women’s basketball program in the nation to claim such a distinction.

Never before has one Volunteer athlete gained as much national acclaim as Peyton Manning. In addition to leading the football Vols to the 1997 Southeastern Conference championship, the All-America quarterback won numerous awards including the Sullivan Award for best amateur athlete in the nation. Gifts to the University associated with those awards provided seed money to establish the Peyton Manning Scholarship with a $1 million endowment.

UT’s drive to become the Southeastern automotive industry’s leading partner got a boost in April with the successful Automotive News Southeast Conference, which UT cosponsored.

The UTK athletics department gave $1 million to campus academic programs to buy instructional equipment. UT sets the example across the nation of how academics and athletics can work together for the betterment of the institution.

The University received its largest ever capital outlay appropriation in the state budget approved for 1998-99. For the first time in seven years, new money was recommended for UT operating budgets. Governor Don Sundquist and legislative leaders had challenged the University to “help itself”—to find alternative sources of income, cut spending on administration, raise more money, and privatize some functions. We responded positively, and the improved appropriation resulted.

These milestones are just a sampling of the “firsts” and “bests” that distinguished the 1997-98 year. These and other accomplishments spotlighted on the following pages make the University of Tennessee an even more valuable resource for Tennesseans. We are able to better educate its citizens, to do research that benefits them, and to provide them services that they expect and deserve. Our campuses—UT Chattanooga, UT Knoxville, the health sciences center at UT Memphis, UT Martin, the Space Institute at Tullahoma—and our statewide institutes of agriculture and public service are united in one important goal: to serve Tennessee and Tennesseans.

Our University is one of the nation’s oldest, largest, and most respected. With a student body of nearly 42,000, faculty and staff numbering 14,000, an annual budget of more than $1 billion, 235,000 alumni, 376 academic programs, annual research spending of $129 million, and outreach programs that take UT into each of Tennessee’s 95 counties, the University of Tennessee is a major force in Tennessee.

In today’s information-driven, global culture, no institution is better equipped than higher education to help people change, learn, and achieve. Higher education is essential to economic development and work force enhancement, to the discovery of knowledge that improves our health, our productivity, our understanding of other cultures. Higher education and the University of Tennessee are more relevant than ever before.

That is why we are proud to report on a year of accomplishments that overshadow all the years that have gone before. What is good for the University of Tennessee is good for the state of Tennessee. Let us celebrate together this year of firsts.
ADVANCES IN TECHNOLOGY

Technology fee provides tools to better prepare students

A university simply cannot do its jobs of teaching, research, and service without computers, software, wiring, Internet connections, computer support, and other technological paraphernalia.

The University's financial resources were insufficient to keep up with the technological times until the students came forth with a solution. They said, "Establish a technology fee and plow all the money back into computers and computer services." The UT administration and the Board of Trustees saw the wisdom of this plan and approved it speedily. It has worked out even better than we hoped. Contracts with vendors have resulted in lower than anticipated prices on computers, so we have been able to purchase more machines than we had thought. Thanks to income from the fee, our students have the tools and technology to make them more successful in school and to better prepare them for their careers.

This technology initiative is a striking example of the University "helping itself" by paying for equipment that normally should be supplied by the state.

Here are some particulars about projects that have resulted from the student technology fee and other technologically-related efforts.

- UT Knoxville added new computing equipment and upgrades for more than 56 academic computing laboratories. This benefited the instructional and research program in the academic departments, some of which were using equipment more than ten years old.
- More than 1,000 new computers were purchased and installed, along with printers and the specialized academic software students need. All UTK students who live in on-campus student housing have access to the campus network and the Internet. Approximately 2,000 connections were activated in fall 1997, and this number will grow as more students bring computers to campus.
- UT Martin students received upgraded computer labs, fully equipped multimedia classrooms, and expanded student computer support services in return for a $55 per semester technology fee that began in fall 1997. One result of the technology fee was the first-time purchase of 22 Computer on Wheels (COWs). Each COW is equipped with $13,000 in multimedia technology that can be wheeled to almost any classroom on campus.
- UT Chattanooga's Student Government Association took the lead in raising money for campus technology upgrades. A new computer lab with extended hours to better serve students opened in the University Center, and a technology committee was formed to accept proposals and award grants of under $1,500 for equipment purchases. The entire UTC campus was to be wired to provide Internet access to every building and classroom.
- The Computing and Telecommunications Center at UT Memphis made a contract decision to prepare for the use of a cross platform environment—Macintosh and Intel machines. Programs are available for both to provide seamless movement between the two platforms.
- The UT Memphis Computer Lab added 12 new Intel-based machines dedicated to instructional and student use. A new server increased security and saved money.
- Wiring was completed to UT Memphis' Goodman Family Residence Hall (the primary campus dorm) to accommodate access to campus computing resources and to the Internet for all students who live there.
- The College of Dentistry completed a college-wide restructuring of computing facilities that provides faculty with updated technology and educational resources through purchase of a minimal number of licenses of the most up-to-date software programs, reducing software incompatibilities. The college also is being completely rewired for Ethernet.
- UTSI installed two new computer labs—one for engineering management simulation and another for the Chair of Excellence in Computational Mechanics.
- Faculty and academic staff representing almost every discipline at UTK have taken advantage of the Innova-
tive Technologies Center's training services and development tools to build flexible learning environments. In 1997, the center offered 116 sessions of 30 different courses related to integrating computer and multimedia technologies with instruction.

- At UT Martin, a faculty computer replacement plan was developed to assure up-to-date computer technology is available in academic areas.

- The World Wide Web is playing a huge role in many parts of the University. UT Martin's international programs department developed five language-specific websites to reach potential students.

- At UT Chattanooga engineering faculty members Jim Henry and Jim Hiestand created an interactive Internet lab used by students throughout the world.

- The Department of Career Services at UTK used software licensed through the technology fee to put the entire interview registration and sign-up process on the web. Students submit their resumes electronically, find out when they have been selected for interviews, and even schedule the interviews on the web. The system worked well through thousands of spring interviews and saved students time and effort. Resumes are also available to employers via the Web, and hundreds made use of this resource as a way to identify potential job candidates.

- All campuses of the University have adopted the Banner 2000 system to integrate student information systems. When fully implemented, the system will allow all student information functions, such as recruiting, admissions, grade reports, and accounts receivable, to "talk" to each other. Banner 2000 also will have a World Wide Web interface so students and faculty can access records.

- At UT Memphis a Web-based job bulletin posting allows global access and daily updates to the campus job bulletin, and a Web interface for medical students provides entry and analysis of evaluation.

- At UTK Division of Information Infrastructure received a five-year grant from Bechtel-Jacobs Development Corporation for research and education in advanced visualization and virtual reality. The grant is in connection with a new interactive visualization center being established in Knoxville by Prosolvia Inc.

- Computers are altering many traditional ways of doing things. The College of Graduate Health Sciences at UT Memphis, for example, implemented an electronic thesis and dissertation process. Two Ph.D. cond-...
dates in nursing were the first to submit dissertations in this way at any institution in Tennessee. The college also used for the first time an electronic application process for the entire academic year. Out of 750 applications, 65 percent were submitted electronically.

• The Institute of Agriculture initiated several computing applications to benefit Tennessee's agribusiness sector. Agricultural Extension Service faculty developed software to help soybean farmers make better informed financial decisions. The Soybean Systems software is the first of its kind to use the combination of budgeting, marketing, and a new machinery cost-estimation procedure.

• A team of scientists from the Institute of Agriculture used satellite technology and geographic software to map soils, identify pest problems, record yields, and diagnose production problems in nine soybean fields on Tennessee farms. Faculty from plant and soil science, agricultural and biosystems engineering, and the Agricultural Extension Service were part of the team. The Tennessee Soybean Promotion Board funded the project. The team from the Agricultural Experiment Station were involved in developing the technology and its applications for Tennessee producers.

• More than 150 Tennessee farmers have bought and used software developed by Agricultural Extension Service faculty to make management decisions about beef cattle herds. The Municipal Technical Advisory Service (MTAS) went online with a new information resource. Since then 44 cities have connected to the web site, InfoAccess. They use it to check legal opinions, access job descriptions, participate in discussions, and check other city information stored there. Cities also have access to the Directory of Municipal Officials. A continuing grant from the Appalachian Regional Commission allowed consultants from MTAS and the County Technical Assistance Service to help 50 Tennessee counties effectively use the Internet. A new project in Clay County and Celina, an area hard hit by plant closings, is helping the community come together to produce a community website to provide information about local government, the chamber, and industrial and economic opportunities.

• The Office of Statewide Continuing Education helped familiarize UT faculty and administrators with new distance education providers at a one-day forum last fall in Gatlinburg. Continuing Education also hosted an electronic town meeting using UT EDNET to encourage UT campuses and institutes to list their distance education courses with the Southern Regional Education Board's Electronic Campus. As the central office for the Distance Education Council, the Office of Statewide Continuing Education worked with DEC members to develop a long range plan for distance education at UT.

• At the Medical Center in Knoxville, UT Home Care Services and the UT Telemedicine Network developed technology that enables homebound patients to receive medical care at home. Nurses and physicians see patients using telemedicine technology, a two-way video and audio communications system.

Telemedicine in the home uses two modules: the home unit and the nursing unit. The home unit consists of a monitor camera that connects to the patient's television and a speakerphone that plugs into the telephone line.

The physician can evaluate the patient while the home care nurse provides treatment. Even patients with complex needs, such as a chest cancer patient, can benefit from this technology.
MAKING DOLLARS COUNT

UT operates more cost effectively using outsourcing, partnerships, and grants.

The University of Tennessee is responding to the state’s call to cut costs and find more alternative sources of income.

One of the most successful initiatives has been the student technology fee. The good that has come of this effort is so dramatic that it is a major part of this report (see page 3).

The University’s most pronounced success in “helping itself” has been the record breaking amount of support generated by the 21st Century Campaign. The generosity of our alumni and friends is truly gratifying, and the campaign is the focus of a special report at the end of this section.

Meanwhile, we have continued to seek out the most economical methods of operating the University, from saving money on our utilities bills to reorganizing departments to function more efficiently. We have also been entrepreneurial in forming partnerships with other organizations and businesses and in seeking out grants to help fund our work.

- At the UT Medical Center in Knoxville, Operation ORANGE (organized reduction of all non-labor and goods expenses) yielded $4.7 million in costs savings. The cost-cutting effort focused on $67 million in selected non-labor expense categories to reduce day-to-day costs without compromising patient care. The categories reviewed included operating room and procedural supplies, medical and ancillary supplies, pharmaceuticals, non-clinical supplies and services, and the supply chain process.

- UT Knoxville began moving away from mail distribution of grades to a new system that lets students access their grades by phone or computer. Mailing grades costs about $30,000 a year at UTK.

- UT Martin completed its Energy Management Savings contract, which resulted in annual savings of $325,000. Implemented in January 1993, the project included lighting retrofits, equipment upgrades, and the installation of an energy management system to turn off heating and cooling equipment when not needed.

- The Agricultural Extension Service saved about $200,000 by reducing its state districts from five to four. The number of district supervisors and program leaders was reduced, as was expense for office space rental.

- UT Bowld Hospital in Memphis and the VA Medical Center worked together to buy about $100,000 of operating equipment. Significant cost savings were realized by converting much of Bowld’s purchasing through the University Health System Consortium.

AT THE UT MEDICAL CENTER IN KNOXVILLE, OPERATION ORANGE YIELDED $4.7 MILLION IN COST SAVINGS.

- Outsourcing produced savings in many instances. At UT Memphis, for example, lock changes and key cutting outsourcing made unnecessary the hiring of a permanent locksmith. A contract with ServiceMaster provided a director of facilities and will reduce expenses for facilities management and operations. A contract with Southeast Services to clean three UT Memphis buildings eliminated 18 custodial positions and saved about $30,000.

- UT Chattanooga outsourced its graphic services and mail services to provide better service at a savings.

- UT Martin completed its first full year of desk-top delivery of office supplies. The contractor, Mills Morris Office Supplies, delivers daily to departments on campus thus eliminating the need for office supply inventory.

- In some instances, one University department assisted another, or students pitched in to help. The most notable example was the UTK Athletic Department’s $1 million gift to academics. The money was designated for instructional equipment.

- At UT Martin, the Employment Information Center took full responsibility for the honors seminar workshop portion of the honors program. This resulted in every qualified student receiving a workshop position and keeping within the budget of existing funds.

- Students at UT Memphis assessed themselves a $25 a semester fee to improve the fitness center and Docs’ Field, and groups of students volunteered their time to clean and fix up the facility.

- Departments in the College of Agricultural Sciences and Natural Resources at Knoxville consolidated courses in response to budget reductions. The college now offers a single professional development course and a single scientific communications course for entering graduate students.

- Through good management and commitment to keeping higher education accessible to all, UT offers a high quality education at a very reasonable price. A survey by the College Board showed that UT undergraduate in-state students pay well below the national average in annual fees, room and board. Average fees top $3,000 per year at U.S. colleges. Room and board brings the total cost to more than $10,000. For under-
graduates at UT, fees average $2,338. Room and board adds an estimated $3,952 for a total annual cost of $6,290.

- The Department of Food Science and Technology was able to help students with a grant it received. The department, part of the UTK College of Agricultural Sciences and Natural Resources, was the first Institute of Food Technologists-accredited school to receive a $7,500-a-year, five-year grant from IFT to increase, retain, and financially support African-American students interested in food science.

University partnerships with private enterprise or with other public agencies produced benefits for everyone involved.

- UT Chattanooga worked with the community to build two facilities that the campus uses—Finley Stadium/Davenport Field, new home to UTC’s football Mocs, and Frost Stadium, new home of the Lady Mocs softball team.

- In another cooperative arrangement, UTC added an occupational therapy undergraduate program. Several Chattanooga area health care providers helped UTC establish the program.

- The Agricultural Experiment Station has many partnerships with agricultural industries to do research. The experiment station’s grants and contracts totaled about $5 million this year. Industry groups such as the Tennessee Soybean Promotion Board and Cotton Inc. support research that solves producers’ problems and creates new and expanded markets for Tennessee commodities.

- One of the University’s most longstanding partnerships is with the Tennessee Farmers Cooperative. The relationship began more than three decades ago with gifts to the 4-H program in the Agricultural Extension Service. In 1988, the Co-op expanded its funding by initiating 4-H Academic Camp, held every summer on the UT agriculture campus. More recently, the Co-op launched a scholarship/internship program for students in the College of Agricultural Sciences and Natural Resources.

- The UT Space Institute and Johnson Controls Inc. worked together with UTSI’s Center for Laser Applications using a high energy laser laboratory and equipment to identify and investigate laser materials processing opportunities for Johnson Controls plants.

- The Institute for Public Service teamed up with the Knoxville Police Department and the Metropolitan Drug Commission to win a $1 million contract with the U.S. Department of Justice to operate the Southeast Community Oriented Policing Education program. This effort enables the Institute to better serve its existing Tennessee customers and to expand its services to seven other states in the southeastern U.S. It also builds on UT’s long-standing work in law enforcement assistance.

- The Institute, along with several partners, worked to enhance the University’s services to the automotive industry. The university hosted two automotive mini-summits in 1997 and cosponsored the first ever Automotive News Southeast Conference with Deloitte & Touche and Automotive News in 1998. The Institute’s Center for Industrial Services continued to develop relationships with Saturn and Nissan corporations.

- Both the Municipal Technical Advisory Service and the County Technical Assistance Service reaped rewards from their years of partnership with Tennessee’s local governments when they received increases in local funding from the cities and counties they serve. The increases are being used to improve services.

- UTK, the U.S. Department of Energy, and Oak Ridge National Laboratory worked toward establishing the Joint Institute for Neutron Sciences. The state of Tennessee committed $8 million to build a facility to house the joint institute. JINS, which will be jointly managed by UT and ORNL, will be the intellectual focus and gateway to new and upgraded neutron facilities at ORNL for scientists from all over the world.
The 21st Century Campaign took the concept of the University "helping itself" to a new level. Never before has a public institution in Tennessee taken such a bold fund-raising initiative and achieved such dramatic results. The money raised provides scholarships, faculty incentives, and other academic enrichment above and beyond state appropriations. The generosity of our alumni and friends gives UT the means to become one of the nation's finest public universities.

The 21st Century Campaign, begun in 1993 with a $250 million goal, concluded June 30 with gifts and commitments of more than $430 million, far in excess of even the revised campaign goal of $308 million. Each campus and unit of the University surpassed its goal.

At the closing date, the campaign had attracted 81 gifts of $1 million or more. Overall, more than 96,800 gifts and pledges had been recorded. The last 18 months of the campaign included the national gifts phase effort, aimed at contacting some 200,000 alumni.

The success of the 21st Century Campaign is largely due to outstanding volunteer leadership. William B. Stokely III served as national campaign chair, and Howard Baker Jr. was honorary chair. Each campus and unit of the University was fortunate to have volunteer leaders whose advice and support set the pace of the campaign. These volunteers, along with the University-wide campaign executive committee, the Development Council, the development support groups at each campus (and many within colleges), and leaders from the National Alumni Association, totaled about 400 individuals who invested their time to support UT.

During 1997-98, private gifts to the University totaled $68.9 million, making it the most successful year in the history of UT's private fund-raising program. Some of the most significant gifts of 1997-98 were:

- $1 million to UT Knoxville from mobile telephone maker Ericsson for a chair in computer science.
- $1 million from the late Gordon Davenport to UT Chattanooga's football program.
- $1 million pledge from Columbia/HCA to support UT Chattanooga's new master's degree program in athletic training.
- $500,000 from First American Bank to UTK to establish the Center for Closely Held Firms.
- A gift from the Stanley Jones Corporation to establish the first engineering professorship in the UT Martin School of Engineering.
- Funds for the Charles E. Eastridge Professorship in Cardio-Thoracic Surgery and Research Fund in the College of Medicine at Memphis. A gift Dr. Eastridge made shortly before his death to the Community Foundation of Greater Memphis, plus monies to be received from his estate, will establish the professorship and research fund.
- Software worth $150,000 from Apollo Camera LLC to the UT Space Institute. The Pro/Engineer software will help UTSI develop student and faculty capability in engineering design.
- $2 million from Dr. Sam Mount—$1 million each to UT Memphis and UT Medical Center at Knoxville.
- $200,000 from Virginia Turley and her family in Memphis in support of the UT Memphis Neurological Disease Research Center for research on Alzheimer's Disease.
- Trust agreements established by Dr. Fred Hartwig and Lou Hartwig of Shawnee Mission, Kansas, benefiting the College of Medicine.
- $400,000 from Toby and Brenda McKenzie of Cleveland, Tennessee, for scholarships in education and business at UT Chattanooga.
- An anonymous gift of $350,000 to the UTC library.
- $4.6 million from the estate of Dr. W.W. Burchfiel of Sevierville, Tennessee, for a geography building at UTK. The building will be named for Burchfiel's father, W.W. Burchfiel Sr.
- A $1.23 million charitable remainder trust from Dr. Maurice Acree of Nashville to create the Acree Chair in Small Animal Research at the College of Veterinary Medicine in Knoxville.
- $1.4 million from Lew and Mary Jo Dougherty of Camden, Tennessee, to establish the Dougherty University Scholars at UT Martin. The gift eventually will endow 40 percent of the scholars program.
- An anonymous gift of land, appraised at more than $3 million, to the University of Chattanooga Foundation for UT Chattanooga campus expansion.
A YEAR OF FIRSTS

GREAT PEOPLE,
GREAT ACCOMPLISHMENTS
A salute to those who made 1997-98 a banner year for UT.

University of Tennessee people are leaders wherever they go. During 1997-98, they excelled in unusually large numbers, achieving national and state recognition for scholarly, professional, athletic, and other fields of endeavor. A few of them are recognized here, and many more should be if space allowed. First, though, several others who have meant a great deal to the University deserve recognition.

The senior member of our Board of Trustees, Tom Elam of Union City, died in March. No one will ever take his place. He was, in many ways, the University of Tennessee. All of us at UT could count on Tom Elam to stand for what was best for UT—athletically, academically, and financially. He was appointed to the Board in 1956 and reappointed many times until 1996, when the Tennessee General Assembly extended his term until 2020 and stipulated that if the position became vacant it would not be refilled. So, in a literal and a figurative sense, Tom Elam was irreplaceable. We miss him.

We also lost a former chancellor of the Knoxville campus this year. Charles Weaver was UTK's first chancellor, appointed in 1968 when the University was restructured into its current system/campus organization. Charlie had his hands full defining the chancellor's role at the same time that he was dealing with student unrest. He managed to do both—and a lot more—very well. He was a true asset to the University of Tennessee.

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Two members of my staff stepped down this year. Margaret Perry retired as chancellor of UT Martin, and Pete Gossett retired as vice president of agriculture.

Margaret was chancellor at Martin 12 years, and they were very good years, thanks to her leadership. She handled the diverse responsibilities of campus administration and community relations with ease, and her good judgment and hard work made her an extremely valuable member of the UT administration.

As vice president for agriculture, Pete Gossett took on a high visibility, sensitive position and made it look easy. His roots are in the soil of Tennessee, where he grew up on a farm, and that background served him well. Progressive Farmer magazine named him its 1998 man of the year in service to Tennessee agriculture, a fitting accolade to top off a distinguished career.

Now, meet a few of the faculty, administrators, and students who helped make this a year of firsts for UT.

- Travis Wright of Whitesburg, Tennessee, was one of just 20 students selected to the USA Today All-USA College Academic Team. Nearly 1,200 students were nominated for the team, which the newspaper features. Wright was the first UTK student selected for the honor.

- Dr. Philip Conn was named UT Martin chancellor. He comes to us from Dickinson State University in North Dakota. He completes the only current "brother combination" to head higher education institutions in Tennessee. Dr. Paul Conn is president of Lee University in Cleveland.

- Dr. Bill Stacy served his first year as UT Chattanooga chancellor. Under his leadership, the campus saw record enrollment, developed more partnerships with the community, and strengthened UTC's role in Chattanooga's revitalization.
• The Lady Vols basketball team won its sixth national championship. The team was undefeated; Pat Summitt was voted national coach of the year; and Chamique Holdsclaw won national player of the year honors. No other women’s team has come close to matching the Lady Vols’ accomplishments.

• UT Memphis students were front and center in national pharmacy organizations. Jay Phipps was selected national president of the American Pharmaceutical Association-Academy of Students of Pharmacy. Shawn Pruitt was president-elect of the Student National Pharmaceutical Association.

• UT Chattanooga student Naoki Ishikawa was named best drummer in the United States by the Percussion Arts Society. Another UTC student, Skip Pond, was this year’s student member of the Tennessee Higher Education Commission.

• Former Vol quarterback Peyton Manning’s jersey was retired and a scholarship established in his name. Jay Burns of Greeneville, Tennessee, was the recipient of the first Manning scholarship. Manning was graduated cum laude from UTK in three years with a degree in speech communication and was the top graduate in his major.

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• Dr. Robert Summitt, who retired as dean of the College of Medicine after 17 years, received the L.M. Graves Award for outstanding achievement in community health and was elected to a second term as Tennessee Medical Association vice president for West Tennessee.

• Mark Schimmenti, UTK associate professor of architecture, was one of two people selected nationally from hundreds of nominations for a 1997 Rome Prize in Design Arts at the American Academy in Rome.

• UTK geological sciences professor Harry “Hap” McSween achieved national recognition for his work with the Mars Pathfinder mission and the controversy over whether meteorites from Mars contain evidence of ancient life.

• Dr. Baha Sibai, UT Memphis professor of obstetrics and gynecology, was named by OBG Management magazine as 1997 Ob-Gyn of the Year.

• Kent Landers, a senior communications major from Maryville, Tennessee, was the first UT Martin student elected national president of the Public Relations Student Society of America.
• Dr. Mary Helen McCay of the UT Space Institute received the General H.H. Arnold award, the highest honor given by the Tennessee section of the American Institute of Aeronautics and Astronautics.

• NASA chose Gay Negus, a flight director with UT Chattanooga's Challenger Center, as one of ten Mission Stardust fellows. The fellows will develop NASA's educational program associated with the launch of the Stardust spacecraft in February 1999.

• At UT Memphis, Mary Alice Gaston, professor of dental hygiene, was named editor of the Journal of Dental Hygiene, the refereed scientific publication of the American Dental Hygienists Association. Gaston also is associate dean for student affairs in the College of Allied Health Sciences. Susan Appling, assistant professor in physical therapy, was named editor of Orthopedic Physical Therapy Practice, the publication of nearly 14,000 orthopedic physical therapists in the U.S.

• From the College of Agricultural Sciences and Natural Resources, the student chapter of the Wildlife Society placed first in team competition in the Southeastern Conclave for wildlife management. The student chapter of the Society of American Foresters also placed first in regional competition.

• MBA students from UT Knoxville took first place in a regional competition at Tulane University. The University of North Carolina and Rice University finished second and third.

• UTK architecture professor Stroud Watson was one of five professors selected nationally as a 1997 Association of Collegiate Schools of Architecture distinguished professor. UTK faculty named as fellows of professional organizations included Lee Magid, professor of chemistry, American Association for the Advancement of Science; Kathy Proctor of the College of Architecture and Planning, Construction Specification Institute; Peter Lizon, professor of architecture, American Institute of Architects; and Jan Rosinski, professor of mathematics, Institute of Mathematical Statistics.

• Dr. Michael Gibson, associate professor of geology at UT Martin, and the Geo Club worked with Rep. Mark Maddox to establish the first and only state fossil for Tennessee. The fossil clam was approved by the Tennessee legislature.
MORE HIGHLIGHTS

KNOXVILLE

• The new College of Law building was dedicated in September. The three-year construction project, which included a renovation of the existing law building and the addition of a new 80,000-square-foot facility, provides Tennessee with a state-of-the-art center for legal education. The new building more than doubled the size of the law library, provided 11 new classrooms/courtrooms for instruction and trial simulations, and included a new home for the college’s 50-year-old Legal Clinic. Almost every desk in the building is equipped with a computer port.

• UTK enrolled 34 freshman National Merit Scholars, ranking 62nd among 3,700 public and private colleges in the U.S. UTK had a total of 126 National Merit Scholars enrolled.

• Ninety percent of UTK undergraduate students surveyed by the Office of Institutional Research said they were satisfied with their education, and 85 percent said they would make the same college choice again. The survey was done to meet state performance funding requirements. Based on the results, UTK received an additional $750,000 in state funding. Asked to rate their overall campus experience, 88.4 percent of the students answered “good” or “excellent.” The students rated their academic experience highest, with 84.6 percent responding “good” or “excellent.”

• UTK students’ college entrance test scores continued to rise. In the last 10 years, the average ACT score for freshmen increased from 23.0 to 23.9.

• The football Vols won the Southeastern Conference championship and competed in the Orange Bowl.

• Several colleges and divisions cooperated to make plans to help an inner city Knoxville school. Faculty and staff of the colleges of arts and sciences, education, human ecology, the School of Social Work, UTK Libraries, and the Division of Information Infrastructure will offer Maynard School enrichment programs in biology, mathematics, dramatic arts, and writing. UTK also will provide teacher interns and resources for Maynard School teachers and parents.

• The first program in epidemiology at a public institution in Tennessee was approved for the College of Graduate Health Sciences. The college will offer a master’s degree in this specialty.

MARTIN

• The School of Education received its first exemplary practice award from the American Association of Colleges for Teacher Education for the school’s teacher education program.

• The School of Business dedicated the Dorth Oldham Center for Economic Education and Entrepreneurial Studies. The center is named in honor of Oldham, a Nashville businessman.

• The first expansion in 30 years of the College of Veterinary Medicine students

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MEMPHIS

• UT Memphis was the first and only university in Tennessee to receive funding as part of the U.S. Department of Agriculture’s nearly $10.2 million in grants and loans to build a digital network link. The local network will link Memphis doctors with patients and colleagues in two West Tennessee clinics and make it easier for rural physicians and patients to consult with specialists in Memphis.

• The first master’s degrees were awarded to two students in the joint UT Memphis/University of Memphis biomedical engineering program. This is the first joint degree program between UT and a Tennessee Board of Regents institution.

• The colleges of nursing and pharmacy each celebrated their 100th anniversaries.

• The football Vols won the Southeastern Conference championship and competed in the Orange Bowl.

• Several colleges and divisions cooperated to make plans to help an inner city Knoxville school. Faculty and staff of the colleges of arts and sciences, education, human ecology, the School of Social Work, UTK Libraries, and the Division of Information Infrastructure will offer Maynard School enrichment programs in biology, mathematics, dramatic arts, and writing. UTK also will provide teacher interns and resources for Maynard School teachers and parents.

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• The first program in epidemiology at a public institution in Tennessee was approved for the College of Graduate Health Sciences. The college will offer a master’s degree in this specialty.

CHATTANOOGA

• The state provided planning money for an engineering/math/computer science building. The action resulted from a partnership with local elected officials who emphasized the importance of the building to the Chattanooga community.

• The renovated Fletcher Hall opened, featuring smart classrooms and other modern technology.

• Market value of the University of Chattanooga Foundation was expected to grow to more than $90 million by the end of the 1997-98 fiscal year.

• The first program in epidemiology at a public institution in Tennessee was approved for the College of Graduate Health Sciences. The college will offer a master’s degree in this specialty.

• The football Vols won the Southeastern Conference championship and competed in the Orange Bowl.

• Several colleges and divisions cooperated to make plans to help an inner city Knoxville school. Faculty and staff of the colleges of arts and sciences, education, human ecology, the School of Social Work, UTK Libraries, and the Division of Information Infrastructure will offer Maynard School enrichment programs in biology, mathematics, dramatic arts, and writing. UTK also will provide teacher interns and resources for Maynard School teachers and parents.

• The first program in epidemiology at a public institution in Tennessee was approved for the College of Graduate Health Sciences. The college will offer a master’s degree in this specialty.

AGRICULTURE

• After more than seven years of fund-raising from state and federal sources, the long-sought Agricultural, Biological, and Environmental Research Complex is under way. Phase I, a $10 million large animal research facility, is almost complete. Phase II, a $28 million plant research complex with state-of-the-art laboratories and conference facilities, is being designed, with construction likely to begin in 18 to 24 months. Phase II will be the first new laboratory structure erected on the agriculture campus since 1968.

• The Department of Ornamental Horticulture and Landscape Design planned its “public horticulture” program of study, scheduled to begin in fall 1998. The program is for students interested in careers that promote horticulture and emphasize people and their education and enjoyment of plants. Career opportunities include botanical gardens or parks, city or urban horticulturists, teachers and extension agents, and professional garden writers.

• One hundred percent of this year’s College of Veterinary Medicine students passed their national board examination before graduation.

• The College of Veterinary Medicine spent $150,000 on renovation of the intensive care unit for round-the-clock treatment and monitoring of up to 25 cats and dogs. No state funds were used.

• Agricultural Extension Service faculty taught 5,550 child care providers, who cared for 14,430 children.
- Teaching youth to become healthier adults is the goal of the 4-H Lifelinks program in the Agricultural Extension Service. Teams of youth and adults from six high schools in three Middle Tennessee counties planned programs, taught classes, and interacted with more than 4,300 of their peers on topics that place youth at risk.
- The U.S. Department of Agriculture established the Fund for Rural America competitive grants program in 1997, and the UT Agricultural Extension Service received one of the first grants. The $200,000 will be used to develop a computerized model for beef cattle producers to improve their production, management, and marketing decisions.
- Agricultural Experiment Station scientists led research related to food safety and value-added practices to benefit Tennessee food and fiber producers.

**INSTITUTE FOR PUBLIC SERVICE**

- The Center for Industrial Services was selected as the model for building Mexico's industrial assistance program. The United States-Mexico Foundation for Science made the selection.
- Several IPS agencies continued to enhance services in the environmental area. The Municipal Technical Advisory Service won a $50,000 addition to its contract with the state Department of Environment and Conservation. The Center for Government Training and the County Technical Assistance Service worked together to deliver landfill operators training. The Center for Industrial Services received a $50,000 contract from the Environmental Protection Agency to produce a manual to improve industrial exchange programs.
- The Center for Telecommunications and Video produced a CD-ROM, Keys to Your City, to help orient new municipal officials. The Municipal Technical Advisory Service filled more than 600 requests for the disk.
- The Center for Telecommunications and Video won a Bronze Telly Award and a silver award in the 1998 International Television Association multimedia competition for Keys to Your City.

**SPACE INSTITUTE**

- The Center for Laser Applications developed and tested different applications of the laser induced surface improvement technology. Several firms have invested in demonstration projects to evaluate the effectiveness of the technology. Projections of cost savings and improved operating conditions for several applications gained worldwide attention.
- The first students graduated from the joint UT Chattanooga-UTSI undergraduate engineering program. Four students received the bachelor of science in engineering degree.
- UTSI began a continuing education series for employees of the nearby Air Force Arnold Engineering Development Center. The programs are intended to enhance the capability and skill level of the work force.
- Dr. Gary Flandro and NASA focused on propulsion technology needs for manned missions to Mars and beyond. Flandro holds the Edward J. and Carolyn P. Boling Chair of Excellence in Space Propulsion.

**PROGAMMS THAT RATE**

Many programs achieved national recognition this year

In the UTK College of Business Administration, the logistics and transportation program ranked first in the nation in a survey of senior logistics executives conducted by Foster Partners. The MBA concentration in environmental business was ranked in the top 10 by the World Resources Institute, and the master of accountancy program was rated number 8 by Public Accounting Report.

The nurse anesthetist master's program placed among the top five in the United States in a U.S. News and World Report listing. The program is offered by the UT Memphis College of Nursing and the UT Medical Center at Knoxville. The 1998 Annual Guide of America’s Best Graduate Schools named the program one of the top five graduate schools in nurse anesthesia education in the country.

U.S. News and World Report ranked the College of Pharmacy at UT Memphis seventh among 79 pharmacy colleges. Graduates have a 99.6 percent pass rate on the national board examination in pharmacy and average 14 points above the national average.

The College of Veterinary Medicine had the top ranked avian and exotic animal program in the U.S.

U.S. News and World Report ranked the College of Law 48th in the nation. The college has ranked in the top 50 for four consecutive years. The legal clinic ranked 22nd in the nation and was the only southeastern legal clinic ranked. The Tennessee Law Review was ranked 41st nationally by two law professors at Nova Southeastern University.

UTK's speech pathology program was ranked 21st in the nation by U.S. News and World Report.
FINANCIAL PERSPECTIVE

UT finances at a glance

UT’s record 1997-98 revenue of $1.23 billion was a $8.5 million increase over the previous fiscal year, despite reduced state support.

Appropriations from the state of Tennessee, although still the largest single source of UT revenue, decreased to 29 percent of the total, or about $363 million. The net reduction was about $4.8 million.

Student fees increased by more than 11 percent or $14.6 million, reflecting not only tuition increases but also growth in enrollment. This increase allowed the University to offset part of the lost state support as well as redirect resources in line with campus and unit priorities.

Campsuses were able to offer the courses students needed to graduate on time, upgrade technology, maintain library acquisition levels, and fund scholarships. Tuition and fees for fiscal 1998 totaled $145.8 million, or 12 percent of the University’s total revenue.

Student fees increased by more than 11 percent or $14.6 million, reflecting not only tuition increases but also growth in enrollment. This increase allowed the University to offset part of the lost state support as well as redirect resources in line with campus and unit priorities.

The University continues to operate two hospitals, one in Knoxville and one in Memphis, with combined revenues of $309.6 million, representing about one-fourth of the annual University revenue total.

$568 million in fiscal 1998, a record $86 million increase. Strong capital markets and the very successful 21st Century Campaign bolstered the increase.

The centerpiece of the University’s endowment investment program is the Consolidated Investment Pool, which combines almost 1,800 endowment funds for investment purposes. The pool’s market value grew by $54 million to $232 million, with a record $18.5 million in new gifts and $35.5 million from investment return.

The pool’s investment return was 17.3 percent, with $10.7 million distributed to benefit designated University programs.

Endowment funds that must be invested separately due to donor restrictions or asset type were valued at $13 million, and charitable remainder trusts administered by the University totaled $44 million at June 30, 1998.

Two other major funds are invested to benefit UT: Chairs of Excellence Trust. Beginning in 1984 and intermittently until 1990, the state legislature appropriated funds for UT to match dollar for dollar, creating the Chairs of Excellence Trust. Income supports the University professorships called Chairs of Excellence. When all the available state funds are matched, there will be 50 Chairs of Excellence at UT. The treasurer of the state of Tennessee is custodian and manages the trust, which had a June 30, 1998, market value of $97 million. Accordingly, the only financial data reported in UT financial statements for the Chairs of Excellence is the income distribution to the University.

University of Chattanooga Foundation. The UC Foundation was created when the University of Chattanooga and UT merged in 1969. The foundation assets are invested and the income designated to benefit UT Chattanooga exclusively. Last year, the foundation distributed $2.6 million for scholarships and programs. At June 30, 1998, foundation assets totaled $91 million. UT financial statements do not include assets of the UC Foundation—only the annual income distributed.

UT spent $1.4 million less than in the previous fiscal year, demonstrating the commitment to maintain costs and operating efficiency. While University expenditures decreased $8.5 million, Auxiliary enterprise expenditures decreased $12.1 million primarily due to outsourcing UT Knoxville food service operations.

The market value of the University’s endowment and other funds invested to benefit UT grew to $568 million in fiscal 1998, a record $86 million increase. Strong capital markets and the very successful 21st Century Campaign bolstered the increase.

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As I have announced, I plan to retire by June 30, 1999. The Board of Trustees is seeking a successor and has graciously granted me, in advance, the rank of president emeritus.

I intend to use my remaining months as president to the fullest, doing the work of the University. I am not yet saying goodbyes. But I have many thanks to say to some important groups for their support during 1997-98.

First, thank you to members of the Board of Trustees. Without your guidance and counsel, the job of managing the University of Tennessee would be much more daunting. I appreciate your unswerving commitment to doing what is best for the university.

I applaud the faculty, staff, and students for their cooperative spirit and their willingness to make sacrifices. Though this has been a year of singular accomplishments, we also have endured cutbacks and reductions that have challenged our ability to achieve all that we would have liked.

To our alumni and other friends, I extend a sincere thank you. The support you lend, whether monetary or through contributions of time and effort, is priceless. You are an integral part of the University.

I would particularly like to thank the hundreds of volunteer leaders in our 21st Century Campaign, especially co-chairs William B. Stokely III and Howard Baker Jr. To these volunteers goes the credit for the largest and most successful fund raising campaign in the University’s history. The money raised will give students and faculty advantages for many years to come.

Thank you to our friends in the corporate sector and those in other organizations who join with us in productive partnerships. Working together, we accomplish more than would be possible alone.

Finally, to Governor Don Sundquist, members of his administration, and the leaders and members of the General Assembly, thank you for the University’s largest ever capital outlay appropriation and for the increase in operating funds. These increases were urgently needed, and we hope more is on the way. We appreciate your support.

As we celebrate the accomplishments of this year, we await the report and recommendations of the Governor’s Council on Excellence in Higher Education with the hope that they will result in a truly significant and deserved increase in state of Tennessee investment in higher education, which is vital to the future of Tennessee’s economic, cultural, technological, and civic growth.

The University of Tennessee has much to be proud of but also much to do. Providing the best possible teaching, research, and service to Tennesseans is a moving goal, not one that can be achieved in a single year. I am eager to continue the pursuit with friends such as you.
Financial Statements and Supplemental Information

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MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

The financial statements have been audited by the State of Tennessee, Comptroller of the Treasury, Division of State Audit. The auditors' opinion, as shown on page 25, 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 1997–98 and the balances available for the future. A separate publication entitled *Report of the Treasurer 1998* 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
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, 1998.

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 31.

### 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.

The University's current fund revenues were $1.232 billion compared to $1.223 billion as restated for 1996-97, an increase of 0.7%. These revenues consist of $814.8 million general funds, $107.6 million auxiliary funds, and $309.6 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 1997-98 amounted to $362.9 million or 29.5% of total revenues.

The second largest source of general Current Funds revenues is gifts, grants and contracts which totals $221.4 million. These funds represent 18.0% of the total Current Funds revenues. Grants and contracts received from federal agencies amounted to $96.1 million.

The third largest source of general Current Funds revenues is student tuition and fees. These fees amounted to $145.8 million, or 11.8% of the total Current Funds revenues. The $14.6 million increase over last year resulted from higher tuition and maintenance fees, approximately 5% at all campuses, a technology fee at Knoxville, Chattanooga, and Martin, as well as increased enrollment at those campuses.

Sales and services of educational activities decreased 3.3% to $32.9 million, primarily due to a change in accounting for the State Department of Education, State Testing contract.

Income from other sources amounted to $22.2 million in 1997-98, an increase of 9.3% from $20.3 million in 1996-97. This increase resulted from a $500,000 increase in UT Knoxville conference revenues, and a $200,000 increase in indicia licensing revenues. Revenue generated from short-term investments and bank account interest increased to $13.9 million in 1997-98 compared to $10.9 million in 1996-97. The average yield on temporary investments increased from 5.67% in 1996-97 to 6.12% in 1997-98.

#### Restricted Funds

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Total Current Funds expenditures and transfers in 1997-98 decreased 0.2% to $1.226 billion. A schedule of Current Funds expenditures by function (purpose) is provided on page 30.

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 $225.2 million in 1997-98 compared to $216.6 million in 1996-97, a 4.0% 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 1997-98 totaled $107.6 million, a decrease of 6.3% from the prior year's total revenue of $115.1 million. Expenditures and mandatory transfers to meet debt service requirements amounted to $107.6 million, a decrease of 7.3% from 1996-97. This decrease in gross revenues and expenditures was due to the implementation of a management contract for Dining Services at Knoxville. The net revenue from the management contract for FY 1997-98 was $1.2 million.
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 1997-98 totaled $309.6 million, a decrease of 0.6%. A $3.2 million revenue decrease at Memorial Hospital resulted from capitation and lower fees and a $2.7 million increase at the William F. Bowld Hospital resulted from increased inpatient revenues. Hospital expenditures and transfers decreased 1.5% from the 1996-97 expenditures levels to $310.6 million. The Bowld Hospital shows a deficit fund and remain invested to produce income on a per share basis.

### 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 $1.4 million to $38.1 million in 1997-98. Three thousand five hundred ninety-one student loans totaling $5.9 million were made during 1997-98. Student loans outstanding at June 30, 1998, totaled $33.1 million.

Federal programs provided the primary source of student loans. At June 30, 1998, the federal government had provided $31.2 million (or 82.0%) of the assets of all University loan funds. University sources, in conjunction with matching requirements for the federal loan program, provided $2.4 million (or 6.2%) of student loan funds. The remaining $4.5 million (or 11.8%) represented loan funds established by private donations.

### Endowment and Similar Funds

The Endowment and Similar Funds group consists of funds that have been received from donors with the stipulation that the principal be maintained inviolate and remain invested to produce income for the purposes specified. Quasi-Endowment Funds are funds designated by the 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 fair value at June 30.

The fair value of the assets of the Endowment and Similar Funds group at June 30, 1998, was $335.8 million. The fair value at June 30, 1997, was $282.2 million. Income distribution from investment of funds amounted to $11.2 million for the fiscal year.

Effective July 1, 1954, the University adopted the policy of investing Endowment and Similar Funds over which it had complete investment discretion (those which the donor, the governing gift instrument, or other considerations do not require or warrant separate investment) in a consolidated investment pool. This practice affords closer supervision of the investment portfolio and makes available to all eligible endowment and similar funds, regardless of size, the advantages of participation in a diversified portfolio of carefully selected investments. Each contributing endowment fund participates in the income and capital appreciation of the pool on a per share basis commensurate with its contribution to the pool. The Pool's approved spending plan consists of distributing a predetermined annual amount based upon 5% of a three-year average market value. Shares are revalued each month in accordance with market changes, and consists of (1) Unexpended Plant Funds, (2) participating share was $3.464 at June 30, 1998, compared to $3.066 at June 30, 1997, an increase of 13.0%. The income from participating share was $.1191, which was 3.9% 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 fair value of Life Income Funds at June 30, 1998, was $442 million compared to $38.4 million the prior year. Income payments to beneficiaries during the year amounted to $2.69 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...
| ENDOXMENT INCOME (in millions of dollars) | 98 | 11.2 |
| 97 | 9.60 |
| 96 | 8.30 |
| 95 | 7.70 |
| 94 | 6.02 |

| INVESTMENT IN PLANT (in millions of dollars) | 98 | 1,829 |
| 97 | 1,761 |
| 96 | 1,529 |
| 95 | 1,436 |
| 94 | 1,371 |

| PLANT FUNDS EXPENDITURES (in millions of dollars) | 98 | 50.2 |
| 97 | 73.6 |
| 96 | 68.7 |
| 95 | 58.8 |
| 94 | 56.0 |

| BONDS AND NOTES PAYABLE AND RESERVE FUNDS FOR DEBT RETIREMENT (in millions of dollars) | 98 | 260.3 |
| 97 | 284.3 |
| 96 | 265.7 |
| 95 | 227.7 |
| 94 | 227.4 |

Projects in the future; and (3) Investment in Plant, which are expended for and invested in institutional properties. Investment in Plant represents the capitalized value of the physical property owned by The University of Tennessee.

Unexpended Plant Funds balances were $4.2 million at June 30, 1998, and represent funds previously authorized or provided for additions to the University's physical plant. These balances include $624 thousand which represents state capital outlay appropriations which have been expended by the University but not reimbursed by the state treasurer at the balance sheet date; and $3.5 million which represents unexpended Tennessee State Bond Authority funding.

Total expenditures and deductions in Unexpended Plant Funds amounted to $50.2 million in 1997-98. Twelve projects were completed, including the $11.9 million Claxton Education Building Renovation, the $20.2 million Hesler Biology Building Renovation, and the $7 million Lake Avenue Parking Garage in Knoxville. Other projects include the $7.3 million Brehm Hall Improvement at Martin, the $9.6 million Biotechnology Research Facility at the Institute of Agriculture, and the $10 million Renovation in Original Hospital Building Phase IV at the University of Tennessee Medical Center at Knoxville.

Retirement of Indebtedness and Renewal and Replacement Funds at June 30, 1998, amounted to $121 million, of which $553 thousand 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 & other additions by $22.3 million during 1997-98.

Total indebtedness for The University of Tennessee at June 30, 1998, amounted to $260.2 million, net of legal reserves held by third party, 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 32.

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, 1998, amounted to $1.829 billion, an increase of $67 million over the prior year.

Agency Funds
The Agency Funds group consists of funds held by the University as fiscal agent for various third parties. Agency Funds are reflected on the Balance Sheet only and not on the Statement of Changes in Fund Balances since the net balances in each Agency Fund represents liabilities rather than fund balances. The balance of funds held for third parties at June 30, 1998 amounted to $9.0 million. One significant part of these funds, $3.5 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, $1.7 million, represent third party funds held as performance guarantees and retainage on construction contracts. The balance at June 30, 1998 of $9.0 million reflects a decrease of $600 thousand over the June 30, 1997 balance. The decrease resulted primarily from the payment of retainage on construction contracts earned by the contractors, but held by the University until completion and acceptance of the construction projects.
**Sources and Uses of Current Funds**

*for the year ended June 30, 1998*

### Sources

- **State Appropriations (29.5%)**
  
  Legislative appropriations from the Tennessee General Assembly for current operations of the University.

  $362,984,833.03

- **Gifts, Grants, and Contracts (18.0%)**
  
  Revenues from federal and non-federal granting entities restricted for specific purposes, primarily for sponsored research and training activities.

  $221,408,096.73

- **Tuition and Fees (11.8%)**
  
  Revenues collected from students; includes resident enrollment fees, program and service fees, extension enrollment fees, and other fees.

  $145,769,441.48

- **Other (5.6%)**
  
  Revenues generated from sources not included in other classifications, such as sales and services by University departments and endowment income.

  $68,838,407.08

- **Federal and Local Appropriations (1.3%)**
  
  Appropriations received in support of the University’s land-grant missions, used primarily by the Agriculture Experiment Station and Extension Service.

  $15,825,586.81

- **Auxiliary Enterprises (8.7%)**
  
  Revenues from operations of auxiliary activities such as housing, dining halls, bookstores, parking, and UT Knoxville athletics.

  $107,578,796.00

- **Hospitals (25.1%)**
  
  Net patient revenues from the UT Memorial Hospital–Knoxville and the William F. Bowld–Memphis hospitals.

  $309,610,820.42

### Uses

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

  $308,069,202.19

- **Research (10.2%)**
  
  Direct expenditures for sponsored research activities funded from federal, state, local, and private sources.

  $125,796,836.61

- **Public Service (7.5%)**
  
  Expenditures for non-instructional programs beneficial to individuals and groups external to the University.

  $92,291,321.84

- **Academic Support (6.0%)**
  
  Expenditures for libraries, computing support, and academic administration.

  $73,183,447.62

- **Institutional Support (4.7%)**
  
  Expenditures for executive management, financial operations, personnel services, security, public relations, development activities, and alumni relations.

  $57,359,523.89

- **Physical Plant (4.0%)**
  
  Expenditures for the operation and maintenance of physical plant including utilities and services related to grounds and facilities.

  $48,660,118.30

- **Student Aid (3.9%)**
  
  Scholarships and fellowships awarded to students.

  $47,500,268.18

- **Student Services (3.3%)**
  
  Expenditures for student services, including admissions, registrar, student activities, counseling, career guidance, student aid administration, and health services.

  $41,080,197.63

- **Long-Term Debt Service and Other Transfers (1.2%)**
  
  Mandatory transfers for debt service and other long-term capital project funding.

  $14,246,169.29

- **Auxiliary Enterprises (8.8%)**
  
  Activities that furnish goods and services to students, faculty, and staff. Includes mandatory transfers for debt service.

  $107,659,060.74

- **Hospitals (25.3%)**
  
  Expenditures for hospital operations. Includes mandatory transfers for debt service.

  $310,606,507.34

**TOTAL $1,232,015,981.55**

**TOTAL $1,226,452,653.63**
THE UNIVERSITY OF TENNESSEE TEN YEAR SUMMARY

For the Fiscal Year 1993-94

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
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<td>$362,985</td>
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<td>120,944</td>
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<td>145,769</td>
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<td>13,088</td>
<td>13,073</td>
<td>13,397</td>
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<td>Other (Gifts, Grants, Sales and Services, etc.)</td>
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<td>273,736</td>
<td>269,188</td>
<td>284,632</td>
<td>282,981</td>
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<td>$757,866</td>
<td>$766,996</td>
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<td>$814,826</td>
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<td>115,106</td>
<td>107,579</td>
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<td>304,376</td>
<td>305,736</td>
<td>311,471</td>
<td>309,611</td>
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<td><strong>Total Revenues-Current Funds</strong></td>
<td>$1,134,545</td>
<td>$1,164,478</td>
<td>$1,180,892</td>
<td>$1,223,539</td>
<td>$1,232,016</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Current Expenditures and Transfers (,000)</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Instruction</td>
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<td>$307,676</td>
<td>$309,016</td>
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<td>$308,069</td>
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<td>Research</td>
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<td>80,328</td>
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<td>Public Service</td>
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<td>67,703</td>
<td>69,314</td>
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<td>73,183</td>
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<td>Academic Support</td>
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<td>35,862</td>
<td>36,876</td>
<td>37,238</td>
<td>37,456</td>
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<td>50,985</td>
<td>58,321</td>
<td>56,433</td>
<td>57,359</td>
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<td>Institutional Support</td>
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<td>46,465</td>
<td>47,801</td>
<td>47,062</td>
<td>48,660</td>
</tr>
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<td>Operation and Maintenance of Physical Plant</td>
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<td>41,179</td>
<td>41,792</td>
<td>42,464</td>
<td>47,500</td>
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<td>Transfers</td>
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<td>46,801</td>
<td>50,985</td>
<td>58,321</td>
<td>57,359</td>
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<tr>
<td><strong>Total General Funds-Expenditures and Transfers</strong></td>
<td>$723,602</td>
<td>$755,678</td>
<td>$769,704</td>
<td>$796,415</td>
<td>$808,187</td>
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<td>Auxiliary Expenditures and Transfers</td>
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<td>103,726</td>
<td>107,153</td>
<td>116,111</td>
<td>107,659</td>
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<td>Hospital Expenditures and Transfers</td>
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<td>305,090</td>
<td>308,265</td>
<td>315,324</td>
<td>310,606</td>
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<td><strong>Total Current Expenditures and Transfers</strong></td>
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<td>$1,164,494</td>
<td>$1,185,122</td>
<td>$1,227,850</td>
<td>$1,226,452</td>
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<td>Expenditures Converted to 1998 x 1.000</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Unrestricted Fund Assets (,000)</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Educational and General</td>
<td>108,294</td>
<td>123,277</td>
<td>113,086</td>
<td>108,084</td>
<td>119,794</td>
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<td>Auxiliary</td>
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<td>26,987</td>
<td>26,197</td>
<td>26,780</td>
<td>28,278</td>
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<tr>
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<td>95,025</td>
<td>99,515</td>
<td>96,152</td>
<td>96,954</td>
</tr>
<tr>
<td><strong>Total Current Funds</strong></td>
<td>$241,880</td>
<td>$245,289</td>
<td>$239,381</td>
<td>$230,433</td>
<td>$245,026</td>
</tr>
</tbody>
</table>

| Student Loan Funds                                         |         |         |         |         |         |
| Notes Receivable                                          | 29,350  | 30,905  | 31,317  | 31,336   | 33,236   |
| Loans Issued (by year)                                    | 2,765   | 3,048   | 2,717   | 2,669    | 3,591    |

| Endowment Funds (\,000)                                    |         |         |         |         |         |
| Market Value                                              | 165,110 | 196,720 | 234,278 | 282,182  | 335,762  |
| Life Income Funds                                         | 23,186  | 26,945  | 31,978  | 38,410   | 44,198   |

| Plant Funds (\,000)                                        |         |         |         |         |         |
| Long-term Debt                                            | 227,370 | 227,715 | 265,789 | 263,147  | 260,179  |
| Reserves for Debt Service and Renewal & Replacement        | 117,492 | 113,063 | 112,433 | 99,262   | 121,548  |
| Net Invested in Plant                                      | $1,140,786| $1,202,223| $1,258,176| $1,497,166| $1,568,411|
| Capital Outlay Expenditures                                | 56,037  | 58,763  | 68,739  | 73,577   | 50,212   |

| General Data                                              |         |         |         |         |         |
| Total Enrollment                                          | 42,383  | 42,831  | 41,934  | 41,651   | 41,985   |
| Knoxville                                                | 26,431  | 25,943  | 25,722  | 25,354   | 25,410   |
| Chattanooga                                              | 8,325   | 8,281   | 8,331   | 8,296    | 8,528    |
| Martin                                                   | 5,537   | 5,608   | 5,801   | 5,729    | 5,997    |
| Memphis                                                  | 2,090   | 2,095   | 2,080   | 2,092    | 2,050    |
| Degrees Granted                                           | 8,237   | 8,429   | 8,233   | 8,544    | 8,523    |
| Full-Time Employees                                       | 15,281  | 15,573  | 15,486  | 14,993   | 14,617   |
| Full-Time Faculty                                         | 2,822   | 2,899   | 2,984   | 2,915    | 2,812    |
| % tenured (Based on those eligible for tenure)            | 63,0%   | 62,0%   | 63,0%   | 63,0%    | 64,7%    |
| Total Private Gifts (\,000)                               | 49,977  | 46,020  | 55,838  | 63,104   | 69,906   |
| Academic Year Student Fees (Knoxville)                    | 3,780   | 3,934   | 4,130   | 4,336    | 4,682    |
| Instate                                                   | 1,962   | 2,052   | 2,164   | 2,320    | 2,576    |
| Out of state (additional)                                  | 3,780   | 3,934   | 4,130   | 4,336    | 4,682    |
| State Appropriation/FTE                                    | 6,317   | 6,866   | 7,260   | 7,493    | 7,146    |
|---------|---------|---------|---------|---------|
| $313,075 | $283,893 | $299,568 | $301,437 | $294,622 |
| 108,699  | 101,527  | 96,500  | 88,590  | 82,944  |
| 13,333   | 12,787   | 12,110  | 11,291  | 11,402  |
| 247,485  | 225,882  | 210,255 | 192,419 | 183,005 |
| $682,592 | $624,089 | $618,433 | $593,737 | $571,973 |
| 90,403   | 89,614   | 88,224  | 79,649  | 73,368  |
| 298,253  | 263,814  | 240,038 | 216,323 | 189,967 |
| $1,071,248 | $977,517 | $946,695 | $889,709 | $835,328 |
| $262,151 | $240,222 | $239,744 | $237,468 | $227,996 |
| 121,411  | 109,865  | 105,724 | 98,405  | 95,330  |
| 67,493   | 61,586   | 61,344  | 56,564  | 55,931  |
| 58,357   | 52,495   | 54,421  | 54,521  | 54,855  |
| 29,886   | 26,199   | 26,682  | 26,346  | 25,617  |
| 48,268   | 46,727   | 48,789  | 46,832  | 47,053  |
| 39,919   | 38,778   | 40,140  | 41,522  | 38,851  |
| 37,502   | 33,637   | 29,034  | 26,168  | 23,410  |
| 5,295    | 9,425    | 8,934   | 6,725   | 3,309   |
| $670,282 | $618,934 | $614,812 | $594,551 | $572,352 |
| 89,927   | 87,891   | 86,737  | 78,001  | 74,324  |
| 282,012  | 259,340  | 223,560 | 209,721 | 187,881 |
| $1,042,221 | $966,165 | $925,109 | $882,273 | $834,557 |
| x 1.135  | x 1.17   | x 1.208 | x 1.274 | x 1.335 |
| $1,182,921 | $1,130,413 | $1,117,532 | $1,124,016 | $1,114,134 |
| $100,298 | $93,493  | $76,582  | $75,071  | $74,677  |
| 26,348   | 24,321   | 21,788   | 20,455   | 16,702   |
| 94,822   | 80,670   | 74,034   | 55,143   | 46,129   |
| $221,468 | $198,484 | $172,404 | $150,669 | $137,508 |
| $28,544  | $27,391  | $27,113  | $27,130  | $25,210  |
| 2,765    | 2,428    | 2,033    | 3,179    | 2,303    |
| $148,891 | $131,164 | $118,040 | $107,145 | $91,216  |
| $24,110  | $22,126  | $19,783  | $16,016  | $17,551  |
| $231,412 | $230,760 | $240,543 | $232,678 | $232,897 |
| $96,784  | $91,659  | $89,936  | $86,303  | $43,846  |
| $1,060,947 | $1,002,318 | $940,808 | $894,298 | $831,623 |
| $37,261  | $39,967  | $42,331  | $40,448  | $30,451  |
| 42,373   | 41,489   | 40,931   | 39,911   | 38,936   |
| 26,579   | 26,266   | 26,055   | 25,512   | 24,985   |
| 8,147    | 7,888    | 7,725    | 7,564    | 7,526    |
| 5,646    | 5,479    | 5,363    | 5,088    | 4,653    |
| 2,001    | 1,856    | 1,788    | 1,747    | 1,772    |
| 8,038    | 7,474    | 7,041    | 6,888    | 6,981    |
| 14,967   | 14,772   | 14,849   | 14,536   | 14,254   |
| 2,731    | 2,654    | 2,617    | 2,819    | 2,826    |
| 64.5%    | 63.0%    | 61.4%    | 62.2%    | 61.1%    |
| $35,153  | $34,853  | $32,002  | $33,527  | $32,159  |
| 1.898    | 1.788    | 1.712    | 1.582    | 1.466    |
| 3.600    | 3.364    | 3.204    | 2.952    | 2.734    |
| 5.961    | 5.636    | 6.155    | 6.156    | 5.296    |
## Major Capital Construction Programs 1997-98

### (in thousands of dollars)

<table>
<thead>
<tr>
<th>Major Capital Construction Completed 1997-98</th>
<th>State Appropriation</th>
<th>TSSBA</th>
<th>Federal Grant</th>
<th>Current Unrestricted</th>
<th>Current Restricted</th>
<th>Maintenance Reserves</th>
<th>Project Total</th>
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<tbody>
<tr>
<td>Hoskins Library Chiller Replacement - Knoxville</td>
<td>$900</td>
<td></td>
<td></td>
<td></td>
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<td>$900</td>
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<tr>
<td>Greve Hall HVAC Improvements - Knoxville</td>
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<td></td>
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<td>$800</td>
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<td>Morrill Hall Cafeteria HVAC Improvements - Knoxville</td>
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<td>Sutherland Avenue Apartment Renovation IV - Knoxville</td>
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<td></td>
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<td>Intramural Fields Improvement-Knoxville</td>
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<td></td>
<td>1,820</td>
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<td>Women’s Athletic Training Room Expansion - Knoxville</td>
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<td>Central Energy Plant Improvements Phase I-Chattanooga</td>
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<td>Fletcher Hall Renovation - Chattanooga</td>
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<td>Single Student Housing Phase II - Chattanooga</td>
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<td>Fifth Street Parking Garage - Chattanooga</td>
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<td>Metropolitan Hospital Renovation - Chattanooga</td>
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<td>Business Administration Building HVAC Improvements - Martin</td>
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<td>Existing Surgery Suite Renovation - Memorial Hospital</td>
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<td>Parking Garage - Memorial Hospital</td>
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**MAJOR CAPITAL CONSTRUCTION COMPLETED**

|                  | $10,550 | $19,700 | $200 | $1,420 | $6,270 | $38,140 |

**Major Construction in Progress at June 30, 1998 (estimated completion date)**

<table>
<thead>
<tr>
<th>Project Description</th>
<th>State Appropriation</th>
<th>TSSBA</th>
<th>Federal Grant</th>
<th>Current Unrestricted</th>
<th>Current Restricted</th>
<th>Maintenance Reserves</th>
<th>Project Total</th>
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<tr>
<td>Faculty Club Renovation and Addition-Knoxville (March 1999)</td>
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**MAJOR CAPITAL CONSTRUCTION IN PROGRESS**

|                  | $121,202 | $46,800 | $5,693 | $13,160 | $8,130 | $1,040 | $196,025 |

24
Independent Auditor’s Report

September 25, 1998

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, 1998, and June 30, 1997, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the year ended June 30, 1998. These financial statements are the responsibility of the university’s management. Our responsibility is to express an opinion on these financial statements, based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Tennessee, as of June 30, 1998, and June 30, 1997, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 13 to the financial statements, the university implemented GASB 31, “Accounting and Financial Reporting for Certain Investments and for External Investment Pools” and GASB 16, “Accounting for Compensated Absences” in conformity with generally accepted accounting standards.

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

In accordance with Government Auditing Standards, we have also issued a report dated September 25, 1998, on our consideration of the university’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Sincerely,

[Signature]

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

AAl/m