



2002

## **Annual Report of the President, the University of Tennessee to the Board of Trustees, 2001-2002: New Beginnings**

Emerson H. Fly  
*University of Tennessee - Knoxville*

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# New Beginnings

The University of Tennessee Annual Report  
2001-2002



In the face of change and challenge

the university focuses on the future





## **The University of Tennessee**

The University of Tennessee is one of the state's two statewide higher-education systems. It comprises these institutions:

### **The University of Tennessee**

**Main campus at Knoxville**

**Health Science Center  
at Memphis**

**Space Institute at Tullahoma**

**Institute of Agriculture**

**Institute for Public Service**

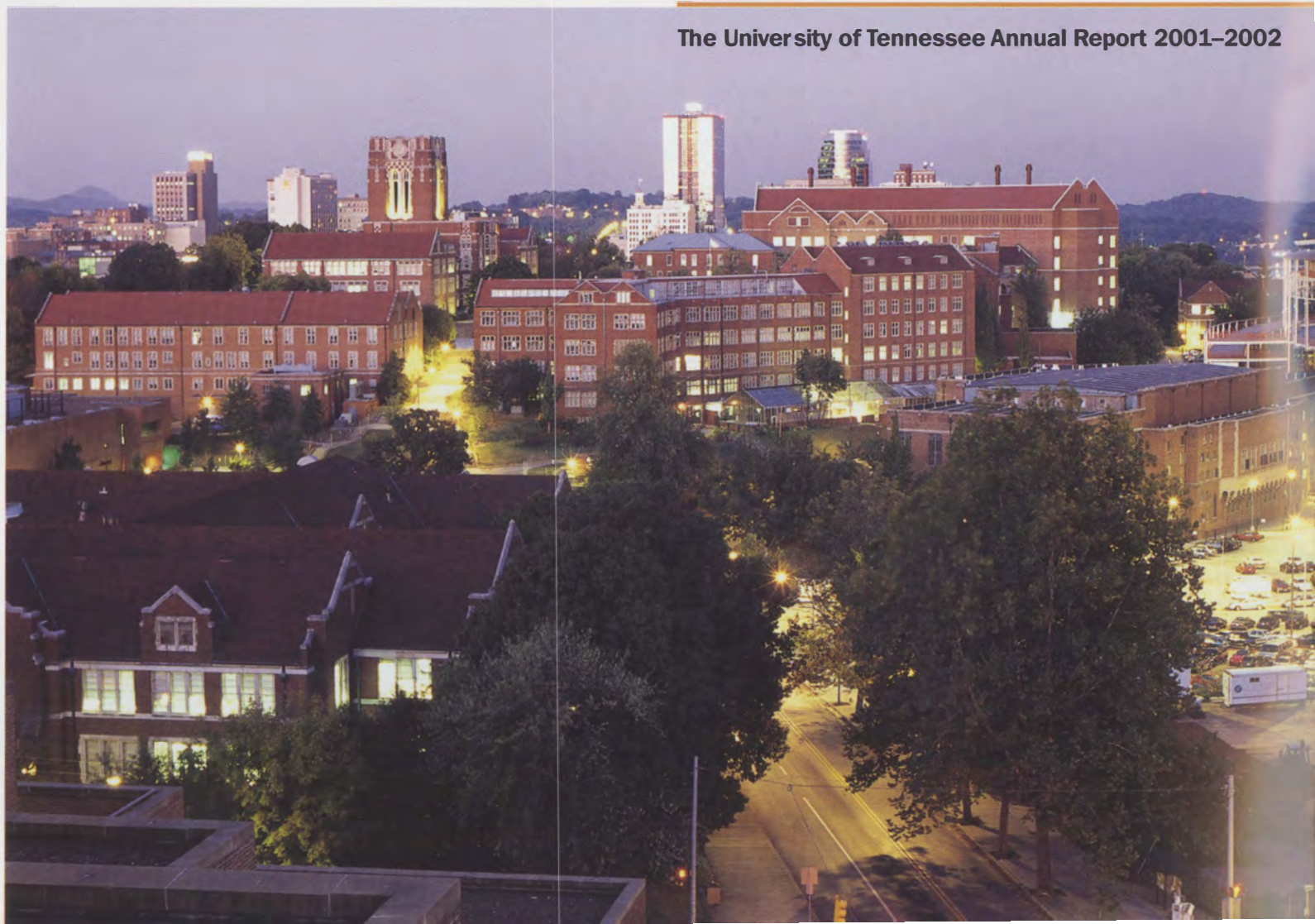
**The University of Tennessee  
at Chattanooga**

**The University of Tennessee  
at Martin**

The University of Tennessee is the state's flagship institution of higher education, offering comprehensive programs of undergraduate, graduate, and professional education; research; and public service throughout the state. Enrollment in the statewide system is approximately 42,000. Our students come from every county in Tennessee, every state in the nation, and many foreign countries. The university holds the Carnegie Doctoral/Research—Extensive classification. It is the oldest and largest public institution of higher education in Tennessee, founded in Knoxville in 1794, two years before Tennessee became a state.

# New

**The University of Tennessee Annual Report 2001–2002**



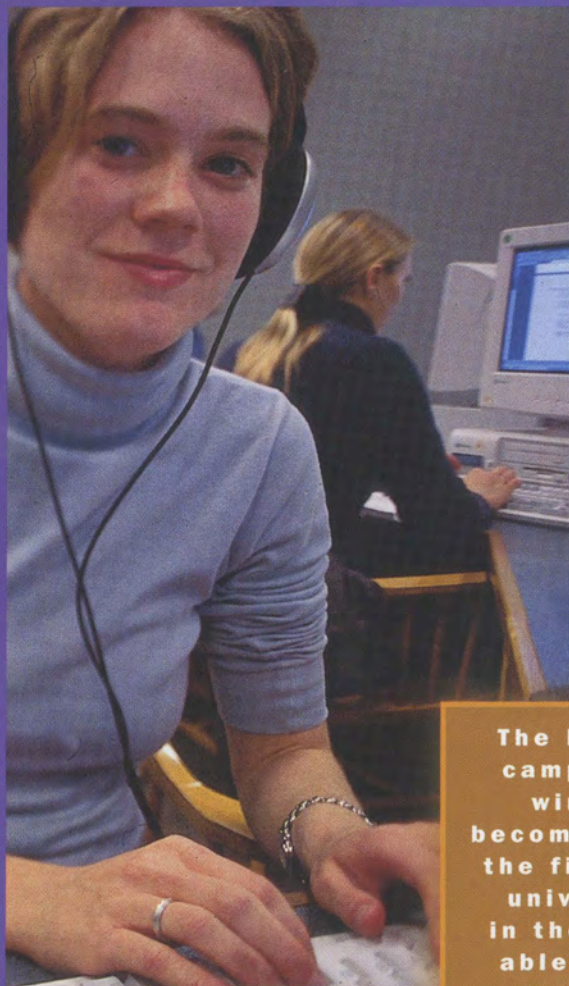


# Beginnings

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**The Knoxville campus went wireless, becoming one of the first major universities in the country able to offer anytime-anyplace access to the Internet.**

## Technology Supports Instruction

Two key underpinnings of the instructional system—instructional technology and library resources—evolved to better serve students and faculty.

The Knoxville units went wireless, becoming one of the first major universities in the country able to offer anytime-anyplace access to the Internet. About a thousand receiver-transmitter stations throughout the main and the agricultural campuses enable such access, funded largely by the student technology fee.

The UT libraries in Knoxville, Memphis, and Tullahoma ranked among the nation's best in a *Chronicle of Higher Education* study. Library holdings in 2001 totaled almost 2.8 million volumes, up 76,000 from the previous year. UT libraries' ranking improved from 65th in the nation five years ago to 52nd in 2001.

Throughout the statewide university, libraries added significant technological capabilities. Knoxville's new offerings include a production studio where students can create multimedia projects; AskUs-



Now, a live interactive reference service; and services to help the faculty deliver instructional materials online. At UT Chattanooga, \$3 million from the recent \$25-million Lupton gift was used to upgrade library facilities and technology.

In still another example of technology's impact on higher education, UT Martin's New College, an online program that allows students to earn degrees without leaving jobs or families, experienced a 36-percent enrollment increase for the year.

## Centers Spur Research Growth

Sparked by the first-year success of the Research Centers of Excellence, the university's research enterprise expanded. The nine research centers at the main campus at Knoxville and the Health Science Center at Memphis received more than \$108 million in awards. The state supplied the first \$7.5-million installment of a \$30-million pledge to

establish the centers, which encompass some of UT's most promising research areas. Researchers used the state money to match funds, leveraging larger grants and federal support.

Throughout the statewide system, research awards grew to more than \$180 million, surpassing the previous year's record of \$174 million.

Major grants kept the university at the hub of efforts to solve problems and improve quality of life.

The Department of Rheumatology at the UT Health Science Center became the first program in the nation to have two concurrent Specialized Centers of Research grants. Funding for studies on scleroderma (a progressive collagen disease of the skin and internal organs) and rheumatoid arthritis and for the new Center of Excellence for Diseases of Connective Tissue will total \$17 million over the next five years.

## Research Centers of Excellence

With seed money from the state, nine new centers spurred growth in the University of Tennessee research enterprise

**Center for Environmental Biotechnology:** develops new technologies for sustainable management of natural resources

**Center for Information Technology Research:** creates new types of information technology, empowers research through new technology

**Center of Excellence for Diseases of Connective Tissue:** studies origins and expressions of diseases such as rheumatoid arthritis

**Center of Excellence for Structural Biology:** studies structure and function of biological molecules



UT at Knoxville became part of the \$10-million Appalachian Collaborative Center for Learning, Assessment, and Instruction in Mathematics to help improve mathematics education in isolated rural schools. UT will help train teachers in such schools and research the issue of low math achievement in rural areas.

Law-enforcement training at UT received \$4 million in federal funding: \$1 million established the UT National Forensic Science Institute in UT's Law Enforcement Innovation Center; the other \$3 million funded basic LEIC operations. LEIC's programs benefit state and national law-enforcement agencies by training personnel in best practices of evidence collection and crime-solving.

### Faculty, Students Reap Individual Honors

Individual accomplishments of faculty members and students helped solidify the university's role as a leading public research university.

UT geologist Harry "Hap" McSween was named a fellow of the



*Students at the LEIC inspect a simulated crime scene*

will work on NASA's Mars Exploration Rover mission in 2003. He was a science team member of the Mars Pathfinder, Mars Global Surveyor, and Mars Odyssey missions.

A UT software program that reveals the inner workings of computer chips was selected as one of the year's 100 most innovative technological projects by R&D Magazine. The UT Innovative Computing Laboratory, directed by Distinguished Professor **Dr. Jack Dongarra**, developed the program.



*Dr. Hap McSween*

**Barbie Elwood**, a UT Chattanooga University Honors Program student, was named a 2002 Harry S. Truman scholar.

Knoxville engineering major **Yvonne Jones** won the 2002 Ammon S. Andes award as the nation's top aerospace engineering student.

American Academy of Arts and Sciences and won the Leonard Medal, one of the world's top honors for planetary geology and cosmochemistry. He

A student team from the UT Health Science Center won top national honors from Alpha Omega Alpha medical honor society for a disaster-preparedness plan that could become a model for other universities.

### University Aids Tennesseans

In the area of public service and outreach, the university streamlined services while still serving as many Tennesseans as possible. The Institute of Agriculture eliminated 76 specialist and extension agent positions statewide and transferred

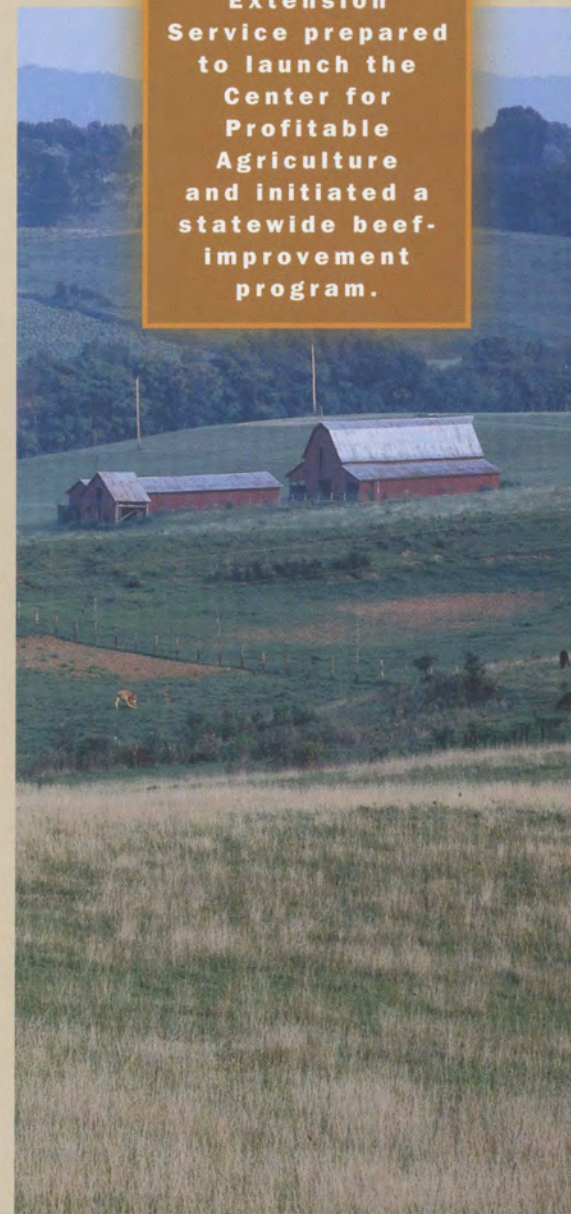


*Dr. Jack Dongarra*

another 35 extension agents to keep providing basic services to all counties. The approximately \$2.1 million saved was used to increase the salaries of remaining employees. Meanwhile the

Agricultural Extension Service prepared to launch the Center for Profitable Agriculture and initiated a statewide beef-improvement program. The Center for Community Based Health Initiatives, a partnership between the Agricultural Extension Service's Family and Consumer Sciences and UT's College of Pharmacy, delivered programs on health, medication, and poison education across the state.

**The Agricultural Extension Service prepared to launch the Center for Profitable Agriculture and initiated a statewide beef-improvement program.**



**Neurobiology of Brain Diseases:** studies treatment and prevention of neurological and psychiatric disorders

**Tennessee Advanced Materials Laboratory:** explores creation of new materials through computer-intensive modeling and research

**Center for Genomics and Bioinformatics:** studies gene function, analysis of genetic data

**Food Safety Center of Excellence:** develops and disseminates information on food safety, develops new technologies to combat food borne illness

**Vascular Biology Center of Excellence:** diagnoses and evaluates vascular disorders, analyzes coagulation and platelet function



The Institute for Public Service expanded the use of new technology to reach more of its governmental and industrial customers, delivering training programs via the Internet and other distance-learning media.

IPS created more than \$594 million in such economic impacts as revenue enhancements and cost avoidance in fiscal 2002 as it helped create more than 6,000 new jobs. One unit of IPS, the Center for Industrial Services, helped a manufacturer in Campbell County increase sales by \$50 million by increasing quality and winning government contracts.

UT Martin graduated the 349th alumnus of its WestStar leadership program, a regional outreach effort that improves community problem-solving.

### Battling Entropy with Few Weapons

Capital needs accelerated throughout the university, but no capital-outlay funds were appropriated by the state. Renovation of the crumbling Glocker Business Building at Knoxville and construction of a pharmacy building at Memphis remain atop the university's list of most urgent needs.

Several important building projects, however, did progress during the year, including the Student Recreation

Center at Knoxville, a \$20-million facility financed by the sale of bonds, and the Biotechnology Building on the agriculture campus, a \$29-million project funded by previously appropriated state funds and federal money. We expect both to be completed in spring 2003.

At UT Chattanooga, the campus undertook nearly \$200 mil-

lion in construction projects, including three phases of the privately developed UTC Place Apartments, two downtown public elementary schools with pro-

**Construction got under way at Chattanooga on the \$29-million Engineering, Computer Science, and Mathematics Building.**



UTC Place



Artist's rendering of the Engineering, Computer Science, and Mathematics Building



The Black Cultural Center

Artist's rendering of the Howard Baker Center for Public Policy



grams supported by the UTC College of Education, expansion of the university center, and construction of a specialty housing village. The first phase of UTC Place opened in fall 2001 with a waiting list.

Construction also got under way at Chattanooga on the \$29-million Engineering, Computer Science, and Mathematics Building, the last UT project to receive any state capital-outlay funds (2000).

Spring saw the completion of the Black Cultural Center on the main campus at Knoxville. Paid for by student activities fees, the building includes a library, a computer lab, meeting rooms, tutorial space, and offices.

Plans progressed for the Howard Baker Center for Public Policy, also at Knoxville. UT received a \$6-million federal grant to help establish the center and will raise money for an endowment and for renovation of space on campus to house the center. One of UT's most distinguished alumni, Baker is current

U.S. ambassador to Japan, former Senate majority leader, and former White House chief of staff. The center will include Baker's papers, which he already has given to the university. This center will explore the role of the media in the political process, the structure of the American electoral system, and the importance of public involvement in governing.

### Partnering for Progress

UT-Battelle began its second year of managing Oak Ridge National Laboratory. The university's partnership with ORNL continued to offer UT faculty and students exceptional research and learning opportunities. One such is the new Joint Institute for Neutron Sciences, a cooperative effort between UT and ORNL. The institute is charged with





*Lieutenant Governor John Wilder, UT-Battelle Laboratory Director Bill Madia, UT President John Shumaker, U.S. Representative Zach Wamp, and Governor Don Sundquist break ground for the Joint Institute for Computational Sciences at Oak Ridge National Laboratory.*

## **New Leadership at Knoxville Shows Results**

developing programs for users of the Spallation Neutron Source, scheduled to open in 2006.

Other partnerships flourished during the year, as well. Methodist Healthcare and the UT Health Science Center signed an affiliation agreement that made Methodist UT's principal private teaching hospital treating adults in the Shelby County area. The merger will generate a new learning environment that will bring together the private sector's best physicians with the best physicians and educators from academe.

Also in Memphis, the Health Science Center continued to play a leading role in the regional initiative to make the city of Memphis a world leader in biotechnology. Baptist Memorial Healthcare Corporation's gift of land and facilities worth more than \$40 million to the UT Health Science Center was used to establish a biotechnology research park adjacent to the Health Science Center campus. Baptist's was the largest gift in UT's history and one of the largest ever to higher education.

One of the year's highlights at Knoxville was the appointment of a new provost, Dr. Loren Crabtree. After a comprehensive review of the programs offered at Knoxville, Dr. Crabtree contracted four academic units into two to achieve greater efficiency and cost savings without sacrificing content. By year's end the groundwork had been laid, and the colleges of Education and Human Ecology combined to form the new College of Education, Health, and Human Sciences, while the College of Communications and the School of Information Sciences merged into the College of Communication and Information.

## **Donors Contribute Generously**

Despite the gloomy state budget scenario, UT's friends were more generous than ever. They gave the university \$95 million in 2001–2002, with most gifts going for academic enrichment and student scholarships.

The estate of alumnus Thomas Dunlap of Humboldt, Tennessee, provided a significant gift of \$7 million for scholar-

ships. Dunlap, a farmer, banker, and attorney, held two degrees from UT.

UT Chattanooga began seeing the effects of the \$25-million gift from philanthropist John Lupton. In addition to campus improvements already under way, the gift will fund a center for urban planning.

## **Appropriation Shortfall Forces Fee Increase**

The fiscal year got off to an uncertain start—the university couldn't finalize its operating budget because the legislature had not agreed upon a state budget. An appropriations measure was not signed into law until August 2002. Meanwhile, forced to cover fixed-cost increases, the Board of Trustees voted a 15-percent increase in in-state undergraduate tuition. Graduate student fees rose 8 percent; veterinary medicine, 10 percent; law, medicine, and dentistry, 15 percent; and pharmacy, 25 percent.

As part of the 2001–2002 appropriations measure, the General Assembly asked the university to report how it

could do more with less state money. To comply, President Fly launched a reallocation study, directing every part of the statewide system to study its priorities, decide which were most urgent, and determine how to reallocate funds from low priorities to higher ones.

The Board of Trustees adopted the report of the reallocation study on December 11. "Critical Choices for Tennessee: The Impact of Limited Resources on the University of Tennessee" detailed possible cuts and explained their ramifications.

Throughout the report, the university documented effects of its years' worth of

- cuts in expenses, squeezing out millions of dollars via program realignments, reductions, and eliminations;
- initiatives to generate funds from sources other than state funds (grants, fees for services, shifting responsibilities) to provide further relief;
- deferments of expenditures; and
- investments in new technology to further reduce administrative costs while improving efficiency and effectiveness.

# **In Conclusion**

The past year was rife with challenges. But with support from alumni and other friends, hard work by faculty and staff, and the leadership of the Board of Trustees, President John W. Shumaker, and President Eli Fly, the University of Tennessee continued to stay its course to be the best university the state decides to afford.



## A Message from Former President Emerson H. Fly

Though the University of Tennessee went through a lot of change and uncertainty in 2001–2002, it never stopped doing its jobs—teaching, research, and service. At times it was unclear when or how much state funding would be available. And almost the entire year involved a leadership transition. Change was the only certainty. In this climate of uncertainty, we sought to stabilize the institution, to reassure its stakeholders, and to focus on the future.

Throughout the year, UT continued to work for the citizens of Tennessee every day. The university didn't slow down, nor did it stop—we moved forward continually.

I was honored to serve the university as president, and I thank the faculty, staff, students, alumni, and other friends for their support.



Emerson “Eli” Fly  
President  
2001–2002

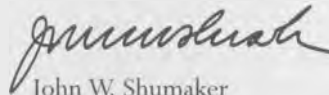


## A Message from President John W. Shumaker

It is both a thrill and a challenge to be the president of the University of Tennessee. The tradition, the statewide, national, and international reach of this university, its distinguished reputation, and its great people make me proud to be part of the UT family.

My vision for the University of Tennessee is to give the people of this state the very best university it can afford while encouraging them to afford the very best. That's what our mission is all about. This is a positive message, but it's also realistic.

In spite of our challenges, I have great optimism for this university. Higher education is an investment that pays off many times over the course of the years. I give you my word that I will do everything within my power to leave the University of Tennessee a better place than I found it. The future of the state depends on it. The future of our young people depends upon it, and to that I promise you my best efforts.



John W. Shumaker  
President





# Financial Highlights, 2001–2002

Prepared by the Office of the Treasurer

## Discussion and Analysis

This section of the University of Tennessee's annual financial report presents a discussion and analysis of the financial performance of the university during the fiscal year ended June 30, 2002. This discussion, with the accompanying financial statements and related footnoted disclosures, has been prepared by management. The discussion should be read in conjunction with its accompanying elements. The financial statements, footnotes, and this discussion are the responsibility of management.

Since this is a transition year for the new financial reporting format required by the Governmental Accounting Standards Board's Statement No. 34, "Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments," and Statement No. 35, "Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities," only one year of information is presented in the financial statements and this discussion. Comparative information will be presented in future reports.

## Using This Annual Report

This report consists of three financial statements. The **statement of net assets** (Table 7), the **statement of revenues, expenses, and changes in net assets** (Table 8), and the **statement of cash flows** (Table 9) provide information on the University of Tennessee as a whole and present a long-term view of the university's finances.

## The Statement of Net Assets

The statement of net assets presents the financial position of the university at the end of the fiscal year and includes all assets and liabilities of the university. Net assets, the difference between total assets and total liabilities, is an indicator of the current financial condition of the university. Assets and liabilities are generally measured using current values. Capital assets, however, are stated at historical cost, less an allowance for depreciation.

Net assets are divided into three categories:

1. **Invested in capital assets**, net of debt, indicates the university's equity in property, plant, and equipment owned by the university.
2. **Restricted net assets**, which is further subdivided into two categories, **non-expendable** and **expendable**. The corpus of non-expendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the university but must be spent for purposes as determined by donors and/or external entities who have placed time or purpose restrictions on the use of the assets.
3. **Unrestricted net assets** are available to the university for any lawful purpose of the institution.

Copies of the complete Report of the Treasurer 2002 are available from the Office of the Treasurer, 301 Andy Holt Tower, University of Tennessee, Knoxville, Tennessee 37996.



Table 1: **Summary of Net Assets—2002** (x 1,000)

**Assets:**

Current assets .....	\$ 315,277
Capital assets, net .....	835,132
Other assets .....	792,255
<b>Total Assets .....</b>	<b>\$ 1,942,664</b>

**Liabilities:**

Current liabilities .....	\$ 217,460
Non-current liabilities .....	275,259
<b>Total Liabilities .....</b>	<b>\$ 492,719</b>

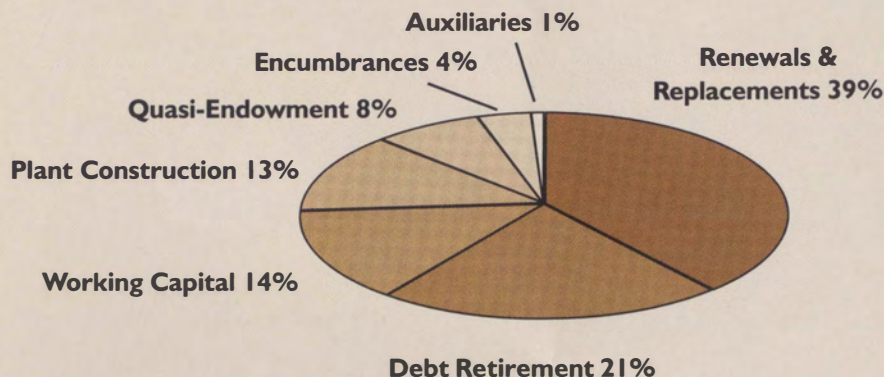
**Net Assets:**

Invested in capital assets, net of debt .....	\$ 636,282
Restricted – expendable .....	287,057
Restricted – non-expendable .....	292,187
Unrestricted .....	234,419
<b>Total Net Assets .....</b>	<b>\$ 1,449,945</b>

**Material assets** consist of cash and cash equivalents, investments, accounts, notes, and grants receivable, and capital assets. **Material liabilities** include long-term bonded debt, compensated absences, and deferred revenue. For more detail, see Appendix A on page 14.

Many of the university's unrestricted net assets have been designated or reserved for such specific purposes as repairs and replacement of capital assets, future debt service, quasi-endowments, capital projects, and student loans. The following chart shows these allocations:

Figure 1: **Allocations of Unrestricted Net Assets**  
(Total = \$234,419,000)



## Statement of Revenues, Expenses, and Changes in Net Assets

The statement of revenues, expenses, and changes in net assets presents the operating results of the university, as well as the non-operating revenues and expenses. While annual state appropriations are budgeted for operations, they are considered non-operating revenues according to generally accepted accounting principles. For more detail, see page 15.

Table 2: **Summary of Revenues, Expenses and Changes in Net Assets—2002** (x 1,000)

**Operating revenues:**

Net tuition and fees .....	\$ 189,143
Auxiliary .....	120,549
Grants and contracts .....	343,616
Other .....	128,829
<b>Total operating revenues .....</b>	<b>\$ 782,137</b>

Operating expenses .....	\$ 1,291,222
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<b>Operating loss .....</b>	<b>\$ (509,085)</b>
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**Non-operating revenues and expenses:**

State and local appropriations .....	\$ 419,793
Gifts .....	50,851
Loss on investments .....	(3,104)
Other .....	26,760
<b>Total non-operating revenues .....</b>	<b>\$ 494,300</b>

<b>Income (loss) before other revenues, expenses, gains, or losses .....</b>	<b>\$ (14,785)</b>
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**Other revenues, expenses, gains, or losses:**

Capital appropriations .....	\$ 34,102
Capital grants and gifts .....	8,859
Additions to permanent endowments .....	23,128
Other .....	986
<b>Total other revenues, expenses, gains, or losses .....</b>	<b>\$ 67,075</b>

<b>Increase (decrease) in net assets .....</b>	<b>\$ 52,290</b>
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Net assets at beginning of year .....	\$ 2,284,168
Cumulative effect of changes in accounting principle .....	(886,513)
<b>Net assets at end of year .....</b>	<b>\$ 1,449,945</b>



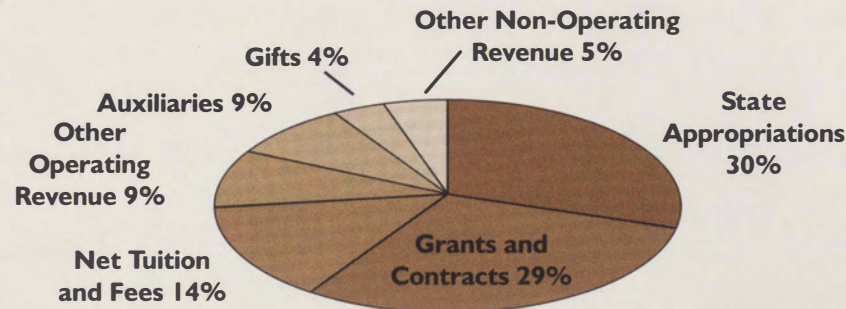
Figure 2: Revenues by Source—2002

(Total = \$1,343,512,000)

## Revenues

At right is a chart illustrating by source both operating and non-operating revenues used to fund the university's operations for the year ended June 30, 2002.

State appropriations, grants and contracts, and tuition and fees contributed 73 percent of UT's revenue.



## Expenses

Expenses can be classified in two ways, by "natural" classification and by function. Both classifications are displayed below.

Table 3: Expenses by Natural Classification and by Function—2002 (x 1,000)

	Natural Classification					
	Salaries	Benefits	Utilities, supplies and other services	Scholarships	Depreciation	Total
Functional Classification						
Instruction	\$ 275,198	\$ 66,427	\$ 50,983			\$ 392,608
Research	87,489	18,011	51,277			156,777
Public Service	64,132	15,839	35,379			115,350
Academic Support	49,270	13,541	12,374			75,185
Student Services	24,898	6,354	16,273			47,525
Institutional Support	51,158	14,768	443			66,369
Operation and Maintenance of Plant	24,593	7,900	36,708			69,201
Scholarships	2,752	21,637	11,052	7,816		43,257
Auxiliary	29,431	7,556	59,876			96,863
Hospital	19,829	4,743	40,969			65,541
Independent Operations	72,456	18,693				91,149
Depreciation					\$ 71,397	71,397
Total Expenses	\$ 701,206	\$ 195,469	\$ 315,334	\$ 7,816	\$ 71,397	\$ 1,291,222

Salaries and benefits account for approximately 69 percent of operating expenses. Utilities, supplies, and other services represent 24 percent of total operating expenses; scholarships and depreciation represent the remaining 7 percent.

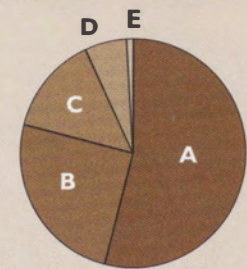


Figure 3:

## Expenses by Natural Classification

A Salaries	54%
B Utilities, supplies and other services	24%
C Benefits	15%
D Depreciation	6%
E Scholarships	1%

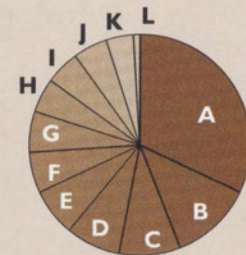


Figure 4:

## Expenses by Function

A Instruction	30%
B Research	12%
C Public Service	9%
D Auxiliary	8%
E Independent Operations	7%
F Academic Support	6%
G Depreciation	6%
H Hospital	5%
I Institutional Support	5%
J M&O	5%
K Student Services	4%
L Scholarships	3%

Instruction, research, and public service represent 51 percent of operating expenses by function. The percentages for the remaining functional areas range from 3 percent to 8 percent of total operating expenses.



## Statement of Cash Flows

The statement of cash flows provides information about cash receipts and cash payments during the year. This statement also helps users to assess the university's ability to generate positive net cash flows, its ability to meet its obligations as they come due, and its need for external financing.

**Table 4: Summary of Cash Flows—2002** (x 1,000)

Cash generated (used) by	
Operating activities	\$ (440,257)
Non-capital financing activities	477,018
Investing activities	16,603
Capital and related financing activities	(72,273)
Net increase (decrease) in cash	\$ (18,909)
Cash, beginning of year	\$ 388,746
<b>Cash, end of year</b>	<b>\$ 369,837</b>

Material **sources of cash** are state appropriations, tuition and fees, and grants and contracts. Material **uses of cash** are payments to suppliers and vendors, payments to employees, and payments for scholarships and fellowships.

The net decrease in cash and cash equivalents amounted to \$18,908,968 for the year ended June 30, 2002.

## Capital Assets and Debt Administration

### Capital Assets

At June 30, 2002, the University of Tennessee had \$835,131,186.01 invested in capital assets, net of accumulated depreciation. Depreciation charges totaled \$71,396,612.07 for the current fiscal year. Details of these assets are shown below.

**Table 5: Schedule of Capital Assets, Net of Depreciation—2002**

(x 1,000)

Land	\$ 45,102
Land improvements & infrastructure	29,508
Buildings	510,160
Equipment	93,922
Software	10,883
Library holdings	46,333
Projects in progress	99,223
<b>Total capital assets</b>	<b>\$ 835,131</b>

Major capital additions for UT during 2001–2002 include fire safety upgrades and HVAC improvements for several residence halls on the Knoxville campus, \$7.3 million's of improvements to Brehm Hall in Martin, and the \$12.4-million completion of Phase III of the Witten/Link/Faculty Building at the Health Science Center in Memphis.

For the next fiscal year, the state has approved more than \$14.5 million in capital maintenance appropriations for UT. Some of these approved projects are the replacements of the roofs of several buildings on the Knoxville and Memphis campuses, exterior repairs to 11 buildings, an electrical distribution system upgrade for Chattanooga, and Phase IV of a chiller replacement in Knoxville.



## Debt

At June 30, 2002, the university had \$202,374,073 in debt outstanding. The table below summarizes these amounts by type of debt instrument.

**Table 6: Outstanding Debt Schedule—2002** (x 1,000)

Commercial paper—current portion .....	\$	7,457
Bonds—current portion .....		13,506
Bonds—Long-term debt .....		181,401
<b>Total TSSBA authorized debt .....</b>	<b>\$</b>	<b>202,364</b>
Notes—current portion .....		10
<b>Total Debt .....</b>	<b>\$</b>	<b>202,374</b>

New debt issuances for the fiscal year 2002 consisted of \$59.9 million for 13 projects. Included in this issuance were two parking garages on the Knoxville campus, the Student Recreation Center in Knoxville, a data network upgrade for the Health Science Center in Memphis, and improvements to the Boling Apartments in Chattanooga. The university retired more than \$17.9 million in bonds and notes in fiscal year 2002. In addition to its authority to issue bonds and notes to finance capital projects, the Tennessee State School Bond Authority (TSSBA) has responsibility for approving all long-term debt of the university. TSSBA currently is rated AA- by Standard & Poor.

## Economic Factors Affecting Our Future

The University of Tennessee Board of Trustees has authorized a fee increase of 7.5 percent for fiscal year 2003 that is expected to generate approximately \$16 million in new funding, net of related scholarships. The university is also expected to receive a modest increase in state funding to offset salary and benefit increases provided for in the state budget for fiscal year 2003.

The university is also negotiating with the Methodist Healthcare—Memphis Hospital to manage and operate the William F. Bowld Hospital and subsequently merge the William F. Bowld Hospital operations into the downtown operations of the Methodist Hospital.



APPENDIX A: **Statement of Net Assets**  
**For the year ended June 30, 2002**

**ASSETS**

**Current assets:**

Cash and cash equivalents .....	\$ 158,661,157.27
Investments .....	50,067,193.46
Accounts, notes and grants receivable (net) .....	92,987,084.86
Inventories .....	10,117,661.10
Prepaid expenses and deferred charges .....	<u>3,443,491.06</u>
<b>Total current assets.....</b>	<b><u>315,276,587.75</u></b>

**Non-current assets:**

Restricted cash and cash equivalents .....	211,175,901.67
Investments .....	394,092,252.68
Assets with trustees .....	4,620,808.00
Investment in UT- Battelle, LLC .....	1,789,206.24
Accounts, notes, and grants receivable (net) .....	164,305,023.16
Lease payments receivable.....	16,272,083.36
Capital assets (net) .....	<u>835,131,910.90</u>

**Total non-current assets .....** **1,627,387,186.01**

**TOTAL ASSETS.....** **\$ 1,942,663,773.76**

**LIABILITIES**

**Current liabilities:**

Accounts payable .....	\$ 62,242,891.07
Accrued liabilities .....	34,720,912.03
Deferred revenue .....	63,148,100.33
Deposits payable.....	4,045,375.64
Annuities payable .....	1,619,887.96
Long-term liabilities, current portion .....	44,891,263.75
Deposits held in custody for others.....	<u>6,791,205.53</u>

**Total current liabilities.....** **217,459,636.31**

**Non-current liabilities:**

Deferred revenue .....	15,500,438.71
Long-term liabilities, non-current portion .....	216,672,855.11
Due to grantors .....	34,507,427.06
Annuities payable .....	<u>8,578,451.55</u>

**Total non-current liabilities.....** **275,259,172.43**

**TOTAL LIABILITIES.....** **\$ 492,718,808.74**

**NET ASSETS**

**Invested in capital assets, net of related debt.....** **\$ 636,282,040.58**

**Restricted:**

**Non-expendable:**

Scholarships and fellowships .....	118,255,494.41
Libraries .....	12,309,193.69
Research.....	9,685,452.75
Instructional department uses .....	47,433,556.32
Other .....	<u>99,372,857.34</u>

**Expendable:**

Scholarships and fellowships .....	90,834,768.15
Libraries.....	4,046,989.13
Research .....	32,480,248.62
Instructional department uses .....	37,500,480.72
Loans .....	8,346,883.77
Capital projects .....	3,464,394.12
Debt service .....	592,815.76
Other.....	<u>114,920,718.49</u>

**Unrestricted .....** **234,419,071.17**

**TOTAL NET ASSETS .....** **\$ 1,449,944,965.02**



APPENDIX B: **Statement of Revenues, Expenses, and Changes in Net Assets**  
**For the year ended June 30, 2002**

**REVENUES**

**Operating revenues:**

Student tuition and fees (net of scholarship allowances of \$31,687,598.45) .....	\$ 189,142,951.97
Federal appropriations .....	13,760,809.80
Governmental grants and contracts .....	189,090,028.66
Non-governmental grants and contracts .....	154,525,909.50
Sales and services of educational departments .....	37,554,072.87
Auxiliary enterprises:	
Residential life (net of scholarship allowances of \$986,407.82; all revenues are used as security for varying revenue bonds) .....	29,485,142.09
Food services .....	2,661,886.18
Bookstore .....	20,407,597.39
Parking .....	7,669,470.48
Athletics .....	54,586,749.14
Other auxiliaries .....	5,738,310.24
Hospital .....	57,814,869.56
Interest earned on loans to students .....	82,818.70
Other operating revenues .....	<u>19,616,431.68</u>
<b>TOTAL OPERATING REVENUES .....</b>	<b><u>\$ 782,137,048.26</u></b>

**EXPENSES**

**Operating expenses:**

Salaries and wages .....	\$ 701,206,933.17
Fringe benefits .....	195,469,039.04
Utilities, supplies, and other services .....	315,333,196.68
Scholarships and fellowships .....	7,816,121.78
Depreciation expense .....	<u>71,396,612.07</u>
<b>TOTAL OPERATING EXPENSES .....</b>	<b><u>1,291,221,902.74</u></b>

**OPERATING INCOME (LOSS) .....\$ (509,084,854.48)\***

**NON-OPERATING REVENUES (EXPENSES)**

State and local appropriations .....	\$ 419,792,940.89
Gifts .....	50,851,804.57
Grants and contracts .....	46,905,377.96
Loss on investments .....	(3,104,052.28)
Interest on capital asset - related debt .....	(9,757,152.23)
Bond issuance costs .....	(434,669.40)
Other non-operating expenses .....	<u>(9,954,658.64)</u>
<b>Net non-operating revenues .....</b>	<b><u>494,299,590.87</u></b>

**Income before other revenues, expenses,**

<b>gains, or losses .....</b>	<b><u>(14,785,263.61)</u></b>
Capital appropriations .....	34,102,220.31
Capital grants and gifts .....	8,859,062.66
Additions to permanent endowments .....	23,127,540.82
Additions to annuity and life income trusts .....	811,482.57
Other .....	<u>174,973.67</u>
<b>TOTAL OTHER REVENUES .....</b>	<b><u>67,075,280.03</u></b>

**INCREASE IN NET ASSETS .....\$ 52,290,016.42**

**NET ASSETS**

Net assets at beginning of year .....	\$ 2,284,168,171.87
Cumulative effect of changes in accounting principle (Note 18) (886,513,223.27)	
Net assets at beginning of year, as restated .....	<u>\$ 1,397,654,948.60</u>
<b>NET ASSETS AT END OF YEAR .....</b>	<b><u>1,449,944,965.02</u></b>

\* Statement 35 of the Governmental Accounting Standards Board, "Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities," now mandates reporting state appropriations as non-operating revenues, so the university—and all other state government entities—will always report an operating loss.



## APPENDIX C: Statement of Cash Flows

For the year ended June 30, 2002

### CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees .....	\$ 189,281,671.03
Federal appropriations .....	13,760,809.80
Grants and contracts .....	333,499,903.17
Sales and services of educational activities .....	44,579,120.00
Payments to suppliers and vendors .....	(325,459,746.84)
Payments to employees .....	(693,931,502.51)
Payments for benefits .....	(190,025,977.97)
Payments for scholarships and fellowships .....	(21,285,322.62)
Loans issued to students .....	(5,632,359.39)
Collection of loans from students .....	5,077,750.49
Interest earned on loans to students .....	800,168.82

#### Auxiliary enterprise charges:

Residence halls .....	30,917,997.01
Bookstore .....	24,512,571.63
Food service .....	2,981,467.22
Parking .....	8,543,972.18
Athletics .....	53,717,774.43
Other auxiliaries .....	6,284,683.76
Hospital .....	54,798,356.37
Other receipts (payments) .....	27,321,715.35

**NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES .....** **\$ (440,256,948.07)**

### CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

State appropriations .....	\$ 411,372,497.00
Local appropriations .....	3,871,848.89
Gifts and grants for other than capital or endowment purposes .....	73,281,681.11
Private gifts for endowment purposes .....	20,780,921.37
Split-interest transactions receipts .....	3,793,928.77
Split-interest transactions disbursements .....	(3,630,549.03)
Federal student loan receipts .....	117,823,747.00
Federal student loan disbursements .....	(117,823,747.00)
Changes in deposits held for others .....	(2,863,304.06)
Net cash balance implicitly financed (repaid) .....	(29,326,447.36)
Other non-capital receipts (payments) .....	(262,554.08)

**NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES .....** **\$ 477,018,022.61**

### CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from capital debt .....	\$ 21,593,783.49
Capital appropriations .....	29,884,165.40
Capital grants and gifts received .....	4,871,265.30
Proceeds from sale of capital assets .....	1,085,999.17
Purchase of capital assets and construction .....	(101,670,770.44)
Principal paid on capital debt and leases .....	(17,919,300.85)
Interest paid on capital debt and leases .....	(8,848,537.01)
Deposit with trustee .....	373,749.29
Other capital and related financing receipts (payments) .....	(1,643,821.31)

**NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES .....** **\$ (72,273,466.96)**

### CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sales and maturities of investments .....	90,349,133.87
Interest on investments .....	38,704,585.56
Purchase of investments .....	(112,450,295.55)

**NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES .....** **\$ 16,603,423.88**

**Net increase (decrease) in cash and cash equivalents .....** **(18,908,968.54)**

**Cash and cash equivalents at beginning of year .....** **388,746,027.48**

**CASH AND CASH EQUIVALENTS AT END OF YEAR ..** **\$ 369,837,058.94**

### RECONCILIATION OF NET OPERATING LOSS WITH NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

**Operating loss .....** **\$ (509,084,854.48)**

#### Adjustments to reconcile operating loss to net cash provided (used) by operating activities:

Depreciation expense .....	71,396,612.07
Other adjustments .....	472,827.11

#### Changes in assets and liabilities:

Receivables, net .....	(14,618,397.39)
Inventories .....	(706,745.03)
Prepaid expenses and deferred charges .....	(802,529.73)
Accrued interest receivable .....	717,350.12
Accounts payable .....	(12,958,195.29)
Accrued liabilities .....	15,730,038.07
Deferred revenue .....	5,151,799.28
Deposits .....	532,046.97
Compensated absences .....	4,467,709.13

#### Other additions:

Loans to students .....	(554,608.90)
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**NET CASH PROVIDED (USED) BY OPERATIONS .....** **\$ (440,256,948.07)**





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