2005

Annual Report of the President, the University of Tennessee to the Board of Trustees, 2004-2005: Adding Value to the State of Tennessee

John D. Petersen
University of Tennessee - Knoxville

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Adding Value to the State of Tennessee

2004–2005 Annual Report

of Dr. John D. Petersen, President, to the University of Tennessee Board of Trustees

THE UNIVERSITY OF TENNESSEE
The University of Tennessee is a statewide system of higher education that has a presence in each of Tennessee’s 95 counties.

Through the combined force of its education, research, and service capabilities, the university serves students, business and industry, schools, governments, organizations, and citizens throughout the state.

The statewide university enrolls about 42,500 students and graduates more than 9,000 students a year.

The flagship campus of the university is located at Knoxville. Other campuses are at Chattanooga and Martin, along with the Health Science Center at Memphis and the Space Institute at Tullahoma. Statewide institutes of agriculture and public service have installations throughout Tennessee.
Top-of-the-line public universities do so much for their states. They power the economy, they build reputation, they keep the best and brightest students at home.

Adding Value to the State of Tennessee

During my first year as president of the University of Tennessee, I traveled, listened, and learned. I visited with alumni and other friends, faculty and staff, students, state and federal officials, community leaders, and university partners to lay the groundwork for a strategic plan for the future of the University of Tennessee. I asked for opinions on how to apply UT's strengths to the challenges faced by the state of Tennessee. I've learned a lot—and continue to learn more each day—about our university.

My aspirations were bolstered when Governor Phil Bredesen, in his state-of-the-state address, advocated for the role of the flagship university. He said: "Top-of-the-line public universities do so much for their states. They power the economy, they build reputation, they keep the best and brightest students at home." The governor went on to urge that the state commit to the growth of the University of Tennessee as a top-ranked teaching and research institution.

That endorsement, in my view, crystallized the mission of the University of Tennessee in the new century. It's no longer enough to educate students and pursue a research and outreach agenda. Now each of those time-honored missions must be approached strategically and in concert so they positively impact the economic and cultural development of the state.

Our goal for the University of Tennessee is to bring value to the state of Tennessee, to help drive the economy (by educating students, growing the research enterprise, and working with partner organizations), enhance the state's image, and help attract new businesses. We think the university's proven contributions and our strategic plans for the future make a compelling case for increased state investment.

The decisions made during the first year of my administration were targeted toward the long-term success of the institution and the unique opportunities I am convinced lie ahead. After a year, I am more than ever convinced we are on a road to great success for this university and for the state of Tennessee.

University of Tennessee President John Petersen

2004-2005 Annual Report
With the advent of the Hope scholarship, the University of Tennessee enrolled its best freshman class ever. Keeping these best and brightest students in Tennessee greatly benefits the state's economy in the long run. With that success comes the added pressure to provide a top quality academic experience. Given the needs and the available resources—and despite making cost cuts throughout the university—we had no choice but to raise tuition to maintain the quality of education our students deserve and demand.

The campuses and institutes of the UT system are all distinctive, with specific goals and strengths. We began the process of working with each campus to differentiate programs and build budgets accordingly. Each unit

- Determined key expenditures over the last five years.
- Studied the method in which the budgets in the key areas were enhanced (new money, reallocation of funds, cost cutting or a combination of all three.)
- Established the series of priorities and justifications for the upcoming year and indicated which priorities would be funded as a function of tuition and fee increase levels.

Assembling the Leadership Team

Among the most critical tasks of my first year was assembling the leadership team to build the strongest UT possible and move the university to a position of greater national prominence. I believe the appointments we made will do just that. I am confident these appointments—along with the other very excellent system officers who serve so ably—will constitute a team that can lead this organization with great effectiveness.

Maximizing Resources through Partnerships

Partnerships with other organizations drive our ability to maximize resources. We looked for opportunities to leverage our state appropriations, grants, contracts, and contributions. Several partnerships resulted in successes.

State of Tennessee

- A proposal to Governor Bredesen to fund positions for world-class faculty in conjunction with Oak Ridge National Laboratory and our four areas of joint expertise: biology, computational science, neutron science, and nanomaterials. ORNL committed $10 million toward this initiative if matched by the state. The governor recommended and the legislature approved the first $2.5 million for 2005-2006.
- The state also appropriated $25 million for an Electrical and Computer Engineering Building to match a private donation of $12.5 million for the building and $5 million for programs from Dr. Min Kao, chairman and CEO of Garmin Ltd. The gift from Kao (Knoxville '77) is the largest in UT Knoxville's history.
Partnerships with other organizations drive our ability to maximize resources.

U.S. Congress

Buildings for three of the four joint institutes with ORNL have been funded by the state of Tennessee as part of the UT-Battelle contract.

- We asked the federal government to help fund a fourth building—for the Joint Institute for Advanced Materials. The total cost of the building and major equipment would be $45 million. The governor indicated he would recommend state funding if the building was funded by Congress. (The federal funding was announced in July 2005.)

Private Giving

- Alumni and other friends of the university continued their generous support as we prepared for a major gifts campaign. Giving to the university totaled $80.5 million for the year.
- We also began important initiatives such as funding for a permanent home for the Howard H. Baker Jr. Center for Public Policy. Our goal is to raise $12 million for the building by fall 2005 to enable the building project to begin.

Succeeding at Reaccreditation

In September 2004 UT submitted its accreditation compliance report to the Southern Association of Colleges and Schools (SACS). This entirely Web-based report has been cited by SACS as a model for other universities to follow. A SACS on-site visiting team came to Knoxville in April 2005, and called UT Knoxville's international/intercultural awareness plan "far-reaching, ambitious, and responsive to the needs of its student body." Final reaffirmation of accreditation is expected at the SACS annual meeting in early December 2005.

Last year was a milestone in statewide academic planning, and UT worked with the Tennessee Board of Regents and the Tennessee Higher Education Commission to develop new masterplan, funding formula, and performance funding policies. These integrated policies will guide Tennessee public higher education through 2010 and beyond.

The university partnered with the state to share administrative expertise. UT collaborated with the state departments of finance and administration, personnel, general services, and human services on issues including employee compensation, motor vehicle sales, and records management. UT also partnered with the Tennessee Board of Regents on contractual and printing services.

In the area of employee recruitment and retention, the university implemented a policy that encourages employees to get at least 32 hours of training annually to improve their skills and expand their opportunities for promotion within the university. There was also an increased focus on an evaluation structure that encourages quality performance and continuing efforts to increase the compensation of our lowest paid employees.

New fiscal policies and employee training helped assure greater accuracy and accountability in sponsored projects administration. UT enhanced its IRIS system, which supports financial, human resources, payroll, and other administrative functions. Electronic forms and approvals replaced paper forms, and reimbursement for travel expenses can be processed on line.
Spotlight on Campuses and Institutes

The campuses and institutes are "where the action is" in the University of Tennessee. Here are some of their most significant accomplishments during 2004–2005.

UT Chattanooga

- UTC enrollment grew to 8,689, up almost 2 percent from the previous year. The freshman class numbered a record 1,502. UTC also posted its highest ever percentage of African-American students, with a combined undergraduate and graduate enrollment of 19.9 percent and 26.9 percent of freshman enrollment. UTC is the first campus in Tennessee and the only campus in the UT system to meet all desegregation benchmarks in both student enrollment and faculty/staff hiring.

- Brian Lambert made UTC history when he became the first Ph.D. graduate in December 2004. He earned a doctorate in computational engineering and is now a fluid dynamics scientist with Boeing.

- The accountability program in the College of Business earned free-standing accreditation this year by the Association to Advance Collegiate Schools of Business (AACSB) International. The college is among an elite group to earn AACSB International accreditation. Only one in six business schools worldwide has earned this credential; one in 17 accounting programs has earned the distinction.

- The first cohort of candidates for the doctorate in educational learning and leadership began in May. More than 100 applicants vied for the 40 slots in the program that ties together curriculum development, learning techniques, and organizational leadership.

- More than 63 percent of UTC students on the Tennessee Lottery Scholarship retained eligibility from spring 2005 to fall 2005. This includes both freshmen and sophomores who earned the scholarship in its first year.

MADE IN TENNESSEE: The UT/Oak Ridge Partnership

Last December, the U.S. Department of Energy announced it would extend UT-Battelle's contract to manage Oak Ridge National Laboratory—the nation's largest multi-purpose science laboratory—for another five years. The contract extension, worth $4.8 billion, runs through 2010. UT-Battelle also received the Department of Energy's highest rating for its management of ORNL. During recent years, new facilities have been added, the operating budget has grown by 50 percent, and the huge Spallation Neutron Source project has progressed on time and within budget. When completed in 2006, the SNS will be the world's premier site for neutron research and will attract researchers from the U.S. and abroad. ORNL also is home to the world's largest unclassified supercomputer.

Building on a rich tradition of partnership, UT and ORNL have enhanced their relationship, centering on four key areas of mutual strength: neutron science, computational science, biological science, and materials science. Our people and our facilities in these areas provide an edge that can propel our two institutions to an unquestioned position of national prominence.

Joint Institutes in three of these scientific fields—neutron science, computation, and biology—already exist or are in planning stages at ORNL. The state of Tennessee has provided funding for the buildings for each. A fourth joint institute in advanced materials will be built on the UT Knoxville campus with funding from both the federal and state governments. Without strong partnerships, these projects that promise so much for the future of science and the economic vitality of Tennessee could never have happened.

Many other areas of joint research thrive as well—genome science, homeland security, transportation, to name a few.

As UT and ORNL build research programs that draw on complementary strengths and work together to attract world-class scientists, the partnership takes on new dimensions. The two institutions share 35 joint appointments and 10 distinguished scientists. Ten new Governor's Chair appointments, funded jointly by UT-Battelle and the state of Tennessee, will staff the joint institutes. UT students, both graduate and undergraduate, experience unparalleled research experiences through the cooperation of the university and the lab.

Our exceptional partnership shares tremendous resources that continue to improve. The growth of "big science" is drawing increased national and international attention and helping power the state economy. Collaboration between our two institutions is a super selling point for Tennessee.
Health Science Center

- The bachelor of science in nursing degree program was revamped. The new BSN program offers three full-time options: (1) traditional BSN, for applicants with 60 hours of prerequisite courses; (2) second degree, for applicants with a bachelor's degree or higher in another field; and (3) the RN to BSN option, for registered nurses with a diploma or associate's degree in nursing.

- An endowed professorship in medicine was established in honor of Dr. Gene Stollerman, former influential faculty member in the College of Medicine. Dr. Dennis Schaberg was named to the post. Schaberg is chairman of the Department of Medicine and associate program director of the Center for Excellence in Connective Tissue Diseases.

- Dr. Bill Evans, a UT College of Pharmacy graduate, was named CEO of St. Jude Children's Research Hospital, strengthening longstanding ties between UT and the internationally prominent hospital.

- Design work proceeded on the new College of Pharmacy building, a $42.8 million facility. It will be on the site of the former Baptist Hospital Physicians and Surgeons Building, which was razed. Groundbreaking is scheduled in 2006.

- Scientists at UTHSC collaborated with researchers at Oak Ridge National Laboratory on projects such as genomics and screening for eye diseases.

UT Knoxville

- The university enrolled its best freshman class ever in fall 2004 with an average ACT score for entering freshmen of 24.8. Two students had a perfect score of 36 on the ACT, and about one-fourth of the entering class had a high school grade point average of 4.0.

- UT Knoxville moved up to 42nd place in the U.S. News & World Report rankings of national public universities. Two colleges also were ranked in the magazine's best undergraduate programs—business 41st and engineering 60th.

- Eight University of Tennessee programs and departments were listed in the U.S. News & World Report rankings of top graduate programs. The UT programs were in logistics, social work, law, education, audiology, civil engineering, materials engineering, and physical therapy.

- Through a new public-private partnership, the University of Tennessee's College of Engineering will build a $37.5 million electrical and computer engineering building and make program enhancements that will boost its international prominence. The Tennessee legislature approved $25 million for the facility, one of the largest capital projects in Governor Phil Bredesen's 2005-2006 budget. UT alumnus Dr. Min H. Kao, a 1977 electrical engineering graduate, has provided $12.5 million in private funding for the building. Kao has pledged an additional $5 million to match gifts, up to $5 million, to generate a $10 million endowment to support the department. Kao's $17.5 million gift is the single largest private donation in UT Knoxville history.

- New deans were appointed for two colleges. Dr. Bruce Bursten, a distinguished professor at Ohio State University, will head the College of Arts and Sciences. John McCrae was named to head the college of Architecture and Design. He comes from the American Institute of Architects, where he was senior director of grants and development.
Spotlight on Campuses and Institutes

• Spring 2005 was Environmental Semester, which brought a campus-wide focus on environmental issues through classes, programs, speakers, and activities. Another major effort, this one encompassing not just the campus, but the Knoxville community as well, was the James Agee Celebration, which called attention to the life and works of the famous author and Knoxville native. The university donated land near campus for a park that bears Agee’s name.

UT Martin

• UT Martin had a record fall enrollment of 6,104 students, besting the previous high of 6,012 students set in fall 1997. Freshmen numbered 1,132, topping a previous high in 1998. These students had an average high school grade point average of 3.28 and an average ACT score of 22.18.
• UT Martin was among the top 25 master's level public universities in the South in the 2005 edition of America's Best Colleges compiled by U.S. News and World Report. The rankings placed UT Martin 23rd in the South, the highest ranking ever achieved by the university in the annual listings. Also, PrincetonReview.com listed UT Martin as one of 136 schools to receive a "Best in the Southeast" designation.
• The UT Martin Electrical Generation Facility progressed toward an opening in mid-October 2005. The $4.9 million facility will help control utility costs and allow more funds to be channeled to academics. The facility will also serve as a laboratory for business and engineering students.
• External grant and contract activity increased more than 100 percent during the last two years with million-dollar awards targeting technology applications, teacher education and children's services. The campus total neared $10 million.
• In the realm of academic programs, a new major in finance was approved, and the athletic training education program in the Department of Health and Human Performance received initial accreditation from the Commission on Accreditation of Allied Health Education Programs. Also the College of Business and Public Affairs earned reaffirmation of accreditation for its bachelor's and master's degree programs in business.

Institute of Agriculture

• Economic studies indicated that the UT Institute of Agriculture's programs in research and Extension deliver $1.3 billion in benefits to society on an annual budget of $90 million in state and federal funds, achieving a 14-to-1 return on each funding dollar over a six-year period.
• Sponsored project funding totaled $30 million from outside granting agencies. The total is more than double the amount of research and outreach grants and contracts generated five years ago.
• UT crop variety test research and demonstrations included 11,445 plots in 2004. An estimated 91 percent of the state's producers choose varieties based on UT data.
• UT Extension’s Family and Consumer Sciences Department launched an obesity prevention initiative in cooperation with several corporate funding partners. "Tennessee Shapes Up" is a $255,000 pilot effort to deliver health messages to residents of five Middle Tennessee counties.
• UT’s beneficial insects laboratory, dedicated in May 2005, seeks to produce predators to combat the hemlock woolly adelgid on public lands. UT’s lab is at the forefront of aggressive collaborations by federal, state, and private partners to protect hemlocks from the adelgid threat. The lab will also allow UT researchers to test solutions to manage other invasive pests.
• Doctors and students in the UT College of Veterinary Medicine’s teaching hospital treat an average of 36,000 animals a year. That includes 18,000 cattle and 3,800 horses. Most of the hospital’s patient base consists of large animals, and the hospital’s service to them has a sizeable economic impact, given the fact that Tennessee ranks ninth nationally in its number of beef cows and the state has the second largest horse population in the U.S. The hospital also handles about 9,000 dog cases a year, and it has the largest avian and exotic animal caseload of any U.S. veterinary school.
Spotlight on Campuses and Institutes

Institute for Public Service
- Last year, agencies of UT's Institute for Public Service responded to more than 18,000 requests for assistance or information received from government and business officials, held more than 700 training programs attended by 23,000 persons, and completed more than 2,900 projects.
- The total economic impact of services provided by agencies of UT's Institute for Public Service (IPS) exceeded $400 million and helped create 7,600 jobs.
- UT's one-of-a-kind National Forensic Academy continued to train crime scene investigators from throughout the nation. Investigators from 37 states and nine of the ten largest law enforcement agencies in the U.S. have been trained in the unique and intense 10-week program.
- Housing state prisoners in Johnson County is affordable thanks to a study done by UT's County Technical Assistance Service. An updated reimbursement rate from the state as a result of the study will net Johnson County an estimated $390,000 in new revenue. The Johnson County mayor and county budget director requested the study.
- UT initiated a program in conjunction with the U.S. Department of Agriculture to promote the creation and expansion of businesses in 19 rural Tennessee counties.

Space Institute
- UTSI began an effort to develop low-cost carbon fiber production technologies with multiple commercial applications. The U.S. Department of Transportation provided first-year funding of $950,000. Researchers intend to produce high-strength, light-weight, low-cost materials that will have a major impact on the manufacturing economy.
- A micro-gravity experiment co-designed by Dr. Basil N. Antar, UTSI professor, was completed aboard the International Space Station in May. The experiment—UT's first to be performed on the Space Station—is expected to confirm Antar's theory of a new, more accurate way to measure the thickness or viscosity of fluids. The study could help scientists improve processing of materials—on Earth as well as in space.

NEW FACES ON LEADERSHIP TEAM

Executive Vice President. The appointment of Dr. Jack Britt put a substantive academic leader and strategic planner in the number two position in the UT system.

Vice President for Research. Dr. David Millhorn is an internationally renowned biomedical researcher and is in that category of world class talent that will be the point of difference in achieving our goals. This position is absolutely critical as we build the research/scholarship enterprise of UT.

Vice President for Public and Government Relations. Hank Dye, a veteran communications professional, joined us April 1 and is developing communications direction, both internally and externally.

Chancellor of the Health Science Center. The appointment of Dr. Bill Owen has already made a significant impact on our operations in health care throughout the state.

Chancellor of UT Chattanooga. Dr. Roger Brown's experience at UNC Charlotte is an excellent model for how to bring a metropolitan, urban university to prominence in a system that also has a flagship research university.

After the fiscal year ended, two more key leaders joined the team.

Vice President for Development and Alumni Affairs. Henry Namck is a seasoned fund raiser and administrator with more than 23 years of development experience.

Chief Financial Officer. Dr. Gary Rogers brings experience in higher education, public accounting, and private accounting and finance with large, complex private entities.
The University of Tennessee is poised to be the fast rising star in public higher education over the next decade.

In 2005-2006, we will implement new strategies to accomplish our overarching goal of bringing value to Tennessee.

We will work with our friends in the legislature to talk about state support for higher education. We want to have an open and honest give-and-take with them to reach consensus on the critical issue of state appropriations and their effect on the need for tuition increases. We believe that kind of partnership can serve everyone well, and we intend to work hard to achieve it.

We recognize we can't look only to the legislature and our students. We must and will do our part to cut costs in addition to obtaining the resources we need to provide a top quality education. Our administrative costs are down over the past 10 years. A good example of cost cutting is in Knoxville where Chancellor Loren Cranberry has eliminated two colleges and eight departments and re-channeled more than $20 million in funding toward academics. Recently the Knoxville campus announced an administrative reorganization that cut $250,000 — again creating funds for top priorities.

The ability of each of our campuses and institutes to be successful will depend upon two major issues:

First is creation of a strategic budgeting framework that supports difficult decisions that are necessary to focus on excellence.

The second is our ability as a system to build partnerships between various segments of the institution, as well as with external constituencies such as ORNL, St. Jude Children's Research Hospital, Vanderbilt Medical Center, Memphis Bioworks Foundation, and others.

Our partnership with Oak Ridge National Laboratory—the Department of Energy's largest science and energy laboratory—affords one-of-a-kind opportunities. The technology being developed at ORNL every day will be among the key determining factors in the world's future economy, and clearly we need to maximize this opportunity. We are committed to better communicate the university's involvement with ORNL and become more visible in the partnership.

Spreading the good news about UT and being proactive in our communications will be another area of focus during 2005-2006. We must help Tennesseans understand and appreciate the role UT plays in adding value to the state. That understanding is critical as we make the case for increased state support.

Other major initiatives include

- Strategic plans for all campuses and institutes.
- Evaluation and reward structures that encourage quality employee performance.
- A sustained source of funding for capital projects.
- Administrative structure examination and adjustments that are consistent with our goals and strategies.

IN CONCLUSION

The University of Tennessee is poised to be the fast rising star in public higher education over the next decade. Board leadership, state leadership, national leadership, community leadership, external partnerships, and the opportunity to hire excellent faculty should position the university for success. I thank each of you who has contributed to the remarkable institution that is the University of Tennessee, and I invite your continued involvement and support.
**Financial Highlights**

University of Tennessee financial statements are prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. The financial statements will be audited by the state of Tennessee, Comptroller of the Treasury, Division of State Audit. We invite you to scrutinize the following financial information that summarizes the sources and uses of university operating funds for fiscal year 2005. Complete university financial statements and footnotes, along with the auditor's opinion letter and management comments, is available in the annual Report of the Treasurer 2005. Readers wishing copies of the Report of the Treasurer 2005 may contact the Office of the Treasurer, 301 Andy Holt Tower.

### THE UNIVERSITY OF TENNESSEE | UNAUDITED STATEMENT OF NET ASSETS | June 30, 2005

#### ASSETS

**Current assets:**

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**Noncurrent assets:**

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**Total assets:**

| Amount | $1,602,326,196.72 |

#### Liabilities

**Current liabilities:**

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**Total liabilities:**

| Amount | $733,850,879.80 |

#### NET ASSETS

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<td><strong>Total unrestricted</strong></td>
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</table>

| Amount | $1,602,326,196.72 |
INVESTMENTS

Total funds invested to benefit UT increased by $51 million during fiscal year 2005, marking a new high for this important support measurement. Generous private support and solid capital market investment returns were responsible for this record total. The accompanying graph depicts the growth of these funds over the past ten years and reflects an increase of more than 12 percent during that period.

The market value of these funds totaling $767 million at June 30 comprises five distinct components. University pooled endowments ($499 million), university separate endowments ($9 million), life income funds ($51 million), University of Chattanooga Foundation ($104 million), and the Tennessee Chairs of Excellence ($104 million).

The top two layers shown on the graph are funds managed outside the university. Tennessee Chairs of Excellence, managed by the state of Tennessee, provided $3.1 million during the year to support chair programs at all UT campuses. The University of Chattanooga Foundation, managed by the foundation board, provided $4.1 million for programs at the university's Chattanooga campus.

The bottom three layers are funds managed by the university consistent with the objectives of the funds. One of the layers consists of university-administered Life Income Trusts which are invested trust funds that provide an annual income to beneficiaries for a specified period of years or for the life of the beneficiary. These funds totaled $51 million at June 30, 2005. The remaining two layers are university endowment funds consisting of separately invested endowments and a pooled investment fund. The university pooled endowments are managed in a consolidated investment pool created in 1954 to provide the advantages of a well diversified investment portfolio to all participating endowments regardless of size. Reported June 30, 2005, investment returns for the pooled endowments totaled 11.2 percent and 9.2 percent for the one and ten year periods respectively. Income distributed from the pooled endowments for the year totaled $20.6 million, an increase of $1.4 million over the previous year. This amount was in accordance with the spending plan articulated as 5 percent of a three-year moving average market value measured each December 31.

The long-term goal of the pooled endowment investment program is to provide a sustainable and increasing level of support for university programs while preserving the real purchasing power of the endowment. The measurement of this goal is over a rolling ten-year period, and as of June 30, 2005, the goal had been achieved with the reported total return of 9.2 percent adding real value to the fund of 1.5 percent after distributions and inflation.
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