Report of The Treasurer 2003

THE UNIVERSITY OF TENNESSEE

Report of the Treasurer 2003

Brief History of the University of Tennessee

The University of Tennessee is one of the nation's oldest institutions of higher education, in operation since 1794. Two years before Tennessee achieved statehood in 1796, the legislature of the Southwest Territory—which later became Tennessee—granted a charter to Blount College, named in honor of the territorial governor, William Blount. Located in Knoxville near today's downtown area, Blount College was nonsectarian, which was unusual for an institution of higher education at that time. The university has remained nondenominational and is believed to be the oldest such institution west of the Appalachian Divide. Blount College was all male, typical for colleges of the late 18th century, a restriction that remained in force for almost a century until the first women students were admitted in 1892.

In 1807 the state legislature changed the name of Blount College to East Tennessee College, and in 1826 the 40-acre tract known as "the Hill" became part of its campus. The name of the school changed again in 1840 to East Tennessee University. But 21 years later, the Civil War forced the university to close, and its buildings were used as a hospital for Confederate troops, then later occupied by Union soldiers.

When the war ended, East Tennessee University reopened, and in 1869 the state legislature selected the university as the state's federal land-grant institution under the Morrill Act of 1862. To comply with the terms of the act, ETU broadened its offerings to include agricultural, engineering, and military-science courses.

Ten years later, East Tennessee University was chosen by the legislature to be the state university of Tennessee, and its name was changed to the University of Tennessee. The university pledged itself to the service and interest of the entire state, and the state pledged its name and reputation to the university, promising the institution a vital role in the progress of the state.

Today, the university serves the people of Tennessee from locations across the state. The medical campus, founded in Nashville and acquired by the university in 1879, was moved to Memphis in 1911. The Martin campus, established in 1900 as a private institution, became part of the University of Tennessee in 1927. In 1969 the private University of Chattanooga merged with the public university to become its fourth primary campus. The University of Tennessee Space Institute, a graduate education and research center near Tullahoma, was established in 1964.

Three statewide units of the university—the Institute of Agriculture, the Institute for Public Service, and the Division of Continuing Education—extend the university beyond its various campuses to serve the entire state.

The administration of the university is headquartered in Knoxville, where the offices of the president and the central staff are located. Resident chancellors are the chief administrators of the Chattanooga and Martin campuses.

Traditionally, Tennessee's governors and members of the state legislature have shown active interest in the development of the University of Tennessee by providing the support it needs to meet the increasing educational, research, and service needs of the people of Tennessee. As a result, many university programs have earned both national and global recognition.

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Letter from the Treasurer

The financial statements on the following pages have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. 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. Establishing sound fiscal policies and procedures and communicating them clearly, carefully selecting qualified financial staff, and implementing an extensive program of internal audits and management reviews ensure that the system of internal controls is maintained.

The financial statements herein have been audited by the State of Tennessee, Comptroller of the Treasury, Division of State Audit. The auditor's opinion is based on audit procedures described in their letter on page 3, which include understanding university systems, procedures, and internal controls and performing tests and other auditing procedures sufficient to provide reasonable assurance that the financial statements are not materially misleading nor do they contain material errors.

The statements contained in this report describe the university's overall financial condition and the financial performance for the year ended June 30, 2003. A separate publication, "Report of the Treasurer 2003 Supplemental Schedules and Appendices," 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 enable analysis of important items summarized or consolidated in the financial statements of this report.

Respectfully submitted,

Charles M. Peccolo
Vice President and Treasurer

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
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JAMES K. POLK STATE OFFICE BUILDING
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Independent Auditor's Report

November 21, 2003

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying statements of net assets of the University of Tennessee, which is a component unit of the State of Tennessee, as of June 30, 2003, and June 30, 2002, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. 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 auditing standards generally accepted in the United States of America 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, 2003, and June 30, 2002, and the revenues, expenses, and changes in net assets and the cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 21, during the year ended June 30, 2002, the university implemented GASB Statement 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, and GASB Statement 35, Basic Financial Statements—and Managements's Discussion and Analysis—for Public Colleges and Universities. The university also implemented GASB Statement 37, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus, and GASB Statement 38, Certain Financial Statement Note Disclosures. The university also changed its capitalization threshold for buildings, land improvements, and infrastructure; discontinued the capitalization of its livestock; and changed its method of capitalizing library holdings. The university also changed its method of accounting for accumulated federal capital contributions under its federal loan programs.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules and charts presented outside of the basic financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and, accordingly, we express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated November 21, 2003, 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. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/sds

Management's 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, 2003, with comparative information presented for the fiscal year ended June 30, 2002. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with them. The financial statements, notes, and this discussion are the responsibility of management.

Using This Annual Report

This report consists of three basic financial statements. The statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows 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. The difference between total assets and total liabilities – net assets – 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 major categories. The first category, invested in capital assets, net of related debt, provides the university's equity in property, plant, and equipment owned by the university. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable 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 that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available to the university for any lawful purpose of the institution.

Statement of Net Assets

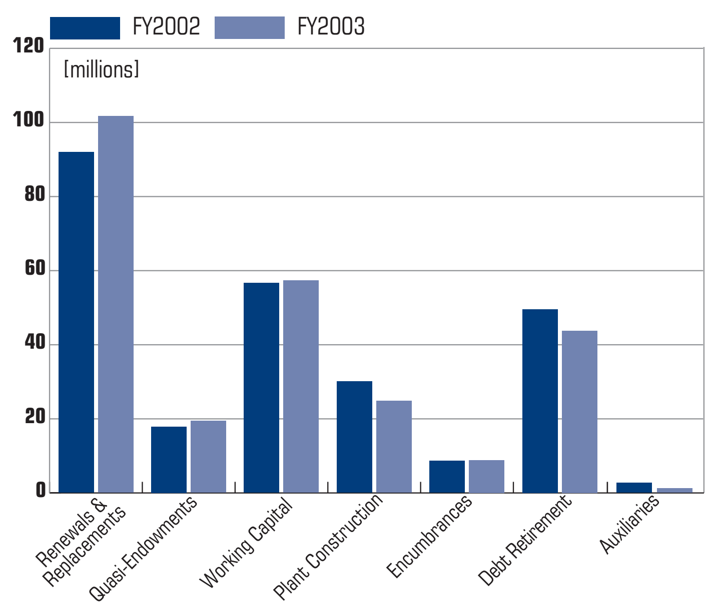
(x 1,000)	2003	2002
Assets:		
Current assets	$ 311,931	$ 315,277
Capital assets, net	943,877	852,381
Other assets	828,919	792,255
Total assets	**$2,084,727**	**$1,959,913**
Liabilities:		
Current liabilities	$ 233,459	$ 210,003
Non current liabilities	289,881	282,716
Total liabilities	**$ 523,340**	**$ 492,719**
Net assets:		
Invested in capital assets, net of debt	$ 730,451	$ 653,532
Restricted—expendable	298,644	292,189
Restricted—nonexpendable	316,191	294,865
Unrestricted	216,101	226,609
Total net assets	**$1,561,387**	**$1,467,195**

Material assets consist of cash and cash equivalents; investments; accounts, notes, and grants receivable; and capital assets. Decreases in current assets can be found in cash and cash equivalents, investments, and inventories. Increases in current assets are in accounts, notes, and grants receivable. Increases in noncurrent assets can be found in cash and cash equivalents; accounts, notes, and grants receivable; and capital assets. Decreases in noncurrent assets can be found in investments.

Material liabilities include long-term bonded debt, compensated absences, accounts payable, accrued liabilities, and deferred revenue. The current portion of compensated absences increased, shifting the liability from noncurrent to current.

Many of the university's unrestricted net assets have been designated or reserved for specific purposes such as repairs and replacement of capital assets, future debt service, quasi-endowments, and capital projects. The graph at left shows the allocations.

Unrestricted Net Assets



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 nonoperating revenues and expenses. Annual state appropriations, while budgeted for operations, are considered nonoperating revenues according to generally accepted accounting principles.

Statement of Revenues, Expenses and Changes in Net Assets

(x 1,000)	2003	2002
Operating revenues:		
Net tuition and fees	$ 192,977	$189,143
Auxiliary	123,724	120,549
Grants and contracts	356,451	343,616
Other	81,214	128,829
Total operating revenues	**$ 754,366**	**$ 782,137**
Operating expenses	$ 1,315,836	$ 1,273,972
Operating loss	**$ (561,470)**	**$ (491,835)**
Non-operating revenues and expenses:		
State and local appropriations	$ 423,816	$ 419,793
Gifts	67,281	50,851
Investment income, gains, (losses)	42,407	(3,104)
Other	32,039	26,760
Total non-operating revenues	**$ 565,543**	**$ 494,300**
Income (loss) before other revenues, expenses, gains, or losses	**$ 4,073**	**$ 2,465**
Other revenues, expenses, gains, or losses:		
Capital appropriations	$ 32,584	$ 34,102
Capital grants and gifts	47,165	8,859
Additions to permanent endowments	12,341	23,128
Other	(1,971)	986
Total other revenues, expenses, gains, or losses	**$ 90,119**	**$ 67,075**
Increase (decrease) in net assets	**$ 94,192**	**$ 69,540**
Net assets at beginning of year	$ 1,467,195	$ 2,284,168
Cumulative effect of changes in accounting principle		(886,513)
Net assets at end of year	**$1,561,387**	**$1,467,195**

The increase in tuition and fees is primarily due to a 7.5 percent increase in fees for the 2003 academic year. Operating grants and contracts increased by $13 million due to a general increase in federal and private grants and contracts, offsetting a decrease in state grants and contracts. The largest increases were in grants from the Department of Health and Human Services and the new Bowld Hospital leased employees agreement. Other operating income decreased due to the transfer of the Bowld Hospital operations to Methodist Healthcare—Memphis Hospitals.

In fiscal year 2003, nonoperating gifts increased substantially due to a single gift totaling $11.2 million. The gain on investments was due to an increase of endowment income and a significant reduction of the previous year's capital market decline.

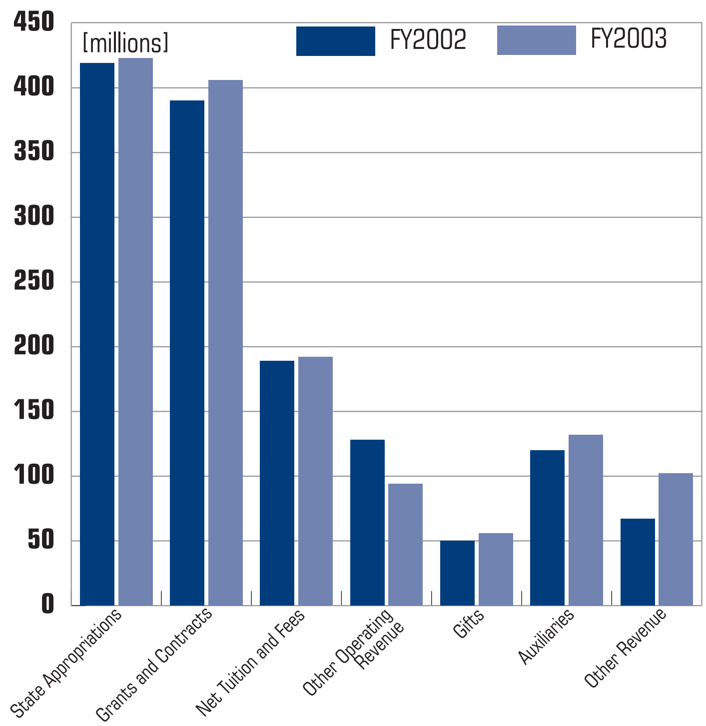
The increase in capital grants and gifts for 2003 consisted of the donation of several buildings at the Memphis campus. Additions to permanent endowments decreased due to reduced levels of new gifts to endowments for the 2003 fiscal year.

Total operating expenses increased approximately $42 million in fiscal year 2003 primarily due to increased salaries and wages and staff benefits. The university intentionally attempted to bring faculty and staff salaries to a more competitive level. In addition to the staff benefits related to salary increases, health insurance premiums increased 25 percent in fiscal year 2003.

Revenues

The following is a graphic illustration of revenues by source (both operating and nonoperating), which were used to fund the university's activities for the years ended June 30, 2003, and June 30, 2002.

Revenues by Source



Approximately seventy percent of UT's revenue is attributed to state appropriations, grants and contracts, and tuition and fees.

Expenses Operating expenses can be displayed in two formats, **natural classification** and **functional classification**. Both formats are displayed below.

2003 Natural Classification

2003 Functional Clasification	SALARIES	BENEFITS	UTILITIES, SUPPLIES AND OTHER SERVICES	SCHOLARSHIPS	DEPRECIATION	TOTAL
Instruction	$ 289,078	$ 68,378	$ 51,741			$ **409,197**
Research	101,628	27,803	56,388			**185,819**
Public service	67,284	22,443	33,887			**123,614**
Academic support	53,339	14,509	15,196			**83,044**
Student services	27,102	7,904	17,036			**52,042**
Institutional upport	53,503	15,876	3,571			**72,950**
Operation and maintenance of plant	26,236	8,917	39,735			**74,888**
Scholarships	3,043	23,768	11,318	$ 4,651		**42,780**
Auxiliary	30,235	7,240	59,516			**96,991**
Hospital	6,816	1,844	12,217			**20,877**
Independent operations	75,176	21,475				**96,651**
Depreciation					$ 56,983	**56,983**
Total expenses	**$ 733,440**	**$ 220,157**	**$ 300,605**	**$ 4,651**	**$ 56,983**	**$ 1,315,836**

2002 Natural Classification

2002 Functional Clasification	SALARIES	BENEFITS	UTILITIES, SUPPLIES AND OTHER SERVICES	SCHOLARSHIPS	DEPRECIATION	TOTAL
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					$ 54,147	**54,147**
Total expenses	**$ 701,206**	**$ 195,469**	**$ 315,334**	**$ 7,816**	**$ 54,147**	**$ 1,273,972**

The Statements of Cash Flows

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

Statements of Cash Flows

(in thousands of dollars)	2003	2002
Cash provided (used) by:		
Operating activities	$ (487,276)	$ (440,257)
Noncapital financing activities	524,428	477,018
Investing activities	68,479	16,603
Capital and related financing activities	(65,550)	(72,273)
Net increase (decrease) in cash	**$ 40,081**	**$ (18,909)**
Cash, beginning of year	**$ 369,837**	**$ 388,746**
Cash, end of year	**$ 409,918**	**$ 369,837**

Material sources of cash included state appropriations, tuition and fees, and grants and contracts. Material uses of cash are reflected in payments to suppliers and vendors, payments to employees, payments for benefits, and the purchase of capital assets and construction.

The net increase in cash and cash equivalents amounted to $40,081,653 for the year ended June 30, 2003. The net decrease in cash and cash equivalents amounted to $18,908,968 for the year ended June 30, 2002.

Capital Asset and Debt Administration

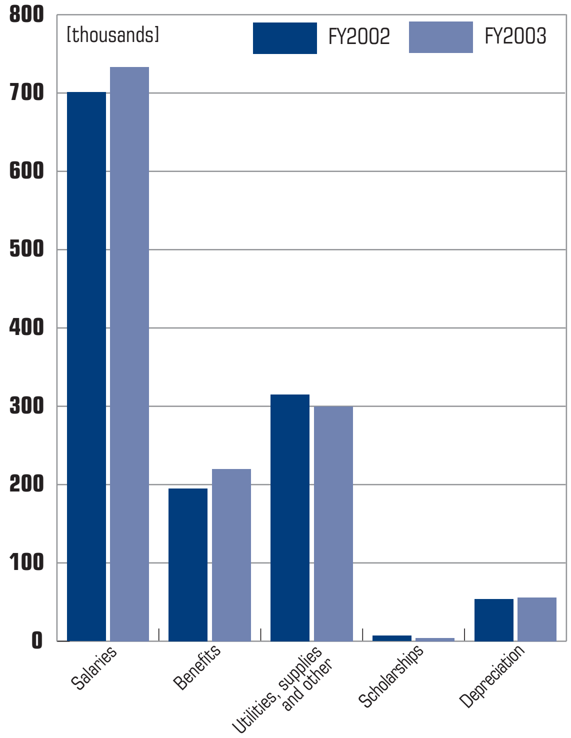
Capital Assets

At June 30, 2003, The University of Tennessee had $943,877,229.62 invested in capital assets, net of accumulated depreciation. Depreciation charges totaled $56,983,060.02 for the current fiscal year. Details of these assets are shown below.

Schedule of Capital Assets, Net of Depreciation

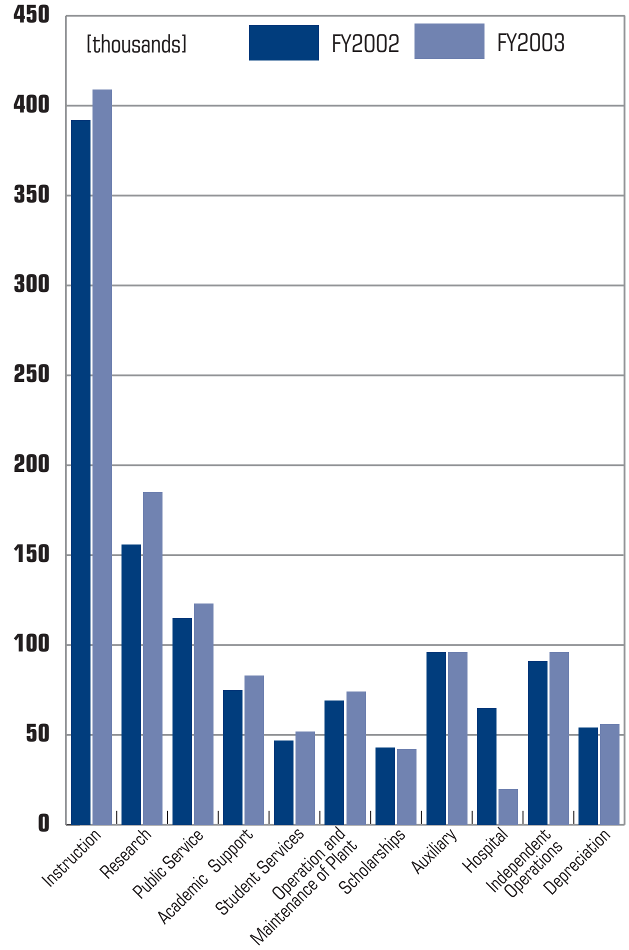
(in thousands of dollars)	2003	2002
Land	$ 48,358	$ 45,102
Land improvements & infrastructure	30,314	29,508
Buildings	595,986	527,410
Equipment	99,158	93,922
Software	11,176	10,883
Library holdings	49,666	46,333
Projects in progress	109,219	99,223
Total	**$ 943,877**	**$ 852,381**

Operating Expenses by Natural Classification
(in thousands of dollars)



At June 30, 2003, approximately seventy-two percent of operating expenses are attributed to salaries and benefits. Utilities, supplies, and other services represent twenty-three percent of total operating expenses. Scholarships and depreciation represent the remaining five percent of operating expenses.

Operating Expenses by Function
(in thousands of dollars)



For the year ended June 30, 2003, fifty-five percent of operating expenses by function is attributable to instruction, research, and public service. The percentages for the remaining functional areas range from two to eight percent of total operating expenses.

Major capital additions for UT during 2002-2003 include the $28.9 million Plant Sciences Biotech Building at the Agriculture campus, the $11 million Alumni Memorial Building, and the $2 million Black Cultural Center all in Knoxville, and the $1.7 million Hunter Hall HVAC Improvements project in Chattanooga.

For the next fiscal year, the state has approved more than $7.7 million in capital maintenance appropriations for UT. Some of these approved projects include the roof replacements of several buildings in Knoxville, a fire alarm systems upgrade project in Martin, and Central Energy Plant Improvements in Memphis and Chattanooga. More detailed information about the university's capital assets is presented in Note 5 to the financial statements.

Debt

At June 30, 2003, the university had $215,734,197 in debt outstanding. The table below summarizes these amounts by type of debt instrument.

Outstanding Debt Schedule

(in thousands of dollars)	2003	2002
Bonds-current portion	$ 13,851	$ 13,506
Bonds-noncurrent	183,723	181,401
Commercial paper-noncurrent	18,160	7,457
Total TSSBA authorized debt	**$ 215,734**	**$ 202,364**
Notes-current portion		10
Total debt	**$ 215,734**	**$ 202,374**

The university retired more than $16.2 million in bonds and notes in fiscal year 2002-2003. The Tennessee State School Bond Authority (TSSBA), in addition to its authority to issue bonds and notes to finance capital projects, has responsibility for approving all long-term debt of the university. TSSBA currently is rated as AA- by Standard & Poor. More detailed information about the university's long-term liabilities is presented in Note 7 to the financial statements.

Economic Factors That Will Affect the Future

For fiscal year 2004, the University of Tennessee Board of Trustees has authorized a fee increase of 9 percent that is expected to generate approximately $19 million in new funding net of related scholarships. The university sustained a 5 percent state appropriation budget reduction in fiscal year 2003 followed by a 9 percent cut for fiscal year 2004. The university received additional state appropriations to fund health insurance premium increases for fiscal year 2004.

Statement of Net Assets

For the years ended June 30, 2003, and June 30, 2002

	2003	2002
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$ 149,506,729.33	158,661,157.27
Investments (Note 2)	49,693,424.57	50,067,193.46
Accounts, notes and grants receivable (net) (Note 4)	100,933,143.95	92,987,084.86
Inventories	8,051,167.21	10,117,661.10
Prepaid expenses and deferred charges	3,746,806.01	3,443,491.06
Total current assets	$ 311,931,271.07	$ 315,276,587.75
Noncurrent assets:		
Cash and cash equivalents (Note 2)	$ 260,411,983.16	$ 211,175,901.67
Investments (Note 2)	374,272,838.43	398,534,574.00
Investment in UT–Battelle, LLC (Note 12)	2,043,045.23	1,789,206.24
Accounts, notes, and grants receivable (net) (Note 4)	173,426,660.16	164,305,023.16
Lease payments receivable (Note 16)	18,675,783.73	16,272,083.36
Capital assets (net) (Note 5)	943,877,229.62	852,381,537.22
Prepaid expenses and deferred charges	88,803.41	178,486.68
Total noncurrent assets	$ 1,772,796,343.74	$1,644,636,812.33
Total assets	$2,084,727,614.81	$1,959,913,400.08
LIABILITIES		
Current liabilities:		
Accounts payable	$ 69,876,639.28	$ 62,242,891.07
Accrued liabilities	33,943,551.77	34,720,912.03
Deferred revenue	64,219,889.64	63,148,100.33
Deposits payable	6,098,535.71	4,045,375.64
Annuities payable	1,332,314.59	1,619,887.96
Long-term liabilities, current portion (Note 7)	50,012,220.41	37,434,754.17
Deposits held in custody for others	7,975,831.88	6,791,205.53
Total current liabilities	$ 233,458,983.28	$ 210,003,126.73
Noncurrent liabilities:		
Deferred revenue (Note 7)	$ 15,500,438.71	$ 15,500,438.71
Long-term liabilities, non-current portion (Note 7)	229,479,360.87	224,129,364.69
Due to grantors (Note 7)	36,320,989.59	34,507,427.06
Annuities payable (Note 7)	8,580,703.69	8,578,451.55
Total noncurrent liabilities	$ 289,881,492.86	$ 282,715,682.01
Total liabilities	$ 523,340,476.14	$ 492,718,808.74
NET ASSETS		
Invested in capital assets, net of related debt	$ 730,451,305.11	$ 653,531,666.90
Restricted:		
Nonexpendable:		
Scholarships and fellowships	130,901,070.13	121,490,322.81
Libraries	12,705,596.83	12,751,472.70
Research	16,495,388.54	9,867,940.34
Instructional department uses	103,184,308.66	50,648,145.62
Academic support	25,442,049.41	
Other	27,463,145.24	100,108,419.51
Expendable:		
Scholarships and fellowships	76,395,468.44	90,834,768.15
Libraries	3,931,251.13	4,046,989.13
Research	56,600,655.69	32,480,248.62
Instructional department uses	67,482,202.40	37,500,480.72
Academic support	37,956,565.60	
Loans	8,102,948.61	8,346,883.77
Capital projects	8,843,290.02	3,464,394.12
Debt service	388,651.34	592,815.76
Other	38,942,341.74	114,920,718.49
Unrestricted (Note 19)	216,100,899.78	226,609,324.70
Total net assets	$1,561,387,138.67	$1,467,194,591.34

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenses, and Changes in Net Assets

For the years ended June 30, 2003, and June 30, 2002

REVENUES	2003	2002
Operating revenues:		
Student tuition and fees (net of scholarship allowances of $39,341,406.75 for the year ended June 30, 2003, and $31,687,598.45 for the year ended June 30, 2002)	$ 192,976,707.52	$ 189,142,951.97
Federal appropriations	11,839,019.95	13,760,809.80
Governmental grants and contracts	186,473,181.70	189,090,028.66
Non-governmental grants and contracts	169,977,983.18	154,525,909.50
Sales and services of educational departments	39,343,533.55	37,554,072.87
Auxiliary enterprises:		
Residential life (net of scholarship allowances of $1,010,832.18 for the year ended June 30, 2003, and $986,407.82; all revenues are used as security for varying revenue bonds; Note 7)	29,043,875.15	29,485,142.09
Food services	2,755,073.44	2,661,886.18
Bookstore	19,662,412.44	20,407,597.39
Parking	8,070,559.06	7,669,470.48
Athletics	58,485,696.62	54,586,749.14
Other auxiliaries	5,706,130.08	5,738,310.24
Hospital	16,462,146.60	57,814,869.56
Interest earned on loans to students	75,425.90	82,818.70
Other operating revenues	13,494,313.49	19,616,431.68
Total operating revenues	$ 754,366,058.68	$ 782,137,048.26
EXPENSES		
Operating expenses:		
Salaries and wages	$ 733,440,402.53	$ 701,206,933.17
Fringe benefits	220,157,170.03	195,469,039.04
Utilities, supplies, and other services	300,605,152.29	315,333,196.68
Scholarships and fellowships	4,650,947.67	7,816,121.78
Depreciation expense	56,983,060.02	54,146,985.75
Total operating expenses	$1,315,836,732.54	$1,273,972,276.42
Operating income (loss)	$ (561,470,673.86)	$ (491,835,228.16)
NON-OPERATING REVENUES (EXPENSES)		
State and local appropriations	$ 423,816,452.04	$ 419,792,940.89
Gifts	67,281,587.48	50,851,804.57
Grants and contracts	50,525,720.79	46,905,377.96
Investment income (loss)	42,406,799.02	(3,104,052.28)
Interest on capital asset—related debt	(11,592,333.70)	(9,757,152.23)
Bond issuance costs		(434,669.40)
Other non-operating expenses	(6,894,216.53)	(9,954,658.64)
Net non-operating revenues	$ 565,544,009.10	$ 494,299,590.87
Income before other revenues, expenses, gains, or losses	$ 4,073,335.24	$ 2,464,362.71
Capital appropriations	$ 32,583,739.37	$ 34,102,220.31
Capital grants and gifts	47,165,410.96	8,859,062.66
Additions to permanent endowments	12,341,823.96	23,127,540.82
Additions to annuity and life income trusts	1,774,230.20	811,482.57
Other	(3,745,992.40)	174,973.67
Total other revenues	$ 90,119,212.09	$ 67,075,280.03
Increase in net assets	$ 94,192,547.33	$ 69,539,642.74
NET ASSETS		
Net assets at beginning of year	$1,467,194,591.34	$2,284,168,171.87
Cumulative effect of changes in accounting principle (Note 21)		(886,513,223.27)
Net assets at beginning of year, as restated	1,467,194,591.34	1,397,654,948.60
Net assets at end of year	$1,561,387,138.67	$1,467,194,591.34

The notes to the financial statements are an integral part of this statement.

Statement of Cash Flows

For the years ended June 30, 2003, and June 30, 2002

CASH FLOWS FROM OPERATING ACTIVITIES	2003	2002
Tuition and fees	$ 194,780,479.56	$ 189,281,671.03
Federal appropriations	10,589,019.95	13,760,809.80
Grants and contracts	358,498,584.90	333,499,903.17
Sales and services of educational activities	32,858,045.76	44,579,120.00
Payments to suppliers and vendors	(296,806,191.23)	(325,459,746.84)
Payments to employees	(734,101,158.75)	(693,931,502.51)
Payments for benefits	(215,705,943.80)	(190,025,977.97)
Payments for scholarships and fellowships	(4,650,947.67)	(21,285,322.62)
Loans issued to students	(5,486,336.91)	(5,632,359.39)
Collection of loans from students	6,880,849.31	5,077,750.49
Interest earned on loans to students	679,023.62	800,168.82
Auxiliary enterprise charges:		
Residence halls	29,043,875.15	30,917,997.01
Bookstore	19,662,412.44	24,512,571.63
Food service	2,755,073.44	2,981,467.22
Parking	8,070,559.06	8,543,972.18
Athletics	54,564,926.51	53,717,774.43
Other auxiliaries	5,706,130.08	6,284,683.76
Hospital	30,313,526.82	54,798,356.37
Other receipts (payments)	15,071,797.34	27,321,715.35
Net cash provided (used) by operating activities	$ (487,276,274.42)	$ (440,256,948.07)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	$ 423,521,491.35	$ 411,372,497.00
Local appropriations	3,889,155.69	3,871,848.89
Gifts and grants for other than capital or endowment purposes	80,261,170.41	73,281,681.11
Private gifts for endowment purposes	14,116,054.16	20,780,921.37
Split-interest transactions receipts	2,265,898.77	3,793,928.77
Split-interest transactions disbursements	(2,922,067.60)	(3,630,549.03)
Federal student loan receipts	130,428,115.18	117,823,747.00
Federal student loan disbursements	(130,428,115.18)	(117,823,747.00)
Changes in deposits held for others	986,267.52	(2,863,304.06)
Net cash balance implicitly financed(repaid)	6,056,682.07	(29,326,447.36)
Other non-capital receipts (payments)	(3,745,992.40)	(262,554.08)
Net cash provided (used) by non-capital financing activities	$ 524,428,659.97	$ 477,018,022.61
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	$ 30,916,551.79	$ 21,593,783.49
Capital appropriations	39,681,113.52	29,884,165.40
Capital grants and gifts received	47,165,410.96	4,871,265.30
Proceeds from sale of capital assets	1,130,918.32	1,085,999.17
Purchase of capital assets and construction	(155,880,014.78)	(101,670,770.44)
Principal paid on capital debt and leases	(16,237,301.28)	(17,919,300.85)
Interest paid on capital debt and leases	(11,352,492.59)	(8,848,537.01)
Deposit with trustee		373,749.29
Other capital and related financing receipts (payments)	(974,166.98)	(1,643,821.31)
Net cash provided (used) by capital and related financing activities	$ (65,549,981.04)	$ (72,273,466.96)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	$ 153,051,212.19	$ 90,349,133.87
Interest on investments	43,044,443.13	38,704,585.56
Purchase of investments	(127,616,406.28)	(112,450,295.55)
Net cash provided (used) by investing activities	$ 68,479,249.04	$ 16,603,423.88
Net increase (decrease) in cash and cash equivalents	$ 40,081,653.35	$ (18,908,968.54)
Cash and cash equivalents at beginning of year	369,837,058.94	388,746,027.48
Cash and cash equivalents at end of year	$ 409,918,712.49	$ 369,837,058.94

Statement of Cash Flows

For the years ended June 30, 2003, and June 30, 2002

	2003	2002
RECONCILIATION OF NET OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating loss	$ (561,470,673.86)	$ (491,835,228.16)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation expense	56,983,060.02	54,146,985.75
Other adjustments		472,827.11
Changes in assets and liabilities:		
Receivables, net	5,169,083.43	(14,618,397.39)
Inventories	2,066,493.89	(706,745.03)
Prepaid expenses and deferred charges	(303,314.95)	(802,529.73)
Accrued interest receivable	603,597.72	717,350.12
Accounts payable	1,927,360.63	(12,958,195.29)
Accrued liabilities	(777,360.26)	15,730,038.07
Deferred revenue	1,071,789.31	5,151,799.28
Deposits	2,053,160.07	532,046.97
Compensated absences	4,567,830.27	4,467,709.13
Other additions:		
Loans to students	832,699.31	(554,608.90)
Net cash provided (used) by operations	$ (487,276,274.42)	$ (440,256,948.07)

The notes to the financial statements are an integral part of this statement.

The University of Tennessee Notes to the Financial Statements June 30, 2003, and June 30, 2002

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

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

The University of Tennessee System is comprised of the University of Tennessee, the University of Tennessee at Chattanooga, and the University of Tennessee at Martin. The University of Tennessee is comprised of the University of Tennessee Knoxville campus; the University of Tennessee - Center for the Health Sciences, including the Memphis campus, the Memorial Research Center at Knoxville, Clinical Education Centers at Chattanooga and Knoxville, Family Practice Centers at Jackson, Knoxville, and Memphis, and a hospital in Memphis; the University of Tennessee Space Institute at Tullahoma; the University of Tennessee Institute of Agriculture, including the College of Agriculture at Knoxville, the Agricultural Experiment Stations, the Agricultural Extension Service, and the College of Veterinary Medicine at Knoxville; the Institute for Public Service, which includes the County Technical Assistance Service and the Municipal Technical Advisory Service; and the University-Wide Administration. The university is governed by a board of 23 members, including one student and one faculty member, all either *ex officio* or appointed by the governor, who also serves as chairman. The president is the chief executive officer of the university system.

The university benefits from a number of organizations that exist mainly to support the various purposes and activities of the university system. These organizations include student organizations; the University Faculty Association; the University of Tennessee Foundation; UT Medical Group, Inc.; the University of Chattanooga Foundation; the Tennessee Geographic Alliance; Tristar Enterprises; the University of Tennessee Research Foundation; and the Tennessee 4-H Club Foundation. In addition, the university is a participant in a joint venture with Battelle Memorial Institute called UT-Battelle, LLC, which was established for the sole purpose of management and operation of the Oak Ridge National Laboratory for the U. S. Department of Energy. Each of these organizations is legally independent. Consequently, none of these organizations is included in the financial statements of the university.

B. Basis of Presentation

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. This was followed by GASB Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities*. The financial statement presentation required by those statements provides a comprehensive, entity-wide perspective of the university's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows, and replaces the fund-group perspective previously required.
A significant accounting change, adoption of depreciation on capital assets, was made in order to comply with the new requirements.

C. Basis of Accounting

For financial statement purposes, the university is considered a special-purpose government engaged only in business-type activities. Accordingly, the financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. All significant interfund transactions have been eliminated.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). The university has the option of following private-sector guidance issued subsequent to November 30, 1989, subject to the above limitation. The university has elected not to follow private-sector guidance issued subsequent to November 30, 1989.

Amounts reported as operating revenues include: 1) tuition and fees, net of waivers and discounts; 2) federal appropriations; 3) federal, state, local, and private grants and contracts; 4) sales and services of auxiliary enterprises; 5) sales and services of the university's hospital; and 6) other sources of revenue. Operating expenses for the institution include: 1) salaries and wages; 2) employee benefits; 3) scholarships and fellowships; 4) depreciation; and 5) utilities, supplies, and other services.

All other activity is nonoperating in nature. This activity includes: 1) state and local appropriations for operations; 2) investment income; 3)bond issuance costs; 4) interest on capital asset-related debt; 5) non-operating grants and contracts; and 6) gifts.

When both restricted and unrestricted resources are available for use, generally it is the institution's policy to use the restricted resources first.

D. Inventories

Inventories are valued at the lower of cost or market, based on the retail, specific identification, average cost, or first-in, first-out basis.

E. Investments

Investments in commercial paper are reported at amortized cost at June 30, 2003. All other investments are reported at fair value.

F. Capital Assets

Capital assets, which include property, plant, equipment, software, and library holdings, are reported in the statement of net assets at historical cost or at fair value at date of donation, less accumulated depreciation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' useful lives are not capitalized.

A capitalization threshold of $100,000 is used for buildings, land improvements, and infrastructure. Equipment and software are capitalized when the unit acquisition cost is $5,000 or greater and the estimated useful life is one year or more. The capitalization threshold for additions and improvements to buildings, infrastructure, and land improvements is also $100,000.

These assets, with the exception of land, are depreciated using the straight-line method over the estimated useful lives of the assets, which range from 5 to 40 years.

G. Accounts Payable

Included in accounts payable are checks payable in the amount of $14,513,003.51 as of June 30, 2003. These amounts represent the sum of checks written in excess of the university's checking account balance because of the use of a controlled disbursement account. In this way, the university maximizes interest income by transferring from an investment account only funds necessary to cover the checks that clear the bank daily.

H. Compensated Absences

The university's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. Generally, all permanent full-time employees and certain part-time employees are entitled to accrue and carry forward calendar year maximums of 42 days annual vacation leave, except nine-month faculty members who do not accrue annual leave. The amount of these liabilities and their related benefits are reported in the statement of net assets.

I. Net Assets

The institution's net assets are classified as follows:

INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT: This represents the institution's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

EXPENDABLE RESTRICTED NET ASSETS: Expendable restricted net assets include resources in which the university is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

NONEXPENDABLE RESTRICTED NET ASSETS: Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may be expendable or added to principal.

UNRESTRICTED NET ASSETS: Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and the sales and services of educational departments, auxiliary enterprises, and the university's hospital. These resources are used for transactions relating to the educational and general operations of the institution, and may be used at the discretion of the institution to meet current expenses for any purpose.

J. Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the university and the amount that is paid by the student and/or third parties making payments on the student's behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the institution's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees, and other student charges, the institution has recorded a scholarship discount and allowance.

K. Income Taxes

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

Note 2: Deposits and Investments

Investment Policy. The University of Tennessee maintains a cash management investment pool that is available for use by all fund groups. State statutes and university investment policies authorize the university's cash management pool to invest in collateralized Tennessee bank or savings and loan association certificates of deposit, U.S. Treasury obligations, U.S. government agency obligations, repurchase agreements of those securities, highest quality commercial paper, prime bankers' acceptances, and money market mutual funds meeting certain criteria.

In accordance with state statutes, commercial banks and savings and loan associations that do not participate in the State of Tennessee Collateral Pool for Public Deposits must pledge securities with third parties as collateral to secure university time and demand deposits. Market values of these securities are regularly monitored to ascertain that 105% of university deposits, less the amounts protected by the Federal Deposit Insurance Corporation, are secured.

Cash and Cash Equivalents. In addition to petty cash and demand deposits, this classification includes instruments which are readily convertible to known amounts of cash. At June 30, 2003, cash and cash equivalents consisted of $12,700,145.01 in bank accounts, $1,480,898.67 of petty cash on hand, $300,000.00 of certificates of deposit, and $359,891,706.55 in the university's cash management investment pool. At June 30, 2002, cash and cash equivalents consisted of $19,168,603.03 in bank accounts, $1,256,697.12 of petty cash on hand, and $344,641,163.04 in the university's cash management investment pool.

Additionally, the university maintains custodial accounts at First Tennessee Bank for funds contractually managed by independent investment counsel. In accordance with the custody agreement, First Tennessee Bank placed cash equivalents of $35,545,962.26 at June 30, 2003, and $4,770,595.75 at June 30, 2002, in the bank's money market mutual fund.

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

Some of the university's bank accounts are in financial institutions which participate in the bank collateral pool administered by the Treasurer of the State of Tennessee. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 2003, the carrying amount of the university's deposits was $13,000,145.01, and the bank balance including accrued interest was $4,997,890.30. The entire bank balance was category 1.

At June 30, 2002, the carrying amount of the university's deposits was $19,168,603.03, and the bank balance including accrued interest was $19,839,299.36. The entire bank balance was category 1.

During the year ended June 30, 2003, the university had uncollateralized deposits on several days, ranging from $8,544.25 to $ 2,259,389.73.

During the year ended June 30, 2002, the university had uncollateralized deposits on several days, ranging from $88,797.96 to $ 4,908,084.90.

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

Cash Management Investment Pool. The cash management investment pool consists of marketable securities and government repurchase agreements as previously described. The reported amount of the cash management pool at June 30, 2003, and June 30, 2002, was $359,891,706.55 and $344,641,163.04, respectively. The cost of the cash management pool at June 30, 2003, and June 30, 2002, was $357,271,785.92 and $340,555,735.26, respectively. Management has elected to classify all securities in the cash management investment pool as cash equivalents. The reported amount of securities in the pool with a maturity date of three months or less from the date of purchase at June 30, 2003, was $108,310,658.33. The cost of these same securities at June 30, 2003, was $108,182,794.37. The reported amount of securities in the pool with a maturity date of three months or less from the date of purchase at June 30, 2002, was $71,906,888.63. The cost of these same securities at June 30, 2002, was $71,800,173.90. The securities in the pool are categorized on the following schedule, listed as cash equivalents, to indicate the level of risk assumed by the university. The university's standard "Master Repurchase Agreements" require that the securities underlying repurchase agreements have fair value equal to or exceeding 100% of the cost of the repurchase agreement and that the securities be delivered to its agent's trust account at the Federal Reserve Bank - Memphis. The fair value of securities underlying repurchase agreements was $3,400,000.00 at June 30, 2003, and $18,422,523.77 at June 30, 2002.

Investments. The university's investments are categorized below to indicate the level of custodial risk assumed by the university at year end. Category 1 consists of insured or registered investments or investments for which the securities are held by the university or its agent in the university's name. Category 2 consists of uninsured or unregistered investments for which the securities are held by the counterparty's trust department or agent in the university's name. Category 3 consists of uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the university's name.

Included in the assets with trustees at June 30, 2002, are securities held in debt service reserve at First Tennessee Bank totaling $150,157.84.

The university's assets subject to long term investment (endowments and annuity and life income assets) use various external managers and funds consistent with investment objectives for those invested assets. A significant part of these assets is the university's Consolidated Investment Pool which is a carefully crafted portfolio of broadly diversified asset classes including an alternative asset class comprised of hedge funds. Currently, the Consolidated Investment Pool invests in five hedge funds: the Commonfund Global Hedged Partners, the Balentine Hedge Fund Select, the Gerber/Taylor Offshore Fund, Ltd, the Maplewood Associates II, L.P., and the Pointer Offshore, Ltd. Fund. The hedge fund investments expose the university to significant amounts of credit risk and market risk by trading or holding derivative securities and by leveraging the securities in the fund. These investments are briefly described as follows.

Commonfund Global Hedged Partners,LLC, was created in 2000 as a multimanager fund investing in a diversified group of 17 primarily equity hedge fund managers operating and investing in the United States, Europe, and Asia. Investment strategies are predominantly long/short but also include international and

JUNE 30, 2003

	Category 1	Category 2	Category 3	Reported Amount	Cost
Cash equivalents					
Government securities	$251,581,048.22			$251,581,048.22	$249,088,991.55
Repurchase agreements		$ 3,400,000.00		3,400,000.00	3,400,000.00
Commercial paper	104,910,658.33			104,910,658.33	104,782,794.37
	$356,491,706.55	$3,400,000.00		$359,891,706.55	$357,271,785.92
Investments					
Domestic securities					
Government securities	$ 9,014,603.83	$ 37,849,068.43		$ 46,863,672.26	$ 43,348,416.87
Corporate bonds	2,663,575.14	24,247,030.15		26,910,605.29	25,157,029.52
Corporate stocks	81,805,075.58	6,630,867.01		88,435,942.59	83,394,314.89
Mortgages and notes	1,206,912.51			1,206,912.51	1,119,227.52
Other investments	23,349.53			23,349.53	29,054.00
Assets with trustees			$ 4,408,454.56	4,408,454.56	4,360,420.94
International securities					
Corporate stocks	2,622,422.00	291,297.16		2,913,719.16	2,563,645.31
	$ 97,335,938.59	$ 69,018,262.75	$ 4,408,454.56	$170,762,655.90	$159,972,109.05
	$453,827,645.14	$ 72,418,262.75	$ 4,408,454.56		
University cash equivalents and investments not susceptible to categorization:					
Cash equivalents – assets with First Tennessee Bank as custodian				35,545,962.26	35,545,962.26
Limited partnership-venture capital funds				24,582,083.09	42,557,369.11
Mutual funds				144,091,596.89	142,783,661.21
Investments in hedge funds				54,089,325.00	60,000,000.00
Real estate equity funds				25,613,443.01	22,627,028.15
Real estate gifts				4,827,159.11	5,270,445.67
Total investments and cash equivalents				$819,403,931.81	$826,028,361.37
Less: Cash equivalents				395,437,668.81	392,817,748.18
Total investments				$423,966,263.00	$433,210,613.19

event-driven arbitrage. The university's investment of $20,000,000 was valued at $19,024,040 at June 30, 2003, and $19,877,020 at June 30, 2002.

Balentine Hedge Fund,L.P., was created in 2000 as a multi-manager partnership. Currently, portfolio assets are allocated among 12 managers with 40% of the managers biased toward net long positions in U.S. large capitalization companies and 60% using widely diverse strategies to moderate overall volatility. These strategies include long equity positions, distressed securities, mortgage-backed securities, and private equity. Effective January 1, 2001, the partnership changed its name to Ballentine Hedge Fund Select,L.P. The university's investment of $20,000,000 was valued at $14,311,260 at June 30, 2003, and $15,148,726 at June 30, 2002.

Gerber/Taylor Offshore Fund, Ltd., was created in 2000 as a multi-manager fund that conducts its activities through Gerber/Taylor Partners,L.P. Utilizing the "fund of funds" approach, the fund seeks to identify investment managers or investment pools which implement hedged or market neutral strategies. The university's investment of $5,000,000 was valued at $5,274,500 at June 30, 2003.

Maplewood Associates II, L.P., created in 2001, is a limited partnership managed by Ivy Asset Management Corporation. The partnership seeks above average capital appreciation on portfolio assets while attempting to minimize risk without incurring any unrelated business taxable income. The partnership seeks to achieve this objective with diversified asset management utilizing independent investment managers through non-U.S. investment corporations. Investment strategies include value-oriented equities investing, special situations investing, and relative value trading. The university's investment of $10,000,000 was valued at $10,338,210 at June 30, 2003.

Pointer Offshore, Ltd. Fund was created in 2002 and is managed by Pointer Offshore, LLC. By allocating its assets to a select number of long/short equity-based managers, the fund seeks capital appreciation through a balanced level of risk. The fund is a "fund of funds" that utilizes diversified strategies to achieve its objective. The university's investment of $5,000,000 was valued at $5,141,315 at June 30, 2003.

Note 3: Endowment, Annuity, and Life Income Agreements

There are two categories of university assets which are subject to long-term investment: endowments and amounts held in trust under annuity and life income agreements. The investment of these funds is governed by the gift instrument and the investment policies established by the Board of Trustees.

Effective July 1, 1954, the university adopted the policy of investing endowment assets over which it had full investment discretion (and on which the donor or governing gift instrument does not require separate investment) in a Consolidated Investment Pool. This pooling of investments affords closer supervision of the investment portfolio and provides, regardless of size, the advantages of participation in a well-diversified portfolio of domestic and international equities, private equity, bonds, real estate, and hedge funds. All contributing endowments participate in the income and capital appreciation of the Pool on a per-share basis commensurate with its contribution to the Pool. New endowments purchase shares in the Pool at the end of each month at the then current fair value per share, determined by valuing the Pool at month end fair value and dividing by the number of pool units outstanding.

If a donor has not provided specific instructions, state law permits the university to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. When administering its power to spend net appreciation, the university is required to consider the university's long-term and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions. Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established.

JUNE 30, 2002

	Category 1	Category 2	Category 3	Reported Amount	Cost
Cash equivalents					
Government securities	$235,851,073.59			$235,851,073.59	$232,039,352.74
Repurchase agreements	16,000,000.00	$ 2,000,000.00		18,000,000.00	18,000,000.00
Commercial paper	90,790,089.45			90,790,089.45	90,516,382.52
	$342,641,163.04	$ 2,000,000.00		$344,641,163.04	$340,555,735.26
Investments					
Domestic securities					
Government securities	$ 8,167,250.35	$ 37,813,080.14		$ 45,980,330.49	$ 42,931,731.08
Corporate bonds	4,124,930.21	32,269,301.05		36,394,231.26	36,019,872.39
Corporate stocks	119,382,907.29	5,651,149.03		125,034,056.32	131,514,349.41
Mortgages and notes	1,199,521.42			1,199,521.42	1,176,247.37
Other investments	168,538.06			168,538.06	183,070.74
International securities					
Corporate stocks	591,740.00			591,740.00	545,037.97
Assets with trustees			$4,442,321.32	4,442,321.32	4,551,601.03
	$133,634,887.33	$75,733,530.22	$4,442,321.32	$213,810,738.87	$216,921,909.99
	$476,276,050.37	$ 77,733,530.22	$4,442,321.32		
University cash equivalents and investments not susceptible to categorization:					
Cash equivalents – assets with First Tennessee Bank as custodian				4,770,595.75	4,770,595.75
Limited partnership-venture capital funds				29,543,346.75	38,994,767.92
Mutual funds				143,318,009.82	146,547,931.14
Investments in hedge funds				35,025,746.00	40,000,000.00
Real estate equity funds				21,794,167.92	18,316,724.89
Real estate gifts				5,109,758.10	6,270,244.67
Total investments and cash equivalents				$ 798,013,526.25	$812,377,909.62
Less: Cash equivalents				349,411,758.79	345,326,331.01
Total investments				$448,601,767.46	$467,051,578.61

The university chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the university, five percent of a three-year moving average of the fair value of endowment investments has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending plan exceeds the investment income. At June 30, 2003, net appreciation of $93,398,134.90 is available to be spent, of which $88,761,939.85 is restricted to specific purposes. At June 30, 2002, net appreciation of $117,997,386.12 was available to be spent, of which $113,006,575.21 was restricted to specific purposes. The per unit fair value for participating endowments was $3.018461 at June 30, 2003, and $3.229534 at June 30, 2002. Income distributed was $.18873 per share in 2003, or $23,197,139.61 and $.18848 per share in 2002, or $21,833,345.92.

The university's consolidated investment pool is invested to maximize total return rather than current income consistent with provisions of the Uniform Management of Institutional Funds Act adopted by the State of Tennessee in 1973. During the past three years, the total return for the consolidated investment pool has been negative or below the defined spending plan for the participating endowments. As a result, there were 746 true endowments at June 30, 2003, that had a market value of $83,996,721.67 and historic gift value of $96,604,046.11, yielding a net "underwater" position of $12,607,324.44. Since the principal amount of a true endowment is categorized as a restricted non-expendable net asset, this depreciation of market value has been charged to unrestricted net assets for financial statement presentation. There were 669 true endowments at June 30, 2002, that had a market value of $73,369,659.59 and a historic gift value of $81,179,406.06, yielding a net "underwater" position of $7,809,746.47. See also Note 20.

All endowments not invested as part of the Consolidated Investment Pool are separately invested to observe requirements or limitations imposed by donors. Income earned and distributed on separately invested endowments amounted to $630,755.29 for 2003, and $857,163.19 for 2002.

Annuity and life income amounts held in trust are separately invested entities requiring detailed accounting to reflect specific compliance with terms of each trust and applicable federal regulations. The investment objectives as reflected in each agreement vary widely since they are affected by the age, income level, and needs of the beneficiaries as well as motives and objectives of the donors. Interest, dividend, rent, and royalty income realized on these funds for 2003 amounted to $1,894,002.88 and, for 2002, amounted to $2,321,619.45.

Note 4: Accounts, Notes, and Grants Receivable

Accounts, notes, and grants receivable included the following at June 30, 2003:

Student accounts receivable	$ 6,850,844.78
Grants receivable	102,259,926.60
Notes receivable	7,466,298.33
Pledges receivable	77,860,277.96
State capital outlay receivable	4,029,835.46
TSSBA debt proceeds receivable	4,084,378.00
Other receivables	53,718,285.07
Subtotal	$ 256,269,846.20
Less allowance for doubtful accounts	(11,161,427.40)
Total	$ 245,108,418.80

Pledges receivable are promises of private donations that are reported as accounts receivable and revenue, net of an estimated uncollectible allowance of $1,503,086.81.

Federal Perkins Loan Program funds included the following at June 30, 2003:

Perkins loans receivable	$ 29,251,385.31
Less allowance for doubtful accounts	-
Total	$ 29,251,385.31

Accounts, notes, and grants receivable included the following at June 30, 2002:

Student accounts receivable	$ 5,314,582.32
Grants receivable	110,903,868.45
Notes receivable	5,279,021.23
Pledges receivable	42,343,911.71
State capital outlay receivable	11,127,209.61
TSSBA debt proceeds receivable	5,403,996.36
Other receivables	65,130,281.15
Subtotal	$ 245,502,870.83
Less allowance for doubtful accounts	(20,189,241.49)
Total	$ 225,313,629.34

Pledges receivable are promises of private donations that are reported as accounts receivable and revenue, net of an estimated uncollectible allowance of $953,740.91.

Federal Perkins Loan Program funds included the following at June 30, 2002:

Perkins loans receivable	$ 32,812,165.49
Less allowance for doubtful accounts	(833,686.81)
Total	$ 31,978,478.68

Note 5: Capital Assets

Capital asset activity for the year ended June 30, 2003, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 45,102,339.68	$ 3,845,205.50		$ (590,000.00)	$ 48,357,545.18
Land improvements & infrastructure	52,265,079.13	2,017,813.82	$ 2,127,572.79	(31,086.40)	56,379,379.34
Buildings	954,252,646.56	48,017,736.34	44,170,868.43	(1,966,809.11)	1,044,474,442.22
Equipment	241,352,039.20	28,563,633.96	11,112.30	(19,215,765.96)	250,711,019.50
Software	14,759,841.48	698,427.14	3,392,183.31	–	18,850,451.93
Library holdings	79,991,937.80	11,372,033.79	–	(6,555,035.12)	84,808,936.47
Projects in progress	99,222,586.11	59,867,042.02	(49,701,736.83)	(168,950.81)	109,218,940.49
Total	$1,486,946,469.96	$154,381,892.57	$ –	$(28,527,647.40)	$1,612,800,715.13
Less accumulated depreciation:					
Land improvements & infrastructure	(22,756,984.28)	(3,308,010.83)	–	-	(26,064,995.11)
Buildings	(426,842,975.34)	(22,052,225.70)	–	407,175.55	(448,488,025.49)
Equipment	(147,429,965.13)	(19,785,598.20)	–	15,662,144.05	(151,553,419.28)
Software	(3,876,549.40)	(3,797,889.85)	–	152.53	(7,674,286.72)
Library holdings	(33,658,458.59)	(8,039,335.44)	–	6,555,035.12	(35,142,758.91)
Total accumulated depreciation	$(634,564,932.74)	$(56,983,060.02)	$ –	$ 22,624,507.25	$(668,923,485.51)
Capital assets, net	$852,381,537.22	$ 97,398,832.55	$ –	$ (5,903,140.15)	$943,877,229.62

Note 6: Operating Leases

The university has entered into various operating leases for buildings and equipment. It is expected that in the normal course of business, such leases will continue to be required. Net expenses for rentals under leases were $8,003,773.58 for the year ended June 30, 2003, and $7,895,144.03 for the year ended June 30, 2002.

The following is a schedule of future minimum rental payments required under noncancelable operating leases that have initial or remaining lease terms of more than one year at June 30, 2003. Only one such lease is currently in effect. Annual payments on this particular lease fluctuate in direct proportion to changes in the Consumer Price Index as required by contractual agreement. The schedule at right is calculated based on the current Consumer Price Index.

Year Ending June 30:	
2004	$ 11,410.00
2005	11,410.00
2006	11,410.00
2007	11,410.00
2008	11,410.00
2009-2012	45,640.00
Total minimum payments required	$ 102,690.00

Note 7: Long-term Liabilities

Long-term liability activity for the year ended June 30, 2003, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term liabilities:					
Bonds	$194,907,564.22	$ 16,172,849.34	$ 13,506,220.23	$197,574,193.33	$ 13,850,879.95
Commercial paper	7,456,509.58	13 424,084.09	2,720,590.15	18,160,003.52	–
Total TSSBA indebtedness	$202,364,073.80	$ 29,596,933.43	$ 16,226,810.38	$215,734,196.85	$ 13,850,879.95
Notes	10,490.90	–	10,490.90	–	–
Compensated absences	59,189,554.16	40,729,170.73	36,161,340.46	63,757,384.43	36,161,340.46
Total long-term liabilities	$261,564,118.86	$ 70,326,104.16	$ 52,398,641.74	$279,491,581.28	$ 50,012,220.41
Other noncurrent liabilities:					
Deferred revenue	15,500,438.71	–	–	15,500,438.71	
Due to grantors	34,507,427.06	2,000,794.70	187,232.17	36,320,989.59	
Annuities payable	8,578,451.55	1,334,566.73	1,332,314.59	8,580,703.69	
Totals	$320,150,436.18	$ 73,661,465.59	$ 53,918,188.50	$ 39,893,713.27	

Long-term liability activity for the year ended June 30, 2002, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term liabilities:					
Bonds	$164,135,512.00	$ 61,449,853.53	$ 30,677,801.31	$194,907,564.22	$ 13,506,220.25
Commercial paper	27,211,183.50	4,519,042.99	24,273,716.91	7,456,509.58	–
Total TSSBA indebtedness	$191,346,695.50	$ 65,968,896.52	$ 54,951,518.22	$202,364,073.80	$ 13,506,220.25
Notes	31,009.87	–	20,518.97	10,490.90	10,490.90
Compensated absences	54,721,845.03	28,385,752.15	23,918,043.02	59,189,554.16	23,918,043.02
Total long-term liabilities	$246,099,550.40	$ 94,354,648.67	$ 78,890,080.21	$261,564,118.86	$ 37,434,754.17
Other noncurrent liabilities:					
Deferred revenue	15,500,438.71	–	–	15,500,438.71	
Due to grantors	33,764,403.58	877,951.02	134,927.54	34,507,427.06	
Annuities payable	9,709,264.76	489,074.75	1,619,887.96	8,578,451.55	
Totals	$305,073,657.45	$ 95,721,674.44	$ 80,644,895.71	$320,150,436.18	

Note 7 continued on page 18

Note 5: Capital Assets, continued

Capital asset activity for the year ended June 30, 2002, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 45,132,874.38	$ 228,121.30		$ (258,656.00)	$ 45,102,339.68
Land improvements & infrastructure	58,041,289.55	58,235.37	$ (5,834,445.79)	–	52,265,079.13
Buildings	902,485,207.30	4,151,045.99	47,616,393.27	–	954,252,646.56
Equipment	224,451,240.34	29,304,724.57	–	(12,403,925.71)	241,352,039.20
Software	7,587,028.85	2,919,611.18	4,253,201.45	–	14,759,841.48
Library holdings	75,649,507.44	9,652,280.79	–	(5,309,850.43)	79,991,937.80
Projects in progress	87,843,473.10	57,936,820.97	(46,035,148.93)	(522,559.03)	99,222,586.11
Total	$1,401,190,620.96	$104,250,840.17	$ –	$(18,494,991.17)	$1,486,946,469.96
Less accumulated depreciation:					
Land improvements & infrastructure	(20,155,628.34)	(2,601,355.94)	–	–	(22,756,984.28)
Buildings	(406,381,057.57)	(20,461,917.77)	–	–	(426,842,975.34)
Equipment	(137,207,827.19)	(19,684,684.53)	–	9,462,546.59	(147,429,965.13)
Software	(78,812.08)	(3,797,889.85)	–	152.53	(3,876,549.40)
Library holdings	(31,367,171.36)	(7,601,137.66)	–	5,309,850.43	(33,658,458.59)
Total accumulated depreciation	$(595,190,496.54)	$(54,146,985.75)	$ –	$ 14,772,549.55	$(634,564,932.74)
Capital assets, net	$806,000,124.42	$ 50,103,854.42	$ –	$ (3,722,441.62)	$852,381,537.22

Note 7 continued from page 17

Tennessee State School Bond Authority (TSSBA) bonds, with interest rates ranging from 3.0% to 7.75%, are due serially to 2032 and are secured by pledges of the facilities' revenue to which they relate and certain other revenues and fees of the university, including state appropriations. The total outstanding bonded indebtedness for the university was $215,243,397.96 as of June 30, 2003, and was $228,749,618.01 at June 30, 2002. The total bonded indebtedness reported on the statement of net assets at June 30, 2003, is shown net of unaccreted bonds payable of $3,846,215.04, assets of $9,910,725.81 held by the Tennessee State School Bond Authority, and unspent bond proceeds of $3,912,263.78. The total bonded indebtedness reported on the statement of net assets at June 30, 2002, is shown net of unaccreted bonds payable of $4,862,691.80, assets of $9,911,109.61 held by the Tennessee State School Bond Authority, and unspent bond proceeds of $19,068,252.38.

The university's debt service requirements to maturity for all bonds at June 30, 2003, are as follows:

Year ending June 30:	Principal	Interest and Administrative Fees
2004	$ 13,850,879.95	$ 10,923,409.42
2005	12,285,795.27	10,335,973.99
2006	11,218,017.97	9,817,848.27
2007	11,625,382.34	9,353,448.27
2008	11,137,268.35	8,884,073.23
2009-2013	49,833,833.15	37,175,657.22
2014-2018	37,488,889.50	25,376,560.15
2019-2023	32,466,233.39	14,793,142.24
2024-2028	23,529,826.69	6,775,420.19
2029-2032	11,807,271.35	1,545,368.28
	$215,243,397.96	$134,980,901.26

Commercial Paper Program

The Tennessee State School Bond Authority also authorized the issuance of commercial paper to finance costs of various capital projects. At June 30, 2003, $18,160,003.52 was issued for projects at the University of Tennessee. At June 30, 2002, $7,456,509.58 was issued for projects at the University of Tennessee.

For the commercial paper program, the Tennessee State School Bond Authority maintains an interest rate reserve fund. The university contributes amounts to the reserve fund based on the amounts drawn. The principal of the reserve will be contributed to pay off notes or credited back to the university when the notes are converted to bonds. The interest earned on the reserve is used to pay interest due during the month.

NOTE 8: Pension Plans

A. Defined Benefit Plans

1. Tennessee Consolidated Retirement System

Plan Description

The University of Tennessee contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly. The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor, Andrew Jackson Building, Nashville, Tennessee, 37243-0230 or by calling (615) 741-8202.

Funding Policy

Plan members are noncontributory. The university is required to contribute at an actuarially determined rate. The current rate is 7.29% of annual covered payroll. Contribution requirements for the university are established and may be amended by the TCRS' Board of Trustees. The university's contributions to TCRS for the years ended June 30, 2003, 2002, and 2001, were $18,125,448.74, $14,844,243.45, and $14,318,076.01, respectively. Contributions met the requirements for each year.

2. Federal Retirement Program

Plan Description

The University of Tennessee contributes to the Federal Retirement Program, a cost-sharing multiple-employer defined benefit pension plan administered by the Civil Service Retirement System (CSRS) for participants employed prior to January 1, 1984, and the Federal Employees Retirement System (FERS) for participants employed after December 31, 1983. Both systems provide retirement, death, and disability benefits, as well as annual cost-of-living adjustments, to plan members and their beneficiaries. All regular full-time employees of the University of Tennessee Agricultural Extension Service who hold federal appointments for 51% or more of their time are required to participate in either one of the two Federal Retirement Programs. For both systems, benefit provisions are established in federal statutes. Federal statutes are amended by the U.S. Congress.

CSRS and FERS issue publicly available financial reports that include financial statements and required supplementary information. These reports may be obtained by writing to the Office of Personnel Management, Retirement Information Office, P.O. Box 45, Boyers, PA 16017-0045, or by calling (202) 606-0500.

Funding Policy

Participating employees, with some exceptions, are required by federal statute to contribute 7.0% of covered salaries to the CSRS plan. The university is currently required to contribute 7.0%. Contributions to CSRS for the year ended June 30, 2003, were $1,435,605.13, which consisted of $761,592.31 from the university and $674,012.82 from the employees; contributions for the year ended June 30, 2002, were $1,368,041.75, which consisted of $706,073.01 from the university and $661,968.74 from the employees; and contributions for the year ended June 30, 2001, were $1,802,981.46, which consisted of $996,255.77 from the university and $806,725.69 from the employees.

Federal statute requires employees participating in FERS to contribute 0.8% of their salaries to the Basic Benefit Plan. The university is required to contribute 10.7%. In addition, the university is required to contribute 1% of each participant's salary to the Thrift Savings Plan plus up to an additional 4% depending upon employees' contributions, which can range from 0 to 10% of their salaries. Contributions for the Basic Benefit Plan were $975,623.14 for the year ended June 30, 2003, which consisted of $67,869.03 from employees and $907,754.11 from the university; $995,187.77 for the year ended June 30, 2002, which consisted of $69,230.98 from employees and $925,956.79 from the university; and $1,017,264.48 for the year ended June 30, 2001, which consisted of $87,035.01 from employees and $930,229.47 from the university. Contributions for the Thrift Savings Plan were $980,054.00 for the year ended June 30, 2003, which consisted of $595,517.00 from employees and $384,537.00 from the university; $953,719.31 for the year ended June 30, 2002, which consisted of $572,187.00 from employees and $381,532.31 from the university; and $898,677.53 for the year ended June 30, 2001, which consisted of $562,632.00 from employees and $336,045.53 from the university. Contributions met the requirements for each year.

B. Defined Contribution Plans

1. Optional Retirement Plans (ORP)

The university contributes to three defined contribution plans: Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF), Aetna Life Insurance and Annuity Company, and Variable Annuity Life

Insurance Company (VALIC). These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly.

Plan members are noncontributory. The university contributes an amount equal to 10% of the employee's base salary below the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the university to the plans for the year ended June 30, 2003, was $35,777,441.20 and for the year ended June 30, 2002, was $33,798,169.77. Contributions met the requirements for each year.

2. Joint Contributory Retirement System Plan A (JCRS-A)

The Joint Contributory Retirement System Plan A (JCRS-A) is a defined contribution plan with minimum benefits and is administered by the Tennessee Consolidated Retirement System and TIAA-CREF. Employees who were enrolled in the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF) before July 1977 are members of JCRS-A. Enrollment in this plan for new employees has been closed since July 1977. Although JCRS-A members participate in Aetna, TIAA-CREF, or VALIC, they may also, under certain circumstances, receive a supplementary benefit from the State of Tennessee. Plan provisions are established by *Tennessee Code Annotated*, Chapter 35, Part 4.

State statutes are amended by the Tennessee General Assembly. Plan members are noncontributory. The university's contributions for JCRS-A members were calculated using the base salary amounts of $50,242,761.15 for fiscal year 2003, and $52,516,763.29 for fiscal year 2002. Contribution requirements are established and amended by state statute. The contributions are included in the ORP amounts. University contributions to fund the state supplemental benefit totaled $3,662,932.19 in fiscal year 2003, and $3,250,790.81 in fiscal year 2002. Contributions met the requirements for each year.

C. Deferred Compensation Plans

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

Since Section 457 and 401(k) plan assets remain the property of the contributing employees and a third party administrator is used to administer the plan assets, they are not presented in the State of Tennessee financial statements. Effective January 1996, the university began providing a $20 monthly match from unrestricted funds for employees making a minimum monthly contribution of $20 to the Section 401(k) plan. During the year ended June 30, 2003, contributions totaling $9,710,479.63 were made by employees participating in the plan, with a related match of $1,885,822.55 made by the university. During the year ended June 30, 2002, contributions totaling $9,101,147.15 were made by employees participating in the plan, with a related match of $1,920,510.28 made by the university. In accordance with the *IRC*, employee contributions through the 403(b) plan remain the assets of the employee. In addition, the amounts withheld from employees are remitted directly to third-party administrators. Therefore, these employee contributions are not reflected in the university's financial statements.

Note 9: Other Post-Employment Benefits

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible university retirees. This benefit is provided by and administered by the State of Tennessee. The university assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 312 Eighth Avenue North, 14TH Floor, William R. Snodgrass Tennessee Tower, Nashville, TN 37243-0298 or by calling (615) 741-2140.

Note 10: Affiliated Entities

The University of Chattanooga Foundation, Inc., a private, nonprofit corporation, maintains an endowment fund of which the University of Tennessee at Chattanooga is the sole income beneficiary. The financial records, investments, and other financial transactions of the foundation are not managed by the university and accordingly are not included in these financial statements except for certain endowment assets. As reported in the University of Chattanooga Foundation's most recently audited financial report, at June 30, 2003, the foundation's assets totaled $205,080,390, liabilities were $100,722,995, and the net assets amounted to $104,357,395.

The University of Tennessee Foundation, Inc., a private, nonprofit corporation, was created in October of 2000, with its offices located in Knoxville, Tennessee. The foundation was formed to provide flexibility for the university in carrying out its missions of teaching, research, and public service.

The University of Tennessee board of trustees approved a resolution at its April 2001 board meeting authorizing the University of Tennessee Foundation to accept private gifts on behalf of the university, effective July 1, 2001.

The university holds the endowment assets of the foundation. They are invested in the university's consolidated investment pool. At June 30, 2003, they totaled $983,346.01, and are reported on the university's statement of net assets as deposits held in custody for others. The other assets and other financial transactions of the foundation are not managed by the university and accordingly are not included in the university's financial statements. As reported in the University of Tennessee Foundation's most recently audited financial report, at June 30, 2003, the foundation's assets totaled $67,835,660.32, liabilities were $62,044,331.06, and the net assets amounted to $5,791,329.26.

Note 11: Chairs of Excellence

Since fiscal year 1985, the Tennessee General Assembly has appropriated $22 million to a Chairs of Excellence Endowment for the University of Tennessee. The appropriations provided that the Chairs of Excellence Endowment be established as an irrevocable trust with the State Treasurer and required the university to match the appropriation on a dollar-for-dollar basis. The university has fully matched 50 chairs as of June 30, 2003. The financial statements of the university include as expenditures the amounts expended in the current year to match the state appropriations. The university's statement of net assets does not include the amounts held in trust by the State Treasurer. At June 30, 2003, the amounts held in trust totaled $97,159,462.90 at fair value.

Note 12: Joint Venture

The university is a participant in a joint venture with Battelle Memorial Institute for the sole purpose of management and operation of the Oak Ridge National Laboratory (ORNL) for the U. S. Department of Energy. Each entity has a 50% interest in the venture, each having provided an initial investment of $125,000.00. The university's equity interest was $2,043,045.23 at June 30, 2003, and $1,789,206.24 at June 30, 2002. The university and Battelle each receive a 50% distribution of the ORNL management fee after shared expenses are deducted. The fee distribution for the year ended September 30, 2002, to the university was $1,168,945.22. During the year ended June 30, 2003, the university had expenses of $14,420,679.42 under contracts with UT-Battelle. During the year ended June 30, 2002, the university had expenses of $12,121,816.00 under contracts with UT-Battelle. Amounts receivable from UT-Battelle under these contracts totaled $7,000,392.22 at June 30, 2003, and $3,820,279.00 at June 30, 2002. To review the audit report of UT-Battelle, please contact the Controller's Office, The University of Tennessee, 201 Andy Holt Tower, Knoxville, Tennessee 37996-0100.

Note 13: Insurance-related Activities

The state purchases commercial insurance for real property losses above **$5 million per year** and surety bond coverage on the state's officials and employees. In the past three fiscal years, the state has had no claims filed with the commercial insurer. Designations for casualty losses in the amount of $3.271 million for incurred losses at June 30, 2003, were established in the state's general fund to provide for any property losses not covered by the commercial insurance.

At June 30, 2003, the scheduled coverage for the university was $2,249,267,800 for buildings and $791,102,600 for contents. At June 30, 2002, the scheduled coverage for the university was $2,228,094,100 for buildings and $766,847,300 for contents.

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

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

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The university participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

Note 14: Contingencies and Commitments

A. Construction Commitment

The university has contractual obligations for the construction of new buildings and additions to and renovations of existing buildings. The outstanding commitments under such contracts at June 30, 2003, were $48,564,699.08 and at June 30, 2002, were $58,886,211.99.

B. Sick Leave

The university records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent due to illness or injury, there is no liability for sick leave at June 30, 2003, or at June 30, 2002. The amount of unused sick leave was $193,729,219.40 at June 30, 2003, and $188,177,974.57 at June 30, 2002.

C. Grants and Contracts

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

D. Nonvested Equipment

Equipment in the possession of the university valued at $3,204,602.91 as of June 30, 2003, and at $4,148,188.59 as of June 30, 2002, is not reflected in the financial statements. This equipment was purchased with restricted grant and contract funds and other funds, and title has not yet transferred to the university.

E. Litigation

The university is involved in several lawsuits, none of which are expected to have a material effect on the financial position of the university.

Note 15: Lease and Transfer of UT Memorial Research Center and Hospital

On July 29, 1999, the university transferred ownership and control of its hospital located in Knoxville to University Health Systems, Inc.,(UHS), an independent, private, not-for-profit organization operating under its own *Internal Revenue Code*, Section 501(c)(3) designation. The lease and transfer of the hospital from the university to UHS was accomplished through three main agreements: the Lease and Transfer Agreement, the Employee Services Agreement, and the Affiliation Agreement. Each of these agreements is summarized below.

Lease and Transfer Agreement. Pursuant to the enabling legislation, Tennessee Code Annotated, Section 49-9-112 and Section 49-9-1301 et. seq., UHS leased from the university the real property of the existing hospital and the Graduate School of Medicine.(See also Note 16.) The term of the lease is 50 years. The university also transferred to UHS all operating assets of the hospital. The consideration for the lease of the real property and transfer of the operating assets was payment by UHS of a) a sum sufficient to economically defease all of the debt issued by the Tennessee State School Bond Authority in the amount of $149,080,353.69, b) $25,000,000.00 paid to the university at closing, and c) a variable lease obligation of $50,000,000.00 to be paid to the university over twenty years. UHS assumed all prior hospital liabilities, known or unknown. In 2019, the university and UHS have agreed to negotiate an annual lease payment for the remaining 30 years of the lease.

Employee Services Agreement. UHS has leased from the university all hospital employees as of the date of closing. UHS has paid to the university the amounts incurred by the university to pay the direct expenses relating to the hospital employees, including wages, salaries, and fringe benefits. These payroll expenses on behalf of UHS, totaling $87,154,844.90 in 2003, and $91,146,720.15 in 2002, are reported as operating expenses in the statement of revenues, expenses, and changes in net assets. An equal amount of operating revenue is reported in the non-governmental grants and contracts category. The term of the Employee Services Agreement is 50 years. All persons who began service at the hospital after the date the employee service agreement was signed are employees of UHS and not university employees.

Affiliation Agreement. The university and UHS agreed that UHS will continue to support the Graduate School of Medicine by providing appropriate facilities and resources of the hospital to the faculty and students at the Graduate School of Medicine. UHS agreed to pay the university $1,500,000 at closing for the benefit of the Graduate School of Medicine. In addition, UHS must pay monthly to the university, for the benefit of the Graduate School of Medicine the government funding, direct and indirect medical education funds, TennCare medical education funds, and other medical education funds received by UHS for the benefit of the Graduate School of Medicine. The amount payable by UHS shall be reduced by a) the fair market rental value of the space provided to the Graduate School of Medicine; b) the fair market value of the information system, telecommunication, network infrastructure, and human resource services provided by UHS to the Graduate School of Medicine; and c) retroactive adjustments made by payers to the graduate medical education payments.

Note 16: Capital Lease of Real Property to University Health Systems, Inc.

The university's leasing operations consist exclusively of leasing the real property of the UT Memorial Research Center and Hospital to UHS for a term of 50 years. This lease is pursuant to the Lease and Transfer Agreement described in Note 15. This lease is classified as a direct financing lease. The guaranteed lease payment of $50 million will be paid by UHS in annual payments through 2019. The amount of the annual payments will equal the lesser of 1) 20% of the hospital's net operating profit for the applicable calendar year; or 2) $3 million or the greater amount resulting from the application of an index, as specified in the agreement. The payment of $50 million is guaranteed by December 31, 2019. In 2019, the university and UHS have agreed to negotiate an annual lease payment for the remaining 30 years of the lease. An annual lease payment to the university during the year ended June 30, 2003, totaled $456,818.00.

The university recorded a lease payment receivable in the amount of $18,675,783.73 at June 30, 2003, and $16,272,083.36 at June 30, 2002, which represent the net present value of the guaranteed $50 million discounted at 5.75%. The minimum lease payments to be received amount has been adjusted upward to reflect a contractually required adjustment to the final required lease payment.

	2003	2002
Total minimum lease payments to be received	$ 49,270,627.46	$ 47,948,734.52
Less: Unearned income	(30,594,843.73)	(31,676,651.16)
Net investment in direct financing lease	$ 18,675,783.73	$ 16,272,083.36

Note 17: Management Agreement for William F. Bowld Hospital

On November 1, 2002, the university transferred management and operations of its hospital located in Memphis to Methodist Healthcare-Memphis Hospitals (Methodist), a Tennessee non-profit corporation. The transfer of the hospital management and operations from the university to Methodist was accomplished through three main agreements: the Management Agreement, the Employee Services Agreement, and the Affiliation Agreement. Each of these agreements is summarized below.

Management Agreement. Effective November 1, 2002, the university and Methodist entered into a management agreement whereby Methodist will manage the operations of William F. Bowld Hospital. Bowld Hospital will operate programs for patients with complex chronic diseases, which will include transplant patients. The term of the agreement is from the effective date until the date all services comprising the hospital are relocated to Methodist University Hospital. As consideration for managing the hospital in the first two years, Methodist will retain the net margins or deficits from hospital operations as defined in the agreement. After the first two years, Methodist will distribute 50% of the cumulative net margins in excess of a minimum threshold, as defined in the agreement, if any, to the university. The university has agreed to allow Methodist to use, without limitation, all hospital assets. Methodist purchased the supplies inventories from the university. The university retained the patient accounts receivable as of the effective date.

Employee Services Agreement. Pursuant to the enabling legislation, *Tennessee Code Annotated*, Section 49-9-112, et. seq., Methodist has leased from the university all hospital employees as of the effective date (November 1, 2002). Methodist has paid to the university the amounts incurred by the university to pay the direct expenses relating to the hospital employees, including wages, salaries, and fringe benefits. These payroll expenses on behalf of Methodist, totaling $10,498,784.27, are reported as operating expenses in the statement of revenues, expenses, and changes in net assets. An equal amount of operating revenue is reported in the non-governmental grants and contracts category. The term of the Employee Services Agreement is from the effective date until the date all services comprising the hospital are relocated from William F. Bowld Hospital to Methodist University Hospital. (There are certain provisions under which a limited number of leased employees could continue after this date. Under these circumstances, the agreement will terminate when there are no longer leased employees.) All persons who began service at the hospital after the date the employee service agreement was signed are employees of Methodist and not university employees.

Affiliation Agreement. The university and Methodist entered into a Master Affiliation Agreement dated March 18, 2002, wherein Methodist agreed to support the continuous development and improvement of the medical education, research, and public service programs of the university. The university and Methodist agreed that Methodist Central Hospital (renamed Methodist University Hospital) and LeBonheur Children's Medical Center (also a Methodist Hospital) will be the principal private teaching hospitals for the university in the Shelby County area.

The university shall be entitled to reimbursement for its expenses associated with the graduate medical education program rendered under this agreement including the costs of coverage under the Tennessee Claims Commission Act and defense costs. The university will cooperate, support, and assist in seeking adequate reimbursement from Medicare and the State of Tennessee for graduate medical education. The costs of providing residents and medical faculty supervision at Methodist will be paid by the university and the pro rata costs will be reimbursed by Methodist based upon the actual costs associated with the program at Methodist. Specific financial arrangements for residents andfaculty will be negotiated annually and incorporated annually by addendum into this Master Affiliation Agreement as part of the Methodist annual budgeting process. The annual addendum will specify the numbers of faculty and residents to be provided along with the costs to be annually reimbursed under this agreement.

Note 18: Natural Classifications with Functional Classifications

The university's operating expenses by functional classification for the year ended June 30, 2003, are as follows:

FUNCTIONAL CLASSIFICATION	Salaries	Benefits	Utilities, Supplies, and Other Services	Scholarships	Depreciation	Total
	NATURAL CLASSIFICATION					
Instruction	$ 289,077,959.71	$ 68,377,829.70	$ 51,741,274.70	–	–	$ 409,197,064.11
Research	101,627,622.42	27,803,139.54	56,387,999.83	–	–	185,818,761.79
Public Service	67,284,293.71	22,442,699.92	33,886,686.63	–	–	123,613,680.26
Academic Support	53,339,183.12	14,508,661.92	15,195,803.02	–	–	83,043,648.06
Student Services	27,101,920.58	7,903,515.94	17,035,578.89	–	–	52,041,015.41
Institutional Support	53,503,167.98	15,876,385.83	3,571,176.02	–	–	72,950,729.83
Operation and Maintenance of Plant	26,235,826.97	8,917,444.49	39,735,431.32	–	–	74,888,702.78
Scholarships and Fellowships	3,043,656.41	23,768,163.52	11,317,686.33	$ 4,650,947.67	–	42,780,453.93
Auxiliary	30,234,682.01	7,240,096.94	59,516,014.77	–	–	96,990,793.72
Hospital	6,816,144.90	1,843,807.69	12,217,500.78	–	–	20,877,453.37
Independent Operations	75,175,944.72	21,475,424.54	–	–	–	96,651,369.26
Depreciation	–	–	–	–	$ 56,983,060.02	56,983,060.02
Total Expenses	$ 733,440,402.53	$ 220,157,170.03	$ 300,605,152.29	$ 4,650,947.67	$ 56,983,060.02	$1,315,836,732.54

The university's operating expenses by functional classification for the year ended June 30, 2002, are as follows:

FUNCTIONAL CLASSIFICATION	Salaries	Benefits	Utilities, Supplies, and Other Services	Scholarships	Depreciation	Total
	NATURAL CLASSIFICATION					
Instruction	$ 275,198,243.78	$ 66,426,641.85	$ 50,982,869.52	–	–	$ 392,607,755.15
Research	87,488,829.89	18,011,441.43	51,276,562.72	–	–	156,776,834.04
Public Service	64,131,577.73	15,839,216.03	35,378,604.28	–	–	115,349,398.04
Academic Support	49,270,311.49	13,541,421.83	12,374,035.41	–	–	75,185,768.73
Student Services	24,898,362.95	6,354,629.93	16,273,821.90	–	–	47,526,814.78
Institutional Support	51,158,086.26	14,768,486.25	442,622.77	–	–	66,369,195.28
Operation and Maintenance of Plant	24,593,358.95	7,900,158.39	36,708,006.14	–	–	69,201,523.48
Scholarships and Fellowships	2,752,335.69	21,637,370.03	11,051,956.14	$ 7,816,121.78	–	43,257,783.64
Auxiliary	29,430,866.07	7,555,825.77	59,875,566.86	–	–	96,862,258.70
Hospital	19,828,880.62	4,743,207.12	40,969,150.94	–	–	65,541,238.68
Independent Operations	72,456,079.74	18,690,640.41	–	–	–	91,146,720.15
Depreciation	–	–	–	–	$ 54,146,985.75	54,146,985.75
Total Expenses	$ 701,206,933.17	$ 195,469,039.04	$ 315,333,196.68	$ 7,816,121.78	$ 54,146,985.75	$1,273,972,276.42

Note 19: Unrestricted Net Assets

Unrestricted net assets include funds that have been designated or reserved for specific purposes. These purposes include the following:

	June 30, 2003	June 30, 2002
Working capital	$ 57,276,157.94	$ 56,608,103.99
Encumbrances	8,772,158.74	8,553,587.76
Auxiliaries	1,464,038.19	3,051,800.21
Quasi-endowments	19,349,550.79	17,802,279.40
Plant construction	24,751,554.67	30,001,493.22
Renewal and replacement of capital assets	101,638,230.41	91,941,296.66
Debt retirement	43,798,560.42	49,512,522.71
Unreserved/undesignated	(40,949,351.38)	(30,861,759.25)
Total	$216,100,899.78	$226,609,324.70

Note 20: Prior-Year Restatements

Due to changes in presentation made by the university for the year ended June 30, 2003, some reclassifications were made in the prior-year financial statements for comparative purposes. The TSSBA interest rate reserve, which was previously shown as assets with trustee, was reclassified as prepaid expense. Other amounts shown as assets with trustees have been reclassified as investments. Also, the note disclosure for unrestricted net assets was changed to show all of the components rather than just the designated amounts.

The university also reclassified $7,456,509.58 of current long-term liabilities as noncurrent long-term liabilities.

The university restated its restricted nonexpendable net assets at June 30, 2002. The university transferred $7,809,746.47 of unrestricted net assets to the nonexpendable restricted net assets category. As described in Note 3, there were 669 true endowments at June 30, 2002, that had a market value of $73,369,659.59 and a historic gift value of $81,179,406.06, yielding a net "underwater" position of $7,809,746.47. This restatement returns the endowments to their historic gift value.

The university also restated its depreciation expense for the year ended June 30, 2002, at $54,146,985.75 rather than $71,396,612.07. Renovations made to three buildings totaling $17,249,626.32 were fully depreciated in 2002 rather than being depreciated over the remaining useful lives of the assets. As a result, net capital assets and amounts invested in capital assets, net of related debt, at June 30, 2002, have been increased by $17,249,626.32.

Note 21: Cumulative Effect of Changes in Accounting Principle

During the year ended June 30, 2002, the university implemented GASB Statement 34, Basic Financial Statements-and Management's Discussion and Analysis—for State and Local Governments,and GASB Statement 35, Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities. The university also implemented GASB Statement 37, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus, and GASB Statement 38, Certain Financial Statement Note Disclosures. As a result of this implementation, the university was required to adopt the depreciation of its capital assets, with accumulated depreciation totaling $595,190,496.55 at the beginning of the year. The university was also required to recognize certain deferred revenue originating under its grant and contract agreements, totaling $30,731,024.69 at the beginning of the year. In addition, the university was required to reduce amounts due from the Tennessee State School Bond Authority by $6,165,813.65 at the beginning of the year. The cumulative effect of this change in accounting principle is reported as a $632,087,334.89 decrease in beginning net assets in 2002.

During the year ended June 30, 2002, the university also changed its capitalization threshold for buildings, land improvements, and infrastructure from $50,000 to $100,000, discontinued the capitalization of its livestock assets, and changed its method of capitalizing library holdings. As a result, capital assets decreased by $35,869,397.59, $2,080,071.25, and $182,712,016.56 respectively. This cumulative effect of a change in accounting principle, totaling $220,661,485.40 is also reported as a restatement to beginning net assets in 2002.

The university also changed its method of accounting for accumulated federal capital contributions associated with its federal loan programs. At June 30, 2001, industry practice required the reporting of these amounts as a fund balance. During the year ended June 30, 2002, industry practice changed, and these amounts were to be reported as a liability. As a result, for the year ended June 30, 2002, beginning net assets were reduced by $33,764,402.98.

Ten-Year Summary of University of Tennessee Operations, Fiscal Years 1993–2003

	2002-2003	2001-2002	2000-2001
SOURCES OF OPERATING REVENUES (,000)			
State Appropriations	$ 419,927	$ 415,921	$ 418,040
Student Fees	227,582	217,000	192,048
Federal Appropriations	11,839	13,761	13,512
Other(Gifts,Grants,Sales and Services,ect.)	482,156	431,677	412,063
Total General Funds	$ 1,141,504	$ 1,078,359	$ 1,042,754
Auxiliary Enterprise	132,818	130,084	123,302
Hospitals	16,466	51,533	58,383
Independent Operations	97,751	91,147	99,022
Total Revenues-Current Funds	$ 1,388,539	$ 1,351,123	$ 1,323,461
CURRENT EXPENDITURES AND TRANSFERS (,000)			
Instruction	$ 417,388	$ 398,298	$ 378,371
Research	195,226	168,457	155,818
Public Service	127,154	120,807	117,240
Academic Support	97,922	86,647	88,937
Student Services	54,644	50,675	47,171
Institutional Support	78,880	70,086	58,556
Operation and Maintenance of Physical Plant	75,626	69,469	65,703
Scholarships and Fellowships	74,960	68,059	59,659
Transfers	3,404	24,950	21,290
Total General Funds-Expenditures and Transfers	$ 1,125,204	$ 1,057,448	$ 992,745
Auxiliary Expenditures and Transfers	133,142	129,029	123,440
Hospital Expenditures and Transfers	21,094	66,782	58,183
Ind Operations Expenditures and Transfers	96,651	91,147	99,022
Total Current Expenditures and Transfers	$ 1,376,091	$ 1,344,406	$ 1,273,390
Expenditures Converted to 2003	1	1.022	1.040
Equivalent by Consumer Price Index Factor	$ 1,376,091	$ 1,373,983	$ 1,324,326
CURRENT UNRESTRICTED FUND ASSETS (,000)			
Educational and General	$ 170,994	$ 168,874	$ 188,359
Auxiliary	35,036	37,438	34,578
Hospital	2,992	5,331	19,128
Total Current Funds	$ 211,022	$ 211,643	$ 242,065
STUDENT LOAN FUNDS			
Notes Receivable	$ 35,030	$ 35,555	$ 35,772
Loans Issued (by year)	2,530	2,406	4,025
ENDOWMENT FUNDS (,000)			
Market Value	$ 407,735	$ 400,547	$ 423,182
LIFE INCOME FUNDS (,000)			
Market Value	$ 48,576	$ 53,324	$ 54,664
PLANT FUNDS (,000)			
Long-term Debt	$ 214,734	$ 202,364	$ 191,347
Reserves for Debt Service and Renewal & Replacement	$ 145,825	$ 142,047	$ 122,572
Net Invested in Plant	$ 730,451	$ 653,532	$ 1,435,259
Capital Outlay Expenditures	$ 122,196	$ 74,482	$ 68,497
GENERAL DATA			
Total Enrollment	42,220	42,240	42,160
Knoxville	25,943	26,032	25,902
Chattanooga	8,524	8,485	8,319
Martin	5,714	5,892	5,870
Memphis	2,039	2,011	2,069
Degrees Granted	9,143	9,226	8,991
Full-Time Employees	10,787	11,931	11,700
Full-Time Faculty	2,941	2,869	2,862
% tenured (Based on those eligible for tenure)	52.8%	54.6%	56.7%
Total Private Gifts (,000)	$ 119,714	$ 95,384	$ 94,859
Academic Year Student Fees (Knoxville):			
Instate	$ 4,056	$ 3,784	$ 3,362
Out of state (additional)	$ 8,102	$ 7,536	$ 6,554
State Appropriation/FTE	$ 7,388	$ 7,337	$ 7,051

1999-2000	1998-99	1997-98	1996-97	1995-96	1994-95	1993-94
$ 385,334	$ 385,096	$ 362,985	$ 367,738	$ 363,791	$ 354,122	$ 331,809
179,713	157,570	145,769	131,195	120,944	116,940	114,704
13,534	13,602	13,091	13,397	13,073	13,088	13,608
457,082	312,027	292,981	284,632	269,188	273,736	265,463
$ 939,992	$ 868,295	$ 814,826	$ 796,962	$ 766,996	$ 757,886	$ 725,584
121,288	116,325	107,579	115,106	108,160	102,216	97,419
74,421	318,449	309,611	311,471	305,736	304,376	311,542
95,671						
$ 1,231,372	$ 1,303,069	$ 1,232,016	$ 1,223,539	$ 1,180,892	$ 1,164,478	$ 1,134,545
$ 351,485	$ 321,967	$ 308,069	$ 307,846	$ 309,016	$ 307,676	$ 286,827
140,900	135,044	125,797	129,015	124,607	128,801	130,647
111,101	98,866	92,291	90,487	82,182	80,328	74,895
83,906	79,621	73,183	72,238	69,314	67,703	61,392
44,974	44,890	41,080	37,456	36,876	35,882	32,306
61,487	61,231	57,359	56,433	58,321	50,985	46,553
55,639	50,899	48,660	47,062	47,801	46,465	45,090
54,607	51,839	47,500	42,642	41,179	38,402	37,285
30,457	24,177	14,248	13,236	408	(564)	8,607
$ 934,556	$ 868,534	$ 808,187	$ 796,415	$ 769,704	$ 755,678	$ 723,602
120,020	114,104	107,659	116,111	107,153	103,726	97,131
77,664	309,253	310,606	315,324	308,265	305,090	308,300
95,671						
$ 1,227,911	$ 1,291,891	$ 1,226,452	$ 1,227,850	$ 1,185,122	$ 1,164,494	$ 1,129,033
1.076	1.107	1.126	1.146	1.179	1.211	1.245
$ 1,321,232	$ 1,430,123	$ 1,380,985	$ 1,407,116	$ 1,397,259	$ 1,410,202	$ 1,405,646
$ 137,692	$ 129,568	$ 119,794	$ 108,084	$ 113,086	$ 123,277	$ 108,294
33,138	31,098	28,278	26,197	26,780	26,987	27,075
15,957	100,722	96,954	96,152	99,515	95,025	106,511
$ 186,787	$ 261,388	$ 245,026	$ 230,433	$ 239,381	$ 245,289	$ 241,880
$ 35,704	$ 35,036	$ 33,236	$ 31,336	$ 31,317	$ 30,905	$ 29,350
2,635	3,150	3,591	2,669	2,717	3,048	2,765
$ 440,127	$ 377,943	$ 335,762	$ 282,182	$ 234,278	$ 196,720	$ 165,110
$ 55,856	$ 55,201	$ 44,198	$ 38,410	$ 31,978	$ 26,945	$ 23,186
$ 176,689	$ 306,123	$ 260,179	$ 263,147	$ 265,789	$ 227,715	$ 227,370
$ 103,701	$ 147,310	$ 121,548	$ 99,262	$ 112,433	$ 113,063	$ 117,492
$ 1,375,706	$ 1,599,571	$ 1,568,411	$ 1,497,166	$ 1,258,176	$ 1,202,223	$ 1,140,786
$ 81,890	$ 103,820	$ 50,212	$ 73,577	$ 68,739	$ 58,763	$ 56,037
42,904	42,718	41,985	41,651	41,934	41,927	42,383
26,444	26,064	25,410	25,534	25,722	25,943	26,431
8,604	8,682	8,528	8,296	8,331	8,281	8,325
5,741	5,837	5,997	5,729	5,801	5,608	5,537
2,115	2,135	2,050	2,092	2,080	2,095	2,090
9,092	8,636	8,523	8,544	8,233	8,429	8,237
14,004	14,266	14,617	14,993	15,486	15,573	15,281
2,720	2,728	2,812	2,915	2,984	2,899	2,822
61.1%	65%	64.7%	63.0%	63.0%	62.0%	63.0%
$ 83,603	$ 82,260	$ 69,906	$ 63,104	$ 55,838	$ 46,020	$ 49,977
$ 3,104	$ 2,744	$ 2,576	$ 2,320	$ 2,164	$ 2,052	$ 1,962
$ 6,068	$ 5,056	$ 4,682	$ 4,336	$ 4,130	$ 3,934	$ 3,780
$ 7,063	$ 7,162	$ 7,146	$ 7,493	$ 7,260	$ 6,866	$ 6,317

Administration of the University of Tennessee

From July 1, 2002, to June 30, 2003

BOARD OF TRUSTEES

The Board of Trustees governs the University of Tennessee. The governor, who also serves as chairman, appoints board members. The board meets at least three times annually, and its sessions are open to the public.

UT SENIOR ADMINISTRATIVE OFFICERS

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