

THE UNIVERSITY OF TENNESSEE FOUNDATION, INC.

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006

and

INDEPENDENT AUDITOR'S REPORT

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Independent Auditor's Report

To the Board of Directors of
The University of Tennessee Foundation, Inc.
Knoxville, Tennessee

We have audited the accompanying consolidated statement of financial position of The University of Tennessee Foundation, Inc. (a nonprofit organization) as of June 30, 2006, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The University of Tennessee Foundation, Inc. as of June 30, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2006 on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Brown Jake & McDaniel, PC

September 8, 2006

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The University of Tennessee Foundation, Inc.

Consolidated Statement of Financial Position

June 30, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets:				
Cash and cash equivalents	\$ 990,462.86	\$ 1,084,838.08	\$ -	\$ 2,075,300.94
Cash and cash equivalents with trustee (Note 8)	4,953,001.67	-	-	4,953,001.67
Accounts and interest receivable	15,135.24	-	-	15,135.24
Prepaid expenses	22,364.91	-	-	22,364.91
Other assets	208,071.55	67,850.00	-	275,921.55
Investments	-	371,731.00	-	371,731.00
Pledges receivable (Note 2)	-	8,088,896.09	1,759,782.56	9,848,678.65
Capital assets (net of \$3,334,046.53 accumulated depreciation) (Notes 3 and 14)	51,769,736.16	-	-	51,769,736.16
Intangible assets (Note 8)	652,512.61	-	-	652,512.61
Remainder interest (Note 10)	-	14,714,402.65	-	14,714,402.65
Assets held by University (Note 4)	-	1,155,960.31	5,703,856.68	6,859,816.99
	<u>\$ 58,611,285.00</u>	<u>\$ 25,483,678.13</u>	<u>\$ 7,463,639.24</u>	<u>\$ 91,558,602.37</u>
Liabilities and net assets:				
Liabilities:				
Accounts payable and accrued expenses	\$ 139,138.17	\$ -	\$ -	\$ 139,138.17
Due to University	248,268.58	-	-	248,268.58
Note payable (Note 14)	251,293.35	-	-	251,293.35
Deferred revenue	95,322.49	-	-	95,322.49
Bonds payable (Note 8)	59,595,000.00	-	-	59,595,000.00
Underwriter's discount (Note 8)	(370,242.03)	-	-	(370,242.03)
	<u>59,958,780.56</u>	<u>-</u>	<u>-</u>	<u>59,958,780.56</u>
Net assets:				
Unrestricted	(1,347,495.56)	-	-	(1,347,495.56)
Temporarily restricted	-	25,483,678.13	-	25,483,678.13
Permanently restricted	-	-	7,463,639.24	7,463,639.24
	<u>(1,347,495.56)</u>	<u>25,483,678.13</u>	<u>7,463,639.24</u>	<u>31,599,821.81</u>
	<u>\$ 58,611,285.00</u>	<u>\$ 25,483,678.13</u>	<u>\$ 7,463,639.24</u>	<u>\$ 91,558,602.37</u>

The accompanying notes are an integral part of these financial statements.

The University of Tennessee Foundation, Inc.

Consolidated Statement of Activities

Year Ended June 30, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Contributions	\$ 583,380.68	\$ 8,762,599.01	\$ 1,660,565.83	\$ 11,006,545.52
Interest and investment income	245,248.84	39,776.76	222,263.74	507,289.34
Net realized/unrealized gains and losses	-	74,515.98	360,867.31	435,383.29
Change in actuarial value of remainder interest	-	592,783.69	-	592,783.69
Student housing	4,832,648.01	-	-	4,832,648.01
Other	3,800.01	-	-	3,800.01
Net assets released from restrictions	624,892.77	(384,986.55)	(239,906.22)	-
	<u>6,289,970.31</u>	<u>9,084,688.89</u>	<u>2,003,790.66</u>	<u>17,378,449.86</u>
Total revenue				
Expenses:				
Grants and scholarships	1,431,575.15	-	-	1,431,575.15
General and administrative	651,561.10	-	-	651,561.10
Student housing	6,240,045.46	-	-	6,240,045.46
	<u>8,323,181.71</u>	<u>-</u>	<u>-</u>	<u>8,323,181.71</u>
Total expenses				
Change in net assets (deficit)	(2,033,211.40)	9,084,688.89	2,003,790.66	9,055,268.15
Net assets at beginning of year	685,715.84	16,398,989.24	5,459,848.58	22,544,553.66
Net assets (deficit) at end of year	<u>\$ (1,347,495.56)</u>	<u>\$ 25,483,678.13</u>	<u>\$ 7,463,639.24</u>	<u>\$ 31,599,821.81</u>

The accompanying notes are an integral part of these financial statements.

The University of Tennessee Foundation, Inc.

Consolidated Statement of Cash Flows

Year Ended June 30, 2006

Cash flows from operating activities:	
Change in net assets	\$ 9,055,268.15
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	2,241,646.77
Net realized/unrealized gains	(435,383.29)
Change in actuarial value of donated asset	(592,783.69)
Decrease in receivable	48,368.69
Decrease in prepaid expenses	39,010.24
Increase in pledge receivable	(6,650,747.11)
Increase in other asset	(187,759.58)
Decrease in deferred revenue	(2,794.00)
Decrease in accounts payable	<u>(2,425,280.39)</u>
Net cash provided by operating activities	<u>1,089,545.79</u>
Cash flows from investing activities:	
Purchase of shares in the University's investment pool	(1,267,677.62)
Additions and purchases of capital assets	(3,308,808.42)
Purchase of investments	<u>(350,000.00)</u>
Net cash used for investing activities	<u>(4,926,486.04)</u>
Cash flows from financing activities:	
Costs related to refinancing letter of credit	(261,082.73)
Proceeds from issuance of note payable	259,330.41
Payment of principal on bond and note payable	<u>(503,037.06)</u>
Net cash used for financing activities	<u>(504,789.38)</u>
Net decrease in cash and cash equivalents	(4,341,729.63)
Cash and cash equivalents at beginning of year	<u>11,370,032.24</u>
Cash and cash equivalents at end of year	<u>\$ 7,028,302.61</u>
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Supplemental disclosures of cash flow information:	
Cash paid during the year for interest	\$ 1,967,275.44

The accompanying notes are an integral part of these financial statements.

The University of Tennessee Foundation, Inc.

Notes to Consolidated Financial Statements

June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

The University of Tennessee Foundation, Inc. (the "Foundation") is a not-for-profit organization exempt from federal income tax under Section 501 (c) (3) of the Internal Revenue Code. The Foundation was formed to support The University of Tennessee (the "University"). The Foundation was established to provide flexibility for the University in carrying out its mission of teaching, research, and public research. The Foundation receives contributions from individuals, corporations, alumni, and other donors.

Financial Statement Presentation

The Foundation has adopted Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Principles of Consolidation

The consolidated financial statements include the accounts of the Foundation and two single member limited liability companies created by the Foundation. The names of the limited liability companies are Volunteer Student Housing, LLC and Martin Student Housing, LLC. The limited liability companies were created to own student housing facilities adjacent to the University of Tennessee at Knoxville campus and University of Tennessee at Martin campus. All significant intercompany balances and transactions have been eliminated in the consolidation.

Basis of Presentation

The financial statements have been prepared on the accrual basis of accounting, and accordingly, reflect all significant receivables, payables, and other liabilities.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The University of Tennessee Foundation, Inc.

**Notes to Consolidated Financial Statements
(continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposit accounts and other instruments that are readily convertible to cash.

Capital Assets

Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Building and furniture, fixtures and equipment are depreciated over 32 and 5 years, respectively, using the straight-line method.

Investments

Investments are recorded on the date of contribution and are stated at market value. Market values are determined by national securities exchanges. Unrealized gains and losses are determined by the difference between market values at the beginning and end of the year. These amounts are included in the change in net assets in the accompanying statement of activities.

The Foundation's policy regarding investment income and realized and unrealized gains and losses for temporarily and permanently restricted assets is to record such revenues as unrestricted support to the extent that restrictions are met in the same reporting period.

Pledges Receivable

Unconditional pledges, less an allowance for doubtful accounts, are recognized as contribution revenue in the period received and as an asset. Conditional pledges are recognized when the conditions on which they depend are substantially met. Unconditional pledges that are expected to be collected within one year are recorded at net realizable value. Unconditional pledges that are expected to be collected in future years are recorded at the present value of their estimated future cash flow.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

The University of Tennessee Foundation, Inc.

**Notes to Consolidated Financial Statements
(continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions (continued)

The Foundation reports gifts of cash, donated property, and all other assets as unrestricted support unless explicit donor stipulations limit the use of the donated assets. When a donor restriction expires, that is, when the stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donated gifts are recorded at fair market value at the time of donation and are reported as restricted support if it is received with donor imposed restrictions.

2. PLEDGES RECEIVABLE

Pledges receivable are summarized below, net of the allowance for doubtful accounts:

	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>
Current pledges	\$ 36,168.90	\$ 130,393.54
Pledges due in one to five years	8,600,182.06	1,578,811.66
Pledges due after five years	<u>187,740.98</u>	<u>240,895.44</u>
	8,824,091.94	1,950,100.64
Less discounts to net present value	<u>735,195.85</u>	<u>190,318.08</u>
Total pledges receivable, net	<u>\$8,088,896.09</u>	<u>\$1,759,782.56</u>

The allowance for doubtful accounts at June 30, 2006 was \$70,462.20.

The University of Tennessee Foundation, Inc.

**Notes to Consolidated Financial Statements
(continued)**

3. CAPITAL ASSETS

Capital assets at June 30, 2006 consists of the following:

Land	\$ 3,249,152.73
Building	50,513,182.56
Furniture and equipment	<u>1,341,447.40</u>
	55,103,782.69
Accumulated depreciation	<u>(3,334,046.53)</u>
Net capital assets	<u>\$ 51,769,736.16</u>

Depreciation expense for the year ended June 30, 2006 is \$1,950,878.71.

4. ASSETS HELD BY THE UNIVERSITY OF TENNESSEE

All Foundation endowments are invested in the University of Tennessee Consolidated Investment Pool. The endowments are invested according to the policies of the University. Investment pool earnings for the Foundation endowments are provided to the University to be used as stipulated in the endowment agreements. The book value and market value for the endowments invested were \$6,090,073.30 and \$6,859,816.99, which resulted in a cumulative unrealized gain of \$769,743.69. Endowment pool earnings transferred to the University were \$218,855.81 for fiscal year 2006.

5. OPERATING LEASES

The Foundation has entered into a five-year lease for farmland in Martin, Tennessee. The lease terminates in December 2010. Minimum lease payments are \$15,000.00 per year over the term of the lease. A lease for the same farmland for minimum lease payments of \$30,000.00 per year was terminated effective December 31, 2005 with a new lease agreement effective January 1, 2006 with the lower lease payment. Total accrued lease expense was \$20,000.00 for the year ended June 30, 2006. The Foundation has subleased the land to the University. The sublease is a five-year term and terminates in December 2010.

The Foundation will receive \$2,800.00 per year as compensation for the lease. Total accrued lease revenue at June 30, 2006, was \$2,800.00.

The Foundation entered into a lease agreement on July 1, 2005, with the University of Tennessee for office space. Minimum lease payments are \$17,792.00 per year over the lease term with the lease ending June 30, 2010.

The University of Tennessee Foundation, Inc.

**Notes to Consolidated Financial Statements
(continued)**

5. OPERATING LEASES (continued)

Volunteer Student Housing, LLC entered into a 2-year lease agreement with Knoxville Scottish Rite for additional parking spaces in the Knoxville Place parking garage for \$30,400.00 per year. The minimum lease payment was \$10,133.33 for the fiscal year.

6. RESTRICTED NET ASSETS

Temporarily restricted net assets are available for scholarships or other academic purposes, a housing project, support for University construction, artwork, and contributions for the farm lease payment. Total temporarily restricted net assets at June 30, 2006, were \$25,483,678.13.

Permanently restricted net assets are available for scholarships or other academic purposes. Total permanently restricted net assets at June 30, 2006, were \$7,463,639.24.

7. UT NATIONAL ALUMNI ASSOCIATION

The Foundation granted \$479,153.05 to the University of Tennessee National Alumni Association to provide funds for the Association's budget. The Association funds various scholarships, faculty awards, and other programs which benefit the University. The funds provided came from unrestricted contributions.

8. KNOXVILLE PLACE

In September 2002, the Health, Educational and Housing Facility Board of the County of Knox, Tennessee issued \$60,090,000.00 variable rate, tax-exempt bonds to fund the acquisition, construction, and equipping of a student housing facility adjacent to the Knoxville campus. The management group that operates the housing has a fiscal year-end on July 31. The financial activity presented in the financial statements for the student housing only reflect that fiscal year-end.

At the beginning of the project, Volunteer Student Housing, LLC entered into a 7 year 75% hedge on the project with the hedge rate being 3.25%. During the fiscal year, \$1,967,275.44 of interest expense and \$194,936.17 of interest income was accrued. The first principal payment of \$495,000.00 was paid November 1, 2005. The next principal payment of \$615,000.00 is due October 1, 2006. All income generated by the facility is held by US Bank, the trustee. The cash and cash equivalents with trustee at June 30, 2006 is \$4,953,001.67.

The University of Tennessee Foundation, Inc.

**Notes to Consolidated Financial Statements
(continued)**

8. KNOXVILLE PLACE (continued)

Intangible assets consist of bond issuance costs, letter of credit issuance costs, and computer software. The bond issuance costs are amortized over the life of the bonds, and the letter of credit costs are amortized over the 7-year letter of credit term. The software costs are amortized over 4 years. The total intangible assets cost was \$744,138.25. During the year, the letter of credit was refinanced (see next paragraph) and the remaining unamortized costs of the previous letter of credit (totaling \$231,657.17) were charged to amortization expense during the year and the issuance costs related to the new letter of credit (totaling \$261,082.73) were capitalized as intangible assets. Total amount of intangible assets charged to amortization expense during the year was \$277,653.60. Remaining unamortized cost of intangible assets at June 30, 2006 was \$652,512.61.

On September 9, 2005, the Volunteer Student Housing, LLC entered into a new Letter of Credit agreement with Allied Irish Bank (AIB). As part of this new arrangement, the bonds payable amortization schedule was changed. The future maturities of the bonds reflect the new arrangement with AIB. Also, as a result of this new arrangement, the existing hedge was eliminated and replaced with a new 4 year 75% hedge with the hedge rate being 3.31%.

The underwriter's discount was paid from bond proceeds at closing and is amortized over the life of the bond. The underwriter's discount was originally \$420,630.00 and the amortization expense for the fiscal year was \$13,144.69. Remaining unamortized underwriter's discount at June 30, 2006 was \$370,242.03.

Future maturities of bonds payable commencing 2007 are as follows:

<u>Year Ended</u> <u>June 30,</u>	
2007	\$ 615,000.00
2008	740,000.00
2009	885,000.00
2010	1,025,000.00
2011	1,185,000.00
2012 - 2016	7,595,000.00
2017 - 2021	8,815,000.00
2022 - 2026	11,090,000.00
2027 - 2031	13,945,000.00
2032 - 2035	<u>13,700,000.00</u>
	<u>\$ 59,595,000.00</u>

The University of Tennessee Foundation, Inc.

**Notes to Consolidated Financial Statements
(continued)**

9. LETTER OF CREDIT

In association with the issuance of the bonds mentioned in Note 8, the Foundation was granted an irrevocable letter of credit in the amount of \$60,979,003.00. Of this amount, \$60,090,000.00 is available for the payment of the principal of the bonds or a portion of the purchase price corresponding to the principal of the bonds and \$889,003.00 is available for the payment of up to 45 days' interest on the bonds. There is no outstanding balance drawn on this letter of credit at June 30, 2006.

10. REMAINDER INTEREST

In December 2002, a donor conveyed to the Foundation a remainder interest in a limited liability company. The asset of the limited liability company is a fee simple interest in a warehouse in South Carolina. The remainder interest was appraised at \$7,740,000.00 with the interest vesting on January 1, 2021. The value on the Consolidated Statement of Financial Position will be the present value calculation until the vesting date. The IRS discount rate for December 2002 used in determining the present value was 4%. The present value of the remainder interest at June 30, 2006 was \$4,382,859.42.

In September 2003, a donor conveyed to the Foundation another remainder interest in a limited liability company. The asset of this limited liability company is an office building in Connecticut. The remainder interest was appraised at \$22,440,000.00 with the interest vesting on January 1, 2025. The value on the Consolidated Statement of Financial Position will be the present value calculation until the vesting date. The IRS discount rate for September 2003 was 4.20%. The present value at June 30, 2006 was \$10,331,543.23.

11. GIFT ANNUITIES

The Foundation has entered into an agreement with The Benefits Group (TBG) for gift annuities. Under the agreement, a donor can provide funds to the Foundation for a gift annuity and an annuity agreement would be signed between the donor and the Foundation. TBG is then contacted and completes the annuity contract with an insurance company (commercial annuity) with the contract also signed by the Foundation. The insurance company makes the annuity payments to the donor not the Foundation. Part of the gift annuity donation is sent to the insurance company to fund the annuity payments. The remaining annuity gift amount is sent to the University for the purpose specified in the annuity agreement. The commercial annuity purchased by the Foundation is insurance and is subject to regulation by the Tennessee Commissioner of Commerce and Insurance and is protected by an insurance guaranty association. The Foundation has no liability under this arrangement since the commercial annuity is purchased. No gift annuities were performed in the fiscal year.

The University of Tennessee Foundation, Inc.

**Notes to Consolidated Financial Statements
(continued)**

12. RETIREMENT PLAN

The Foundation has a defined contribution plan (the Plan) covering all employees who agree to make contributions to the Plan equal to 10% of the participant's compensation. The Foundation matches participants' contributions to the Plan equal to 10% of participants' compensation. Total expense for the year ended June 30, 2006 was \$4,500.00.

13. CONCENTRATION OF CREDIT RISK

The Foundation had concentrated its credit risk for cash by maintaining deposits at bank, which may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation (FDIC). The amount at risk at June 30, 2006 was \$199,605.00. The Foundation has not experienced any such losses in this account and believes it is not exposed to any significant credit risk to cash.

14. OTHER GIFTS, NOTE PAYABLE AND INVESTMENTS

The Foundation was gifted property in Weakley and Obion, Tennessee counties. The property and its contents were appraised at \$376,000.00 with an attached mortgage note of \$259,330.41. The property will be used and overseen by the University of Tennessee at Martin. Payment on the note, which began in January 2006, is \$2,000.00 per month with the note maturing in December 2020. The note has a 4.68% interest rate. For the fiscal ended June 30, 2006, the note principal was reduced by \$8,037.06 with an additional \$5,962.94 of interest being paid. The balance of the note payable at June 30, 2006 was \$251,293.35. Future maturities of this note are as follows:

2007	\$ 12,505.47
2008	13,103.11
2009	13,729.99
2010	14,386.52
2011	15,074.46
2012 - 2016	86,898.96
2017 - 2021	<u>95,594.84</u>
Total	<u>\$251,293.35</u>

The Foundation was assigned 590 bottles of Strathmore single grain scotch whiskey appraised at \$67,850.00. The whiskey will be used in research by the Chemical Engineering Department at the University of Tennessee, Knoxville campus.

The University of Tennessee Foundation, Inc.

**Notes to Consolidated Financial Statements
(continued)**

14. OTHER GIFTS, NOTE PAYABLE AND INVESTMENTS (continued)

A gift of \$350,000.00 was made to assist in the renovation of an auditorium at the University of Tennessee, Memphis campus. The funds are to be invested per donor instructions in commodities and U.S. Treasury Bills. The market value at June 30, 2006 consisted of:

Cash	\$ 162,106.00
Open trade equity	18,128.00
U.S. Treasury Bill	185,000.00
Net market value of options	<u>6,497.00</u>
Total	<u>\$ 371,731.00</u>

The Foundation bears no risk in these investments beyond the original amount of the gift.

15. CONTINGENCIES

A \$1.7 million lawsuit has been filed against the Foundation alleging damages sustained at Knoxville Place stemming from mold infestation in the facility. There has been no determination of the outcome of this litigation. A trial is expected during 2007.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
The University of Tennessee Foundation, Inc.
Knoxville, Tennessee

We have audited the consolidated financial statements of The University of Tennessee Foundation, Inc. as of and for the year ended June 30, 2006, and have issued our report thereon dated September 8, 2006. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The University of Tennessee Foundation, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The University of Tennessee Foundation, Inc.'s consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of management, Board of Directors and government regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

CERTIFIED PUBLIC ACCOUNTANTS

September 8, 2006