

THE UNIVERSITY OF TENNESSEE FOUNDATION, INC.
FINANCIAL STATEMENTS
June 30, 2009
and
INDEPENDENT AUDITOR'S REPORT

The University of Tennessee Foundation, Inc.

Financial Statements

June 30, 2009

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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 statement of financial position of The University of Tennessee Foundation, Inc. (a nonprofit organization) as of June 30, 2009, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these 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 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 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 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, 2009, 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 October 28, 2009 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

October 28, 2009

The University of Tennessee Foundation, Inc.

Statement of Financial Position

June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets:				
Cash and cash equivalents	\$ 1,017,004.26	\$ 7,151,951.25	\$ 10,000.00	\$ 8,178,955.51
Cash surrender value of life insurance	-	432,392.92	-	432,392.92
Accounts and interest receivable	2,700.00	-	-	2,700.00
Prepaid expenses	15,615.16	-	-	15,615.16
Other assets	376,000.00	229,550.00	177,700.00	783,250.00
Investments	500,766.11	584,019.53	4,501.40	1,089,287.04
Unconditional promises to give	-	48,771,839.35	4,810,840.21	53,582,679.56
Remainder interest	-	16,646,675.62	-	16,646,675.62
Due (to) from net asset types	(3,917,168.05)	271,515.60	3,645,652.45	-
Assets held by university	-	1,125,110.42	13,365,822.66	14,490,933.08
	\$ (2,005,082.52)	\$ 75,213,054.69	\$ 22,014,516.72	\$ 95,222,488.89
Liabilities and net assets:				
Liabilities:				
Accounts payable	\$ 1,508.71	\$ 52.00	\$ -	\$ 1,560.71
Annuities payable	-	482,894.22	-	482,894.22
Due to university	551,864.03	-	-	551,864.03
Note payable	211,954.45	-	-	211,954.45
	765,327.19	482,946.22	-	1,248,273.41
Net assets:				
Unrestricted	(2,770,409.71)	-	-	(2,770,409.71)
Temporarily restricted	-	74,730,108.47	-	74,730,108.47
Permanently restricted	-	-	22,014,516.72	22,014,516.72
	(2,770,409.71)	74,730,108.47	22,014,516.72	93,974,215.48
Total net assets	(2,770,409.71)	74,730,108.47	22,014,516.72	93,974,215.48
Total liabilities and net assets	\$ (2,005,082.52)	\$ 75,213,054.69	\$ 22,014,516.72	\$ 95,222,488.89

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

The University of Tennessee Foundation, Inc.

Statement of Activities

Year Ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Contributions	\$ -	\$ 8,116,371.08	\$ 7,083,193.91	\$ 15,199,564.99
Interest and investment income	140,364.30	115,091.93	825,469.95	1,080,926.18
Net realized/unrealized gains and losses	(3,918,380.57)	(1,808,520.26)	(7,210.29)	(5,734,111.12)
Change in actuarial value of remainder interest and gift annuities	-	652,609.79	-	652,609.79
Other	170,936.02	-	-	170,936.02
Net assets released from restrictions	7,955,814.62	(6,660,244.62)	(1,295,570.00)	-
Total revenues	4,348,734.37	415,307.92	6,605,883.57	11,369,925.86
Expenses:				
Program expenses	7,955,814.62	-	-	7,955,814.62
General and administrative	358,143.33	-	-	358,143.33
Total expenses	8,313,957.95	-	-	8,313,957.95
Change in net assets	(3,965,223.58)	415,307.92	6,605,883.57	3,055,967.91
Net assets at beginning of year	1,194,813.87	74,314,800.55	15,408,633.15	90,918,247.57
Net assets at end of year	<u>\$ (2,770,409.71)</u>	<u>\$ 74,730,108.47</u>	<u>\$ 22,014,516.72</u>	<u>\$ 93,974,215.48</u>

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

The University of Tennessee Foundation, Inc.

Statement of Cash Flows

Year Ended June 30, 2009

Cash flows from operating activities:	
Change in net assets	\$ 3,055,967.91
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Net realized/unrealized gains and losses	5,734,111.12
Non-cash contributions	(1,135,000.00)
Change in actuarial values	(652,609.79)
Increase in cash surrender value of life insurance	(122,861.66)
Decrease in receivables	231,626.01
Increase in prepaid expenses	(931.91)
Increase in unconditional promises to give	(317,753.49)
Decrease in accounts payable	(287,708.90)
Increase in annuities payable	82,726.31
Decrease in due to university	<u>(868,804.14)</u>
Net cash provided by operating activities	<u>5,718,761.46</u>
Cash flows from investing activities:	
Purchase of shares in the university's investment pool	(4,142,941.58)
Redemption of investments	467,807.68
Purchase of investments	<u>(183,052.76)</u>
Net cash used for investing activities	<u>(3,858,186.66)</u>
Cash flows from financing activities:	
Payment of principal on note	<u>(13,729.99)</u>
Net cash used for financing activities	<u>(13,729.99)</u>
Net increase in cash and cash equivalents	1,846,844.81
Cash and cash equivalents at beginning of year	<u>6,332,110.70</u>
Cash and cash equivalents at end of year	<u><u>\$ 8,178,955.51</u></u>
<hr/>	
Supplemental disclosures of cash flow information:	
Cash paid during the year for interest	\$ 10,270.01

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

The University of Tennessee Foundation, Inc.**Notes to Financial Statements****June 30, 2009****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 reports 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.

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.

Cash and Cash Equivalents

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

Other Assets - Property

Purchased property is capitalized at cost. Donations of property are recorded as contributions at their estimated fair value as determined by appraisal. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose.

The University of Tennessee Foundation, Inc.

**Notes to Financial Statements
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Unconditional Promises to Give

Unconditional promises to give, less an allowance for doubtful accounts, are recognized as contribution revenue in the period received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give 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 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.

The University of Tennessee Foundation, Inc.

**Notes to Financial Statements
(Continued)**

2. UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give are summarized below, net of the allowance for doubtful accounts:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Current (within one year)	\$ 1,385,803.98	\$ 101,380.16
Due in one to five years	34,871,980.91	3,625,842.91
Due after five years	<u>17,420,513.21</u>	<u>1,534,194.17</u>
	53,678,298.10	5,261,417.24
Less discounts to net present value	<u>4,906,458.75</u>	<u>450,577.03</u>
Total unconditional promises to give, net	<u>\$ 48,771,839.35</u>	<u>\$ 4,810,840.21</u>

The allowance for doubtful accounts at June 30, 2009 was \$111,237.07.

3. INVESTMENTS AND ASSETS HELD BY THE UNIVERSITY OF TENNESSEE

Investments held at June 30, 2009 are as follows:

	<u>Market Value</u>	<u>Cost Basis</u>
Assets Held by the University of Tennessee		
US Equity	\$ 3,376,387.42	\$ 4,289,087.56
International Equity	2,753,277.29	3,497,539.21
Fixed Income	2,506,931.42	3,184,601.50
Private Capital	1,622,984.50	2,061,707.33
Natural Resources	1,289,693.04	1,638,321.00
Real Estate	666,582.92	846,772.65
Alternative Investments	<u>2,275,076.49</u>	<u>2,890,071.88</u>
	14,490,933.08	18,408,101.13
Gift Annuity		
Equities	676,919.98	879,780.26
Fixed Income	369,582.43	376,654.00
Cash	<u>36,782.77</u>	<u>36,782.77</u>
	1,083,285.18	1,293,217.03
Other	<u>6,001.86</u>	<u>5,882.25</u>
Total	<u>\$15,580,220.12</u>	<u>\$19,707,200.41</u>

The University of Tennessee Foundation, Inc.

**Notes to Financial Statements
(Continued)**

**3. INVESTMENTS AND ASSETS HELD BY THE UNIVERSITY OF TENNESSEE
(Continued)**

At June 30, 2009, the fair values of investments for private capital, natural resources, real estate, and alternative investments are based on valuations for which a readily determinable fair value does not exist. These investments are not listed on national exchanges or over-the-counter markets, and quoted market prices are not available. The fair value of these investments is estimated based on a review of all available information provided by fund managers and general partners. These estimates are evaluated on a regular basis and are susceptible to revisions as more information becomes available.

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 \$18,408,101.13 and \$14,490,933.08, which resulted in a cumulative unrealized loss of \$3,917,168.05. All endowments at the Foundation are donor restricted. Endowment pool earnings transferred to the University were \$820,854.69 for fiscal year 2009.

The Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result, the Foundation classifies permanently restricted net assets as (1) the original value of gifts to the endowment, (2) the original value of subsequent gifts to the endowment, (3) accumulations to the endowment made in accordance with the gift instrument, and (4) the endowment is vested in the University's Consolidated Investment Pool. Other endowments that are not classified as permanently restricted are classified as temporarily restricted net assets. Below is a schedule of endowments by fund type:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning balance	\$ -	\$ 1,034,120.79	\$ 13,799,228.25	\$ 14,833,349.04
Contributions pooled	-	392,865.64	3,684,728.89	4,077,594.53
Investment earnings	-	63,113.77	825,469.95	888,583.72
Market value adjustment	(3,917,168.05)	-	-	(3,917,168.05)
Contributions not pooled	-	-	(10,000.00)	(10,000.00)
Disbursements	-	-	(820,854.69)	(820,854.69)
Transfers	-	(93,474.18)	(467,097.29)	(560,571.47)
Ending balance	<u>\$ (3,917,168.05)</u>	<u>\$ 1,396,626.02</u>	<u>\$ 17,011,475.11</u>	<u>\$ 14,490,933.08</u>

The University of Tennessee Foundation, Inc.

**Notes to Financial Statements
(Continued)**

**3. INVESTMENTS AND ASSETS HELD BY THE UNIVERSITY OF TENNESSEE
(Continued)**

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets were \$3,917,168.05 at June 30, 2009. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that were deemed prudent.

The University calculates its spending policy by taking 5% of a three year market average each December 31.

The University's overall, long-term investment objective of the Consolidated Investment Pool (CIP) is to achieve an annualized total return (net of fees and expenses), through appreciation and income, greater than the rate of inflation (as measured by the broad, domestic Consumer Price Index) plus any spending, thus protecting the assets against inflation.

The assets are to be managed in a manner that will meet the long-term investment objective, while at the same time attempting to limit the volatility in year-to-year spending.

The University's Investment Advisory Committee believes that investing in securities with higher return expectations outweighs their short-term volatility risk. As a result, the majority of assets will be invested in equity or equity-like securities. Fixed income securities and other low volatility strategies (e.g. absolute return hedge funds) will be used to lower the short-term volatility of the portfolio and to provide stability, especially during periods of negative equity markets. Cash is not a strategic asset of the portfolio, but is a residual to the investment process and used to meet short-term liquidity needs.

Disciplined management of the asset allocation is necessary and desirable. Diversification of investments among assets that are not similarly affected by economic, political, or social developments is highly desirable. The general policy shall be to diversify investments so as to provide a balance that will enhance total return, while avoiding undue risk concentrations in any single asset or investment category. To ensure broad diversification, the asset allocation will be set with the following target percentages and within the following ranges:

Asset Category	Target	Range
U.S. Equity	25%	15-40%
International Equity	20	10-30
Fixed Income	13	10-30
Private Capital	12	0-15
Natural Resources	8	0-15
Real Estate	7	0-15
Alternative Investments	15	0-20

The University of Tennessee Foundation, Inc.

**Notes to Financial Statements
(Continued)**

**3. INVESTMENTS AND ASSETS HELD BY THE UNIVERSITY OF TENNESSEE
(Continued)**

Investment type – see above for target allocations. Actual allocations were as follows at June 30, 2009:

US Equity	23.3%
International Equity	19.0%
Fixed Income	17.3%
Private Capital	11.2%
Natural Resources	8.9%
Real Estate	4.6%
Alternative Investments	15.7%

The Investment Advisory Committee is responsible for adopting the provisions of this Charter. This responsibility includes advising the Vice President and Treasurer on the investment strategy, asset allocations, and spending rates; the hiring and firing of investment managers, custodians and investment consultants; and monitoring performance of the investment portfolio on a regular basis (at least quarterly). The Committee will maintain sufficient knowledge about the portfolio and its managers so as to be reasonably assured of their compliance with the Policy and Charter. The committee is comprised of the Chair of the Finance Committee of the Board of Trustees, the Vice President and Treasurer, Chief Financial Officer, Vice President for Development, President or designee, Chair of the UT Foundation board of directors, and four at large members elected by the committee. The plan consultant is Fund Evaluation Group headquartered in Cincinnati, Ohio.

The total market value for the CIP at June 30, 2009 was \$475,314,079.73.

The total book value for the CIP at June 30, 2009 was \$581,459,266.45.

Gift Annuity

In May 2008, the Foundation launched its own gift annuity program. The Foundation has placed \$500,766.11 as a reserve for the annuity program. By June 30, 2009, the Foundation executed nine gift annuity contracts totaling \$758,928.50. The funds are held in trust at First Tennessee Bank and invested. The market value for the invested gift annuities and reserve at June 30, 2009 was \$1,083,285.18 which resulted in an unrealized loss of \$209,931.85. The investments consist of cash, equity index funds, and fixed income funds.

The University of Tennessee Foundation, Inc.

**Notes to Financial Statements
(Continued)**

**3. INVESTMENTS AND ASSETS HELD BY THE UNIVERSITY OF TENNESSEE
(Continued)**

Fair Value Measures

As of July 1, 2008, the Foundation adopted Statement of Financial Accounting Standards No. 157, "Fair Value Measurements," (SFAS 157), which defines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States, and enhances disclosures about fair value measurements.

SFAS 157 establishes a framework for measuring fair value and a three-level hierarchy for fair value measurements based upon the inputs to value the assets and liabilities. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used for measurement are observable or unobservable. Observable inputs reflect market –derived or market-based information obtained from independent sources while unobservable inputs reflect estimates about market data based on the best available information in the circumstances. The three levels are defined as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation has the ability to access.

Level 2 – Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not active and other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect management's assumptions that market participants would use in pricing an asset or liability.

The table below presents the recorded amount of assets and liabilities measured at fair value:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments	<u>\$ 7,436,062.90</u>	<u>\$ 2,289,820.27</u>	<u>\$ 5,854,336.95</u>	<u>\$ 15,580,220.12</u>

The table below presents additional information about assets and liabilities measured at fair value on a recurring basis by reliance on Level 3 inputs to determine fair value.

Beginning balance	\$ 7,276,389.56
Total realized and unrealized gains and losses included in earnings	(1,931,383.44)
Purchases, issuances and settlements	509,330.83
Ending balance	<u>\$ 5,854,336.95</u>

The University of Tennessee Foundation, Inc.**Notes to Financial Statements
(Continued)****4. 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. Total accrued lease expense was \$15,000.00 for the year ended June 30, 2008. 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 sublease. Total accrued lease revenue at June 30, 2009 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.

5. 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, 2009 were \$74,730,108.47.

Permanently restricted net assets are available for scholarships or other academic purposes. Total permanently restricted net assets at June 30, 2009 were \$22,014,516.72.

6. 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 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, 2009 was \$4,930,120.78.

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 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, 2009 was \$11,716,554.84.

The University of Tennessee Foundation, Inc.

**Notes to Financial Statements
(Continued)**

7. 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). No amount was at risk at June 30, 2009. The Foundation has not experienced any losses in this account and believes it is not exposed to any significant credit risk to cash.

8. OTHER ASSETS

During the year, the Foundation received contributions of property in three Tennessee counties as follows:

<u>Location</u>	<u>Description</u>	<u>Appraised Value</u>
Monroe County	Commercial property	\$ 428,000.00
Grainger County	20 subdivision lots	582,000.00
Decatur County	Commercial property	125,000.00
Total non-cash gifts received		<u>\$ 1,135,000.00</u>

At June 30, 2009, all real estate the Foundation intends to sell and held longer than four months was reappraised. The Monroe County property was valued at \$1,700 at year end which resulted in an unrealized loss of \$426,300. The Grainger County property was valued at \$35,000 which resulted in an unrealized loss of \$547,000. Since the Decatur County property was held less than four months, an updated appraisal was not performed. During fiscal year 2008, property in Knox County, Tennessee was received at an appraised value of \$185,000. At June 30, 2009, the property was appraised at \$177,700 which resulted in an unrealized loss of \$7,300.

Other assets also include other property in Weakley County, Tennessee and Obion County, Tennessee valued by appraisal at \$376,000 and other assets valued at \$67,850.

9. NOTE PAYABLE

Note payable, dated January 2006, due in monthly installments of principal and interest of \$2,000.00. This note bears interest at 4.68%. This note is secured by real property in Weakley County and Obion County, Tennessee

\$211,954.45

The University of Tennessee Foundation, Inc.**Notes to Financial Statements
(Continued)****9. NOTE PAYABLE (Continued)**

Future maturities of this note are as follows:

2010	\$ 14,386.52
2011	15,074.44
2012	15,795.25
2013	16,550.54
2014	17,341.93
2015 - 2019	99,970.28
2020 - 2021	<u>32,835.52</u>
Total	<u>\$211,954.45</u>

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**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 financial statements of The University of Tennessee Foundation, Inc. as of and for the year ended June 30, 2009, and have issued our report thereon dated October 28, 2009. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The University of Tennessee Foundation, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of The University of Tennessee Foundation, Inc.'s internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects The University of Tennessee Foundation, Inc.'s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of The University of Tennessee Foundation, Inc.'s financial statements that is more than inconsequential will not be prevented or detected by The University of Tennessee Foundation, Inc.'s internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by The University of Tennessee Foundation, Inc.'s internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The University of Tennessee Foundation, Inc.'s 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.

A handwritten signature in cursive script that reads "Brown Lake & McDaniel, PC". The signature is written in black ink and is positioned above the printed name of the firm.

CERTIFIED PUBLIC ACCOUNTANTS

October 28, 2009