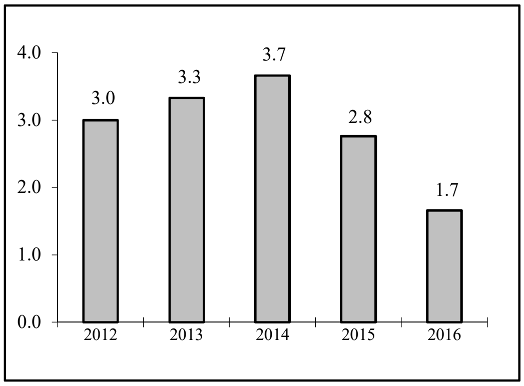
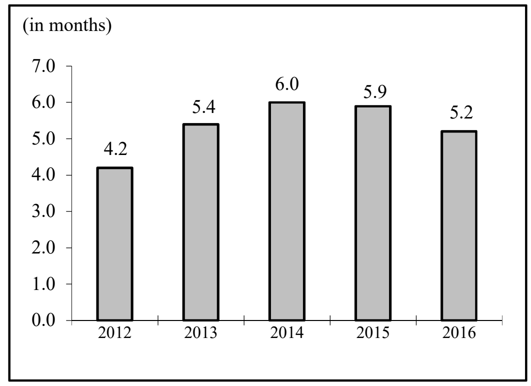
The University of Texas at San Antonio
2016 Summary of Financial Condition

Financial Condition: **Satisfactory**

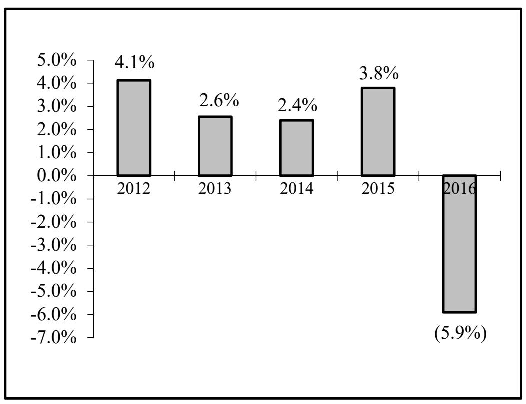
Composite Financial Index



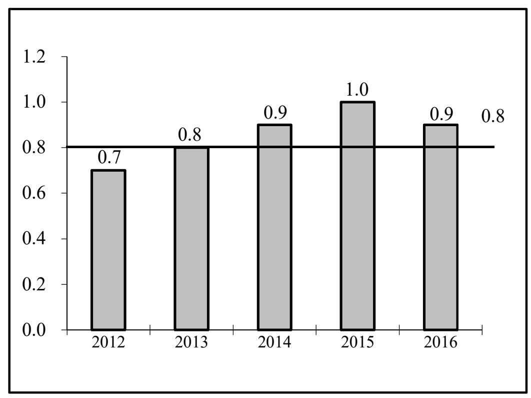
Operating Expense Coverage Ratio



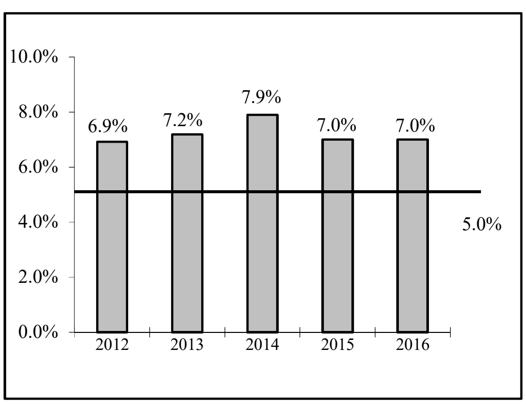
Annual Operating Margin Ratio



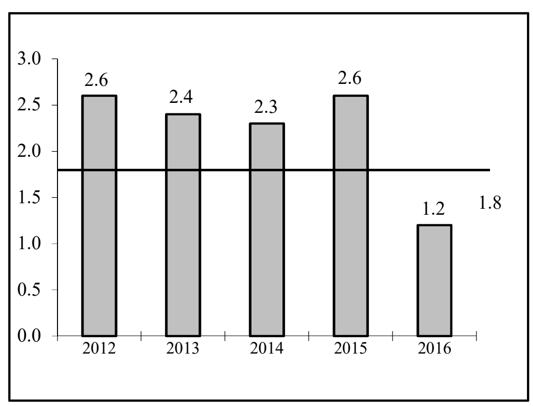
Expendable Resources to Debt Ratio



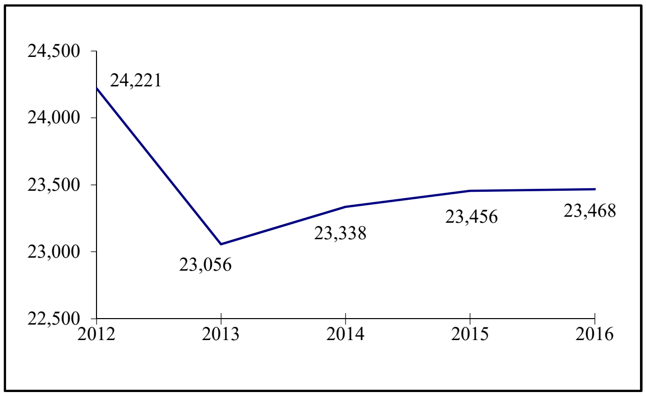
Debt Burden Ratio



Debt Service Coverage Ratio



The University of Texas at San Antonio
2016 Summary of Financial Condition
Full-time Equivalent
Student Enrollment - Fall



Composite Financial Index (CFI) - U. T. San Antonio's CFI decreased from 2.8 in 2015 to 1.7 in 2016 primarily as a result of decreases in the annual operating margin and return on net position ratios. The decline in the annual operating margin ratio is discussed below. The decrease in the return on net position ratio was also driven by the decline in operating performance.

Operating Expense Coverage Ratio - U. T. San Antonio's operating expense coverage ratio decreased from 5.9 months in 2015 to 5.2 months in 2016 due to a $15.6 million decrease in total unrestricted net position combined with an increase in total operating expenses (including interest expense) of $27.8 million. The decrease in total unrestricted net position was primarily attributable to the decline in operating results in designated funds. Total operating expenses increased due to the following: a $16.9 million increase in salaries and wages and payroll related costs as a result of recruitment and retention efforts associated with the Goldstar Initiative to recruit top-tier researchers, merit increases and increased benefits costs; a $12.4 million increase in scholarships and fellowships expense primarily attributable to a $6.4 million correction of a cash entry related to the conversion to PeopleSoft, as well as a decrease in discounts and adjustments driven by the decrease in the number of days for the fall semester recognized in August from 10 days in 2015 to 7 days in 2016, and an increase in exemptions of $1.4 million; and a $6.0 million increase in other operating expenses largely due to $3.0 million in conversion clean-up adjustments, as well as increases in Intensive English, student official occasions and athletics expenses. These increases in operating expenses were partially offset by a decrease of $7.3 million in materials and supplies primarily due to expenses incurred in 2015 to outfit the North Paseo Building and furnishing purchases for housing with no such comparable purchases in 2016.

Annual Operating Margin Ratio - U. T. San Antonio's annual operating margin ratio declined from 3.8% for 2015 to (5.9%) for 2016 due to a decrease in total operating revenues of $21.3 million and an increase in total operating expenses of $27.8 million. The driving forces behind the increase in total operating expenses are discussed above. The decrease in total operating revenues was primarily attributable to the following: a $7.2 million decrease in net tuition and fees resulting from a decrease in non-resident credit hours and fewer number of days recognized as revenue for the subsequent fall term; a $7.1 million decrease in gifts for operations due to the write-off of a $3.9 million pledge for an endowment that was erroneously recorded as an operating gift combined with the end of the capital campaign in 2015; a $5.7 million decrease in state appropriations as a result of a drop in statutory tuition dollars related to fewer non-resident students; and a $3.5 million decrease in net investment income (excluding realized gains/losses and including the GEF transfer).

Expendable Resources to Debt Ratio - U. T. San Antonio's expendable resources to debt ratio decreased from 1.0 in 2015 to 0.9 in 2016. The decrease in this ratio was due to decreases in both total unrestricted net position of $15.6 million, as previously discussed, and total restricted expendable net position (excluding expendable for capital projects) of $5.3 million. Total restricted expendable net position (excluding restricted for capital projects) decreased as a result of expenses exceeding the revenues in restricted funds, including the write-off of a $3.9 million pledge for an endowment that was erroneously recorded as an operating gift.

Debt Burden Ratio - U. T. San Antonio's debt burden ratio remained unchanged at 7.0% in 2016. The stability of this ratio was attributable to the growth in scholarships expense which is excluded from total operating expenses for purposes of this calculation and the relative stability in the debt service payments between years.

Debt Service Coverage Ratio - U. T. San Antonio's debt service coverage ratio decreased from 2.6 in 2015 to 1.2 in 2016. The decrease in this ratio was a result of the decline in operating performance as discussed in the annual operating margin ratio above.

Full-Time Equivalent (FTE) Student Enrollment - U. T. San Antonio's FTE student enrollment remained close to the fall 2015 level, as increases in graduate semester credit hours were offset by decreases in undergraduate and doctoral semester credit hours.

Appendix A - Definitions of Evaluation Factors

1. **Composite Financial Index (CFI)** – The CFI measures the overall financial health of an institution by combining four core ratios into a single score. The four core ratios used to compute the CFI are as follows: primary reserve ratio, expendable resources to debt ratio, return on net position ratio, and annual operating margin ratio.

Core Ratio Values		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	/	0.133	=	Strength Factor	x	35.0%	=	Score
Annual Operating Margin	/	1.3%	=	Strength Factor	x	10.0%	=	Score
Return on Net Position	/	2.0%	=	Strength Factor	x	20.0%	=	Score
Expendable Resources to Debt	/	0.417	=	Strength Factor	x	35.0%	=	Score
						CFI	=	Total Score

2. **Operating Expense Coverage Ratio** – This ratio measures an institution's ability to cover future operating expenses with available year-end balances. This ratio is expressed in number of months coverage.

$$\frac{\text{Total Unrestricted Net Position}}{\text{Total Operating Expenses + Interest Expense on Debt}} * 12$$

3. **Annual Operating Margin Ratio** – This ratio indicates whether an institution is living within its available resources.

$$\frac{\text{Op Rev+GR+Op Gifts+NonexchSP+Inv Inc+RAHC\&AUF Trans+NSERB Appr+Hazelwood Trans–Op Exp \& Int Exp}}{\text{Op Rev+GR+Op Gifts+NonexchSP+Inv Inc+RAHC\&AUF Trans+NSERB Approp+Hazelwood Trans}}$$

4. **Expendable Resources to Debt Ratio** – This ratio measures an institution's ability to fund outstanding debt with existing net position balances should an emergency occur. Debt capacity thresholds are provided by the Office of Finance. An institution's debt capacity is largely determined by its ability to meet at least two of three minimum standards for debt service coverage, debt burden, and expendable resources to debt. According to *Strategic Financial Analysis for Higher Education*, Seventh Edition, the amount of restricted expendable net position that will be invested in plant should be excluded in the calculation of this ratio. Therefore, beginning in 2013 the amount of restricted expendable for capital projects is excluded from the numerator. The minimum expendable resources to debt ratio is 0.8 times.

$$\frac{\text{Restricted Expendable Net Position (excluding expendable for capital projects) + Unrestricted Net Position}}{\text{Debt not on Institution's Books}}$$

5. **Debt Burden Ratio** – This ratio examines the institution's dependence on borrowed funds as a source of financing and the cost of borrowing relative to overall expenses. Debt capacity thresholds are provided by the Office of Finance. An institution's debt capacity is largely determined by its ability to meet at least two of three minimum standards for debt service coverage, debt burden, and expendable resources to debt. The maximum debt burden ratio is 5.0%.

$$\frac{\text{Debt Service Transfers}}{\text{Operating Exp. (excluding Scholarships Exp.) + Interest Exp.}}$$

Appendix A - Definitions of Evaluation Factors (Continued)

6. **Debt Service Coverage Ratio** – This ratio measures the actual margin of protection provided to investors by annual operations. Moody's excludes actual investment income from its calculation of total operating revenue and instead uses a normalized investment income. Moody's applies 5% of the average of the previous three years' market value of cash and investments to compute normalized investment income. In order to be consistent with the Office of Finance's calculation of the debt service coverage ratio, normalized investment income as defined above is used for the calculation of this ratio <u>only</u>. Debt capacity thresholds are provided by the Office of Finance. An institution's debt capacity is largely determined by its ability to meet at least two of three minimum standards for debt service coverage, debt burden, and expendable resources to debt. The minimum debt service coverage ratio is 1.8 times.

$$\frac{\text{Op Rev+GR+Op Gifts+NonexchSP+Norm Inv Inc+RAHC\&AUF Trans+NSERB+Hazelwood Trans–Op Exp+Depr}}{\text{Debt Service Transfers}}$$

7. **Primary Reserve Ratio** - This ratio measures the financial strength of an institution by comparing expendable net position to total expenses. This ratio provides a snapshot of financial strength and flexibility by indicating how long the institution could function using its expendable reserves without relying on additional net position generated by operations. According to *Strategic Financial Analysis for Higher Education*, Seventh Edition, the amount of restricted expendable net position that will be invested in plant should be excluded in the calculation of this ratio. Therefore, beginning in 2013 the amount of restricted expendable for capital projects is excluded from the numerator.

$$\frac{\text{Expendable Net Position (excluding expendable for capital projects) + Unrestricted Net Position}}{\text{Total Operating Expenses + Interest Expense on Debt}}$$

8. **Return on Net Position Ratio –** This ratio determines whether the institution is financially better off than in previous years by measuring total economic return. An improving trend indicates that the institution is increasing its net position and is likely to be able to set aside financial resources to strengthen its future financial flexibility.

$$\frac{\text{Change in Net Position (Adjusted for Change in Debt not on Institution's Books)}}{\text{Beginning Net Position – Debt not on Institution's Books}}$$

9. **Full-Time Equivalent (FTE) Student Enrollment** - Total semester credit hours taken by students during the fall semester, divided by factors of 15 for undergraduate students, 12 for graduate and special professional students, and 9 for doctoral students to arrive at the full-time equivalent (FTE) students represented by the course hours taken.

Appendix A - Definitions of Evaluation Factors (Continued)

The categories, which are utilized to indicate the assessment of an institution's financial condition, are "Satisfactory," "Watch," and "Unsatisfactory." In most cases the rating is based upon the trends of the financial ratios unless isolated financial difficulties in particular areas are material enough to threaten the overall financial results.

Satisfactory – an institution assigned this assessment exhibits a general history of relatively stable or increasing financial ratios. The CFI remains relatively stable within the trend period. However, the CFI can fluctuate depending upon the underlying factors contributing to the fluctuation with respect to the overall mission of an institution. The CFI must be analyzed in conjunction with the trends in the other ratios analyzed. The operating expense coverage ratio should be at or above a two-month benchmark and should be stable or improving. The annual operating margin ratio could be both positive and negative during the trend period due to nonrecurring items. Some of these items include unexpected reductions in external sources of income, such as state appropriations, gifts and investment income, all of which are unpredictable and subject to economic conditions. The Office of Finance uses the expendable resources to debt ratio, debt burden ratio, and debt service coverage ratio, which are the same ratios the bond rating agencies calculate for the System. Trends in these ratios can help determine if an institution has additional debt capacity or has assumed more debt than it can afford to service. In general, an institution's expendable resources to debt and debt service coverage ratios should exceed the Office of Finance's standards of 0.8 times and 1.8 times, respectively, while the debt burden ratio should fall below the Office of Finance's standard of 5.0%. Full-time equivalent (FTE) student enrollment must be relatively stable or increasing. Isolated financial difficulties in particular areas may be evident, but must not be material enough to threaten the overall financial health of an institution.

Watch – an institution assigned this assessment exhibits a history of relatively unstable or declining financial ratios. The CFI is less stable and/or the fluctuations are not expected given the mission of an institution. The operating expense coverage ratio can be at or above a two-month benchmark, but typically shows a declining trend. Annual operating margin ratio is negative or near break-even during the trend period due to recurring items, material operating difficulties or uncertainties caused by either internal management decisions or external factors. Trends in the expendable resources to debt ratio, debt burden ratio, and debt service coverage ratio can help determine if an institution has additional debt capacity or has assumed more debt than it can afford to service. FTE student enrollment can be stable or declining, depending upon competitive alternatives or recruitment and retention efforts. Isolated financial difficulties in particular areas may be evident and can be material enough to threaten the overall financial health of an institution.

Unsatisfactory – an institution assigned this assessment exhibits a history of relatively unstable financial ratios. The CFI is very volatile and does not support the mission of an institution. The operating expense coverage ratio may be below a two-month benchmark and shows a declining trend. The annual operating margin ratio is predominately volatile or negative during the trend period due to material operating difficulties or uncertainties caused by either internal management decisions or external factors. Trends in the expendable resources to debt ratio, debt burden ratio, and debt service coverage ratio can help determine if an institution has additional debt capacity or has assumed more debt than it can afford to service. The FTE student enrollment can be stable or declining, depending upon competitive alternatives or recruitment and retention efforts. Widespread financial difficulties in key areas are evident and are material enough to further threaten the overall financial health of an institution. For institutions rated "Unsatisfactory," the Chancellor and the appropriate Executive Vice Chancellors will request the institutions to develop a specific financial plan of action to improve the institution's financial condition. By policy, institutions rated "Unsatisfactory" are not permitted to invest in the Intermediate Term Fund. Progress towards the achievement of the plans will be periodically discussed with the Chief Business Officer and President, and representatives from the System Offices of Business, Academic, and/or Health Affairs, as appropriate.

Appendix B - Calculation of Composite Financial Index
Academic Institutions
As of August 31, 2016

U. T. Arlington

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.70	/	0.133	=	5.26	x	35.0%	=	1.84
Annual Operating Margin	9.50%	/	1.3%	=	7.31	x	10.0%	=	0.73
Return on Net Position	10.40%	/	2.0%	=	5.20	x	20.0%	=	1.04
Expendable Resources to Debt	1.20	/	0.417	=	2.88	x	35.0%	=	1.01
							CFI		4.6

U. T. Austin

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	1.30	/	0.133	=	9.77	x	35.0%	=	3.42
Annual Operating Margin	5.20%	/	1.3%	=	4.00	x	10.0%	=	0.40
Return on Net Position	5.60%	/	2.0%	=	2.80	x	20.0%	=	0.56
Expendable Resources to Debt	2.20	/	0.417	=	5.28	x	35.0%	=	1.85
							CFI		6.2

U. T. Dallas

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.60	/	0.133	=	4.51	x	35.0%	=	1.58
Annual Operating Margin	4.10%	/	1.3%	=	3.15	x	10.0%	=	0.32
Return on Net Position	12.00%	/	2.0%	=	6.00	x	20.0%	=	1.20
Expendable Resources to Debt	0.60	/	0.417	=	1.44	x	35.0%	=	0.50
							CFI		3.6

U. T. El Paso

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.50	/	0.133	=	3.76	x	35.0%	=	1.32
Annual Operating Margin	-3.60%	/	1.3%	=	-2.77	x	10.0%	=	-0.28
Return on Net Position	-1.30%	/	2.0%	=	-0.65	x	20.0%	=	-0.13
Expendable Resources to Debt	0.90	/	0.417	=	2.16	x	35.0%	=	0.76
							CFI		1.7

Appendix B - Calculation of Composite Financial Index
Academic Institutions
As of August 31, 2016
(continued)

U. T. Permian Basin

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.40	/	0.133	=	3.01	x	35.0%	=	1.05
Annual Operating Margin	-3.10%	/	1.3%	=	-2.38	x	10.0%	=	-0.24
Return on Net Position	2.30%	/	2.0%	=	1.15	x	20.0%	=	0.23
Expendable Resources to Debt	0.20	/	0.417	=	0.48	x	35.0%	=	0.17
							CFI		1.2

U. T. Rio Grande Valley

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.40	/	0.133	=	3.01	x	35.0%	=	1.05
Annual Operating Margin	2.40%	/	1.3%	=	1.85	x	10.0%	=	0.18
Return on Net Position	50.50%	/	2.0%	=	25.25	x	20.0%	=	5.05
Expendable Resources to Debt	1.40	/	0.417	=	3.36	x	35.0%	=	1.18
							CFI		7.5

U. T. San Antonio

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.60	/	0.133	=	4.51	x	35.0%	=	1.58
Annual Operating Margin	-5.90%	/	1.3%	=	-4.54	x	10.0%	=	-0.45
Return on Net Position	-2.20%	/	2.0%	=	-1.10	x	20.0%	=	-0.22
Expendable Resources to Debt	0.90	/	0.417	=	2.16	x	35.0%	=	0.76
							CFI		1.7

U. T. Tyler

Ratio	Ratio Value		Conversion Factor		Strength Factor		Weighting Factor		Score
Primary Reserve	0.60	/	0.133	=	4.51	x	35.0%	=	1.58
Annual Operating Margin	-9.30%	/	1.3%	=	-7.15	x	10.0%	=	-0.72
Return on Net Position	-10.60%	/	2.0%	=	-5.30	x	20.0%	=	-1.06
Expendable Resources to Debt	0.60	/	0.417	=	1.44	x	35.0%	=	0.50
							CFI		0.3

Appendix C - Calculation of Expendable Net Position
Academic Institutions
As of August 31, 2016
(In Millions)

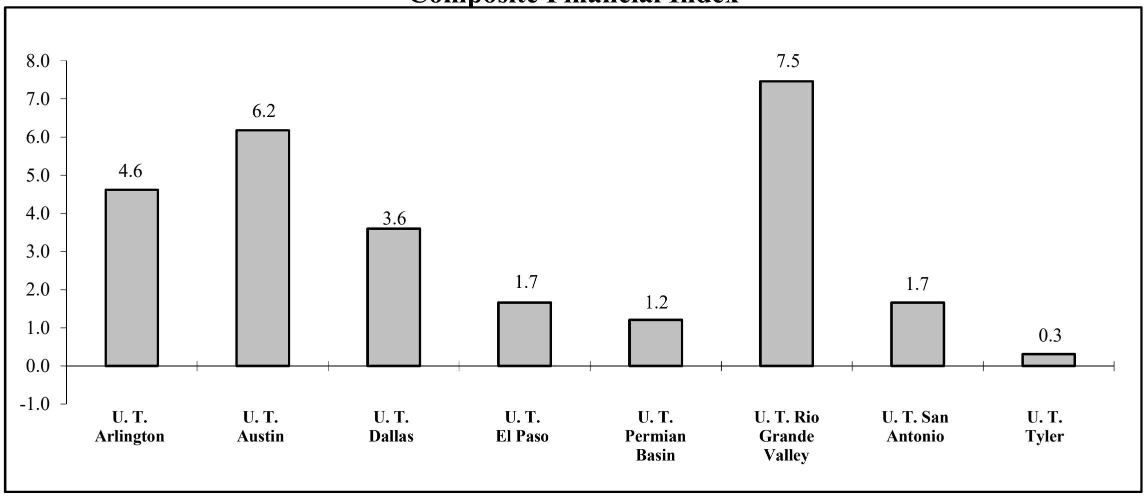
Institution	Restricted Expendable Net Position: Capital Projects	Restricted Expendable Net Position: Funds Functioning Restricted	Restricted Expendable Net Position: Other Expendable	Restricted Expendable Net Position: Total	Total Unrestricted Net Position	Total Expendable Net Position	Less: Restricted Exp for Cap. Projects	Total Exp. Net Position Excluding Cap. Projects
U. T. Arlington	$ 59.5	4.1	62.5	126.2	330.1	456.3	(59.5)	396.8
U. T. Austin	168.6	235.8	1,795.5	2,199.9	1,256.3	3,456.2	(168.6)	3,287.6
U. T. Dallas	79.9	23.5	185.8	289.2	141.3	430.5	(79.9)	350.6
U. T. El Paso	(0.3)	17.7	131.6	149.1	59.4	208.4	0.3	208.7
U. T. Permian Basin	3.0	0.4	26.8	30.2	6.2	36.4	(3.0)	33.3
U. T. Rio Grande Valley	18.9	1.3	52.4	72.6	121.9	194.6	(18.9)	175.7
U. T. San Antonio	1.3	1.5	64.9	67.8	230.8	298.6	(1.3)	297.3
U. T. Tyler	32.8	1.6	46.1	80.6	37.2	117.8	(32.8)	85.0

Appendix D - Calculation of Annual Operating Margin
Academic Institutions
As of August 31, 2016
(In Millions)

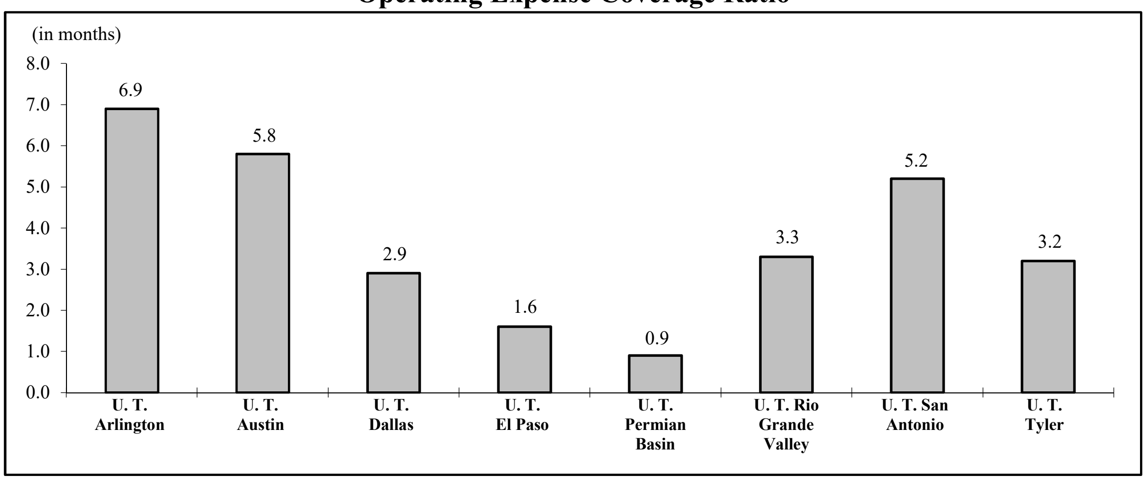
Institution	Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	Less: Nonoperating Items: Other Nonop. Revenues	Other Nonop. Expenses	Gain/Loss on Sale of Cap. Assets	Net Increase/ (Decrease) in FV of Inv.	Margin From SRECNA	Other Adjustments: Minus: Realized Gains/ (Losses)	Plus: AUF, RAHC & NSERB	Plus: GEF Transfer	Plus: Hazelwood Transfers	Plus: Interest Expense	Annual Operating Margin
U. T. Arlington	$ 70.4	-	(0.9)	(0.8)	2.0	69.8	-	-	1.4	0.9	(11.6)	60.5
U. T. Austin	(183.5)	26.7	(0.7)	(19.3)	(39.7)	(150.5)	(0.1)	297.7	34.3	1.9	(42.5)	141.1
U. T. Dallas	34.3	-	-	(1.9)	(10.3)	46.5	13.9	6.5	4.0	0.5	(18.2)	25.4
U. T. El Paso	(12.2)	0.1	(0.2)	(2.1)	(2.3)	(7.6)	0.8	-	1.9	0.5	(9.2)	(15.2)
U. T. Permian Basin	2.1	0.1	-	-	(0.1)	2.1	(0.3)	-	0.4	0.1	(5.4)	(2.5)
U. T. Rio Grande Valley	15.3	0.3	-	(1.3)	0.7	15.6	(0.2)	0.6	0.5	0.5	(6.3)	11.2
U. T. San Antonio	(18.6)	0.1	-	(0.4)	(0.2)	(18.0)	0.3	-	1.4	1.7	(14.4)	(29.6)
U. T. Tyler	(9.6)	-	-	-	(0.2)	(9.3)	-	-	0.8	0.2	(3.6)	(11.8)

Appendix E - Academic Institutions' Evaluation Factors
2016 Analysis of Financial Condition

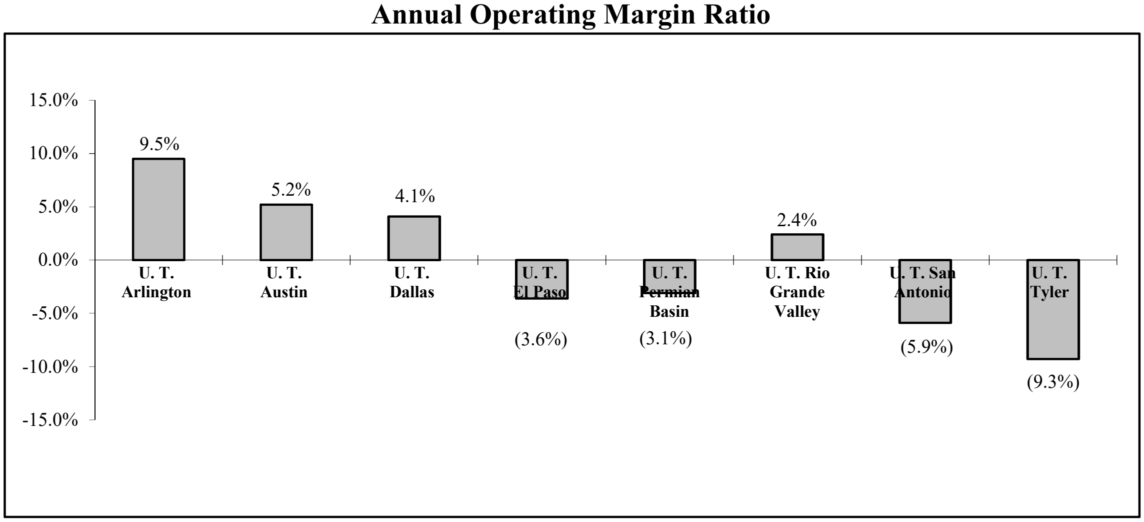
Composite Financial Index



Operating Expense Coverage Ratio

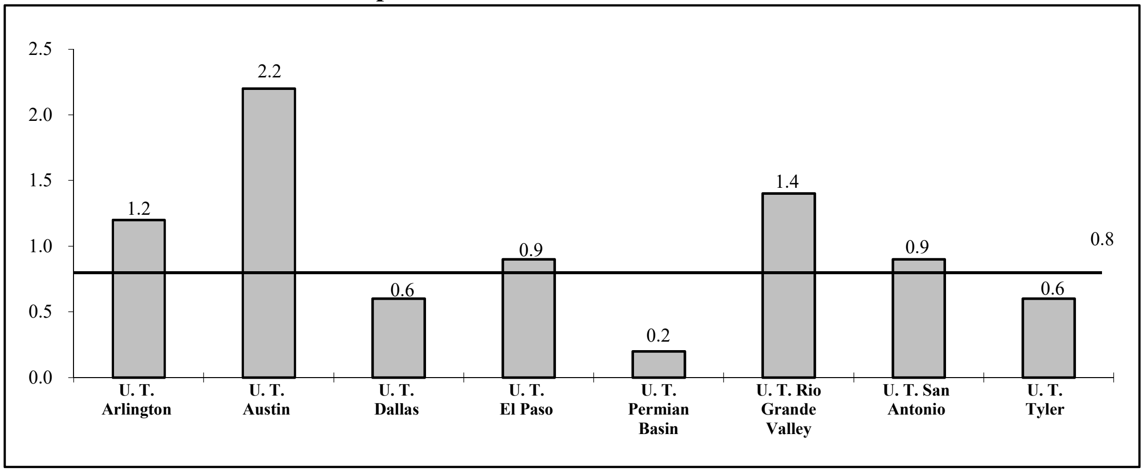


Annual Operating Margin Ratio

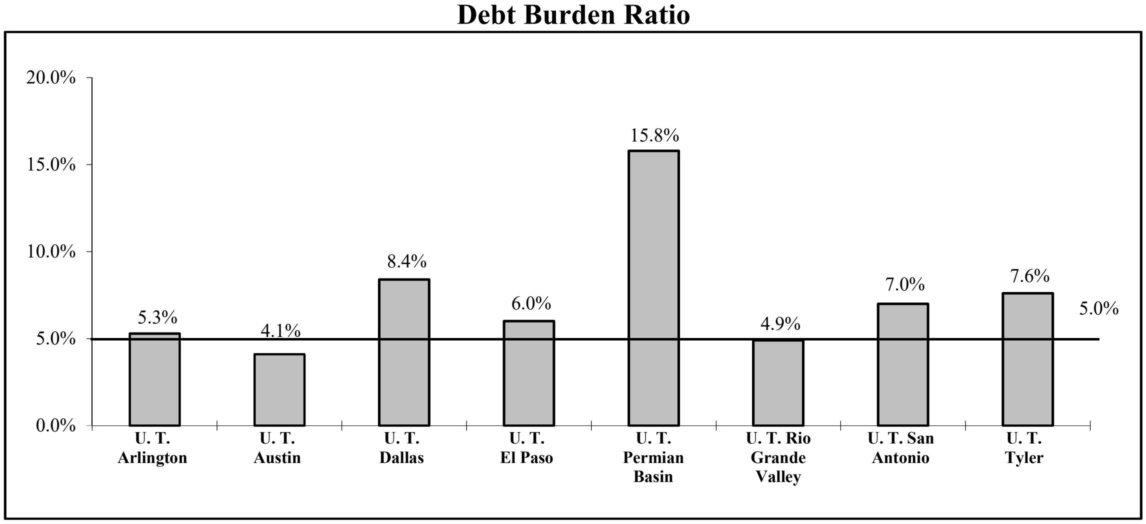


Appendix E - Academic Institutions' Evaluation Factors
2016 Analysis of Financial Condition

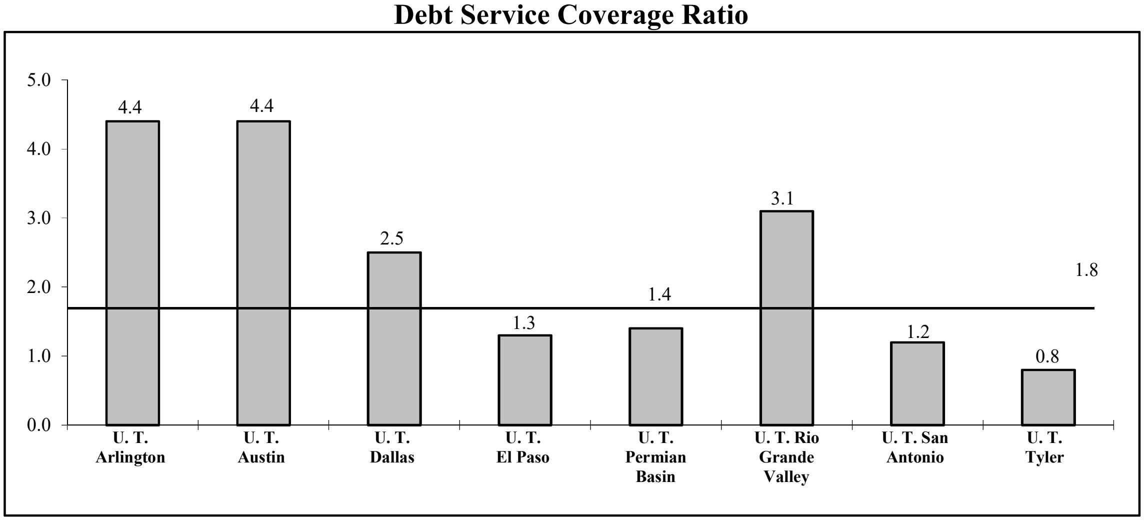
Expendable Resources to Debt Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



Appendix F - Scale for Charting CFI Performance