2017 Analysis of Financial Condition

February 2018

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The University of Texas System
2017 Analysis of Financial Condition

Executive Summary

The Analysis of Financial Condition (AFC) was performed from the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position. Since debt is reported at the System level and not on the individual institution's books, debt was allocated to the appropriate institution, as provided by the Office of Finance.

The ratios presented in this report are ratios commonly used by bond rating agencies, public accounting firms, and consulting firms. A number of changes were made to the AFC for 2017. The Composite Financial Index (CFI) was replaced with Moody's Overall Scorecard Rating, which is based upon four broad factors important to Moody's in their assessment of university ratings. Those four broad categories are as follows:

- Market Profile
- Operating Performance
- Wealth and Liquidity, and
- Leverage

There are nine sub-factor calculations under these four broad factors and each sub-factor is assigned a weight and a value. After calculating each sub-factor, the results are mapped to a Moody's rating category. The sub-factor ratings are then converted to alpha numeric values, which are multiplied by the assigned weights and summed to produce an aggregate weighted score. That aggregate score is then mapped to the appropriate Moody's rating.

In addition to replacing the CFI, the following changes were made to the 2017 AFC:

- Cash on Hand Ratio – A cash on hand ratio was added which measures the number of months an institution could continue to pay operating expenses from existing unrestricted cash and investments in the absence of additional revenue.
- Spendable Cash and Investments to Total Debt Ratio – The expendable resources to debt ratio was replaced with spendable cash and investments to total debt ratio. This ratio examines the ability of an institution to repay bondholders from wealth that can be accessed over time or for a specific purpose. Debt capacity thresholds are provided by the Office of Finance. The minimum spendable cash and investments to total debt ratio is 0.9 times.
- Debt Service to Operations Ratio – The debt burden ratio was renamed debt service to operations ratio but is calculated the same as in past years.
- Debt Service Coverage Ratio – This ratio was removed from the AFC.

This report is meant to be a broad annual financial evaluation that rates the institutions as either "Satisfactory," "Watch," or "Unsatisfactory" based upon the factors analyzed. (See Appendix A – Definitions of Evaluation Factors). 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.

U. T. El Paso's rating was maintained as "Watch" for 2017 as a result of a continued downward trend in the financial condition. U. T. El Paso incurred operating deficits during the past five years, and the operating expense coverage ratio fell below the System's benchmark of 2.0 months for the past three years. The operating expense coverage ratio of 1.3 months was the lowest of all the U. T. institutions in 2017. Additionally, U. T. El Paso's cash on hand was 3.1 months and the second lowest of all the academic institutions.

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U. T. Permian Basin's rating was maintained as "Watch" for 2017. U. T. Permian Basin incurred operating deficits during four of the past five years. Although the operating expense coverage ratio increased by 1.1 months to the System's benchmark of 2.0 months, it was still the third lowest operating expense coverage ratio of all the U. T. institutions. Additionally, U. T. Permian Basin's cash on hand was only 2.2 months, which was the lowest of all the academic institutions.

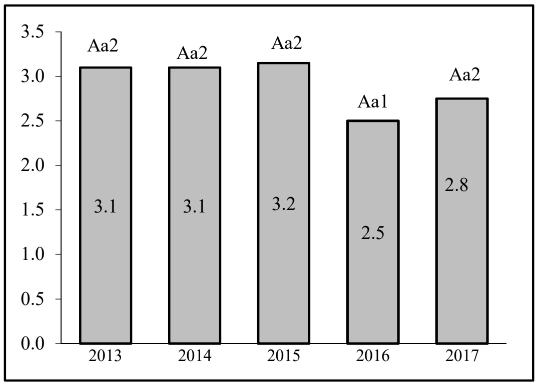
UTHSC-Tyler's rating was downgraded from "Satisfactory" to "Watch" for 2017. UTHSC-Tyler incurred an annual operating deficit in 2017 of ($10.5) million or (5.2%), which includes net Delivery System Reform Incentive Payments (DSRIP) revenue of $12.0 million If the net DSRIP revenue had not been recognized in 2017, UTHSC-Tyler's annual operating deficit would have been ($22.5) million or (12.5%). The operating expense coverage ratio decreased by 0.7 months to 1.8 months, which was below System's benchmark of 2.0 months and was the second lowest of all the U. T. institutions in 2017. Additionally, UTHSC-Tyler's cash on hand was only 0.5 months which was the lowest of all U. T. institutions.

With the exception of U. T. El Paso, U. T. Permian Basin, and UTHSC-Tyler, all of the other U. T. institutions were rated "Satisfactory" for 2017. The operating expense coverage ratios for the institutions rated "Satisfactory" were above the System's benchmark of 2.0 months. The majority of the institutions rated as "Satisfactory" also reported positive operating margins or had balances to sustain temporary losses. Additionally, cash on hand ratios for the institutions rated "Satisfactory" were above 3 months or reflected an increase.

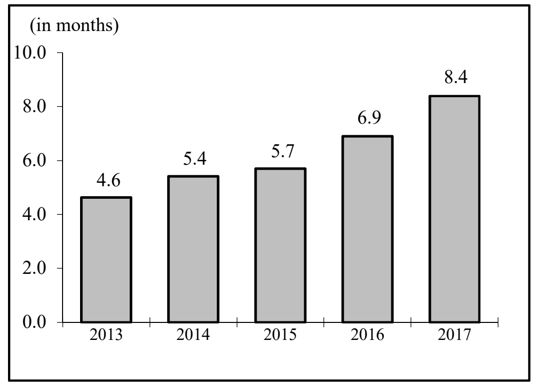
The University of Texas at Arlington
2017 Summary of Financial Condition

Financial Condition: **Satisfactory**

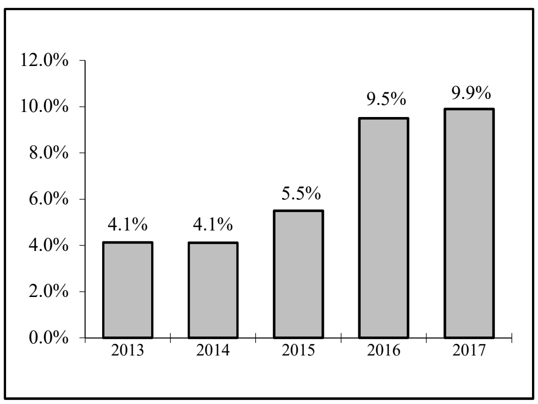
Moody's Overall Scorecard Rating



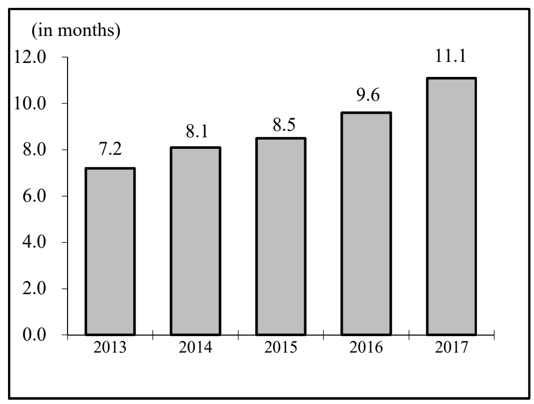
Operating Expense Coverage



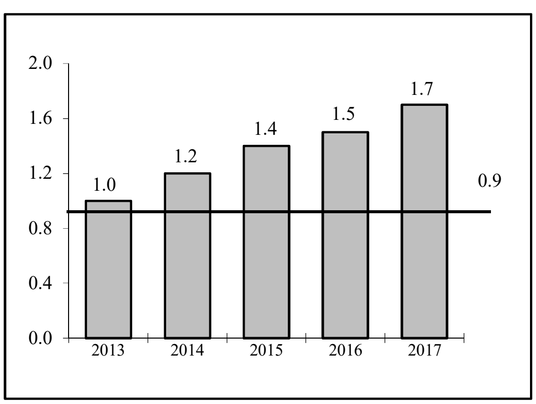
Annual Operating Margin



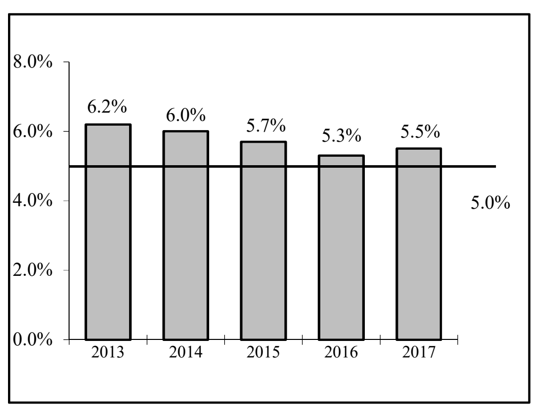
Cash on Hand



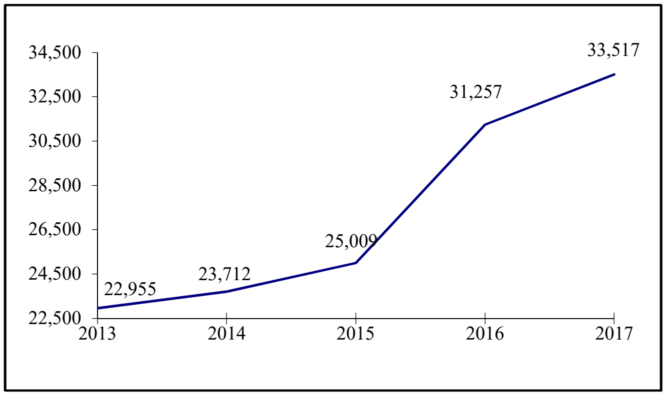
Spendable Cash & Investments to Total Debt



Debt Service to Operations



Full-time Equivalent Student Enrollment - Fall



Operating Expense Coverage Ratio - U. T. Arlington's operating expense coverage ratio increased from 6.9 months in 2016 to 8.4 months in 2017 due to the growth in total unrestricted net position of $93.2 million. The increase in total unrestricted net position was primarily attributable to the increase in operating activity in designated funds, which was partially driven by increased enrollments on-campus and in online programs, as well as tuition increases approved by the U. T. System Board of Regents; and an increase in operating activity in auxiliary enterprises resulting from the high demand for campus housing which generated increases in revenue from housing, parking and dining services. Additionally, the increase in the fair value of investments allocated to designated funds ($16.7 million in 2017 as compared to $3.5 million in 2016) and auxiliary enterprises ($1.1 million in 2017 as compared to $0.2 million in 2016) also contributed to the increase in unrestricted net position.

Annual Operating Margin Ratio - U. T. Arlington's annual operating margin ratio increased from 9.5% for 2016 to 9.9% for 2017 as the growth in total operating revenues, inclusive of state appropriations and net investment income (excluding gains and losses), of $36.8 million continued to outpace the growth in total operating expenses (including interest expense) of $30.4 million. The increase in total operating revenues was primarily due to the following: a $23.6 million increase in net tuition and fees as a result of increased enrollments and U. T. System Board of Regents approved tuition rate increases, as mentioned above; a $2.0 million increase in sponsored programs revenue (including nonexchange sponsored programs) primarily due to increases in contracts with the Department of Defense, Department of Health and Human Services and the Department of Commerce; a $1.6 million increase in other operating revenues resulting from an increase in sponsored program related income; and a $0.6 million increase in auxiliary enterprises revenue resulting from higher demand for housing, parking and dining services. In addition, a $6.1 million increase in state appropriations, largely attributable to additional tuition revenue bond funding, and a $2.2 million increase in net investment income (excluding gains and losses) also contributed to the increase in total operating revenues and annual operating margin. Total operating expenses increased primarily due to the following: a $15.6 million increase in expenses required to provide instruction and services related to increased enrollments for online programs, which are offset by tuition and fee increases as noted previously; a $10.4 million increase in salaries and wages and payroll related costs attributable to merit increases and market based salary adjustments; a $2.0 million increase in expenses for consulting services and other expenses related to the implementation of a data warehouse, business intelligence and analytics initiative; and a $1.4 million increase in repairs and maintenance expense due to the purchase of non-capitalizable maintenance equipment, as well as increased maintenance for buildings, the Engineering Lab electrical upgrade and deferred maintenance.

Cash on Hand Ratio - U. T. Arlington's cash on hand ratio increased from 9.6 months in 2016 to 11.1 months in 2017. The increase in this ratio was primarily attributable to an increase in unrestricted cash and cash equivalents of $75.6 million largely as a result of operating proceeds for tuition and fees, sponsored programs and auxiliary enterprises, and investment proceeds. Approximately $60.0 million of the cash on hand is central reserves being held for the following: debt service on the College Park Center; reserve for the Science and Engineering Innovation and Research Building in the event that anticipated gifts for the project are not collected; start-up funds for U. T. Arlington's Fort Worth initiative; Information Technology (IT) infrastructure project being funded locally due to anticipated Library, Equipment, Repair and Rehabilitation (LERR) funding not received; several IT software acquisitions and projects, including Web Modernization, Customer Relationship Management, and Timekeeping System; and funding for U. T. Arlington's west campus auxiliary construction.

Spendable Cash & Investments to Total Debt Ratio - U. T. Arlington's spendable cash and investments to total debt ratio increased from 1.5 times in 2016 to 1.7 times in 2017 as a result of an increase in total cash and cash equivalents and investments (net of total nonexpendable net position) of $80.8 million as a result of the increase in cash and cash equivalents, as discussed above, combined with an increase in the investments in the Intermediate Term Fund due to normal appreciation on those funds, and an increase in the expendable portion of endowment funds. This ratio exceeded the minimum threshold as provided by the Office of Finance of 0.9 times.

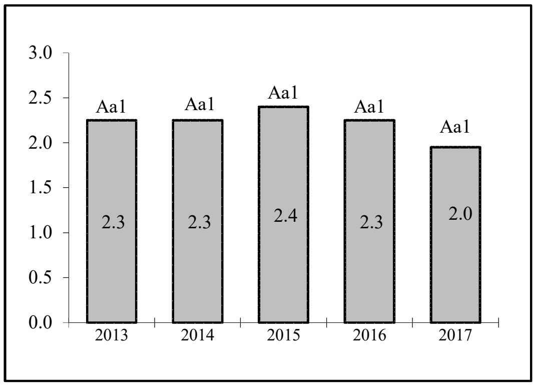
Debt Service to Operations Ratio - U. T. Arlington's debt service to operations ratio increased from 5.3% in 2016 to 5.5% in 2017, which exceeded the maximum threshold provided by the Office of Finance of 5.0%. The increase in this ratio was a result of an increase in debt service payments.

Full-Time Equivalent (FTE) Student Enrollment - U. T. Arlington's FTE student enrollment increased due to a 7.3% increase in enrollment.

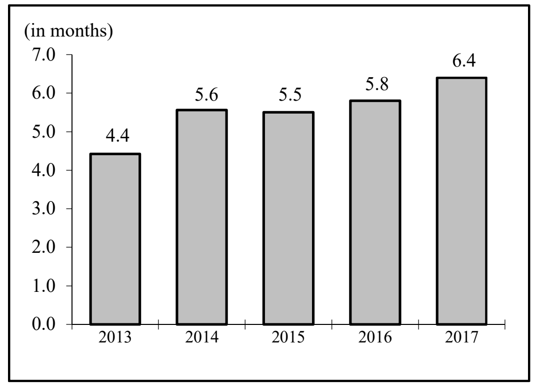
The University of Texas at Austin
2017 Summary of Financial Condition

Financial Condition: **Satisfactory**

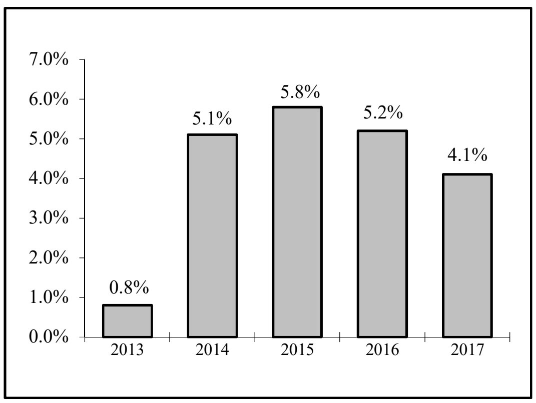
Moody's Overall Scorecard Rating



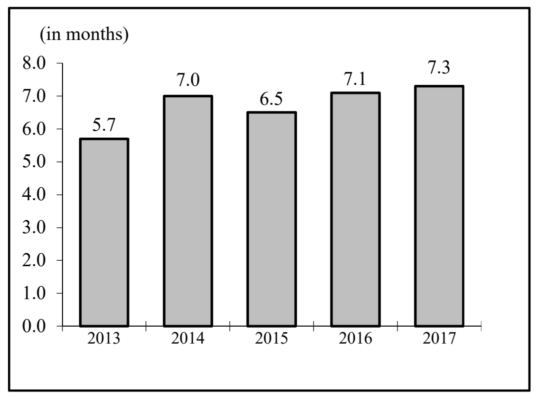
Operating Expense Coverage



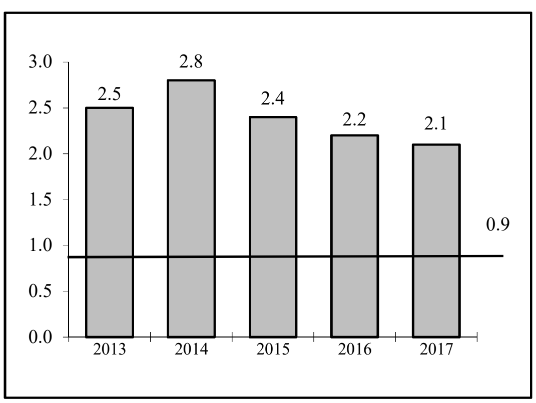
Annual Operating Margin



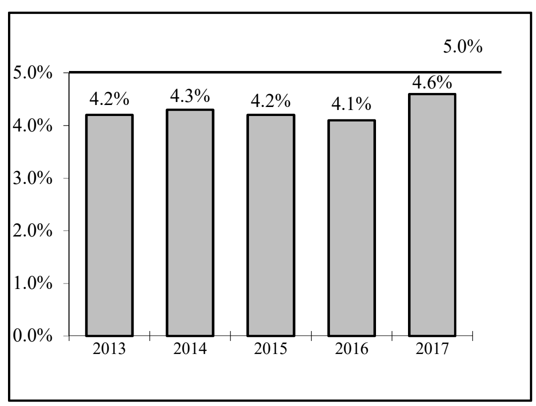
Cash on Hand



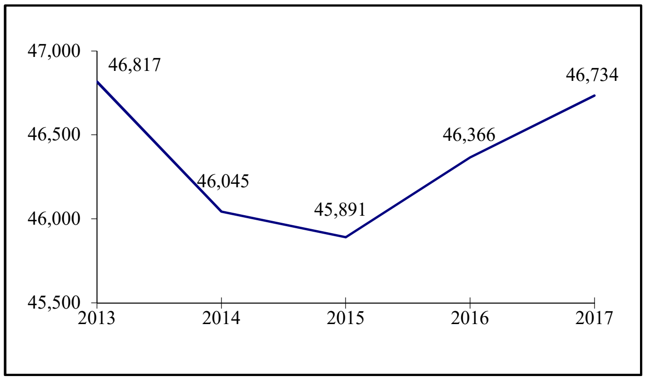
Spendable Cash & Investments to Total Debt



Debt Service to Operations



Full-time Equivalent Student Enrollment - Fall



Operating Expense Coverage Ratio - U. T. Austin's operating expense coverage ratio increased from 5.8 months in 2016 to 6.4 months in 2017 due to an increase of $202.9 million in total unrestricted net position, which was partially offset by an increase of $135.0 million in total operating expenses (including interest expense). The growth in total unrestricted net position was primarily driven by activity in educational and general funds and designated funds, including an increase in the transfer from the Available University Fund (AUF) for operations and increases in the fair value of investments allocated to these funds groups, combined with an increase in unrestricted funding intended for capital projects. The increase in total operating expenses was primarily attributable to the following: a $75.4 million increase in salaries and wages and payroll related costs as a result of an average 2% strategic merit-based salary increase to attract and retain faculty and staff; a $29.3 million increase in depreciation and amortization expense largely driven by the new Dell Medical School and the Engineering Education and Research Center buildings, which were placed into service in 2017; a $16.3 million increase in materials and supplies mainly due to noncapitalizable furniture and equipment purchases for the Dell Medical School and the Engineering Education and Research Center buildings, as well as an $8.8 million payment for an online database subscription that was classified as library books in prior years; and a $12.4 million increase in other contracted services as a result of an increase in the number of performances at the Frank Erwin Center compared to the prior year, and an increase in expenses related to federal grants.

Annual Operating Margin Ratio - U. T. Austin's annual operating margin ratio decreased from 5.2% for 2016 to 4.1% for 2017 as a result of the growth in total operating expenses of $135.0 million exceeding the growth in total operating revenues of $109.4 million. The increase in total operating expenses is discussed above. Total operating revenues increased primarily due to the following: a $42.1 million increase in the transfer from the AUF; a $37.6 million increase in sponsored programs revenue (including nonexchange sponsored programs) attributable to an increase in funding from the National Science Foundation in support of the Texas Advanced Computing Center; a $25.9 million increase in net auxiliary enterprises revenue generated by increased ticket sale revenue at the Frank Erwin Center and the recognition of $1.3 million of the Nike contract, as well as overall increases in athletic ticket sales, housing and food income, and parking and transportation receipts; and a $10.7 million increase in net investment income (excluding realized gains and losses).

Cash on Hand Ratio - U. T. Austin's cash on hand ratio increased from 7.1 months in 2016 to 7.3 months in 2017. The increase in this ratio was primarily attributable to a $67.2 million increase in Intermediate Term Fund unrestricted pooled operating funds resulting from market appreciation on these funds.

Spendable Cash & Investments to Total Debt Ratio - U. T. Austin's spendable cash and investments to total debt ratio decreased from 2.2 times in 2016 to 2.1 times in 2017; however, this ratio still remained above the minimum threshold provided by the Office of Finance of 0.9 times. The slight decrease in this ratio was due to the increase of $234.8 million in the amount of debt outstanding related to the Dell Medical School, Rowling Hall, the Engineering Education and Research Center, and the East Campus Parking Garage.

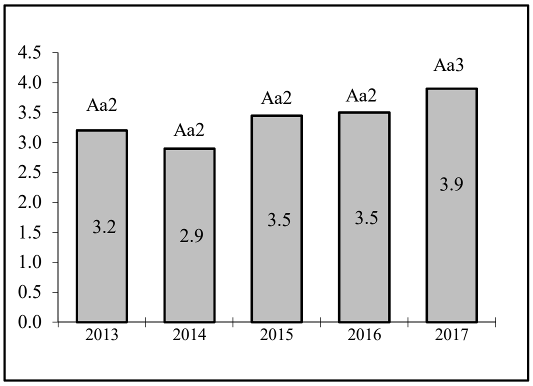
Debt Service to Operations Ratio - U. T. Austin's debt service to operations ratio increased from 4.1% in 2016 to 4.6% in 2017 due to an increase of $18.9 million in debt service payments. Despite the increase in this ratio, it still fell below the maximum threshold provided by the Office of Finance of 5.0%.

Full-Time Equivalent (FTE) Student Enrollment - U. T. Austin's FTE student enrollment experienced an overall increase due to an increase in Fall 2017 undergraduate enrollment of 324 over Fall 2016.

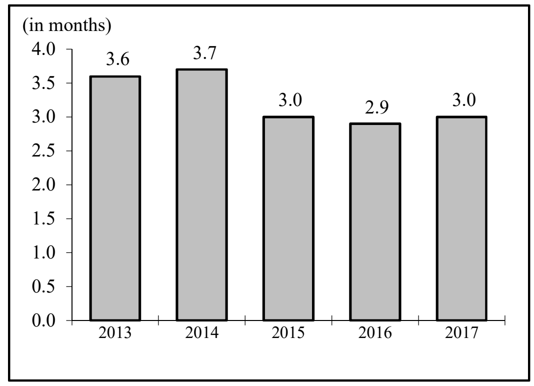
The University of Texas at Dallas
2017 Summary of Financial Condition

Financial Condition: **Satisfactory**

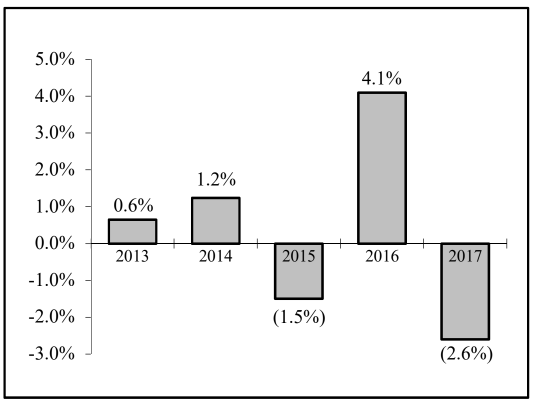
Moody's Overall Scorecard Rating



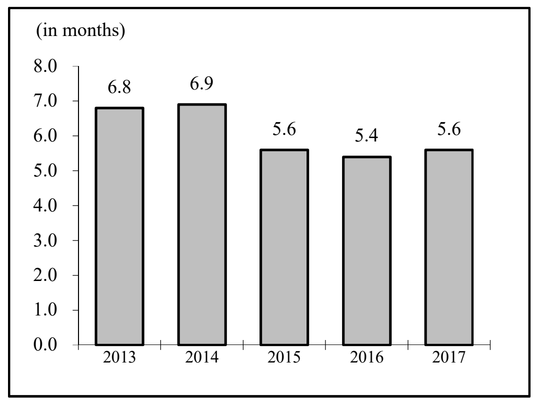
Operating Expense Coverage



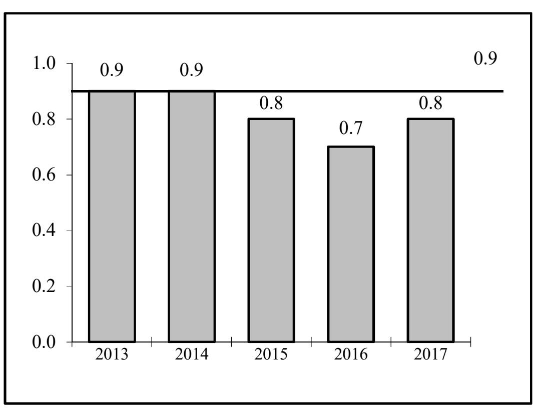
Annual Operating Margin



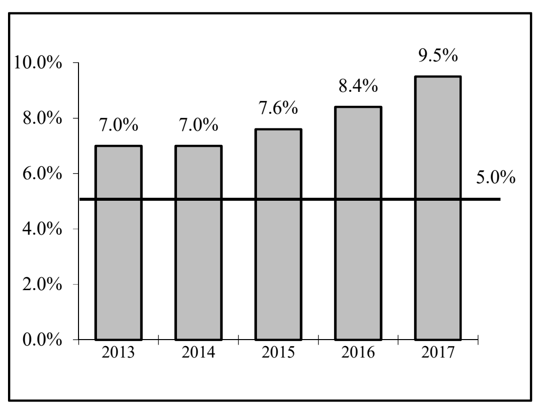
Cash on Hand



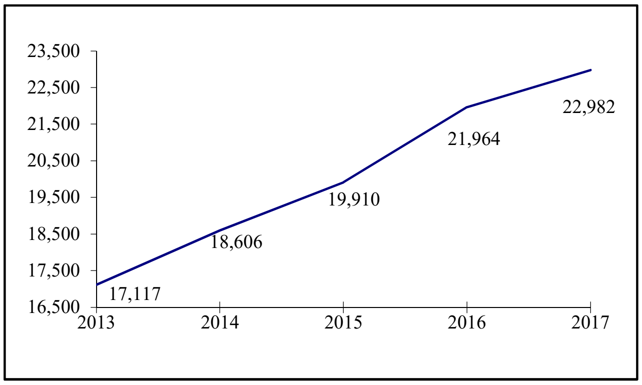
Spendable Cash & Investments to Total Debt



Debt Service to Operations



Full-time Equivalent Student Enrollment - Fall



Operating Expense Coverage Ratio - U. T. Dallas' operating expense coverage ratio increased slightly from 2.9 months in 2016 to 3.0 months in 2017 primarily due to an increase in total unrestricted net position of $15.9 million. The growth in total unrestricted net position was largely attributable to an increase in the amount of unrestricted funds functioning as endowments.

Annual Operating Margin Ratio - U. T. Dallas' annual operating margin ratio decreased from 4.1% for 2016 to (2.6%) for 2017 as the growth in total operating expenses (including interest expense) of $46.2 million far outpaced the growth in total operating revenues of $4.6 million. The increase in total operating expenses was primarily attributable to the following: a $28.4 million increase in salaries and wages and payroll related costs as a result of merit increases, new faculty hires to accommodate the growth in student enrollment and increased benefits costs; an $8.2 million increase in depreciation and amortization expense due to a full year of depreciation expense recognized on the Bioengineering & Sciences Building, the Callier Richardson expansion, the Parking Structure IV and Landscape Enhancement II, as well as the Student Service building addition, the Student Housing Living/Learning Center VI and VII, the Davidson Gundy Alumni Center and the Brain Performance Institute, which were placed into service in 2017; and a $5.4 million increase in interest expense related to the new buildings. Total operating revenues increased largely due to the following: a $26.1 million increase in net tuition and fees driven by an increase in rates and enrollment growth; a $7.2 million increase in state appropriations (including tuition revenue bond supplemental funding); a $4.4 million increase in net auxiliary enterprises revenue resulting from an increase in revenue from housing due to the addition of the Student Housing Living/Learning Center VI and VII, and additional parking revenue generated from the new parking garage; and a $2.2 million increase in net investment income (excluding realized gains and losses). These increases in operating revenue were offset by a $22.1 million decrease in sponsored programs revenue (including nonexchange sponsored programs) primarily due to a reduction in Texas Research Incentive Program (TRIP) funding in 2017, and a $13.8 million decrease in gifts for operations as a result of several large gifts received in 2016 with no such comparable gifts in 2017.

Cash on Hand Ratio - U. T. Dallas' cash on hand ratio increased from 5.4 months in 2016 to 5.6 months in 2017. The increase in this ratio was attributable to a $27.9 million increase in unrestricted cash and cash equivalents resulting from the timing of the collection of Pell in 2017.

Spendable Cash & Investments to Total Debt Ratio - U. T. Dallas' spendable cash and investments to total debt ratio increased from 0.7 times in 2016 to 0.8 times in 2017 and remained below the minimum threshold provided by Office of Finance of 0.9 times. The increase in this ratio was a result of an increase in unrestricted cash and cash equivalents, as discussed above, and an increase in restricted investments driven by the appreciation on endowment funds and endowment gifts received in 2017.

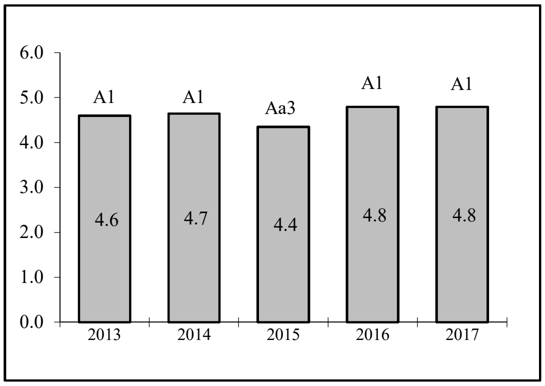
Debt Service to Operations Ratio - U. T. Dallas' debt service to operations ratio increased from 8.4% in 2016 to 9.5% in 2017 due to a $9.8 million increase in debt service payments related to the new buildings discussed above. This ratio exceeded the maximum threshold of 5.0% provided by the Office of Finance.

Full-Time Equivalent (FTE) Student Enrollment - U. T. Dallas' FTE student enrollment increased by 4.6% from 2016 to 2017. The upward trend in FTE student enrollment relative to gross enrollment reflects the effects of the U. T. Dallas' guaranteed tuition plan, which encourages full-time status, federal and state eligibility requirements for aid for domestic students, and visa requirements for international students. In the fall of 2017, undergraduate FTEs rose 6.8% over the fall of 2016 while doctoral student FTEs increased by 15.6% and masters student FTEs decreased by 3.4%.

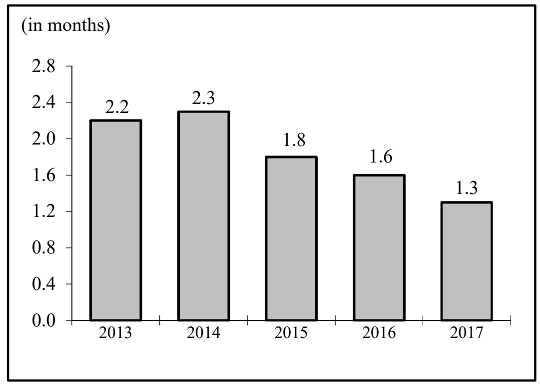
The University of Texas at El Paso
2017 Summary of Financial Condition

Financial Condition: **Watch**

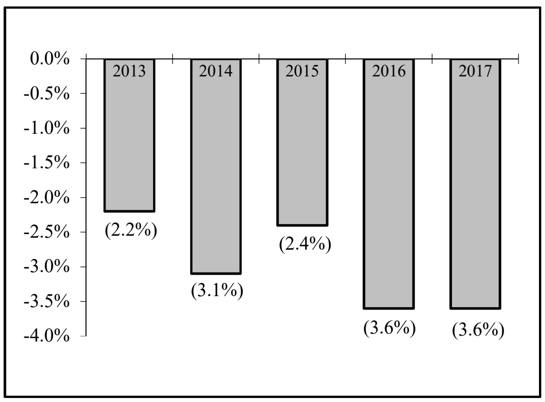
Moody's Overall Scorecard Rating



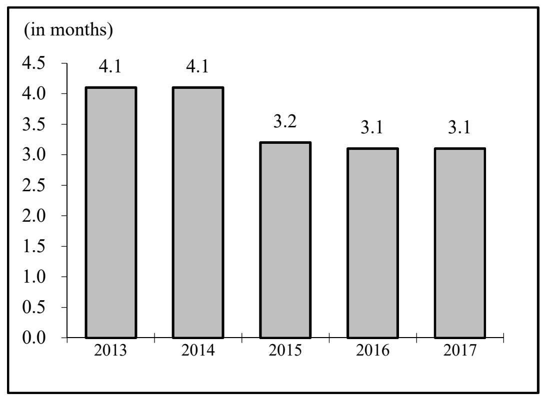
Operating Expense Coverage



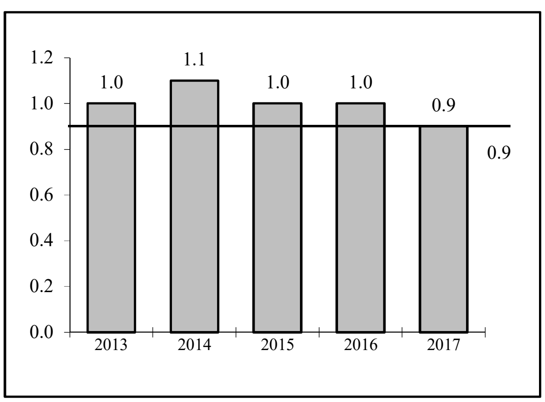
Annual Operating Margin



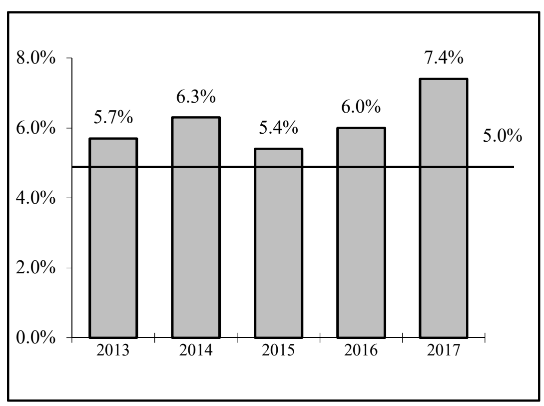
Cash on Hand



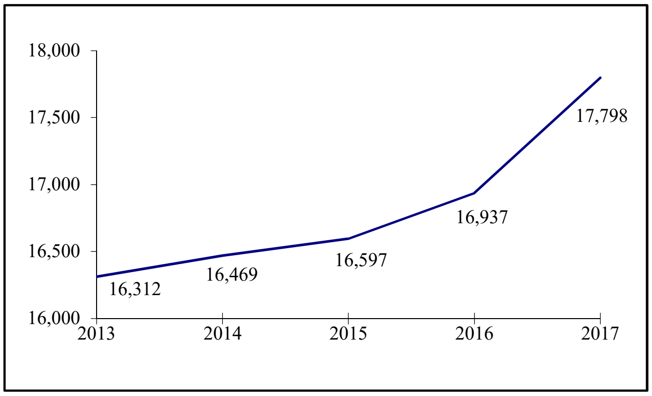
Spendable Cash & Investments to Total Debt



Debt Service to Operations



Full-time Equivalent Student Enrollment - Fall



Operating Expense Coverage Ratio - U. T. El Paso's operating expense coverage ratio decreased from 1.6 months in 2016 to 1.3 months in 2017 due to a decrease in total unrestricted net position of $10.1 million combined with an increase in total operating expenses (including interest expense) of $5.4 million. The decline in total unrestricted net position was largely caused by a decrease in operating results in designated funds and auxiliary enterprises funds. The increase in total operating expenses was primarily driven by an $8.5 million increase in salaries and wages and payroll related costs resulting from a 2.0% merit pool for faculty and staff and increases in academic and research full-time equivalents, as well as a corresponding increase in benefits. This increase in expenses was partially offset by decreases in the following: a $1.5 million decrease in professional fees and services due to legal fees related to cancellation of the Pearson Agreement and consultant fees for PeopleSoft corrections in 2016; a $0.7 million decrease in scholarships and fellowships as a result of tuition discounting; a $0.5 million decrease in materials and supplies caused by cost containment measures implemented in 2017; and a $0.5 million decrease in rentals and leases attributable to a one-time reclassification of $0.2 million to professional fees and other contracted services and $0.1 million related to the termination of the shuttle services contract.

Annual Operating Margin Ratio - U. T. El Paso's annual operating margin ratio remained unchanged at (3.6%) for 2017 as a result of offsetting growth in total operating revenues of $5.5 million compared with total operating expenses of $5.4 million. The increase in total operating revenues was primarily due to the following: a $3.0 million increase in sponsored programs revenue (including nonexchange sponsored programs) largely due to an increase in Pell Grants in 2017; a $2.4 million increase in state appropriations (including tuition revenue bond supplemental funding); a $1.8 million increase in net tuition and fees due to an approved tuition increase and modest enrollment growth of 1.5%; a $0.5 million increase in net investment income (excluding realized gains and losses); and a $0.5 million increase in net sales and services of educational activities resulting from increases in state sponsored programs revenue from agencies outside of Texas. These increases in revenues were partially offset by the following: a $1.6 million decrease in net auxiliary enterprises revenues caused by a decrease in athletic conference income of $1.2 million and a decrease in bookstore contract income of $0.4 million; and a $0.7 million decrease in other operating revenues primarily due to funds received from U. T. System Administration in 2016 to offset expenses for Surge efforts related to PeopleSoft. The increase in total operating expenses is discussed above in the operating expense coverage ratio.

Cash on Hand Ratio - U. T. El Paso's cash on hand ratio remained unchanged at 3.1 months in 2017. The ratio remained unchanged due to the growth in total unrestricted cash and cash equivalents of $2.2 million and Intermediate Term Fund (ITF) unrestricted pooled operating funds of $1.2 million offsetting the growth in total operating expenses. Total unrestricted cash and cash equivalents increased due to normal annual fluctuations in cash and the increase in tuition and fees discussed above. The increase in the ITF funds was attributable to market appreciation on these funds.

Spendable Cash & Investments to Total Debt Ratio - U. T. El Paso's spendable cash and investments to total debt ratio decreased slightly from 1.0 times in 2016 to 0.9 times in 2017 and equaled the minimum threshold provided by the Office of Finance. The decrease in this ratio was attributable to an increase of $43.2 million in the amount of debt outstanding related to the Interdisciplinary Research Facility.

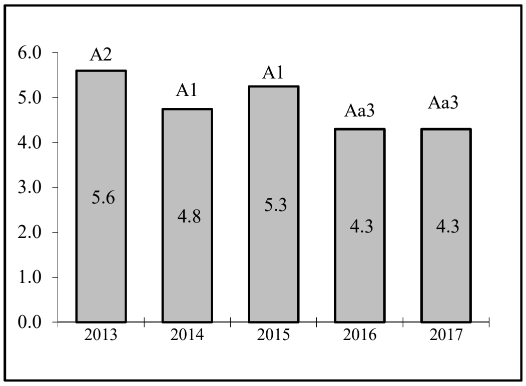
Debt Service to Operations Ratio - U. T. El Paso's debt service to operations ratio increased from 6.0% in 2016 to 7.4% in 2017 as a result of an increase in debt service payments of $5.9 million. The maximum threshold for this ratio as provided by the Office of Finance is 5.0%.

Full-Time Equivalent (FTE) Student Enrollment - U. T. El Paso's FTE student enrollment increased 5.1% primarily due to increases in undergraduate enrollment.

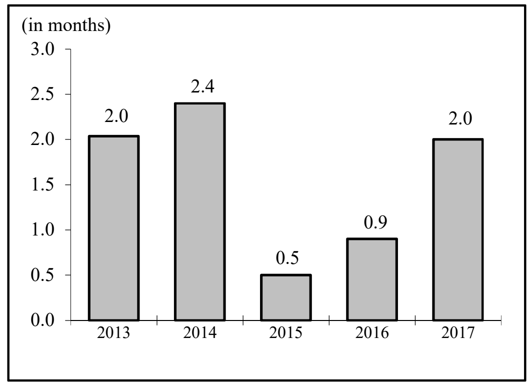
The University of Texas of the Permian Basin
2017 Summary of Financial Condition

Financial Condition: **Watch**

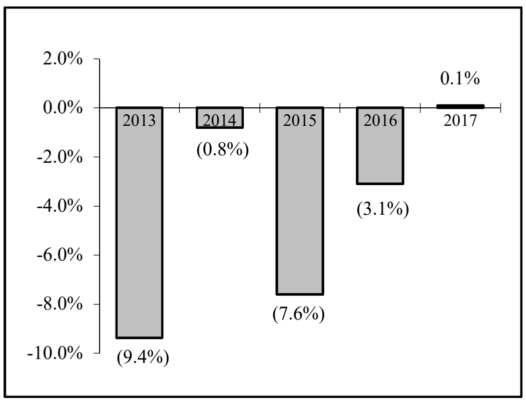
Moody's Overall Scorecard Rating



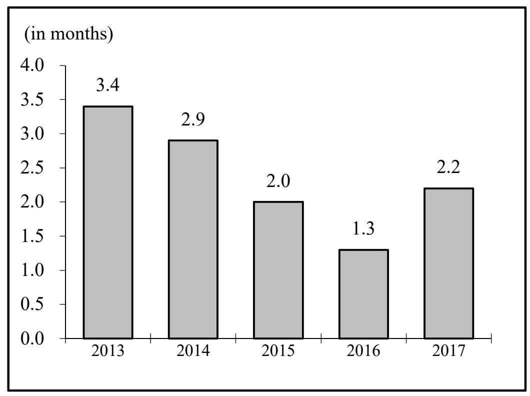
Operating Expense Coverage



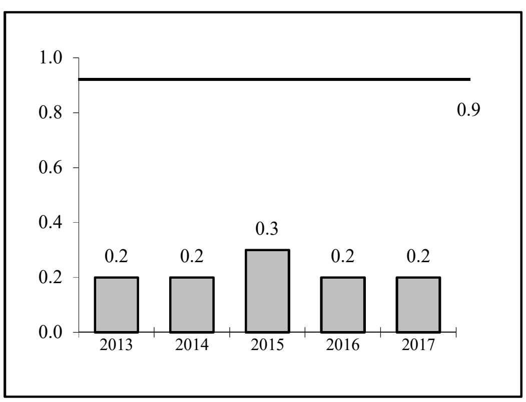
Annual Operating Margin



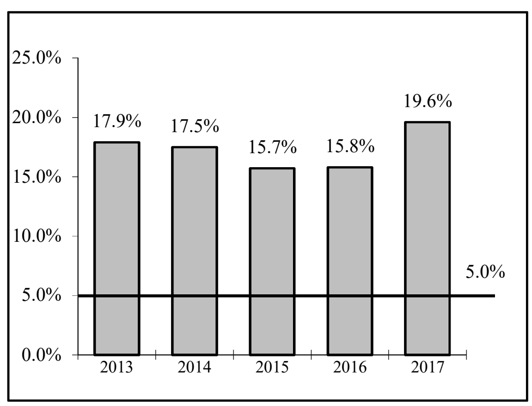
Cash on Hand



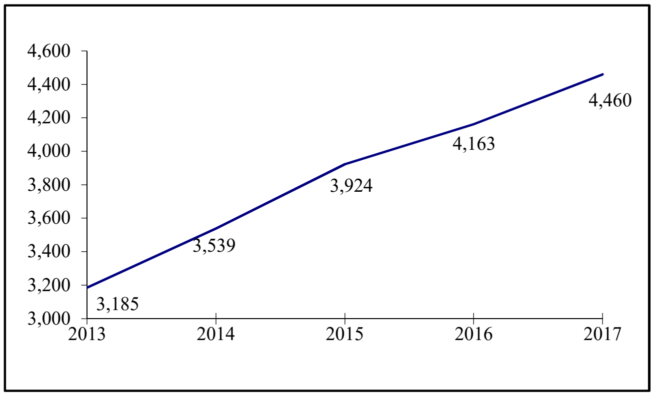
Spendable Cash & Investments to Total Debt



Debt Service to Operations



Full-time Equivalent
Student Enrollment - Fall



Operating Expense Coverage Ratio - U. T. Permian Basin's operating expense coverage ratio increased from 0.9 months in 2016 to 2.0 months in 2017 due to the growth in total unrestricted net position of $9.5 million. The increase in total unrestricted net position was primarily driven by an increase in activity in designated funds, including $2.5 million of insurance proceeds received as a result of damage sustained from a hailstorm in 2017, and an increase in unrestricted funding intended for capital projects.

A*nnual Operating Margin Ratio* - U. T. Permian Basin's annual operating margin ratio increased from (3.1%) for 2016 to 0.1% for 2017 as a result of the growth in total operating revenues of $12.9 million exceeding the growth in total operating expenses (including interest expense) of $10.3 million. The increase in total operating revenues was primarily attributable to the following: a $5.5 million increase in sponsored programs revenue (including nonexchange sponsored programs) largely due to an increase in the STEM Charter School Academy and due to a portion of the prior year Pell Grant funding not being drawn down until 2017; a $3.8 million increase in state appropriations (including tuition revenue bond supplemental funding); a $2.2 million increase in net sales and services of educational activities resulting from an increase in rental income from the STEM Charter School Academy and sponsored reclassifications; a $1.7 million increase in auxiliary enterprises revenue generated by increased revenue from parking and meal plans; and a $1.3 million increase in gifts for operations for the football program, First 5, and Aeronautical Engineering. These increases in revenue were slightly offset by a decrease in net tuition and fees of $1.9 million as a result of an increase in discounts and allowances related to institutional funded awards for new admissions and scholarship renewals. Total operating expenses increased primarily due to the following: a $2.8 million increase in salaries and wages and payroll related costs driven by a 2.0% merit increase for faculty and staff; a $1.9 million increase in depreciation and amortization expense due to the recognition of a full year of depreciation expense on the Residence Hall, which was placed into service in 2016; a $1.3 million increase in interest expense; a $1.3 million increase in repairs and maintenance as a result of the hail damage sustained in 2017; a $1.0 million increase in other contracted services related to increased services provided by Touchnet; a $0.8 million increase in professional fees and services attributable to a timing difference in the payment for the Academic Partnership; and a $0.7 million increase in scholarships and fellowships attributable to timing differences associated with Pell.

Cash on Hand Ratio - U. T. Permian Basin's cash on hand ratio increased from 1.3 months in 2016 to 2.2 months in 2017. The increase in this ratio was attributable to an increase in the amount of funds invested in the Intermediate Term Fund and market appreciation on these investments.

Spendable Cash & Investments to Debt Ratio - U. T. Permian Basin's spendable cash and investments to debt ratio remained unchanged at 0.2 times in 2017, which was well below the minimum threshold of 0.9 times as provided by the Office of Finance. The stability of this ratio was due to the increase in total cash and cash equivalents and investments (excluding nonexpendable net position) of $10.8 million offset by the increase in the amount of debt outstanding of $37.6 million related to the School of Engineering Building and the Residence and Dining Hall.

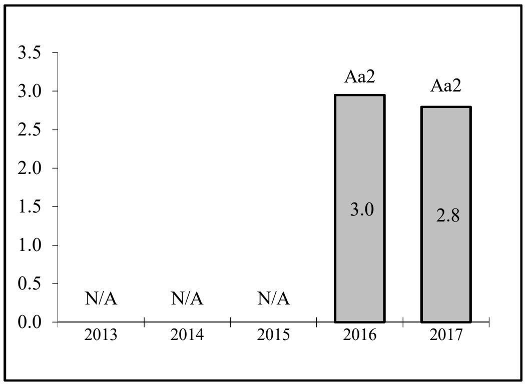
Debt Service to Operations Ratio - U. T. Permian Basin's debt service to operations ratio increased from 15.8% in 2016 to 19.6% in 2017, which far exceeded the maximum threshold provided by the Office of Finance of 5.0%. The increase in this ratio was attributable to an increase in debt service payments of $5.0 million.

Full-Time Equivalent (FTE) Student Enrollment - U. T. Permian Basin's FTE student enrollment increased due to the continued growth in dual credit enrollment, growth in transfer students and increased retention.

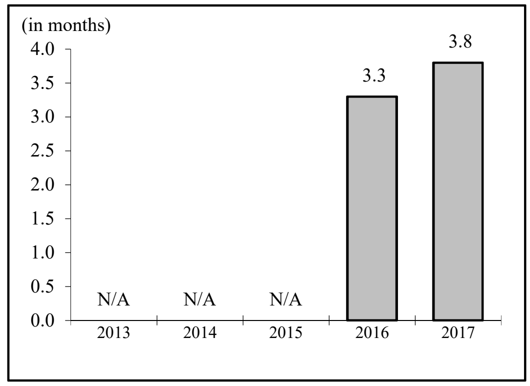
The University of Texas Rio Grande Valley
2017 Summary of Financial Condition

Financial Condition: **Satisfactory**

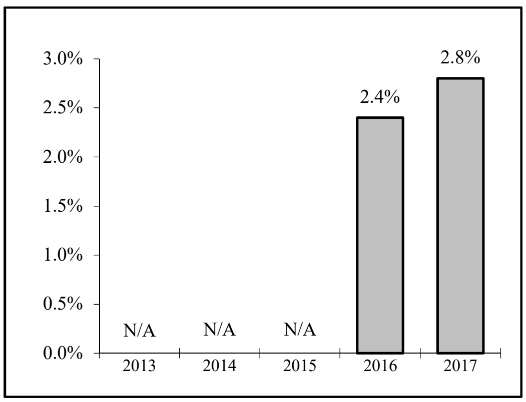
Moody's Overall Scorecard Rating



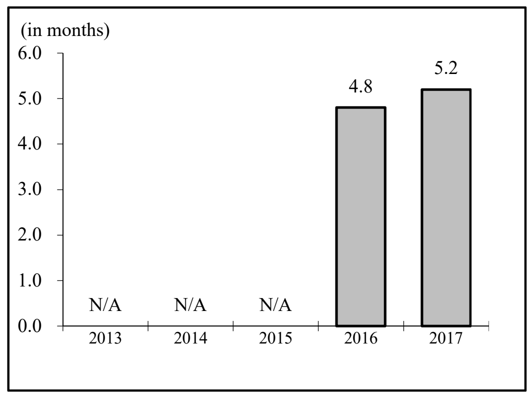
Operating Expense Coverage



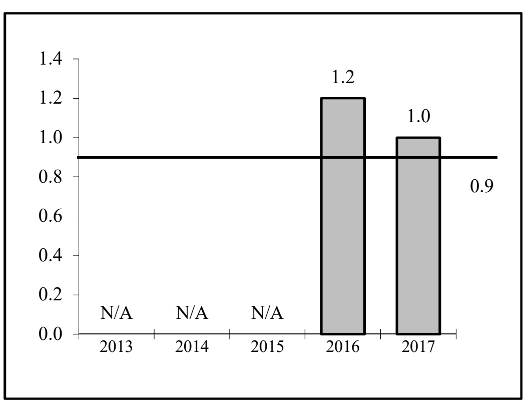
Annual Operating Margin



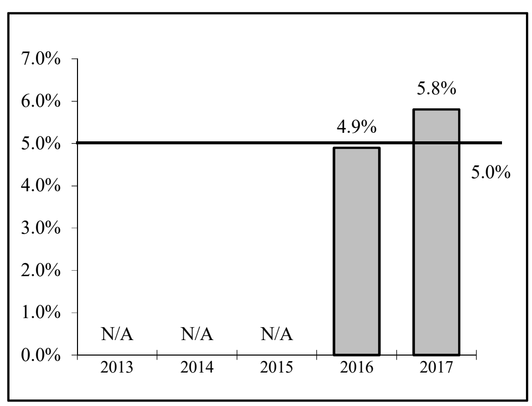
Cash on Hand



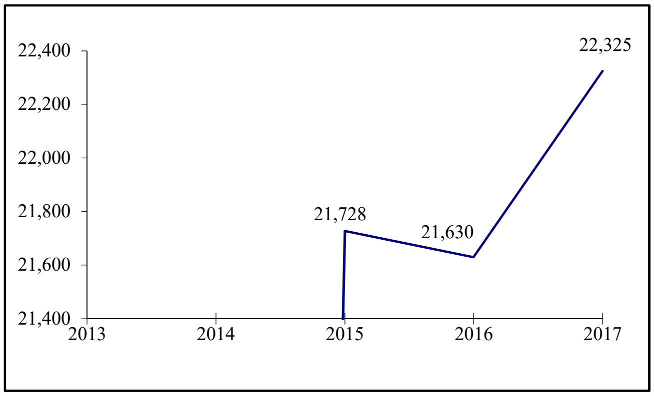
Spendable Cash & Investments to Total Debt



Debt Service to Operations



Full-time Equivalent
Student Enrollment - Fall



Operating Expense Coverage Ratio - U. T. Rio Grande Valley's operating expense coverage ratio increased from 3.3 months in 2016 to 3.8 months in 2017 due to the growth in total unrestricted net position of $31.6 million. The increase in total unrestricted net position was primarily attributable to the activity in designated funds including $5.1 million of net revenue from the Delivery System Reform Incentive Payments (DSRIP) associated with the Medicaid Section 1115 Demonstration and $21.5 million for the Graduate Medical Education (GME) programs at Doctors Hospital at Renaissance (DHR) and Valley Baptist Medical Center (VBMC). An increase in unrestricted funding intended for capital projects also contributed to the growth of total unrestricted net position.

Annual Operating Margin Ratio - U. T. Rio Grande Valley's annual operating margin ratio increased from 2.4% for 2016 to 2.8% for 2017 as the growth in total operating revenues of $37.4 million exceeded the growth in total operating expenses (including interest expense) of $34.8 million. The increase in total operating revenues was primarily attributable to the following: a $17.0 million increase in other operating revenues resulting from the DSRIP and GME programs associated with the School of Medicine, a $5.8 million DHR settlement received in 2017, and the recovery of prior year write-offs of Federal Perkins and Emergency loans; a $6.2 million increase in state appropriations (including tuition revenue bond supplemental funding); a $5.1 million increase in net tuition and fees related to an increase in enrollment as 2017 was only the second year of operations for U. T. Rio Grande Valley and a slight tuition increase which applied only to new students; a $4.2 million increase in gifts for operations as a result of an increase in contributions from private and local funding agencies; a $2.0 million increase in sponsored programs revenue (including nonexchange sponsored programs) largely due to the College of Sciences programs and Pell Grants; and a $1.4 million increase in net sales and services of educational activities driven by increases in sales from the Lower Rio Grande Valley Storm Water Task Force, Graduate Continuing Education and the Physics Cooperative Doctoral Program. The increase in total operating expenses was primarily due to the following: a $17.2 million increase in salaries and wages and payroll related costs resulting from merit increases, salary adjustments and additional faculty positions; a $12.2 million increase in other contracted services related to increased expenses associated with the School of Medicine residency program for DHR and Price Waterhouse Cooper, the sub-award for the Headstart Program, shuttle services and athletics; a $2.4 million increase in bad debt expense as a result of the write-off of a $3.0 million pledge from the City of McAllen; a $1.5 million increase in depreciation and amortization expense attributable to various buildings and improvements that were placed into service in 2017; and a $1.1 million increase in materials and supplies related to research, operations and maintenance of plant, and the School of Medicine.

Cash on Hand Ratio - U. T. Rio Grande Valley's cash on hand ratio increased from 4.8 months in 2016 to 5.2 months in 2017. The increase in this ratio was attributable to an increase in unrestricted cash and cash equivalents, as well as an increase in the amount of funds invested in the Intermediate Term Fund and market appreciation on these funds.

Spendable Cash & Investments to Debt Ratio - U. T. Rio Grande Valley's spendable cash and investments to debt ratio decreased from 1.2 times in 2016 to 1.0 times in 2017, which still exceeded the minimum threshold of 0.9 times provided by the Office of Finance. The decrease in this ratio was driven by an increase of $48.8 million in the amount of debt outstanding related to the Multi-purpose Academic Building and the Interdisciplinary Engineering Academic Studies Building.

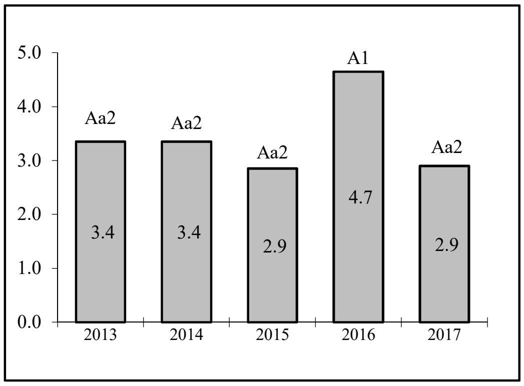
Debt Service to Operations Ratio - U. T. Rio Grande Valley's debt service to operations ratio increased from 4.9% in 2016 to 5.8% in 2017 as a result of a $5.8 million increase in debt service payments. The maximum threshold for this ratio as provided by the Office of Finance is 5.0%.

Full-Time Equivalent (FTE) Student Enrollment - U. T. Rio Grande Valley's FTE student enrollment increased from 21,630 in 2016 to 22,325 in 2017 as a result of several student success initiatives that were put in place to assist with retention efforts.

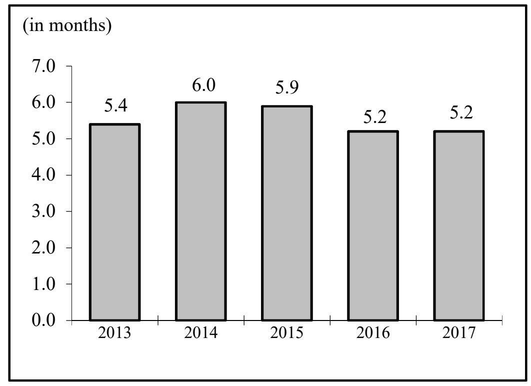
The University of Texas at San Antonio
2017 Summary of Financial Condition

Financial Condition: **Satisfactory**

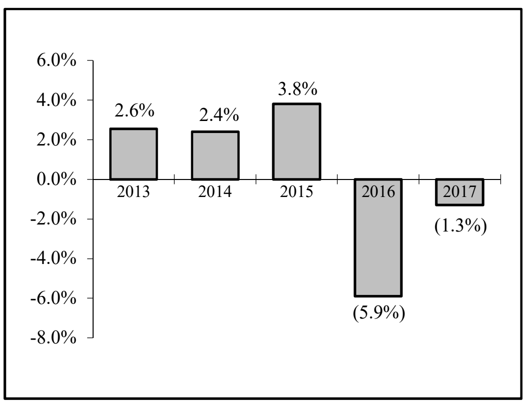
Moody's Overall Scorecard Rating



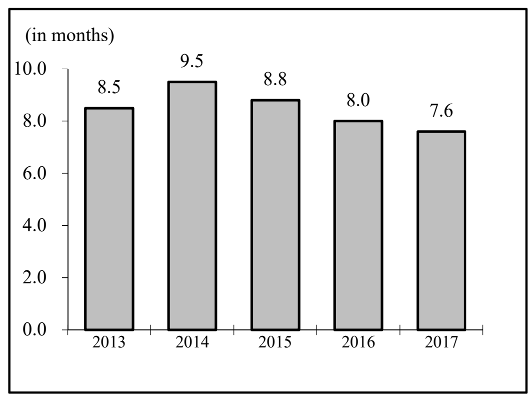
Operating Expense Coverage



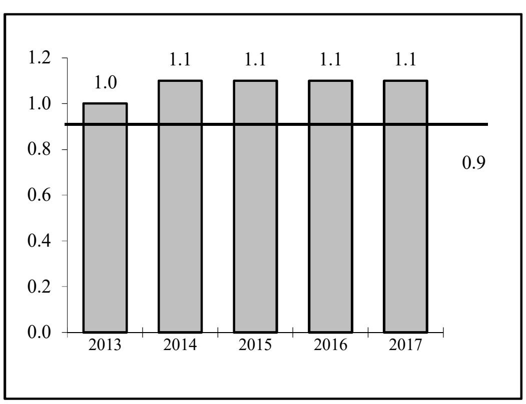
Annual Operating Margin



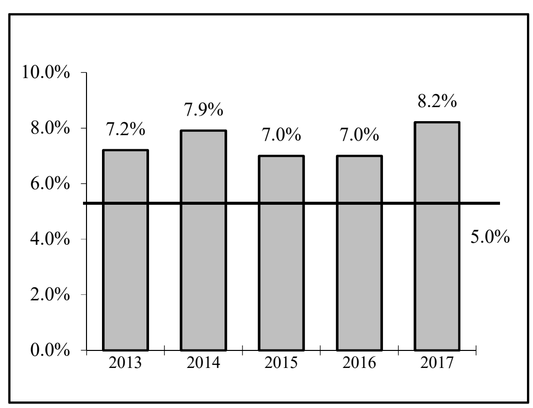
Cash on Hand



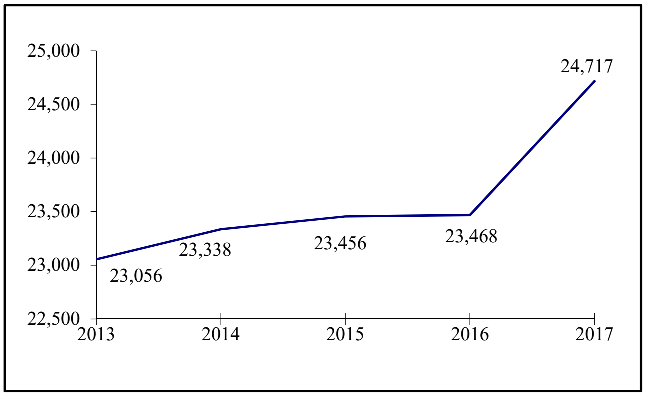
Spendable Cash & Investments to Total Debt



Debt Service to Operations



The University of Texas at San Antonio
2017 Summary of Financial Condition
Full-time Equivalent
Student Enrollment - Fall



Operating Expense Coverage Ratio - U. T. San Antonio's operating expense coverage ratio remained unchanged at 5.2 months in 2017. The stability of this ratio was attributable to minimal growth in both total unrestricted net assets and total operating expenses (including interest expense).

Annual Operating Margin Ratio - U. T. San Antonio's annual operating margin ratio improved from (5.9%) for 2016 to (1.3%) for 2017 as the growth in total operating revenues of $32.2 million outpaced the growth in total operating expenses of only $9.3 million. The increase in total operating revenues was primarily due to the following: a $10.5 million increase in sponsored programs revenue (including nonexchange sponsored programs) largely driven by increased funding from the TEXAS Grant program and other federal sponsored programs, an increase in Pell Grants and increased funding from several small private grants; a $9.7 million increase in state appropriations (including tuition revenue bond supplemental funding); a $6.7 million increase in gifts for operations due to an overall increase in gifts in 2017 combined with the write-off in 2016 of a $3.9 million pledge for an endowment that was erroneously recorded as an operating gift; and a $5.2 million increase in net tuition and fees as a result of a 2,474 increase in total semester credit hour enrollment as well as a one-day increase in the number of fall semester class days that occurred before the end of the fiscal year. Total operating expenses increased largely due to the following: a $6.5 million increase in salaries and wages and payroll related costs resulting from recruitment and retention efforts associated with the GoldStar Initiative to recruit top-tier researchers, equity increases and increased benefits costs; a $2.9 million increase in repairs and maintenance as a result of maintenance on various classrooms, grounds and vehicles; and a $1.2 million increase in travel due to the football team's travel incurred for the bowl game, most of which was reimbursed by the NCAA/Conference USA.

Cash on Hand Ratio - U. T. San Antonio's cash on hand ratio decreased from 8.0 months in 2016 to 7.6 months in 2017. The decrease in this ratio was attributable to a $22.8 million decrease in unrestricted cash and cash equivalents as more cash was used for capital and debt service payments combined with normal fluctuations in cash.

Spendable Cash & Investments to Total Debt Ratio - U. T. San Antonio's spendable cash and investments to total debt ratio remained unchanged at 1.1 times in 2017 and exceeded the minimum threshold of 0.9 times as provided by the Office of Finance. The stability of this ratio was due to the growth in total cash and cash equivalents and investments (net of nonexpendable net position) of $9.5 million offset with an increase in the amount of debt outstanding of $34.8 million. The increase in the debt outstanding was related to debt issued for the Science and Engineering Building.

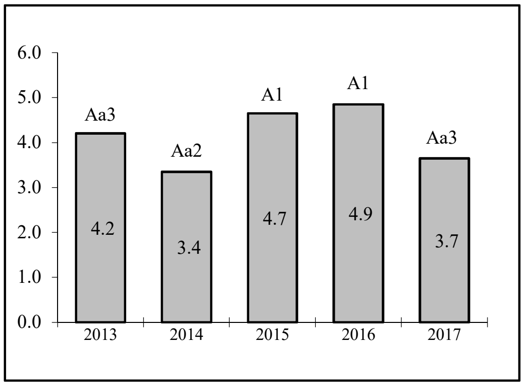
Debt Service to Operations Ratio - U. T. San Antonio's debt service to operations ratio increased from 7.0% in 2016 to 8.2% in 2017 due to an increase of $7.2 million in debt service payments. This ratio exceeded the maximum threshold of 5.0% as provided by the Office of Finance.

Full-Time Equivalent (FTE) Student Enrollment - U. T. San Antonio's FTE student enrollment increased from 23,468 to 24,717 due to an increase in undergraduate FTEs of 1,141 as well as small increases in graduate and doctoral programs.

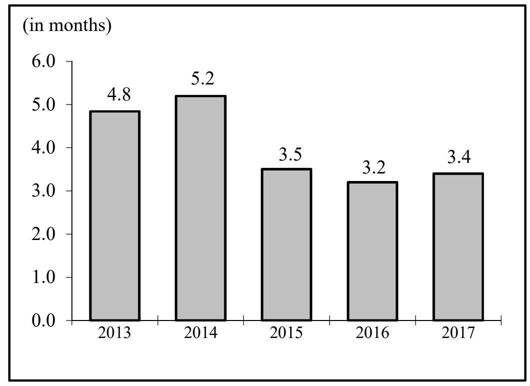
The University of Texas at Tyler
2017 Summary of Financial Condition

Financial Condition: **Satisfactory**

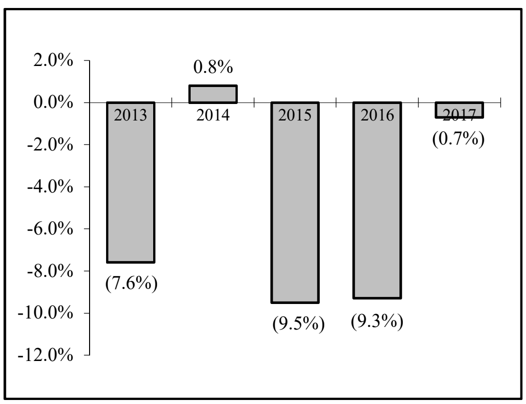
Moody's Overall Scorecard Rating



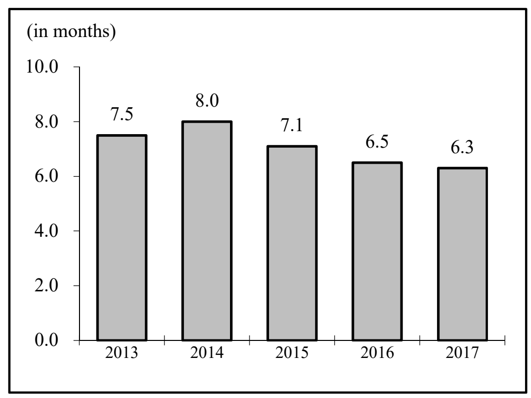
Operating Expense Coverage



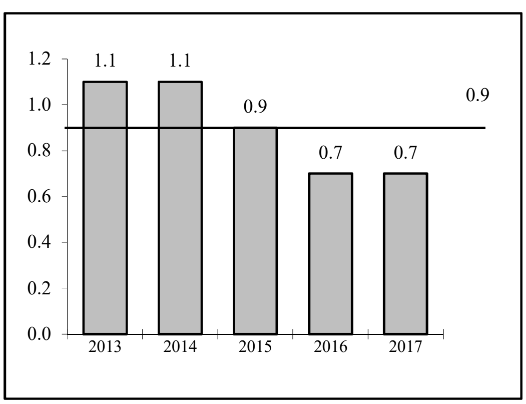
Annual Operating Margin



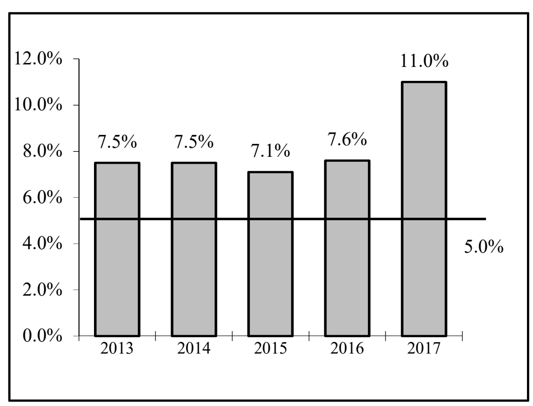
Cash on Hand



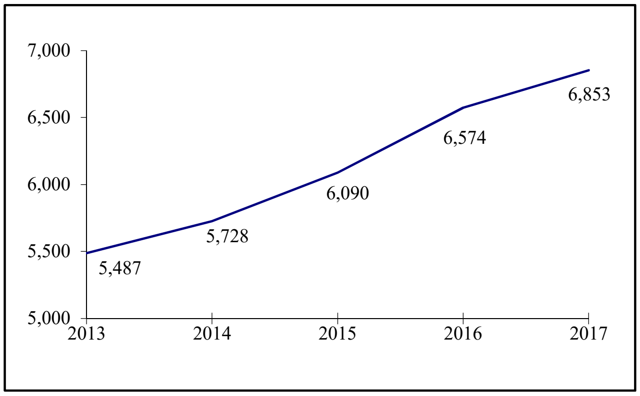
Spendable Cash & Investments to Total Debt



Debt Service to Operations



Full-time Equivalent Student Enrollment - Fall



Operating Expense Coverage Ratio - U. T. Tyler's operating expense coverage ratio increased from 3.2 months in 2016 to 3.4 months in 2017 due to the growth in total unrestricted net position of $3.1 million. The increase in total unrestricted net position was primarily attributable to the activity in educational and general funds and auxiliary enterprises funds.

Annual Operating Margin Ratio - U. T. Tyler's annual operating margin ratio improved from (9.3%) for 2016 to (0.7%) for 2017 as the growth in total operating revenues of $15.9 million outpaced the growth in total operating expenses (including interest expense) of $5.1 million. The increase in total operating revenues was largely due to the following: a $5.1 million increase in net sales and services of educational activities as a result of the pharmacy revenue now including the second year student cohort; a $4.7 million increase in state appropriations (including tuition revenue bond supplemental funding); a $4.5 million increase in net tuition and fees driven by increased enrollment and designated tuition rates; and a $1.2 million increase in auxiliary enterprises revenue due to increased revenue generated from performing arts and housing. The increase in total operating expenses was primarily attributable to the following: a $4.4 million increase in salaries and wages and payroll related costs as a result of merit increases and an increase in the number of full-time equivalents; a $1.6 million increase in interest expense due to the debt issued for the new STEM Business Building; and a $1.5 million increase in scholarships and fellowships due to increased set-aside and institutionally funded scholarships to accommodate the enrollment growth. These increases in expenses were partially offset by a $2.0 million decrease in material and supplies resulting from one-time expenses incurred in 2016.

Cash on Hand Ratio - U. T. Tyler's cash on hand ratio decreased from 6.5 months in 2016 to 6.3 months in 2017. The decrease in this ratio was due to the growth in total operating expenses, as discussed above, combined with almost no growth in unrestricted cash and cash equivalents and investments.

Spendable Cash & Investments to Total Debt Ratio - U. T. Tyler's spendable cash and investments to total debt ratio remained unchanged at 0.7 times in 2017, which was below the minimum threshold of 0.9 times provided by the Office of Finance. The stability of this ratio was attributable to a decrease in total cash and cash equivalents and investments (excluding nonexpendable net position) of $1.1 million combined with a decrease of $8.8 million in the amount of debt outstanding.

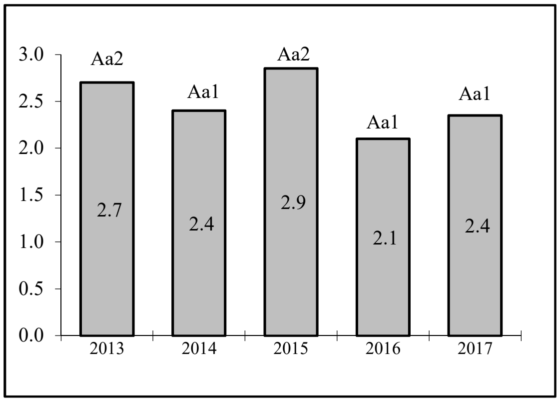
Debt Service to Operations Ratio - U. T. Tyler's debt service to operations ratio increased from 7.6% in 2016 to 11.0% in 2017 due to a $5.0 million increase in debt service payments. The maximum threshold for this ratio provided by the Office of Finance is 5.0%.

Full-Time Equivalent (FTE) Student Enrollment - U. T. Tyler's FTE student enrollment increased by 279 or 4.2% from 2016. This increase was due to continued student recruitment and retention efforts.

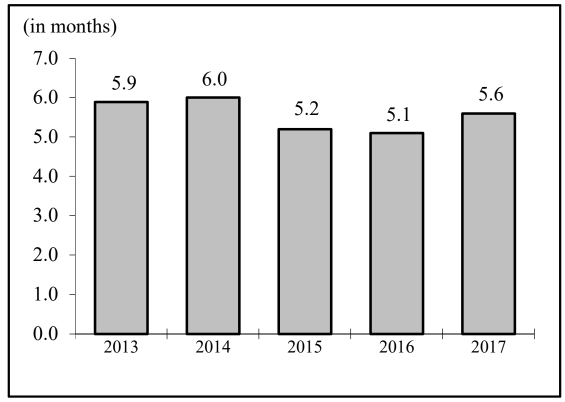
The University of Texas Southwestern Medical Center
2017 Summary of Financial Condition

Financial Condition: **Satisfactory**

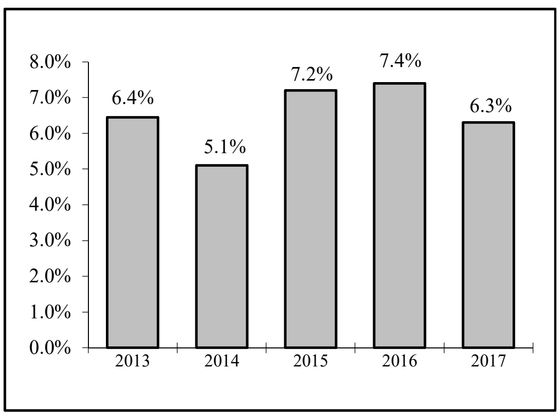
Moody's Overall Scorecard Rating



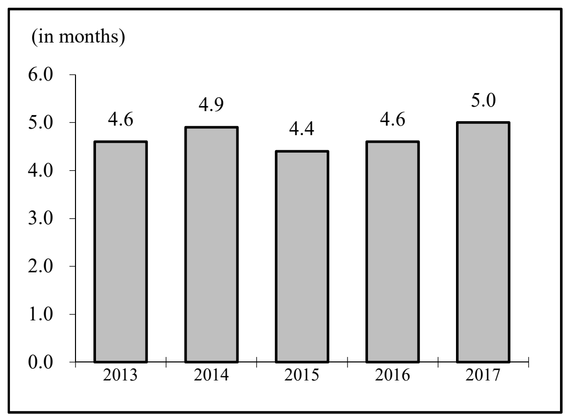
Operating Expense Coverage



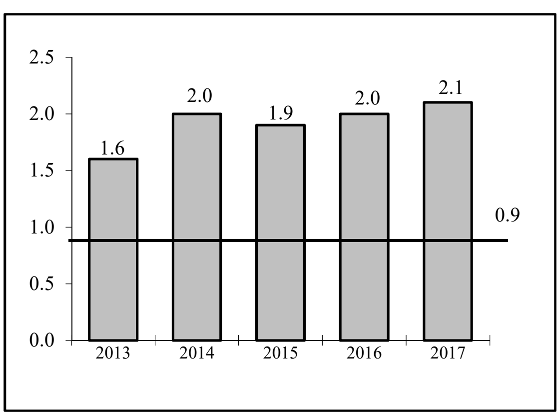
Annual Operating Margin



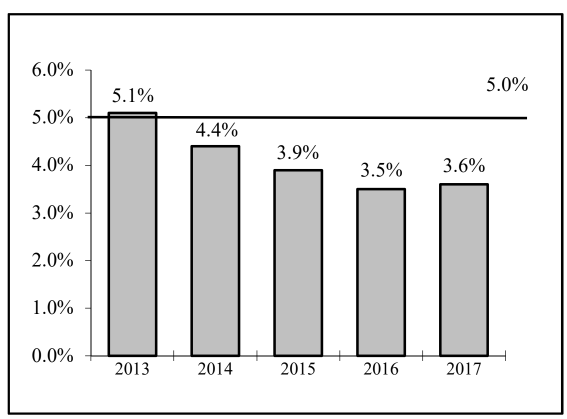
Cash on Hand



Spendable Cash & Investments to Total Debt



Debt Service to Operations



Operating Expense Coverage Ratio - U. T. Southwestern Medical Center's (Southwestern) operating expense coverage ratio increased from 5.1 months in 2016 to 5.6 months in 2017 due to the growth in total unrestricted net position of $180.6 million. The increase in total unrestricted net position was primarily attributable to operating margin generated from University Hospitals and the faculty practice plan operations, and an increase in investment earnings.

Annual Operating Margin Ratio - Southwestern's annual operating margin ratio decreased from 7.4% for 2016 to 6.3% for 2017, as the growth in total operating expenses (including interest expense) of $192.9 million exceeded the growth in total operating revenues of $174.7 million. The increase in total operating expenses was primarily due to the following: a $131.2 million increase in salaries and wages and payroll related costs as a result of 3% merit increases for faculty and staff and operational growth; a $48.6 million increase in materials and supplies mostly driven by increased drug costs due to growth in patient care volumes and the partial expiration of participation in the 340B drug discount program; a $19.8 million increase in other contracted services mainly due to increased computer and software service agreements, equipment and furniture service agreements, and temporary employees; a $5.1 million increase in depreciation and amortization expense due to various buildings and equipment placed into service in 2017. These increases in expenses were partially offset by a decrease of $18.9 million in professional fees and services resulting from decreases in contract medical services. Those contract employees have since been replaced with permanent employees. Total operating revenues increased largely due to the following: a $105.1 million increase in net sales and services of hospitals generated by increased outpatient and inpatient services; a $73.0 million increase in net professional fees primarily as a result of increased patient volumes and rate adjustments; a $29.2 million increase in net investment income (excluding realized gains and losses); and a $17.3 million increase in other operating revenues mainly driven by the Southwestern Health Resources joint venture. These increases in revenues were partially offset by a $50.9 million decrease in gifts contributions for operations.

Cash on Hand Ratio - Southwestern's cash on hand ratio increased from 4.6 months in 2016 to 5.0 months in 2017. The increase in this ratio was primarily due to the increase in the balance in the Intermediate Term Fund as a result of growth in operations.

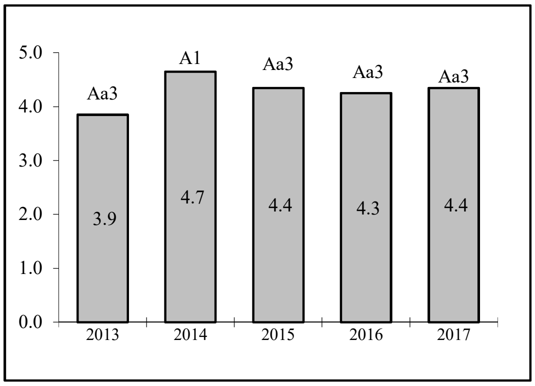
Spendable Cash & Investments to Total Debt Ratio - Southwestern's spendable cash and investments to total debt ratio increased slightly from 2.0 times to 2.1 times as a result of the growth in total cash and cash equivalents and investments (excluding nonexpendable net position) of $194.8 million. The increase in total cash and cash equivalents and investments was primarily due to higher revenues as a result of operational growth and favorable investment activities. This ratio exceeded the minimum threshold of 0.9 times as provided by the Office of Finance.

Debt Service to Operations Ratio - Southwestern's debt service to operations ratio increased from 3.5% in 2016 to 3.6% in 2017. The small increase in this ratio was due to an increase of $9.2 million in debt service payments. This ratio remained well below the maximum threshold of 5.0% as provided by the Office of Finance.

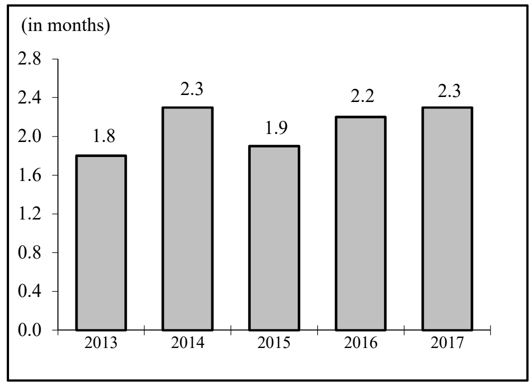
The University of Texas Medical Branch at Galveston
2017 Summary of Financial Condition

Financial Condition: **Satisfactory**

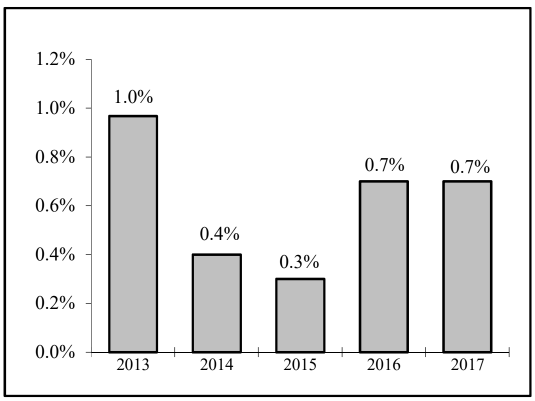
Moody's Overall Scorecard Rating



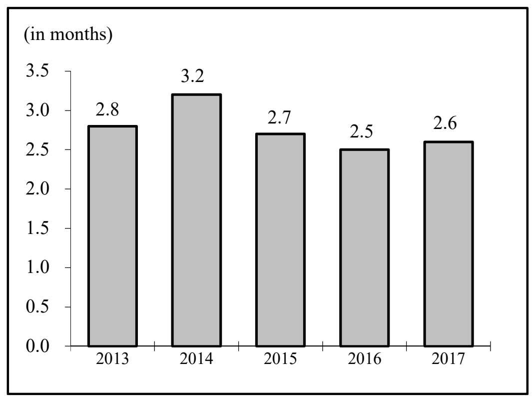
Operating Expense Coverage



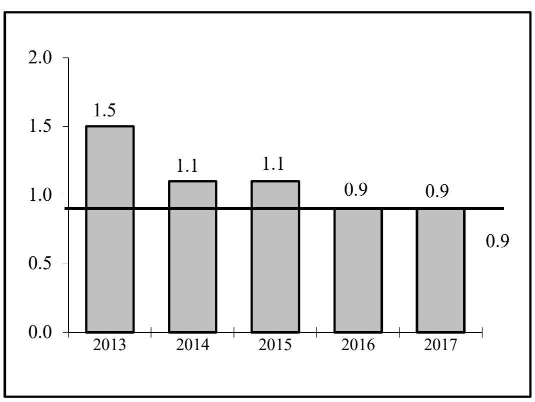
Annual Operating Margin



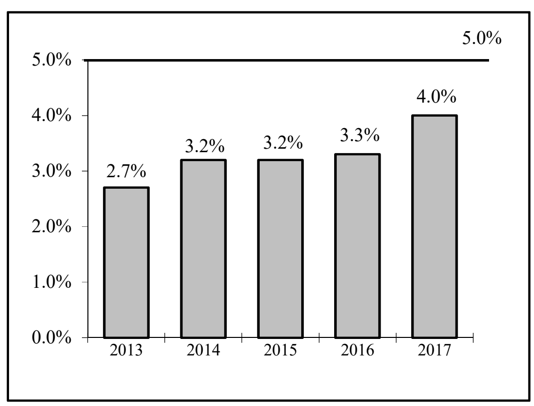
Cash on Hand



Spendable Cash & Investments to Total Debt



Debt Service to Operations



Operating Expense Coverage Ratio - U. T. Medical Branch - Galveston's (UTMB) operating expense coverage ratio increased slightly from 2.2 months in 2016 to 2.3 months in 2017 due to the growth in total unrestricted net position of $41.8 million. The increase in total unrestricted net position was primarily driven by the hospital operations in educational and general funds and the activity of the physician practice plan in designated funds.

UTMB's operating expenses include those expenses incurred in the delivery of care to the offender population through a contract with Texas Department of Criminal Justice (TDCJ). This contract is a cost reimbursement contract and as such is not expected to generate a net position. Reviewing UTMB's operating expense coverage ratio excluding the TDCJ contract expenses of $532.2 million presents a ratio that more clearly reflects UTMB’s ability to meet future business obligations. The operating expense coverage ratio excluding the TDCJ contract would equal 3.1 months as compared to 2.3 months when included.

Annual Operating Margin Ratio - Although UTMB's annual operating margin ratio remained unchanged at 0.7% for 2017, the amount of the annual operating margin increased by $0.5 million as the growth in total operating revenues of $127.7 million slightly exceeded the growth in total operating expenses (including interest expense) of $127.2 million. Total operating revenues increased primarily due to the following: a $100.5 million increase in net sales and services of hospitals generated by an increase in outpatient encounters and discharges, as well as an increase associated with the Correctional Managed Care (CMC) contracts; a $15.9 million increase in net professional fees attributable to an increase of 6.0% in work Relative Value Units in the physician practice plan; and a $9.8 million increase in state appropriations (including the tuition revenue bond supplemental funding). Total operating expenses increased primarily due to the following: an $85.3 million increase in salaries and wages and payroll related costs as a result of growth in staffing associated with the opening of the Jennie Sealy Hospital, League City Campus Hospital, and faculty recruitment, as well as planned merit increases and incentive-based compensation programs to promote and reward outstanding performance; a $20.0 million increase in depreciation and amortization expense largely due to a full year of depreciation expense recognized on the Jennie Sealy Hospital, League City Campus Hospital, and the Utility Distribution System, which were all placed into service in 2016, as well as a full year of depreciation expense recognized on capital assets related to the two new hospitals; a $9.8 million increase in cost of goods sold as a result of increased pharmacy costs for chemotherapeutic agents and increased utilization of non-formulary pharmaceuticals, combined with increased utilization resulting from an increase in discharges, drug shortages, and the opening of the League City Campus Retail Pharmacy in June of 2016; and a $9.1 million increase in interest expense.

In 2015, UTMB received $8.2 million in House Bill 2 supplemental funding to construct a biocontainment critical care facility. None of the supplemental funding was spent in 2015. Therefore, in order to more appropriately match revenues with expenses, the entire $8.2 million was removed from 2015 revenues. For the 2016 and 2017 Analysis of Financial Condition (AFC) $4.1 million of the $8.2 million was added back to revenues in each year of the two years. UTMB began construction on the biocontainment facility in 2016.

Cash on Hand Ratio - UTMB's cash on hand ratio increased from 2.5 months in 2016 to 2.6 months in 2017 due to the growth in both total unrestricted cash and cash equivalents of $22.9 million and the Intermediate Term Fund (ITF) unrestricted balances of $21.5 million. The increase in unrestricted cash and cash equivalents was related to additional funds received in November 2016 from TDCJ for CMC loss reimbursements for the third and fourth quarters of 2016, and the increase in the ITF was attributable to market appreciation on those funds.

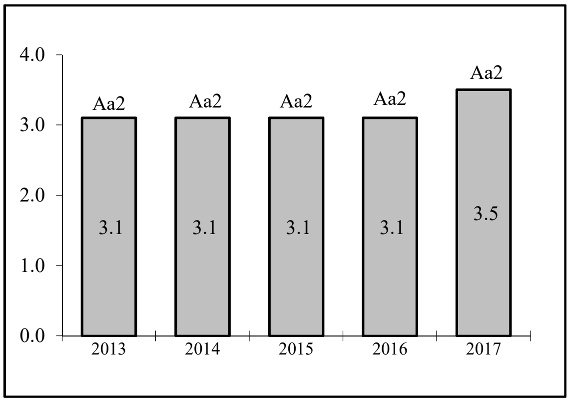
Spendable Cash & Investments to Total Debt Ratio - UTMB's spendable cash and investments to total debt ratio remained unchanged at 0.9 times in 2017, which equaled the minimum threshold as provided by the Office of Finance. The stability of this ratio was due to the growth in total cash and cash equivalents and investments (net of nonexpendable net position) of $86.9 million offset by an increase of $59.6 million in the amount of debt outstanding. The increase in the debt outstanding was related to debt for the Health Education Center and the League City Building expansion.

Debt Service to Operations Ratio - UTMB's debt service to operations ratio increased from 3.3% in 2016 to 4.0% in 2017 as a result of an increase in debt service payments of $18.7 million. Despite the increase this ratio still remained below the maximum threshold of 5.0% as provided by the Office of Finance.

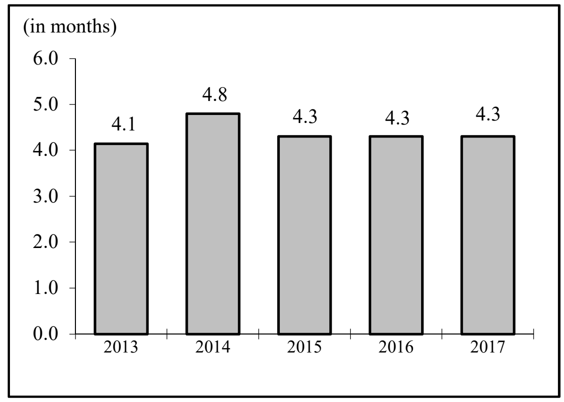
The University of Texas Health Science Center at Houston
2017 Summary of Financial Condition

Financial Condition: **Satisfactory**

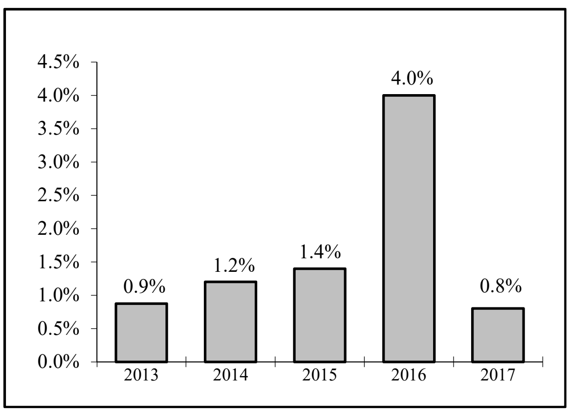
Moody's Overall Scorecard Rating



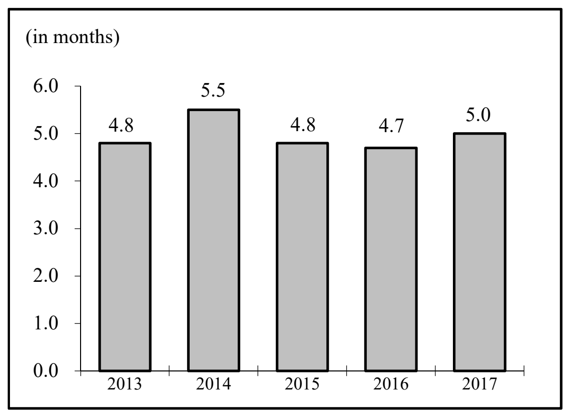
Operating Expense Coverage



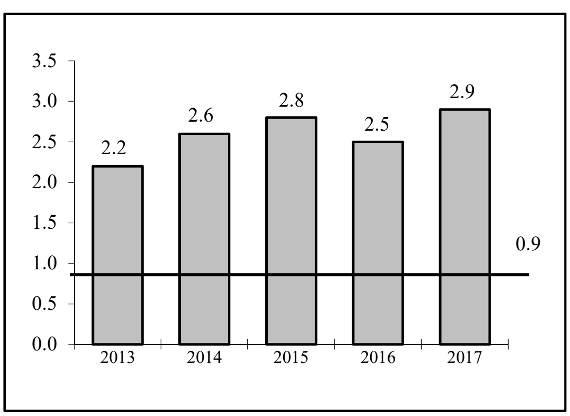
Annual Operating Margin



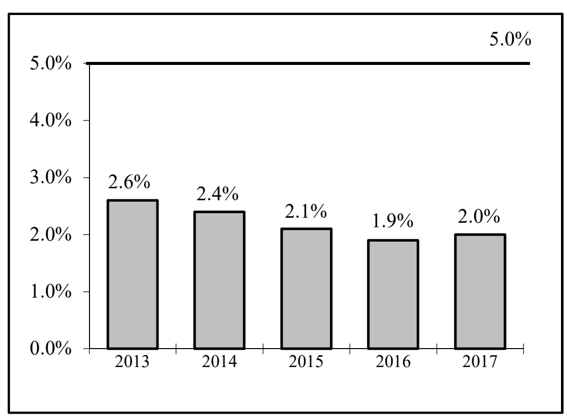
Cash on Hand



Spendable Cash & Investments to Total Debt



Debt Service to Operations



Operating Expense Coverage Ratio - UTHSC-Houston's operating expense coverage ratio remained unchanged at 4.3 months in 2017. The stability of this ratio was attributable to the growth in total unrestricted net position of $42.3 million offset by the growth in total operating expenses (including interest expense) of $92.5 million. The increase in total unrestricted net position was primarily due to the activity in designated funds and auxiliary enterprises funds. Total operating expenses increased largely due to a $99.0 million increase in salaries and wages and payroll related costs as a result of additional full-time equivalents hired to accommodate the continued growth of the physician practice plan and the increased benefits costs associated with the increase in workforce.

Annual Operating Margin Ratio - UTHSC-Houston's annual operating margin ratio decreased from 4.0% for 2016 to 0.8% for 2017 as the growth in total operating expenses of $92.5 million, discussed above, far exceeded the growth in total operating revenues of $43.1 million. The increase in total operating revenues was primarily due to the following: a $27.8 million increase in sponsored programs revenue (including nonexchange sponsored programs) largely attributable to expanded contracted services with teaching partners Memorial Hermann Healthcare System and Harris County Hospital District, as well as additional awards from the Cancer Prevention and Research Institute of Texas and the Texas Higher Education Coordinating Board; a $10.4 million increase in net professional fees due to increased volumes resulting from the growth in the physician practice plan; and a $9.8 million increase in state appropriations (including the tuition revenue bond supplemental funding).

Cash on Hand Ratio - UTHSC-Houston's cash on hand ratio increased from 4.7 months in 2016 to 5.0 months in 2017 due to growth in both total unrestricted cash and cash equivalents of $49.3 million and unrestricted balances in the Intermediate Term Fund (ITF) of $25.2 million. The increase in unrestricted cash and cash equivalents was primarily attributable to a larger than normal professional fee collection month combined with a delay in payments due to the disruption of normal business activity caused by Hurricane *Harvey* during the last week of the fiscal year. The increase in the ITF was a result of normal appreciation on those funds combined with an increase in funds invested in the ITF.

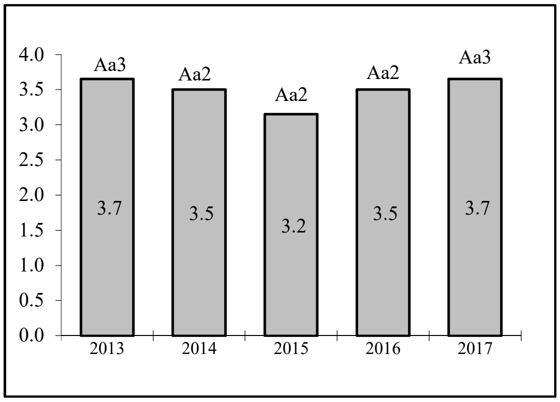
Spendable Cash & Investments to Total Debt Ratio - UTHSC-Houston's spendable cash and investments to total debt ratio increased from 2.5 times in 2016 to 2.9 times in 2017, which exceeded the minimum threshold of 0.9 times as provided by the Office of Finance. The increase in this ratio was a result of the growth in total cash and cash equivalents and investments (excluding nonexpendable net position) of $109.5 million.

Debt Service to Operations Ratio - UTHSC-Houston's debt service to operations ratio increased slightly from 1.9% in 2016 to 2.0% in 2017 due to an increase in debt service payments of $3.2 million which was largely offset by the increase in operating expenses as discussed above. UTHSC-Houston's debt service to operations ratio still remained below the maximum threshold of 5.0% as provided by the Office of Finance.

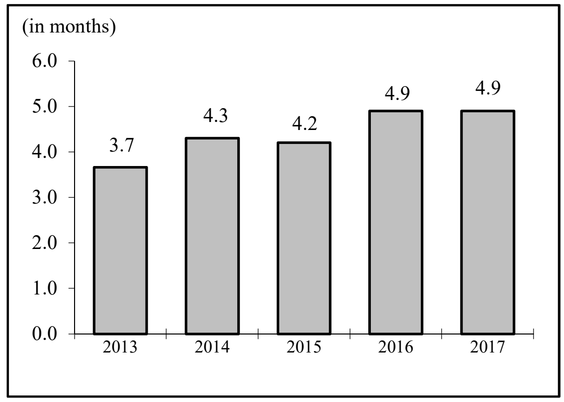
The University of Texas Health Science Center at San Antonio
2017 Summary of Financial Condition

Financial Condition: **Satisfactory**

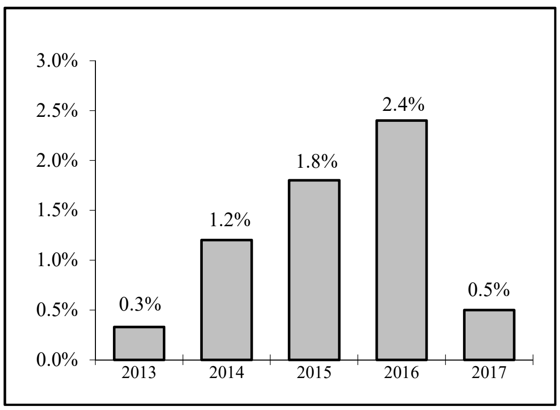
Moody's Overall Scorecard Rating



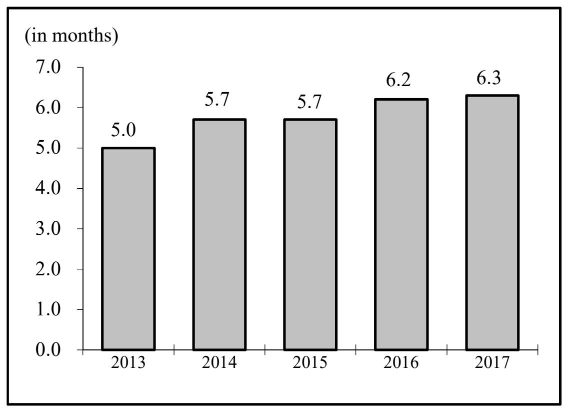
Operating Expense Coverage



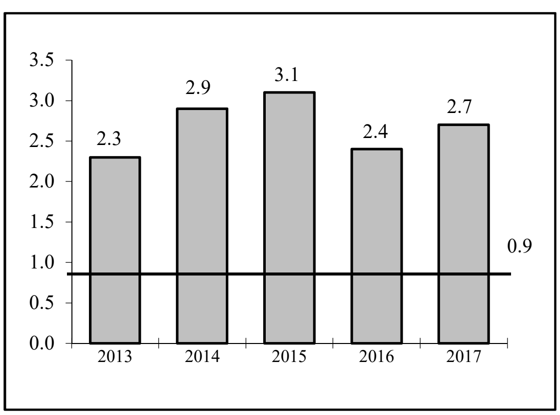
Annual Operating Margin



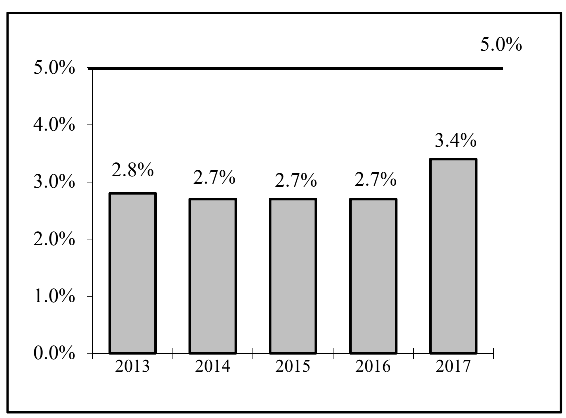
Cash on Hand



Spendable Cash & Investments to Total Debt



Debt Service to Operations



Operating Expense Coverage Ratio - UTHSC-San Antonio's operating expense coverage ratio remained unchanged at 4.9 months in 2017 due to the growth in total unrestricted net position of $12.6 million which was offset by the growth in total operating expenses (including interest expense) of $26.0 million. The increase in total unrestricted net position was primarily attributable to investment income increases in designated funds related to the increase in fair value of investments and new patent royalty payments, which were offset by decreases in practice plan funds to support new facilities and Delivery System Reform Incentive Payment (DSRIP) activities in South Texas as part of the Medicaid Section 1115 Demonstration Waiver. The increase in total operating expenses, discussed in detail below, was largely due to clinical expansion efforts at the Medical Arts and Research Center (MARC) and University Hospital Systems (UHS), combined with the opening of the new UT Health Physicians Hill Country facility.

Annual Operating Margin Ratio - UTHSC-San Antonio's annual operating margin ratio decreased from 2.4% for 2016 to 0.5% for 2017 as the growth in total operating expenses of $26.0 million surpassed the growth in total operating revenues of $10.5 million. The increase in total operating revenues was primarily attributable to the following: a $14.9 million increase in gift contributions for operations largely due to a $16.9 million gift received from the San Antonio Cancer Foundation (formerly Cancer Therapy Research Center) in support of the cancer partnership between UTHSC-San Antonio and M. D. Anderson; a $7.9 million increase in state appropriations, of which $6.2 million represents tuition revenue bond supplemental funding in support of the Facilities Renewal and Modernization project; and a $6.1 million increase in net investment income (excluding realized gains and losses), of which $4.5 million represents new patent royalty payments. These increases in revenue were partially offset by a decrease of $16.5 million in sponsored programs revenue (including nonexchange sponsored programs) resulting from decreased contract revenues of $21.9 million from Doctors Hospital at Renaissance (DHR) associated with South Texas DSRIP activities. UTHSC-San Antonio negotiated a service contract with U. T. Rio Grande Valley to assist with the start-up of their School of Medicine, and U. T. Rio Grande Valley was authorized to transfer state appropriations to UTHSC-San Antonio to pay for these contracted services. A transfer of $1.4 million from U. T. Rio Grande Valley to UTHSC-San Antonio is included in operating revenues for purposes of this analysis. The increase in total operating expenses was largely due to a $24.8 million increase in salaries and wages and payroll related costs related to the clinical expansion efforts discussed above, targeted recruitment efforts, and a 2.0% merit increase for all non-faculty employees.

Cash on Hand Ratio - UTHSC-San Antonio's cash on hand ratio increased slightly from 6.2 months in 2016 to 6.3 months in 2017 due to an increase in funds invested in the Intermediate Term Fund (ITF) and market appreciation on those funds.

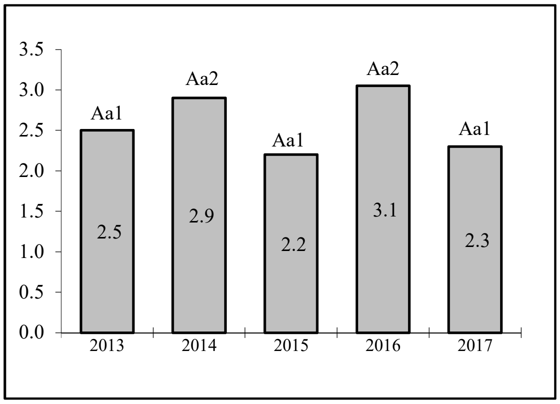
Spendable Cash & Investments to Total Debt Ratio - UTHSC-San Antonio's spendable cash and investments to total debt ratio increased from 2.4 times in 2016 to 2.7 times in 2017, which exceeded the minimum threshold of 0.9 times as provided by the Office of Finance. The increase in this ratio was due to the growth in total cash and cash equivalents and investments (excluding nonexpendable net position) of $68.1 million. The primary driver behind the increase in investments was an increase in endowment gifts received in 2017 and the appreciation on the endowment funds, combined with an increase in the investment in the ITF as mentioned above.

Debt Service to Operations Ratio - UTHSC-San Antonio's debt service to operations ratio increased from 2.7% in 2016 to 3.4% in 2017 but still fell below the maximum threshold of 5.0% as provided by the Office of Finance. The increase in this ratio was attributable to an increase of $6.7 million in debt service payments related to $80.0 million in TRB authorization from the 84th Texas Legislature for the Facilities Renewal and Modernization project, as well as Revenue Financing System debt incurred to acquire the Professional Administrative Resource Center (PARC) and to construct a new ambulatory facility (UT Health Physicians Hill Country).

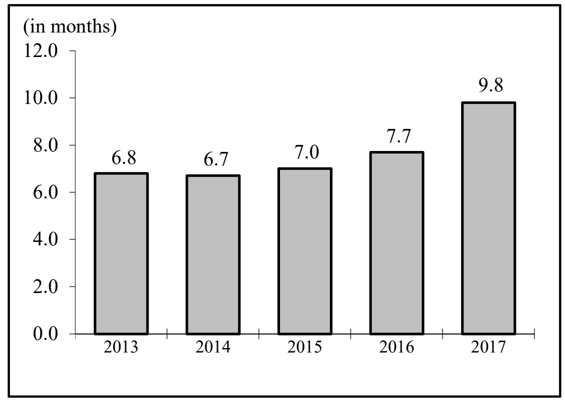
The University of Texas M. D. Anderson Cancer Center
2017 Summary of Financial Condition

Financial Condition: **Satisfactory**

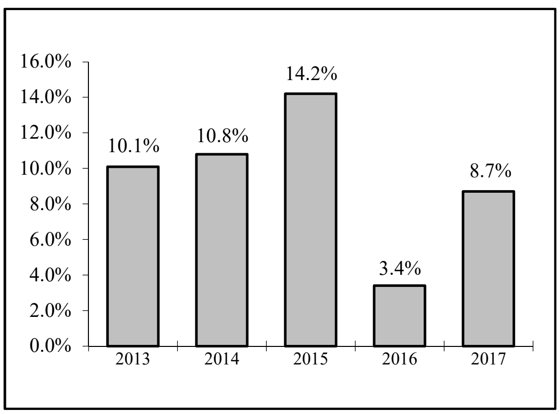
Moody's Overall Scorecard Rating



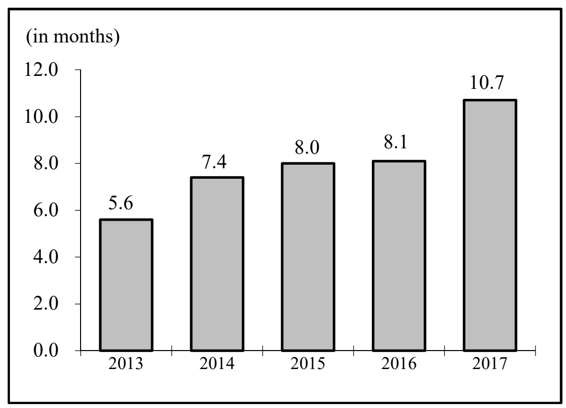
Operating Expense Coverage



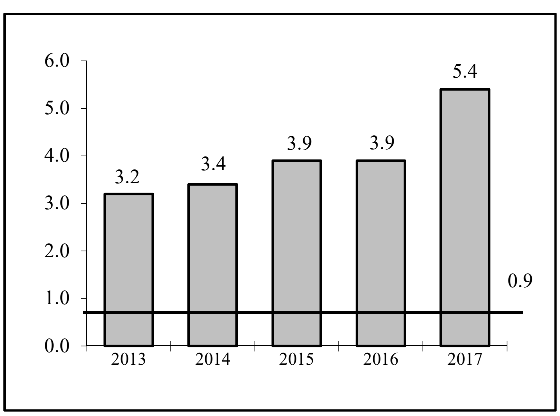
Annual Operating Margin



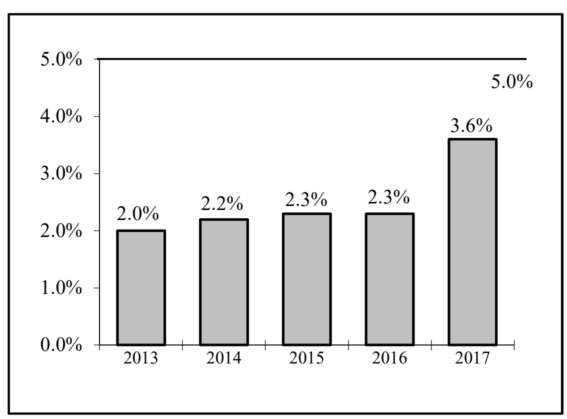
Cash on Hand



Spendable Cash & Investments to Total Debt



Debt Service to Operations



Operating Expense Coverage Ratio - M. D. Anderson's operating expense coverage ratio increased from 7.7 months in 2016 to 9.8 months in 2017 due to the growth in total unrestricted net position of $763.8 million. The increase in total unrestricted net position was primarily attributable to increases in patient care support, net sales and services of hospitals and net professional fees, combined with an increase in unrestricted funding intended for capital projects and the investment activity in educational and general funds and designated funds.

Annual Operating Margin Ratio - M. D. Anderson's annual operating margin ratio increased from 3.4% for 2016 to 8.7% for 2017 as the growth in total operating revenues of $287.5 million far outpaced the growth in total operating expenses (including interest expense) of $26.8 million. The increase in total operating revenues was primarily due to the following: a $215.0 million increase in net sales and services of hospitals driven by increased inpatient and outpatient volumes; a $34.6 million increase in sponsored programs revenue (including nonexchange sponsored programs) largely as a result of increased funding and awards received from the Cancer Prevention and Research Institute of Texas, as well as additional funding from the National Institute of Health with an increase of 5% in awards in 2017 and an increase in Strategic Industry Ventures contracts; a $26.5 million increase in net investment income (excluding realized gains and losses); and a $12.6 million increase in net professional fees due to increased patient volumes. The increase in total operating expenses was largely a result of the impairment of capital assets of $26.5 million incurred by M. D. Anderson in 2017 as a result of the write-off of a portion of the Oncology Expert Advisor Project which resided in construction in progress.

Cash on Hand Ratio - M. D. Anderson's cash on hand ratio increased from 8.1 months in 2016 to 10.7 months in 2017 due to the growth of unrestricted investments in the Intermediate Term Fund (ITF) of $1.2 billion as a result of additional funds invested in the ITF combined with market appreciation on those funds.

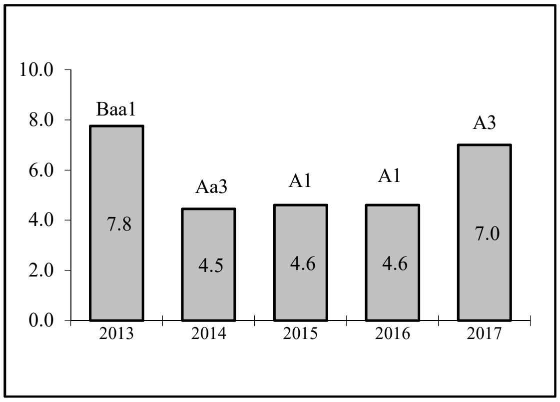
Spendable Cash & Investments to Total Debt Ratio - M. D. Anderson's spendable cash and investments to total debt ratio was 5.4 times in 2017, which was an increase from the 2016 ratio of 3.9 times and was greater than the minimum threshold of 0.9 times as provided by the Office of Finance. The increase in this ratio was attributable to the increase in the ITF investments combined with a decrease of $72.1 million in the amount of debt outstanding.

Debt Service to Operations Ratio - M. D. Anderson's debt service to operations ratio increased from 2.3% in 2016 to 3.6% in 2017, which was still below the maximum threshold of 5.0% as provided by the Office of Finance. The increase in this ratio was driven by an increase in debt service payments of $57.7 million.

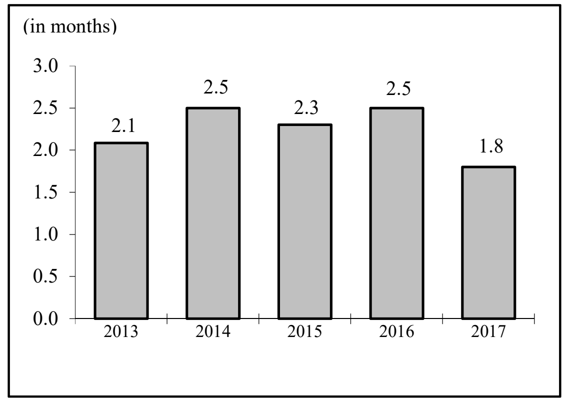
The University of Texas Health Science Center at Tyler
2017 Summary of Financial Condition

Financial Condition: **Watch**

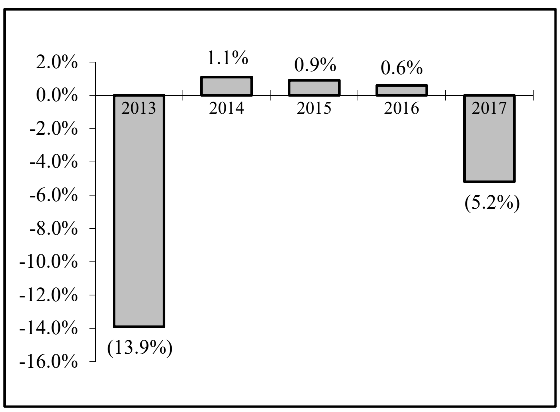
Moody's Overall Scorecard Rating



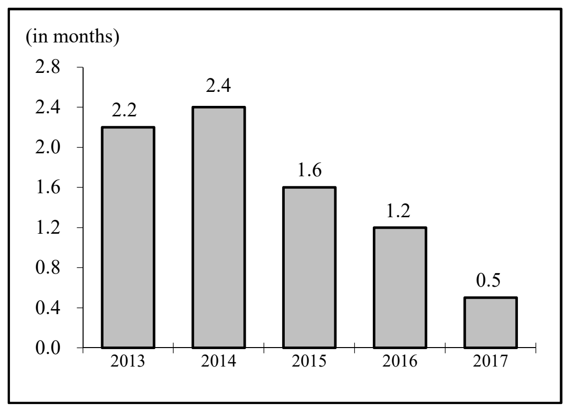
Operating Expense Coverage



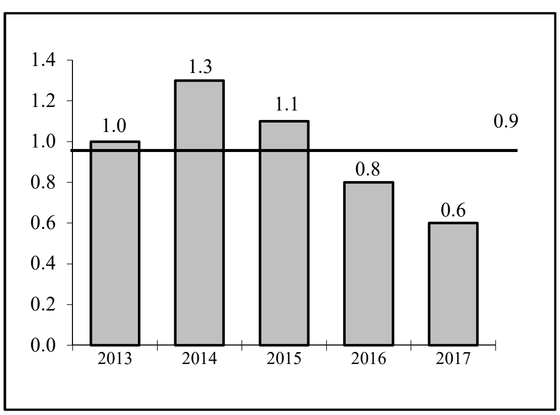
Annual Operating Margin



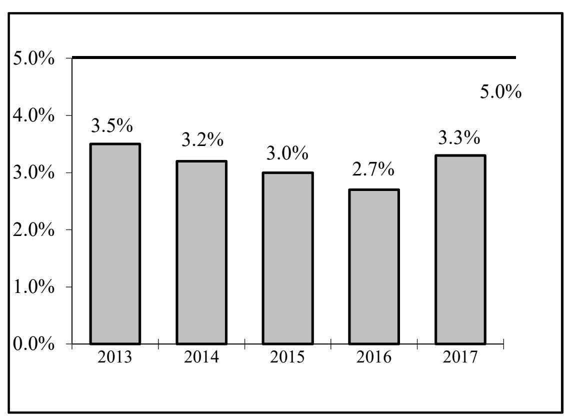
Cash on Hand



Spendable Cash & Investments to Total Debt



Debt Service to Operations



Operating Expense Coverage Ratio - UTHSC-Tyler's operating expense coverage ratio decreased from 2.5 months in 2016 to 1.8 months in 2017 primarily due to a reduction in total unrestricted net position of $9.1 million. The decrease in total unrestricted net position was largely attributable to a decline in operating performance in designated funds.

Annual Operating Margin Ratio - UTHSC-Tyler's annual operating margin ratio decreased from 0.6% for 2016 to (5.2%) for 2017 as the growth in total operating expenses (including interest expense) of $13.6 million far exceeded the growth in total operating revenues of $1.9 million. The increase in total operating expenses was primarily due to the following: a $9.0 million increase in salaries and wages and payroll related costs resulting from a larger employee base, accompanied by increased compensable absence expenses and premium sharing costs; a $1.5 million increase in depreciation and amortization expense related to various projects placed into service in 2017, as well as new capitalized equipment purchases; a $1.5 million increase in materials and supplies driven by medical supplies expense, especially in the area of pharmaceuticals and nuclear medicine drugs associated with investment in the oncology service line; and a $1.3 million increase in professional fees and services due to higher usage levels of contracted physician services, new contractual expenses related to the Northeast Texas Consortium (NETNet) community college subcontract and increased expenses for maintenance of NETNet operations, as well as consulting services related to software implementation. Total operating revenues increased largely due to the following: a $7.1 million increase in sponsored programs revenue generated by an increase in community health projects, an Affordable Care Act pass-through grant received from the Department of Family and Protective Services, and increased funding received from the Cancer Prevention and Research Institute of Texas and the Texas Higher Education Coordinating Board; a $2.1 million increase in net sales and services of hospitals as a result of growth in outpatient services, including gastroenterology, radiology, and oncology treatments and procedures; and a $2.0 million increase in net professional fees due to increased volumes particularly in the areas of family medicine, gastroenterology, radiology, surgery and behavioral health. These increases in revenue were mostly offset by a decrease in other operating revenues of $9.1 million as a result of a decline of $8.7 million in revenue received from the Delivery System Reform Incentive Payments (DSRIP) in 2017. Further impacting UTHSC-Tyler's annual operating margin in 2017 was a one-time charge of $1.3 million recorded in 2017 to account for a current year recoupment attributed to a 2011 Medicare claims outlier review, as well as $1.0 million in critical, unbudgeted expenses to maintain NETNet operations in 2017.

It is important to note the sizeable impact net DSRIP had on UTHSC-Tyler's operating results. UTHSC-Tyler recognized $12.0 million of net DSRIP revenue in 2017 as compared to $19.2 million in 2016. If the net DSRIP revenue had not been recognized in 2017, then UTHSC-Tyler's annual operating margin would have been ($22.5) million or (12.5%).

Cash on Hand Ratio - UTHSC-Tyler's cash on hand ratio declined from 1.2 months in 2016 to 0.5 months in 2017. The decrease in this ratio was attributable to decreases in both total unrestricted cash and cash equivalents of $7.4 million and unrestricted balances in the Intermediate Term Fund (ITF) of $2.6 million, combined with the $13.6 million increase in total operating expenses, as discussed above. The reduction in unrestricted cash and cash equivalents was driven by the operating deficit, one-time cash outflows for obligations related to prior years such as Upper Payment Limit repayments and the Medicare claims outlier review, and capital equipment purchases made late in the fiscal year that will not be financed until early in 2018. The decrease in the unrestricted ITF balance was a result of a change in the allocation between restricted and unrestricted balances.

Spendable Cash & Investments to Total Debt Ratio - UTHSC-Tyler's spendable cash and investments to total debt ratio decreased from 0.8 times in 2016 to 0.6 times in 2017 and fell below the minimum threshold of 0.9 times as provided by the Office of Finance. The decrease in this ratio was primarily due to the decrease in cash and cash equivalents.

Debt Service to Operations Ratio - UTHSC-Tyler's debt service to operations ratio increased from 2.7% in 2016 to 3.3% in 2017 as a result of an increase in debt service payments of $1.7 million. UTHSC-Tyler's ratio was still below the maximum threshold of 5.0% as provided by the Office of Finance.

Appendix A - Definitions of Evaluation Factors

1. **Moody's Overall Scorecard Rating** – The Moody's Overall Scorecard Rating has four broad factors important to Moody's in their assessment of university ratings:

   - Market Profile
   - Operating Performance
   - Wealth and Liquidity, and
   - Leverage

   There are nine sub-factor calculations under these four broad factors and each sub-factor is assigned a weight and a value. After calculating each sub-factor, the results are mapped to a Moody's rating category. Then, the sub-factor ratings are converted to alpha numeric values, which are multiplied by the assigned weights and summed to produce an aggregate weighted score. That aggregate score is then mapped to the appropriate Moody's rating. See Appendix B for each institution's calculation.

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.

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

4. **Cash on Hand** – This measures the number of months an institution could continue to pay operating expenses from existing unrestricted cash and investments in the absence of additional revenue.

$$\frac{\text{Unrestricted Cash and Investments that can be liquidated within one month}}{\text{Operating Expenses - Depreciation Expense}} * 12$$

5. **Spendable Cash & Investment to Total Debt Ratio** – This ratio examines the ability of an institution to repay bondholders from wealth that can be accessed over time or for a specific purpose. Debt capacity thresholds are provided by the Office of Finance. The minimum spendable cash and investments to total debt ratio is 0.9 times.

$$\frac{\text{Cash and Investments less permanently Restricted Net Position}}{\text{Debt not on Institution's Books}}$$

6. **Debt Service to Operations 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. The maximum debt service to operations ratio is 5.0%.

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

7. **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 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. A benchmark has not been established for cash on hand although it should be stable or improving. A standard for the Moody's overall scorecard rating has not yet been established. The Office of Finance uses the Moody's overall scorecard rating, spendable cash and investments to total debt ratio, and debt service to operations 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 spendable cash and investments to total debt should exceed the Office of Finance's standard of 0.9 times, while the debt service to operations 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 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. Cash on hand could be decreasing. Trends in the Moody's overall scorecard rating, spendable cash and investments to total debt ratio, and debt service to operations 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 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. Cash on hand could be decreasing to extremely low levels. Trends in the Moody's overall scorecard rating, spendable cash and investments to total debt ratio, and debt service to operations 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 Moody's Scorecard Rating
Academic Institutions
As of August 31, 2017

U. T. Arlington	**Weight**	**Value**	**Rating**	**Weighted Scale**
Market Profile:				
Operating Revenue ($ in millions)	15%	650.53	Aa	0.45
Annual Change in Operating Revenues	5%	5.51%	A	0.30
Total Weighted Market Profile				0.75
Operating Performance:				
Operating Cash Flow Margin	20%	20.43%	Aaa	0.20
Max. Single Revenue Contribution	10%	53.31%	A	0.60
Total Weighted Operating Performance				0.80
Wealth & Liquidity:				
Total Cash & Investments ($ in millions)	15%	653.76	Aa	0.45
Spendable Cash & Inv. to Operating Exp.	10%	0.98	Aa	0.30
Monthly Days Cash on Hand (in days)	5%	344.43	Aaa	0.05
Total Weighted Wealth & Liquidity				0.80
Leverage:				
Spendable Cash & Inv. to Total Debt	10%	1.72	Aa	0.30
Total Debt to Cash Flow	10%	2.47	Aaa	0.10
Total Weighted Leverage				0.40
U. T. Arlington - Overall Rating & Numeric Score			**Aa2**	**2.8**

U. T. Austin	**Weight**	**Value**	**Rating**	**Weighted Scale**
Market Profile:				
Operating Revenue ($ in millions)	15%	2,727.13	Aaa	0.15
Annual Change in Operating Revenues	5%	4.42%	A	0.30
Total Weighted Market Profile				0.45
Operating Performance:				
Operating Cash Flow Margin	20%	16.72%	Aa	0.60
Max. Single Revenue Contribution	10%	28.14%	Aaa	0.10
Total Weighted Operating Performance				0.70
Wealth & Liquidity:				
Total Cash & Investments ($ in millions)	15%	5,599.41	Aaa	0.15
Spendable Cash & Inv. to Operating Exp.	10%	1.41	Aaa	0.10
Monthly Days Cash on Hand (in days)	5%	225.12	Aa	0.15
Total Weighted Wealth & Liquidity				0.40
Leverage:				
Spendable Cash & Inv. to Total Debt	10%	2.13	Aa	0.30
Total Debt to Cash Flow	10%	3.76	Aaa	0.10
Total Weighted Leverage				0.40
U. T. Austin - Overall Rating & Numeric Score			**Aa1**	**2.0**

Appendix B - Calculation of Moody's Scorecard Rating
Academic Institutions
As of August 31, 2017

U. T. Dallas	**Weight**	**Value**	**Rating**	**Weighted Scale**
Market Profile:				
Operating Revenue ($ in millions)	15%	590.84	Aa	0.45
Annual Change in Operating Revenues	5%	-0.24%	B	0.75
Total Weighted Market Profile				1.20
Operating Performance:				
Operating Cash Flow Margin	20%	14.95%	Aa	0.60
Max. Single Revenue Contribution	10%	57.99%	A	0.60
Total Weighted Operating Performance				1.20
Wealth & Liquidity:				
Total Cash & Investments ($ in millions)	15%	776.77	Aa	0.45
Spendable Cash & Inv. to Operating Exp.	10%	0.85	Aa	0.30
Monthly Days Cash on Hand (in days)	5%	176.98	Aa	0.15
Total Weighted Wealth & Liquidity				0.90
Leverage:				
Spendable Cash & Inv. to Total Debt	10%	0.75	Aa	0.30
Total Debt to Cash Flow	10%	7.68	Aa	0.30
Total Weighted Leverage				0.60
U. T. Dallas - Overall Rating & Numeric Score			**Aa3**	**3.9**

U. T. El Paso	**Weight**	**Value**	**Rating**	**Weighted Scale**
Market Profile:				
Operating Revenue ($ in millions)	15%	374.11	A	0.90
Annual Change in Operating Revenues	5%	1.82%	Ba	0.60
Total Weighted Market Profile				1.50
Operating Performance:				
Operating Cash Flow Margin	20%	7.86%	A	1.20
Max. Single Revenue Contribution	10%	38.17%	Aa	0.30
Total Weighted Operating Performance				1.50
Wealth & Liquidity:				
Total Cash & Investments ($ in millions)	15%	378.20	Aa	0.45
Spendable Cash & Inv. to Operating Exp.	10%	0.65	Aa	0.30
Monthly Days Cash on Hand (in days)	5%	99.06	Baa	0.45
Total Weighted Wealth & Liquidity				1.20
Leverage:				
Spendable Cash & Inv. to Total Debt	10%	0.94	Aa	0.30
Total Debt to Cash Flow	10%	9.10	Aa	0.30
Total Weighted Leverage				0.60
U. T. El Paso - Overall Rating & Numeric Score			**A1**	**4.8**

Appendix B - Calculation of Moody's Scorecard Rating
Academic Institutions
As of August 31, 2017

U. T. Permian Basin	**Weight**	**Value**	**Rating**	**Weighted Scale**
Market Profile:				
Operating Revenue ($ in millions)	15%	91.79	A	0.90
Annual Change in Operating Revenues	5%	15.47%	Aaa	0.05
Total Weighted Market Profile				0.95
Operating Performance:				
Operating Cash Flow Margin	20%	25.15%	Aaa	0.20
Max. Single Revenue Contribution	10%	37.42%	Aa	0.30
Total Weighted Operating Performance				0.50
Wealth & Liquidity:				
Total Cash & Investments ($ in millions)	15%	74.68	A	0.90
Spendable Cash & Inv. to Operating Exp.	10%	0.44	A	0.60
Monthly Days Cash on Hand (in days)	5%	73.81	Baa	0.45
Total Weighted Wealth & Liquidity				1.95
Leverage:				
Spendable Cash & Inv. to Total Debt	10%	0.22	A	0.60
Total Debt to Cash Flow	10%	7.81	Aa	0.30
Total Weighted Leverage				0.90
U. T. Permian Basin - Overall Rating & Numeric Score			**Aa3**	**4.3**

U. T. Rio Grande Valley	**Weight**	**Value**	**Rating**	**Weighted Scale**
Market Profile:				
Operating Revenue ($ in millions)	15%	444.49	Aa	0.45
Annual Change in Operating Revenues	5%	9.74%	Aaa	0.05
Total Weighted Market Profile				0.50
Operating Performance:				
Operating Cash Flow Margin	20%	13.87%	Aa	0.60
Max. Single Revenue Contribution	10%	34.43%	Aaa	0.10
Total Weighted Operating Performance				0.70
Wealth & Liquidity:				
Total Cash & Investments ($ in millions)	15%	203.49	Aa	0.45
Spendable Cash & Inv. to Operating Exp.	10%	0.42	A	0.60
Monthly Days Cash on Hand (in days)	5%	159.11	Aa	0.15
Total Weighted Wealth & Liquidity				1.20
Leverage:				
Spendable Cash & Inv. to Total Debt	10%	1.02	Aa	0.30
Total Debt to Cash Flow	10%	2.84	Aaa	0.10
Total Weighted Leverage				0.40
U. T. Rio Grande Valley - Overall Rating & Numeric Score			**Aa2**	**2.8**

Appendix B - Calculation of Moody's Scorecard Rating
Academic Institutions
As of August 31, 2017

U. T. San Antonio	**Weight**	**Value**	**Rating**	**Weighted Scale**
Market Profile:				
Operating Revenue ($ in millions)	15%	496.53	Aa	0.45
Annual Change in Operating Revenues	5%	8.61%	Aaa	0.05
Total Weighted Market Profile				0.50
Operating Performance:				
Operating Cash Flow Margin	20%	12.82%	Aa	0.60
Max. Single Revenue Contribution	10%	46.99%	Aa	0.30
Total Weighted Operating Performance				0.90
Wealth & Liquidity:				
Total Cash & Investments ($ in millions)	15%	480.56	Aa	0.45
Spendable Cash & Inv. to Operating Exp.	10%	0.75	Aa	0.30
Monthly Days Cash on Hand (in days)	5%	239.81	Aa	0.15
Total Weighted Wealth & Liquidity				0.90
Leverage:				
Spendable Cash & Inv. to Total Debt	10%	1.06	Aa	0.30
Total Debt to Cash Flow	10%	5.52	Aa	0.30
Total Weighted Leverage				0.60
U. T. San Antonio - Overall Rating & Numeric Score			**Aa2**	**2.9**

U. T. Tyler	**Weight**	**Value**	**Rating**	**Weighted Scale**
Market Profile:				
Operating Revenue ($ in millions)	15%	139.12	A	0.90
Annual Change in Operating Revenues	5%	11.81%	Aaa	0.05
Total Weighted Market Profile				0.95
Operating Performance:				
Operating Cash Flow Margin	20%	14.20%	Aa	0.60
Max. Single Revenue Contribution	10%	40.87%	Aa	0.30
Total Weighted Operating Performance				0.90
Wealth & Liquidity:				
Total Cash & Investments ($ in millions)	15%	139.80	Aa	0.45
Spendable Cash & Inv. to Operating Exp.	10%	0.71	Aa	0.30
Monthly Days Cash on Hand (in days)	5%	198.28	Aa	0.15
Total Weighted Wealth & Liquidity				0.90
Leverage:				
Spendable Cash & Inv. to Total Debt	10%	0.71	A	0.60
Total Debt to Cash Flow	10%	7.03	Aa	0.30
Total Weighted Leverage				0.90
U. T. Tyler - Overall Rating & Numeric Score			**Aa3**	**3.7**

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Appendix B - Calculation of Moody's Scorecard Rating
Health Institutions
As of August 31, 2017

Southwestern	**Weight**	**Value**	**Rating**	**Weighted Scale**
Market Profile:				
Operating Revenue ($ in millions)	15%	2,940.67	Aaa	0.15
Annual Change in Operating Revenues	5%	5.41%	A	0.30
Total Weighted Market Profile				0.45
Operating Performance:				
Operating Cash Flow Margin	20%	12.63%	Aa	0.60
Max. Single Revenue Contribution	10%	39.75%	Aa	0.30
Total Weighted Operating Performance				0.90
Wealth & Liquidity:				
Total Cash & Investments ($ in millions)	15%	2,818.44	Aaa	0.15
Spendable Cash & Inv. to Operating Exp.	10%	0.79	Aa	0.30
Monthly Days Cash on Hand (in days)	5%	155.16	Aa	0.15
Total Weighted Wealth & Liquidity				0.60
Leverage:				
Spendable Cash & Inv. to Total Debt	10%	2.08	Aa	0.30
Total Debt to Cash Flow	10%	2.82	Aaa	0.10
Total Weighted Leverage				0.40
Southwestern - Overall Rating & Numeric Score			**Aa1**	**2.4**

UTMB	**Weight**	**Value**	**Rating**	**Weighted Scale**
Market Profile:				
Operating Revenue ($ in millions)	15%	2,091.78	Aa	0.45
Annual Change in Operating Revenues	5%	6.63%	Aa	0.15
Total Weighted Market Profile				0.60
Operating Performance:				
Operating Cash Flow Margin	20%	8.99%	A	1.20
Max. Single Revenue Contribution	10%	54.87%	A	0.60
Total Weighted Operating Performance				1.80
Wealth & Liquidity:				
Total Cash & Investments ($ in millions)	15%	1,039.93	Aa	0.45
Spendable Cash & Inv. to Operating Exp.	10%	0.35	A	0.60
Monthly Days Cash on Hand (in days)	5%	81.57	A	0.30
Total Weighted Wealth & Liquidity				1.35
Leverage:				
Spendable Cash & Inv. to Total Debt	10%	0.95	Aa	0.30
Total Debt to Cash Flow	10%	4.04	Aa	0.30
Total Weighted Leverage				0.60
UTMB - Overall Rating & Numeric Score			**Aa3**	**4.4**

Appendix B - Calculation of Moody's Scorecard Rating
Health Institutions
As of August 31, 2017

UTHSC-Houston	**Weight**	**Value**	**Rating**	**Weighted Scale**
Market Profile:				
Operating Revenue ($ in millions)	15%	1,598.77	Aa	0.45
Annual Change in Operating Revenues	5%	2.72%	Baa	0.45
Total Weighted Market Profile				0.90
Operating Performance:				
Operating Cash Flow Margin	20%	5.68%	A	1.20
Max. Single Revenue Contribution	10%	25.63%	Aaa	0.10
Total Weighted Operating Performance				1.30
Wealth & Liquidity:				
Total Cash & Investments ($ in millions)	15%	1,097.87	Aa	0.45
Spendable Cash & Inv. to Operating Exp.	10%	0.56	Aa	0.30
Monthly Days Cash on Hand (in days)	5%	153.15	Aa	0.15
Total Weighted Wealth & Liquidity				0.90
Leverage:				
Spendable Cash & Inv. to Total Debt	10%	2.95	Aa	0.30
Total Debt to Cash Flow	10%	3.29	Aaa	0.10
Total Weighted Leverage				0.40
UTHSC-Houston - Overall Rating & Numeric Score			**Aa2**	**3.5**

UTHSC-San Antonio	**Weight**	**Value**	**Rating**	**Weighted Scale**
Market Profile:				
Operating Revenue ($ in millions)	15%	843.89	Aa	0.45
Annual Change in Operating Revenues	5%	0.86%	Ba	0.60
Total Weighted Market Profile				1.05
Operating Performance:				
Operating Cash Flow Margin	20%	8.42%	A	1.20
Max. Single Revenue Contribution	10%	22.71%	Aaa	0.10
Total Weighted Operating Performance				1.30
Wealth & Liquidity:				
Total Cash & Investments ($ in millions)	15%	1,075.55	Aa	0.45
Spendable Cash & Inv. to Operating Exp.	10%	0.83	Aa	0.30
Monthly Days Cash on Hand (in days)	5%	194.01	Aa	0.15
Total Weighted Wealth & Liquidity				0.90
Leverage:				
Spendable Cash & Inv. to Total Debt	10%	2.75	Aa	0.30
Total Debt to Cash Flow	10%	3.57	Aaa	0.10
Total Weighted Leverage				0.40
UTHSC-San Antonio - Overall Rating & Numeric Score			**Aa3**	**3.7**

Appendix B - Calculation of Moody's Scorecard Rating
Health Institutions
As of August 31, 2017

M. D. Anderson	**Weight**	**Value**	**Rating**	**Weighted Scale**
Market Profile:				
Operating Revenue ($ in millions)	15%	4,831.71	Aaa	0.15
Annual Change in Operating Revenues	5%	6.25%	Aa	0.15
Total Weighted Market Profile				0.30
Operating Performance:				
Operating Cash Flow Margin	20%	18.86%	Aa	0.60
Max. Single Revenue Contribution	10%	69.10%	Baa	0.90
Total Weighted Operating Performance				1.50
Wealth & Liquidity:				
Total Cash & Investments ($ in millions)	15%	5,742.56	Aaa	0.15
Spendable Cash & Inv. to Operating Exp.	10%	1.11	Aaa	0.10
Monthly Days Cash on Hand (in days)	5%	328.74	Aaa	0.05
Total Weighted Wealth & Liquidity				0.30
Leverage:				
Spendable Cash & Inv. to Total Debt	10%	5.37	Aaa	0.10
Total Debt to Cash Flow	10%	0.98	Aaa	0.10
Total Weighted Leverage				0.20
M. D. Anderson - Overall Rating & Numeric Score			**Aa1**	**2.3**

UTHSC-Tyler	**Weight**	**Value**	**Rating**	**Weighted Scale**
Market Profile:				
Operating Revenue ($ in millions)	15%	200.08	A	0.90
Annual Change in Operating Revenues	5%	0.89%	Ba	0.60
Total Weighted Market Profile				1.50
Operating Performance:				
Operating Cash Flow Margin	20%	1.57%	Baa	1.80
Max. Single Revenue Contribution	10%	30.83%	Aaa	0.10
Total Weighted Operating Performance				1.90
Wealth & Liquidity:				
Total Cash & Investments ($ in millions)	15%	66.44	A	0.90
Spendable Cash & Inv. to Operating Exp.	10%	0.16	A	0.60
Monthly Days Cash on Hand (in days)	5%	16.83	Ba	0.60
Total Weighted Wealth & Liquidity				2.10
Leverage:				
Spendable Cash & Inv. to Total Debt	10%	0.63	A	0.60
Total Debt to Cash Flow	10%	16.51	Baa	0.90
Total Weighted Leverage				1.50
UTHSC-Tyler - Overall Rating & Numeric Score			**A3**	**7.0**

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Appendix C - Moody's Scorecard Outcome Scale

Scorecard Outcome	Aggregate Weighted Factor Score			
Aaa		$x \leq$	1.5	
Aa1	1.5	$< x \leq$	2.5	
Aa2	2.5	$< x \leq$	3.5	
Aa3	3.5	$< x \leq$	4.5	
A1	4.5	$< x \leq$	5.5	
A2	5.5	$< x \leq$	6.5	
A3	6.5	$< x \leq$	7.5	
Baa1	7.5	$< x \leq$	8.5	
Baa2	8.5	$< x \leq$	9.5	Investment
Baa3	9.5	$< x \leq$	10.5	Grade
Ba1	10.5	$< x \leq$	11.5	Speculative
Ba2	11.5	$< x \leq$	12.5	Grade
Ba3	12.5	$< x \leq$	13.5	
B1	13.5	$< x \leq$	14.5	
B2	14.5	$< x \leq$	15.5	
B3	15.5	$< x \leq$	16.5	
Caa1	16.5	$< x \leq$	17.5	
Caa2	17.5	$< x \leq$	18.5	
Caa3	18.5	$< x \leq$	19.5	
Ca		$x >$	19.5	

Appendix D - Calculation of Annual Operating Margin
Academic Institutions
As of August 31, 2017
(In Millions)

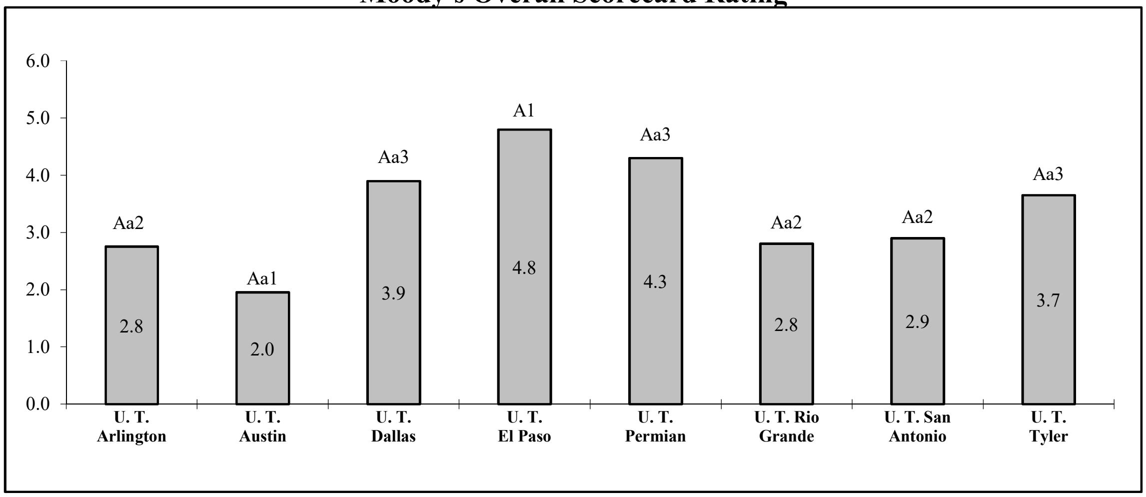
Institution	Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	Less: Nonoperating Items — Other Nonop. Revenues	Other Nonop. Expenses	Gain/Loss on Sale of Cap. Assets	Net Increase/ (Decrease) in FV of Inv.	Margin From SRECNA	Other Adjustments — Minus: Realized Gains/ (Losses)	Plus: AUF, RAHC NSERB & TRB Supp.	Plus: GEF Transfer	Plus: Hazelwood Transfers	Plus: Interest Expense	Annual Operating Margin
U. T. Arlington	$ 98.8	0.3	(0.1)	(1.3)	27.7	72.2	-	5.4	-	0.7	(11.6)	66.8
U. T. Austin	166.7	90.5	(1.6)	(15.1)	276.6	(183.6)	-	345.6	-	1.6	(48.2)	115.5
U. T. Dallas	36.4	0.5	(0.5)	-	35.8	1.0	6.0	12.0	-	0.4	(23.5)	(16.1)
U. T. El Paso	8.1	-	-	(1.1)	20.6	(11.0)	0.3	5.4	-	0.4	(9.6)	(15.1)
U. T. Permian Basin	8.9	2.6	-	-	3.1	3.3	0.3	3.7	-	0.1	(6.7)	0.1
U. T. Rio Grande Valley	22.5	-	-	-	8.8	13.8	-	5.9	-	0.5	(6.5)	13.9
U. T. San Antonio	24.7	-	-	-	21.2	3.6	2.8	5.4	-	1.6	(14.6)	(6.8)
U. T. Tyler	6.6	-	-	-	7.2	(0.7)	-	4.6	-	0.2	(5.2)	(1.0)

Appendix D - Calculation of Annual Operating Margin
Health Institutions
As of August 31, 2017
(In Millions)

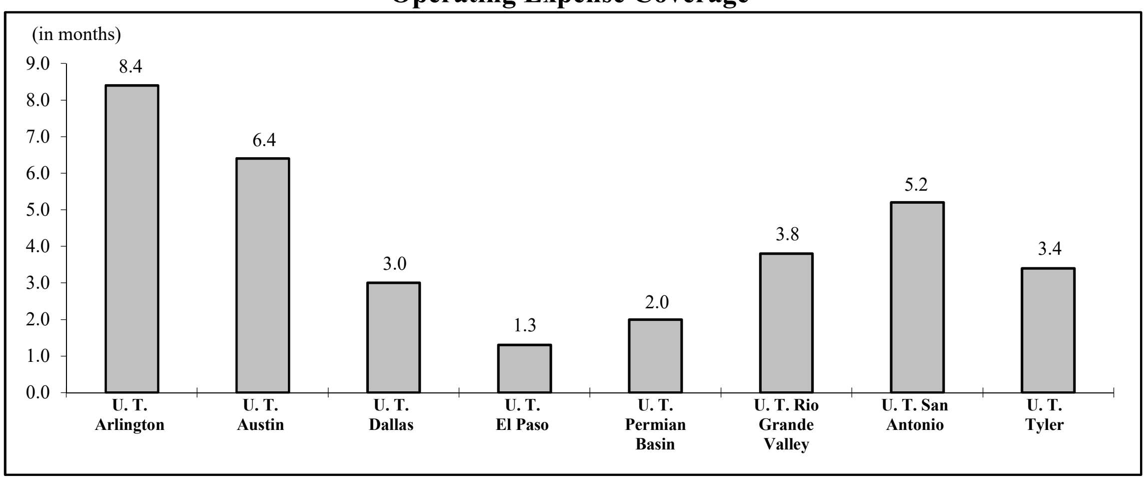
Institution	Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	Less: Nonoperating Items Other Nonop. Revenues	Other Nonop. Expenses	Gain/Loss on Sale of Cap. Assets	Net Increase/ (Decrease) in FV of Inv.	Margin From SRECNA	Other Adjustments Minus: Realized Gains/ (Losses)	Plus: GEF Transfer	Plus: Other	Plus: Interest Expense	Annual Operating Margin
Southwestern	$ 314.3	0.6	-	(3.6)	122.0	195.3	(18.2)	-	6.2	(31.9)	187.8
UTMB	78.9	1.8	(5.1)	(2.1)	54.3	30.0	0.9	-	9.4	(23.8)	14.7
UTHSC-Houston	68.8	-	-	(0.5)	48.2	21.2	5.0	-	7.7	(11.5)	12.4
UTHSC-San Antonio	60.1	-	-	(0.4)	53.9	6.8	1.1	-	7.6	(8.7)	4.6
M. D. Anderson	699.5	-	(0.5)	(1.9)	228.2	473.5	33.3	-	5.4	(34.4)	411.3
UTHSC-Tyler	(6.4)	-	(0.1)	(0.2)	4.1	(10.3)	-	-	1.3	(1.5)	(10.5)

Appendix E - Academic Institutions' Evaluation Factors
2017 Analysis of Financial Condition

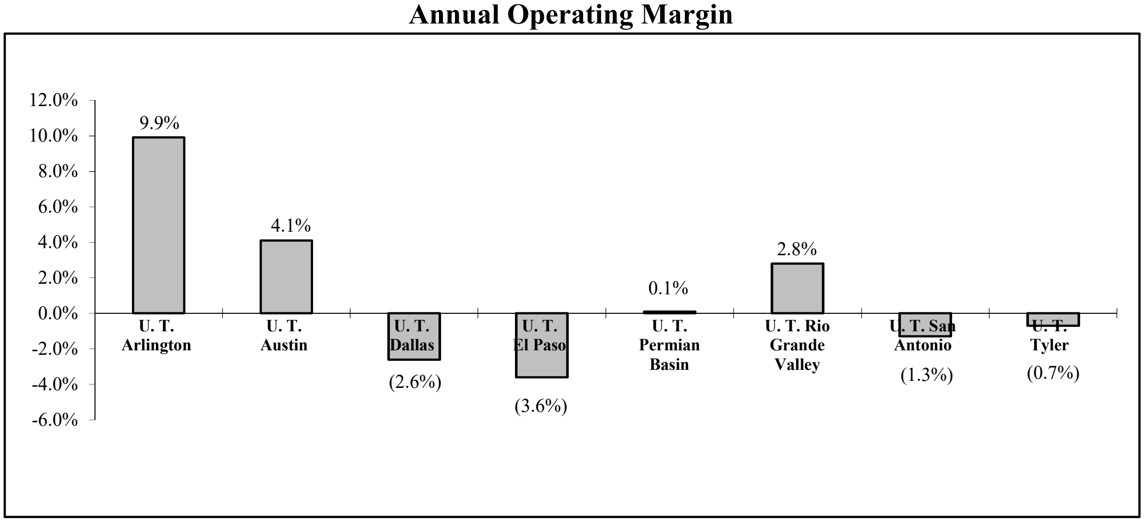
Moody's Overall Scorecard Rating



Operating Expense Coverage

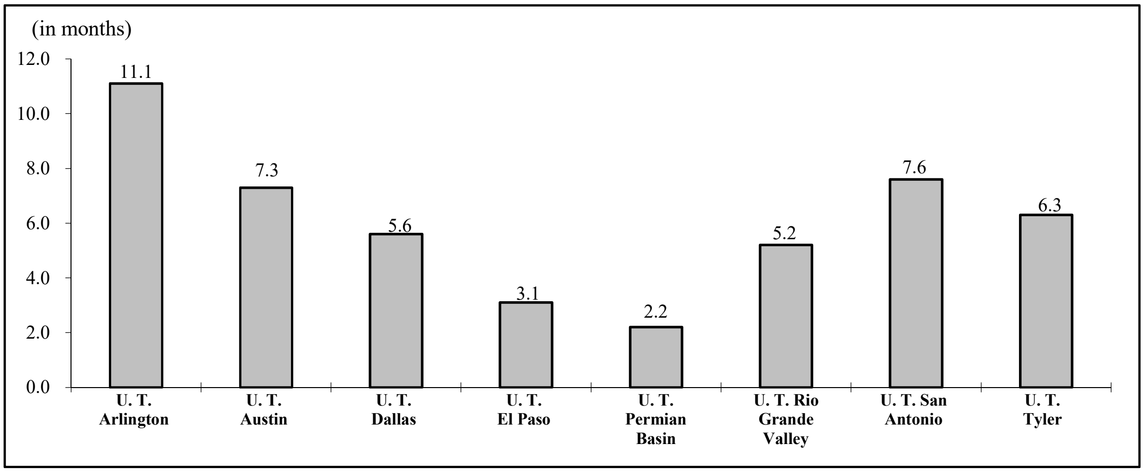


Annual Operating Margin

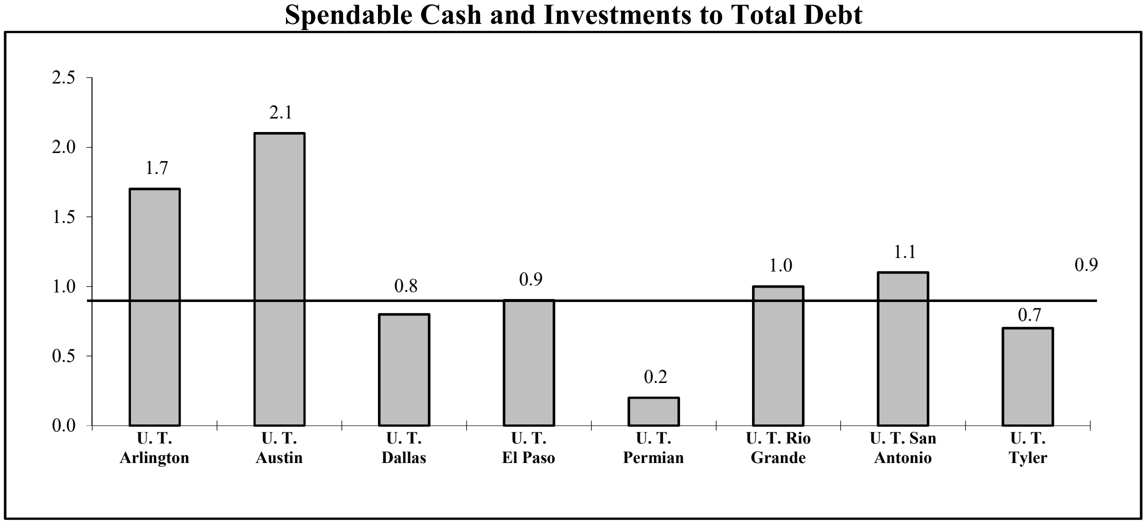


Appendix E - Academic Institutions' Evaluation Factors
2017 Analysis of Financial Condition

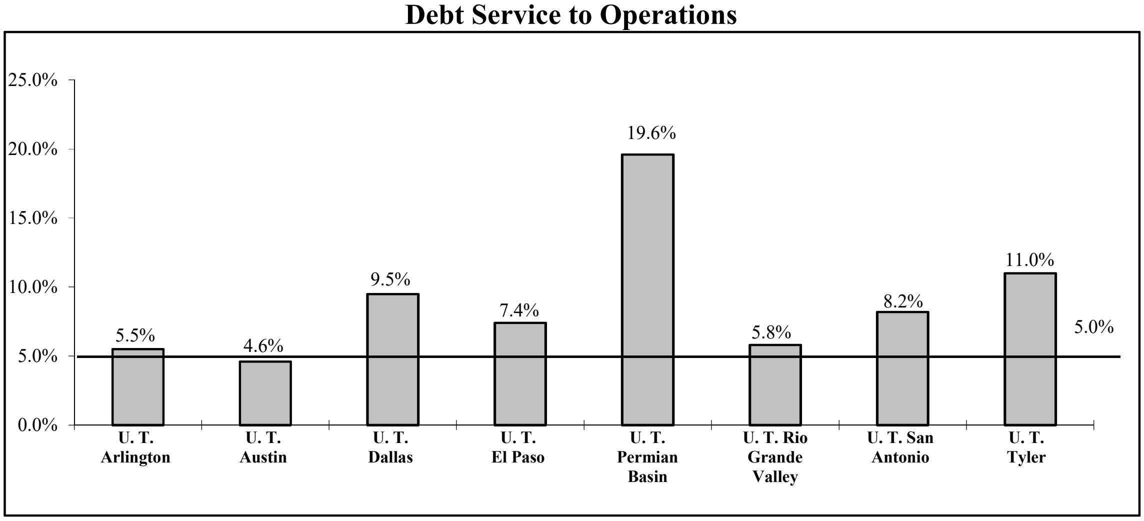
Cash on Hand



Spendable Cash and Investments to Total Debt

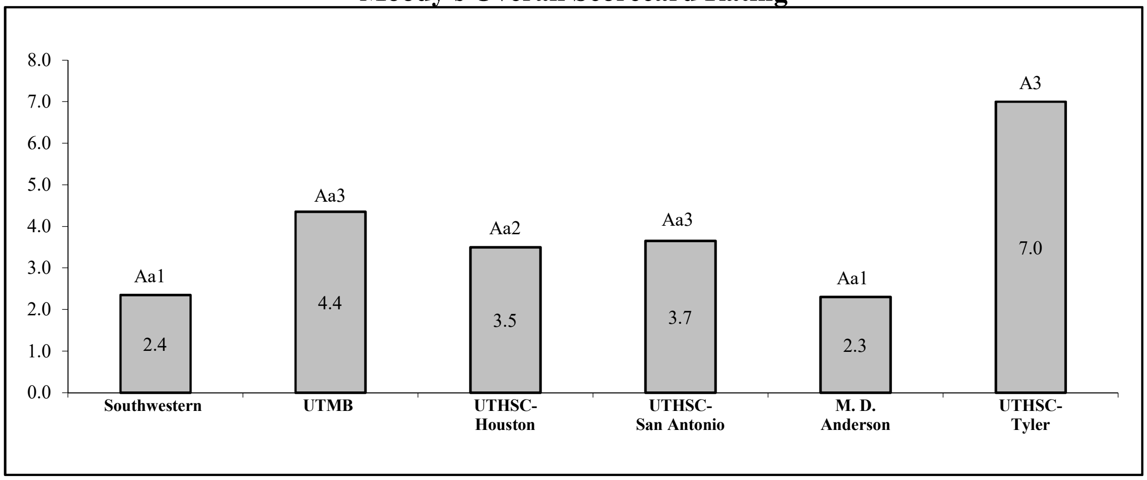


Debt Service to Operations

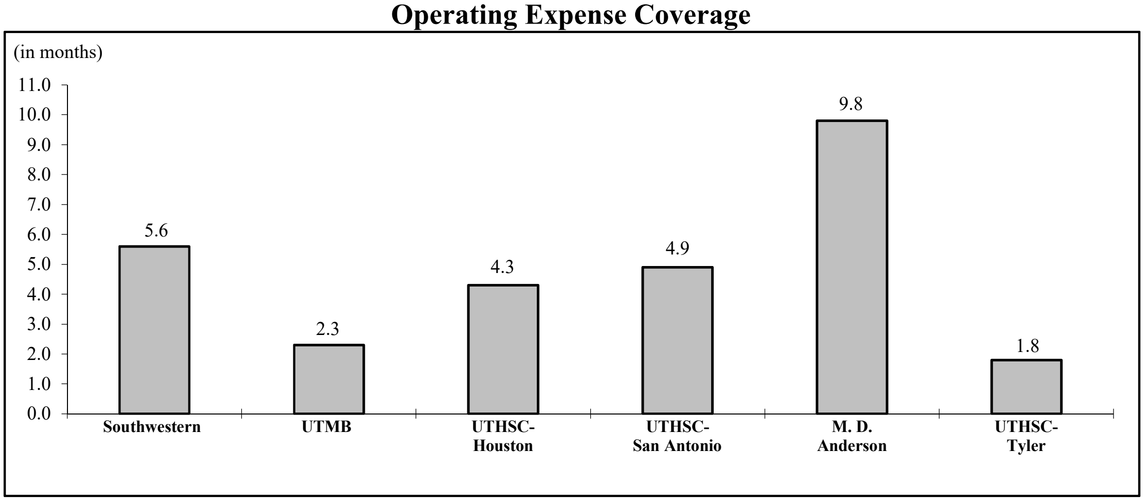


Appendix E - Health Institutions' Evaluation Factors
2017 Analysis of Financial Condition

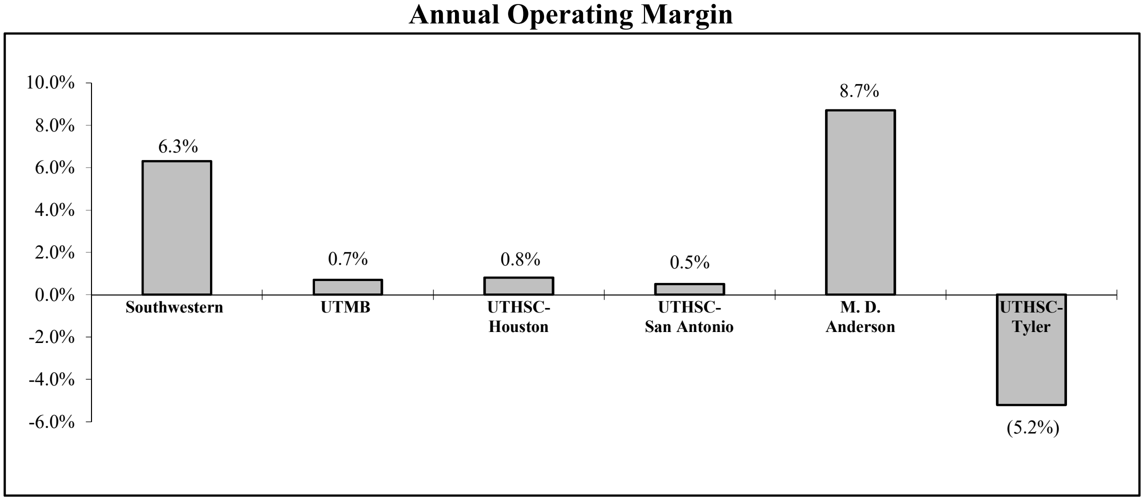
Moody's Overall Scorecard Rating



Operating Expense Coverage

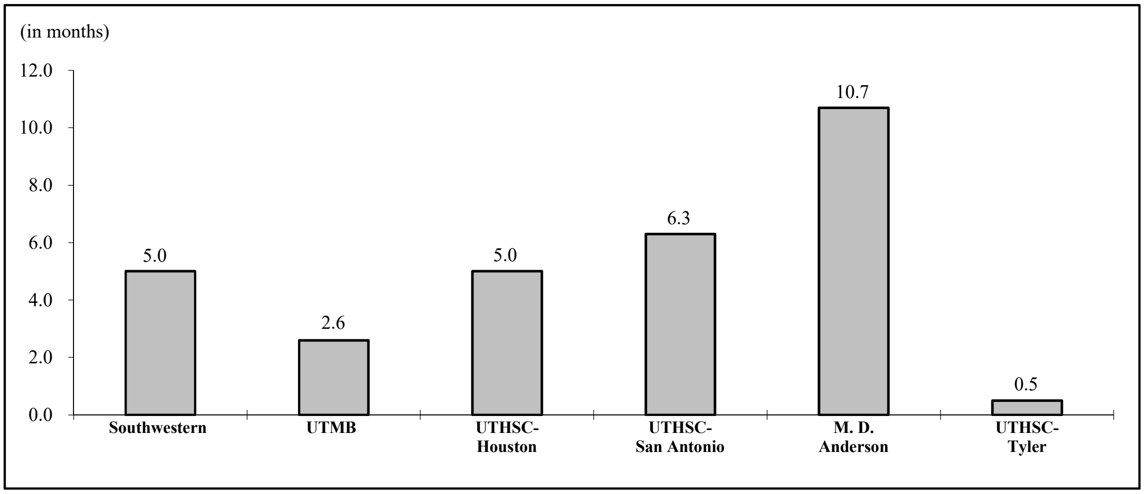


Annual Operating Margin

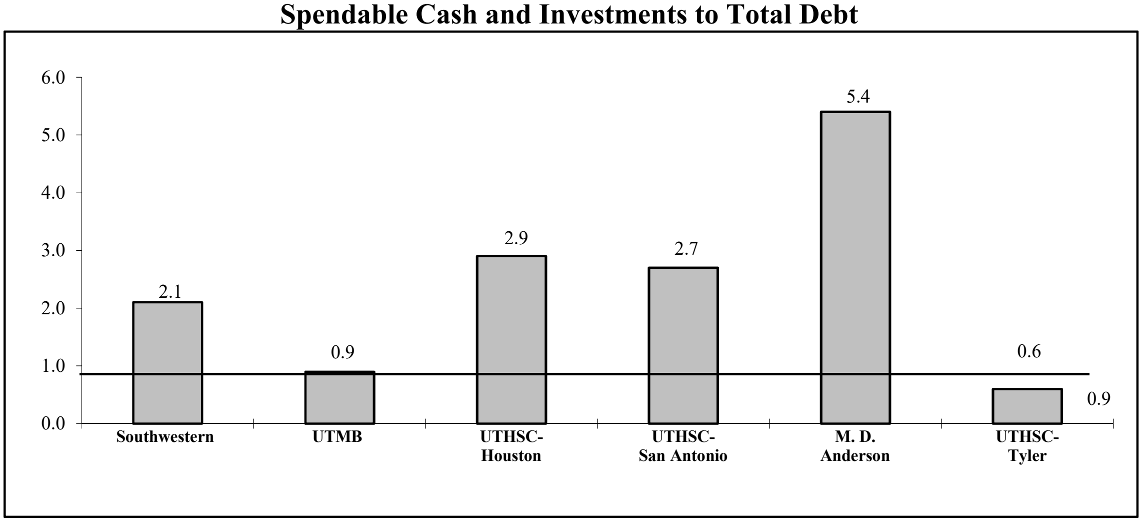


Appendix E - Health Institutions' Evaluation Factors
2017 Analysis of Financial Condition

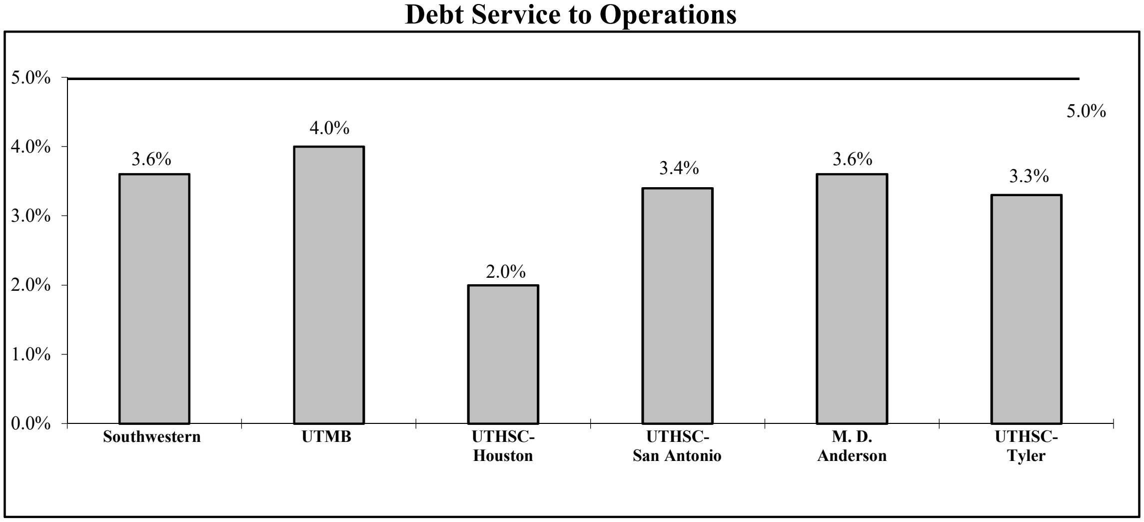
Cash on Hand



Spendable Cash and Investments to Total Debt



Debt Service to Operations



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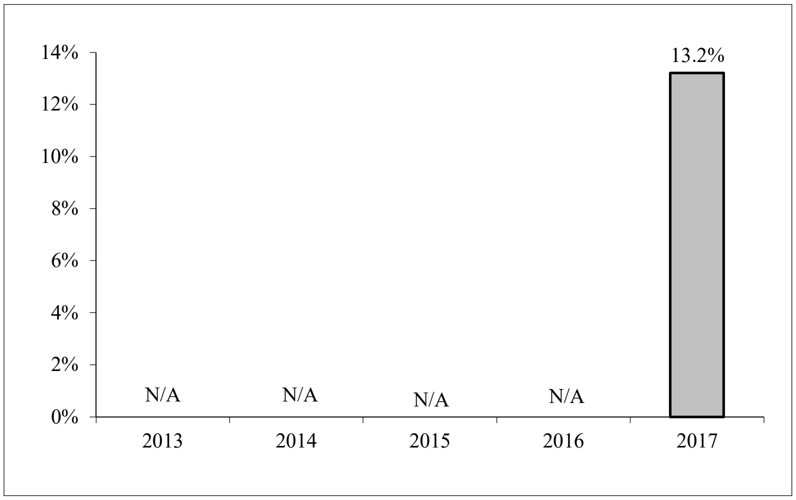
Annual Operating Margin Ratio

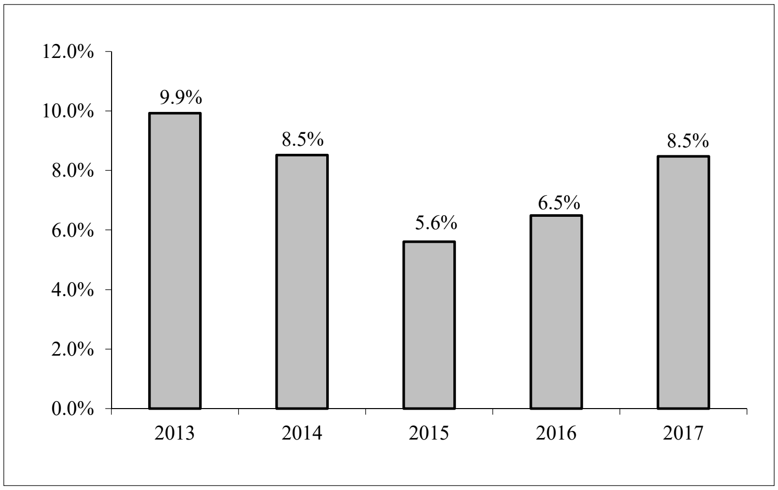


The physician practice plan became effective November 10, 2016. The annual operating margin ratio of 13.2% for 2017 was impacted by a number of challenges faced by a start-up faculty practice plan. Those challenges included the following: a lack of payor contracts; lack of an electronic medical record system which limited access to patient records; and the prevalence of high uncompensated or uninsured patient base. In spite of these challenges, the first year of practice plan operations was positive due to payments from Texas Health and Human Services via the Medicaid 1115 Waiver program for the achievement of Delivery System Reform Incentive Payment (DSRIP) milestones and metrics which represented 64% of the practice plan operating revenue, and therefore, represented 8.5% of the annual operating margin in 2017.

Net Accounts Receivable (in days)

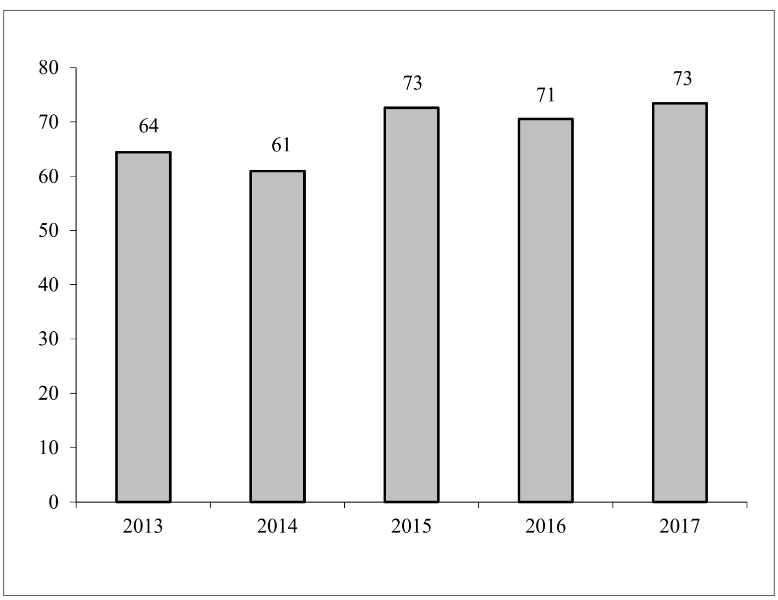
Net accounts receivable of 520 days was driven by the inability to appropriately bill patients and payors in a timely manner due to the infancy of the faculty practice plan. Collections were also impacted by the high prevalence of an uncompensated and uninsured patient base. Represented in the accounts receivable are amounts collected on U. T. Rio Grande Valley's behalf by third party billing and collections agencies. As of August 1, 2017, all collections have come under the umbrella of one third party billing and collections agency and access to patient charges has been established. In addition, U. T. Rio Grande Valley is adjusting charges from 300% to 200% of Medicare and is reviewing receivables on accounts with settlement agreements in place or being negotiated.

Annual Operating Margin Ratio



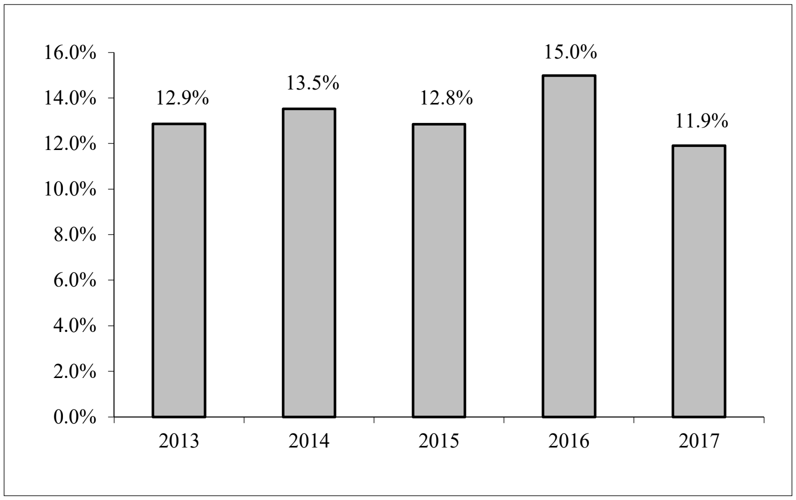
The annual operating margin ratio increased from 6.5% for 2016 to 8.5% for 2017 as a result of year over year volume increases of 10.0%. Incremental resources were added to support the higher volume, driving expense growth of 7.4%. The increase in volumes, improved efficiencies, and accountability on personnel, agency, and overtime costs resulted in an improved operating margin.

Net Accounts Receivable (in days)



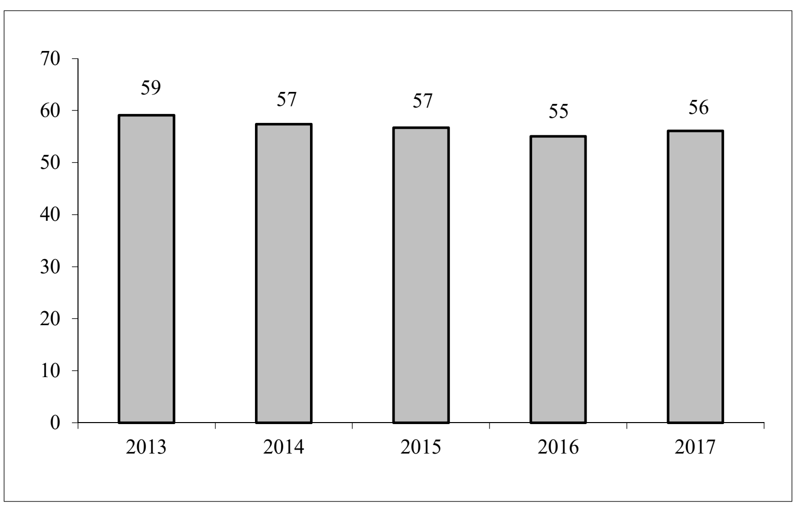
Net accounts receivable in days increased slightly from 71 days in 2016 to 73 days in 2017. Patient revenues increased as a result of volumes, which drove slightly higher net accounts receivable balances.

Annual Operating Margin Ratio



The annual operating margin ratio decreased from 15.0% for 2016 to 11.9% for 2017. The decrease in this ratio was primarily attributable to net margin decreases on the Network Access Improvement Program of $12.7 million and the Meaningful Use Program of $1.6 million. Contract revenue from the Parkland Master Services Agreement Program Enhancements was reduced by $7.4 million. Additionally, the practice plan recognized $37.7 million in other operating revenue from the Delivery System Reform Incentive Payment program, which was a decrease from the $41.3 million recognized in the prior year.

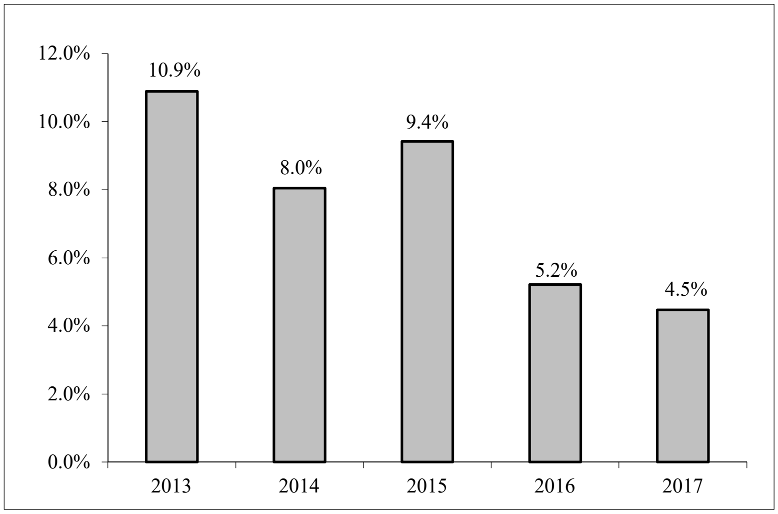
Net Accounts Receivable (in days)



The net accounts receivable days increased from 55 days in 2016 to 56 days in 2017, mainly due to reduced payments from Parkland of $3.0 million on relative value unit volume for the fourth quarter of 2017. The net accounts receivable increased accordingly.

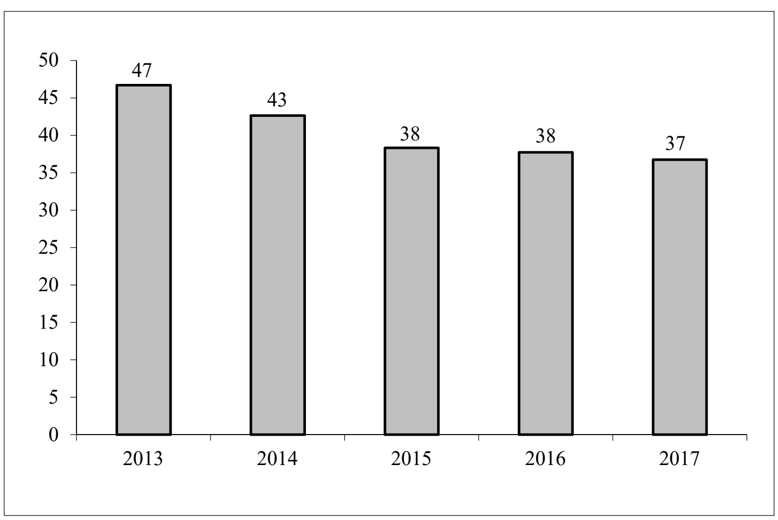
Appendix F - Key Hospital Operating Factors
The University of Texas Medical Branch at Galveston

Annual Operating Margin Ratio



UTMB Hospitals and Clinics' annual operating margin ratio decreased from 5.2% for 2016 to 4.5% for 2017. The margin decrease was primarily due to an increase in interest expense on debt service related to the Jenny Sealy Hospital, which opened in April 2016, and League City Hospital, which opened in June 2016. Net patient care revenue increased due to an increase in discharges of 6.7% and an increase in outpatient encounters of 5.7%, which was largely offset by increases in operating expenses.

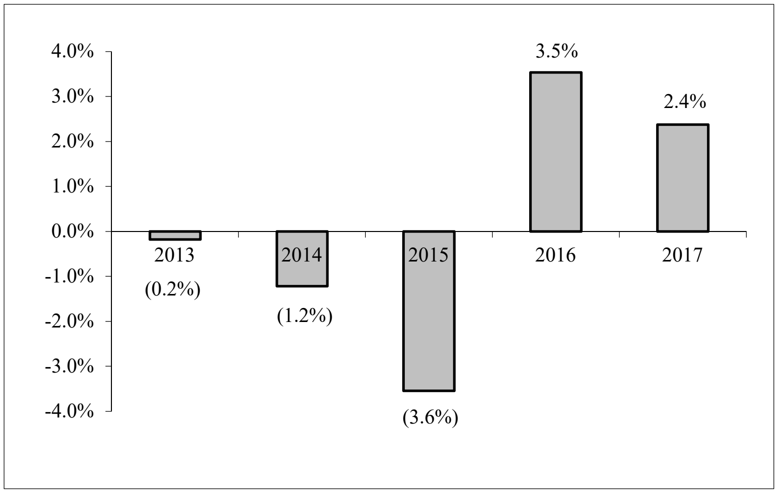
Net Accounts Receivable (in days)



Net accounts receivable in days decreased slightly from 38 days for 2016 to 37 days for 2017 due to improvements implemented by the Revenue Cycle Operations team. Improvements specifically targeted decreasing denials and avoidable write-offs, as well as intense focus for timely filing, timely appeal, authorization and eligibility write-offs.

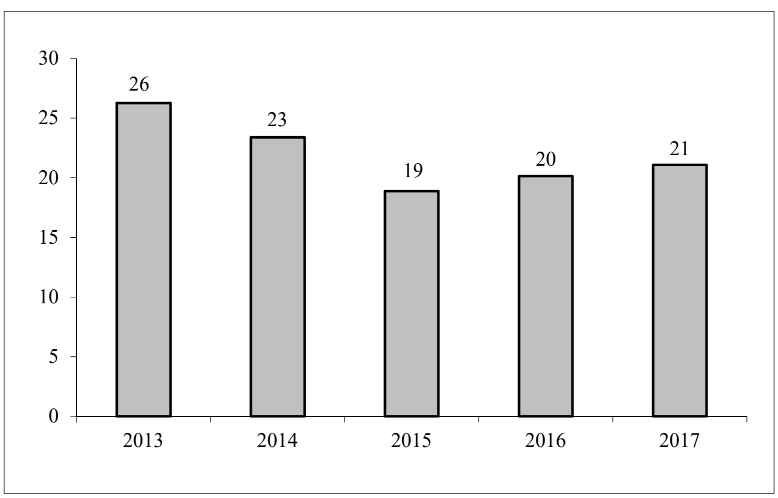
Appendix F - Key MSRDP & NPHC Operating Factors
The University of Texas Medical Branch at Galveston

Annual Operating Margin Ratio



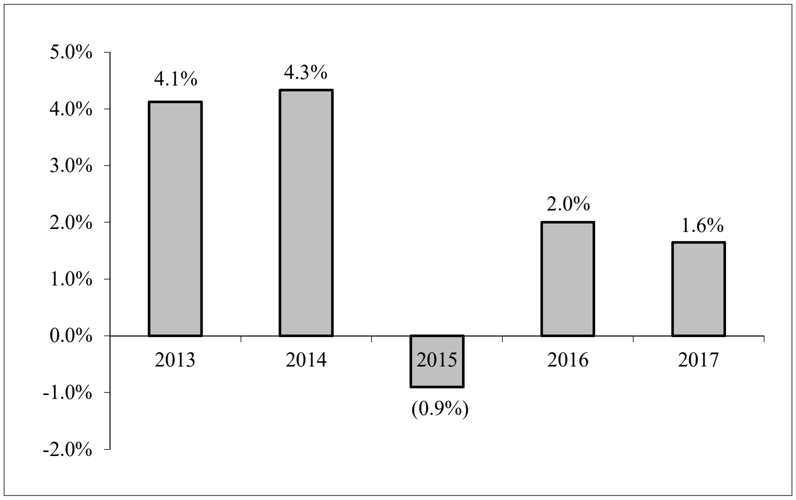
The annual operating margin ratio decreased from 3.5% for 2016 to 2.4% for 2017. Overall total operating expenses increased primarily due to an increase in salaries and benefits, and an increase in shared services allocated to the physician practice plan. The increase in total operating expenses was partially offset by the increase in net patient care revenue due to a 6.0% increase in work Relative Value Units (RVUs). The net decrease related to the Delivery System Reform Incentive Payment program from 2016 to 2017 was $1.4 million.

Net Accounts Receivable (in days)



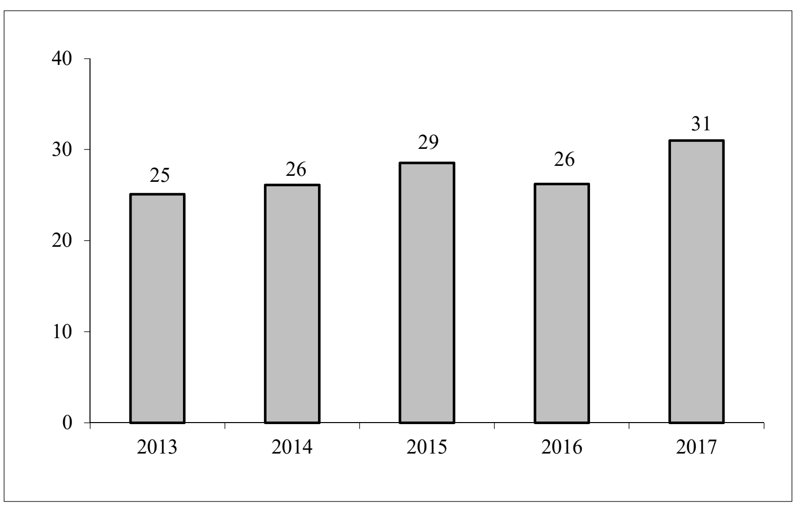
Net accounts receivable in days increased slightly from 20 days in 2016 to 21 days in 2017 as work RVUs increased 6.0%.

Annual Operating Margin Ratio



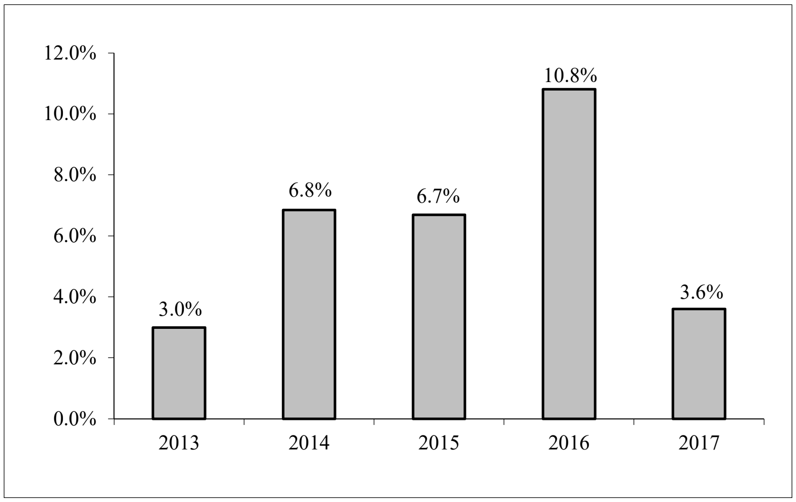
The annual operating margin ratio decreased from 2.0% for 2016 to 1.6% for 2017. The decrease in this ratio was attributable to the loss of the Harris County Juvenile Probation Department contract, effective January 31, 2017.

Net Accounts Receivable (in days)



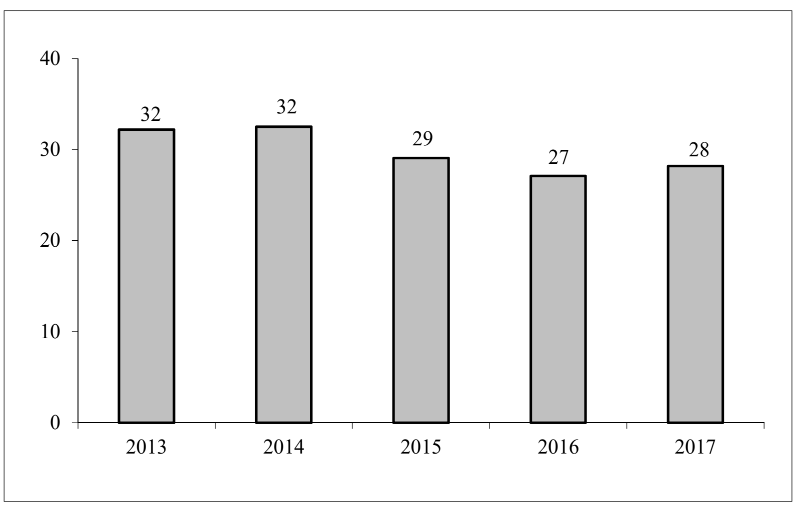
Although the net accounts receivable in days increased from 26 days in 2016 to 31 days in 2017, it has remained fairly constant over the last five years. Continuous monitoring and improvement of the hospital's billing and collection processes, including management of denials, timely identification of patients who qualify for indigent status, and timely recognition of patient bad debts help to maintain a relatively low net days in accounts receivable.

Annual Operating Margin Ratio



The annual operating margin ratio decreased significantly from 10.8% for 2016 to 3.6% for 2017 primarily due to the maturation of a number of clinical projects implemented under UTHSC-Houston's Healthcare Transformation Initiatives (HTI) largely funded through the Delivery System Reform Incentive Program (DSRIP) associated with the Medicaid Section 1115 Demonstration and the Network Access Improvement Program. In addition to the diminishing margin associated with the HTI programs uncompensated care (UC) funding decreased due to the overall reduction in the 1115 Waiver's UC pool. Net DSRIP decreased by $10.2 million in 2017.

Net Accounts Receivable (in days)



Net accounts receivable in days increased slightly from 27 days in 2016 to 28 days in 2017. The physician practice plan continues to be heavily focused on improving the revenue cycle. During the latter part of 2016 emphasis turned to bringing in collections sooner and improving the overall collection rate. This included reducing charges billed for incorrect eligibility, implementing online bill pay, launching support to decrease charge lag days, and reducing the number of days Harris Health System's indigent balances were held on the accounts receivable. This emphasis, along with a slightly lower percentage of overall charges being generated at Harris Health System where the population is mainly indigent, increased the net collection rate and the net accounts receivable valuation. This resulted in a slight increase in the days in accounts receivable.

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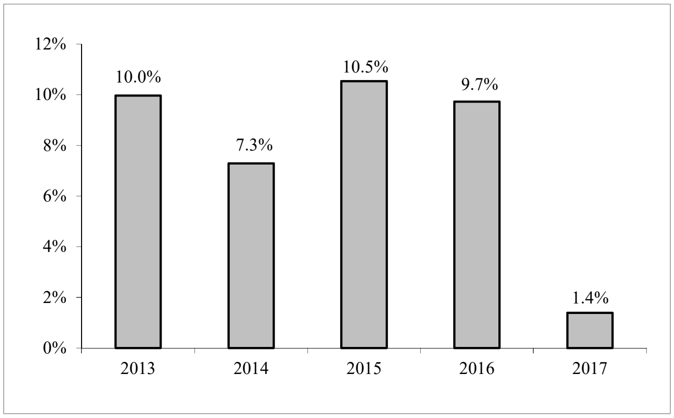
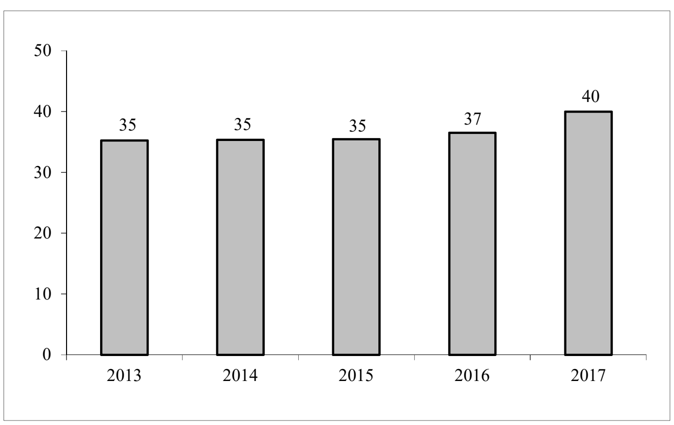
Annual Operating Margin Ratio



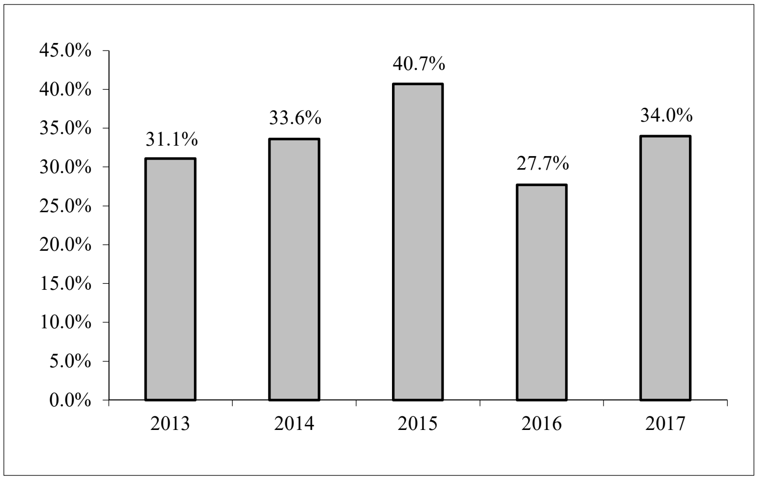
The annual operating margin comprises all medical clinical operations, including patient activities provided through the Cancer Center. The decrease in the annual operating margin ratio was largely attributable to Delivery System Reform Incentive Payment (DSRIP) activities associated with the Medicaid Section 1115 Demonstration. South Texas DSRIP activities recognized $14.8 million less of net revenues over expenses from the prior year, while San Antonio DSRIP activities remained flat from the prior year. Although a strategic focus on the *Patient First* initiative targeted at productivity standards and process improvements continues to enhance clinical performance, non-DSRIP activities recognized $15.9 million less of net revenues over expenses from the prior year due to clinical expansion efforts. Non-DSRIP operating revenues increased by $6.3 million over the prior year primarily from enhanced clinical contracts with University Health System, while non-DSRIP operating expenses increased by $22.2 million due to start up costs associated with the new UT Health Physicians Hill Country facility that opened in the spring of 2017, the conversion of office to clinical space on the 7th & 8th floors of the Medical Arts and Research Center (MARC), costs associated with the M. D. Anderson and Cancer Center affiliation, and increased costs associated with marketing and branding initiatives. Net patient fees for services were flat from the prior year but are expected to increase in future years with fully operational facilities at the MARC, Hill Country, and Cancer Center. UTHSC-San Antonio continues to be committed to reinvesting incremental operating revenues towards recruitment efforts, addressing faculty compensation issues, streamlining billing operations and patient services, as well as developing and implementing an infrastructure necessary to meet the goals and challenges of healthcare reform.

Net Accounts Receivable (in days)



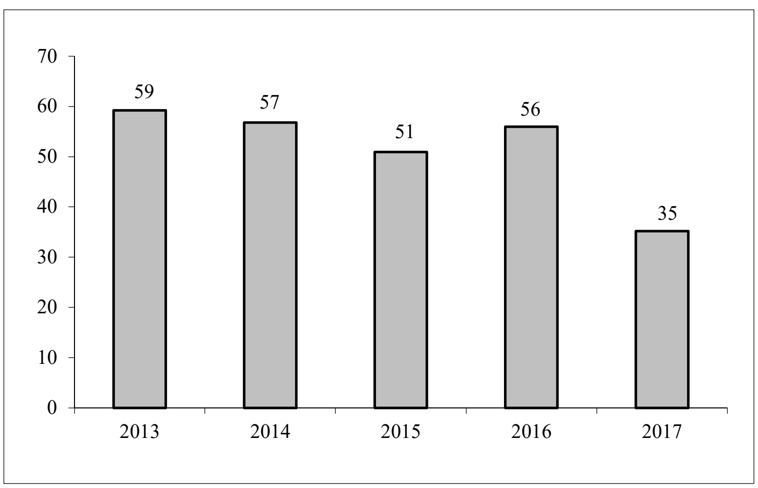
The increase in days outstanding of net receivables was primarily experienced among commercial (55%) and self-pay (34%) payors. Among the commercial payors, approximately half of the increase was due to shifts to commercial plans, including Affordable Care Act plans, with heavier patient responsibility. UTHSC-San Antonio's commercial payors are more likely to deny claims than other payors, resulting in collection delays as more of the cost becomes the patients' responsibility after insurance. The other half of the commercial payor increase was related to billing delays associated with the Centers for Medicare and Medicaid Services' International Classification of Diseases, 10th Revision (ICD-10) implementation. Growth in days outstanding for self-pay patients was due to an increase in delinquent accounts and inefficiencies experienced with a contracted third party collection agency. With concerted efforts made at the clinics to collect on the overdue patient payments and the utilization of a new collection agency vendor, UTHSC-San Antonio saw improvement in collections towards the end of the fiscal year.

Annual Operating Margin Ratio



The annual operating margin ratio increased from 27.7% for 2016 to 34.0% for 2017 due to improved net patient revenue resulting from increased clinical volumes. Admissions increased 5.1%, patient days increased by 2.5%, surgeries increased 7.7% and outpatient visits increased 2.6%. M. D. Anderson also implemented two significant reductions in force during the year affecting 854 employees which reduced personnel costs. Additionally, M. D. Anderson was able to reduce non-personnel costs throughout the year.

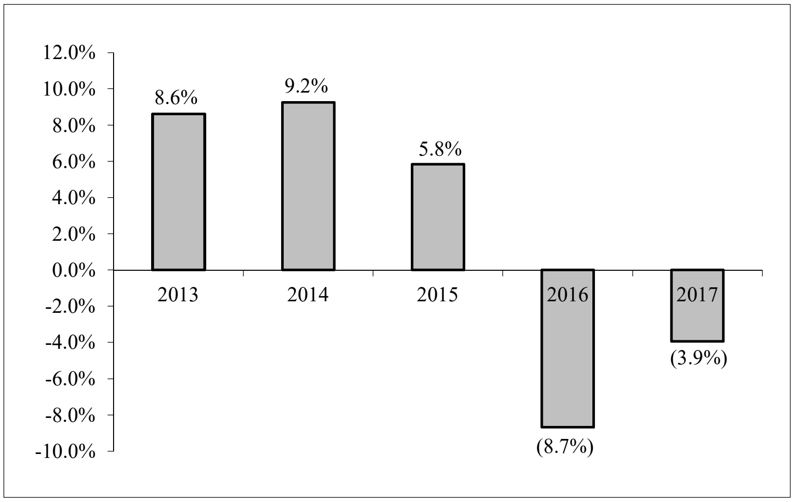
Net Accounts Receivable (in days)



Net accounts receivable in days decreased from 56 days in 2016 to 35 days in 2017 as a result of efficiencies gained from the electronic health record implementation.

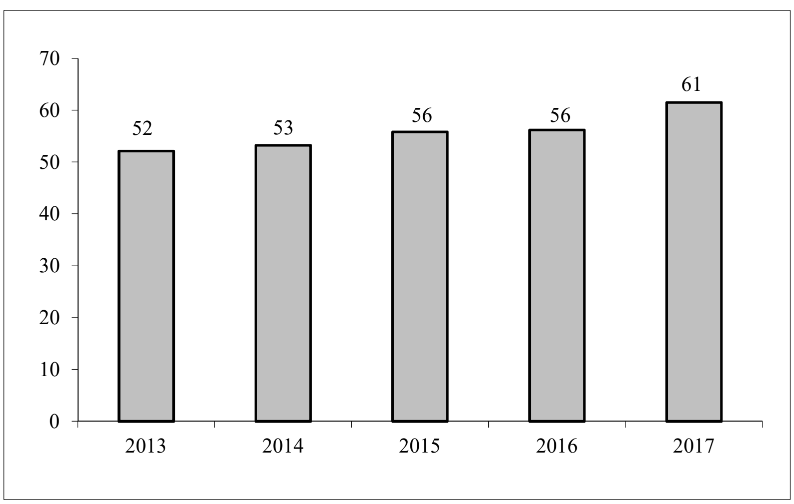
Appendix F - Key MSRDP & NPHC Operating Factors
The University of Texas M. D. Anderson Cancer Center

Annual Operating Margin Ratio



The annual operating margin ratio improved from (8.7%) for 2016 to (3.9%) for 2017. The deficit was planned and was attributable to the continued efforts of returning to normal activity levels after the implementation of a new Electronic Health Record System, as well as the unplanned impact Hurricane *Harvey* had on revenues and expenses at the end of August 2017.

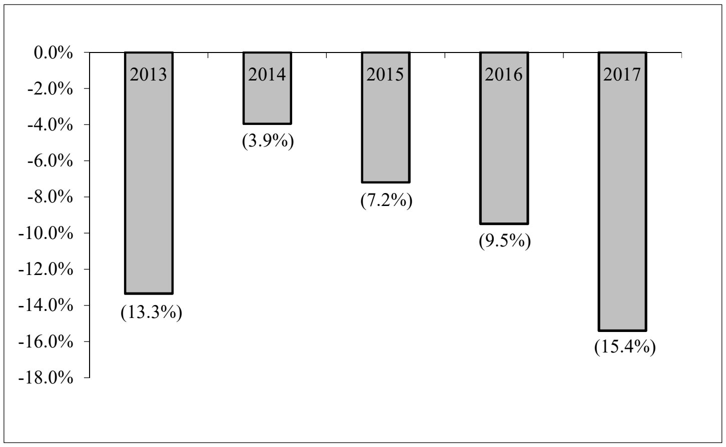
Net Accounts Receivable (in days)



Days in net accounts receivable increased from 56 days in 2016 to 61 days in 2017 due to a combination of net revenues increasing by only 3% between 2016 and 2017, as well as efforts to close out the legacy patient accounts receivable system.

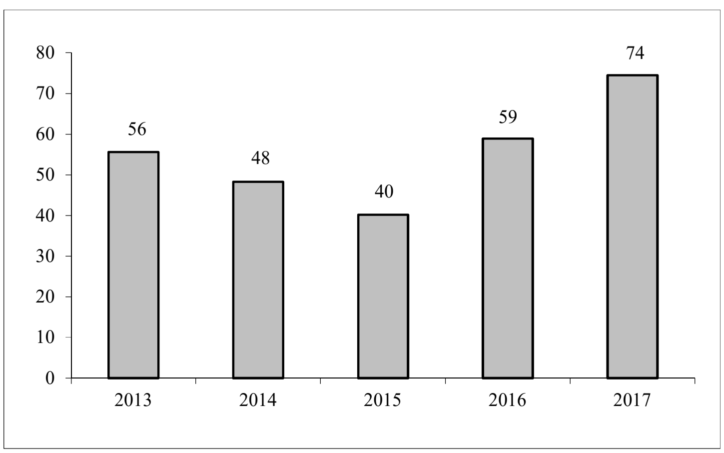
Appendix F - Key Hospital Operating Factors
The University of Texas Health Science Center at Tyler

Annual Operating Margin Ratio



The annual operating margin ratio decreased from (9.5%) for 2016 to (15.4%) for 2017, as the growth in total operating expenses of $8.5 million exceeded the growth in total operating revenues of $0.9 million. The increase in total operating revenue was largely attributable to growth in hospital outpatient services, including gastroenterology, radiology, and oncology treatments and procedures. The increase in total operating expenses was largely attributable to the combined effect of an increase in medical supplies expense, especially in the area of pharmaceuticals and nuclear medicine drugs associated with investment in the oncology service line, along with higher salaries and benefits expenses associated with an increased investment in the behavioral health service line and population health initiatives. Additionally, increased resources were needed in the areas of quality, information technology, risk management, compliance, and data analytics to meet the increasing demands of assessing and improving health outcomes in today's healthcare landscape.

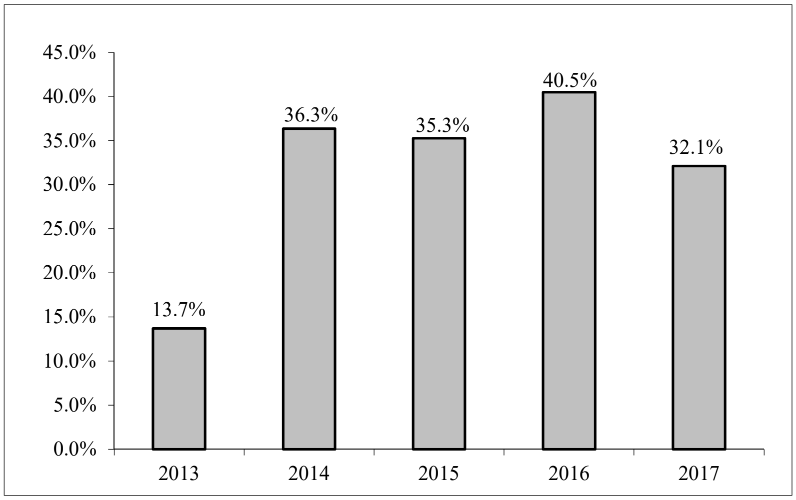
Net Accounts Receivable (in days)



Net accounts receivable increased by 15 days from 2016 to 2017 due to higher percentages of outstanding accounts receivable balances for key payor segments relative to total accounts receivable. This effect was particularly noticeable in the areas of Medicaid managed care, as it continues to expand in the region, as well as in the area of self-pay balances. The overall collection rate and rate of bad debt expense was also negatively affected by a greater percentage of self-pay balances than in prior years as the health care insurance marketplace continues to shift to plans with higher deductibles and coinsurance percentages. The increase in net accounts receivable was also affected by the ever-increasing complexities of hospital inpatient and outpatient coding, billing, and prior authorization requirements, as well as staff turnover and patient EMR and financial systems that require continued investment for optimization. A revenue cycle advisory committee was established and continues to actively engage in identifying and overseeing people, processes, and technology improvements in an effort to reverse this trend.

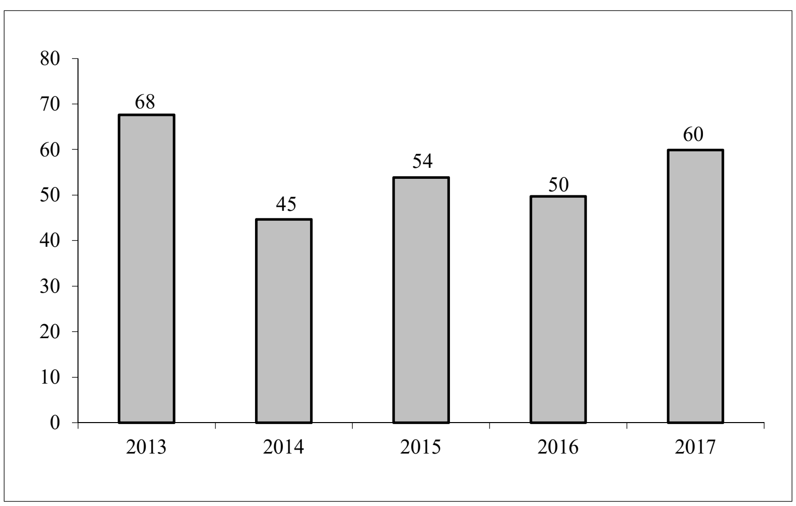
Appendix F - Key MSRDP & NPHC Operating Factors
The University of Texas Health Science Center at Tyler

Annual Operating Margin Ratio



The annual operating margin ratio remained positive due to revenue of $21.0 million received from the Delivery System Reform Incentive Payment (DSRIP) program. However, the DSRIP revenue received in 2017 was $8.7 million lower than the DSRIP revenue of $29.7 million received in 2016, contributing to the decline in the annual operating ratio from 40.5% to 32.1%. The decline in DSRIP revenue was partially offset by growth in net patient clinical revenue, which increased by approximately 12.4% due to measurable volume increases in a number of areas, most noticeably family medicine, gastroenterology, radiology, surgery, and behavioral health. Clinical operating expenses decreased by approximately 1.4% from 2016 to 2017, primarily in the area of clinical faculty salaries and benefits, contributing to the continuation of a strong annual operating margin ratio, despite the decline between the two years.

Net Accounts Receivable (in days)



Net accounts receivable increased by 10 days from 2016 to 2017, in part due to a higher percentage of outstanding accounts receivable balances for the self-pay segment relative to total accounts receivable, as the health care insurance marketplace continues to shift to plans with higher deductibles and coinsurance percentages. The increase in net accounts receivable was also affected by the ever-increasing complexities of clinic and professional fee coding, billing, and provider referral requirements, as well as staff turnover and patient EMR and financial systems that require continued investment for optimization. A revenue cycle advisory committee was established and continues to actively engage in identifying and overseeing people, processes, and technology improvements in an effort to reverse this trend.