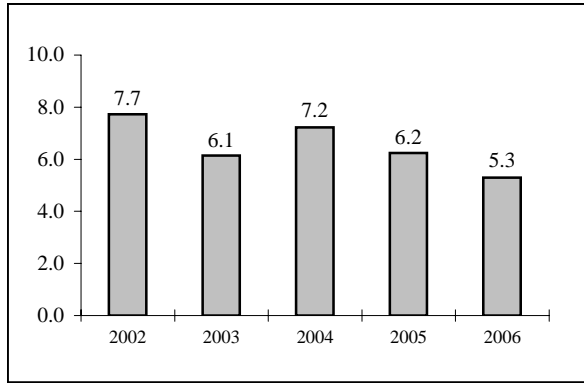


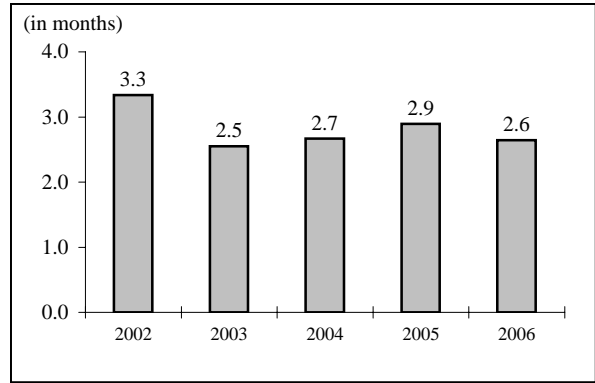
The University of Texas at Dallas 2006 Summary of Financial Condition

Financial Condition: **Satisfactory**

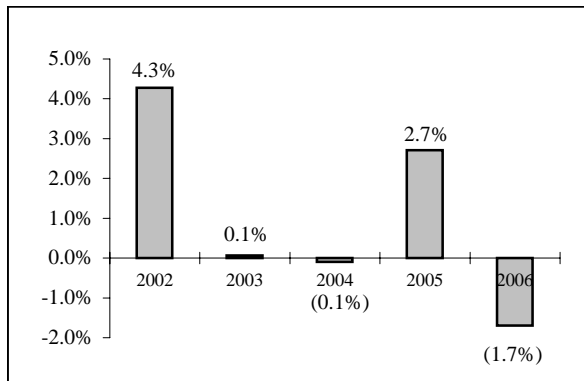
Composite Financial Index



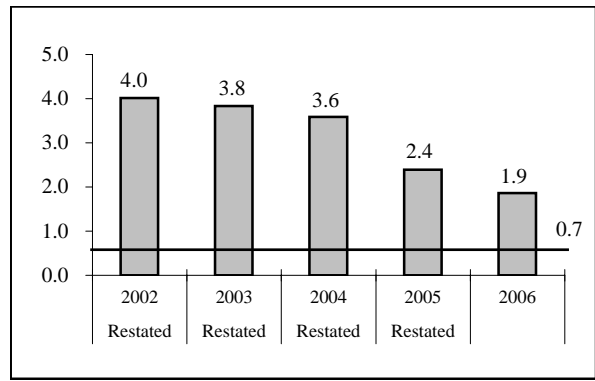
Operating Expense Coverage Ratio



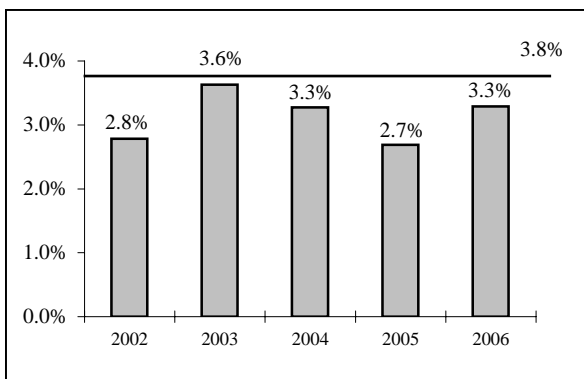
Annual Operating Margin Ratio



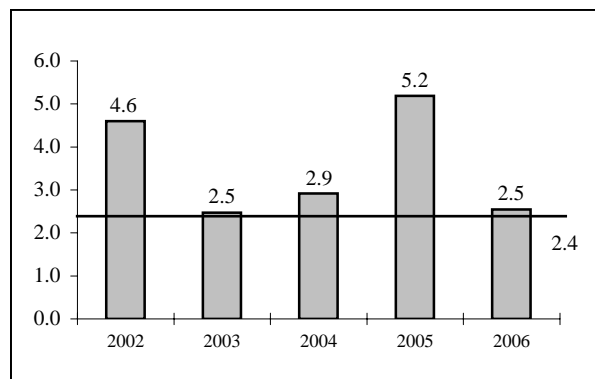
Expendable Resources to Debt Ratio



Debt Burden Ratio

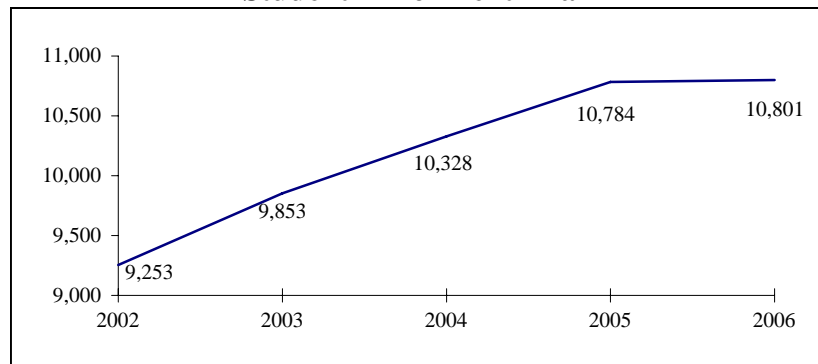


Debt Service Coverage Ratio



The University of Texas at Dallas 2006 Summary of Financial Condition

Full-time Equivalent Student Enrollment - Fall



Composite Financial Index (CFI) - UT Dallas' CFI has varied over the past five years. The decrease in the CFI in 2006 was largely attributable to the decrease in the annual operating margin ratio and decrease in expendable resources to debt ratio, both of which are discussed below.

Operating Expense Coverage Ratio - UT Dallas' operating expense coverage ratio decreased from 2.9 months in 2005 to 2.6 months in 2006 due to an increase of \$22.5 million in total operating expenses. The increases in salaries and wages of \$13.5 million and payroll related costs of \$3.1 million were related to the Emmitt initiative and represent the cost of hiring additional faculty and staff in order to build an infrastructure for increased enrollment, research and development activities necessitated by the Emmitt contract. In addition, the steady enrollment growth in previous years resulted in the hiring of new faculty to reduce the student to faculty ratio. Payroll related costs were also impacted by an increase in group insurance premiums and retirement benefits. Other expenses increased \$2.3 million primarily due to the increase in temporary labor necessitated by numerous facility improvement projects, advertising, electronic library access, property insurance, and a \$900,000 one-time expense associated with the cancelled Banner Project. Also, interest expense increased \$2.2 million due to the increase in outstanding debt for the Founders Renovation and the Natural Science and Engineering Research building (NSERB).

Annual Operating Margin Ratio - UT Dallas' annual operating margin ratio of (1.7%) for 2006 was a substantial decline from the 2005 ratio of 2.7%. The annual operating margin decreased as a result of the increase in total operating expenses noted above. The planned deficit in 2006 was the result of management's decision to utilize accumulated reserves in lieu of increasing student fees in auxiliary and designated funds, satisfy donor requirements in expending previously received gifts and utilize miscellaneous reserves to fund increases in academic programs and the related infrastructure.

Expendable Resources to Debt Ratio - UT Dallas' expendable resources to debt ratio decreased from 2.4x in 2005 to 1.9x in 2006 due to an increase of \$36.0 million in the amount of debt outstanding primarily related to debt issued for the NSERB.

Debt Burden Ratio - UT Dallas' debt burden ratio increased from 2.7% in 2005 to 3.3% in 2006 as a result of an increase in debt service payments of \$1.9 million.

Debt Service Coverage Ratio - UT Dallas' debt service coverage ratio dropped from 5.2x in 2005 to 2.5x in 2006 primarily due to the reduction in the annual operating margin discussed above, as well as the increase in debt service payments.

Full-Time Equivalent (FTE) Student Enrollment - UT Dallas' FTE student enrollment increased slightly. The relatively flat enrollment was mainly due to UT Dallas' high standard for admissions. UT Dallas intends to maintain this high standard, as it is in line with its strategic mission of building a first class research university. It is believed that recent investments in new faculty, research laboratories and development resources will go a long way towards increasing the graduate level enrollment.

Appendix A - Definitions of Evaluation Factors

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

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

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

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

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

$$\text{Formula} = \frac{\text{RAHC} \quad \text{AUF} \quad \text{Texas}}{\text{Op. Rev.} + \text{Approp.} + \text{Op. Gifts} + \text{Inv. Inc.} + \text{Transfer} + \text{Transfer} \pm \text{Ent. Fund} - \text{Operating Exp.} - \text{Interest Exp.}} \\ \text{Op. Rev.} + \text{Approp.} + \text{Op. Gifts} + \text{Inv. Inc.} + \text{RAHC Transfer} + \text{AUF Transfer} \pm \text{Texas Ent. Fund}$$

4. **Expendable Resources to Debt Ratio** – This ratio measures an institution's ability to fund outstanding debt with existing net asset balances should an emergency occur. *Moody's Investors Service (Moody's)* 2006 A2 median for this ratio is 0.7x.

$$\text{Formula} = \frac{\text{Expendable Net Assets} + \text{Unrestricted Net Assets}}{\text{Debt not on Institution's Books}}$$

5. **Debt Burden Ratio** – This ratio examines the institution's dependence on borrowed funds as a source of financing and the cost of borrowing relative to overall expenses. *Moody's* 2006 A2 median for this ratio is 3.8%.

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

6. **Debt Service Coverage Ratio** – This ratio measures the actual margin of protection provided to investors by annual operations. *Moody's* excludes actual investment income from its calculation of total operating revenue and instead, uses a normalized investment income of 4.5% of the prior year's ending total cash and investments. This is the calculation used by *Moody's*. Therefore, in order to be consistent with the Office of Finance's calculation of the debt service coverage ratio, we used normalized investment income as defined above for this ratio only. *Moody's* 2006 A2 median for this ratio is 2.4x.

$$\text{Formula} = \frac{\text{Norm.} \quad \text{RAHC} \quad \text{AUF} \quad \text{Texas}}{\text{Op. Rev.} + \text{Approp.} + \text{Op. Gifts} + \text{Inv. Inc.} + \text{Transfer} + \text{Transfer} \pm \text{Ent. Fund} - \text{Op. Exp.} + \text{Depr. Exp.}} \\ \text{Debt Service Transfers}$$

7. **Primary Reserve Ratio** - This ratio measures the financial strength of an institution by comparing expendable net assets to total expenses. This ratio provides a snapshot of financial strength and flexibility by indicating how long the institution could function using its expendable reserves without relying on additional net assets generated by operations.

$$\text{Formula} = \frac{\text{Expendable Net Assets} + \text{Unrestricted Net Assets}}{\text{Total Operating Expenses} + \text{Interest Expense on Debt}}$$

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

$$\text{Formula} = \frac{\text{Change in Net Assets (Adjusted for Change in Debt not on Institution's Books)}}{\text{Beginning Net Assets} - \text{Debt not on Institution's Books}}$$

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

Appendix A - Definitions of Evaluation Factors (Continued)

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

Satisfactory – an institution assigned this assessment exhibits a general history of relatively stable or increasing financial ratios. The CFI remains relatively stable within the trend period. However, the CFI can fluctuate depending upon the underlying factors contributing to the fluctuation with respect to the overall mission of an institution. The CFI must be analyzed in conjunction with the trends in the other ratios analyzed. The operating expense coverage ratio should be at or above a two-month benchmark and should be stable or improving. The annual operating margin ratio could be both positive and negative during the trend period due to nonrecurring items. Some of these items include unexpected reductions in external sources of income, such as state appropriations, gifts and investment income, all of which are unpredictable and subject to economic conditions. The Office of Finance uses the expendable resources to debt ratio, debt burden ratio and debt service coverage ratio, which are the same ratios the bond rating agencies calculate for the System. Trends in these ratios can help determine if an institution has additional debt capacity or has assumed more debt than it can afford to service. In general, an institution's expendable resources to debt and debt service coverage ratios should exceed *Moody's* 2006 A2 medians of 0.7x and 2.4x, respectively, while the debt burden ratio should fall below *Moody's* 2006 A2 median of 3.8%. Full-time equivalent (FTE) student enrollment must be relatively stable or increasing. Isolated financial difficulties in particular areas may be evident, but must not be material enough to threaten the overall financial health of an institution.

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

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

Appendix B - Calculation of Composite Financial Index
Academic Institutions
As of August 31, 2006

Arlington

Ratio	Ratio Value	Conversion Factor	Strength Factor	Weighting Factor	Score
Primary Reserve	0.49	/ 0.133	= 3.71	x 35.0%	= 1.30
Annual Operating Margin	2.72%	/ 1.3%	= 2.09	x 10.0%	= 0.21
Return on Net Assets	5.85%	/ 2.0%	= 2.92	x 20.0%	= 0.58
Expendable Resources to Debt	0.92	/ 0.417	= 2.21	x 35.0%	= 0.78
CFI					<u><u>2.9</u></u>

Austin

Ratio	Ratio Value	Conversion Factor	Strength Factor	Weighting Factor	Score
Primary Reserve	1.20	/ 0.133	= 9.03	x 35.0%	= 3.16
Annual Operating Margin	3.19%	/ 1.3%	= 2.46	x 10.0%	= 0.25
Return on Net Assets	7.74%	/ 2.0%	= 3.87	x 20.0%	= 0.77
Expendable Resources to Debt	3.28	/ 0.417	= 7.87	x 35.0%	= 2.75
CFI					<u><u>6.9</u></u>

Brownsville

Ratio	Ratio Value	Conversion Factor	Strength Factor	Weighting Factor	Score
Primary Reserve	0.23	/ 0.133	= 1.72	x 35.0%	= 0.60
Annual Operating Margin	-4.12%	/ 1.3%	= -3.17	x 10.0%	= -0.32
Return on Net Assets	-2.96%	/ 2.0%	= -1.48	x 20.0%	= -0.30
Expendable Resources to Debt	0.79	/ 0.417	= 1.88	x 35.0%	= 0.66
CFI					<u><u>0.6</u></u>

Dallas

Ratio	Ratio Value	Conversion Factor	Strength Factor	Weighting Factor	Score
Primary Reserve	1.15	/ 0.133	= 8.66	x 35.0%	= 3.03
Annual Operating Margin	-1.69%	/ 1.3%	= -1.30	x 10.0%	= -0.13
Return on Net Assets	8.30%	/ 2.0%	= 4.15	x 20.0%	= 0.83
Expendable Resources to Debt	1.86	/ 0.417	= 4.46	x 35.0%	= 1.56
CFI					<u><u>5.3</u></u>

El Paso

Ratio	Ratio Value	Conversion Factor	Strength Factor	Weighting Factor	Score
Primary Reserve	0.54	/ 0.133	= 4.03	x 35.0%	= 1.41
Annual Operating Margin	1.32%	/ 1.3%	= 1.01	x 10.0%	= 0.10
Return on Net Assets	9.59%	/ 2.0%	= 4.80	x 20.0%	= 0.96
Expendable Resources to Debt	1.40	/ 0.417	= 3.36	x 35.0%	= 1.17
CFI					<u><u>3.6</u></u>

Appendix B - Calculation of Composite Financial Index
Academic Institutions
As of August 31, 2006
(continued)

Pan American

Ratio	Ratio Value	Conversion Factor	Strength Factor	Weighting Factor	Score
Primary Reserve	0.40 /	0.133 =	2.99 x	35.0% =	1.05
Annual Operating Margin	-2.98% /	1.3% =	-2.29 x	10.0% =	-0.23
Return on Net Assets	2.77% /	2.0% =	1.38 x	20.0% =	0.28
Expendable Resources to Debt	0.96 /	0.417 =	2.29 x	35.0% =	0.80
				CFI	<u>1.9</u>

Permian Basin

Ratio	Ratio Value	Conversion Factor	Strength Factor	Weighting Factor	Score
Primary Reserve	0.46 /	0.133 =	3.47 x	35.0% =	1.21
Annual Operating Margin	-4.63% /	1.3% =	-3.56 x	10.0% =	-0.36
Return on Net Assets	3.82% /	2.0% =	1.91 x	20.0% =	0.38
Expendable Resources to Debt	0.55 /	0.417 =	1.33 x	35.0% =	0.47
				CFI	<u>1.7</u>

San Antonio

Ratio	Ratio Value	Conversion Factor	Strength Factor	Weighting Factor	Score
Primary Reserve	0.55 /	0.133 =	4.16 x	35.0% =	1.45
Annual Operating Margin	5.82% /	1.3% =	4.47 x	10.0% =	0.45
Return on Net Assets	11.15% /	2.0% =	5.57 x	20.0% =	1.11
Expendable Resources to Debt	0.74 /	0.417 =	1.78 x	35.0% =	0.62
				CFI	<u>3.6</u>

Tyler

Ratio	Ratio Value	Conversion Factor	Strength Factor	Weighting Factor	Score
Primary Reserve	0.90 /	0.133 =	6.79 x	35.0% =	2.38
Annual Operating Margin	-2.79% /	1.3% =	-2.15 x	10.0% =	-0.21
Return on Net Assets	8.17% /	2.0% =	4.08 x	20.0% =	0.82
Expendable Resources to Debt	1.20 /	0.417 =	2.87 x	35.0% =	1.00
				CFI	<u>4.0</u>

Appendix C - Calculation of Expendable Net Assets
Academic Institutions
As of August 31, 2006
(In Millions)

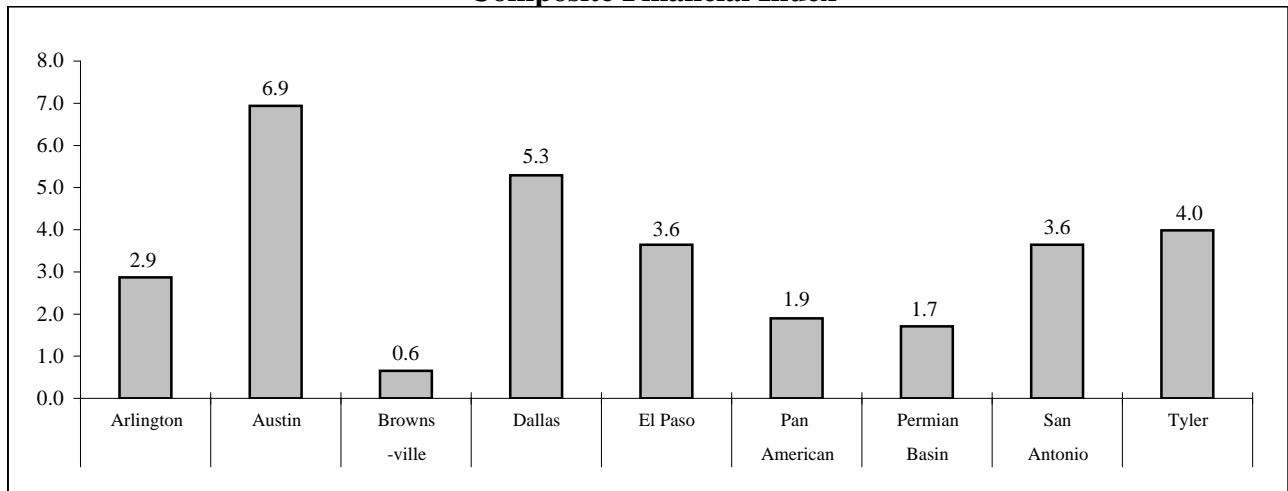
Institution	Restricted Expendable Net Assets				Total Unrestricted Net Assets	Total Expendable Net Assets
	Capital Projects	Funds Functioning Restricted	Other Expendable	Total		
Arlington	\$ 9.8	1.9	40.0	51.7	101.3	153.0
Austin	116.0	121.8	1,341.1	1,579.0	383.2	1,962.1
Brownsville	1.5	-	4.7	6.1	23.2	29.3
Dallas	41.8	4.3	172.3	218.3	51.6	269.9
El Paso	19.6	5.5	85.0	110.1	32.1	142.2
Pan American	6.9	0.9	20.8	28.5	49.4	77.9
Permian Basin	0.7	-	13.8	14.5	4.1	18.6
San Antonio	27.0	0.7	33.9	61.5	106.5	168.0
Tyler	7.2	0.3	35.1	42.7	16.6	59.3

Appendix D - Calculation of Annual Operating Margin
Academic Institutions
As of August 31, 2006
(In Millions)

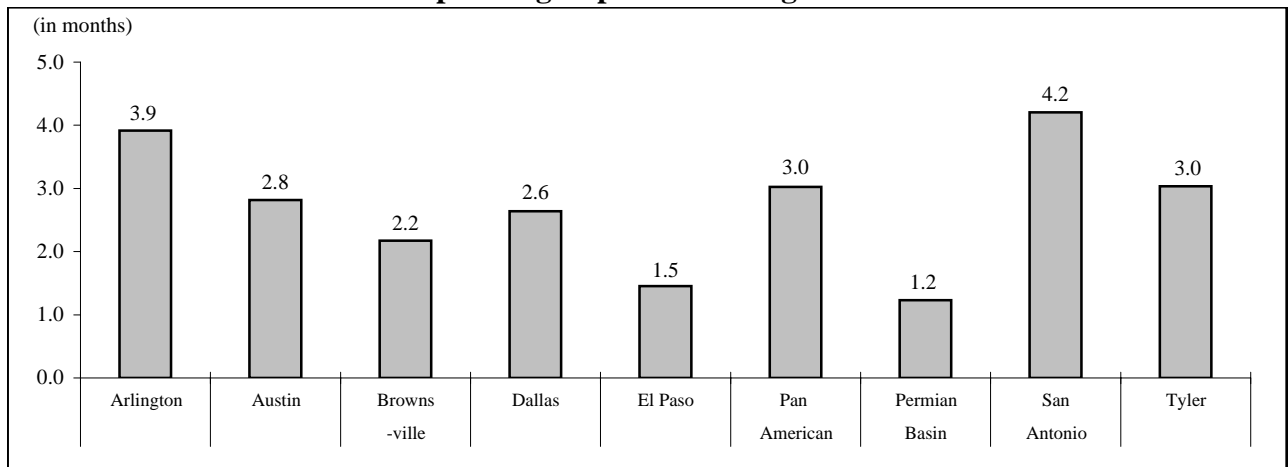
Institution	Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	Less: Nonoperating Items			Margin From SRECNA	Other Adjustments						Annual Operating Margin
		Other Nonop. Revenues	Gain/Loss on Sale of Cap. Assets	Net Increase/ (Decrease) in FV of Inv.		Realized Gains/ Losses	AUF Transfer	NSERB	Texas Enterprise Fund	HEAF for Op. Exp.	Interest Expense	
Arlington	\$ 19.8	-	(1.6)	4.7	16.8	-	-	-	-	-	(8.1)	8.7
Austin	112.3	1.1	(11.2)	155.0	(32.5)	1.5	112.5	-	-	-	(24.6)	53.9
Brownsville	(3.3)	-	-	0.6	(3.9)	0.1	-	-	-	1.0	(2.0)	(5.1)
Dallas	15.6	1.1	(1.0)	12.0	3.5	(1.2)	-	1.2	(4.4)	-	(5.4)	(3.9)
El Paso	17.4	1.0	(0.1)	8.2	8.4	0.9	-	-	-	-	(4.0)	3.5
Pan American	(3.7)	-	(0.2)	3.4	(6.9)	(1.3)	-	-	-	2.4	(2.4)	(5.7)
Permian Basin	1.1	-	-	1.1	-	0.1	-	-	-	-	(1.7)	(1.8)
San Antonio	32.3	-	(0.2)	4.1	28.4	(0.6)	-	-	-	-	(10.2)	18.8
Tyler	4.2	-	-	3.7	0.5	-	-	-	-	-	(2.3)	(1.8)

Appendix E - Academic Institutions' Evaluation Factors 2006 Analysis of Financial Condition

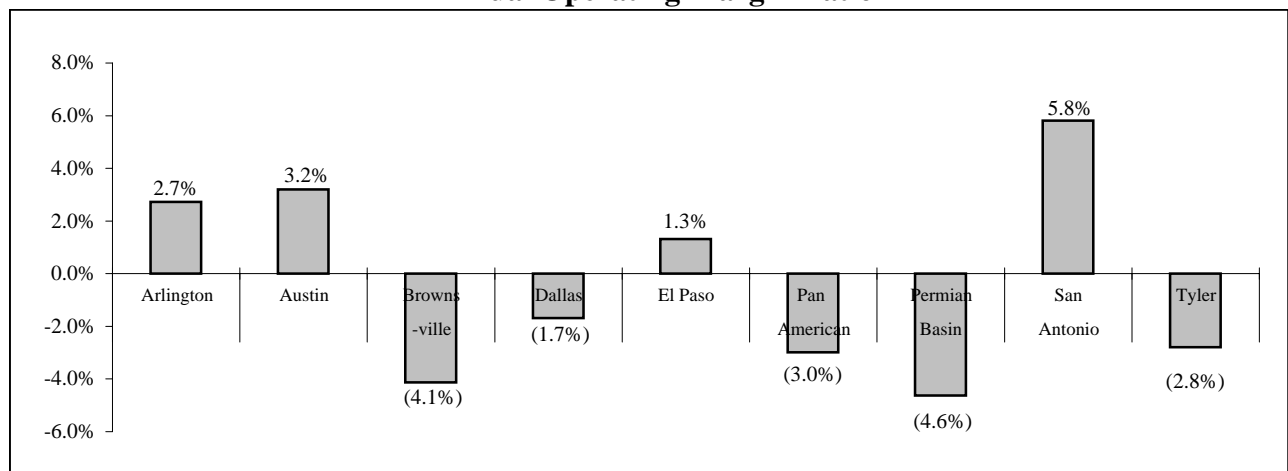
Composite Financial Index



Operating Expense Coverage Ratio

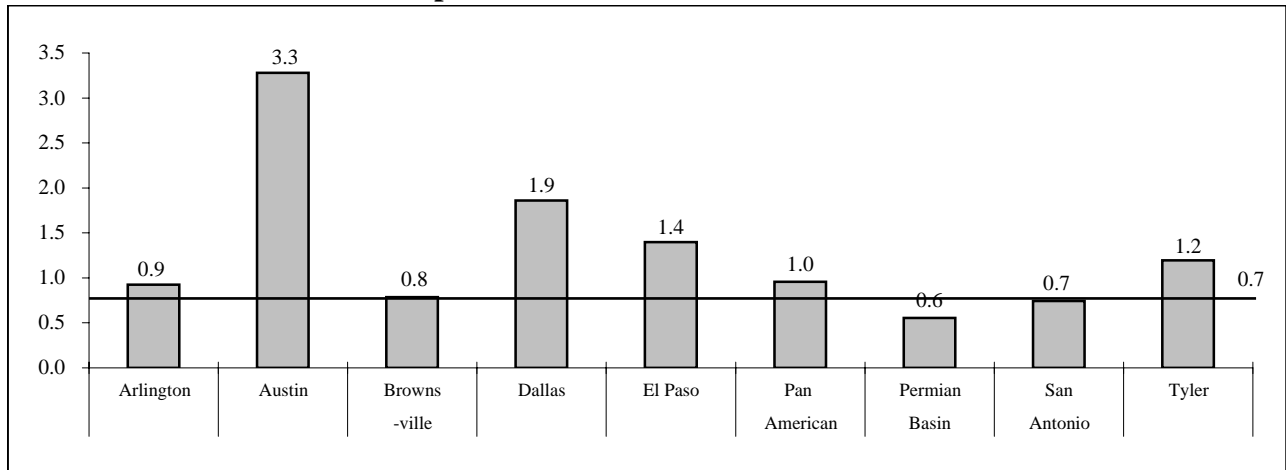


Annual Operating Margin Ratio

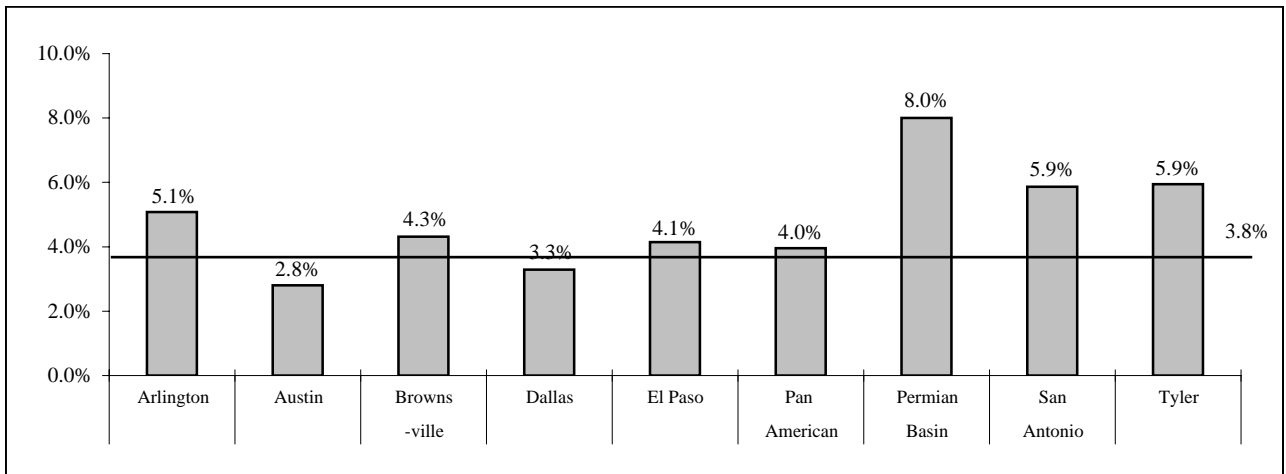


Appendix E - Academic Institutions' Evaluation Factors 2006 Analysis of Financial Condition

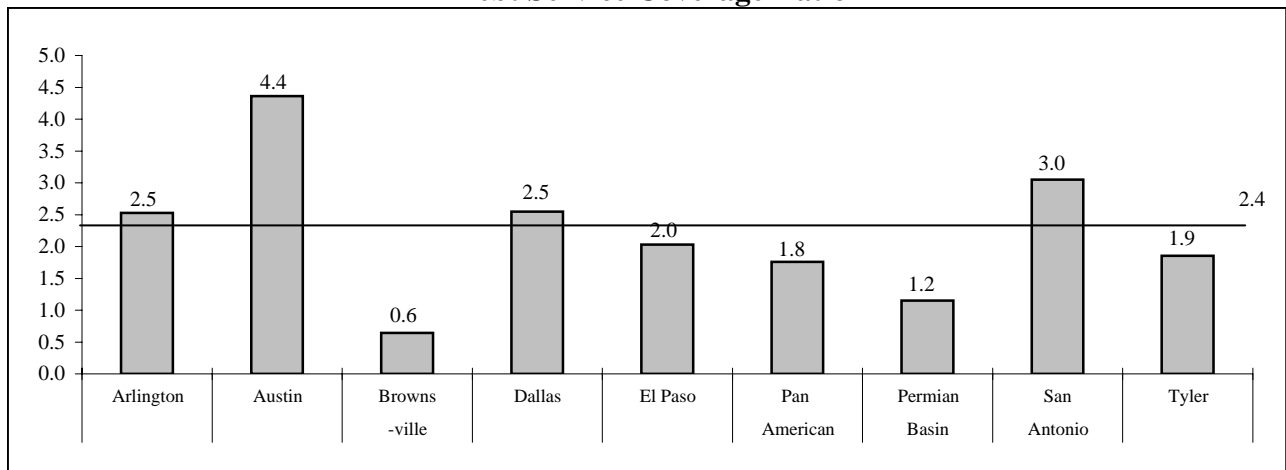
Expendable Resources to Debt Ratio



Debt Burden Ratio



Debt Service Coverage Ratio



Appendix F - Scale for Charting CFI Performance

