

NEW ISSUE  
BOOK-ENTRY ONLY

RATINGS: **Insured Bonds** **Uninsured Bonds**

Moody's: Aaa Aa3

Standard & Poor's: AAA A+

See "FINANCIAL GUARANTY INSURANCE POLICY" and "RATINGS" herein.

In the opinion of Co-Bond Counsel, interest on the Series 2003 Bonds is excludable from gross income for federal income tax purposes under existing law, and is not subject to the alternative minimum tax on individuals. See "Tax Exemption" herein for a discussion of Co-Bond Counsel's opinions, including a description of alternative minimum tax consequences for corporations and other federal tax consequences.



SOUTHERN  
METHODIST  
UNIVERSITY

**\$31,000,000**  
**SOUTHWEST HIGHER EDUCATION AUTHORITY, INC.**  
**Higher Education Revenue Bonds**  
**(Southern Methodist University Project)**  
**Series 2003**

Dated: December 1, 2003

Due: October 1, as shown below

The Southwest Higher Education Authority, Inc. (the "Issuer") is offering \$31,000,000 of its Higher Education Revenue Bonds (Southern Methodist University Project) Series 2003 (the "Series 2003 Bonds"). Interest on the Series 2003 Bonds accrues from December 1, 2003 and is payable on April 1, 2004, and semiannually on each October 1 and April 1 thereafter. The Series 2003 Bonds will be issued as fully registered bonds in denominations of \$5,000 or integral multiples thereof and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Series 2003 Bonds. So long as the book-entry system is in effect, purchases of beneficial ownership interests in the Series 2003 Bonds will be made in book-entry form only and purchasers will not receive certificates representing their interests in the Series 2003 Bonds purchased. Principal of, any redemption price for, and interest on the Series 2003 Bonds will be payable by JPMorgan Chase Bank, the Trustee, to the registered owners of the Series 2003 Bonds, initially to DTC, which in turn is to remit such payments to its participants for subsequent disbursement to beneficial owners.

The Series 2003 Bonds are subject to optional and mandatory sinking fund redemption prior to maturity, as described herein.

The Series 2003 Bonds constitute limited obligations of the Issuer, payable solely from payments required to be made pursuant to the Loan Agreement (as amended) between the Issuer and Southern Methodist University (the "University"). The Loan Agreement is authenticated as a "Security" under a Master Indenture, described herein, which further secures the University's obligation under the Loan Agreement.

Payment, when due, of the principal of and the interest on the Series 2003 Bonds maturing from 2007 to 2024 and in 2029 and 2033 (the "Insured Bonds") will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation ("Ambac Assurance") simultaneously with the delivery of the Insured Bonds. See "Financial Guaranty Insurance Policy" herein.

**Ambac**

NEITHER THE STATE OF TEXAS NOR ANY POLITICAL SUBDIVISION, OR AGENCY THEREOF, INCLUDING THE CITY OF UNIVERSITY PARK, TEXAS, IS OBLIGATED TO PAY THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2003 BONDS. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF TEXAS, THE CITY OF UNIVERSITY PARK, TEXAS, OR ANY OTHER POLITICAL SUBDIVISION, OR AGENCY THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2003 BONDS. THE ISSUER HAS NO TAXING POWER.

**Maturity Schedule**  
**\$17,315,000 Serial Bonds**

Year	Amount	Interest Rate	Yield	CUSIPs*	Year	Amount	Interest Rate	Yield	CUSIPs*
2004	\$585,000**	2.00%	1.200%	845040ED2	2015	\$ 820,000	4.000%	4.000%	845040EQ3
2005	595,000**	2.00	1.460	845040EE0	2016	855,000	4.000	4.090	845040ER1
2006	610,000**	2.00	1.820	845040EF7	2017	890,000	4.000	4.180	845040ES9
2007	620,000	2.250	2.070	845040EG5	2018	925,000	4.125	4.280	845040ET7
2008	635,000	2.750	2.430	845040EH3	2019	965,000	4.200	4.370	845040EU4
2009	655,000	3.000	2.710	845040EJ9	2020	1,005,000	4.300	4.460	845040EV2
2010	680,000	3.750	3.010	845040EK6	2021	1,050,000	4.375	4.540	845040EW0
2011	705,000	3.500	3.290	845040EL4	2022	1,100,000	4.500	4.620	845040EX8
2012	730,000	3.500	3.540	845040EM2	2023	1,150,000	4.500	4.700	845040EY6
2013	755,000	4.000	3.660	845040EN0	2024	1,200,000	4.600	4.770	845040EZ3
2014	785,000	4.000	3.860	845040EP5					

\$6,895,000 4.50% Term Bonds due October 1, 2029 Price: 95.156% CUSIP 845040FA7  
\$6,790,000 4.75% Term Bonds due October 1, 2033 Price: 98.116% CUSIP 845040FB5

(plus accrued interest from December 1, 2003)

\* CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services.  
\*\* Uninsured Bonds

THIS COVER PAGE CONTAINS INFORMATION FOR GENERAL REFERENCE ONLY. IT IS NOT INTENDED AS A SUMMARY OF THIS TRANSACTION. INVESTORS ARE ADVISED TO READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

The Series 2003 Bonds are offered when, as and if issued and accepted by the Underwriters, subject to prior sale, withdrawal, or modification of the offer without notice and to the delivery of the approving opinions of Vinson & Elkins L.L.P., and West & Gooden, P.C., Co-Bond Counsel, and the approval of the Attorney General of the State of Texas. Certain legal matters will be passed upon for the Issuer by Co-Bond Counsel, for the University by S. Leon Bennett, Vice President and General Counsel of the University, and for the Underwriters by their counsel, McCall, Parkhurst and Horton, L.L.P. John S. Vincent & Company LLC is serving as Financial Advisor to the University. It is expected that the Series 2003 Bonds will be delivered through DTC in New York, New York on December 18, 2003.

**LEHMAN BROTHERS**  
**RBC DAIN RAUSCHER INC.**

Dated November 20, 2003

**BEAR, STEARNS & CO. INC.**  
**FIRST SOUTHWEST COMPANY**

THE SERIES 2003 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAS THE INDENTURE BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE SERIES 2003 BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAW OF THE STATES IN WHICH THE SERIES 2003 BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. THE SERIES 2003 BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

This Official Statement includes descriptions and summaries of certain events, matters and documents. Such descriptions and summaries do not purport to be complete and all such descriptions, summaries and references thereto are qualified in their entirety by reference to this Official Statement in its entirety and to each such document, copies of which may be obtained from the University's Financial Advisor. Any statements made in this Official Statement or the appendices hereto involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of such opinions or estimates will be realized.

NEITHER THE UNIVERSITY, THE ISSUER NOR THE UNDERWRITERS MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM OR INFORMATION UNDER THE CAPTION "FINANCIAL GUARANTY INSURANCE POLICY" REGARDING AMBAC ASSURANCE, AS SUCH INFORMATION WAS FURNISHED BY THE DEPOSITORY TRUST COMPANY AND AMBAC ASSURANCE.

This Official Statement is delivered in connection with the sale of securities referred to herein and may not be reproduced or used, in whole or in part, for any other purposes. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series 2003 Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation, or sale. No dealer, salesperson, or other person has been authorized by the Issuer, the University or the Underwriters to give any information or to make any representation other than those contained herein, and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the University or the other matters described herein since the date hereof.

The prices and other terms respecting the offering and sale of the Series 2003 Bonds may be changed from time to time by the Underwriters after such Bonds are released for sale, and the Series 2003 Bonds may be offered and sold at prices other than the initial offering prices, including to dealers who may sell the bonds into investment accounts.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2003 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

This Official Statement includes "forward-looking statements" by using forward-looking words such as "may," "will," "should," "intends," "expects," "believes," "anticipates," "estimates," or others. These forward-looking statements are subject to a variety of uncertainties that could cause actual results to differ from the projected results. Those risks and uncertainties include the conditions described under "BONDOWNERS' RISKS—GENERAL." Because it is not possible to predict all factors that may affect future decisions, actions, events, or financial circumstances, what actually happens may be different from what is included in forward-looking statements.

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## OFFICIAL STATEMENT

\$31,000,000

### **Southwest Higher Education Authority, Inc.**

Higher Education Revenue Bonds  
(Southern Methodist University Project)  
Series 2003

### **INTRODUCTION**

The following introduction is subject in all respects to more complete information contained in this Official Statement (including the cover page and the Appendices hereto, the "Official Statement"). The offering of the Series 2003 Bonds to potential investors is made only by means of this Official Statement. All capitalized terms used in this Official Statement and not otherwise defined herein shall have the same meanings as in the Loan Agreement, the Indenture or the Master Indenture, as applicable. See APPENDIX C, "SUMMARY OF PRINCIPAL DOCUMENTS—DEFINITIONS OF CERTAIN TERMS." The document summaries contained in APPENDIX C are not intended to be comprehensive and are qualified in their entirety by reference to the entire documents. Until the issuance of the Series 2003 Bonds, you may obtain a copy of the documents described herein by contacting John S. Vincent & Company LLC at the following address or phone number to request a free copy: 208 South La Salle Street, Suite 1625, Chicago, Illinois 60604, (312) 332-1337. After delivery of the Series 2003 Bonds, you may inspect copies of such documents at the designated corporate trust office of the Trustee.

#### GENERAL

This Official Statement is provided to prospective purchasers in connection with the sale and delivery of \$31,000,000 aggregate principal amount of Higher Education Revenue Bonds (Southern Methodist University Project) Series 2003 (the "Series 2003 Bonds"), by the Southwest Higher Education Authority, Inc. (the "Issuer") pursuant to the Higher Education Authority Act, Chapter 53 of the Texas Education Code, as amended (the "Act").

#### THE SERIES 2003 BONDS

The Series 2003 Bonds will bear interest at the fixed rates set forth on the cover page hereto and will be payable semiannually on April 1 and October 1, beginning April 1, 2004. The Series 2003 Bonds are subject to optional and mandatory sinking fund redemption. See "THE SERIES 2003 BONDS—REDEMPTION" herein.

#### USE OF PROCEEDS

The proceeds of the sale of the Series 2003 Bonds will be loaned by the Issuer to Southern Methodist University (the "University"), a Texas nonprofit corporation exempt from taxation as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"), for the purpose of financing the cost of certain educational facilities and housing facilities and facilities incidental, subordinate or related thereto or appropriate in connection therewith. See "PLAN OF FINANCE," and "THE SERIES 2003 PROJECTS" herein.

THE UNIVERSITY

The University owns and operates a private, medium-sized institution of higher education located in University Park, Texas, a city that, with the adjacent City of Highland Park, is surrounded by the City of Dallas, Texas. The University has approximately 9,248 full-time equivalent students and a faculty of over 600. For additional information regarding the University, see APPENDIX A, "INFORMATION CONCERNING SOUTHERN METHODIST UNIVERSITY."

PRIOR BONDS AND UNIVERSITY BONDS

The Issuer has previously issued the following outstanding bonds (collectively, the "Prior Bonds"):

<u>BONDS</u>	<u>AMOUNT ORIGINALLY ISSUED</u>	<u>AMOUNT OUTSTANDING</u>
Higher Education Revenue Bonds (Southern Methodist University Project) Series 2002 (the "Series 2002 Bonds")	\$69,670,000	\$69,470,000
Higher Education Revenue Bonds (Southern Methodist University Project) Series 1999 A (the "Series 1999 A Bonds")	\$51,515,000	\$50,515,000
Higher Education Revenue Bonds (Southern Methodist University Project) Series 1999 B (the "Series 1999 B Bonds")	\$35,400,000	\$7,800,000
Higher Education Revenue Bonds (Southern Methodist University Project) Series 1999 C (the "Series 1999 C Bonds")	\$26,700,000	\$21,200,000
Higher Education Revenue Bonds (Southern Methodist University Project) Series 1999 D (the "Series 1999 D Bonds")	\$13,630,000	\$13,630,000
Higher Education Revenue Bonds (Southern Methodist University Project) Series 1995 (the "Series 1995 Bonds")	\$42,445,000	\$37,860,000
Variable Rate Demand Higher Education Revenue Bonds (Southern Methodist University Project) Refunding Series 1985 (the "Series 1985 Refunding Bonds")	\$49,295,000	\$49,200,000
<b>TOTAL:</b>	<b>\$288,655,000</b>	<b>\$249,675,000</b>



In addition, the University has previously issued the following outstanding bonds (collectively, the "University Bonds"):

<u>BONDS</u>	<u>AMOUNT ORIGINALLY ISSUED</u>	<u>AMOUNT OUTSTANDING</u>
Southern Methodist University Law Library and Classroom Building Bonds of 1967 (the "Series 1967 Bonds")	\$1,549,000	\$268,000
Southern Methodist University Fine Arts Center Building Bonds of 1966 (the "Series 1966 Bonds")	\$1,819,000	\$229,000
Southern Methodist University Building Bonds, Series 1963 (the "Series 1963 Bonds")	\$4,000,000	\$1,440,000
<b>TOTAL:</b>	<b>\$7,368,000</b>	<b>\$1,937,000</b>

See "PLAN OF FINANCE," "ESTIMATED SOURCES AND USES OF FUNDS" and "ESTIMATED ANNUAL DEBT SERVICE REQUIREMENTS."

The proceeds of the Series 1999 B Bonds were used to pay the cost of constructing, acquiring, renovating and equipping certain capital projects of the University and the Series 1999 C Bonds proceeds were used to pay a portion of the costs of constructing the new Ford Stadium. The University has received pledges through a capital campaign with respect to the projects funded by the Series 1999 B Bonds and the Series 1999 C Bonds and intends to use such contributions, if and when they are received, to redeem the Series 1999 B Bonds and the Series 1999 C Bonds prior to maturity. As of the date of this Official Statement, \$27,600,000 and \$5,500,000 of the Series 1999 B Bonds and Series 1999 C Bonds have been redeemed, respectively, and the University expects to redeem an additional \$6,030,000 and \$17,800,000, respectively, within five years.

#### THE INDENTURE, THE LOAN AGREEMENT AND THE MASTER INDENTURE

The Series 2003 Bonds will be issued under the Act, and pursuant to a Trust Indenture dated as of January 1, 1999 (the "Original Indenture") between the Issuer and JPMorgan Chase Bank, as Trustee (formerly known as The Chase Manhattan Bank, successor by merger to Chase Bank of Texas, National Association) (the "Trustee"), as supplemented by the First Supplemental Indenture dated as of January 1, 1999 (the "First Supplemental Indenture") between the Issuer and the Trustee, the Second Supplemental Indenture (the "Second Supplemental Indenture") dated as of July 1, 2002 between the Issuer and the Trustee and a Third Supplemental Indenture (the "Third Supplemental Indenture") dated as of December 1, 2003 between the Issuer and the Trustee (collectively, with any amendments or supplements thereto, the "Indenture"). The Series 1999 A Bonds were issued under the Original Indenture, the Series 1999 D Bonds were issued under the First Supplemental Indenture, the Series 2002 Bonds were issued under the Second Supplemental Indenture and the Series 2003 Bonds are

being issued under the Third Supplemental Indenture. The Indenture secures the Series 2003 Bonds on a parity with the Series 1999 A Bonds, the Series 1999 D Bonds, the Series 2002 Bonds and any other future bonds ("Additional Bonds") which may be issued from time to time under the Indenture. The Series 1999 A Bonds, the Series 1999 D Bonds, the Series 2002 Bonds, the Series 2003 Bonds and any Additional Bonds are referred to herein collectively as the "Bonds."

The proceeds of the Series 2003 Bonds will be loaned to the University pursuant to the Loan Agreement dated as of January 1, 1999 (the "Original Loan Agreement") between the Issuer and the University, as amended by an Amendment Number 1 to Loan Agreement ("Amendment No. 1") dated as of January 1, 1999 between the Issuer and the University, an Amendment Number 2 to Loan Agreement ("Amendment No. 2") dated as of July 1, 2002 between the Issuer and the University and an Amendment Number 3 to Loan Agreement ("Amendment No. 3") dated as of December 1, 2003 between the Issuer and the University (collectively, with any amendments or supplements thereto, the "Loan Agreement"). The obligation of the University to make loan payments with respect to the Series 2003 Bonds is established by Amendment No. 3. The University has covenanted and agreed in the Loan Agreement to make payments to the Trustee in an amount sufficient to pay, when due, principal, interest and premium, if any, on the Bonds (including the Series 2003 Bonds). The Issuer has pledged to the Trustee a security interest in the Issuer's rights under the Loan Agreement to secure payment of the Bonds, including the Series 2003 Bonds.

In addition, to secure the obligation of the University to make loan payments with respect to the Bonds, the Original Loan Agreement, as amended by Amendment No. 1, Amendment No. 2 and Amendment No. 3, and as the Loan Agreement may hereafter be further amended from time to time, was authenticated as a Security under the Master Indenture between the University and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank, successor by merger to Chase Bank of Texas, National Association) as Master Trustee. The loan agreements relating to the Prior Bonds and the reimbursement agreements providing for the issuance of direct pay letters of credit relating to the Series 1985 Refunding Bonds and relating to the Series 1999 B Bonds and the Series 1999 C Bonds (the "Letters of Credit") are also Securities of the University secured by the Master Indenture. The loan agreement relating to the Issuer's Higher Education Revenue Bonds (Southern Methodist University Project) Series 1992 (the "Series 1992 Bonds") was also a Security under the Master Indenture, but the Series 1992 Bonds were refunded with a portion of the proceeds of the Series 2002 Bonds and are no longer outstanding. Under the Master Indenture, the University grants to the Master Trustee a limited security interest in the University's Unrestricted Receivables (hereafter defined) for the benefit of holders of the Securities to secure payment of the Securities until the Series 1985 Refunding Bonds, the Series 1992 Bonds and the Series 1995 Bonds are no longer outstanding and imposes certain covenants on the University. Under the Master Indenture, additional loan agreements and reimbursement agreements for Letters of Credit, and amendments to the foregoing, relating to additional obligations of the University can be authenticated as Securities under the Master Indenture and be secured by the University's pledge of its Unrestricted Receivables. See APPENDIX C, "SUMMARY OF PRINCIPAL DOCUMENTS—THE MASTER INDENTURE," "SUMMARY OF PRINCIPAL DOCUMENTS—THE LOAN AGREEMENT," "SUMMARY OF PRINCIPAL DOCUMENTS—THE INDENTURE," "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS" and "LIMITATIONS ON SECURITY INTEREST AND ENFORCEABILITY OF REMEDIES."

## THE SERIES 2003 BONDS

### GENERAL

The Series 2003 Bonds will be dated December 1, 2003 and will be issuable in the amounts and with the maturity dates set forth on the cover page of this Official Statement. Interest on the Series 2003 Bonds will accrue at the rates per annum and will be payable on the dates set forth on the cover page of this Official Statement. Interest on the Series 2003 Bonds will be calculated on the basis of a 360-day year of twelve 30-day months.

The Series 2003 Bonds of each maturity will be issuable in fully registered form only, without coupons, in the denominations of \$5,000 and any integral multiple thereof. As described in APPENDIX E "BOOK ENTRY SYSTEM," when issued, the Series 2003 Bonds will be registered in the name of Cede & Co., as bondholder and nominee of The Depository Trust Company, New York, New York ("DTC").

The principal or redemption price of each Series 2003 Bond will be payable to the Owner upon surrender of such Series 2003 Bond at the principal payment office of the Trustee located in Dallas, Texas. Interest on each Series 2003 Bond paid on each Interest Payment Date will be paid to the person in whose name such Series 2003 Bond is registered on the 15th day of the calendar month next preceding the Interest Payment Date. So long as DTC, or its nominee, Cede & Co., is the registered owner of all the Series 2003 Bonds, all payments on Series 2003 Bonds will be made directly to DTC.

Any interest on the Series 2003 Bonds which is payable, but is not punctually paid or duly provided for, on any Interest Payment Date will cease to be payable to the Owner as of the Record Date. In order to make payment of defaulted interest, the Issuer may pay the defaulted interest to the person who is the Owner on a subsequent special record date fixed by the Trustee pursuant to the Indenture. At least 10 days before the special record date, the Trustee is required to mail to the Owner a notice that states the special record date and the special interest payment date.

### REDEMPTION

*Optional Redemption.* The Series 2003 Bonds maturing on and after October 1, 2014 are subject to redemption by the Issuer, upon request of the University, prior to their stated maturity, in whole or in part, on any date on and after October 1, 2013, in any order, at a redemption price of 100% of the principal amount of the Series 2003 Bonds to be redeemed, plus accrued interest to the applicable redemption date.

*Mandatory Redemption.* The Series 2003 Bonds maturing on October 1, 2029 are subject to mandatory sinking fund redemption on October 1, in the years specified below at a redemption price equal to 100% of the principal amounts thereof shown below plus accrued interest thereon from the most recent Interest Payment Date to the redemption date:

<u>Year</u>	<u>Principal Amount</u>
2025	\$ 1,260,000
2026	1,315,000
2027	1,375,000
2028	1,440,000
2029	<u>1,505,000*</u>
Total:	\$ 6,895,000

\*Maturity

The Series 2003 Bonds maturing on October 1, 2033 are subject to mandatory sinking fund redemption on October 1, in the years specified below at a redemption price equal to 100% of the principal amounts thereof shown below plus accrued interest thereon from the most recent Interest Payment Date to the redemption date:

<u>Year</u>	<u>Principal Amount</u>
2030	\$ 1,580,000
2031	1,655,000
2032	1,735,000
2033	<u>1,820,000*</u>
Total:	\$ 6,790,000

\*Maturity

The Issuer may, however, at the option of the University, reduce the principal amount of the Series 2003 Bonds of any stated maturity subject to mandatory sinking fund redemption on any such date by the principal amount of the Series 2003 Bonds of such stated maturity either (1) surrendered and uncanceled and in proper form for transfer (subject to certain restrictions) by the University to the Trustee for cancellation not less than 30 days prior to the redemption date or (2) selected for redemption not less than 30 days prior to such redemption date pursuant to optional redemption, which have not been previously made the basis for a reduction of the principal amount of the Series 2003 Bonds to be redeemed by operation of the sinking fund redemption.

*Notice of Redemption.* The Trustee shall give notice of any redemption of the Series 2003 Bonds by first class mail, postage prepaid, mailed at least 30 days prior to the redemption date, to holders of Series 2003 Bonds to be redeemed at their addresses appearing in

the registration books maintained by the Trustee. In addition, notice of redemption shall be sent by certified or registered mail, return receipt requested, or by overnight delivery service contemporaneously with such mailing: (1) to any Owner of \$1,000,000 or more in principal amount of Series 2003 Bonds and (2) to one or more information services of national recognition that disseminates redemption information with respect to municipal bonds. All redemption notices shall (i) specify the principal amount of Series 2003 Bonds to be redeemed, and if less than all outstanding Series 2003 Bonds are to be redeemed, the identification by CUSIP number and Stated Maturity Date of the Series 2003 Bonds to be so redeemed, the redemption date, and the place or places where amounts due upon such redemption will be payable, and (ii) state that on the redemption date, if sufficient moneys are available for such redemption, the Series 2003 Bonds or portions thereof to be redeemed shall cease to bear interest.

*Selection of Series 2003 Bonds to be Redeemed.* Series 2003 Bonds may be redeemed only in \$5,000 principal amounts or integral multiples thereof. If less than all of the Series 2003 Bonds are to be optionally redeemed, the particular maturities from which they are to be redeemed shall be selected by the University and if less than all of the outstanding principal amount of the Series 2003 Bonds of a stated maturity are to be called for redemption, the Trustee shall select by lot, in such manner as the Trustee in its discretion may determine, the Series 2003 Bonds to be redeemed within each such stated maturity; provided that, for so long as the only owner of the Series 2003 Bonds is DTC, the selection of Series 2003 Bonds within a stated maturity will be made by DTC.

## **SOURCES OF PAYMENT AND SECURITY FOR THE BONDS**

### GENERAL

The Series 2003 Bonds are limited, non-recourse obligations of the Issuer payable by the Issuer solely from and to the extent of the Trust Estate, which includes the Issuer's interest in and to the Loan Agreement (subject to certain exceptions) and the Issuer's rights as a holder of a Security. See, "THE INDENTURE, THE LOAN AGREEMENT AND THE MASTER INDENTURE" and Appendix C, "DEFINITIONS OF CERTAIN TERMS."

NEITHER THE STATE OF TEXAS NOR ANY POLITICAL SUBDIVISION OR AGENCY THEREOF, INCLUDING THE CITY OF UNIVERSITY PARK, TEXAS, IS OBLIGATED TO PAY THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2003 BONDS. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF TEXAS, THE CITY OF UNIVERSITY PARK, TEXAS, OR ANY OTHER POLITICAL SUBDIVISION OR AGENCY THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2003 BONDS. THE ISSUER HAS NO TAXING POWER.

Concurrently with, and as a condition to the issuance of the Insured Bonds, Ambac Assurance will issue a financial guaranty insurance policy that insures the payment of the principal of and interest on the Insured Bonds upon the terms provided in such policy. See "FINANCIAL GUARANTY INSURANCE POLICY." The Series 2003 Bonds maturing on October 1, 2004 through October 1, 2006 are not so insured.

## THE INDENTURE, THE LOAN AGREEMENT AND THE MASTER INDENTURE

Under the Indenture, the Issuer has assigned and pledged to the Trustee as security for the payment of the Bonds, including the Series 2003 Bonds, all right, title, and interest of the Issuer in and to, among other things: (i) the Loan Agreement (with certain exceptions and reservations relating to indemnification and reimbursement of the Issuer noted in such Loan Agreement), including the loan payments; (ii) the rights of the Issuer as the holder of the Loan Agreement as a Security entitled to the benefit and security of the Master Indenture; and (iii) all money and investments from time to time held for the credit of the Construction Fund, the Bond Proceeds Clearance Fund, and the Bond Fund established under the Indenture, excluding, however, the Rebate Fund and all money and investments held for the credit of the Rebate Fund. Pursuant to the Loan Agreement, the University agrees to make loan payments sufficient to pay in full the debt service requirements of the Series 2003 Bonds. The University further agrees under the Loan Agreement to pay certain fees and expenses (consisting generally of fees, charges, and expenses of the Trustee). The loan payments under the Loan Agreement constitute a general obligation of the University. The source of payment for the loan payments is not limited to any particular revenue stream. See "LIMITATIONS ON SECURITY INTEREST AND ENFORCEABILITY OF REMEDIES."

In connection with the issuance of the Series 1999 Bonds, the University reorganized the structure of its obligations with respect to certain outstanding bonded indebtedness by entering into the Master Indenture, which provides a coherent security structure related to the Prior Bonds, the Series 2003 Bonds, the Letters of Credit and any other future indebtedness or obligations of the University secured by a Security issued under the Master Indenture ("Additional Securities"). The Original Loan Agreement, as amended by Amendment No. 1, by Amendment No. 2, and by Amendment No. 3, and as it may be further amended from time to time, is authenticated as a "Security" under the Master Indenture and is on a parity with the Securities issued under the Master Indenture to secure the Prior Bonds and the Letters of Credit. See "INTRODUCTION-THE INDENTURE, THE LOAN AGREEMENT AND THE MASTER INDENTURE."

Under the Master Indenture, the University has made certain covenants which, among other things, limit the ability of the University to incur Funded Debt or to encumber its property. See "OTHER INDEBTEDNESS" below, "LIMITATIONS ON SECURITY INTEREST AND ENFORCEABILITY OF REMEDIES—SECURITY INTEREST," and APPENDIX C, "SUMMARY OF PRINCIPAL DOCUMENTS—THE MASTER INDENTURE—Covenants of the University." In addition, by virtue of the cross-default provisions of the Master Indenture, a breach of any of the covenants the University made or may make under the various agreements relating to the Prior Bonds, the Letters of Credit and any agreements entered into in connection with any Additional Securities, will constitute a default under the Master Indenture so long as the obligation or indebtedness to which the covenant relates remains outstanding. See "EVENTS OF DEFAULT." Pursuant to the Master Indenture, the University has pledged to the Master Trustee as collateral an interest in the Unrestricted Receivables of the University, to secure payment of the Securities. Once the Series 1985 Refunding Bonds and the Series 1995 Bonds are paid or defeased, the pledge of Unrestricted Receivables under the Master Indenture will cease as to all Securities issued under the Master Indenture, including the Loan Agreement, which has been authenticated as a Security under the Master Indenture. See "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS" and

“LIMITATIONS ON SECURITY INTEREST AND ENFORCEABILITY OF REMEDIES” and APPENDIX C, “SUMMARY OF PRINCIPAL DOCUMENTS—THE MASTER INDENTURE—General.”

#### ADDITIONAL BONDS

Additional Bonds may be issued under the Indenture upon delivery to the Trustee of certain documents, including an Officer’s Certificate to the effect that such issuance will not create a default under the Master Indenture and an Opinion of Counsel to the effect that the obligations of the University under the Loan Agreement with respect to the Additional Bonds are entitled to the benefit and security of the Master Indenture. See “OTHER INDEBTEDNESS” below. Any Additional Bonds issued under the Indenture will be secured by the collateral pledged under the Indenture with the Series 1999 A Bonds, the Series 1999 D Bonds, the Series 2002 Bonds, the Series 2003 Bonds and any other Additional Bonds.

#### OTHER INDEBTEDNESS

The Master Indenture limits the University’s ability to incur, assume, guarantee or otherwise become liable in respect to any Debt that matures by its terms (in the absence of the exercise of any earlier right of demand) or is renewable at the option of the University, to a date more than one year after the original creation, assumption or guarantee of such debt (“Funded Debt”), except under certain specified circumstances, which include (a) Funded Debt for the purpose of financing the completion of constructing, renovating, or equipping facilities for which permitted Funded Debt was incurred and (b) additional Funded Debt, if after giving effect to the issuance of such Funded Debt and the application of the proceeds thereof, (i) the quotient obtained by dividing the total amount of Funded Debt of the University by the sum of the net unrestricted assets of the University plus the temporarily restricted net assets of the University is not greater than 2.0, and (ii) the quotient obtained by dividing the total amount of Funded Debt bearing interest at a rate that is not fixed to the Stated Maturity of the Funded Debt in question by the sum of the net unrestricted assets of the University plus the temporarily restricted net assets of the University is not greater than 0.5, all as demonstrated by an Officer’s Certificate setting forth such calculations. See, APPENDIX C, “SUMMARY OF PRINCIPAL DOCUMENTS—THE MASTER INDENTURE—Covenants of the University—*Limitations on Debt*.”

Subsequent series of Securities issued under the Master Indenture may operate to further restrict the ability of the University to incur additional indebtedness.

#### AMENDMENTS TO INDENTURE, LOAN AGREEMENT AND MASTER INDENTURE

The Indenture, the Master Indenture and the Loan Agreement may be modified without the consent of, or notice to, the holders of the Series 2003 Bonds under certain circumstances. See Appendix C, “SUMMARY OF PRINCIPAL DOCUMENTS—THE INDENTURE—Supplements and Amendments,” and “—THE MASTER INDENTURE—Supplements.”

#### MERGER, CONSOLIDATION, ETC. OF UNIVERSITY

Under the Loan Agreement and the Master Indenture, unless such action would adversely affect the tax-exempt status of the Series 2003 Bonds, the University may consolidate with or merge with or into or sell or otherwise transfer all or substantially all of its assets to another

domestic corporation, if the surviving entity, prior to or simultaneously with such consolidation, merger, sale or transfer, assumes all the obligations of the University under the Loan Agreement and the Master Indenture.

#### EVENTS OF DEFAULT

Events of Default under the Master Indenture include, in general, failure to pay the principal of, premium, interest or any other amount due on any Security, covenant defaults, the bankruptcy or insolvency of the University, and an event of default under any Security or any instrument under which Securities may be created or secured, or under which Debt issued by or on behalf of a state or a political subdivision secured by a pledge of a series of Securities is incurred or secured. See "LIMITATIONS ON SECURITY INTEREST AND ENFORCEABILITY OF REMEDIES" and Appendix C, "SUMMARY OF PRINCIPAL DOCUMENTS—THE MASTER INDENTURE—DEFAULTS AND REMEDIES UNDER THE MASTER INDENTURE."

Events of Default under the Indenture include, in general, a failure to pay the principal of, premium or interest on the Bonds, covenant defaults, and an event of default under the Loan Agreement or the Master Indenture. See "LIMITATIONS ON SECURITY INTEREST AND ENFORCEABILITY OF REMEDIES," "FINANCIAL GUARANTY INSURANCE POLICY—ADDITIONAL RIGHTS" and Appendix C, "SUMMARY OF PRINCIPAL DOCUMENTS—THE INDENTURE—DEFAULTS AND REMEDIES UNDER THE INDENTURE."

Events of Default under the Loan Agreement include, in general, a failure to pay the principal of, premium or interest on the Bonds, covenant defaults, the bankruptcy or insolvency of the University, and an event of default under the Indenture or the Master Indenture. See "LIMITATIONS ON SECURITY INTEREST AND ENFORCEABILITY OF REMEDIES" and Appendix C, "SUMMARY OF PRINCIPAL DOCUMENTS—THE LOAN AGREEMENT—DEFAULTS AND REMEDIES UNDER THE LOAN AGREEMENT."

### **LIMITATIONS ON SECURITY INTEREST AND ENFORCEABILITY OF REMEDIES**

#### SECURITY INTEREST

The Series 2003 Bonds are not secured by a mortgage on or a security interest in the University's facilities or on any tangible real or personal property of the University. Under the Master Indenture, the Loan Agreement has been authenticated as a Security under the Master Indenture and the University's obligation to make payments under the Loan Agreement is secured by the "Trust Estate" as defined in the Master Indenture. The Trust Estate under the Master Indenture includes all rents, issues, profits, income, revenues, receipts and rights to the payment of money and receivables derived by the University from any and all sources, including, without limitation, all accounts, contract rights and general intangibles, now owned or hereafter acquired, and all proceeds thereof whether cash or noncash; excluding, however, gifts, grants, bequests, donations and contributions to the University heretofore or hereafter made, and the proceeds thereof, which are specifically restricted by the donor, testator or grantor to a particular purpose which is inconsistent with their use for payments required under the Master Indenture (the "Unrestricted Receivables"). See, "ENFORCEABILITY OF REMEDIES" below and APPENDIX C,



**“SUMMARY OF PRINCIPAL DOCUMENTS—THE MASTER INDENTURE—General.” ONCE THE SERIES 1985 REFUNDING BONDS AND THE SERIES 1995 BONDS ARE PAID OR DEFEASED, THE PLEDGE OF UNRESTRICTED RECEIVABLES WILL TERMINATE WITH RESPECT TO ALL SECURITIES, INCLUDING THE SECURITIES SECURING THE SERIES 2003 BONDS AND ALL OTHER PRIOR BONDS.**

While the Master Indenture generally prohibits the University from encumbering its property, the University may grant a security interest in its property that will rank prior to the rights of the Securities (including the rights of the Issuer and the Trustee with respect to the Loan Agreement), and thus prior to the rights of the holders of the Series 2003 Bonds to realize on the value of the Unrestricted Receivables, under certain circumstances. For example, the Master Indenture permits the following encumbrances on University property:

- debt service reserves;
- purchase and construction money encumbrances;
- encumbrances representing up to 25% of the book value (or if the University chooses to use current value, up to 25% of the current value) of all property of the University; and
- encumbrances with respect to property located beyond the main campus of the University.

See, Appendix C, “SUMMARY OF PRINCIPAL DOCUMENTS—THE MASTER INDENTURE—COVENANTS OF THE UNIVERSITY—*Limitation on Liens.*”

Accordingly, to the extent the University issues any debt secured by an encumbrance permitted by the Master Indenture (other than a Security), the Securities will be effectively subordinated to such secured debt with respect to the property encumbered and the revenues and proceeds therefrom.

#### ENFORCEABILITY OF REMEDIES

The actual realization of amounts to be derived upon the enforcement of the security interest granted by the Indenture, Loan Agreement and Master Indenture upon default will depend upon the exercise of various remedies specified by the Indenture, the Loan Agreement, and the Master Indenture. These and other remedies may require judicial action which is often subject to discretion and delay. Under existing law, the remedies specified by the Indenture, the Loan Agreement and the Master Indenture may not be readily available or may be limited. A court may decide not to order the performance of the covenants contained in those documents. The various legal opinions delivered concurrently with the delivery of the Series 2003 Bonds are qualified as to the enforceability of the various legal instruments by, among other matters, limitations imposed by state and federal laws, rulings and decisions affecting remedies, general principles of equity and bankruptcy, insolvency, moratorium, reorganization or other laws affecting the enforcement of creditors' rights generally, as well as limitations that might be imposed on enforcement of security interests under the laws as in effect in any applicable jurisdiction, or the effect of preemption by federal law to applicable state law. In addition, if otherwise permitted under the Master Indenture, the University can incur debt (whether or not

secured by a Security), that could provide the holder of such debt or the trustee acting on behalf of such debt holder, the right to immediately accelerate such debt, regardless of whether the Trustee has accelerated the Series 2003 Bonds under the Indenture.

#### LIMITATIONS ON SECURITY INTEREST IN UNRESTRICTED RECEIVABLES

The security interest in the University's Unrestricted Receivables under the Master Indenture, granted by the University to the Master Trustee to secure payment of Securities (including the Loan Agreement), may be affected by various matters, including (i) federal bankruptcy laws which could, among other things, preclude enforceability of the security interest as to Unrestricted Receivables arising subsequent to the commencement of bankruptcy proceedings and limit such enforceability as to Unrestricted Receivables arising prior to such commencement, to the extent a security interest therein would constitute a voidable preference, (ii) rights of third parties in cash, securities and instruments in possession of the Master Trustee, including accounts and general intangibles converted to cash, (iii) rights arising in favor of the United States of America or any agency thereof, (iv) present or future prohibitions against assignment in any federal statutes or regulations, (v) constructive trusts, equitable liens or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction and rights of donors of property, (vi) claims that might obtain priority if continuation statements are not filed in accordance with applicable laws, (vii) the rights of holders of prior perfected security interests in equipment and other goods owned by the University and in the proceeds of sale of such property, (viii) statutory liens, (ix) the rights of parties secured by Permitted Encumbrances, (x) preemption by federal law of state law as to creation and perfection, and (xi) limitations that might be imposed on the enforcement of remedies by the Uniform Commercial Code as in effect in any applicable jurisdiction. If an event of default does occur, it is uncertain that the Master Trustee could successfully obtain an adequate remedy at law or in equity on behalf of the Trustee. In addition, Securities may be issued from time to time in the future pursuant to the Master Indenture, and the holders of such Securities will be entitled to the benefit of the security interest in the Unrestricted Receivables created by the Master Indenture.

**ONCE THE SERIES 1985 REFUNDING BONDS AND THE SERIES 1995 BONDS ARE PAID OR DEFEASED, THE PLEDGE OF UNRESTRICTED RECEIVABLES WILL TERMINATE WITH RESPECT TO ALL SECURITIES, AND THE SECURITIES SECURING THE SERIES 2003 BONDS AND ALL OTHER PRIOR BONDS WILL CEASE TO BE SECURED BY SUCH PLEDGE.**

#### **FINANCIAL GUARANTY INSURANCE POLICY**

##### PAYMENT PURSUANT TO FINANCIAL GUARANTY INSURANCE POLICY

Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the Insured Bonds effective as of the date of issuance of the Insured Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Insured

Bonds which shall become "Due for Payment" but shall be unpaid by reason of "Nonpayment by the Obligor" (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Insured Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Insured Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Insured Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Insured Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Insured Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee has notice that any payment of principal of or interest on any Insured Bond which has become Due for Payment and which is made to a holder of an Insured Bond by or on behalf of the University has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does **not** insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does **not** cover:

- payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.
- payment of any redemption, prepayment or acceleration premium.
- nonpayment of principal or interest caused by the insolvency or negligence of any Trustee or Paying Agent, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of Insured Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Insured Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of holder entitlement to interest payments and an appropriate assignment of the holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Insured Bond, appurtenant coupon, if any, or right to payment of principal or interest on such Insured Bond and will be fully subrogated to the surrendering holder's rights to payment.

#### ADDITIONAL RIGHTS

Anything in the Indenture to the contrary notwithstanding, subject to certain conditions specified in the Indenture, Ambac Assurance is deemed to be the Owner of all Insured Bonds (i) at all times for the purpose of the execution and delivery of a supplemental indenture or any amendment, change or modification of the Loan Agreement or the initiation by the Owners of any Bonds of any action to be undertaken by the Trustee at such Owner's request or any removal of the Trustee which may be initiated by the Owners, which under the Indenture (or under the Loan Agreement) requires the written approval or consent of or can be initiated by the Owners of a specified percentage in aggregate principal amount of the Bonds at the time Outstanding, and (ii) following an Event of Default under the Indenture for all other purposes for which Owner consent, direction or approval is required or permitted. Notwithstanding the foregoing, the Indenture does not permit Ambac Assurance to agree to any supplement or amendment that would permit, or be construed as permitting, (i) a change in the times, amounts or currency of payment of the principal of or interest on any Outstanding Bond, or a reduction in the principal amount or redemption price of any Outstanding Bond or the rate of interest thereon, or (ii) a reduction in the aggregate principal amount of Bonds the consent of the Owners of which is required for any such supplemental indenture or which is required, under the Indenture, for any modification, alteration, amendment or supplement to the Loan Agreement, without obtaining the consent of the Owner (determined without regard to the preceding sentence) of each Outstanding Bond affected thereby.

#### AMBAC ASSURANCE CORPORATION

Ambac Assurance is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam and the Commonwealth of Puerto Rico, with admitted assets of approximately **\$6,993,000,000** (unaudited) and statutory capital of approximately **\$4,195,000,000** (unaudited) as of **September 30, 2003**. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch, Inc. have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the obligor of the Insured Bonds.

Ambac Assurance makes no representation regarding the Insured Bonds or the advisability of investing in the Insured Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "FINANCIAL GUARANTY INSURANCE POLICY."

#### AVAILABLE INFORMATION

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including Ambac Assurance. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19<sup>th</sup> Floor, New York, New York 10004 and (212) 668-0340.

#### INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents filed by the Company with the Commission (File No. 1-10777) are incorporated by reference in this Official Statement:

- 1) The Company's Current Report on Form 8-K dated January 23, 2003 and filed on January 24, 2003;
- 2) The Company's Current Report on Form 8-K dated February 25, 2003 and filed on February 28, 2003;
- 3) The Company's Current Report on Form 8-K dated February 25, 2003 and filed on March 4, 2003;
- 4) The Company's Current Report on Form 8-K dated March 18, 2003 and filed on March 20, 2003;
- 5) The Company's Current Report on Form 8-K dated March 19, 2003 and filed on March 26, 2003;
- 6) The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 and filed on March 28, 2003;
- 7) The Company's Current Report on Form 8-K dated March 25, 2003 and filed on March 31, 2003;

8) The Company's Current Report on Form 8-K dated April 17, 2003 and filed on April 21, 2003;

9) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2003 and filed on May 15, 2003;

10) The Company's Current Report on Form 8-K dated July 17, 2003 and filed on July 18, 2003;

11) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2003 and filed on August 14, 2003;

12) The Company's Current Report on Form 8-K dated October 16, 2003 and filed on October 17, 2003; and

13) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended September 30, 2003 and filed on November 14, 2003.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "AVAILABLE INFORMATION."

### THE ISSUER

The Southwest Higher Education Authority, Inc. is a Texas nonprofit corporation organized and existing pursuant to the Higher Education Authority Act, Chapter 53, Texas Education Code, as amended, particularly Section 53.35 thereof, as a duly constituted authority to act on behalf of the City of University Park, Texas (the "City"). Pursuant to the Act, the Issuer is empowered to make loans to any "institution of higher education," as defined in the Act, for the purpose of providing "educational facilities" and "housing facilities," all as defined in the Act and facilities incidental, subordinate or related thereto or appropriate in connection therewith. The Series 2003 Bonds will be issued under the terms of a bond resolution adopted by the Issuer on November 13, 2003 (the "Bond Resolution"), authorizing the issuance and sale of the Series 2003 Bonds.

The Issuer is governed by a board of directors consisting of seven members appointed by the City Council of the City. Members of the board of directors of the Issuer serve without compensation. The Issuer has outstanding only the Prior Bonds. The City provides a staff member as needed to assist the Issuer. Listed below is the current board of directors of the Issuer.

<u>Name</u>	<u>Office</u>
Trevor W. Rees-Jones	President
O. Paul Corley	Secretary/Treasurer
Russell F. Coleman	Vice President/Assistant Secretary
Barbara Hitzelberger	Vice President/Assistant Secretary
Don M. Houseman	Vice President/Assistant Secretary
Jane Slover	Vice President/Assistant Secretary
Eiband Wilshusen	Vice President/Assistant Secretary

The Issuer has not undertaken or assumed any responsibility for the matters contained in this Official Statement, except solely as to matters relating to the Issuer.

**The Series 2003 Bonds, together with interest thereon, will be limited obligations of the Issuer and do not constitute a debt or liability or obligation of the City, the State of Texas or any political subdivision thereof, or a charge against the general credit or taxing power of the City, the State of Texas, or any political subdivision thereof. The Issuer shall not be obligated to pay the principal of, premium, if any, or interest on the Series 2003 Bonds except from the revenues derived from the Loan Agreement. The Issuer has no taxing power.**

### **PLAN OF FINANCE**

The proceeds of the Series 2003 Bonds, together with certain other available funds of the University will be applied to finance educational facilities and housing facilities and facilities incidental, subordinate or related thereto or appropriate in connection therewith, including the Series 2003 Projects described below; the payment of capitalized interest on a portion of the Series 2003 Bonds through April 1, 2004; and the payment of the costs of issuing the Series 2003 Bonds. See the "ESTIMATED SOURCES AND USES OF FUNDS," and "THE SERIES 2003 PROJECTS" for a more complete description of the application of the Series 2003 proceeds.

## ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds relating to the issuance of the Series 2003 Bonds, exclusive of accrued interest.

### Sources of Funds:

Principal Amount of Series 2003 Bonds .....	\$ 31,000,000.00
Investment Earnings During Construction <sup>(1)</sup> .....	661,115.38
Less: Net Original Issue Discount .....	<u>(529,606.80)</u>
<b>Total Sources of Funds</b>	<b>\$ 31,131,508.58</b>

### Uses of Funds:

Capital Projects .....	\$ 30,000,000.00
Capitalized Interest <sup>(2)</sup> .....	367,331.26
Costs of Issuance <sup>(3)</sup> .....	<u>764,177.32</u>
<b>Total Uses of Funds</b>	<b>\$ 31,131,508.58</b>

(1) Earnings on amounts deposited in the Construction Fund are estimated at 1.50% per annum, except for earnings on capitalized interest which are estimated at 0.90%.

(2) Interest on the Series 2003 Bonds is capitalized through April 1, 2004. Includes investment earnings estimated at 0.90%.

(3) Estimated costs of issuance, underwriters' discount and financial guaranty insurance premium.

## THE SERIES 2003 PROJECTS

The Series 2003 Projects include the following projects:

- Renovation and expansion of the Dedman Center for Lifetime Sports;
- Construction of parking facilities; and
- Acquisition and construction of any other land, fixtures, equipment and improvements determined by the University to be useful for providing "educational facilities" and "housing facilities" (as defined in Chapter 53 of the Texas Education Code) and facilities incidental, subordinate, or related thereto or appropriate in connection therewith.

While the information relating to the Series 2003 Projects reflects the University's current plans and estimates regarding such projects, there can be no assurance that such project plans will be fully executed.



## ESTIMATED ANNUAL DEBT SERVICE REQUIREMENTS

The following table sets forth, for each fiscal year, beginning with the fiscal year ending May 31, 2004, the amount (estimated with respect to variable rate bonds as described in footnote 3) required for the payment of principal, mandatory sinking fund redemptions, and interest on the Series 2003 Bonds and on the Prior Bonds and the University Bonds, less accrued interest and capitalized interest on the Series 2003 Bonds and the Series 2002 Bonds.

Fiscal Year Ending May 31,	Series 2003 Principal <sup>(1)</sup>	Series 2003 Interest <sup>(2)</sup>	Total Series 2003 Debt Service	Prior Bonds and University Bonds Debt Service <sup>(3)</sup>	Total Net Debt Service
2004	0	0	0	\$ 12,786,593	\$ 12,786,593
2005	\$ 585,000	\$ 1,278,026	\$ 1,863,026	15,326,974	17,190,001
2006	595,000	1,266,226	1,861,226	15,662,149	17,523,375
2007	610,000	1,254,176	1,864,176	15,570,609	17,434,785
2008	620,000	1,241,101	1,861,101	15,578,354	17,439,455
2009	635,000	1,225,395	1,860,395	15,501,953	17,362,348
2010	655,000	1,206,839	1,861,839	16,204,448	18,066,286
2011	680,000	1,184,264	1,864,264	16,174,379	18,038,643
2012	705,000	1,159,176	1,864,176	16,186,976	18,051,152
2013	730,000	1,134,064	1,864,064	16,186,676	18,050,739
2014	755,000	1,106,189	1,861,189	16,177,063	18,038,252
2015	785,000	1,075,389	1,860,389	16,013,563	17,873,952
2016	820,000	1,043,289	1,863,289	63,241,277	65,104,566
2017	855,000	1,009,789	1,864,789	13,866,003	15,730,792
2018	890,000	974,889	1,864,889	13,859,669	15,724,558
2019	925,000	938,011	1,863,011	13,867,534	15,730,545
2020	965,000	898,668	1,863,668	14,298,669	16,162,336
2021	1,005,000	856,795	1,861,795	14,297,044	16,158,839
2022	1,050,000	812,219	1,862,219	14,286,966	16,149,184
2023	1,100,000	764,500	1,864,500	14,292,753	16,157,253
2024	1,150,000	713,875	1,863,875	10,451,397	12,315,272
2025	1,200,000	660,400	1,860,400	10,442,016	12,302,416
2026	1,260,000	604,450	1,864,450	10,440,103	12,304,553
2027	1,315,000	546,513	1,861,513	10,439,525	12,301,038
2028	1,375,000	485,988	1,860,988	7,637,944	9,498,931
2029	1,440,000	422,650	1,862,650	7,628,444	9,491,094
2030	1,505,000	356,388	1,861,388	35,989,094	37,850,481
2031	1,580,000	285,000	1,865,000	2,947,244	4,812,244
2032	1,655,000	208,169	1,863,169	2,941,916	4,805,084
2033	1,735,000	127,656	1,862,656	2,943,544	4,806,200
2034	1,820,000	43,225	1,863,225		1,863,225
Totals:	\$31,000,000	\$24,883,316	\$55,883,316	\$451,240,875	\$507,124,191

(1) Principal is due on October 1 in each such fiscal year either at maturity or pursuant to mandatory sinking fund redemption.

(2) Series 2003 Interest is net of: (i) capitalized interest to be paid from the proceeds of the Series 2003 Bonds, (ii) accrued interest to December 18, 2003.

(3) Includes debt service on all of the outstanding Prior Bonds and University Bonds (as defined herein under "INTRODUCTION- PRIOR BONDS AND UNIVERSITY BONDS"), less capitalized interest on the Series 2002 Bonds. The Series 1985 Refunding Bonds, the Series 1999 B Bonds and the Series 1999 C Bonds are assumed to have an "all in" interest cost of 4.355% through their final scheduled maturity.

## BONDOWNERS' RISKS

### GENERAL

A number of factors affect institutions of higher education in general, including the University, that could have an adverse effect on the University's financial position and its ability to make the payments required under the Loan Agreement. These factors include, without limitation: the ability of the University to continue to attract students; the University's focus with respect to undergraduate and selected graduate programs; the cost of tuition of the University; the failure to maintain or increase in the future the funds obtained by the University from other sources, including gifts and contributions from donors, grants and income from investment of endowment funds; adverse results from the investment of endowment funds; imposition of federal or state unrelated business income or local property taxes; increasing costs of compliance with federal or state regulatory laws or regulations, including, without limitation, laws or regulations concerning environmental quality, work safety, health care reform and accommodating the handicapped; changes in federal government policy relating to the reimbursement of overhead costs of government contracts; and any unionization of the University work force with consequent impact on wage scales and operation costs of the University.

### PAYMENT OF DEBT SERVICE

The principal of, redemption premium, if any, and interest on the Series 2003 Bonds are payable solely from the amounts paid by the University to the Issuer under the Loan Agreement. No representation or assurance can be made that revenues or other funds will be realized by the University in the amounts necessary to make payments at the times and in the amounts sufficient to pay the debt service on the Series 2003 Bonds.

Future revenues and expenses of the University will be affected by events and conditions relating generally to, among other things, demand for the University's educational services, the ability of the University to provide the required educational services, management capabilities, the University's ability to control expenses, competition, costs, legislation, governmental regulation and developments affecting the federal or state tax-exempt status of non-profit organizations. Unanticipated events and circumstances may occur which cause variations from the University's expectations.

### ENFORCEABILITY

The remedies granted to the Trustee or the owners of the Series 2003 Bonds upon an event of default under the Loan Agreement may be dependent upon judicial actions which are often subject to discretion and delay. Under existing law, the remedies specified in the Loan Agreement may not be readily available or may be limited. See "LIMITATIONS ON SECURITY INTEREST AND ENFORCEABILITY OF REMEDIES."

The University cannot assess or predict the ultimate effect of these factors on its operations or financial results of operation.

## TAX EXEMPTION

In the opinion of Co-Bond Counsel, (i) interest on the Series 2003 Bonds is excludable from gross income for federal income tax purposes under existing law and (ii) the Series 2003 Bonds are "qualified 501(c)(3) bonds" under the Code, and interest on the Series 2003 Bonds is not subject to the alternative minimum tax on individuals and corporations, except as described below in the discussion regarding the adjusted current earnings adjustment for corporations.

The Code imposes a number of requirements that must be satisfied in order for interest on state or local obligations, such as the Series 2003 Bonds, to be excludable from gross income for federal income tax purposes. These requirements include a requirement that the University be a tax-exempt organization, limitations on the use of bond proceeds, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of bond proceeds be paid periodically to the United States and a requirement that the Issuer file an information report with the Internal Revenue Service. The Issuer and the University have covenanted in the Loan Agreement and in the Indenture that they will comply with these requirements.

Co-Bond Counsel's opinions will assume continuing compliance with the covenants of the Loan Agreement and the Indenture pertaining to those sections of the Code that affect the status of the University as an organization exempt from federal income tax and the exclusion from gross income of interest on the Series 2003 Bonds for federal income tax purposes and, in addition, will rely on representations by the Issuer, the Underwriters and the University with respect to matters solely within the knowledge of the Issuer, the Underwriters and the University that Co-Bond Counsel have not independently verified. If the Issuer or the University should fail to comply with the covenants in the Loan Agreement and the Indenture or if the foregoing representations should be determined to be inaccurate or incomplete, interest on the Series 2003 Bonds could become taxable from the date of delivery of the Series 2003 Bonds, regardless of the date on which the event causing such taxability occurs.

The Code also imposes a 20% alternative minimum tax on the alternative minimum taxable income of a corporation (other than an S corporation, a mutual fund, a REIT, REMIC or FASIT), if the amount of such alternative minimum tax is greater than the amount of the corporation's regular income tax. The Superfund Revenue Act of 1986 also imposes an additional .12% environmental tax on the alternative minimum taxable income of a corporation in excess of \$2,000,000. Generally, a corporation's alternative minimum taxable income includes 75% of the amount by which a corporation's adjusted current earnings exceeds the corporation's alternative minimum taxable income. Because interest on tax-exempt obligations, such as the Series 2003 Bonds, is included in a corporation's adjusted current earnings, ownership of the Series 2003 Bonds could subject a corporation to alternative minimum tax consequences.

Co-Bond Counsel's opinions will state that the Series 2003 Bonds are qualified 501(c)(3) bonds under the Code. Therefore, except as described above in the discussion regarding the inclusion of interest in adjusted current earnings of corporations for alternative minimum tax purposes, interest on the Series 2003 Bonds will not be subject to the alternative minimum tax on individuals and corporations.

Under the Code, taxpayers are required to report on their return the amount of tax-exempt interest, such as interest on the Series 2003 Bonds, received or accrued during the year.

Except as stated above, and as stated below in "TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT AND PREMIUM BONDS," Co-Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt of interest on or disposition of the Series 2003 Bonds.

Prospective purchasers of the Series 2003 Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, property and casualty insurance companies, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the branch profits tax on their effectively connected earnings and profits including tax-exempt interest such as interest on the Series 2003 Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences.

Prospective purchasers of the Series 2003 Bonds should also be aware that proposed legislation is from time to time considered by the United States Congress that, if enacted, may adversely affect the federal tax consequences of ownership or disposition of, and, whether or not enacted, may adversely affect the value of, tax-exempt obligations, such as the Series 2003 Bonds.

Co-Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Co-Bond Counsel's knowledge of the facts as of the date thereof. Co-Bond Counsel assume no duty to update or supplement their opinions to reflect any facts or circumstances that may thereafter come to Co-Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Co-Bond Counsel's opinions are not a guarantee of result and are not binding on the IRS; rather, such opinions represent Co-Bond Counsel's legal judgment based upon their review of existing law and in reliance upon the representations and covenants referenced above that they deem relevant to such opinions. The IRS has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includible in gross income for federal income tax purposes. No assurance can be given whether or not the IRS will commence an audit of the Series 2003 Bonds. If an audit is commenced, in accordance with its current published procedures the IRS is likely to treat the Issuer as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Series 2003 Bonds could adversely affect the value and liquidity of the Series 2003 Bonds during the pendency of the audit regardless of the ultimate outcome of the audit.

## **TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT AND PREMIUM BONDS**

### TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT

The initial offering price for the Series 2003 Bonds maturing in the years 2012, 2016 through 2024, inclusive, 2029 and 2033 is less than the principal amount thereof (the "Original Issue Discount Bonds"). Co-Bond Counsel, under existing law and based upon the assumptions hereinafter stated, will opine to the effect that:

- (a) The difference between (i) the amount payable at the maturity of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond in the initial public offering of the Series 2003 Bonds; and
- (b) Such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income. (Because original issue discount is treated as interest for federal income tax purposes, the discussion regarding interest on the Series 2003 Bonds under the caption "TAX EXEMPTION" generally applies, except as otherwise provided below, to original issue discount on an Original Issue Discount Bond held by an owner who purchased such Bond at the initial offering price in the initial public offering of the Series 2003 Bonds, and should be considered in connection with the discussion in this portion of the Official Statement).

In rendering the foregoing opinion, Co-Bond Counsel will assume, in reliance upon certain representations of Lehman Brothers Inc., as the representative for the Underwriters, that (a) the Underwriters have purchased the Series 2003 Bonds for contemporaneous sale to the public and (b) all of the Original Issue Discount Bonds have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in an arm's-length transaction for a price (and with no other consideration being included) not more than the initial offering prices thereof stated on the cover page of this Official Statement. Neither the Issuer nor Co-Bond Counsel warrants that the Original Issue Discount Bonds will be offered and sold in accordance with such assumptions. Certain of the representations of the Underwriters, upon which Co-Bond Counsel will rely in rendering the foregoing opinion, will be based upon records or facts that the Underwriters have no reason to believe were not correct.

Under existing law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each

six-month period ending on the date before the semiannual anniversary dates of the date of the Series 2003 Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period less (b) the amounts payable as current interest during such accrual period on such Bond.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined in accordance with rules that differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

#### TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE PREMIUM

The issue price of the Series 2003 Bonds maturing in years 2004 through 2011, inclusive, 2013 and 2014 exceeds the stated redemption price payable at maturity of such Bonds. Such Bonds (the "Premium Bonds") are considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis of a Premium Bond in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Bond in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Bond by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amortized bond premium is treated as a reduction in the tax-exempt interest received. The amount of bond premium on a Premium Bond that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined using the yield to maturity on the Premium Bond based on the initial offering price of such Bond.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Premium Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of amortized bond premium upon the redemption, sale or other disposition of a Premium Bond and with respect to the federal, state, local, and foreign tax consequences of the purchase, ownership, and sale, redemption or other disposition of such Premium Bonds.

## CONTINUING DISCLOSURE INFORMATION

In the Loan Agreement, the University has made the following agreement for the benefit of the holders and beneficial owners of the Series 2003 Bonds. The University is required to observe the agreement with respect to the Series 2003 Bonds for so long as it remains obligated to advance funds to pay the Series 2003 Bonds. Under the agreement, the University will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

### ANNUAL REPORTS

The University will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes the financial statements of the University appended to the Official Statement as Appendix B and the following tables included in Appendix A to the Official Statement: "First-Year Undergraduate Admission and Enrollment Information," "Full-Time Equivalent Enrollment," "Student Financial Aid," "Annual Operating Results," "Undergraduate Student Charges," "Endowment Fund Growth" and "Total Gifts and Bequests." The University will update and provide this information as of the end of such fiscal year or for the twelve month period then ended within six months after the end of each fiscal year commencing with the fiscal year ending May 31, 2004. The University will provide the updated information to each nationally recognized municipal securities information repository ("NRMSIR") and to the Municipal Advisory Council of Texas, 600 West 8th Street, P.O. Box 2177, Austin, Texas 78768-2177, (512) 476-6947 or any other state information depository ("SID") that is designated by the State of Texas and approved by the United States Securities and Exchange Commission (the "SEC").

The University may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12. The updated information will include audited financial statements, if the University commissions an audit and it is completed by the required time. If audited financial statements are not provided by that time, the University will provide audited financial statements when and if they become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B or such other accounting principles as the University may be required to employ in order to be in conformity with generally accepted accounting principles.

The University's current fiscal year is June 1 to May 31. Accordingly, it must provide updated information by November 30 in each year, unless the University changes its fiscal year. If the University changes its fiscal year, it will notify each NRMSIR and any SID of the change.

### MATERIAL EVENT NOTICES

The University will also provide timely notices of certain events to certain information vendors. The University will provide notice of any of the following events with respect to the Series 2003 Bonds, if such event is material to a decision to purchase or sell Series 2003 Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled

draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Series 2003 Bonds; (7) modifications to rights of holders of the Series 2003 Bonds; (8) bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Series 2003 Bonds; and (11) rating changes. In addition, the University will provide timely notice of any failure by the University to provide information, data, or financial statements in accordance with its agreement described above under "ANNUAL REPORTS." The University will provide each notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

#### AVAILABILITY OF INFORMATION FROM NRMSIRS AND SID

The University has agreed to provide the foregoing information to NRMSIRs and any SID only. The information will be available to holders of Series 2003 Bonds only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

#### LIMITATIONS AND AMENDMENTS

The University has agreed to update information and to provide notices of material events only as described above. The University has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The University makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Series 2003 Bonds at any future date. The University disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Series 2003 Bonds may seek a writ of mandamus to compel the University to comply with its agreement.

The University may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the University, if the agreement, as amended, would have permitted an underwriter to purchase or sell the Series 2003 Bonds in the offering described herein in compliance with the Rule and either the holders of a majority in aggregate principal amount of the outstanding Series 2003 Bonds consent or any person unaffiliated with the University (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Series 2003 Bonds. If the University amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "ANNUAL REPORTS" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

#### NONCOMPLIANCE WITH PRIOR UNDERTAKINGS

The University's audited financial statements for the fiscal year ending May 31, 1999, and each subsequent fiscal year were timely filed with each NRMSIR and the SID, except that the audited financial statements for the fiscal year ending May 31, 1999 were filed with each



NRMSIR in January, 2000, after the November 30, 1999 time deadline and the audited financial statements for the fiscal year ending May 31, 2000 were filed with each NRMSIR in January, 2001, after the November 30, 2000 time deadline. The additional financial and operating data required to be filed in accordance with the University's continuing disclosure undertaking for the fiscal year ending May 31, 1999, was filed with each NRMSIR and the SID in January, 2000, after the November 30, 1999, time deadline. For the fiscal year ending May 31, 2000, such additional financial and operating data was not filed with either the NRMSIRs or the SID, and notice of such failure to file was made in 2003. For the fiscal years ending May 31, 2001, May 31, 2002, and May 31, 2003, the additional financial and operating data and, as noted above, the audited financial statements, were timely filed. John S. Vincent & Company is the University's filing agent and has acted in such capacity since the May 31, 2001, filing.

### **RATINGS**

The following ratings are not recommendations to buy, sell or hold the Series 2003 Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies, Inc. ("Standard & Poor's") and Moody's Investors Service, Inc. ("Moody's") have assigned their municipal bond ratings of "AAA" and "Aaa" respectively, to the Insured Bonds with the understanding that upon delivery of the Insured Bonds, a policy insuring the payment when due of the principal of and interest on the Insured Bonds will be issued by Ambac Assurance. In addition, Standard & Poor's and Moody's have each assigned an underlying (uninsured) rating of "A+" and "Aa3," respectively, to the Series 2003 Bonds. There is no assurance that a particular rating will be maintained for any given period of time or that it will not be lowered or withdrawn entirely if, in the judgment of Moody's or Standard & Poor's, circumstances so warrant.

The Issuer, the Underwriters and the University have not undertaken any responsibility to bring to the attention of the registered owners of the Series 2003 Bonds subsequent to delivery thereof any proposed revision or withdrawal of the ratings of the Series 2003 Bonds or to oppose any such proposed revision or withdrawal. Any downward revision or withdrawal of such ratings by either or both rating agencies may have an adverse effect on the market price and/or marketability of the Series 2003 Bonds.

### **INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

The financial statements of the University as of May 31, 2002 and 2003 and for the years then ended included in APPENDIX B in this Official Statement have been audited by KPMG LLP, independent certified public accountants, as stated in their report appearing herein.

### **UNDERWRITING**

The Series 2003 Bonds are being purchased by Lehman Brothers Inc., as the representative for the Underwriters at an underwriters' discount of \$158,536.25 from the initial public offering price of the Series 2003 Bonds, plus accrued interest on the Series 2003 Bonds from December 1, 2003, to the date of delivery of such Series 2003 Bonds. The Contract of

Purchase provides that the Underwriters will purchase all of the Series 2003 Bonds, if any are purchased, subject to certain terms and conditions set forth therein, including the delivery of specified opinions of counsel, the delivery of an approving opinion of the Attorney General of the State of Texas, and of a certificate of the University that there has been no material adverse change in its properties, financial condition or results of operation from that set forth in this Official Statement.

The Underwriters may offer and sell the Series 2003 Bonds to certain dealers, including dealer banks, dealers depositing the Series 2003 Bonds into investment trusts, and others at prices lower than the public offering prices stated on the cover page of this Official Statement.

The University has agreed to indemnify the Underwriters and the Issuer against certain liabilities.

### **FINANCIAL ADVISOR**

John S. Vincent & Company is serving as the financial advisor to the University (the "Financial Advisor") with respect to the sale of the Series 2003 Bonds. The Financial Advisor assisted in matters relating to the planning, structuring and issuance of the Series 2003 Bonds and provided other financial advice. The Financial Advisor will not engage in any underwriting activities with regard to the Series 2003 Bonds.

### **LEGAL MATTERS**

Certain legal matters relating to the Series 2003 Bonds will be passed upon by Vinson & Elkins L.L.P., and West & Gooden, P.C., Co-Bond Counsel, whose opinions will be delivered with the initial delivery of the Series 2003 Bonds. Such opinions are expected to be in substantially the form included as APPENDIX D. The Series 2003 Bonds are subject to the approving opinion of the Attorney General of the State of Texas. Certain legal matters will also be passed upon for the University by its counsel, S. Leon Bennett, General Counsel, Vice President for Legal Affairs and Government Relations and Secretary of the University. Certain legal matters will be passed upon for the Issuer by Co-Bond Counsel, and for the Underwriters by their counsel, McCall, Parkhurst & Horton, L.L.P.

The legal fees to be paid Co-Bond Counsel for services rendered in connection with the issuance of the Series 2003 Bonds are contingent on the sale and delivery of the Series 2003 Bonds. The legal opinions of Co-Bond Counsel will accompany the Series 2003 Bonds deposited with DTC or will be printed on the definitive Bonds in the event of the discontinuance of the Book-Entry-Only System.

The various legal opinions to be delivered concurrently with the delivery of the Series 2003 Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

The legal fees to be paid McCall, Parkhurst & Horton L.L.P., as counsel for the Underwriters, in connection with the Underwriters' purchase of the Series 2003 Bonds are contingent on the sale and delivery of the Series 2003 Bonds.

### **NO LITIGATION**

There is no litigation now pending against the Issuer or the University or, to the knowledge of their respective officers, threatened, seeking to restrain or enjoin the issuance, sale, execution, or delivery of the Series 2003 Bonds, or in any way contesting or affecting the validity of the Series 2003 Bonds, any proceeding of the Issuer or the University taken concerning the issuance or sale thereof, or the security provided for the payment of the Series 2003 Bonds, or the existence or powers of the Issuer relating to the issuance of the Series 2003 Bonds.

### **MISCELLANEOUS**

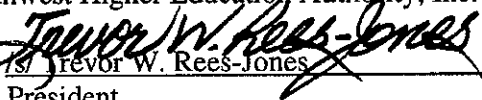
The descriptions of the provisions of the Loan Agreement, the Indenture and the Master Indenture set forth above and in APPENDIX C, and all references to other materials not purporting to be quoted in full, are only brief summaries of certain provisions thereof and do not constitute complete statements of such documents or provisions. Reference is hereby made to the complete documents for further information, copies of which are available from the Financial Advisor, prior to delivery of the Series 2003 Bonds, and thereafter from the principal corporate trust office of the Trustee. Any statements made in this Official Statement or the Appendices hereto involving matters of opinion or estimates, whether or not so expressly stated are set forth as such and not as representations of fact, and no representation is made that any of such opinions or estimates will be realized.

The Trustee has not undertaken any responsibility for reviewing, and has not assumed any responsibility for any of the matters contained in, this Official Statement.


Neither the Issuer nor the City of University Park, Texas, has undertaken to review or has assumed any responsibility for the matters contained herein except matters relating to the Issuer. All findings and determinations by the Issuer and the City of University Park, Texas, in connection with their authorization of issuance of the Series 2003 Bonds have been made for their respective internal uses and purposes in performing their duties under the Act and the articles of incorporation, bylaws and regulations of the Issuer. Notwithstanding its approval of the Series 2003 Bonds and the facilities financed thereby, neither the Issuer nor the City of University Park, Texas, endorses or in any manner, directly or indirectly, guarantees or promises to pay the Series 2003 Bonds from any source of funds of the City of University Park, Texas, or guarantees, warrants, or endorses the creditworthiness or credit standing of the University or the investment quality or value of the Series 2003 Bonds.

This Official Statement has been duly approved, executed, and delivered by the Issuer and the University. The distribution of this Official Statement has been approved by the Issuer and the University.

Southwest Higher Education Authority, Inc.

By:   
Trevor W. Rees-Jones  
President

Southern Methodist University

By:   
R. Gerald Turner  
President

**APPENDIX A**

INFORMATION CONCERNING SOUTHERN METHODIST UNIVERSITY

**Appendix A**  
**Information Concerning Southern Methodist University**  
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## INFORMATION CONCERNING SOUTHERN METHODIST UNIVERSITY

### GENERAL DESCRIPTION

Southern Methodist University (the "University" or "SMU") is a private, nonprofit, coeducational institution located on a 165-acre main campus in University Park, Texas. SMU also maintains campuses at Fort Burgwin, New Mexico and Plano, Texas. Founded in 1911 by a Methodist education commission, SMU opened in 1915 to 706 students who were educated by 35 faculty members in two buildings, including the campus's now historic centerpiece, Dallas Hall. Today, the University has a total headcount enrollment that has averaged over 10,000 for the past six years (6,299 undergraduate students and 4,862 graduate or professional students in fall 2003), a faculty of over 600, and assets of \$1.4 billion as of May 31, 2003.

The University's enrollment places the school among the larger *private* educational institutions in the southern and southwestern geographical areas of the United States. The University presently awards baccalaureate degrees in 84 programs through four undergraduate schools and a wide variety of graduate and professional degrees through graduate programs in the four undergraduate schools and two professional schools. Nearly 58 percent of the University's students finish in the top 20 percent of their high-school classes, with more than 32 percent placing in the top 10 percent. 70% of the University's students receive some form of financial aid through a diverse and growing program of merit scholarships, grants, loans, and part-time jobs.

The University was established in Dallas by what is now The United Methodist Church. Control of the University is vested in a Board of Trustees of civic, business, and religious leaders—Methodist and non-Methodist. The founders' first charge to the University was that it become not necessarily a great *Methodist* university but a great *university*. The University's mission is to fulfill its promise as a private university of the highest quality.

### STATEMENT OF MISSION

Southern Methodist University's mission is to be a leading private institution of higher learning that expands knowledge through research and teaching. Among its faculty, students, and staff, the University develops skills and cultivates principled thought and wisdom. The University is dedicated to the values of academic freedom and open inquiry and to its United Methodist heritage.

To fulfill its mission the University strives for quality, innovation, and continuous improvement as it pursues the following goals:

- To enhance the academic quality and competitiveness of the University.
- To improve teaching and learning.
- To strengthen scholarly research and creative achievement.
- To support and sustain student development and quality of life.
- To broaden global perspectives.
- To advance the University through select, strategic alliances.

## ACADEMIC PROGRAMS

The University offers undergraduate and graduate degrees in four of its schools, Dedman College, the Meadows School of the Arts, the Edwin L. Cox School of Business, and the School of Engineering. It also offers degree programs in its two professional schools, the Dedman School of Law and Perkins School of Theology. The Division of Education and Lifelong Learning awards master degrees in Education and Liberal Arts and offers a variety of non-degree programs for adults and youth. The University offers baccalaureate degrees in 84 fields of study, master degrees in 61 fields of study, professional programs in 3 fields of study, and doctoral degrees in 20 fields of study.

SMU-in-Legacy is a permanent educational facility located in Plano, Texas, developed to serve the needs of Dallas-area corporations and residents. SMU-in-Legacy offers both credit and noncredit programs for professional advancement and personal enrichment. Coursework in Business, Engineering, Advanced Computer Systems, Digital Gaming and Dispute Resolution are offered.

The University maintains a summer campus at Fort Burgwin, located 10 miles southeast of Taos, New Mexico (SMU-in-Taos). Four summer terms are held each year, offering courses in the Humanities, Natural and Social Sciences, Performing and Studio Arts, as well as Archaeological research.

SMU students participate in international study through 19 programs in 12 countries throughout Europe, North America, Australia, and Asia.

*Academic Units and Programs of Study.* The University operates on a semester calendar. The Summer Term consists of three primary sessions: two five-week sessions, and a ten-week session. There are also shorter and longer sessions to accommodate the particular needs of instructional units such as SMU-in-Taos, International Programs, and Perkins School of Theology. The education programs of the University reside in its five academic schools and a college, which are as follows:

**Dedman College.** Dedman College is the college of humanities, social sciences, and natural sciences. All entering first-year students are admitted to Dedman College. Advisers assist students with their selection of courses in general education and courses suitable for the particular student's academic major. Dedman College provides all undergraduate students, whatever their major, with relevant exposure to liberal arts, humanities, social and natural sciences.

Students wishing to pursue majors in the humanities or in the social or natural sciences or in various multi-disciplinary programs remain in Dedman College for their undergraduate education. Students may transfer in their sophomore or junior year to the other degree-granting undergraduate schools.

Majors in Dedman College are offered in Anthropology, Archaeology, Biochemistry, Biological Sciences, Chemistry, Economics, Economics-Finance, Economics-Systems Analysis, English, English-Creative Writing, Environmental Science, Ethnic Studies, French, German, Geology, Geophysics, History, Humanities, Individualized Studies, International Studies, Italian, Markets and Culture, Mathematics, Medieval Studies, Philosophy, Physics, Political Science, Psychology, Public Policy, Religious Studies, Social Sciences, Sociology, Spanish, and Statistical Science. Dedman College offers



master's degree programs in 34 academic subject areas and doctoral programs in 13 subject areas.

**Edwin L. Cox School of Business.** High academic standards in teaching and research and close involvement with the professional business community highlight the organization and structure of the Edwin L. Cox School of Business. All academic programs, both undergraduate and graduate, faculty recruitment, student selection, research efforts, and continuing education for the business community are built on this foundation. In addition, the Edwin L. Cox School of Business brings business executives into the educational process through internship programs, special management briefings, numerous seminars, and special conferences held each year.

The school's curriculum exposes students to ethical, theoretical and practical business issues with particular focus on building skills well suited to a successful business career in the twenty-first century. Specific educational needs of designated industries also are addressed by centers or institutes within the school: the Caruth Institute (an Entrepreneurship Center), the Center for Marketing Management Studies, the Center for Research in Real Estate and Land Use Economics, the Maguire Oil and Gas Institute, the JCPenney Center for Retail Excellence, and the American Airlines Center for Labor Relations and Conflict Resolution. Additionally, the Cox School offers a variety of executive education programs.

Majors in the Edwin L. Cox School of Business are offered in Accounting, Finance, Information Technology and Operations Management, General Business, Marketing, Management, Financial Consulting, and Real Estate Finance.

The school offers the Bachelor of Business Administration degree (B.B.A.) and the Master of Business Administration degree (M.B.A.), and the Masters of Science in Accounting.

**School of Engineering.** The SMU School of Engineering, founded in 1925, offers bachelor, master and doctoral-level programs through five departments; Computer Science and Engineering; Electrical Engineering; Engineering Management, Information and Systems; Environmental and Civil Engineering; and Mechanical Engineering. The school's small faculty-to-student ratio (11:1) guarantees student interaction with faculty members who have earned their Ph.D.'s at prestigious institutions such as Cal Tech, MIT, Northwestern, Rice, Purdue, Stanford, UC Berkeley and others. SMU was one of the first universities in the United States to establish a cooperative education program that gives students hands-on experience at some of the country's leading corporations. The school also has one of the country's oldest and largest distance education programs and the country's largest number of executive master programs designed for engineering students. The school boasts one of the highest percentages of female engineering students in the country and offers modern facilities such as the new Jerry R. Junkins Electrical Engineering Building. The school's undergraduate programs are accredited by the Accreditation Board for Engineering and Technology (ABET).

**Meadows School of the Arts.** The Meadows School of the Arts provides opportunity and challenge for students to measure their abilities against demanding professional standards in the arts. For undergraduates, the liberal studies requirements are an integral part of all

students' work. In addition to meeting general admission requirements, entering undergraduate students who intend to major in dance, music, or theatre must audition and interview prior to acceptance. The auditions measure the prospective student's previous experience and potential for success in the particular major.

Meadows School of the Arts offers three types of undergraduate degrees - Bachelor of Arts (B.A.), Bachelor of Fine Arts (B.F.A.), and Bachelor of Music (B.M.) - and four types of graduate degrees, which are Master of Arts (M.A.), Master of Fine Arts (M.F.A.), Master of Music (M.M.) and Master of Music Therapy (M.M.T.). In addition, Meadows offers two joint graduate degree programs: the Master of Sacred Music (M.S.M.) with Perkins School of Theology and the Master of Arts/Master of Business Administration (M.A./M.B.A.) in Arts Administration with the Cox School of Business.

Specific areas of undergraduate study include Advertising, Art, Art History, Cinema-Television, Corporate Communications and Public Affairs, Dance, Journalism, Music (music education, music theory and composition, music therapy, performance in orchestral instruments, guitar, organ, piano and voice), and Theatre (acting, critical studies, directing, playwriting, stage design and stage management). A dual-degree program leading to a Bachelor of Arts in Music and a Bachelor of Science in Computer Science is offered jointly by the Meadows School's Division of Music and the School of Engineering's Computer Science and Engineering Department.

Specific areas of graduate study include Art, Art History, Arts Administration, Choreographic Theory and Practice, Television/Radio, Music (choral conducting, composition, instrumental conducting, music education, music history and literature, music theory, music therapy, piano performance and pedagogy, and performance in orchestral instruments, guitar, keyboard instruments and voice), and Theater (acting, directing and stage design). Admission requirements for the graduate programs vary, but they can include auditions, portfolios, essays, standardized tests and/or sample research papers.

**Perkins School of Theology.** Perkins School of Theology is a graduate professional school preparing men and women for leadership in the church and the academy. It combines the study of theology with practical training for the specialized ministries of the church, and in conjunction with the graduate faculty of Dedman College, offers the M.A. and Ph.D. in selected fields of religious and theological study. In addition to courses on the Dallas campus, Perkins offers classes that allow master degree students to begin studies at extension sites in Houston/Galveston, Oklahoma City and San Antonio.

The basic degree for ordained pastoral leadership is an 84 term hour Master of Divinity (M.Div.) degree. In addition to a common program of biblical, historical, theological, and practical studies for all candidates, it provides a 12 term hour, supervised internship in a setting similar to that in which the student hopes to serve his or her ministry. Internships are offered in both full-time and concurrent formats. Degree students may also receive certificates in Hispanic Studies, Urban Ministry and Women's Studies.

The Master of Church Ministries (C.M.M.) degree is a 54 term hour degree intended to prepare persons for specialized church ministry, both ordained and lay. The degree program currently offers tracks in Christian Education and Urban Ministry.

The Master of Sacred Music (M.S.M.) degree is a 48 term hour degree, offered in conjunction with the Meadows School of Arts, intended to prepare students for professional music leadership in the church in both ordained and lay positions.

A Master of Theological Studies (M.T.S.) degree is a 48 term hour degree providing a basic understanding of the theological disciplines for persons who intend to engage in further graduate study.

The Doctor of Ministry (D.Min.) degree is a 27 term hour degree designed to enable specially qualified and promising persons to achieve advanced competence in ministry for leadership in the church, both in the theological fields and in the practice of ministry. The degree requirements are fulfilled over a three-year period beyond the M.Div. or its equivalent. The program presupposes significant experience in ministry and provides for specialization in one area of ministerial practice, advanced study in theology, and demonstration of advanced competence.

The school offers a wide variety of continuing education programs for clergy and lay audiences on campus and in remote locations. These programs include an annual four-week United Methodist Course of Study school in English and Spanish, providing an alternate route to pastoral ministry for United Methodist "local pastors", and United Methodist certification programs in Christian Education, Church Music and Youth Ministry.

Perkins School of Theology houses the Mexican-American Program, the Center for Methodist Studies, and the Center for the Advanced Study and Practice of Evangelism.

Perkins School of Theology is one of the 13 graduate theological schools of The United Methodist Church and one of five university-based schools of theology in the denomination. It is accredited by the Association of Theological Schools and The United Methodist Church University Senate.

**The Dedman School of Law.** Established in 1925, the University's law school is a member of the Association of American Law Schools and is approved by the Section of Legal Education and Admissions to the Bar of the American Bar Association.

The law curriculum combines training in the science and method of law, knowledge of legal principles, understanding the role of law in society, and practical experience in handling professional problems. Most of the school's students are candidates for the Juris Doctor (J.D.) degree, the first degree in law, which requires the equivalent of three years of full-time post-graduate professional study. The purpose of the juris doctor program is to train students for competent and ethical practice of law on behalf of both private and public clients and for intelligent use of law in business, government, and other pursuits. The course of study requires reading and analysis of legal materials, training in effective advocacy of positions in both oral and written form, and the acquisition of other legal skills, such as counseling of clients, negotiation of disputes, and drafting of documents.

Additionally, the Dedman School of Law offers programs of advanced study beyond the first degree in law. These programs lead to the Master of Comparative Laws (M.C.L.) and International Law (L.L.M.), which are designed primarily to give non-U.S. trained

law graduates an opportunity to acquire knowledge of the United States' legal system as well as to advance their knowledge in international and comparative law; the Master of Laws (L.L.M.); and the Doctor of the Science of Law (S.J.D.), the final research degree.

In Fall 2004, the Dedman School of Law will open an Evening Program designed for people with full-time careers or other responsibilities seeking a J.D. degree.

**Accreditation and Memberships.** Southern Methodist University is accredited by the Commission of Colleges of the Southern Association of Colleges and Schools to award Baccalaureate, Masters, and Doctoral degrees. It is a member of the American Association of Colleges, the Southern University Conference, and the Association of Texas Colleges and Universities.

In addition, individual academic programs are accredited by the appropriate national professional associations. The Edwin L. Cox School of Business is accredited by the International Association for Management Education (AACSB). The Dedman School of Law is accredited by the American Bar Association. Perkins School of Theology is accredited by the Association of Theological Schools. Undergraduate programs in Mechanical Engineering, Computer Engineering and Electrical Engineering are accredited by the Accreditation Board for Engineering and Technology (ABET). The Department of Chemistry is accredited by the American Chemical Society. In the Meadows School of Arts, the Dance Division is accredited by the National Association of Schools of Dance; the Music Division by the National Association of Schools of Music; and the Theatre Division by the National Association of Schools of Theater.

#### FACILITIES

The University Park campus includes approximately 71 major buildings for academic purposes, student housing and for institutional support and special use, comprising some 4.2 million gross square feet. University-owned Greek houses, apartments and residence halls provide capacity to house 2,727 students. In addition to the buildings that house the libraries, museums and research facilities described below, the main campus also includes the following: the Hughes-Trigg Student Center; the 32,000-seat Gerald J. Ford Stadium; the Paul B. Loyd, Jr. All-Sports Center which houses men's and women's sports, weight rooms, and a sports medicine complex; the Dedman Center for Lifetime Sports; the Moody Coliseum; the Perkins Administration Building; and McFarlin Auditorium. The Fort Burgwin Research Center, near Taos, New Mexico, includes 22 smaller buildings. The University also owns four two-story buildings located in the master-planned community of Legacy<sup>®</sup> approximately 20 miles north of the main University Park campus, that are primarily used for academic and conference purposes and serve the Dedman College, the Edwin L. Cox School of Business, the School of Engineering, the Division of Education and Lifelong Learning, and the SMU-in-Legacy Conference Services.

**Libraries.** The Central University Libraries form the nucleus of the SMU Library system and comprise the Fondren Library, the Science and Engineering Library, the Jake and Nancy Hamon Fine Arts Library, the DeGolyer Library, the Institute for the Study of Earth and Man Library, the Norwick Center for Media and Instructional Technology, and the Fort Burgwin Library in Taos. The University's library system also includes the Bridwell Library (Perkins School of Theology); the Underwood Law Library (Dedman School of Law); and the

Information Center (Edwin L. Cox School of Business). The Underwood Law Library is the largest private law library in the Southwestern United States. Bridwell Library is one of the finest theological libraries in the nation, housing more than 320,000 volumes with strengths in biblical studies, theology, and church history. It also houses outstanding rare book collections, one of the finest Bible collections in the world, and the largest collection of incunabula in the southwest. The libraries' combined holdings in May 2003 numbered over 2.8 million volumes, which include over 1.725 million books, over 820,000 microforms and over 257,000 bound periodicals. The University's libraries also provide offsite computer access to a wide variety of electronic resources as well as offering the more traditional services of Interlibrary Loan and document delivery.

The Jake and Nancy Hamon Fine Arts Library, opened in 1990, houses SMU's collections in art, arts administration, cinema, dance, music and theater. It includes the G. William Jones Film and Video Collection, comprising more than 7,000 prints and negatives in all film formats and more than 2,500 videotapes and videocassettes. The Jones Collection includes eight important archival collections, among them the Tyler, Texas Black Film Collection, the Gene Autry Film Collection, 2 million feet of news footage in the Belo Newsfilm Collection, and the Pre-Nickelodeon Short Films Collection. The Jones Collection is used strictly for research; its primary purpose is to support education through the study, preservation and sharing of moving images. Another major archive in the library is the Jerry Bywaters Special Collection Wing, focusing on the cultural history of the Southwest. Its holdings include 15 special collections, including the Greer Garson Collection, which chronicles the actress's acting career and philanthropic activities; the Jerry Bywaters Collection on Art of the Southwest; the Paul Van Katwijk Music Collection; and the McCord/Renshaw Collection of film, theater and dance in Texas.

***Laboratories and Research Facilities.*** The University provides laboratories and equipment for courses in Accounting, Anthropology, Art, Biology, Chemistry, Languages, Geological Sciences, Communication Arts, Psychology, Physics, Health and Physical Education, Dance, Music, Theatre, Statistics, Computer, Electrical, Industrial, and Mechanical Engineering. The teaching laboratories of the departments of Biological Sciences, Chemistry, Geological Sciences, and Physics are housed in the Fondren Science and Dedman Life Sciences Buildings. Virtually all teaching laboratories and support facilities in the buildings have been recently remodeled and updated or are in the process of being updated or remodeled. Students have access to a wide array of specialized instrumentation and laboratory equipment fundamental to studies in the natural sciences, including spectrophotometers, high performance liquid chromatographs, scintillation counters, a DNA synthesizer, X-ray diffractometers, mass spectrometers, and an atomic absorption spectrometer. The Electron Microscopy Laboratory, under the direction of the Department of Biological Sciences, contains facilities available to both faculty and graduate students of the University. This facility provides for the preparation of material to be examined with the electron microscope and for training in the use of the instruments. Information Technology Services, located in the Blanton Student Services Building, provides support for the instructional, research, administrative computing, and communication environment for the University. The Institute for the Study of Earth and Man, housed in the N.L. Heroy Science Hall, was created in 1966 by a gift from W.B. Heroy, Sr.. Its purpose is to develop a program of continuing and professional education reflecting the research and scholarly interests of the faculties in Anthropology, Geological Sciences, and Statistical

Science. The Dallas Seismological Observatory, established by the Dallas Geophysical Society, is maintained and operated by the University. A three-component, long-period seismograph at the University, along with two remote experimental seismic stations, is in operation. In addition, the observatory monitors remote seismic stations in southwest Texas. The Ellis W. Shuler Museum of Paleontology is a research museum affording opportunities for advanced study of fossil faunas and their climatic and paleoecologic significance. The collection, which specializes in vertebrate paleontology, includes more than 150,000 fossils from the United States, Central America, and northeastern Africa. The Geothermal Laboratory is the focus of an extensive program of research in the thermal field of the Earth Geothermal energy resources and the thermal fields of sedimentary basins are special topics of concentration. The research is worldwide in scope. The Electron Microprobe Laboratory contains a fully automated JEOL model 733 electron microprobe with four X-ray spectrometers and associated sample preparation equipment.

**Museum.** The Meadows Museum, founded by the late philanthropist Algur H. Meadows, houses the most comprehensive and one of the largest collections of Spanish art outside of Spain. With works dating from the 10<sup>th</sup> to the 20<sup>th</sup> century, the internationally renowned collection presents a broad spectrum of art covering a thousand years of Spanish heritage. The permanent collection includes masterpieces by some of Europe's greatest painters: Velázquez, Ribera, Zurbarán, El Greco, Murillo, Goya, Miró and Picasso. Highlights of the collection include Renaissance altarpieces, monumental Baroque canvases, exquisite rococo oil sketches, polychrome wood sculptures, Impressionist landscapes, modernist abstractions, a comprehensive collection of the graphic works of Goya, and a select group of sculptures by major 20<sup>th</sup> century masters.

With an active program of tours, educational outreach, weekend family days and a summer art program for young people, the museum plays an important role as an educational and cultural center in North Texas. Throughout the year, the museum presents special exhibitions, public lectures, symposia and gallery talks featuring university professors, visiting scholars and artists. The museum also hosts film series and concerts by local and international musicians.

**Other Facilities.** The University has recently undertaken a variety of major construction, renovation and expansion projects. The three-story Dedman Life Sciences Building was put into service in November 2001 and features state-of-the-art research, teaching and computer labs. The Jerry R. Junkins Electrical Engineering Building opened in August 2002 and features the most technologically advanced labs for studies ranging from digital signal processing to biomedical signal processing and telecommunications networking. Construction on the new Jack S. and Laura Lee Blanton Student Services Building was completed in October 2003 and will offer one-stop student services for undergraduate admission, enrollment, financial aid, and student account services, as well as Information Technology Services. These projects and improvements assure that SMU facilities will keep pace with technological change and competitive pressures.

#### RECENT ACCOMPLISHMENTS

SMU continues to advance as a major private university and to receive widespread recognition for its academic programs and research:

- SMU consistently ranks in the top half of national universities in the guide *America's Best Colleges*, published by *U.S. News & World Report*.
- The Edwin L. Cox School of Business is recognized as one of the leading institutions of business education by publications such as *Business Week*, *Forbes*, *U.S. News & World Report* and *The Wall Street Journal*. SMU's Cox School consistently receives high marks from students and graduates for its innovative curriculum and close interaction between faculty and students. The Cox B.B.A. program ranks among the top 40 nationally, according to *U.S. News & World Report*.
- Dedman School of Law ranks in the top tier of law schools, according to *U.S. News & World Report*.
- SMU libraries make up the largest private research library system in the Southwest, containing more than 2.8 million volumes. SMU's law library is the largest private university law library in the Southwest.
- SMU's impact on early childhood education is nationwide. LEAP, the Language Enrichment Activities Program developed at SMU, is used in eight states. The program has helped 40,000 children to develop pre-reading skills. More than 1,000 teachers have been trained to teach the program.
- An SMU biological sciences professor is leading the way in the world of aging research with his studies on the relationship between antioxidants and the aging process. This research, which uses the fruit fly *Drosophila* as a model, will focus on a family of genes that was just discovered this past decade. The genes appear to have antioxidative properties, and this SMU scientist is one of the first researchers to investigate how they may protect against aging.
- An SMU engineering professor is researching mobile computing technology that has the potential to modernize the way that we communicate as a society. With these studies, there is opportunity to discover ways to quickly and effectively establish mobile networks by integrating the best features of the two methods of mobile computing: the Internet and wireless networks. This new technology could save lives during natural disasters, assist soldiers at war and benefit health care communications in rural areas.
- An SMU engineering professor is studying a revolutionary manufacturing process that is in the research and development stages. This process could potentially create antique auto parts in minutes. The SMU Research Center for Advanced Manufacturing (RCAM) is one of the world's leaders in research on rapid prototyping, which designs parts on a computer and drops the digital data into a machine that builds them one layer at a time. Rapid prototyping can significantly decrease the time between initial concept and fabrication, reducing costs for manufacturers and supplying products to consumers in a more timely fashion.
- SMU professors are developing a novel technology that has applications ranging from "smart wraps" that could monitor meat and vegetables for spoilage to "smart textiles" that could sense when a person has been exposed to harmful chemicals.

- An SMU physics professor will direct the ATLAS program. ATLAS is one of several components of a large particle accelerator known as the Large Hadron Collider (LHC) being built in Switzerland. The ATLAS is one of two detectors that will determine the energies, directions and identities of particles produced by the head-on collisions of beams of protons, giving a better picture of how the universe works.

#### GOVERNANCE

The University is governed by a Board of Trustees that has overall responsibility for setting policies and guidelines for the operation of the University and for the welfare of the institution.

*Members of the Board of Trustees.* There are currently 41 individuals serving on SMU's Board of Trustees; the full list of members follows. The Articles of Incorporation provide that the Board of Trustees shall consist of three bishops of the South Central Jurisdiction of The United Methodist Church and nine other members, all of whom shall be recommended for nomination by the College of Bishops of the South Central Jurisdiction of The United Methodist Church, plus no fewer than 28 additional members (including ex-officio members). The President of the University, Executive Director of the South Central Jurisdiction of the United Methodist Church, and representatives of the Faculty Senate, student body, and Alumni Association serve as ex-officio members of the Board of Trustees. The Board of Trustees is nominated to the South Central Jurisdiction for election every four years. The Board of Trustees for 2003-2004 is as follows:

<u>Name</u>	<u>Residence</u>	<u>Principal Occupation</u>
Lester M. Alberthal, Jr.	Dallas, Texas	Retired Chairman Electronic Data Systems Corp.
Ruth C. Altshuler	Dallas, Texas	Civic Leader and Philanthropist
Michael M. Boone	Dallas, Texas	Partner Haynes and Boone, LLP
Richard H. Brown	Dallas, Texas	Business Leader
Laura W. Bush	Washington, D.C.	First Lady of the United States
Rev. Kirbyjon Caldwell	Houston, Texas	Senior Pastor Windsor Village United Methodist Church
Donald J. Carty	Dallas, Texas	Business Leader
Robert Clark*	Dallas, Texas	Architect President of SMU Alumni Association
Dan W. Cook III	Dallas, Texas	Senior Advisor MHT Partners
Jeanne Tower Cox	Dallas, Texas	Civic Leader
Rev. W. Mark Craig	Dallas, Texas	Senior Pastor Highland Park United Methodist Church



Linda Pitts Custard	Dallas, Texas	General Partner Custard/Pitts Land and Cattle Co.
Frank M. Dunlevy	San Francisco, CA	Founder and Vice Chairman of the Investment Banking Department of Thomas Weisel Partners, L.L.C.
Juan L. Elek	Mexico City, Mexico	Founder and Co-Chairman Elek, Moreno Valle y Asociados
Thomas J. Engibous	Dallas, Texas	Chairman, President and CEO Texas Instruments Incorporated
Alan D. Feld	Dallas, Texas	Senior Executive Partner Akin, Gump, Strauss, Hauer & Feld, L.L.P.
Gerald J. Ford, Chair	Dallas, Texas	Chairman of the Board and CEO Diamond A Ford Corporation
Milledge A. Hart III	Dallas, Texas	Chairman Hart Group, Inc.
William R. Howell	Dallas, Texas	Chairman Emeritus JC Penney Company, Inc.
Ward L. Huey, Jr.	Dallas, Texas	Retired Vice Chair, Belo Corporation
Lamar Hunt, Vice Chair	Dallas, Texas	Chairman of the Board Unity Hunt, Inc.
Ray L. Hunt	Dallas, Texas	Chairman, President, and CEO Hunt Consolidated Inc.
Robert A. Leach	Dallas, Texas	Senior Vice President Wachovia Securities
Paul B. Loyd, Jr.	Houston, Texas	Founder and Principal of Loyd & Associates
Thalia F. Matherson *	Dallas, Texas	Executive Director South Central Jurisdiction of The United Methodist Church
Mark A. Nerio	San Antonio, Texas	Vice President, Human Resources Citibank
Bishop Alfred L. Norris	Houston, Texas	Bishop The United Methodist Church
Bishop William B. Oden, Secretary	Dallas, Texas	Bishop The United Methodist Church
H. Ross Perot, Jr.	Dallas, Texas	President and CEO Perot Systems Corporation
Sherrill I. Pettus	Graham, Texas	President Southern Bleacher Company

Caren H. Prothro	Dallas, Texas	Civic Leader and Philanthropist
Meredith Price*	Dallas, Texas	Student Trustee Representative Southern Methodist University
Carl Sewell	Dallas, Texas	Chairman Sewell Automotive Companies
Bishop Ann B. Sherer	Columbia, Missouri	Bishop The United Methodist Church
Dr. Helmut Sohmen	Hong Kong	Chairman World-Wide Shipping Agency Ltd.
John C. Tolleson	Dallas, Texas	Chairman The Tolleson Group
R. Gerald Turner *	Dallas, Texas	President Southern Methodist University
Richard Ware	Amarillo, Texas	President Amarillo National Bank
Sue T. Whitfield	Houston, Texas	Vice President Trammell-Whitfield Properties
Norman Wick*	Dallas, Texas	President of the SMU Faculty Senate
Richard J. Wood	New Haven, CT	President United Board for Christian Education in Asia

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\* Ex officio members

## ADMINISTRATION

The following list sets forth the University's key administrators and deans of its various schools, their titles and tenure with the University for academic year 2003-2004:

<u>Name</u>	<u>Title</u>	<u>Affiliated With University Since</u>
R. Gerald Turner	President	1995
Ross C. Murfin	Provost and Vice President for Academic Affairs	1996
Thomas E. Barry	Vice President for Executive Affairs	1970
S. Leon Bennett	General Counsel, Vice President for Legal Affairs & Government Relations and Secretary	1983
James E. Caswell	Vice President for Student Affairs	1961
Morgan R. Olsen	Vice President for Business and Finance	1999
Jeanne P. Whitman	Vice President for Development and External Affairs	1991
Elizabeth C. Williams	Treasurer	1989
Jim Copeland	Director of Athletics	1995
John B. Attanasio	Dean of the Dedman School of Law	1998
U. Narayan Bhat	Dean of Research and Graduate Studies	1969
Carole Brandt	Dean of the Meadows School of the Arts	1994
William Lawrence	Dean of the Perkins School of Theology	2002
Jasper Neel	Dean of Dedman College of Humanities and Sciences	1997
Albert W. Niemi, Jr.	Dean of the Edwin L. Cox School of Business	1997
Robert A. Patterson	Dean of Education and Lifelong Learning	1985
Stephen A. Szygenda	Dean of the School of Engineering	2000
Gillian M. McCombs	Director of Southern Methodist University Libraries	1998

## KEY ADMINISTRATIVE PERSONNEL

The President of the University has primary responsibility for management and operation of the University. The Provost, Vice Presidents, Deans, and all other administrative officers are responsible to the President and through the President to the Board of Trustees. Information concerning the background of the University's principal officers is provided below.

***R. Gerald Turner, President, A.A., B.S., M.A., Ph.D.*** Dr. Turner began his service as SMU's 10th president in 1995. At SMU, Dr. Turner has developed a long-term strategic plan, campus master plan and the largest major gift campaign in the history of the University. This campaign has funded a variety of new academic endowments, endowed chairs, scholarships, campus life initiatives and new and renovated facilities. In addition, as part of his emphasis on community partnerships and outreach, SMU has opened an off-campus center at SMU-in-Legacy in Plano, Texas. Dr. Turner serves on the Board of National Merit Foundation and chairs the National Association of Independent Colleges and Universities of Texas. He has served higher

education nationally as chair of the President's Commission of the National Collegiate Athletic Association and continues to be a member of the Knight Foundation Commission on Intercollegiate Athletics. Prior to joining SMU, Dr. Turner served as Chancellor (chief executive officer) of the University of Mississippi for 11 years. Prior to that he served as vice president for executive affairs and as associate professor of psychology at the University of Oklahoma from 1979-84, and as chair of the Social Science Division at Pepperdine University from 1976-79. A native of Texas, he earned a B.S. degree in psychology from Abilene Christian University and M.A. and Ph.D. degrees in psychology from The University of Texas at Austin. Early in his career he wrote more than 30 scholarly articles and co-edited a book. Dr. Turner is the recipient of the 2000 Chief Executive Award from District IV of the Council for Advancement and Support of Education and the 2002 Henry Cohn Humanitarian Award of the Anti-Defamation League.

**Ross C. Murfin, Provost and Vice President for Academic Affairs and Professor of English, B.A., M.A., Ph.D.** Dr. Murfin was appointed Provost of SMU in 1996. As the University's chief academic officer, he is responsible for the administration of SMU's six degree-granting schools. He also oversees Institutional Research; Central University Libraries; the Office of Research and Graduate Studies; the Division of Education and Lifelong Learning; the Division of Enrollment Services; the International Office; the Altshuler Learning Enhancement Center; SMU Press; SMU-in-Taos and SMU-in-Legacy. Dr. Murfin is an internationally recognized scholar in the field of English literature. He is the author of *Swinburne, Hardy, Lawrence, and the Burden of Belief* (University of Chicago Press, 1978), *The Poetry of D. H. Lawrence* (University of Nebraska Press, 1983), *Sons and Lovers: A Novel of Division and Desire* (G. K. Hall, 1987), *Lord Jim: After the Truth* (G. K. Hall, 1992), co-author of *The Bedford Glossary of Critical and Literary Terms* (1997 [2<sup>nd</sup> ed. 2003]), and series editor of *Case Studies in Contemporary Criticism*, a line of critical editions published by Bedford Books of St. Martin's Press. Dr. Murfin came to SMU from the University of Miami, which he joined in 1981 and where he served in various capacities including Director of the Honors Program, Master of the Florence Hecht Residential College, Vice Provost for Undergraduate Affairs, and Dean of the College of Arts and Sciences. From 1974 to 1981, Dr. Murfin served as an assistant, and then associate, professor of English at Yale University. Dr. Murfin has five times received the "Professor of the Year" award and won fellowships from Yale University, the University of Miami, the American Council of Learned Societies, and the National Endowment for the Humanities. Dr. Murfin received his B.A. degree from Princeton and his M.A. degree in English and his Ph.D., with distinction, from the University of Virginia. He has served on the Board of Trustees of The Dallas Theater Center and as Chair of the Publications Committee of the Modern Language Association of America.

**Thomas E. Barry, Vice President for Executive Affairs and Professor of Marketing, B.S., M.S., Ph.D.** Dr. Barry has been SMU's Vice President for Executive Affairs since October 1995. He works closely with Dr. Turner on strategic planning, master planning and other University matters. A member of SMU's business faculty since 1970, Dr. Barry served as associate dean for academic affairs in the Edwin L. Cox School of Business from 1990 to 1995. He previously served as chair of the Department of Marketing in the Cox School and on numerous committees of the school and the University, including the admissions, judiciary, curriculum, development, honors, and promotion and tenure committees. He was a member of the consulting committee on the reorganization of the Office of the Provost in 1994. In all, Dr.

Barry has served on over 100 committees while at SMU and has written some 60 articles for journals and professional proceedings, as well as several textbooks and monographs in marketing and advertising management. He is one of the most frequent contributors to the three leading advertising journals — *Journal of Advertising Research*, *Journal of Advertising*, and *Journal of Current Issues and Research in Advertising*. He serves on the editorial review boards of the latter two journals. Dr. Barry earned his B.S. and M.S. degrees in marketing from Southern Illinois University in Carbondale and his Ph.D. degree in marketing from University of North Texas, Denton.

***S. Leon Bennett, General Counsel, Vice President for Legal Affairs and Government Relations, and Secretary, B.A., J.D.*** Mr. Bennett was appointed Vice President for Legal Affairs at SMU in 1983 and General Counsel by the Board in 1987 and was elected Secretary of the University in 1991. He serves as the University's chief legal counsel, assuming all of the responsibilities associated with the Office of Legal Affairs. In addition, he serves as Vice President for Government Relations. Prior to his appointment at the University, he served as Chief Associate Counsel for the University of Alabama, after seven years of private law practice in Alabama as a partner in the firm of Ferrell & Bennett. Mr. Bennett earned his B.A. and J.D. degrees from the University of Alabama and is admitted to practice in Texas and Alabama, as well as federal courts in each state.

***James E. Caswell, Vice President for Student Affairs, B.A., B.D., M.S.T., Ed.D.*** Dr. Caswell was appointed Vice President for Student Affairs at Southern Methodist University in January of 1988. As Vice President for Student Affairs, he is responsible for most of the out-of-classroom programs and services at the University. He has served the University in a variety of capacities in the Student Affairs Division since 1967. He is currently teaching a course in leadership. Dr. Caswell earned his Doctorate and Masters Degrees at Columbia University. He also has a Master of Sacred Theology and a Bachelor of Divinity from Perkins School of Theology, as well as his undergraduate Bachelor of Arts from SMU. In addition, Dr. Caswell did postdoctoral studies at Harvard's Institute of Educational Management in 1984. In December 1999, he was presented the honorary degree of Doctor of Humane Letters from Oklahoma City University.

Dr. Caswell is very active in his professional associations. He is past President of the Texas Association of Student Personnel Administrators and past Vice President of Region III of the National Association of Personnel Administrators. He has been a consultant at the national level in dealing with issues of safety and security in higher education. He is currently serving on several committees in NASPA, including their Task Force on student gambling. He has served as a member of several accreditation teams for the Southern Association of Colleges and Schools. He is the past President of the Board of Directors for his fraternity, Phi Gamma Delta. Additionally, he is an ordained United Methodist minister, and is Chairman of the Board of Higher Education and Campus Ministry for the New Mexico Conference of The United Methodist Church. He received a Fulbright Fellowship in 1998 to study in Germany for three weeks, as part of the Fulbright International Educators Program. In the spring of 2001, Dr. Caswell received the Pillar of the Profession Award for outstanding service in the field of Student Affairs from the NASPA Educational Foundation.

***Morgan R. Olsen, Vice President for Business and Finance., B.A., M.P.A., Ph.D.*** Dr. Olsen serves as the University's chief business and financial officer and administers the University's operating budget and capital budgets. In addition, he is responsible for the Budget

Office, Controller's Office, the Environmental Health and Safety Department, Campus Planning and Plant Operations, Human Resources and Business Services, Information Technology Services, the SMU Police Department, the SMU Bookstore, Dining Services, and other auxiliary services. Dr. Olsen came to SMU in 1999 after previous appointments as Vice President for Business Affairs and Treasurer at Eastern Illinois University and as Vice President and Chief Business Officer at Emporia State University in Kansas. Dr. Olsen is a member of various professional organizations, including the National Association of College and University Business Officers (NACUBO) and the Central Association of College and University Business Officers (CACUBO), of which he is a past President. Dr. Olsen's other professional organization memberships include the College and University Personnel Association, EDUCAUSE, the Association for the Study of Higher Education, and the American Association for Higher Education. Dr. Olsen earned his B.A. degree in Political Science and M.P.A. degree in public administration from the University of North Dakota, where he was inducted into Phi Beta Kappa, and his Ph.D. in higher education from the University of Kansas. Dr. Olsen served as acting executive budget analyst for the North Dakota Office of Management and Budget before entering university administration in 1985.

***Jeanne P. Whitman, Vice President for Development and External Affairs, B.A., M.A., M.B.A.*** Ms. Whitman serves as Vice President for Development and External Affairs at SMU after having served first as Associate Vice President for Public Affairs (1991-1993) and Associate Vice President and Executive Director of Development at SMU (1993-1998). She has responsibility for University fund raising, including the recently completed \$541.5 million campaign for SMU; Public Affairs, which includes publications, media relations, electronic communication and marketing; University Events; Alumni Relations; and University Lecture Series, including the Tate Lecture Series, SMU Athletic Forum Luncheon Series and the Doak Walker Award.

Ms. Whitman is a member of the College Board of Visitors of Wake Forest University, The Harry S. Truman Scholars Selection Panel, the Board of the Dallas Assembly, the Board of the Dallas Charter 100 and is a member of the International Women's Forum Dallas.

Before her tenure at SMU, Ms. Whitman served in several capacities at Wake Forest University, where she also taught in the lower division honors program. She has a B.A. in English from Wake Forest, an M.A. in English from the University of Virginia and an M.B.A. from Wake Forest University. She also spent a year of postgraduate research in the Department of Textual Linguistics at the University of Birmingham, England.

***Elizabeth C. Williams, Treasurer, B.A., M.A.*** Ms. Williams has served as Treasurer of SMU since 1991. From 1989 to 1999, she also served as SMU's Vice President for Business and Finance. Prior to SMU, she was at the University of Denver for eleven years, where she was Vice Chancellor for Business and Financial Affairs/Treasurer from 1984 to 1989. She received her B.A. in History from Rhodes College and her M.A. in History from the University of Virginia. Ms. Williams has served on several corporate boards, including United Educators Insurance and Texas Industries Inc. (a NYSE-listed company that produces cement, aggregates, and steel). She is a director of The Tuition Plan Consortium, a nationwide group of over 200 private colleges and universities that sponsor their Independent 529 Plan, a guaranteed prepaid tuition plan launched in September 2003. She also serves as a trustee of Austin Presbyterian Theological Seminary and The Hockaday School. In 2000 she received the Rodney H. Adams

Award from NACUBO for contributions to professional development and research activities in the field of college and university endowment and investment management. In 2002 she was presented with the Frank J. Bachich Award for Director Service in recognition of exemplary service to United Educators.

STUDENT ENROLLMENT

The University takes an active approach in recruiting students. Representatives of the University visit over 600 secondary schools each year and use advanced marketing techniques to support recruiting efforts. Although the preponderance of the student body is from the Southwest (72 percent of undergraduates), all states as well as 92 foreign countries have representation. As of Fall Semester 2003, 28 percent of SMU's student body is Methodist; 20 percent is Catholic and the remaining students represent other Protestant denominations and other religions such as Judaism, Buddhism, and Islam. The following chart sets forth certain information relating to first-year undergraduate admissions for academic years beginning in the fall of 1999 through 2003.

TABLE ONE  
**First-Year Undergraduate Admission and Enrollment Information**

	<u>Academic Year Beginning Fall of</u>				
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Number of Applications Completed	4,280	4,577	5,322	6,152	6,293
Number Admitted (% of Applicants)	3,809 89%	3,752 82%	3,984 75%	4,060 66%	4,074 65%
Number Enrolled (% of Admitted)	1,331 35%	1,278 34%	1,353 34%	1,380 34%	1,383 34%
Mean SAT Score of Enrolled	1050-1230	1060-1250	1080-1260	1100-1270	1110-1300

The undergraduate student body is primarily full-time. During the Fall Semester 2003, headcount undergraduate enrollment totaled 6,299, which included 6,017 full-time and 282 part-time students. The graduate and professional student headcount enrollment for the Fall Semester 2003 was 4,862. 93 percent of first-time/first-year students and 45 percent of undergraduates live in residence halls on campus, in University owned apartments or nearby fraternity and sorority houses. The average age of the undergraduate population is 21 years of age and the average age of graduate and professional students is 32 years of age. The following chart sets forth the student full-time equivalent enrollment by school for the academic years beginning in the fall of 1999 through 2003.

**TABLE TWO**  
**Full-Time Equivalent Enrollment**

<u>School</u>	<u>Academic Year Beginning Fall of</u>				
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
<b>Undergraduate</b>					
Dedman College (lower class)	2,452	2,599	2,809	2,894	2,801
Dedman College (upper class)	952	966	909	1,007	1,161
Edwin L. Cox School of Business	679	685	723	834	904
School of Engineering	299	274	312	337	322
Meadows School of the Arts	883	867	807	808	838
Evening Degree	<u>42</u>	<u>50</u>	<u>40</u>	<u>34</u>	<u>38</u>
Subtotal	5,307	5,441	5,600	5,914	6,064
Special Studies	<u>45</u>	<u>29</u>	<u>50</u>	<u>66</u>	<u>71</u>
<b>Total Undergraduate</b>	<b>5,352</b>	<b>5,470</b>	<b>5,650</b>	<b>5,980</b>	<b>6,135</b>
<b>Graduate &amp; Professional</b>					
Dedman College	161	159	170	178	161
Edwin L. Cox School of Business (full-time)	283	281	280	355	296
Edwin L. Cox School of Business (part-time)	376	340	315	443	427
Executive MBA Program	106	104	107	127	128
School of Engineering	349	350	369	403	450
Meadows School of the Arts	129	127	126	138	130
Perkins School of Theology	274	247	256	276	304
Dedman School of Law	833	855	862	902	962
MLA	<u>113</u>	<u>99</u>	<u>146</u>	<u>188</u>	<u>212</u>
Subtotal	2,624	2,562	2,631	3,010	3,070
Special Studies	<u>149</u>	<u>67</u>	<u>32</u>	<u>41</u>	<u>43</u>
<b>Total Graduate &amp; Professional</b>	<b>2,773</b>	<b>2,629</b>	<b>2,663</b>	<b>3,051</b>	<b>3,113</b>
<b>Total University</b>	<b><u>8,125</u></b>	<b><u>8,099</u></b>	<b><u>8,313</u></b>	<b><u>9,031</u></b>	<b><u>9,248</u></b>

NOTE: Non-degree students included in school totals.

Based on 15 credit hours for undergraduate enrollment; 14 credit hours for juris doctor program in Dedman School of Law, and 12 credit hours for all other graduate programs.

#### FINANCIAL AID

The University awarded financial aid to approximately 72 percent of the Fall Semester 2003 undergraduate student body. Student financial aid includes both merit and need based programs. In the 2002-2003 academic year, the University awarded over \$49.3 million in scholarships and fellowships to students of all classifications. The University also sponsors the Family Assistance Loan Program which offers to selected families loans that are available to pay a significant portion of the cost for a student's four years of undergraduate study and are repayable over an eight-year period. There is no standard model for a financial aid package. Many students secure Federal Stafford Student Loans (FSSL), repayment of which is guaranteed by the United States Government should the student borrower default on the loan. There are other forms of Federal and State financial assistance as well. The University's student loan default rate is 7.6 percent for Federal Perkins loans and 3.8 percent for the Stafford loan program.



The following table provides information of the University's financial assistance to all students for the last five fiscal years. Included in this table are government funds, excluding Federal Parent Loans, but including all other funds administered or awarded by the University. The table does not include private scholarships, state scholarships or interest capitalized under various loan programs.

**TABLE THREE**  
**Student Financial Aid**  
**(in thousands)**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
<b>GRANTS</b>					
Federal	\$ 2,810	\$ 2,802	\$ 3,010	\$ 3,393	\$ 3,924
State	<u>2,945</u>	<u>3,970</u>	<u>3,701</u>	<u>5,857</u>	<u>6,344</u>
Total	<u>\$ 5,755</u>	<u>\$ 6,772</u>	<u>\$ 6,711</u>	<u>\$ 9,250</u>	<u>\$ 10,268</u>
<b>SCHOLARSHIPS &amp; FELLOWSHIPS</b>					
Unrestricted Funds	\$ 27,963	\$ 30,075	\$ 31,598	\$ 32,657	\$ 38,247
Restricted Funds	<u>5,992</u>	<u>6,922</u>	<u>9,051</u>	<u>10,634</u>	<u>11,082</u>
Total	<u>\$ 33,955</u>	<u>\$ 36,997</u>	<u>\$ 40,649</u>	<u>\$ 43,291</u>	<u>\$ 49,329</u>
<b>OUTSTANDING LOANS TO STUDENTS</b>					
From University Funds	\$ 1,648	\$ 2,804	\$ 2,384	\$ 2,701	\$ 2,084
From Government Funds	32,760	27,753	33,876	36,549	43,479
From Private Funds	<u>3,761</u>	<u>5,524</u>	<u>6,049</u>	<u>8,055</u>	<u>10,636</u>
Total	<u>\$ 38,169</u>	<u>\$ 36,081</u>	<u>\$ 42,309</u>	<u>\$ 47,035</u>	<u>\$ 56,199</u>
<b>STUDENT EMPLOYMENT</b>					
College Work Study	\$ 2,630	\$ 2,765	\$ 2,658	\$ 2,653	\$ 2,905
Student Payroll	<u>1,542</u>	<u>2,081</u>	<u>1,954</u>	<u>2,320</u>	<u>2,179</u>
Total	<u>\$ 4,172</u>	<u>\$ 4,846</u>	<u>\$ 4,612</u>	<u>\$ 4,973</u>	<u>\$ 5,084</u>

#### FACULTY AND STAFF

As of Fall Semester 2003, the University employed a total of 2,055 employees, including 1,406 staff, 611 faculty and 38 postdoctoral students. 48 percent of the University's faculty members are tenured. Females account for 30 percent of the faculty, and 11.9 percent of the faculty are minorities. Among full-time faculty, 83.7 percent hold a doctorate degree and/or terminal degree in their fields of study.

No employees of the University are represented by labor unions or similar organizations for the purpose of collective bargaining. Administration of the University believes its relations with employees are good.

#### PENSION PLAN

The University has a defined contribution retirement plan covering substantially all full-time employees. The plan was established effective September 1, 1976, replacing a defined benefit plan which was terminated effective August 31, 1990. Retirement benefit expense under this plan was approximately \$8,961,000 for fiscal year ending May 31, 2003 and \$8,485,000 for the fiscal year ending May 31, 2002. The University provides retiree health care benefits for

employees who meet minimum age and service requirements and retire from the University. See Note 12 to the Financial Statements included in APPENDIX B hereto.

#### LITIGATION

The University is involved in various pending or threatened administrative and legal proceedings arising in the ordinary course of operations. Although the amount of loss, if any, that may result from the ultimate resolution of any such matters is presently undeterminable, the University is of the opinion that the ultimate resolution will not have a materially adverse effect on its financial condition.

#### OPERATING BUDGET

The University conducts its annual operations in accordance with a Board approved detailed operating budget that has produced an operating surplus for 13 consecutive fiscal years. The budget is organized to assign operational responsibility and accountability both for achieving revenue targets and for controlling expenses.

Current financial statement presentation and format help make financial statements of private colleges and universities comparable and offer the careful reader additional important information, but they tend to obscure annual operating results. To determine from the financial statements how the University has performed from an operating perspective, one needs to look at the unrestricted net asset column on the Statements of Activities. By taking out the effect of investment gains (except for those gains that have been spent in support of the operating budget per the endowment spending policy) one can derive an approximation of operating results. The table below presents this data for the past five fiscal years.

SOUTHERN METHODIST UNIVERSITY  
TABLE FOUR  
Annual Operating Results  
(in thousands)

Unrestricted Net Assets	Fiscal Year Ending May 31,				
	1999 <sup>(1)</sup>	2000	2001 <sup>(2)</sup>	2002 <sup>(3)</sup>	2003
Total Revenues	\$ 252,163	\$ 281,372	\$ 293,744	\$ 246,842	\$ 249,563
Exclude net realized and unrealized (gains)/losses on investments	(13,440)	(28,259)	(17,957)	8,598	19,609
Less realized gains transferred for spending	<u>11,955</u>	<u>7,181</u>	<u>8,872</u>	<u>24,910</u>	<u>26,518</u>
Total Operating Revenues	250,678	260,294	284,659	280,350	295,690
Total Expenses	<u>242,305</u>	<u>248,648</u>	<u>254,316</u>	<u>254,957</u>	<u>265,405</u>
Increase in Unrestricted Net Assets from Operations	<u>\$ 8,373</u>	<u>\$ 11,646</u>	<u>\$ 30,343</u>	<u>\$ 25,393</u>	<u>\$ 30,285</u>

<sup>(1)</sup> FY1999 financials were reclassified to be consistent with FY2000 reporting.

<sup>(2)</sup> FY2001 financials were reclassified to be consistent with FY2002 reporting.

<sup>(3)</sup> FY2002 financials were reclassified to be consistent with FY2003 reporting.

STUDENT CHARGES

For the fiscal year ending May 31, 2003, income from tuition and fee charges, net of scholarship allowances, accounted for approximately 67 percent of the University's operating revenues. Approximately 66 percent of the total tuition and fee revenue for the fiscal year ending May 31, 2003 came from the University's regular undergraduate program. The total charges per typical undergraduate resident student for the five most recent academic years are as follows:

TABLE FIVE  
Undergraduate Student Charges

	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004
Tuition	\$ 16,422	\$ 17,406	\$ 18,450	\$ 19,466	\$ 20,926
General Fee	2,088	2,214	2,346	2,476	2,662
Room and Board	<u>6,901</u>	<u>7,177</u>	<u>7,553</u>	<u>7,954</u>	<u>8,391</u>
Total Resident Charges	<u>\$ 25,411</u>	<u>\$ 26,797</u>	<u>\$ 28,349</u>	<u>\$ 29,896</u>	<u>\$ 31,979</u>

In setting the level of tuition, fees, room and board, the University takes into account anticipated expense increases and attempts to keep student charges in balance with other sources of revenue. In addition, it considers its charges in relation to other colleges and universities.

ENDOWMENT

**Endowment and Similar Funds.** The University's endowment had a May 31, 2003 market value of \$808 million. According to the Fiscal Year 2002 NACUBO Endowment Study, prepared by the National Association of College and University Business Officers, the

University's endowment was the 52<sup>nd</sup> largest endowment of the 654 public and private institutions in the United States surveyed. The endowment is heavily restricted, however, with approximately \$581 million reserved to the schools and approximately \$227 million available for central University use. School endowments range from approximately \$21.5 million for the School of Engineering to approximately \$142.6 million for Perkins School of Theology. The following table shows market value and balanced pool return of the University's endowment for each of the past ten fiscal years.

**TABLE SIX**  
**Endowment Fund Growth**  
**Fiscal Years 1994 through 2003**

<u>Fiscal Year</u> <u>Ended May 31,</u>	<u>Market Value (Note)</u> <u>(in thousands)</u>	<u>Balanced Pool</u> <u>Total</u> <u>Return</u>
1994	434,497	5.3%
1995	482,981	14.1%
1996	562,838	20.8%
1997	645,542	18.9%
1998	770,682	20.9%
1999	790,065	6.7%
2000	911,121	19.5%
2001	872,388	-1.7%
2002	831,116	-2.1%
2003	807,551	.4%

Note: Market values do not include recognition of unconditional pledges which were required to be shown on financial statements per SFAS No. 116 effective with fiscal year ending May 31, 1996.

The following table lists all Endowment and Similar Funds assets of the University by type of asset at cost and market as of May 31, 2003.

**Endowment Assets as of May 31, 2003**

<u>Asset</u>	<u>Reported in Thousands</u>	
	<u>Cost</u>	<u>Market</u>
Stocks and Other Equity	\$ 536,061	\$ 631,339
Bonds	126,767	136,282
Cash	14,363	14,363
Real Estate	1,182	1,182
Mineral Rights	0	9,892
Funds-in-Trust	13,615	14,061
Other Assets	432	432
Total Endowment	<u>\$ 692,420</u>	<u>\$ 807,551</u>

The University's board-approved investment policy currently provides for an asset allocation of 75 percent to investments focused on return (U.S. and international equities, private markets, including private equity and venture capital, absolute return and opportunistic equity); 10 percent to inflation hedging (real estate, oil and gas, and Treasury Inflation Protected Securities ("TIPS")); and 15 percent to deflation hedging (bonds, fixed income). Within the

broad equity allocation, endowment assets are well diversified among U.S. large cap and small cap portfolios, foreign stocks and a number of partnership interests that are managed according to various specialized investment philosophies and styles. The fixed income allocation is invested in a diversified portfolio of high quality bonds. The University directs the management of approximately 94 percent of its Endowment and Similar Funds through the use of over 33 external managers. The remainder of the funds are managed internally or by trustee banks. The Investment Committee of the Board of Trustees meets from four to six times each year to review overall performance, monitor existing managers, evaluate options for new investments, and reach decisions on any changes in asset allocations, managers and policy. The Board of Trustees at its quarterly meetings receives reports on investment activity and performance and ratifies all decisions made by the Investment Committee.

#### CAPITAL CAMPAIGN

**Gifts and Bequests.** On May 31, 2003, SMU ended the most successful fund-raising campaign in the University's history. Commitments to the Campaign totaled \$541.5 million, far exceeding the \$400 million goal. The campaign resulted in 171 new scholarships and academic awards; 80 new academic programs; 28 new campus life programs; 16 new faculty positions; and 14 new or renovated facilities. More than 40,000 donors supported the Campaign through annual, capital, endowment and planned gifts. Fund-raising emphasis post-campaign has been on completing funding for construction costs undertaken under the auspices of the campaign and securing endowments in support of academic priorities.

The following table sets forth the total gifts and bequests to the University for the past four years by both Source and Net Asset Distribution.

TABLE SEVEN  
Total Gifts and Bequests  
(in thousands)

	<u>Fiscal Year Ended May 31,</u>			
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
<b>Sources</b>				
Alumni	\$ 28,146	\$ 2,451	\$ 9,076	\$ 8,951
Parents and Friends	9,486	10,172	3,568	5,805
Foundations	11,657	21,331	22,666	9,964
Corporations	18,841	13,805	4,925	8,166
Religious Organizations	4,771	1,776	2,790	2,253
Other Organizations	2,701	76	184	240
Total	<u>\$ 75,602</u>	<u>\$ 49,611</u>	<u>\$ 43,209</u>	<u>\$ 35,379</u>
<b>Net Assets</b>				
Unrestricted:				
General	\$ 26,337	\$ 21,054	\$ 15,726	\$ 13,033
Auxiliary	2,351	2,358	2,885	3,389
Temporarily Restricted	32,446	13,636	12,505	7,738
Permanently Restricted	14,468	12,563	12,093	11,219
Total	<u>\$ 75,602</u>	<u>\$ 49,611</u>	<u>\$ 43,209</u>	<u>\$ 35,379</u>

## COMMUNITY ENRICHMENT

The University has long maintained an active role of service and outreach to its Dallas community, which, under the leadership of President R. Gerald Turner, is expanding statewide.

**Cultural Outreach.** Within the Dallas community, the University's libraries, concerts, performances, exhibitions, lectures and athletic events are open to the public. The Meadows School of the Arts is a center of cultural and artistic life in the community; the Edwin L. Cox School of Business provides access to business leaders and concepts; the Perkins School of Theology remains a center for renewal of scholarly, teaching, and preaching skills for the clergy and laity; the Dedman School of Law offers a variety of service clinics conducted by students; the School of Engineering works closely with some of the telecommunications and software programming industries in the area; and Dedman College continues to provide lecture series and classes that are open to the community. Notable lecture series include the Godbey Lecture Series, sponsored by Dedman College, and the University-sponsored Willis M. Tate Distinguished Lecture Series.

**Student Community Service.** About 3,000 student volunteers annually serve approximately 70 nonprofit agencies, assisting refugees, inner-city children, and the homeless. Other activities include environmental and construction projects. Students volunteer through such programs as SMU's Center for Inter-Community Experience (ICE), providing opportunities for mentoring and tutoring inner-city children, and the Alternative Spring Break Program, offering opportunities for service throughout the nation. In addition, 27 students, who each devote at least 20 hours to volunteerism per term, live in the SMU Service House, the first of its kind at a Texas university. SMU's Dedman School of Law was one of the first schools in the country to sponsor legal clinics and currently offers six clinics in which law students represent the public in a variety of legal matters. The school's Public Service Program requires each student to provide 30 hours of *pro bono* law-related work to the community.

**Service-Learning Initiatives.** Service-Learning incorporates experiential services into academic courses at the University. Approximately 50 faculty utilize service-learning components, allowing students to connect theory to practice. Benefits reported in SMU service-learning classes include better understanding of basic concepts and theories, heightened interest in the class, greater awareness of community problems, exposure to and increased comfort with other races and cultures. Service-learning courses and programs at the University include Human Rights: America's Dilemma, Rhetoric, Literature of Minorities, Advanced Spoken Spanish, Nonprofit Management and Imagined Communities: Place, Nation and the Construction of Cultural Identity, and the Meadows Visitor Program (MVP).

## INSURANCE

The University maintains a comprehensive insurance program that incorporates a blanket "all-risk" property policy and comprehensive general and excess liability policies that include business auto, lawyers' and medical professional coverage, a statutory workers' compensation policy, employee dishonesty, fiduciary, special crime policies, and an educator's legal liability policy that includes directors' and officers' coverage. Pressures in the insurance market have made pricing for insurance previously carried by the University increasingly expensive and some coverages are available only at reduced limits or higher retentions. The University believes its risk management programs are consistent with the practices of other similarly situated

institutions of higher learning and embody a mix of broad insurance coverages and retention programs that reflect an appropriate and prudent approach toward the protection of the institution.

#### INTERCOLLEGIATE ATHLETICS

Intercollegiate athletics at the University includes 20 sports (nine for men and eleven for women): men's football, women's rowing, equestrian and volleyball, and men's and women's basketball, outdoor track and field, indoor track and field, cross country, golf, soccer, swimming and diving and tennis. The University is a member of the National Collegiate Athletic Association and the Western Athletic Conference. University athletic facilities include Moody Coliseum, the Barr Swimming Facility and Perkins Natatorium, the Morrison-Bell track, Westcott Field for soccer, the Haggar Tennis Stadium, the Gerald J. Ford Stadium and Pettus Practice Fields for football, Paul B. Loyd Jr. All-Sports Center, as well as a variety of training rooms, equipment, locker and conference rooms.

Intramural and club sports are offered through the Office of Student Affairs, which maintains separate intramural practice fields as well as the Dedman Center for Lifetime Sports.

#### FUTURE CAMPUS EXPANSION

The University has signed an agreement to acquire at a cost of approximately \$9,700,000 additional land for the purposes of campus expansion, using available cash funds or endowment funds. Potential remediation costs of approximately \$4,000,000 are anticipated with respect to the acquired property and are expected to be financed from those sources. The current acquisition is expected to close within 60 days. Additional acquisitions may be made for campus expansion as land becomes available at reasonable prices.

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**APPENDIX B**

CONSOLIDATED FINANCIAL STATEMENTS, MAY 31, 2003 AND 2002

SOUTHERN METHODIST UNIVERSITY  
(With Independent Auditors' Report Thereon)

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**SOUTHERN METHODIST UNIVERSITY**  
**CONSOLIDATED FINANCIAL STATEMENTS**

**May 31, 2003 and 2002**

**(With Independent Auditors' Report Thereon)**



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717 North Harwood Street  
Suite 3100  
Dallas, TX 75201-6585

### **Independent Auditors' Report**

The Board of Trustees  
Southern Methodist University:

We have audited the accompanying consolidated balance sheets of Southern Methodist University (the University) as of May 31, 2003 and 2002, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Southern Methodist University as of May 31, 2003 and 2002, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

**KPMG LLP**

August 29, 2003



KPMG, LLP, KPMG, LLP a U.S. limited liability partnership, is  
a member of KPMG International, a Swiss association.

Southern Methodist University  
Consolidated Balance Sheets  
As of May 31, 2003 and May 31, 2002  
(Dollars in Thousands)

	2003	2002		2003	2002
<b>Assets</b>					
Cash and cash equivalents	\$ 66,163	\$ 73,018		\$ 52,659	\$ 46,308
Accounts receivable, less allowance for doubtful accounts of \$686 in 2003 and \$727 in 2002	16,640	16,447		23,658	17,827
Pledges receivable	37,464	42,208		8,690	8,940
<b>Investments:</b>					
Short-term paper (restricted for debt retirement, \$831 in 2003 and \$1,034 in 2002)	\$ 49,885	\$ 44,126		\$ 342,990	\$ 306,754
Stocks	379,612	438,236			
Bonds (restricted for debt retirement, \$5,591 in 2003 and \$17,853 in 2002)	209,338	208,258			
Venture capital	14,603	16,645			
Mortgage and other notes receivable, less allowance for doubtful accounts of \$296 in 2003 and \$300 in 2002	14,449	9,817			
Real estate	4,096	5,250			
Other	204,525	165,707		\$ 558,838	\$ 574,680
<b>Total investments</b>	<b>\$ 876,508</b>	<b>\$ 888,039</b>		<b>158,376</b>	<b>181,544</b>
Property, plant and equipment, at cost, net of accumulated depreciation	380,064	350,283		329,279	318,581
Other assets	12,644	11,564		\$ 1,045,493	\$ 1,074,805
<b>Total Assets</b>	<b>\$ 1,389,483</b>	<b>\$ 1,381,559</b>		<b>\$ 1,389,483</b>	<b>\$ 1,381,559</b>
<b>Liabilities and Net Assets</b>					
<b>Liabilities:</b>					
Accounts payable and accrued expenses				\$ 52,659	\$ 46,308
Deposits and deferred income				23,658	17,827
Notes payable				8,690	8,940
Bonds payable				255,244	230,866
Advances for student loans				2,739	2,813
<b>Total Liabilities</b>				<b>\$ 342,990</b>	<b>\$ 306,754</b>
<b>Net Assets:</b>					
Unrestricted				\$ 558,838	\$ 574,680
Temporarily restricted				158,376	181,544
Permanently restricted				329,279	318,581
<b>Total Net Assets</b>				<b>\$ 1,045,493</b>	<b>\$ 1,074,805</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 1,389,483</b>	<b>\$ 1,381,559</b>		<b>\$ 1,389,483</b>	<b>\$ 1,381,559</b>

*See accompanying notes to the consolidated financial statements.*

**Southern Methodist University**  
**Consolidated Statements of Activities**  
**For the Years Ended May 31, 2003 and May 31, 2002**  
(Dollars in Thousands)

	2003			2002			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues:</b>							
Tuition and fees	\$ 208,053	\$ -	\$ -	\$ 191,415	\$ -	\$ -	\$ 191,415
Scholarship allowance - tuition and fees	(60,845)	-	-	(53,648)	-	-	(53,648)
Gifts	13,033	7,738	11,219	15,726	12,505	12,093	40,324
Endowment income	14,372	166	191	13,315	375	128	13,818
Net realized and unrealized losses on investments	(19,609)	(6,892)	(712)	(8,598)	(7,854)	(868)	(17,320)
Grants and contracts	12,868	-	-	12,667	-	-	12,667
Organized activities	7,275	-	-	8,738	-	-	8,738
Other sources	22,555	-	-	20,783	-	391	21,174
Auxiliary activities	28,632	-	-	26,214	-	-	26,214
Scholarship allowance - room and board	(951)	-	-	(1,021)	-	-	(1,021)
<b>Total revenues</b>	<b>\$ 225,383</b>	<b>\$ 1,012</b>	<b>\$ 10,698</b>	<b>\$ 225,591</b>	<b>\$ 5,026</b>	<b>\$ 11,744</b>	<b>\$ 242,361</b>
Net assets released from restrictions	24,180	(24,180)	-	21,251	(21,251)	-	-
<b>Total adjusted revenues</b>	<b>\$ 249,563</b>	<b>\$ (23,168)</b>	<b>\$ 10,698</b>	<b>\$ 246,842</b>	<b>\$ (16,225)</b>	<b>\$ 11,744</b>	<b>\$ 242,361</b>
<b>Expenses:</b>							
Program expenses:							
Instructional	\$ 91,755	\$ -	\$ -	\$ 91,568	\$ -	\$ -	\$ 91,568
Academic support	46,152	-	-	43,796	-	-	43,796
Research	8,316	-	-	8,471	-	-	8,471
Organized activities	9,590	-	-	9,886	-	-	9,886
Student services	23,866	-	-	21,394	-	-	21,394
Auxiliary activities	39,642	-	-	36,568	-	-	36,568
Institutional support	46,084	-	-	43,274	-	-	43,274
<b>Total expenses</b>	<b>\$ 265,405</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 254,957</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 254,957</b>
Change in net assets	\$ (15,842)	\$ (23,168)	\$ 10,698	\$ (8,115)	\$ (16,225)	\$ 11,744	\$ (12,596)
Net assets at beginning of year	574,680	181,544	318,581	582,795	197,769	306,837	1,087,401
Net assets at end of year	\$ 558,838	\$ 158,376	\$ 329,279	\$ 574,680	\$ 181,544	\$ 318,581	\$ 1,074,805

See accompanying notes to the consolidated financial statements.

Southern Methodist University  
Consolidated Statements of Cash Flows  
For the Years Ended May 31, 2003 and May 31, 2002  
(Dollars in Thousands)

	2003	2002
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ (28,312)	\$ (12,596)
Adjustments to reconcile change in net assets to cash used by operating activities:		
Depreciation	15,031	13,182
Decrease in accounts and pledges receivable	4,551	15,922
Increase in other assets	(1,080)	(669)
Increase (decrease) in accounts payable and accrued expenses	6,351	(2,597)
Increase in deposits and deferred income and advances for student loans	5,757	2,862
Contributions restricted for long-term investment	(21,440)	(39,134)
Non-cash contributions	(5,212)	(9,154)
Net realized and unrealized losses on investments	27,213	17,320
Income restricted for long-term investment	(122)	(527)
Annuity obligation payments	661	634
Reinvested earnings and other adjustments	198	(398)
	\$ 3,596	\$ (15,155)
<b>Cash flows from investing activities:</b>		
Purchase of property, plant and equipment	\$ (44,443)	\$ (28,564)
Proceeds from sales of property, plant and equipment	32	249
Purchase of investments	(251,657)	(196,502)
Proceeds from the sale of investments	245,220	201,028
Disbursements of mortgage and other notes receivable	(15,616)	(10,746)
Principal payments received on mortgage and other notes receivable	10,984	10,960
	\$ (55,480)	\$ (23,575)
<b>Cash flows from financing activities:</b>		
Contributions restricted for long-term investment	\$ 21,440	\$ 39,134
Income restricted for long-term investment	122	527
Annuity obligation payments	(661)	(634)
Notes payable funding	-	2,862
Payments on notes payable	(250)	(660)
Proceeds from bond issue	69,670	-
Long-term debt payments	(45,292)	(11,723)
	\$ 45,029	\$ 29,506
Net decrease in cash and equivalents	(6,855)	(9,224)
Cash and cash equivalents at beginning of year	73,018	82,242
Cash and cash equivalents at end of year	\$ 66,163	\$ 73,018
<b>Supplemental data:</b>		
Gifts of investments	\$ 4,604	\$ 8,751
Gifts of real estate	207	11
Gifts of property, plant, and equipment	401	392
Cash paid for interest	11,067	10,340

See accompanying notes to the consolidated financial statements.



# **Southern Methodist University**

## **Notes To Consolidated Financial Statements**

**May 31, 2003 and 2002**

### **1. Nature of Operations and Summary of Significant Accounting Policies**

#### **Nature of Operations:**

Southern Methodist University (the University) is a private higher education institution, providing undergraduate, graduate, and continuing educational opportunities. In addition to the revenue generated by the sale of these educational services, the University receives revenue from donations, investment earnings, sponsored research, athletic events and other auxiliary activities, and other sources.

The University currently has three corporations under its control that are included in the consolidated financial statements. Peruna Properties, Inc. (PPI) is a corporation the University formed to acquire, own and manage on behalf of the University real estate adjacent to or in the near vicinity of the University campus. The University also has established the Stadium Club, Inc., to operate a private club in the Gerald J. Ford Stadium. During the fiscal year ended May 31, 2003, the University formed a new corporation to support scientific research. The Southern Methodist University Foundation for Research is a non-profit corporation created to support academic scholarship and scientific research in the public interest for the benefit of the University and to assist in fulfilling the educational and research purposes of the University.

PPI has purchased a majority of units in the University Gardens Condominium Complex (UGCC) adjacent to campus. As of May 31, 2003, PPI owned 89 percent of the units in the UGCC and had elected its representatives to a majority of the seats on the Board. The UGCC operates as an association that is a separate legal entity from the University and PPI; however, the University's economic involvement exists only to the extent of its relative ownership.

#### **Financial Reporting:**

The consolidated financial statements have been prepared in accordance with accounting standards established to provide meaningful information about the financial resources and operations of the University as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. Accordingly, transactions and balances have been classified into three categories of net assets:

**Unrestricted net assets** include funds that have no donor-imposed restrictions or whose restrictions have been satisfied. The University has determined that any donor-imposed restrictions for currently budgeted programs and activities generally are met within the operating cycle of the University. Therefore, the University's policy is to record these funds as unrestricted.

**Temporarily restricted net assets** include funds for which donor-imposed restrictions have not been met. This classification includes gifts, annuities and unconditional promises to give for which the ultimate purpose of the proceeds is not permanently restricted.

**Permanently restricted net assets** include gifts, annuities, and unconditional promises to give that are restricted by the donor to be invested or held in perpetuity. Only the income from these funds is made available for program operations specified by the donor.

### **Basis of Accounting:**

The consolidated financial statements have been prepared on the accrual basis. The costs of providing various programs and support services have been summarized on a functional basis in the consolidated statements of activities. Accordingly, expenses such as depreciation and the operation and maintenance of University facilities have been allocated among the functional categories. Fundraising expenses of approximately \$5,597,000 and \$5,504,000 that were incurred by the University in fiscal years 2003 and 2002, respectively, also are included as institutional support expenses reported in the consolidated statements of activities.

Cash equivalents include operating cash investments, U.S. Treasury bills, commercial paper, and corporate notes with maturities of three months or less from the date of purchase. However, such assets, when purchased with endowment, loan, annuity and life income assets or trust funds are classified as investments.

Investments in stocks and bonds with readily determinable fair values are recorded at fair value. Other investments are recorded at cost. Gifts are recorded at fair value at the date of donation or a nominal value if fair value is not readily determinable. Realized and unrealized (to the extent recorded) gains and losses on investments are reported in the appropriate net asset classification in the consolidated statements of activities.

Gifts and income thereon that are restricted in perpetuity by the donors for the purpose of making loans to students are reported as permanently restricted net assets. Refundable advances from the federal government for student loans are reported as long-term liabilities. University resources designated for student loans are reported as unrestricted net assets. Federally-funded student loan programs consist of \$2,739,000 and \$2,813,000 of refundable government advances and \$315,000 and \$323,000 of matching University funds in fiscal years 2003 and 2002, respectively.

Property, plant and equipment (including art objects) are recorded at cost if purchased or at the appraised value if donated. During the period qualifying construction projects are in progress, net interest costs are capitalized as part of the basis of capital assets. Property, plant and equipment (except for art objects) are depreciated on the straight-line basis over their estimated useful lives, ranging from 4 to 50 years.

Contributions of land, buildings, and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire land, buildings, and equipment without such donor stipulations are reported as revenues of the temporarily restricted net asset class. The restrictions are considered to be released at the time of acquisition of such long-lived assets.

The University has adopted an endowment spending policy whereby annually the Board of Trustees authorizes a stipulated percentage of the fair value of endowments participating in the investment pool to be spent for the purposes intended by the donors. If the current income of the endowment investments is not sufficient to cover the authorized level of spending, the difference is taken from the market value in excess of the historical gift value.

The expiration of donor-imposed restrictions on contributions or endowment income is recognized in the period in which the restrictions are satisfied. At that time, the related resources are reclassified from temporarily restricted to unrestricted net assets. Restrictions expire when the stipulated time has elapsed or when the stipulated purpose for which the resource was restricted has been fulfilled. Endowment income and contributions received with donor-imposed restrictions that are satisfied in the same period as received are reported as unrestricted revenues.

The University receives grant and contract revenue for research and other services it provides pursuant to arrangements with governmental and private entities. For financial statement purposes, grant and contract revenue is recorded at the time corresponding expenses have been incurred.

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

Certain fiscal year 2002 amounts have been reclassified to conform with the University's financial presentation in fiscal year 2003.

## **2. Related Party Transactions**

In the ordinary course of business, the University may have business transactions with entities in which University board members or employees have an interest. Although generally such transactions are immaterial, the University does engage in such business transactions that may be material. The University has invested funds totaling \$42,624,000 as of May 31, 2003 with an investment firm by which a board member is employed as an investment broker.

## **3. Tax Status**

The University is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code of 1986, as amended, as an organization described in Section 501(c)(3). Peruna Properties, Inc. and the Stadium Club, Inc., both controlled corporations included in the University's consolidated financial statements, are exempt from federal income taxes under Section 501(a) of the Internal Revenue Code of 1986, as amended, as organizations described in Sections 501(c)(3) and 501(c)(7), respectively. The University and Peruna Properties, Inc. have been classified as organizations that are not private foundations under Sections 509(a)(1) and 509(a)(3), respectively, and as such, contributions to these entities qualify for deduction as charitable contributions. The Southern Methodist University Foundation for Research was incorporated on March 12, 2003 and is intended to be a tax-exempt support organization for the University, under Section 501(c)(3) and 509(a)(3) but has not yet filed the application with the IRS. The University and its controlled corporations are exempt from federal income taxes except to the extent they have unrelated business income. The University and its controlled corporations had no unrelated business income tax liability for the years ended May 31, 2003 and May 31, 2002.

**4. Cash, Cash Equivalents, and Accounts Receivable**

The fair value of cash and accounts receivable is estimated to be the same as carrying (book) value because of their short maturities. Operating funds invested in short-term paper are included as cash equivalents, the value of which may fluctuate based on the financial environment and the type of short-term investment. The fair value of cash equivalents is at market. At May 31, 2003, the fair value of cash, cash equivalents, and accounts receivable totaled \$82,803,000, of which \$16,187,000 is restricted for construction projects. The University reserves accounts receivable determined to be impaired or otherwise uncollectible.

**5. Pledges Receivable**

Unconditional promises to give are included in the consolidated financial statements as pledges receivable with gift revenue reported in the appropriate net asset category. Pledges receivable are recorded at their fair value, which is determined by computing the present value of future cash flows discounted at rates ranging from 4.0 percent to 7.0 percent. The present value and the associated incremental income are reflected as gift revenue of the appropriate net asset category in the period the agreement is made and in the period accreted, respectively.

Unconditional pledges receivable at May 31, are expected to be realized in the following periods (dollars in thousands):

	<u>2003</u>	<u>2002</u>
In one year or less	\$ 9,491	\$ 12,522
Between one year and five years	12,513	19,546
More than five years	28,777	27,648
Less discount	<u>(13,317)</u>	<u>(17,508)</u>
	<u>\$ 37,464</u>	<u>\$ 42,208</u>

Unconditional pledges receivable at May 31, have the following restrictions (dollars in thousands):

	<u>2003</u>	<u>2002</u>
Endowment for departmental programs and activities	\$ 6,108	\$ 7,838
Endowment for scholarships	2,907	2,827
Construction projects	8,741	10,030
Departmental programs and activities	5,556	6,581
Purpose restriction met	<u>14,152</u>	<u>14,932</u>
	<u>\$ 37,464</u>	<u>\$ 42,208</u>

Conditional promises to give are not recorded in the financial statements until the conditions on which they depend are substantially met. As of May 31, the University has received pledges contingent on the following conditions (dollars in thousands):

	<u>2003</u>	<u>2002</u>
Contingent on donor's earnings	\$ 14,375	\$ 15,625
Matching donation requirement	20,600	20,800
Other	6,083	3,583
	<u>\$ 41,058</u>	<u>\$ 40,008</u>

## 6. Investments

Total investments at May 31, are as follows (dollars in thousands):

	<u>2003</u>		<u>2002</u>	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Short-term paper	\$ 49,885	\$ 49,885	\$ 44,126	\$ 44,126
Stocks	379,612	379,612	438,236	438,236
Bonds	209,338	209,338	208,258	208,258
Venture capital	14,603	10,167	16,645	14,706
Mortgage and other notes receivable	14,449	14,449	9,817	9,817
Real estate:				
Surface ownership	4,096	4,096	5,250	5,250
Mineral rights	-	11,490	-	10,765
Total real estate	<u>\$ 4,096</u>	<u>\$ 15,586</u>	<u>\$ 5,250</u>	<u>\$ 16,015</u>
Other	<u>204,525</u>	<u>267,919</u>	<u>165,707</u>	<u>212,597</u>
	<u>\$ 876,508</u>	<u>\$ 946,956</u>	<u>\$ 888,039</u>	<u>\$ 943,755</u>

The fair value of marketable securities and bonds is the market value based on quoted market prices. The fair value of venture capital and other investments is based on the most current information reported to the University by the respective investment managers. The fair value of real estate mineral rights is estimated based on the income stream those assets generate. The fair value of mortgage and other notes receivable and real estate surface ownership is not available and cannot be determined without incurring excessive costs.

Investments include assets associated with split interest agreements. The University's split interest agreements consist of perpetual trusts held and administered by others, gift annuities, unitrusts, and annuity trusts. Perpetual trusts held and administered by others are recorded at the current fair value of SMU's interest in the trust assets and are included in other investments. Split interest agreements in the form of unitrusts and annuity trusts are recorded at current fair value by discounting estimated cash flows by using a discount rate of 6.63 percent and have been included on the balance sheets as investments. Under these split interest agreements, the University has the right to receive income distributions, which are reported as revenue.

Assets associated with gift annuities, unitrusts and annuity trusts held by the University are included in the applicable investment classifications. These investments total \$8,726,000 and \$9,917,000 as of May 31, 2003 and 2002, respectively. Under these split interest agreements, the University makes periodic payments to named beneficiaries in return for assets received. As of May 31, 2003 and 2002, the present value of the University's financial obligation to beneficiaries is \$6,033,000 and \$6,968,000, respectively. These liabilities represent the present values of the anticipated future payments to the income beneficiaries based on their life expectancies determined from the actuarial tables published by the Internal Revenue Service, using the prevailing rate as of the date of each agreement.

The University also owns foreign investments that are included in the applicable investment classifications on the consolidated balance sheets. To mitigate foreign exchange risk, the University may also purchase foreign currency futures contracts, the unrealized gains and losses on which are reflected in the fair values of appropriate investment categories.

Investment return is comprised of investment income and net realized and unrealized gains and losses. Investment income of \$21,067,000 and \$20,736,000 for the years ended May 31, 2003 and 2002, respectively, are net of related expenses, such as custodial fees and investment advisory fees. These expenses are approximately \$5,133,000 and \$5,239,000 for the years ended May 31, 2003 and 2002, respectively. Net realized and unrealized losses total \$27,213,000, and \$17,320,000 for the years ended May 31, 2003 and 2002, respectively. Included in these amounts, losses of approximately \$28,536,000 and \$20,367,000 for the years ended May 31, 2003 and May 31, 2002, respectively, are attributed to assets reported at fair value.

#### 7. **Property, Plant and Equipment**

Plant assets include net interest expense of \$630,000 and revenue of \$493,000 capitalized for construction bond projects during fiscal years 2003 and 2002, respectively, and are recorded as follows (dollars in thousands):

	<u>2003</u>	<u>2002</u>
Land	\$ 27,332	\$ 26,628
Land improvements	23,039	18,907
Buildings	395,237	360,003
Equipment, art objects and other	78,167	63,382
Construction in progress	<u>19,645</u>	<u>30,233</u>
Total plant assets	\$ 543,420	\$ 499,153
Less accumulated depreciation	<u>(163,356)</u>	<u>(148,870)</u>
Total, net of accumulated depreciation	<u>\$ 380,064</u>	<u>\$ 350,283</u>

#### 8. **Accounts Payable and Accrued Expenses**

At May 31, 2003, the University has \$52,659,000 reported as accounts payable and accrued expenses. Included in this amount is the present value of future obligations, which is adjusted annually. This carrying value approximates fair value. Due to the short maturity of the other obligations included in accounts payable and accrued expenses, the carrying values reflected on the consolidated financial statements approximate their fair values.

9. **Notes and Bonds Payable**

Notes and bonds payable at May 31, consist of the following (dollars in thousands):

	<u>2003</u>	<u>2002</u>
Notes payable, including \$7,000 borrowed against a \$7,000 line of credit as of May 31, 2003 and May 31, 2002, due at various dates through 2016 with interest rates ranging up to 8%, secured by equipment and real property	<u>\$ 8,690</u>	<u>\$ 8,940</u>
Bonds payable; due serially at various dates through 2013, with interest rates from 3% to 3.5%; collateralized by certain revenues	\$ 2,119	\$ 2,361
Bonds payable; 1985 Refunding Series; daily demand put bonds due 2015 with a variable interest rate; secured by a one-year irrevocable letter of credit	49,200	49,200
Bonds payable, 1992 Serial Bonds; maturing from 2002 to 2008 with fixed interest rates ranging from 5.90% to 6.375% and term bonds maturing 2013 and 2022 with interest rates of 6.375% and 6.25%, respectively; secured by unrestricted receivables; refunded in full on October 1, 2002	-	39,535
Bonds payable, 1995 Serial Bonds; maturing from 2002 through 2010 with fixed interest rates ranging from 4.40% to 5.25% and term bonds maturing in 2016 and 2026 with a fixed interest rate of 5.125%; secured by unrestricted receivables	38,710	39,525
Bonds payable, 1999 A Serial Bonds; maturing from 2003 through 2013 with fixed interest rates ranging from 3.90% to 5.00% and term bonds maturing from 2018 through 2029 with a fixed interest rate of 5.00%; secured by unrestricted receivables	51,515	51,515
Bonds payable, 1999 B Variable Rate Bonds; weekly demand put bonds maturing 2029 with a variable interest rate; secured by a one-year irrevocable letter of credit	8,400	11,500
Bonds payable, 1999 C Variable Rate Bonds; weekly demand put bonds maturing 2029 with a variable interest rate; secured by a one-year irrevocable letter of credit	22,000	23,600
Bonds payable, 1999 D Term Bonds; maturing 2022 with a fixed interest rate of 5.00%; secured by unrestricted receivables	13,630	13,630
Bonds payable; 2002 Serial Bonds; maturing from 2003 through 2032 with fixed interest rates ranging from 3.00% to 5.00% and term bonds maturing in 2030 and 2032 with fixed interest rates of 5.00% and 5.125% respectively; secured by unrestricted receivables	69,670	-
<b>Total Bonds Payable</b>	<u><b>\$255,244</b></u>	<u><b>\$230,866</b></u>

At May 31, 2003, the fair value of the notes and bonds payable is approximately \$8,281,000 and \$267,273,000, respectively. The fair value of notes payable was determined by computing the present value of future payments discounted at 6.63 percent. Bonds payable were valued at the present value of future payments discounted at the prevailing interest rate for comparable debt instruments at May 31, 2003.

Net proceeds from 1999 Series A bonds are to fund building and grounds improvements, new campus construction and real estate acquisitions. At May 31, 2003, \$6,733,000 of the proceeds from this series was unexpended.

Bond issuance costs of \$7,716,000 and \$6,630,000 as of May 31, 2003 and 2002, respectively, are capitalized and amortized over the life of the bonds.

As required by bond indenture agreements, the University has cash and securities on deposit with the trustee banks as of May 31, 2003, which have fair values totaling \$6,422,000, of which \$1,022,000 relates to the \$2,119,000 bonds payable due through 2013, \$5,400,000 relates to the \$49,200,000 bonds payable due in 2015. These assets are restricted for the payment of principal and interest on the related indebtedness.

Interest expense on notes and bonds payable was \$9,862,000 and \$9,506,000 for fiscal years ending May 31, 2003 and 2002, respectively. As of May 31, 2003, scheduled principal maturities are \$2,603,000, \$3,730,000, \$3,900,000, and \$3,971,000, and \$4,164,000 for the years ending May 31, 2004 through 2008, respectively, and \$245,566,000 for 2009 and thereafter.

On July 3, 2002, the University issued Series 2002 bonds totaling \$69,670,000, for the construction, renovation and acquisition of buildings, land, fixtures, equipment and improvement, and to refund certain existing obligations. Series 2002 proceeds were used to refund the October, 2002 principal payments for the University's Series 1995 and 1967 bonds, as well as interest thereon, and a portion of the Series 1992 bonds. Escrowed proceeds from the Series 2002 and 1999D issues did fully refund the Series 1992 bonds at a two percent (2.0%) premium on October 1, 2002. The economic benefit to the University from the Series 2002 refinancing of the Series 1992 issue was approximately \$2,478,000. The remaining bond issuance costs associated with the Series 1992 bonds continue to be amortized over the remaining original life of the retired issue. Net proceeds from Series 2002 bonds are to fund buildings and grounds improvements, new campus construction and real estate acquisitions. At May 31, 2003, \$30,978,000 of the proceeds from this series was unexpended.

#### 10. Net Assets Released from Restrictions

The sources of net assets released from temporary restrictions by incurring expenses satisfying the restricted purpose or by occurrence of events specified by donors were as follows (dollars in thousands):

	<u>2003</u>	<u>2002</u>
Acquisition of buildings and equipment	\$ 14,560	\$ 13,799
Scholarships	955	804
Instruction, research, departmental support and other	8,665	6,648
Total	<u>\$ 24,180</u>	<u>\$ 21,251</u>



## 11. Restrictions and Limitations on Net Asset Balances

Temporarily and permanently restricted net assets at May 31, consist of the following (dollars in thousands):

	2003		2002	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Donor-restricted endowment	\$ 85,663	\$ 308,920	\$ 92,566	\$ 298,131
Annuity trust and unitrust	50	2,974	50	3,411
Student loan funds	-	17,385	-	17,039
Gifts and other unexpended revenues and gains available for:				
Acquisition of building and equipment	29,830	-	37,615	-
Scholarships	1,189	-	975	-
Instruction, research, departmental support and other	41,644	-	50,338	-
	<u>\$ 158,376</u>	<u>\$ 329,279</u>	<u>\$ 181,544</u>	<u>\$ 318,581</u>

## 12. Retirement Plan

The University has a defined contribution retirement plan covering substantially all full-time and part-time employees working more than 1,000 hours per year. Retirement benefit expenses under this plan were approximately \$8,961,000 in fiscal year 2003 and \$8,485,000 in fiscal year 2002.

## 13. Post Employment Benefits

The University accrues obligations for certain other future post employment benefits payable to former or inactive employees, if they are determinable. The University has post employment benefit obligations of \$1,503,000 in fiscal year 2003 and \$1,358,000 in fiscal year 2002.

## 14. Postretirement Health Care Benefits

The University provides postretirement health care benefits for employees who meet minimum age and service requirements and retire from the University. Health care benefits provided to retirees are capped at a lifetime maximum of \$32,000 for individuals born before January 1, 1936 and to \$50,000 for all others. These benefits are funded from unrestricted net assets of the University when claims are submitted.

The University accrues the expected cost of providing postretirement benefits, other than pensions, during the years that employees render services. The accumulated postretirement benefit obligation (APBO) initially recognized in fiscal year 1994 is being amortized over twenty years.

Actuarial assumptions used to determine the value of the APBO and the benefit costs included a discount rate of 6.63 percent per annum and health care cost trends graded from 9.0 percent in 2003 to 5.0 percent in 2011.

The components of the net postretirement benefit costs for the years ended May 31, are as follows (dollars in thousands):

	<u>2003</u>	<u>2002</u>
Service cost	\$ 648	\$ 603
Interest cost	1,195	1,141
Net amortization	858	849
Net postretirement benefit cost	<u>\$ 2,701</u>	<u>\$ 2,593</u>

The accrued postretirement benefit obligations recognized in the University's balance sheets as of May 31, are reconciled as follows (dollars in thousands):

	<u>2003</u>	<u>2002</u>
Accrued postretirement benefit obligation at beginning of the year	\$ 5,494	\$ 3,888
Service cost	648	603
Interest cost	1,195	1,141
Amortization of initial obligation	307	307
Amortization of actuarial loss	551	542
Benefits paid	(1,085)	(987)
Accrued postretirement benefit obligation	<u>\$ 7,110</u>	<u>\$ 5,494</u>

Health care cost trend assumptions have a significant impact on the amounts reported. A one percentage point change in the assumed health care cost trend rate would result in a \$82,000 increase in the net periodic postretirement benefit cost recognized in fiscal year 2003 and a \$679,000 increase in the accumulated postretirement benefit obligation for health care benefits as of May 31, 2003.

#### 15. **Commitments and Contingencies**

The University is contractually obligated for approximately \$18,552,000 at May 31, 2003 for construction projects with scheduled completion dates through fiscal year 2004.

The University incurred \$1,910,000 and \$1,965,000 in operating lease expenses for facilities and equipment in the fiscal years ended May 31, 2003 and 2002, respectively. As of May 31, 2003, the University has lease commitments for future periods totaling approximately \$2,033,000. Of these commitments, \$1,184,000, \$544,000, \$272,000, \$29,000 and \$4,000 are due in the fiscal years ending 2004 through 2008, respectively, and none is due in fiscal year 2009 and thereafter.

The University has committed to capital draws totaling \$279,513,000 for stock funds, venture capital and other investments, of which \$158,599,000 had been drawn as of May 31, 2003. The University has committed to pay draws as required for the remaining \$120,914,000 through fiscal year 2015.

The University participates in the federal Title IV student financial aid programs and must fulfill federal requirements to qualify for these programs. Management is of the opinion that the University is in compliance with the federal requirements.

The University is a defendant in several legal actions. The outcomes of these actions cannot be determined at this time, but management is of the opinion that liability, if any, from these actions will not have a material effect on the University's financial position.