

OFFICIAL STATEMENT DATED SEPTEMBER 18, 2009

**NEW ISSUE
BOOK-ENTRY ONLY**

**RATINGS:
Moody's: Aa3
Standard & Poor's: AA-
See "RATINGS" herein.**

The delivery of the Series 2009 Bonds (as described below) is subject to the opinion of Vinson & Elkins L.L.P., Bond Counsel, to the effect that interest on the Bonds is excludable from gross income for federal income tax purposes under existing law and is not subject to the alternative minimum tax imposed on individuals. See "TAX MATTERS—TAX EXEMPTION" herein for a discussion of Bond Counsel's opinion, including a description of alternative minimum tax consequences for corporations and other federal tax consequences.



SOUTHERN
METHODIST
UNIVERSITY

\$147,635,000
SOUTHWEST HIGHER EDUCATION AUTHORITY, INC.
Higher Education Revenue Bonds
(Southern Methodist University Project)
Series 2009

Dated: Date of Delivery

Due: October 1, as shown below

The Southwest Higher Education Authority, Inc. (the "Issuer") is offering \$147,635,000 of its Higher Education Revenue Bonds (Southern Methodist University Project) Series 2009 (the "Series 2009 Bonds"). Interest on the Series 2009 Bonds accrues from the date of delivery and is payable on April 1, 2010, and semiannually on each October 1 and April 1 thereafter. The Series 2009 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 2009 Bonds. So long as the book-entry system is in effect, purchases of beneficial ownership interests in the Series 2009 Bonds will be made in book-entry form only and purchasers will not receive certificates representing their interests in the Series 2009 Bonds purchased. Principal of, any redemption price for, and interest on the Series 2009 Bonds will be payable by The Bank of New York Mellon Trust Company, National Association (the "Trustee") to the registered owners of the Series 2009 Bonds, initially to DTC, which in turn is to remit such payments to its participants for subsequent disbursement to beneficial owners.

The Series 2009 Bonds are subject to optional and mandatory sinking fund redemption prior to maturity, as described herein. See "THE SERIES 2009 BONDS—REDEMPTION" herein.

The Series 2009 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.

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 2009 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 2009 BONDS. THE ISSUER HAS NO TAXING POWER.

Maturity Schedule
\$127,980,000 Serial Bonds

Due October 1	Amount	Interest Rate	Yield	CUSIPs [†]	Due October 1	Amount	Interest Rate	Yield	CUSIPs [†]
2010	\$2,000,000	2.00%	0.49%	845040 GG3	2020	\$9,980,000 ^c	5.00%	3.37%	845040 GT5
2011	2,035,000	2.00%	1.02%	845040 GH1	2021	10,510,000 ^c	5.00%	3.48%	845040 GU2
2012	2,430,000	3.00%	1.44%	845040 GJ7	2022	9,100,000 ^c	5.00%	3.61%	845040 GV0
2013	3,325,000	3.00%	1.81%	845040 GK4	2023	7,765,000 ^c	5.00%	3.70%	845040 GW8
2014	3,900,000	5.00%	2.11%	845040 GL2	2024	8,150,000 ^c	5.00%	3.74%	845040 GX6
2015	4,100,000	4.00%	2.46%	845040 GM0	2025	8,555,000 ^c	5.00%	3.84%	845040 GY4
2016	5,795,000	5.00%	2.69%	845040 GN8	2026	8,865,000 ^c	5.00%	3.92%	845040 GZ1
2017	3,175,000	4.00%	2.94%	845040 GP3	2027	200,000	4.00%	4.00%	845040 HA5
2017	2,740,000	5.00%	2.94%	845040 GQ1	2027	6,285,000 ^c	5.00%	4.00%	845040 HB3
2018	6,240,000	5.00%	3.08%	845040 GR9	2028	6,810,000 ^c	5.00%	4.08%	845040 HC1
2019	9,295,000	5.00%	3.25%	845040 GS7	2029	6,725,000 ^c	5.00%	4.11%	845040 HD9

\$ 3,500,000 4.25% Term Bonds due October 1, 2032 Priced at 98.985% to yield 4.32% CUSIP No.[†] 845040 HE7

\$ 4,000,000^c 5.00% Term Bonds due October 1, 2032 Priced at 105.474% to yield 4.32% CUSIP No.[†] 845040 HF4

\$12,155,000^c 5.00% Term Bonds due October 1, 2036 Priced at 105.225% to yield 4.35% CUSIP No.[†] 845040 HG2

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 2009 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 opinion of Vinson & Elkins L.L.P., 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 Bond Counsel, for the University by its counsel, Paul J. Ward, General Counsel and Vice President for Legal Affairs and Government Relations, and for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P. First Southwest Company is serving as Financial Advisor to the University. It is expected that the Series 2009 Bonds will be delivered through the facilities of DTC on or about October 1, 2009.

Merrill Lynch & Co.

**Jackson Securities
Morgan Keegan & Company, Inc.**

**J.P. Morgan
Wells Fargo Securities**

[†] 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.

^c Priced at the stated yield to the October 1, 2019 optional redemption date at a redemption price equal to the principal amount of such Series 2009 Bonds.

THE SERIES 2009 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAS THE INDENTURE OR THE MASTER 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 2009 BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAW OF THE STATES IN WHICH THE SERIES 2009 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 2009 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 AS SUCH INFORMATION WAS FURNISHED BY THE DEPOSITORY TRUST COMPANY.

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 2009 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 2009 Bonds may be changed from time to time by the Underwriters after such bonds are released for sale, and the Series 2009 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 2009 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.

The Bank of New York Mellon Trust Company, National Association, in each of its capacities, including but not limited to Bond Trustee, Master Trustee, Paying Agent and Bond Registrar, has not participated in the preparation of this Official Statement and assumes no responsibility for its contents.

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OFFICIAL STATEMENT

\$147,635,000

**Southwest Higher Education Authority, Inc.
Higher Education Revenue Bonds
(Southern Methodist University Project)
Series 2009**

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 2009 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 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 2009 Bonds, you may obtain a copy of the documents described herein by contacting Mary Williams, First Southwest Company at the following address or phone number to request a free copy: 325 North St. Paul Street, Suite 800, Dallas, Texas 75201, (214) 953-4021. After delivery of the Series 2009 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 \$147,635,000 aggregate principal amount of Higher Education Revenue Bonds (Southern Methodist University Project) Series 2009 (the "*Series 2009 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 effective on September 1, 2005 and recodified as Chapters 53, 53A and 53B, as it may be further amended from time to time (the "*Act*").

The Series 2009 Bonds

The Series 2009 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, 2010. The Series 2009 Bonds are subject to optional and mandatory sinking fund redemption. See "**THE SERIES 2009 BONDS—REDEMPTION**" herein.

Use of Proceeds

The proceeds of the sale of the Series 2009 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: (i) refunding the Issuer's Higher Education Revenue Bonds (Southern Methodist University Project) Series 1999 D (the "Series 1999 D Bonds") and the Issuer's Variable Rate Demand Higher Education Revenue Bonds (Southern Methodist University Project) Series 2006 (the "Series 2006 Bonds"), (ii) financing and refinancing the cost of certain educational facilities and housing facilities and facilities incidental, subordinate or related thereto or appropriate in connection therewith and (iii) paying certain costs of issuance of the Series 2009 Bonds. See "**PLAN OF FINANCE**" and "**THE SERIES 2009 PROJECTS**" herein.

The University

The University owns and operates a private, medium-sized institution of higher education located primarily in University Park, Texas, a city that, with the adjacent City of Highland Park, is surrounded by the City of Dallas, Texas. As of September 1, 2009, the University has approximately 9,000 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 Issued by the Issuer

The Issuer has previously issued the following outstanding bonds on behalf of the University (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 2007 (the " <i>Series 2007 Bonds</i> ")	\$95,580,000	\$93,300,000
Higher Education Revenue Bonds (Southern Methodist University Project) Series 2003 (the " <i>Series 2003 Bonds</i> ")	31,000,000	27,955,000
Higher Education Revenue Bonds (Southern Methodist University Project) Series 2002 (the " <i>Series 2002 Bonds</i> ")	69,670,000	10,035,000
Higher Education Revenue Bonds (Southern Methodist University Project) Series 1999 A (the " <i>Series 1999 A Bonds</i> ")	51,515,000	1,265,000
Higher Education Revenue Bonds (Southern Methodist University Project) Series 1999 B (the " <i>Series 1999 B Bonds</i> ") (Variable Rate)	35,400,000	1,800,000
Variable Rate Demand Higher Education Revenue Bonds (Southern Methodist University Project) Refunding Series 1985 (the " <i>Series 1985 Refunding Bonds</i> ")	<u>49,295,000</u>	<u>49,200,000</u>
TOTAL:	<u>\$332,460,000</u>	<u>\$183,555,000</u>

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 the Series 1999 B Bonds have all been authenticated as Securities under the Master Indenture. See "**THE INDENTURE, THE LOAN AGREEMENT AND THE MASTER INDENTURE.**" The reimbursement agreements providing for the issuance of direct pay letters of credit relating to the Series 1985 Refunding Bonds and the Series 1999 B Bonds are scheduled to expire on January 22, 2010. The provider of both letters of credit is Landesbank Hessen-Thüringen Girozentrale, acting through its New York Branch (Helaba), and the University is currently pursuing the extension of the letters of credit and reimbursement agreements.

Line of Credit Obligations Secured under the Master Indenture

The University has entered into agreements authorizing in the aggregate \$58,500,000 of indebtedness in connection with lines of credit and a guarantee of indebtedness of Peruna Properties, Inc. (a nonprofit corporation

* Excludes the Refunded Bonds listed on Schedule I – Schedule of Refunded Bonds.

whose sole member is the University) (“*Peruna Properties, Inc.*”), that have been authenticated as Securities under the Master Indenture. A portion of the proceeds of the Series 2009 Bonds will be used to repay amounts borrowed pursuant to such agreements by the University and Peruna Properties, Inc. relating to the Series 2009 Projects, with \$9,430,274 of indebtedness to remain outstanding. Additionally, the University will have the ability to borrow an additional \$15 million under one of the lines of credit.

Series 1963 Bonds Issued by the University and Secured by Certain Revenues

The University previously issued and has outstanding its Southern Methodist University Building Bonds, Series 1963 (the “*Series 1963 Bonds*”). The Series 1963 Bonds were originally issued in the principal amount of \$4,000,000, and were outstanding as of September 1, 2009, in the amount of \$780,000. The trust indenture securing the Series 1963 Bonds is not authenticated as a Security under the Master Indenture. The Series 1963 Bonds are secured by a lien on certain revenues of the University, including revenues that are part of the Trust Estate under the Master Indenture.

Prior Bonds, Line of Credit Obligations Secured under the Master Indenture and Series 1963 Bonds

The following table sets forth amounts outstanding relating to (i) the Prior Bonds, (ii) amounts borrowed under line of credit obligations secured under the Master Indenture referred to above under “Line of Credit Obligations Secured under the Master Indenture” that will remain outstanding after the issuance of the Series 2009 Bonds and (iii) the Series 1963 Bonds:

	<u>PRINCIPAL AMOUNTS</u>
Prior Bonds	\$183,555,000
Line of Credit Obligations Secured under the Master Indenture	9,430,274
Series 1963 Bonds	<u>780,000</u>
TOTAL:	<u>\$193,765,274</u>

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

The Indenture, the Loan Agreement and the Master Indenture

The Series 2009 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 The Bank of New York Mellon Trust Company, National Association, as Trustee (successor in trust to JPMorgan Chase Bank, National Association, 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, the Third Supplemental Indenture (the “*Third Supplemental Indenture*”) dated as of December 1, 2003 between the Issuer and the Trustee, the Fourth Supplemental Indenture (the “*Fourth Supplemental Indenture*”) dated as of February 1, 2007 between the Issuer and the Trustee and a Fifth Supplemental Indenture (the “*Fifth Supplemental Indenture*”) dated as of September 15, 2009 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, the Series 2003 Bonds were issued under the Third Supplemental Indenture, the Series 2007 Bonds were issued under the Fourth Supplemental Indenture and the Series 2009 Bonds are being issued under the Fifth Supplemental Indenture. The Indenture secures the Series 2009 Bonds on a parity with the Series 1999 A Bonds, the Series 2002 Bonds, the Series 2003 Bonds, the Series 2007 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 2002 Bonds, the Series 2003

Bonds, the Series 2007 Bonds, the Series 2009 Bonds and any Additional Bonds are referred to herein collectively as the "Bonds."

The proceeds of the Series 2009 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, an Amendment Number 3 to Loan Agreement ("Amendment No. 3") dated as of December 1, 2003 between the Issuer and the University, an Amendment Number 4 to Loan Agreement ("Amendment No. 4") dated as of February 1, 2007 between the Issuer and the University, and an Amendment Number 5 to Loan Agreement ("Amendment No. 5") dated as of September 15, 2009 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 2009 Bonds is established by Amendment No. 5. 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 2009 Bonds). The Issuer has pledged to the Trustee a security interest in the Issuer's rights under the Loan Agreement (subject to certain exceptions) to secure payment of the Bonds, including the Series 2009 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, Amendment No. 3, Amendment No. 4 and Amendment No. 5, 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 The Bank of New York Mellon Trust Company, National Association (successor in trust to JPMorgan Chase Bank, National Association, 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 Series 1985 Refunding Bonds and the Series 1999 B Bonds, the reimbursement agreements providing for the issuance of direct pay letters of credit relating to the Series 1985 Refunding Bonds and the Series 1999 B Bonds (the "Letters of Credit"), and certain other agreements authorizing in the aggregate \$58,500,000 of indebtedness entered into by the University in connection with lines of credit and a guarantee of indebtedness of Peruna Properties, Inc., are also Securities of the University secured under the Master Indenture. So long as the Series 1985 Refunding Bonds are 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 and imposes certain covenants on the University. Such limited security interest will terminate when the Series 1985 Refunding Bonds are no longer outstanding. Under the Master Indenture, additional loan agreements, reimbursement agreements for Letters of Credit and other types of obligations of the University, 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. Once the Series 1985 Refunding Bonds are no longer outstanding, there will be no specific revenues pledged to the payment of the Bonds and no security interest for the benefit of the Bonds in any revenues of the University, except such revenues as have been paid to the Trustee to pay amounts due and payable on the Bonds pursuant to the Loan Agreement. 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 2009 BONDS

General

The Series 2009 Bonds will be dated the date of delivery 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 2009 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 2009 Bonds will be calculated on the basis of a 360-day year of twelve 30-day months.

The Series 2009 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 2009 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 2009 Bond will be payable to the Owner upon surrender of such Series 2009 Bond at the principal payment office of the Trustee located in Houston, Texas. Interest on each Series 2009 Bond paid on each Interest Payment Date will be paid to the person in whose name such Series 2009 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 2009 Bonds, all payments on Series 2009 Bonds will be made directly to DTC.

Any interest on the Series 2009 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 2009 Bonds maturing on and after October 1, 2020 are subject to redemption upon request and at the direction of the University, prior to their stated maturity, in whole or in part, on any date on and after October 1, 2019, in any order, at a redemption price of 100% of the principal amount of the Series 2009 Bonds to be redeemed, plus accrued interest to the applicable redemption date.

Mandatory Sinking Fund Redemption. The Series 2009 Bonds maturing on October 1, 2032 bearing interest at 4.25%, October 1, 2032 bearing interest at 5.00% and October 1, 2036 are subject to mandatory sinking fund redemption on October 1, in the principal amounts and in the years specified below at a redemption price equal to 100% of the principal amounts thereof plus accrued interest thereon from the most recent Interest Payment Date to the redemption date:

Bonds Maturing October 1, 2032 Bearing Interest at 4.25%	
<u>Redemption Date</u>	<u>Principal Amount</u>
2030	\$1,125,000
2031	1,165,000
2032 [†]	1,210,000
Bonds Maturing October 1, 2032 Bearing Interest at 5.00%	
<u>Redemption Date</u>	<u>Principal Amount</u>
2030	\$1,285,000
2031	1,335,000
2032 [†]	1,380,000

[†]Maturity

Bonds Maturing October 1, 2036
Bearing Interest at 5.00%

<u>Redemption Date</u>	<u>Principal Amount</u>
2033	\$2,870,000
2034	2,980,000
2035	3,095,000
2036 [†]	3,210,000

[†]Maturity

The principal amount of the Series 2009 Bonds of any stated maturity subject to mandatory sinking fund redemption may be reduced by the University by the principal amount of the Series 2009 Bonds of such stated maturity either (1) surrendered 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 an optional redemption, if such Series 2009 Bonds have not previously been reduced pursuant to a redemption.

Notice of Redemption. The Trustee shall give notice of any redemption of the Series 2009 Bonds by first class mail, postage prepaid, mailed at least 30 days prior to the redemption date, to holders of Series 2009 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 2009 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 2009 Bonds to be redeemed, and if less than all outstanding Series 2009 Bonds are to be redeemed, the identification by CUSIP number and Stated Maturity Date of the Series 2009 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 2009 Bonds or portions thereof to be redeemed shall cease to bear interest. The University has retained the right to give a conditional notice of redemption which notice may be rescinded at any time prior to and including the scheduled redemption date upon delivery of written instructions from the University to the Trustee instructing the Trustee to rescind the redemption notice. Upon such rescission, the notice and redemption will be of no effect. The Trustee shall give prompt notice of any such rescission of a notice of redemption to the affected Owners. Any Series 2009 Bonds subject to redemption where redemption has been rescinded will remain Outstanding and the rescission shall not constitute an event of default under the Series 2009 Bonds or the Indenture.

Selection of Series 2009 Bonds to be Redeemed. Series 2009 Bonds may be redeemed only in \$5,000 principal amounts or integral multiples thereof. If less than all of the Series 2009 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 2009 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 2009 Bonds to be redeemed within each such stated maturity; provided that, for so long as the only owner of the Series 2009 Bonds is DTC, the selection of Series 2009 Bonds within a stated maturity will be made by DTC.

SOURCES OF PAYMENT AND SECURITY FOR THE BONDS

General

The Series 2009 Bonds are limited, non-recourse obligations of the Issuer payable by the Issuer solely from and to the extent of the trust estate under the Indenture, which includes the Issuer's interest in and to the Loan Agreement (subject to certain exceptions) including the right to receive loan payments from the University to pay principal and interest on the Bonds when due and the Issuer's rights as a holder of a Security. See, "THE

INDENTURE, THE LOAN AGREEMENT AND THE MASTER INDENTURE” and APPENDIX C, “SUMMARY OF PRINCIPAL DOCUMENTS-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 2009 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 2009 BONDS. THE ISSUER HAS NO TAXING POWER.

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 2009 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 2009 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 1999, 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 2009 Bonds, the Letters of Credit, certain agreements authorizing in the aggregate \$58,500,000 of indebtedness in connection with lines of credit and a guarantee of indebtedness of Peruna Properties, Inc., 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, by Amendment No. 3, by Amendment No. 4 and by Amendment No. 5, 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 Series 1985 Refunding Bonds and the Series 1999 B Bonds, the Letters of Credit and certain agreements authorizing in the aggregate \$58,500,000 of indebtedness in connection with lines of credit and a guarantee of indebtedness of Peruna Properties, Inc. 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 (i) the various agreements relating to the Prior Bonds and the Letters of Credit, (ii) certain agreements in connection with lines of credit and a guarantee of indebtedness of Peruna Properties, Inc. and (iii) 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 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 securing the Prior Bonds and the Series 2009 Bonds, 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 satisfaction of certain conditions including delivery of 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 on a parity with the Series 1999 A Bonds, the Series 2002 Bonds, the Series 2003 Bonds, the Series 2007 Bonds, the Series 2009 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 authenticated 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 2009 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 2009 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,**” 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 2009 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. So long as the Series 1985 Refunding Bonds remain outstanding, 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 ARE PAID OR DEFEASED, THE PLEDGE OF UNRESTRICTED RECEIVABLES WILL TERMINATE WITH RESPECT TO ALL SECURITIES, INCLUDING THE SECURITIES SECURING THE SERIES 2009 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 2009 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 (as it existed in 1999 when the Master Indenture was executed) 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 2009 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 2009 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 ARE PAID OR DEFEASED, THE PLEDGE OF UNRESTRICTED RECEIVABLES WILL TERMINATE WITH RESPECT TO ALL SECURITIES, AND THE SECURITIES SECURING THE SERIES 2009 BONDS AND ALL OTHER PRIOR BONDS WILL CEASE TO BE SECURED BY SUCH PLEDGE.

THE ISSUER

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 effective on September 1, 2005 and recodified as Chapters 53, 53A and 53B, as it may be further amended from time to time, 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 2009 Bonds will be issued under the terms of a bond resolution adopted by the Issuer on September 9, 2009 (the "Bond Resolution"), authorizing the issuance and sale of the Series 2009 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
Paula F. Calise	Vice President/Assistant Secretary
Tarek El-Yafi	Vice President/Assistant Secretary
David Gordon	Vice President/Assistant Secretary
Wayne Tenney	Vice President/Assistant Secretary
Richard N. Quisenberry	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 2009 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 agency or political subdivision thereof, or a charge against the general credit or taxing power of the City, the State of Texas, or any agency or political subdivision thereof. The Issuer shall not be obligated to pay the principal of, premium, if any, or interest on the Series 2009 Bonds except from the revenues derived from the Loan Agreement. The Issuer has no taxing power.

PLAN OF FINANCE

The proceeds of the Series 2009 Bonds, together with certain other available funds, will be applied to: (i) currently refund the outstanding Series 1999 D Bonds and Series 2006 Bonds (the "Refunded Bonds"), (ii) finance and refinance the cost of certain educational facilities and housing facilities and facilities incidental, subordinate or related thereto or appropriate in connection therewith, including the Series 2009 Projects described below and (iii) to pay certain costs of issuance of the Series 2009 Bonds.

See "ESTIMATED SOURCES AND USES OF FUNDS," "THE SERIES 2009 PROJECTS" and "REFUNDING OF THE SERIES 1999 D AND SERIES 2006 BONDS" for additional information regarding the application of the Series 2009 Bond 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 2009 Bonds.

Sources of Funds:

Principal Amount of Series 2009 Bonds	\$147,635,000.00
Net Bond Premium	14,400,906.55
University Contribution*	<u>5,726.71</u>
Total Sources of Funds	\$162,041,633.26

Uses of Funds:

Capital Projects	\$66,160,958.58
Escrow Deposit for Series 1999 D Bonds	12,123,583.33
Payment of 2006 Bonds	82,520,726.71
Underwriters' Discount	634,425.90
Costs of Issuance	<u>601,938.74</u>
Total Uses of Funds	\$162,041,633.26

*Estimated based on the assumption that the weekly interest rate on the Series 2006 Bonds will reset at .35% on September 30, 2009. This amount will be adjusted as necessary to provide sufficient funds to refund the Series 2006 Bonds on October 1, 2009.

THE SERIES 2009 PROJECTS

The Series 2009 Projects include the following projects:

1. Acquisition of land and buildings and interests in land;
2. Renovations and improvements to existing facilities;
3. Planning and site preparation in connection with the acquisition and construction of student housing and parking facilities, a health center, a technology and data center and common areas of the University;
4. The payment of costs of issuance of the Series 2009 Bonds; and
5. The 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 the Act) and facilities incidental, subordinate, or related thereto or appropriate in connection therewith.

While the information relating to the Series 2009 Projects reflects the University's current plans and estimates regarding such projects, there can be no assurance that such project plan will be fully executed.

REFUNDING OF THE SERIES 1999 D AND SERIES 2006 BONDS

The University has determined to use a portion of the proceeds of the Series 2009 Bonds, together with other available funds, to refund the Refunded Bonds. The University will deposit with The Bank of New York Mellon Trust Company, National Association (successor in trust to JPMorgan Chase Bank, National Association, formerly known as The Chase Manhattan Bank, successor by merger to Chase Bank of Texas, National Association), as trustee for the Series 1999 D Bonds, an amount which will be sufficient to pay the principal of and interest on all of the outstanding Series 1999 D Bonds on October 31, 2009. By making such deposit, the University will have effected the defeasance of the Series 1999 D Bonds in accordance with the law. It is the opinion of Bond Counsel that as a result of such defeasance, the Series 1999 D Bonds will be outstanding only for the purpose of receiving payments from the cash held for such purpose and such Series 1999 D Bonds will not be deemed as being

Outstanding Bonds for any other purpose. The principal of and interest on all of the outstanding Series 2006 Bonds will be paid on October 1, 2009. "See SCHEDULE I – SCHEDULE OF REFUNDED BONDS."

ESTIMATED ANNUAL DEBT SERVICE REQUIREMENTS

The following table sets forth, for each fiscal year, beginning with the fiscal year ending May 31, 2010, the amount (estimated with respect to variable rate bonds and lines of credit as described in footnote (2)) required for the payment of principal, mandatory sinking fund redemptions, and interest on the Series 2009 Bonds, the Prior Bonds and the Series 1963 Bonds, and principal and interest anticipated by the University for budgeting purposes to be paid annually on amounts that will remain outstanding under certain lines of credit after the issuance of the Series 2009 Bonds.

Fiscal Year Ending May 31,	Series 2009 Principal ⁽¹⁾	Series 2009 Interest	Total Series 2009 Debt Service	Prior Bonds, Lines of Credit and Series 1963 Bonds Debt Service ⁽²⁾	Total Debt Service ⁽²⁾
2010	-	3,522,300	3,522,300	\$13,557,906	\$17,080,206
2011	2,000,000	7,024,600	9,024,600	14,032,703	23,057,303
2012	2,035,000	6,984,250	9,019,250	14,042,806	23,062,056
2013	2,430,000	6,927,450	9,357,450	13,345,510	22,702,960
2014	3,325,000	6,841,125	10,166,125	14,062,503	24,228,628
2015	3,900,000	6,693,750	10,593,750	13,905,903	24,499,653
2016	4,100,000	6,514,250	10,614,250	61,097,603	71,711,853
2017	5,795,000	6,287,375	12,082,375	11,503,405	23,585,780
2018	5,915,000	6,010,500	11,925,500	11,494,580	23,420,080
2019	6,240,000	5,722,500	11,962,500	11,493,802	23,456,302
2020	9,295,000	5,334,125	14,629,125	9,061,809	23,690,934
2021	9,980,000	4,852,250	14,832,250	8,771,848	23,604,098
2022	10,510,000	4,340,000	14,850,000	8,765,323	23,615,323
2023	9,100,000	3,849,750	12,949,750	8,771,435	21,721,185
2024	7,765,000	3,428,125	11,193,125	8,765,430	19,958,555
2025	8,150,000	3,030,250	11,180,250	8,751,628	19,931,878
2026	8,555,000	2,612,625	11,167,625	8,358,813	19,526,438
2027	8,865,000	2,177,125	11,042,125	7,994,680	19,036,805
2028	6,485,000	1,794,375	8,279,375	7,998,174	16,277,549
2029	6,810,000	1,463,000	8,273,000	8,847,943	17,120,943
2030	6,725,000	1,124,625	7,849,625	10,591,571	18,441,196
2031	2,410,000	900,469	3,310,469	4,664,768	7,975,237
2032	2,500,000	786,306	3,286,306	4,662,426	7,948,732
2033	2,590,000	667,963	3,257,963	4,661,566	7,919,529
2034	2,870,000	536,000	3,406,000	1,863,225	5,269,225
2035	2,980,000	389,750	3,369,750	-	3,369,750
2036	3,095,000	237,875	3,332,875	-	3,332,875
2037	3,210,000	80,250	3,290,250	-	3,290,250
Totals	<u>\$147,635,000</u>	<u>\$100,132,963</u>	<u>\$247,767,963</u>	<u>\$291,067,360</u>	<u>\$538,835,323</u>

- (1) Principal is due on October 1 in each such fiscal year either at maturity or pursuant to mandatory sinking fund redemption.
- (2) Includes debt service on all of the outstanding Prior Bonds and the Series 1963 Bonds. The Series 1985 Refunding Bonds and the Series 1999 B Bonds (all of which bear interest at variable rates) are assumed to have an "all in" interest cost of 4.335% through their final scheduled maturity. Includes estimated debt service for amounts borrowed pursuant to lines of credit and a guarantee of indebtedness of Peruna Properties, Inc. (collectively, the "Lines of Credit"), that have been authenticated as Securities under the Master Indenture. The Lines of Credit are assumed to have an "all in" interest cost of 4.00%. The Lines of Credit all mature within 22 months or fewer of the date hereof, and there can be no assurance given that the University will be able to refinance such Lines of Credit in order to achieve the debt service schedule included above for the Lines of Credit.

FUTURE DEBT

Depending on market conditions and other factors, the University currently anticipates issuing up to \$165 million in aggregate principal amount of Additional Bonds sometime during the next 18 months to finance acquisition, construction and equipping of some or all of the following facilities: a data and technology center, student housing and parking facilities, a health center, intramural fields and other improvements.

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 2009 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 2009 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.

Tax-Exempt Status of the Series 2009 Bonds

The Internal Revenue Code of 1986, as amended (the "Code") imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the Series 2009 Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds, limitations on the investment earnings of bond proceeds prior to expenditure, a requirement that certain investment earnings on bond proceeds be paid periodically to the United States, and a requirement that issuers file an information report with the Internal Revenue Service (the "IRS"). The University has agreed that it will comply with such requirements. Failure to comply with the requirements stated in the Code and related regulations, rulings and policies may result in the treatment of the interest on the Series 2009 Bonds as taxable. Such adverse treatment may be retroactive to the date of issuance. See also "TAX MATTERS."

In December 1999, as a part of a larger reorganization of the IRS, the IRS commenced operation of its Tax-Exempt and Government Entities Division (the "TE/GE Division") as the successor to its Employee Plans and Exempt Organizations division. The TE/GE Division has a subdivision that is specifically devoted to tax-exempt bond compliance. The number of tax-exempt bond examinations has increased significantly under the TE/GE Division.

The University has not sought to obtain a private letter ruling from the IRS with respect to the Series 2009 Bonds, and the opinion of Bond Counsel is not binding on the IRS. There is no assurance that any IRS examination of the Series 2009 Bonds will not adversely affect the market value of the Series 2009 Bonds. See "TAX MATTERS."

Tax-Exempt Status of the University

The tax-exempt status of the Series 2009 Bonds currently depends upon maintenance by the University of its status as an organization described in section 501(c)(3) of the Code. The maintenance of this status depends on compliance with general rules regarding the organization and operation of tax-exempt entities, including operation for charitable and educational purposes and avoidance of transactions that may cause earnings or assets to inure to the benefit of private individuals, such as the private benefit and inurement rules.

Tax-exempt organizations are subject to scrutiny from and face the potential for sanction and monetary penalties imposed by the IRS. One primary penalty available to the IRS under the Code with respect to a tax-exempt entity engaged in inurement or unlawful private benefit is the revocation of tax-exempt status. Although the IRS has not frequently revoked the tax-exempt status of non-profit organizations, it could do so in the future. Loss of tax-exempt status by the University could result in loss of tax exemption of the Series 2009 Bonds and defaults in covenants regarding the Series 2009 Bonds and other obligations would likely be triggered. Loss of tax-exempt status by the University could also result in substantial tax liabilities on its income. For these reasons, loss of tax-exempt status of the University could have material adverse consequences on the financial condition of the University.

On December 20, 2007, the IRS issued an updated version of Form 990, the return that charities and other tax-exempt organizations are required to file annually, for tax year 2008 (returns filed in 2009). The new Form 990 implements more stringent reporting requirements for tax-exempt organizations than previously in effect. Major revisions were made to the form's summary page, governance section, and various schedules, including those relating to executive compensation, related organizations and tax-exempt bonds. The IRS also announced a phase in of the new form's schedules for tax exempt bonds (Schedule K). The additional oversight required to comply with the new Form 990 in the future will almost certainly require an increased investment of time on the part of the University and may increase the potential for sanctions and monetary penalties imposed by the IRS.

With increasing frequency, the IRS is imposing substantial monetary penalties and future charity or public benefit obligations on tax-exempt entities in lieu of revoking tax-exempt status, as well as requiring that certain transactions be altered, terminated or avoided in the future and/or requiring governance or management changes. These penalties and obligations typically are imposed on the tax-exempt organization pursuant to a "closing agreement," a contractual agreement pursuant to which a taxpayer and the IRS agree to settle a disputed matter. Given the exemption risks involved in certain transactions, the University may be at risk for incurring monetary and other liabilities imposed by the IRS. These liabilities could be materially adverse.

Less onerous sanctions, referred to generally as "intermediate sanctions," have been enacted, which sanctions focus enforcement on private persons who transact business with an exempt organization rather than the exempt organization itself, but these sanctions do not replace the other remedies available to the IRS, as mentioned above.

The University may be audited by the IRS. Because of the complexity of the tax laws and the presence of issues about which reasonable persons can differ, an IRS audit could result in additional taxes, interest and penalties. An IRS audit ultimately could affect the tax-exempt status of the University, as well as the exclusion from gross income for federal income tax purposes of the interest on the Series 2009 Bonds and any other tax-exempt debt issued for the University.

State and Local Tax Exemption

Texas has not been as active as the IRS in scrutinizing the tax-exempt status of nonprofit organizations. It is possible that legislation may be proposed to strengthen the role of the Texas Attorney General in supervising

nonprofit organizations. It is likely that the loss by the University of federal tax exemption also would trigger a challenge to the state or local tax exemption of the University. Depending on the circumstances, such event could be adverse and material.

It is not possible to predict the scope or effect of future legislative or regulatory actions with respect to taxation of non-profit corporations. There can also be no assurance that future changes in the laws and regulations of federal, state or local governments will not materially adversely affect the operations and financial conditions of the University by requiring the University to pay income or local property taxes.

Unrelated Business Income

The IRS and state, county and local tax authorities may undertake audits and reviews of the operations of tax-exempt organizations with respect to the generation of unrelated business taxable income ("UBTI"). The University may participate in activities that generate UBTI. An investigation or audit could lead to a challenge that could result in taxes, interest and penalties with respect to UBTI and, in some cases, ultimately could affect the tax-exempt status of the University as well as the exclusion from gross income for federal income tax purposes of the interest payable on the Series 2009 Bonds.

Enforceability

The remedies granted to the Trustee or the owners of the Series 2009 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 MATTERS

Tax Exemption

In the opinion of Vinson & Elkins L.L.P., Bond Counsel, assuming compliance with certain covenants and based on certain representations, (i) interest on the Series 2009 Bonds is excludable from gross income for federal income tax purposes under existing law, (ii) the Series 2009 Bonds are "qualified 501(c)(3) bonds" under the Code, and interest on the Series 2009 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 for interest on state or local obligations, such as the Series 2009 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 described in section 501(c)(3) of the Code, limitations on the use of bond proceeds and the source of repayment of bonds, 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 IRS. The University and the Issuer have covenanted in the Indenture and the Loan Agreement that they will comply with these requirements.

For purposes of its opinion that the Series 2009 Bonds are "qualified 501(c)(3) bonds," Bond Counsel will assume continuing compliance with the covenants of the Indenture and the Loan Agreement pertaining to those sections of the Code that affect the status of the University as an organization described in section 501(c)(3) of the Code and the exclusion from gross income of interest on the Series 2009 Bonds for federal income tax purposes. In addition, Bond Counsel will rely on representations by the Issuer, the University, the Underwriters and the Financial Advisor with respect to matters solely within the knowledge of the Issuer, the University, the Underwriters and the Financial Advisor, respectively, which Bond Counsel has not independently verified. If the University or the Issuer should fail to comply with the covenants in the Indenture and the Loan Agreement or the foregoing representations

should be determined to be incorrect, inaccurate or incomplete, interest on the Series 2009 Bonds could become includable in gross income for federal income tax purposes from the date of delivery of the Series 2009 Bonds, regardless of the date on which the event causing such inclusion occurs.

The Code also imposes a 20% alternative minimum tax on the alternative minimum taxable income of a corporation (other than an S corporation, regulated investment company, REIT, REMIC or FASIT) if the amount of such alternative minimum tax is greater than the amount of the corporation's regular income tax. 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 2009 Bonds, is included in a corporation's adjusted current earnings, ownership of the Series 2009 Bonds could subject a corporation to alternative minimum tax consequences.

Except as stated above, 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 2009 Bonds.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the IRS. Rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions as of the date of the opinion and the representations and covenants of the Issuer and the University that it deems relevant to such opinions. Bond Counsel observes that the University has covenanted in the Loan Agreement not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in treatment of interest on the Series 2009 Bonds as includable in gross income for federal income tax purposes. The IRS has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given regarding whether or not the IRS will commence an audit of the Series 2009 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 of the Series 2009 Bonds may not have a right to participate in such audit. Public awareness of any future audit of the Series 2009 Bonds could adversely affect the value and liquidity of the Series 2009 Bonds regardless of the ultimate outcome of the audit.

Additional Federal Income Tax Considerations

Collateral Tax Consequences

Prospective purchasers of the Series 2009 Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain 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 2009 Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of the Series 2009 Bonds should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Series 2009 Bonds, received or accrued during the year.

Tax Accounting Treatment of Original Issue Discount

The issue price for all or a portion of the Series 2009 Bonds may be less than the stated redemption price payable at maturity of such Series 2009 Bonds (the "*Original Issue Discount Bonds*"). In such case, 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 Bonds. Generally, 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. Because original issue discount is treated as interest for federal income tax purposes, the discussion regarding interest on the Bonds under the captions "TAX EXEMPTION" and "ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS - Collateral Tax Consequences" above generally applies, and should be considered in connection with the discussion in this portion of the Official Statement.

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.

The foregoing discussion assumes that (i) the Underwriters have purchased the Series 2009 Bonds for contemporaneous sale to the public and (ii) 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 arm's-length transactions 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 Bond Counsel has made any investigation or offers any comfort that the Original Issue Discount Bonds will be offered and sold in accordance with such assumptions.

Under existing law, the original issue discount on each Original Issue Discount Bond accrues 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 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 (i) 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, (ii) 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 according to rules which 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 all or a portion of the Series 2009 Bonds may exceed the stated redemption price payable at maturity of such Series 2009 Bonds. Such Series 2009 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 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 2009 Bonds. The University is required to observe the agreement with respect to the Series 2009 Bonds for so long as it remains obligated to advance funds to pay the Series 2009 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 this Official Statement as **APPENDIX B** and the following tables included in **APPENDIX A** to this Official Statement: "First-Year Undergraduate Admission and Enrollment Information," "Full-Time Equivalent Enrollment," "Student Financial Aid," "Annual Operating Results," "Changes in Financial Position," "Changes in Endowment Value," "Undergraduate Student Charges," "Endowment Fund Growth," "Endowment Assets" 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, 2010. The University will provide the updated information to the Municipal Securities Rulemaking Board ("*MSRB*").

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 the *MSRB*.

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 2009 Bonds, if such event is material to a decision to purchase or sell Series 2009 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 2009 Bonds; (7) modifications to rights of holders of the Series 2009 Bonds; (8) bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Series 2009 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 the *MSRB*.

Availability of Information

The University has agreed to provide the foregoing information to the MSRB only. The information will be available to holders of Series 2009 Bonds free of charge at www.emma.msrb.org.

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 2009 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 2009 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 2009 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 2009 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 2009 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.

Compliance with Prior Undertakings

For the five most recent fiscal years, the University has complied in all material respects with its continuing disclosure undertaking.

RATINGS

The following ratings are not recommendations to buy, sell or hold the Series 2009 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 “AA-” and “Aa3” respectively, to the Series 2009 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 2009 Bonds subsequent to delivery thereof any proposed revision or withdrawal of the ratings of the Series 2009 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 2009 Bonds.

INDEPENDENT AUDITORS

The consolidated financial statements of the University as of May 31, 2009 and 2008, and for the years then ended included in **APPENDIX B** in this Official Statement have been audited by KPMG LLP, independent auditors, as stated in their report appearing in **APPENDIX B**. Such report includes explanatory paragraphs addressing the University’s adoption of Financial Accounting Standards Board (FASB) Statement No. 157, *Fair Value Measurements* and Financial Accounting Standards Board Staff Position No. 117-1, *Endowments of Not-for-*

Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds.

UNDERWRITING

The Series 2009 Bonds are being purchased by the Underwriters, for which Merrill Lynch, Pierce, Fenner & Smith Incorporated is acting as representative, at an underwriters' discount of \$634,425.90 from the initial public offering price of the Series 2009 Bonds. The Contract of Purchase provides that the Underwriters will purchase all of the Series 2009 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 2009 Bonds to certain dealers, including dealer banks, dealers depositing the Series 2009 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.

Wells Fargo Securities is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wachovia Bank, National Association.

J.P. Morgan Securities Inc., one of the underwriters of the Series 2009 Bonds, has entered into an agreement (the "*Distribution Agreement*") with UBS Financial Services Inc. for the retail distribution of certain municipal securities offerings at the original issue prices. Pursuant to the Distribution Agreement, J.P. Morgan Securities Inc. will share a portion of its underwriting compensation with respect to the Series 2009 Bonds with UBS Financial Services Inc.

FINANCIAL ADVISOR

First Southwest Company is serving as the financial advisor to the University (the "*Financial Advisor*") with respect to the sale of the Series 2009 Bonds. The Financial Advisor assisted in matters relating to the planning, structuring and issuance of the Series 2009 Bonds and provided other financial advice. The Financial Advisor will not engage in any underwriting activities with regard to the Series 2009 Bonds.

LEGAL MATTERS

Certain legal matters relating to the Series 2009 Bonds will be passed upon by Vinson & Elkins L.L.P., Bond Counsel, whose opinion will be delivered with the initial delivery of the Series 2009 Bonds. Such opinion is expected to be in substantially the form included as **APPENDIX D**. The Series 2009 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, Paul J. Ward, General Counsel and Vice President for Legal Affairs and Government Relations. Certain legal matters will be passed upon for the Issuer by Bond Counsel, and for the Underwriters by their counsel, McCall, Parkhurst & Horton, L.L.P.

The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Series 2009 Bonds are contingent on the sale and delivery of the Series 2009 Bonds. The legal opinion of Bond Counsel will accompany the Series 2009 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 2009 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 2009 Bonds are contingent on the sale and delivery of the Series 2009 Bonds.

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 2009 Bonds, or in any way contesting or affecting the validity of the Series 2009 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 2009 Bonds, or the existence or powers of the Issuer relating to the issuance of the Series 2009 Bonds.

During fiscal year 2006, Peruna Properties, Inc. purchased the University Gardens Condominium property adjacent to the University campus. Peruna Properties, Inc. razed the structures in fiscal year 2007. Two previous condominium unit owners and two additional claimants refused to recognize the sale, and as of May 31, 2009, Peruna Properties, Inc. and the University were in litigation with those owners and the additional claimants to resolve the issue. Subsequent to year end, the University and the two previous condominium owners announced a settlement to this litigation. However, since it was announced, a dispute has arisen regarding the terms of the settlement. The court has granted summary judgment in favor of the University as to the two other additional claimants, and no settlement was made with them.

The University is a defendant in several other 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.

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 2009 Bonds, and thereafter from the designated 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 2009 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 2009 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 2009 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 2009 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.

Trevor W. Rees-Jones

By: Trevor W. Rees-Jones
President

Southern Methodist University


R. Gerald Turner

By: R. Gerald Turner
President

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SCHEDULE I

SCHEDULE OF REFUNDED BONDS

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Southwest Higher Education Authority, Inc.
Higher Education Revenue Bonds
(Southern Methodist University Project)
Series 1999 D
Dated January 1, 1999

<u>Maturity⁽¹⁾</u> <u>(October 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2019	\$2,940,000	5.000%
2020	3,385,000	5.000%
2021	3,560,000	5.000%
2022	1,895,000	5.000%

These maturities will be redeemed on October 31, 2009 at a price of par.

⁽¹⁾ Represents a Term Bond having sinking fund payments due in 2019, 2020 and 2021 and a final maturity in 2022.

Southwest Higher Education Authority, Inc.
Variable Rate Demand Higher Education Revenue Bonds
(Southern Methodist University Project)
Series 2006
Dated March 1, 2006

<u>Maturity⁽¹⁾</u> <u>(October 1)</u>	<u>Principal Amount</u>
2009	1,400,000
2010	1,500,000
2011	1,600,000
2012	1,600,000
2013	1,700,000
2014	1,700,000
2015	1,800,000
2016	3,400,000
2017	3,400,000
2018	3,600,000
2019	3,800,000
2020	3,900,000
2021	4,100,000
2022	4,200,000
2023	4,300,000
2024	4,500,000
2025	4,700,000
2026	4,800,000
2027	2,200,000
2028	2,300,000
2029	2,400,000
2030	2,500,000
2031	2,600,000
2032	2,700,000
2033	2,800,000
2034	2,900,000
2035	3,000,000
2036	3,100,000

These maturities will be paid on October 1, 2009 at a price of par.

⁽¹⁾ Represents a Term Bond having sinking fund payments in the years listed above and a final maturity in 2036.

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APPENDIX A

INFORMATION CONCERNING SOUTHERN METHODIST UNIVERSITY

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SOUTHERN METHODIST UNIVERSITY

GENERAL DESCRIPTION

Southern Methodist University (the “*University*” or “*SMU*”) is a private, nonprofit, coeducational institution located on a 210-acre main campus in University Park, Texas. SMU also maintains campuses at Fort Burgwin, New Mexico and in Plano, Texas. Founded in 1911 by a Methodist education commission, now The United Methodist Church, 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 ten years (6,228 undergraduate students and 4,663 graduate or professional students for fall 2009), a faculty close to 700, and assets of \$1.9 billion as of May 31, 2009.

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 106 programs through five undergraduate schools and a wide variety of graduate and professional degrees through graduate programs in the five undergraduate schools and two professional schools. Nearly 65% of the University’s students finished in the top 20% of their high school graduating classes, with more than 42% in the top 10%. More than 75% 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.

Control of the University is vested in a Board of Trustees comprised 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 will create, expand, and impart knowledge through teaching, research, and service, while shaping individuals to contribute to their communities and excel in their professions in an emerging global society. Among its faculty, students, and staff, the University will cultivate principled thought, develop intellectual skills, and promote an environment emphasizing individual dignity and worth. 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

ACADEMIC PROGRAMS

The University offers undergraduate and graduate degrees in five of its schools: Dedman College, the Meadows School of the Arts, the Edwin L. Cox School of Business, the Bobby B. Lyle School of Engineering, and the Annette Caldwell Simmons School of Education and Human Development. It also offers degree programs in its two professional schools: the Dedman School of Law and Perkins School of Theology. The University offers 103 baccalaureate degrees in 92 fields, 100 master degrees in 96 fields, one specialist degree in one field, 25 doctoral degrees in 25 fields, and two professional degrees in two fields.

SMU-in-Plano is a permanent educational facility located in Plano, Texas which was developed to serve the needs of employers and residents throughout Collin County and North Texas. Graduate coursework and master’s degree programs are offered in Business, Dispute Resolution, Counseling, Education, Engineering and

Digital Game Development. SMU-in-Plano also provides credit and noncredit programs for professional advancement and personal enrichment, as well as one of the nation's largest Summer Youth Programs offered by any university. In addition, the campus provides corporate meeting services and space rental for educational, informational, and training purposes.

The University maintains a campus at Fort Burgwin, located 10 miles southeast of Taos, New Mexico (SMU-in-Taos). Three summer terms are held each year, offering undergraduate courses in the Humanities, Natural and Social Sciences, Performing and Studio Arts, as well as Archaeological research. Beginning in August 2009, SMU-in-Taos will be offering a full fall semester of undergraduate courses. This new offering expands the opportunity for our students to benefit from the experiential educational offerings at our Taos campus. Fort Burgwin is also home to the SMU-in-Taos Cultural Institute, which offers non-credit summer courses for adults.

SMU students participate in international study through 30 programs in 16 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 six academic schools and a college, which are as follows:

Dedman College. Dedman College offers studies in the humanities, social sciences, and natural sciences. All entering first-year SMU students are admitted into Dedman College, where faculty and advisors assist students with their selection of courses in General Education and with classes suitable for the students' academic majors. Dedman College provides all undergraduate students, whatever their majors, with fascinating explorations of past, present, and future worlds through liberal arts study presented by outstanding and dedicated instructors.

Most students remain in Dedman College through their four-year careers at SMU, to earn their degrees in one or more of the humanities (African and African-American Studies, Creative Writing, English, Ethnic Studies, Foreign Languages and Literatures, History, Latin American Studies, Medieval Studies, Mexican-American Studies, Philosophy, Religious Studies, and Spanish); the social sciences (Anthropology, Economics, Markets and Cultures, Political Sciences, Psychology, Public Policy, and Sociology), as well as in the natural and mathematical sciences (Biochemistry, the Biological Sciences, Chemistry, Earth Sciences, Environmental Science, Geophysics, Mathematics, Physics, and the Statistical Sciences). In addition, Dedman College offers undergraduate degrees in interdisciplinary areas including Individualized Studies in Liberal Arts, International Studies, and Italian Area Studies. At the graduate level, Dedman offers master's degrees in 36 academic subjects and doctoral degrees in 20 fields of study. These programs invite students to tap into the spirit of curiosity and innovation that forms the foundation of knowledge and understanding.

The Annette Caldwell Simmons School of Education and Human Development. This school is comprised of research institutes, undergraduate and graduate programs, and community service centers. It is concerned with the areas of professional education, dispute resolution, counseling, wellness, liberal studies, and lifelong learning. The mission of the school is to integrate theory, research, and practice of education and human development; promote academic rigor and interdisciplinary study; educate students for initial certification and professional practice; and nurture collaboration across the academic community. Programs within the school complement discipline offerings throughout the University.

The professional education programs fall under the auspices of the Department of Teaching and Learning and represent SMU's commitment to the professional development of educators through innovative and research-based undergraduate, graduate, and continuing education programs. The undergraduate curriculum prepares students for initial teacher certification. Graduate programs—which include a doctoral degree, master's degrees and graduate-level certifications—focus on literacy and language acquisition, learning theory, giftedness, math, science, and technology. A variety of enrichment opportunities serve the continuing education needs of practicing educators. The school promotes high quality research that

combines qualitative and quantitative research methodologies, generates new hypotheses, and influences pedagogical practices in EC-12 schools. The department's research efforts are driven in large part by two institutes that are charged with the empirical study of education—The Institute for Reading Research and Gifted Students Institute. One of the most productive literacy research centers in the nation, the Institute for Reading Research performs research concerning reading and reading disabilities, language acquisition, and teaching and learning. The Gifted Students Institute was founded on the premise that giftedness is a resource that should be nurtured for the benefit of all. To this end, it sponsors an annual series of lectures and workshops.

The Department of Dispute Resolution and Counseling offers a Master of Science in Counseling, a Master of Arts in Dispute Resolution and a graduate certificate in dispute resolution. All of these draw on social and behavioral science theories to teach the communication skills necessary for the resolution of personal and interpersonal conflicts.

The Department of Lifelong Learning represents a broad, interdisciplinary area. Its central purpose is the promotion of personal enrichment and achievement of potential. Its credit and noncredit offerings broaden students' perspectives, insights and understandings of the world and expose students to the ideas and events that constitute the human experience. At the heart of the Lifelong Learning programs which include the Master of Liberal Studies, Continuing and Professional Education, and Nondegree Credit Studies is the belief that people can continue to grow both personally and professionally throughout their lives.

The Department of Wellness offers the Choices for Living courses, two of which must be completed in order to earn a baccalaureate degree. Wellness courses reflect the University's philosophy that a well-rounded education should enhance the physical and mental well-being of a student.

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 ("SMU Cox"). 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, SMU Cox 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 for Entrepreneurship, the Center for Real Estate and Land Use Economics, the Maguire Energy Institute, the JCPenney Center for Retail Excellence, the KPMG Institute for Corporate Governance, the William J. O'Neil Center for Global Markets and Freedom, and the Encap Investments & LCM Group Alternative Asset Management Center. Additionally, the Cox School offers a variety of executive education programs.

Undergraduate majors in the Edwin L. Cox School of Business are offered in Accounting, Finance, 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 three Master of Science degrees in Accounting, Entrepreneurship and Management. SMU Cox also offers a joint degree in Business and Art Administration (M.A./M.B.A.) with SMU's Meadows School of the Arts and a Juris Doctor/M.B.A. (J.D./M.B.A.) degree with SMU's Dedman School of Law. SMU Cox is ranked among the top business schools nationally and internationally by major publications, including *Business Week*, *The Economist*, *Financial Times*, *Forbes*, *The Wall Street Journal*, and *U.S. News and World Report*.

Bobby B. Lyle School of Engineering. The Bobby B. Lyle 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 student-to-faculty ratio (12:1) guarantees student interaction with faculty members. The Lyle School of Engineering recently announced that it would open the Lockheed Martin Skunk Works Lab in December 2009 which will be modeled after one of the most innovative research programs in the world and focus on finding ways to solve real-world challenges in areas like bridge design and clean water technology. The school also has one of the country's oldest and largest distance education programs and is one of the first engineering schools in the nation to offer Master degrees through executive-style programs designed for mid-career engineers. Additionally, the school boasts one of the highest percentages of female engineering students in the country, almost double the national average at 32%, and offers modern facilities such as the Jerry Junkins Electrical Engineering Building, J. Lindsey Embrey Engineering building—one of the first academic buildings in the country to be designed and constructed to LEED Standards (Leadership in Energy and Environmental Design)—and soon a new facility, Caruth Hall. Currently under construction, Caruth Hall is scheduled to open in late 2009 and will be home to the Caruth Institute for Engineering Education—an institution dedicated to innovative math and science programs and curricula for students from kindergarten through college. 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 ("Meadows") provides education and training to help students meet demanding professional standards in the visual, communication, and performing 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.

The 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: 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 Meadows Division of Music and the Bobby B. Lyle 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 women and men 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 University Park campus, Perkins offers classes that allow master degree students to begin studies at an extension site in Houston/Galveston.

The basic degree for ordained pastoral leadership is an 85 credit 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 credit 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 earn certificates in Hispanic Studies, Urban Ministry, Anglican Studies, Pastoral Care, African American Church Studies and Women's Studies.

The Master of Church Ministries (C.M.M.) degree is a 55 credit 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 credit hour degree, offered in conjunction with the Meadows School of the 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 credit 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 credit hour degree designed to enable specially qualified and promising persons to achieve advanced competency 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. degree 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 other locations. These programs include an annual four week United Methodist Course of Study offered 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, Youth Ministry and United Methodist Studies.

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. It 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 approved by The United Methodist Church University Senate.

Perkins School of Theology also houses three grant funded programs: The Perkins Youth School of Theology, The Center for Latino Studies in Christianity and Religions, and The Hispanic Youth Leadership Academy.

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

The law faculty is comprised of a diverse and highly talented group of men and women who hold outstanding academic credentials and are dedicated to teaching and scholarship. Students come from a wide variety of backgrounds from all over the United States and other countries. The Dedman School of Law enjoys a national and international reputation, with its graduates practicing in every state of the United States and in many foreign countries.

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 or four years of part-time study in the evening program, which was reinstated in 2004. 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 effective 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 clients, negotiating disputes, and drafting of documents.

In addition to the J.D. degree, the Dedman School of Law offers several advanced law degrees. The Master of Laws in Comparative and International Law (LL.M.) is designed primarily to provide non-U.S. trained law graduates an opportunity to acquire knowledge of the U.S. legal system as well as to advance knowledge in international and comparative law. The Master of Laws in Taxation (LL.M. in Taxation) is a comprehensive advanced-degree program for lawyers holding a J.D. degree who intend to specialize in tax practice. The General Masters of Law program (LL.M.) offers J.D. degree graduates an opportunity to broaden their backgrounds in certain specialized areas of law by enrolling in advanced courses and seminars and by engaging in specialized research. The degree of Doctor of the Science of Law (S.J.D.) is the highest postgraduate law degree offered by the Dedman School of Law. It is primarily a research and writing degree program during which the S.J.D. candidate conducts extensive postgraduate-level legal research with a view toward submitting a dissertation of publishable quality. Admission preference is given to a very limited number of highly qualified graduates of the law school's LL.M. program in International and Comparative Law.

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, the Independent Colleges and Universities of Texas, Inc., 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 Association to Advance Collegiate Schools of Business (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 Civil Engineering, Mechanical Engineering, Computer Engineering, Computer Science, Environmental Engineering, and Electrical Engineering are accredited by the Accreditation Board for Engineering and Technology (ABET). The Department of Chemistry is accredited by the Committee on Professional Training of The American Chemical Society. The Department of Psychology is accredited by the American Psychological Association (Doctoral Program in Clinical Psychology). 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; the Art, Art History and Guildhall Division by the National Association of Schools of Arts and Design; the Corporate Communications and Public Affairs Division by the American Communication Association; the Journalism Division by the Association for Education in Journalism and Mass Communication; the Music Therapy Division by the American Music Therapy Association; and the Theatre Division by the National Association of Schools of Theater. The Annette Caldwell Simmons School of Education is accredited by the State Board for Education Certification. The Learning Therapist Center is accredited by the Texas Education Agency, the Academic Language Therapy Association (ALTA), and the International Multisensory Structured Language Education Council (IMSLEC).

FACILITIES

The University Park campus includes approximately 85 major buildings for academic purposes, student housing and for institutional support and special use, comprising some 4.3 million gross square feet. University-owned Greek houses, apartments and residence halls provide capacity to house approximately 2,300 students. In addition to the buildings that house the libraries, museums and research facilities described below, the main campus also includes 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; Moody Coliseum; the Perkins Administration Building; and McFarlin Auditorium. The SMU-in-Taos at Fort Burgwin, near Taos, New Mexico, includes 25 smaller buildings. The University owns four buildings at 6116 North Central Expressway, 6210 North Central Expressway, 6200 North Central Expressway and 5538 Dyer, in Dallas, Texas that hold various administrative offices and departments from the various colleges. The University also owns 5651 North Central Expressway and 5214/5216, 5220, 5230 and 5240 E. Mockingbird Lane in Dallas, Texas, and 3017 and 3021 E. Mockingbird Lane and 5050 and 5052 Airline in Highland Park, Texas, which are reserved for future growth for the educational purpose of the University. The

University also owns four two-story buildings and adjacent land which comprise SMU-in-Plano located in Plano, Texas approximately 20 miles north of the main University Park campus.

Libraries. The Central University Libraries form the nucleus of the SMU Library system and are comprised of the Fondren Library, the Science and Engineering Library, the Jake and Nancy Hamon Arts Library, the DeGolyer Library, the Institute for the Study of Earth and Man Reading Room, the Norwick Center for Digital Services, the SMU-in-Plano Library Resource Room and the Fort Burgwin Library in Taos. The University's library system also includes the Bridwell Library in Perkins School of Theology; the Underwood Law Library in the Dedman School of Law; and the Business Information Center in the Edwin L. Cox School of Business. The Underwood Law Library is the largest private law library in southwestern United States. Bridwell Library is one of the finest theological libraries in the nation, housing more than 350,000 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 2009 numbered over 3 million volumes, which include over 1.9 million books, over 840,000 microforms and over 275,000 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 DeGolyer Library's great strengths include the European discovery and exploration of the New World, particularly the Spanish colonial enterprise in North America. The DeGolyer collection devoted to the Trans-Mississippi West is numbered among the finest in the country. The DeGolyer also has strong collections in the fields of business history and transportation history, most notably the history of railroads. Other collections are devoted to English and American authors and literary genres. The history of science and technology is well represented, especially the history of geology. The DeGolyer Library is also the home of the University Archives, the official repository for SMU records of historical importance, and the Archives of Women of the Southwest.

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' 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, Foreign Languages, Geological Sciences, Communication Arts, Psychology, Physics, Health and Physical Education, Dance, Music, Theatre, Statistics, Computing and 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 Office of Information Technology, 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 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, are 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's geothermal energy resources. The thermal fields of sedimentary basins are special topics of concentration. This 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. Interview and observation facilities for Psychology are located in Hyer and Heroy Halls as well as in the University-owned Expressway Tower, a nearby off-campus facility.

Museum. The Meadows Museum, founded in 1965 by the late philanthropist Algur H. Meadows, houses one of the largest and most comprehensive collections of Spanish art outside of Spain. With works dating from the 10th to the 21st century, the internationally renowned collection presents a broad spectrum of art covering over a thousand years of Spanish heritage. The permanent collection includes masterpieces by some of Europe's greatest painters: Velázquez, Rivera, 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 20th 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 concerts by local and international musicians.

Other Facilities. The University has undertaken a variety of major construction, renovation and expansion projects over the past few years. The Jack S. and Laura Lee Blanton Student Services Building was completed in October 2003 and offers one-stop student services for undergraduate admission, enrollment, financial aid, and student account services, as well as The Office of Information Technology. September 9, 2005 marked the opening of the James M. Collins Executive Education Center. The Collins Center houses the Edwin L. Cox School of Business' Executive MBA and Executive Education programs, which offer lifelong learning opportunities for professionals from all over the world. It also serves as home for the Southwestern Graduate School of Banking and the KPMG Institute for Corporate Governance. Also opened during the fall of 2005 is the newly renovated and expanded Dedman Center for Lifetime Sports, a concept initiated by students who envisioned a place to promote physical fitness while fostering community, self-awareness, and emotional well-being. The renovation and expansion resulting in a 165,000 square foot facility is being funded by students. The facility merges the latest trends and equipment in health and fitness with the amenities and comforts of a time-honored student gathering spot. Opened in August 2006, the 50,000 plus square foot J. Lindsay Embrey Engineering Building is designed and constructed to LEED Gold Standards (Leadership in Energy and Environmental Design) and is a living laboratory for students and faculty as well as a showpiece for design and construction in the region. It houses the Environmental and Civil Engineering department, Mechanical Engineering department, classrooms, laboratories, and faculty offices. The J. Lindsay Embrey Engineering Building is the second new engineering facility constructed at SMU since 2000, with the Jerry R. Junkins Engineering Building for Electrical Engineering having opened August 2002. Caruth Hall is in the process of being constructed to LEED Gold status. The School of Theology is currently constructing Prothro Hall which will also be LEED certified. Construction of the Annette Caldwell Simmons building for the School of Education and Human Development is expected to be completed in 2010.

These projects and improvements ensure that SMU facilities will keep pace with technological change and competitive pressures.

RECENT ACCOMPLISHMENTS

SMU continues to advance among the nation's major private universities as it moves toward the centennial celebration of the University's founding in 1911, and its opening, in 1915.

- The academic strength of incoming SMU students has grown significantly. The average SAT score of the first-year undergraduate class has risen 97 points over the last ten years, from 1998-2008.

- Applications for the incoming first-year class have more than doubled in just eight years, reaching 8,445 applications for a class of 1,329 in fall 2009. This has enabled SMU to become more selective in its admissions. In the 2008 first-year class, 57% of students are from out of state, with California and Florida following Texas as leading home states of first-year students. SMU's external awards for research and sponsored projects have more than doubled since 1995. During 2007-2008, SMU received \$19.45 million for research and sponsored projects, up from \$9.5 million in 1995-1996.
- SMU's endowment has more than doubled since May 31, 1995, when it totaled \$482.9 million. The endowment surpassed the \$1 billion mark in 2005. As of May 31, 2009, the market value was approximately \$1 billion, ranking 51st among institutions nationally.
- SMU's main campus has grown from 60 buildings and 176 acres in 1995 to 85 buildings and 210 acres in 2009, including property acquired east of Central Expressway to accommodate additional space needs. The J. Lindsay Embrey Engineering Building is among the first academic buildings in the country to achieve LEED Gold status for its environmentally sensitive design and construction.
- SMU consistently ranks in the top one-third of national universities in the guide, *America's Best Colleges*, published by *U.S. News & World Report*.
- Cox School of Business is ranked among the top business schools nationally and internationally by major publications, including *BusinessWeek*, *Forbes*, *The Economist*, *Financial Times*, *The Wall Street Journal*, and *U.S. News & World Report*.
- Dedman School of Law ranks among the nation's 25 most competitive law schools for admission.
- Two departments of the Bobby B. Lyle School of Engineering have recently been ranked among the top programs in the nation, according to *U.S. News & World Report*.
- Since 1995, SMU has added new Ph.D. programs in History, Chemistry, Civil Engineering, English, and Education and a Doctorate of Engineering degree in Software Engineering, bringing the total of fields offering doctorates at SMU to 25.
- Education abroad opportunities for SMU students have nearly doubled in the past 10 years. International study currently is offered through 32 programs in 24 countries throughout Europe and in Asia, Australia and Africa, as well as programs in Mexico, Costa Rica and Jamaica.
- In February 2008, the George W. Bush Foundation announced that SMU had been chosen as the site of the George W. Bush Presidential Center, consisting of a library, museum and institute.
- In September 2008, SMU launched "SMU Unbridled: The Second Century Campaign", the largest fund-raising campaign in the University's history, with a goal of \$750 million. Gifts during the two-year campaign quiet phase provided \$317 million toward the goal.
- Recent advancements provided through gifts to The Second Century Campaign include the following: The School of Engineering was renamed as the Bobby B. Lyle School of Engineering in 2008, The Annette Caldwell Simmons School of Education and Human Development was endowed and named in 2007 and the Roy M. Huffington Department of Earth Sciences in Dedman College was endowed and named in 2008. Academic programs funded by other new endowments include the Caruth Institute for Engineering Education, the C. Vincent Prothro Biological Sciences Initiative in Dedman College and the Embrey Human Rights Education Pilot Program in Dedman College.
- In summer 2009, SMU-in-Taos, the University's 295-acre campus in northern New Mexico, dedicated additional facilities and improvements that allow fall semester classes to be added to the summer programs offered since 1973. The Taos Cultural Institute, initiated in 2005, offers adults a summer weekend of study.

- Recent graduates have included four Fulbright Scholars and a Marshall Scholar.
- History Professor David J. Weber was named to the American Academy of Arts and Sciences in 2007, and Anthropology Professor David Meltzer was elected a member of the National Academy of Sciences in 2009.
- SMU's Dedman School of Law has a long-standing tradition of public service, currently with six specialized clinics serving diverse segments of the community: the Civil Clinic, Criminal Prosecution Clinic, Criminal Justice Clinic, Federal Taxpayers Clinic, Small Business Clinic and the W.W. Caruth, Jr. Child Advocacy Clinic. The Dedman School of Law reinstated its Evening Law Program in 2004 to serve members of the community who are unable to attend daytime classes.
- With an enrollment of 10,965 students in fall 2008 and a faculty and staff of almost 2,300, SMU is a major contributor to the Dallas economy. New facilities constructed in the past 10 years involved the expenditure of nearly \$500 million and provided contract opportunities for approximately 3,500 design firms, contractors and suppliers, most in the Dallas area.

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.

There are currently 42 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 have representatives of the Annual Conferences within the South Central Jurisdiction of The United Methodist Church (these members 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 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 current Board of Trustees is as follows:

<u>Name</u>	<u>Residence</u>	<u>Principal Occupation</u>
Carl Sewell Chair	Dallas, Texas	Chairman Sewell Automotive Companies
Ruth S. Altshuler	Dallas, Texas	Civic Leader and Philanthropist
Bishop Earl Bledsoe	Plano, Texas	Dallas Area Bishop North Texas Conference The United Methodist Church
Michael M. Boone Vice Chair	Dallas, Texas	Partner Haynes and Boone LLP
Bradley Brookshire	Tyler, Texas	Chairman of the Board Brookshire Grocery Company
Laura W. Bush	Dallas, Texas	Civic Leader and Philanthropist
Rev. Kirbyjon Caldwell	The Woodlands, Texas	Senior Pastor Windsor Village United Methodist Church
Donald J. Carty	Ft. Worth, Texas	Retired Chairman AMR Corp.
Kelly H. Compton	Dallas, Texas	Executive Director The Heglund Foundation
Rev. W. Mark Craig	Dallas, Texas	Senior Minister Highland Park United Methodist Church

<u>Name</u>	<u>Residence</u>	<u>Principal Occupation</u>
Gary T. Crum	Houston, Texas	President CFP Foundation
Linda Pitts Custard	Dallas, Texas	General Partner Custard/Pitts Land and Cattle Co.
Robert H. Dedman, Jr.	Dallas, Texas,	President DFI Management (GP), Ltd.
Lamar H. Dowling*	Dallas, Texas	Student Trustee Representative
Frank M. Dunlevy	San Francisco, CA	Vice Chairman, Managing Director Cowen & Company LLCV
Juan L. Elek	Mexico City, Mexico	Founder and Partner Elek, Moreno Valle y Asociados
Alan D. Feld	Dallas, Texas	Senior Executive Partner Akin, Gump, Strauss, Hauer & Feld, L.L.P.
Gerald J. Ford	Dallas, Texas	Chairman of the Board and CEO Diamond A Ford Corporation
Antonio O. Garza, Jr.	Austin, Texas	US Ambassador to Mexico
Dr. James R. Gibbs	Houston, Texas	Chairman, President and CEO Frontier Oil Corporation
Dr. Frederick B. Hegi, Jr.	Dallas, Texas	Founding Partner Wingate Partners
Clark K. Hunt	Dallas, Texas	Chair of the Board Kansas City Chiefs
Ray L. Hunt	Dallas, Texas	Chairman and CEO Hunt Oil Company
Gene C. Jones	Dallas, Texas	Civic and Philanthropic Leader
Bishop Scott J. Jones	Wichita, Kansas	Bishop The United Methodist Church
Fredrick Leach	Dallas, Texas	Physician Prestonwood Urology
Paul B. Loyd, Jr.	Houston, Texas	Managing Director LSL Partners
Bobby B. Lyle	Dallas, Texas	Chairman, President and CEO Lyco Holdings Incorporated
David B. Miller	Dallas, Texas	Partner EnCap Investments, L.P.
Fred Olness	Dallas, Texas	President Faculty Senate
Connie O'Neill*	Dallas, Texas	President Alumni Association

* Ex officio members

<u>Name</u>	<u>Residence</u>	<u>Principal Occupation</u>
Sheron Patterson	Dallas, Texas	Senior Pastor Highland Hills United Methodist Church
Sarah Perot	Dallas, Texas	Civic and Philanthropic Leader
Jeanne L. Phillips	Dallas, Texas	Sr. Vice President Corporate Affairs and International Relations Hunt Consolidated, Inc.
Caren H. Prothro Secretary	Dallas, Texas	Civic and Philanthropic Leader
Bishop Ann B. Sherer	Columbia, Missouri	Nebraska Area-Nebraska Conference The United Methodist Church
Dr. Helmut Sohmen	Hong Kong, China	Chairman BH Corporation Limited
Richard K. Templeton	Plano, Texas	Chairman and CEO Texas Instruments, Inc.
John C. Tolleson	Dallas, Texas	CEO and Owner Tolleson Wealth Management
R. Gerald Turner*	Dallas, Texas	President Southern Methodist University
Royce E. Wilson	Pacific Palisades, CA	President Tribune Broadcasting
Richard J. Wood	New Haven, NY	President The Japan Society of New York

ADMINISTRATION

The following list sets forth the University's key officials and other administrative officials of its various schools for academic year 2009-2010, their titles and dates of employment at the University:

<u>Name</u>	<u>Title</u>	<u>Employment Date</u>
R. Gerald Turner	President	1995
Paul W. Ludden	Provost and Vice President for Academic Affairs	2007
Thomas E. Barry	Vice President for Executive Affairs	1970
Paul Ward	General Counsel, Vice President for Legal Affairs & Government Relations and Secretary	2009
Lori S. White	Vice President for Student Affairs	2007
Christine Casey	Vice President for Business and Finance	2007
Brad E. Cheves	Vice President for Development and External Affairs	2004
Michael A. Condon	Treasurer and Chief Investment Officer	2008
Steve Orsini	Director of Athletics	2006

* Ex officio members

<u>Name</u>	<u>Title</u>	<u>Employment Date</u>
John B. Attanasio	Dean of the Dedman School of Law	1998
James Quick	Associate Vice President for Research and Dean of Graduate Studies	2007
Jose A. Bowen	Dean of the Meadows School of the Arts	2006
William Lawrence	Dean of the Perkins School of Theology	2002
Peter Moore	Dean ad interim of Dedman College of Humanities and Sciences	2000
Albert W. Niemi, Jr.	Dean of the Edwin L. Cox School of Business	1997
David J. Chard	Dean of Annette Caldwell Simmons School of Education and Human Development	2008
Geoffrey Orsak	Dean of the Bobby B. Lyle School of Engineering	2003
Gillian M. McCombs	Director of Southern Methodist University Libraries	1998

KEY ADMINISTRATIVE OFFICIALS

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. As the president of Southern Methodist University since 1995, R. Gerald Turner is leading an era of unprecedented progress at the University. The recent Campaign for SMU: A Time to Lead raised \$541.5 million for academic programs, facilities, scholarships, professorships, and student life programs. A new strategic plan is guiding the University's advancement, and the Centennial Master Plan is shaping the physical profile of the campus, including development of a new East Quad.

In addition to his campus involvement, Gerald Turner serves on the boards of the United Way of Dallas, the Methodist Hospital Foundation, the Salvation Army of Dallas, and three publicly traded companies.

President Turner holds leadership positions in several higher education associations. He is co-vice chair of the Knight Commission on Intercollegiate Athletics and chair of the NCAA Subcommittee on Presidential Leadership of Internal and External Constituencies. He is a winner of the Henry Cohn Humanitarian Award of the Anti-Defamation League of Dallas and the Chief Executive Leadership Award from District Four of the Council for Advancement and Support of Education.

Before joining SMU, President Turner was the chancellor of the University of Mississippi. Originally from New Boston, 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.

Paul W. Ludden, Provost and Vice President for Academic Affairs, B.S., Ph.D. Dr. Ludden has been SMU's Provost and Vice President for Academic Affairs since 2007. Formerly dean of the College of Natural Resources at the University of California, Berkeley, Dr. Ludden also is a scholar in environmental biochemistry and holds a tenured professorship in the Department of Biological Sciences. As the University's chief academic officer, he oversees all aspects of academic life, ranging from admissions and faculty development to supervision of SMU's seven schools, library system, and international programs.

A native of Lincoln, Nebraska, Dr. Ludden received his B.S. degree in chemistry from the University of Nebraska in 1972 and his Ph.D. in biochemistry from the University of Wisconsin-Madison in 1977. After a

Rockefeller postdoctoral fellowship at Michigan State University, he served as an assistant professor at the University of California-Riverside. In 1981 he returned to the University of Wisconsin-Madison, where he rose to the rank of full professor.

At Wisconsin, he directed the Biochemistry Graduate Program for 14 years and taught in the highly regarded Biocore Program for Undergraduates. Continuing his administrative career while pursuing his research interests, he served as assistant chair of the Biochemistry Department and later as executive associate dean, College of Agricultural and Life Sciences, at Wisconsin.

In 2002, Dr. Ludden joined UC, Berkeley as dean of the College of Natural Resources and professor of plant and microbial biology. In addition to his duties as dean, he taught a first-year seminar and co-taught the core microbiology course for undergraduate majors. While at Berkeley, he held a concurrent appointment as a faculty member at the Lawrence Berkeley National Laboratory and represented Berkeley on several environmental science groups and in the University-Industry.

An expert on microbial biochemistry, Dr. Ludden with his students has published more than 175 peer-reviewed papers and book chapters. His work was chosen by the NIH for a 10-year Merit Award that provides support for his laboratory.

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 more than 60 articles for journals and professional proceedings, as well as several textbooks and monographs in marketing and advertising management. He has been 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 The University of North Texas, Denton.

Paul Ward, General Counsel, Vice President for Legal Affairs and Government Relations, and Secretary to the Board, B.S., M.A., J.D. Mr. Ward was appointed as General Counsel, Vice President for Legal Affairs and Government Relations, and Secretary of the University effective January, 2009. He serves as the University's chief legal officer. Prior to his appointment at the University, he served as Vice President for University Administration and General Counsel at Arizona State University, Senior Vice President and General Counsel at The University of South Carolina, and he was in private law practice in Washington, D.C. with Casey, Lane & Mittendorf. Mr. Ward earned his B.S. and M.A. degrees from Eastern Illinois University and his J.D. degree from Southern Methodist University in 1975.

Lori S. White, Vice President for Student Affairs, B.A., Ph.D. Dr. White has spent over twenty years working in higher education at various universities including the University of Southern California, University of California at Irvine, San Diego State University, Georgetown University and Stanford University. Prior to assuming her current position at SMU, Dr. White served as Associate Vice President for Student Affairs at The University of Southern California, Dean of Students at San Diego State University, and Associate Vice-Provost for Undergraduate Education and Director of Undergraduate Advising at Stanford University.

Dr. White has also worked as the Director of Student Programs at Georgetown University and the Director of the Cross Cultural Center at the University of California, Irvine. Additionally, her work in higher education has included serving as a committee consultant to the California State Assembly Committee on Higher Education and as a Special Assistant to the University of California, Office of the President. Dr. White has also worked in the K-12 policy arena as a Special Assistant to the San Francisco Superintendent of Schools and as a research assistant to the Pew Forum on Education Reform.

Dr. White received her Bachelor of Arts degree in Psychology and English from the University of California, Berkeley and her Ph.D. in Education Policy from Stanford University. Her research focuses on college student development and experiences. Dr. White is the co-editor of the book, "Higher Education and School Reform" and has a chapter focused on black college student experiences in a book titled "African American Culture and Heritage in Higher Education Research and Practice"; as well as a number of other publications. Dr. White has served as an adjunct faculty member at the Stanford School of Education and held a similar position at the Rossier School of Education at the University of Southern California.

Christine Casey, Vice President for Business and Finance, B.S., M.B.A., CPA. Ms. Casey serves as the University's chief business and financial officer and administers the University's operating budget and capital budgets. In addition, she is responsible for the Budget Office, Controller's Office, the Environmental Health and Safety Department, the Office of Planning, Design, and Construction, Office of Facilities Management and Sustainability, Human Resources and Business Services, the Office of Information Technology, the SMU Police Department, the SMU Bookstore, Dining Services, and other auxiliary services.

Ms. Casey joined SMU from the University of California system, where she served as Assistant Vice President for Administrative Services for the Agriculture and Natural Resources Division since July 2005. Prior to her position at the University of California, Casey served for 12 years at Western New Mexico University ultimately as Vice President for Business and Administration.

Ms. Casey's involvement in community and professional organizations include being a current member of the National Association of College and University Business Officers (NACUBO) and The National Council of University Research Administrators (NCURA). Ms. Casey is a past member of the Hansen Agricultural Center advisory board Rotary Club of Silver City, Business and Professional Women, Optimist Club of Silver City, and ex-officio member of the WNMU Foundation. She was the Young Careerist for the State of New Mexico and is a Paul Harris Fellow.

Ms. Casey, a certified public accountant, earned a B.S. degree in accounting from New Mexico State University and an M.B.A. degree from Western New Mexico University (WNMU).

Brad E. Cheves, Vice President for Development and External Affairs, B.A., J.D. Mr. Cheves is responsible for University fund raising; Alumni Relations; Public Affairs, which include marketing, media relations, publications, and electronic communication; University Events; and University Lecture Series, including the Tate Lecture Series, SMU Athletic Forum Luncheon Series and the Doak Walker Award.

Before being named Vice President in June 2004, Mr. Cheves had been Vice President for Advancement and Public Affairs at Pepperdine University since July 2001. He reorganized Pepperdine's advancement operation and began a branding project that resulted in establishment of Pepperdine's Office of Marketing. He also was an assistant professor of public policy at Pepperdine.

Before joining Pepperdine, Mr. Cheves was SMU's Associate Vice President for Development from 1998-2001. In that capacity he also served as associate director of The Campaign for SMU: A Time to Lead, helping to lead the most successful major gifts campaign in SMU history and the largest for any institution in North Texas. The five-year campaign exceeded its \$400 million goal by raising \$541.5 million for scholarships, faculty positions, academic programs, facilities, and student life programs.

Originally from Albuquerque, New Mexico, Mr. Cheves received a bachelor's degree in business administration and finance from Abilene Christian University and in 1991 received his juris doctor degree from Pepperdine University School of Law. He is a member of the State Bar of Texas and has worked with the Texas Legislature. He previously served as the director of alumni relations at Pepperdine's School of Law and then as associate dean at the School of Public Policy.

Michael A. Condon, Treasurer, B.S., M.B.A. Mr. Condon is responsible for oversight of the endowment, mineral interests and planned giving assets. He plans the work of the Committee on Investments of the Board of Trustees, setting agendas, developing policies, formulating investment strategies, as well as recommending specific

investment managers and vehicles for carrying out the investment program. SMU's endowment market value was approximately \$1 billion as of May 31, 2009.

Mr. Condon's experience as chief investment officer for several universities totals 17 years with funds ranging in size from \$400 million to \$1.5 billion. As chief investment officer at the University of Arkansas Foundation, he oversaw the investment of its \$1.2 billion endowment. Prior to that, he served 10 years as chief investment officer for the Georgia Tech Foundation in Atlanta. Under his direction, assets under the Foundation's management grew from \$400 million to \$1.5 billion. In 1991, Condon joined the University of South Alabama Foundation as chief investment officer, where he managed investments totaling \$377 million. Before joining that university, he was vice president and treasurer at Altus Bank.

Mr. Condon serves on the President's Executive Council and works with leadership on matters related to endowment spending and the communication of endowment strategy and performance. He oversees investment research and analysis, implementation, risk management, accounting, performance measurement and reporting associated with the investment process, and with the management of real estate and mineral interests. Mr. Condon graduated from the University of South Alabama (B.S. Accounting, 1983) and Louisiana Tech University (M.B.A., 1984). He holds the Chartered Financial Analyst designation from the CFA Institute.

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 (59% of undergraduates), all states as well as 98 foreign countries have representation. In the Fall Semester 2008, 11% of SMU's student body was Methodist; 13% was Catholic and the remaining students reporting a religious preference represented 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 2005 through 2009.

TABLE ONE
First-Year Undergraduate Admission and Enrollment Information

	<u>Academic Year Beginning Fall of</u>				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Number of Applications Completed	6,980	7,650	8,253	8,270	8,445
Number Admitted	4,076	4,106	4,134	4,113	4,466
(% of Applicants)	58%	54%	50%	50%	53%
Number Enrolled	1,402	1,371	1,309	1,398	1,329
(% of Admitted)	34%	33%	32%	34%	30%
Mean SAT Score of Enrolled	1130-1330	1140-1320	1100-1330	1150-1340	1150-1340

The undergraduate student body is primarily full-time. During the Fall Semester 2009, headcount undergraduate enrollment totals 6,228 which includes 5,929 full-time and 299 part-time students. The graduate and professional student headcount enrollment for the Fall Semester 2009 is 4,663. Currently, 95% of first-time/first-year students and 31% 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 and the average age of graduate and professional students is 32. The following chart sets forth the student full-time equivalent enrollment by school for the academic years beginning in the fall of 2005 through 2009.

TABLE TWO
Full-Time Equivalent Enrollment

<u>School</u>	<u>Academic Year Beginning Fall of</u>				<u>2009</u>
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	
Undergraduate					
Dedman College (under class)	2,541	2,639	2,607	2,746	2,731
Dedman College (upper class)	1,354	1,371	1,390	1,271	1,291
Edwin L. Cox School of Business	961	947	890	929	913
Bobby B. Lyle School of Engineering	324	318	284	349	388
Meadows School of the Arts	910	821	792	748	692
Simmons School of Education & HD					34
Evening Degree	<u>30</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Subtotal	6,120	6,096	5,963	6,043	6,049
Special Studies	<u>197</u>	<u>37</u>	<u>37</u>	<u>30</u>	<u>0</u>
Total Undergraduate	6,317	6,133	6,000	6,073	6,049
Graduate & Professional					
Dedman College	164	154	168	158	166
Edwin L. Cox School of Business (full-time)	244	261	288	297	360
Edwin L. Cox School of Business (part-time)	351	360	300	287	279
Executive MBA Program	134	133	140	140	132
Bobby B. Lyle School of Engineering	490	418	422	411	402
Meadows School of the Arts	126	121	117	137	156
Perkins School of Theology	292	285	264	231	210
Dedman School of Law	922	937	1,000	966	909
Guildhall	0	0	0	92	91
Simmons School of Education & HD	<u>131</u>	<u>142</u>	<u>192</u>	<u>230</u>	<u>287</u>
Subtotal	2,854	2,811	2,891	2,949	2,992
Special Studies	<u>137</u>	<u>151</u>	<u>128</u>	<u>172</u>	<u>152</u>
Total Graduate & Professional	2,991	2,962	3,019	3,121	3,144
Total University	<u>9,308</u>	<u>9,095</u>	<u>9,019</u>	<u>9,194</u>	<u>9,193</u>

NOTES: 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% of the Fall Semester 2008 undergraduate student body. Student financial aid includes both merit and need based programs. In the 2008-2009 academic year, the University awarded over \$49.5 million in scholarships and fellowships to students of all classifications from its unrestricted revenues. 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 3.7% for Federal Perkins loan program and 3.0% for the Stafford loan program.

The following table provides information on 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>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
GRANTS					
Federal	\$3,906	\$3,776	\$3,529	\$3,593	\$3,578
State	<u>6,041</u>	<u>6,923</u>	<u>6,011</u>	<u>5,996</u>	<u>5,309</u>
Total	<u>\$9,947</u>	<u>\$10,699</u>	<u>\$9,540</u>	<u>\$9,589</u>	<u>\$8,887</u>
SCHOLARSHIPS & FELLOWSHIPS					
Unrestricted Funds	\$45,339	\$44,005	\$46,903	\$49,594	\$58,031
Restricted Funds	<u>12,269</u>	<u>14,547</u>	<u>16,461</u>	<u>15,795</u>	<u>17,313</u>
Total	<u>\$57,608</u>	<u>\$58,552</u>	<u>\$63,364</u>	<u>\$65,389</u>	<u>\$75,344</u>
OUTSTANDING LOANS TO STUDENTS					
From University Funds	\$ 761	\$ 518	\$ 1,763	\$ 1,860	\$ 1,152
From Government Funds	41,179	41,096	41,846	60,589	62,803
From Private Funds	<u>15,587</u>	<u>17,362</u>	<u>11,230</u>	<u>7,455</u>	<u>7,091</u>
Total	<u>\$57,527</u>	<u>\$58,976</u>	<u>\$54,839</u>	<u>\$69,904</u>	<u>\$71,046</u>
STUDENT EMPLOYMENT					
College Work Study	\$3,270	\$3,763	\$3,398	\$3,271	\$3,219
Student Payroll	<u>2,485</u>	<u>3,077</u>	<u>2,740</u>	<u>2,949</u>	<u>2,949</u>
Total	<u>\$5,755</u>	<u>\$6,840</u>	<u>\$6,138</u>	<u>\$6,220</u>	<u>\$6,168</u>

FACULTY AND STAFF

As of Fall Semester 2008, the University employed a total of 2,278 employees, including 1,561 staff, 693 faculty and 24 postdoctoral students. Currently, 52.1% of the University's full-time instructional faculty members are tenured. Females account for 35.3% of the full-time instructional faculty, and 17.1% of the full-time instructional faculty are minorities. Among full-time instructional faculty, 83% 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 that was terminated effective August 31, 1990. Retirement benefit expense under this plan was approximately \$12,911,000 for the fiscal year ending May 31, 2009 and \$12,265,000 for the fiscal year ending May 31, 2008. The University provides retiree health care benefits for employees who meet minimum age and service requirements and retire from the University. See Note 13 to the Financial Statements included in **APPENDIX B** hereto.

LITIGATION

During fiscal year 2006, Peruna Properties, Inc. purchased the University Gardens Condominium property adjacent to the University campus. Peruna Properties, Inc. razed the structures in fiscal year 2007. Two previous condominium unit owners and two additional claimants refused to recognize the sale, and as of May 31, 2009, Peruna Properties, Inc. and the University were in litigation with those owners and the additional claimants to resolve the issue. Subsequent to year end, the University and the two previous condominium owners announced a settlement to this litigation. However, since it was announced, a dispute has arisen regarding the terms of the settlement. The court has granted summary judgment in favor of the University as to the two other additional claimants, and no settlement was made with them.

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.

SUMMARY OF FINANCIAL PERFORMANCE FOR THE FISCAL YEAR ENDED MAY 31, 2009

The University's financial position weakened from fiscal year 2008 to fiscal year 2009. Following is a summary of the fiscal year 2009 changes in the University's financial position:

TABLE FOUR
Changes in Financial Position
(in thousands)

	Assets	Liabilities	Total	Net Assets		
				Unrestricted	Temporarily Restricted	Permanently Restricted
Fiscal Year 2009	\$1,940,926	\$544,537	\$1,396,389	\$409,041	\$513,339	\$474,009
Fiscal Year 2008	<u>\$2,260,460</u>	<u>\$692,188</u>	<u>\$1,568,272</u>	<u>\$413,008</u>	<u>\$704,271</u>	<u>\$450,993</u>
Change	<u>\$(319,534)</u>	<u>\$(147,651)</u>	<u>\$(171,883)</u>	<u>\$(3,967)</u>	<u>\$(190,932)</u>	<u>\$23,016</u>

Total assets decreased by \$319.5 million, or 14.1%, during fiscal year 2009, down to \$1.9 billion at year-end. Changes in the assets were primarily the result of net realized and unrealized losses on investments of \$179.6 million and a \$100.2 million decrease in securities lending of investments (recorded as an investment and a liability). Endowment fund investment losses of \$177.8 million comprised the majority of the realized and unrealized losses.

Significant changes in asset categories include a \$45.3 million increase in cash and cash equivalents, or 74.7%, to \$106 million, a decrease in investments of \$387.4, or 26.1%, to \$1.1 billion and an increase in property, plant and equipment of \$19.7 million, or 3.2%, to \$629.7 million. The increase in cash and cash equivalents is due primarily to the sale of investments to provide liquidity for operations. The decrease in investments resulted primarily from realized and unrealized losses and termination of the securities lending program. The increase in property, plant and equipment resulted primarily from campus construction projects during fiscal year 2009, including the following (dollars in thousands):

Elizabeth Perkins Prothro Hall and renovation to the Perkins School of Theology	\$10,012
Caruth Hall	7,666
Taos Master Plan	4,999
Phase III and IV Energy Performance	4,180
Boaz Hall Renovation	3,331
University Blvd. Extension	1,928
Lighting Retrofit Project	<u>1,285</u>
Total	<u>\$33,401</u>

Liabilities decreased by \$147.7 million, or 21.3%, in fiscal year 2009, to \$544.5 million at year-end. Notable changes included a decrease in accounts payable and accrued expenses of \$71.9 million, or 36.0%, a decrease in notes payable of \$24.6 million, or 30.9% and a decrease in bonds payable of \$49.3 million, or 12.9%. The decrease in accounts payable and accrued expenses resulted primarily from the termination of the endowment securities lending program offset by increases in the retiree medical liability, accrued legal expenses and the interest rate swap. Notes payable decreased as a result of retiring the \$35 million Peruna Holdings Corporation note, offset by a new \$10.3 million note for the acquisition of various properties adjacent to campus. The decrease in bonds payable resulted from scheduled principal maturities and escrow-funded retirements of the Series 1999 A Bonds.

Net assets decreased by \$171.9 million or 11.0%, down to \$1.4 billion at year-end, principally as a result of the aforementioned net realized and unrealized investment losses on investments.

Endowment. The market value of the University's endowment decreased \$369.3 million during fiscal year 2009. The following is a summary of the changes in endowment market value:

TABLE FIVE
Changes in Endowment Value
(dollars in thousands)

Endowment market value at May 31, 2008	\$1,433,588
Gifts	20,742
Net realized and unrealized losses on investments	(177,833)
Less realized gains transferred for spending	(54,836)
Decrease in market value of assets not carried at fair value	(163,183)
Other changes	<u>5,853</u>
 Endowment market value at May 31, 2009	 <u>\$1,064,331¹</u>

NOTES: ¹The endowment market value of \$1,064,331,000 does not reflect a deduction for pledges recorded in the amount of \$28,967,000 and a deduction for annuity funds and a trust invested in the endowment of \$3,102,000, which deductions are reflected in the endowment market value of \$1,032,262,000 shown in Table 8.

The endowment market values above include pledges receivable totaling \$28,967,000 and \$29,359,000 for fiscal years 2009 and 2008, respectively, which are included pursuant to Statement of Financial Accounting Standard Nos. 116 and 117. Pledges do not generate income for spending and normally are not included when the University reports endowment fund market value for purposes other than the financial statements.

These market values include assets other than marketable securities reported at fair value. The University has not elected to report these assets at fair value for financial statement purposes, and accordingly, neither the unrealized gains in prior years nor the unrealized losses in fiscal year 2009 are reported for financial statement purposes, except if they are determined to be permanently impaired. Assets determined to be permanently impaired in fiscal year 2009 totaled \$18 million.

Further, these endowment market values also include non-endowment funds invested in the Endowment, including annuity funds and a trust totaling \$3,102,000 and \$3,954,000 for fiscal years 2009 and 2008, respectively.

OPERATING BUDGET

The University conducts its annual operations in accordance with a Board approved detailed operating budget that has produced an operating surplus for 19 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 following table presents this data for the past five fiscal years.

TABLE SIX
Annual Operating Results
(in thousands)

<u>Unrestricted Net Assets</u>	Fiscal Year Ending May 31,				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Total Revenues	\$363,612	\$353,415	\$458,922	\$414,193	\$404,235
Exclude net realized and unrealized (gains)/losses on investments	(68,162)	(32,075)	(111,751)	(10)	37,142
Include realized gains transferred for spending	<u>24,856</u>	<u>32,064</u>	<u>34,486</u>	<u>44,277</u>	<u>54,836</u>
Total Operating Revenues	320,306	353,404	381,657	458,460	496,213
Total Expenses	<u>299,859</u>	<u>315,857</u>	<u>346,441</u>	<u>367,195</u>	<u>406,929</u>
Increase in Unrestricted Net Assets from Operations	<u>\$20,447</u>	<u>\$37,547</u>	<u>\$35,216</u>	<u>\$91,265</u>	<u>\$89,284</u>

STUDENT CHARGES

For the fiscal year ending May 31, 2009, income from tuition and fee charges, net of scholarship allowances, accounted for approximately 60% of the University's current fund operating revenues. Approximately 70% of the total tuition and fee revenue for the fiscal year ending May 31, 2009 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 SEVEN
Undergraduate Student Charges

	<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>
Tuition	\$23,846	\$25,400	\$27,400	\$29,430	\$31,200
General Fee	3,034	3,230	3,480	3,740	3,960
Room and Board	<u>9,214</u>	<u>9,695</u>	<u>10,825</u>	<u>11,875</u>	<u>12,445</u>
Total Resident Student Charges	<u>\$36,094</u>	<u>\$38,325</u>	<u>\$41,705</u>	<u>\$45,045</u>	<u>\$47,605</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, 2009 market value of approximately \$1 billion. According to the Fiscal Year 2008 NACUBO Endowment Study, prepared by the National Association of College and University Business Officers, the University's endowment was the 51st largest endowment of the 793 public and private institutions in the United States surveyed. The endowment has approximately \$648 million reserved to the schools and specific areas and approximately \$342 million available for general University use. School endowments range from approximately \$33 million for the Bobby B. Lyle School of Engineering to approximately \$142 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 EIGHT
Endowment Fund Growth
Fiscal Years 2000 through 2009

<u>Fiscal Year Ended May 31,</u>	<u>Market Value (in thousands)</u>	<u>Balanced Pool Total Return</u>
2000	911,121	19.5%
2001	872,388	-1.7%
2002	831,116	-2.1%
2003	807,551	.4%
2004	908,903	15.4%
2005	1,008,506	12.4%
2006	1,127,671	15.1%
2007	1,329,274	20.7%
2008	1,401,274	6.3%
2009	1,032,262 ¹	-24.0%

NOTES: ¹The endowment market value of \$1,032,262,000 reflects a deduction for pledges recorded in the amount of \$28,967,000 and a deduction for annuity funds and a trust invested in the endowment of \$3,102,000, which deductions are not reflected in the endowment market value of \$1,064,331,000 shown in Table 5.

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, 2009.

TABLE NINE
Endowment Assets as of May 31, 2009
(in thousands)

<u>Asset</u>	<u>Cost</u>	<u>Market</u>	<u>Policy Target</u>	<u>Current Allocation</u>
Global Equities	\$245,267	\$189,311	39%	19%
Fixed income	20,491	20,192	9%	7%
Absolute Return	165,720	254,559	24%	25%
Private Markets	185,012	181,417	13%	19%
Real Assets	172,740	208,081	15%	21%
Cash/Cash Equivalents	137,225	137,135	n/a	9%
Separately Invested	<u>21,255</u>	<u>41,567</u>	<u>n/a</u>	<u>n/a</u>
Total Endowment	<u>\$947,710</u>	<u>\$1,032,262</u>	<u>100%</u>	<u>100%</u>

The University has a wide variety of investments in the categories above. Global equities include U.S. equities and international equities (both developed and emerging markets). Fixed Income includes U.S. Treasury bonds and tax exempt bonds. Absolute Return includes hedge funds using various strategies. Private markets include venture capital and private equity. Real assets include real estate, oil and gas, and timber. Cash/Cash equivalents include money market funds and cash. The University invests for long term growth, but also recognizes and provides for the need for liquidity. As of September 1, 2009, available liquidity in the endowment pool includes within one week \$233.6 million, within one month \$331.4 million, within one year \$526.8 million. In total the University could redeem around 88% of our public portfolio within one year, or approximately 51% of the entire endowment.

The University has committed to capital draws totaling \$758,253,000 for venture capital, real estate funds and other investments, of which \$498,260,000 had been drawn as of May 31, 2009. The University has committed to pay draws as required for the remaining \$259,993,000 through fiscal year 2018. There is no annual limit on such draws and, hence, any remaining amount could be called upon in its entirety at anytime. In such a case, the University anticipates that it would meet its obligation to pay a sizeable draw by using cash on hand and liquidating short term investments. The University includes within its budget an amount anticipated to be sufficient to meet the

capital calls for the coming budget year. It has not experienced and does not anticipate that it would receive capital calls materially greater than the amount budgeted for that purpose. See Note 15 to the Financial Statements included in **APPENDIX B** hereto.

The University directs the management of approximately 96% of its Endowment and Similar Funds through the use of over 63 external managers. The remaining 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.

Endowment Spending Policy. The Endowment Spending Policy states:

Policy Statement

The intent of this endowment policy is to provide adequate income to support the current needs for which the endowment funds are intended while preserving the capacity to maintain support for the future, as well. This policy is consistent with the tenets of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Effective September 1, 2007, UPMIFA was adopted in Texas substantially in the form developed by the National Conference of Commissions on Uniform State Laws and repeals the Uniform Management of Institutional Funds Act (UMIFA) previously adopted by the Texas Legislature in 1989.

UPMIFA allows spending based on total return, permitting prudent expenditures of both appreciation and income, which is incorporated into this policy. UPMIFA also allows the University to appropriate for expenditure an amount the University determines to be prudent for the uses, benefits, purposes and duration for which the endowment is established. Within these parameters, under UPMIFA, the University is allowed to spend some portion of historic dollar value (the original gift amount and other fund additions required by the donor).

Policy

The Administration is authorized to distribute for spending from all endowment funds invested in the Balanced Pool that have sufficient realized and unrealized capital gains an amount equal to 70% of the spending calculated for the previous fiscal year increased by an inflation factor (X) to be determined each fiscal year, and a percent (Y) determined for each fiscal year of 30% of the four-quarter average of market values for the preceding calendar year.

The inflation factor (X) and the percent (Y) will be determined annually as part of the budget approval process.

In instances where an individual endowment fund does not have accumulated realized or unrealized capital gains, the Administration shall distribute for spending only the income (interest, dividends, royalties and rents) from the fund's assets and not spend below the historic dollar value of the endowment, unless it is deemed prudent for the uses, benefits, purposes and duration for which the endowment fund is established and approved by the Board of Trustees of the University, or if it is so stipulated by the donor.

The Administration will conduct an annual review to ensure that University transfers for spending under this policy are consistent with standards of prudence, which for purposes of this policy is defined as not exceeding 7% of the average of the previous three (3) years' markets values of the aggregate endowment. If the transfers for spending exceed 7%, the Administration will document for approval of the Board of Trustees an explanation of why the transfers constitute prudent spending and/or make appropriate adjustments to this policy.

The effective spending rate for fiscal year 2009 was 4.20%.

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. In September 2008, SMU launched SMU Unbridled: The Second Century Campaign with a goal of \$750 million. As of May 31, 2009, \$367,058,372 has been raised. In addition to supporting operating funds, the campaign has:

- Provided endowments naming two of SMU's Schools; The Bobby B. Lyle School of Engineering and the Annette Caldwell Simmons School of Education and Human Development.
- Endowed the Roy M. Huffington Department of Earth Sciences.
- Established 10 new endowed academic institutes, centers and initiatives.
- Created 10 new endowed faculty positions.
- Created 182 new endowed scholarships.
- Supported construction or renovation of 10 facilities.

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 TEN
Total Gifts and Bequests
(in thousands)

	Fiscal Year Ended May 31,			
	2006	2007	2008	2009
Sources				
Alumni	\$17,169	\$28,377	\$37,948	\$22,441
Parents and Friends	6,648	7,982	27,129	4,555
Foundations	28,374	25,144	32,941	62,568
Corporations	9,724	4,388	5,253	9,545
Religious	2,008	3,114	2,445	2,473
Organizations				
Other Organizations	<u>233</u>	<u>194</u>	<u>179</u>	<u>203</u>
Total	<u>\$64,156</u>	<u>\$69,199</u>	<u>\$105,895</u>	<u>\$101,785</u>
Net Assets				
Unrestricted:				
General	\$20,453	\$12,918	\$15,350	\$53,020
Auxiliary	3,320	2,350	4,658	5,896
Temporarily Restricted	25,742	30,261	43,628	21,821
Permanently Restricted	<u>14,641</u>	<u>23,670</u>	<u>42,259</u>	<u>21,048</u>
Total	<u>\$64,156</u>	<u>\$69,199</u>	<u>\$105,895</u>	<u>\$101,785</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Like all other institutions across the country, Southern Methodist University has felt the effects of the economic downturn. During fiscal year 2009, significant time has been devoted by the leadership team of the University to monitoring the situation and the effects of the financial markets and the University has taken actions to

maintain the financial strength of the University. Last fiscal year, the University endowment declined \$369.3 million to a market value at May 31, 2009 of \$1,032,262. Only 16% of the University's operation is supported by endowment income, and, the impact of the decline on operations is manageable. The University has put in place mechanisms to reduce spending over the coming months to preserve cash and maintain reserves.

Undergraduate enrollment for the fall of 2009 is expected to be slightly below that of fall 2008. SMU has taken the position of maintaining the quality of its students versus increasing the quantity and has made appropriate budget adjustments to account for the slightly smaller fall 2009 enrollment. SMU's philosophy of maintaining the quality of its students is intended to put the University in a stronger position in the coming years to increase SMU's overall ranking among schools and attract the best and brightest students and faculty. Obtaining student loans in the present economy has not been an issue for SMU's students and is not a barrier to enrollment. Graduate enrollment is projected to increase for the fall 2009 semester.

Despite the economic downturn, SMU's fund raising efforts remain very strong. The University recently completed its best year to date, collecting \$101,785,000 in cash gifts. The size of gifts the University received declined slightly. However, the number of donors continues to increase. The University anticipates being at the half way mark of its \$750 million goal of the current Second Century Campaign by late fall 2009.

COMMUNITY ENRICHMENT

The University has long maintained an active role of service and outreach to the Dallas community. Under the leadership of President R. Gerald Turner, SMU has expanded its outreach into numerous new areas that enrich the community and beyond.

Community Outreach. SMU sponsors hundreds of community events annually, including concerts, performances, exhibitions, lectures and athletic events. The Willis M. Tate Distinguished Lecture Series makes national and international leaders available to the community. The Meadows Museum offers access to one of the finest collections of Spanish art outside Spain. Dedman College offers numerous lectures, including the Godbey Lecture Series, which are open to the public. Meadows School of the Arts is a center of cultural life and provides programming and events for youth and adults. Edwin L. Cox School of Business has strong connections with the business community and offers education programs for business executives. The Bobby B. Lyle School of Engineering works closely with area industries and provides youth programs including engineering summer camps and an annual workshop that promotes engineering to youth. Dedman School of Law, one of the first schools in the country to sponsor legal clinics, currently operates five clinics serving diverse community needs. Perkins School of Theology provides continuing education programs for ministers and lay people. Annette Caldwell Simmons School of Education and Human Development serves the community through its Institute for Reading Research, Gifted Students Institute, Center for Child and Community Development, Center for Family Counseling, Upward Bound, Community Counseling Centers, Mediation and Conflict Resolution Services, informal courses for adults and academic enhancement programs for youth.

Student Community Service. More than 2,500 student volunteers serve annually through approximately 70 nonprofit agencies. The SMU Service House, first of its kind at a Texas university, is home to 28 students, each of whom devotes a certain number of hours to volunteerism per semester. The Public Service Program of Dedman School of Law requires each student to provide a minimum of 30 hours of pro bono law-related work in the community. The Provost's Big iDeas program each year gives 10 undergraduate interdisciplinary teams up to \$5,000 each to research and address specific challenges facing the Dallas area, such as environmental and health care issues. The Alternative Spring Break Program gives students opportunities for service nationwide.

Service-Learning Initiatives. Service-Learning involves courses combining a classroom component with community service that builds on classroom theory. Departments currently offering service-learning courses include Human Rights, Sociology and Spanish. Through the Center for Academic-Community Engagement, SMU students study urban issues while volunteering in the community. Several live in an inner-city house, where they provide mentoring and tutoring to neighborhood children. Dedman College offers an interdisciplinary minor in Human Rights. The Cary M. Maguire Center for Ethics and Public Responsibility awards summer internship stipends to students engaged in public service. SMU has partnered with numerous public service agencies to create internships through which students' intern for credit.

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, 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. The insurance market has stabilized and continues to flatten out as the stock market recovers, and in light of general business conditions. Property insurance rates nationwide are up slightly depending upon the risk profile of the insured, with improving sub-limits, broader terms, and capacity. Workers compensation rates are increasing for most insured's, except for those like SMU with good loss ratios which are remaining generally flat. General liability and educator's legal liability rates are flat or also increasing due to an increasingly litigious society. Miscellaneous lines remain relatively flat. 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 coverage's and retention programs that reflect an appropriate and prudent approach toward the protection of the institution.

INTERCOLLEGIATE ATHLETICS

Intercollegiate athletics at the University includes 17 sports, all competing at the Division 1 level: (six for men and eleven for women). The men's sports include basketball, football, golf, soccer, swimming and diving, and tennis. The women's sports include basketball, cross country, equestrian, golf, indoor and outdoor track and field, rowing, soccer, swimming and diving, tennis, and volleyball. The University is a member of the Football Bowl Subdivision of Division 1 in the National Collegiate Athletic Association and Conference U.S.A. University athletic facilities include Moody Coliseum, the Barr Swimming Facility and Perkins Natatorium, the Morrison-Bell Track, Westcott Field for soccer, the Turpin Tennis Center, the Gerald J. Ford Stadium and Pettus Practice Fields for football, the Paul B. Loyd, Jr. All-Sports Center, Crum Basketball Center, Buck Branch Equestrian Center, White Rock Boathouse as well as a variety of training rooms, equipment, locker and conference rooms. Ground has been broken on, new facilities for the men's and women's golf teams at the Dallas Athletic Club, the home course for both teams.

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

APPENDIX B

**CONSOLIDATED FINANCIAL STATEMENTS, MAY 31, 2009 AND 2008 OF
SOUTHERN METHODIST UNIVERSITY**

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SOUTHERN METHODIST UNIVERSITY
CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2009 and 2008

(With Independent Auditors' Report Thereon)

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KPMG LLP
Suite 3100
717 North Harwood Street
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, 2009 and 2008, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 the University as of May 31, 2009 and 2008, and the changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 7 to the consolidated financial statements, the University adopted the provisions of Financial Accounting Standards Board Statement No. 157, *Fair Value Measurements* as of June 1, 2008.

As discussed in note 6 to the consolidated financial statements, the University adopted the provisions of Financial Accounting Standards Board Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* as of June 1, 2008.

KPMG LLP

September 4, 2009

Southern Methodist University
Consolidated Balance Sheets
As of May 31, 2009 and May 31, 2008
(Dollars in Thousands)

	2009	2008	Liabilities and Net Assets	2009	2008
Assets					
Cash and cash equivalents (restricted for capital projects: \$25,711 in 2009 and \$42,032 in 2008)	\$ 105,992	\$ 60,668	Liabilities:		
Accounts receivable, less allowance for doubtful accounts of \$873 in 2009 and \$530 in 2008	21,015	20,137	Accounts payable and accrued expenses	\$ 127,985	\$ 199,917
Pledges receivable, net	77,371	77,865	Deposits and deferred income	27,518	29,332
			Notes payable	54,922	79,524
			Bonds payable	331,458	380,749
			Advances for student loans	2,654	2,666
Investments:			Total Liabilities	\$ 544,537	\$ 692,188
Short-term paper (restricted for debt retirement: \$570 in 2009 and \$485 in 2008)	\$ 213,937	\$ 99,279			
Stocks	142,233	357,366			
Bonds (restricted for debt retirement: \$53,489 in 2009 and \$97,535 in 2008; restricted for capital projects: \$0 in 2009 and \$1,287 in 2008)	106,560	159,879			
Venture capital	48,820	44,646			
Mortgage and other notes receivable, less allowance for doubtful accounts of \$475 in 2009 and \$387 in 2008	22,465	14,818			
Real estate	118,227	113,991			
Funds held in trust by others	14,121	18,776			
Other	429,286	674,280	Net Assets:		
Total investments	\$ 1,095,649	\$ 1,483,035	Unrestricted	\$ 409,041	\$ 413,008
			Temporarily restricted	513,339	704,271
Property, plant and equipment, at cost, net of accumulated depreciation	629,671	609,986	Permanently restricted	474,009	450,993
Other assets	11,228	8,769	Total Net Assets	\$ 1,396,389	\$ 1,568,272
Total Assets	\$ 1,940,926	\$ 2,260,460	Total Liabilities and Net Assets	\$ 1,940,926	\$ 2,260,460

See accompanying notes to the consolidated financial statements.

Southern Methodist University
Consolidated Statements of Activities
For the Years Ended May 31, 2009 and May 31, 2008
(Dollars in Thousands)

	2009			2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue:							
Tuition and fees	\$ 307,721	\$ -	\$ -	\$ 285,466	\$ -	\$ -	\$ 285,466
Scholarship allowance - tuition and fees	(97,767)	-	-	(87,328)	-	-	(87,328)
Net tuition	\$ 209,954	\$ -	\$ -	\$ 198,138	\$ -	\$ -	\$ 198,138
Gifts	53,020	21,821	21,048	8,394	43,628	42,259	94,281
Endowment income	8,595	125	881	21,680	468	1,750	23,898
Net realized and unrealized gain (loss) on investments and interest rate swap	(37,142)	(150,070)	1,087	(6,639)	42,751	2,222	38,334
Grants and contracts	24,239	-	-	30,385	-	-	30,385
Organized activities	9,259	-	-	8,761	-	-	8,761
Other sources	31,774	-	-	35,523	-	-	35,523
Auxiliary activities	39,512	-	-	42,374	-	-	42,374
Scholarship allowance - room and board	(2,295)	-	-	(1,588)	-	-	(1,588)
Independent operations	4,511	-	-	4,635	-	-	4,635
Total revenue	\$ 341,427	\$ (128,124)	\$ 23,016	\$ 341,663	\$ 86,847	\$ 46,231	\$ 474,741
Net assets released from restrictions	62,808	(62,808)	-	62,154	(62,154)	-	-
Total adjusted revenue	\$ 404,235	\$ (190,932)	\$ 23,016	\$ 403,817	\$ 24,693	\$ 46,231	\$ 474,741
Expenses:							
Program expenses:							
Instructional	\$ 123,999	\$ -	\$ -	\$ 115,506	\$ -	\$ -	\$ 115,506
Academic support	62,228	-	-	62,760	-	-	62,760
Research	13,547	-	-	14,133	-	-	14,133
Organized activities	11,630	-	-	11,506	-	-	11,506
Student services	30,847	-	-	30,793	-	-	30,793
Auxiliary activities	51,270	-	-	43,715	-	-	43,715
Total program expenses	\$ 293,521	\$ -	\$ -	\$ 278,413	\$ -	\$ -	\$ 278,413
Institutional support	108,868	-	-	83,017	-	-	83,017
Independent operations	4,540	-	-	5,765	-	-	5,765
Total expenses	\$ 406,929	\$ -	\$ -	\$ 367,195	\$ -	\$ -	\$ 367,195
Postretirement plan changes other than net periodic postretirement benefit cost	1,273	-	-	-	-	-	-
Change in net assets before net asset reclassification and cumulative effect of accounting change	\$ (3,967)	\$ (190,932)	\$ 23,016	\$ 36,622	\$ 24,693	\$ 46,231	\$ 107,546
Net asset reclassification based on change in law	-	-	-	(474,475)	474,475	-	-
Cumulative effect of accounting change	(8,483)	-	-	(8,483)	-	-	(8,483)
Change in net assets during the year	\$ (3,967)	\$ (190,932)	\$ 23,016	\$ (446,336)	\$ 495,168	\$ 46,231	\$ 99,063
Net assets at beginning of year	413,008	704,271	450,993	859,344	205,103	404,762	1,469,209
Net assets at end of year	\$ 409,041	\$ 513,339	\$ 474,009	\$ 413,008	\$ 704,271	\$ 450,993	\$ 1,568,272

See accompanying notes to the consolidated financial statements.

Southern Methodist University
Consolidated Statements of Cash Flows
For the Years Ended May 31, 2009 and May 31, 2008
(Dollars in Thousands)

	2009	2008
Cash flows from operating activities:		
Change in net assets	\$ (171,883)	\$ 99,063
Adjustments to reconcile changes in net assets to cash provided by (used for) operating activities:		
Cumulative effect of accounting change	-	8,483
Depreciation	23,948	20,040
Loss on disposal of property, plant and equipment	1,817	2,937
Increase in accounts and pledges receivable	(384)	(27,998)
Decrease (increase) in other assets	(2,459)	2,556
Increase in accounts payable and accrued expenses for operations	28,288	10,837
Increase (decrease) in deposits and deferred income and advances for student loans	(1,826)	4,262
Contributions restricted for long-term investment	(55,674)	(33,358)
Non-cash contributions	(17,285)	(25,192)
Net realized and unrealized (gain) loss on investments	179,597	(42,104)
Income restricted for long-term investment	(804)	(1,804)
Annuity obligation payments	723	790
Amortization of notes payable discount	863	1,810
Other adjustments	(454)	(411)
Net cash provided by (used for) operating activities	\$ (15,533)	\$ 19,911
Cash flows from investing activities:		
Purchase of property, plant and equipment	\$ (44,199)	\$ (65,687)
Proceeds from sales of property, plant and equipment	10	5
Purchase of investments	(171,836)	(357,408)
Proceeds from the sale and maturity of investments	403,294	355,402
Increase (decrease) in accounts payable and accrued expenses for securities lending	(100,220)	17,443
Disbursements of mortgage and other notes receivable	(22,476)	(33,946)
Principal payments received on and sales of mortgage and other notes receivable	14,829	33,258
Net cash provided by (used for) investing activities	\$ 79,402	\$ (50,933)
Cash flows from financing activities:		
Contributions restricted for long-term investment	\$ 55,674	\$ 33,358
Income restricted for long-term investment	804	1,804
Annuity obligation payments	(723)	(790)
Proceeds from notes payable	11,541	16,577
Payments on notes payable	(37,006)	(2,128)
Long-term bond payments	(48,835)	(15,535)
Net cash provided by (used for) financing activities	\$ (18,545)	\$ 33,286
Net increase in cash and cash equivalents	45,324	2,264
Cash and cash equivalents at beginning of year	60,668	58,404
Cash and cash equivalents at end of year	\$ 105,992	\$ 60,668
Supplemental data:		
Gifts of investments	\$ 15,049	\$ 19,322
Gifts of real estate	975	-
Gifts of property, plant, and equipment	1,261	5,870
Cash paid for interest	16,492	19,460

Southern Methodist University
Notes to the Consolidated Financial Statements
May 31, 2009 and May 31, 2008

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 tuition and fees charged for these educational services, the University receives support from donations, and revenue from investment earnings, sponsored research, athletic events and other auxiliary activities, and other sources.

The University currently has nine corporations under its control that are included in the consolidated financial statements. Peruna Properties, Inc., Pony Properties, Inc., Peruna Holdings Corporation, Mustang Mockingbird Corporation, Mustang Mockingbird Properties, and Mustang Airline Corporation are corporations the University established 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 and the Southern Methodist University Foundation for Research 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. SMU Corp. was formed in 2009 in connection with the location of the George W. Bush Presidential Library and Museum at the University.

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 based on 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, time 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 of accounting. 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 \$19,888,000 and \$15,754,000 incurred by the University in fiscal years 2009 and 2008, respectively, 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 short-term paper, stocks and bonds with readily determinable fair values are recorded at fair value. All other investments are recorded at cost, with disclosure of most recently reported fair values in Note 5, herein. Management monitors the managers and investment strategies of these and other investments to ascertain whether valuations are reasonable and whether the assets are permanently impaired. A permanent impairment loss is recognized when investments' fair values are below their carrying amounts and verifiable positive evidence does not exist to support the recoverability of the investments within a reasonable period of time. For the year ended May 31, 2009, the University has investments in venture capital funds, real estate and other investments that have fair values lower than cost by \$48,115,000 that are not reported as permanently impaired. The aggregate related fair value of these investments is \$256,280,000.

Gifts are recorded at fair value at the date of donation or a nominal value if fair value is not readily determinable. Recorded realized and unrealized gains on investments are reported in the appropriate net asset classifications 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 \$2,654,000 and \$2,666,000 of refundable government advances and \$305,000 and \$307,000 of matching University funds in fiscal years 2009 and 2008, respectively.

Property, plant and equipment (including art objects) are recorded at cost, if purchased, or at the fair 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. Capital assets include property, plant and equipment that have an acquisition cost of \$5,000 and over and have an estimated useful life of at least two (2) years, with the exception of software, where the cost must exceed \$75,000 before the asset will be capitalized. Property, plant and equipment (except for art objects) are depreciated on the straight-line basis over their estimated useful lives with equipment, vehicles, furniture, software and "other" depreciating in 5 to 15 years; land improvements depreciating in 15 to 50 years; and buildings depreciating in 20 to 40 years.

Contributions of land, buildings, and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenue 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 revenue of the temporarily restricted net asset class. The restrictions are considered to be released when the long-lived assets are placed in service.

The University has adopted an endowment spending policy whereby annually the Board of Trustees authorizes amounts to be spent for the purposes intended by the donors based in part on an index of the prior year allocation for spending and in part on a stipulated percentage of the fair value of endowments participating in the investment pool. 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, to the extent available.

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.

Tuition revenue is recognized in the fiscal year in which the predominant portion of instruction occurs. Accordingly, deferred revenue as of May 31, 2009 includes the amount billed to students prior to May 31, 2009 for the 2009 summer session.

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. Actual results could differ from these estimates.

Certain fiscal year 2008 amounts have been reclassified to conform to the University's financial presentation in fiscal year 2009.

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 no investment in fiscal year 2009 but had invested funds totaling \$21,228,000 with one investment firm in fiscal year 2008 in which a board member is affiliated.

3. Cash, Cash Equivalents, and Accounts Receivable

The fair value of cash, cash equivalents, 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. The fair value of cash, cash equivalents, and accounts receivable totaled \$127,007,000 and \$80,805,000 of which \$18,661,000 and \$23,327,000 represent donations restricted for property, plant and equipment at May 31, 2009 and 2008, respectively. The University reserves accounts receivable determined to be impaired or otherwise uncollectible.

4. Pledges Receivable

Unconditional promises to give are included in the consolidated financial statements as pledges receivable with gifts reported in the appropriate net asset categories. 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% to 7%. 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>2009</u>	<u>2008</u>
In one year or less	\$ 31,858	\$ 29,388
Between one year and five years	40,473	44,921
More than five years	28,568	26,090
Less discount	<u>(23,528)</u>	<u>(22,534)</u>
	<u>\$ 77,371</u>	<u>\$ 77,865</u>

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

	<u>2009</u>	<u>2008</u>
Endowment for departmental programs and activities	\$ 26,467	\$ 27,697
Endowment for scholarships	2,438	1,662
Construction projects	15,587	16,317
Departmental programs and activities	26,283	18,772
Purpose restriction met	<u>6,596</u>	<u>13,417</u>
	<u>\$ 77,371</u>	<u>\$ 77,865</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>2009</u>	<u>2008</u>
Contingent on donor's earnings	\$ 6,875	\$ 8,125
Matching donation requirement	11,100	11,500
Other	3,000	4,000
	<u>\$ 20,975</u>	<u>\$ 23,625</u>

5. Investments

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

	<u>2009</u>		<u>2008</u>	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Short-term paper	\$ 213,937	\$ 213,937	\$ 99,279	\$ 99,279
Stocks	142,233	142,233	357,366	357,366
Bonds	106,560	106,560	159,879	159,879
Venture capital	48,820	45,651	44,646	49,288
Mortgage and other notes receivable	22,465	22,465	14,818	14,818
Real estate:				
Real properties	\$ 108,542	\$ 113,385	\$ 98,795	\$ 112,969
Mineral properties	9,685	69,080	15,196	85,210
Total real estate	<u>\$ 118,227</u>	<u>\$ 182,465</u>	<u>\$ 113,991</u>	<u>\$ 198,179</u>
Funds held in trust by others	14,121	14,121	18,776	18,776
Other Investments:				
Private equity	\$ 176,290	\$ 179,549	\$ 148,351	\$ 198,818
Absolute return	187,044	279,115	242,143	411,117
Securities lending	-	-	100,220	100,220
Equity funds without daily liquidity	62,026	62,268	113,211	132,066
Fixed income funds without daily liquidity	3,926	3,844	70,355	72,331
Total other investments	<u>\$ 429,286</u>	<u>\$ 524,776</u>	<u>\$ 674,280</u>	<u>\$ 914,552</u>
Total investments	<u>\$ 1,095,649</u>	<u>\$ 1,252,208</u>	<u>\$ 1,483,035</u>	<u>\$ 1,812,137</u>

The fair value of short-term paper, stocks, bonds and funds held in trust by others is based on quoted market prices. The fair value of venture capital, real estate funds 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. Where the fair value of mortgage and other notes receivable

and University individually owned and managed real estate surface rights is not available and cannot be determined without incurring excessive costs, the amounts reflected as fair value are the same as carrying value.

The University participated in a program in fiscal year 2008 in which it transferred (loaned) securities under a security lending agreement it had with a trustee bank. The cash and securities collateral associated with these transactions is included on the University's balance sheets as other investments, with a corresponding obligation to return the collateral recorded as accounts payable and accrued expenses. The University terminated the program in fiscal year 2009, and as of May 31, 2009, no securities were loaned through this program.

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 the University's interest in the trust assets.

Under split interest agreements, the University has the right to receive income distributions that are reported as revenue. The loss associated with split interest agreements was \$1,390,000 in fiscal year 2009, compared to revenue of \$3,684,000 in fiscal year 2008. The fair value of split interest agreements decreased from \$31,829,000 as of May 31, 2008 to \$24,311,000 as of May 31, 2009.

Assets associated with gift annuities, unitrusts and annuity trusts held by the University are included in the applicable investment classifications at their current fair values. Under these split interest agreements, the University makes periodic payments to named beneficiaries in return for assets received. Liabilities associated with split interest agreements are recorded as accounts payable and accrued expenses on the balance sheets at current fair value by discounting estimated cash flows using discount rates of 5.78% and 5.90% per annum in fiscal years 2009 and 2008, respectively. The anticipated future payments to the income beneficiaries are 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. As of May 31, 2009 and 2008, the present values of the University's financial obligations to beneficiaries were \$6,145,000 and \$7,067,000, respectively.

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 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. Investment income of \$23,330,000 and \$42,669,000 for the years ended May 31, 2009 and 2008, respectively, are net of related expenses, such as custodial fees and investment advisory fees. These expenses are approximately \$10,299,000 and \$12,017,000 for the years ended May 31, 2009 and 2008, respectively. Net realized and unrealized losses on investments total \$179,597,000 for the year ended May 31, 2009 and net realized and unrealized gains of \$42,104,000 for the year ended May 31, 2008. Included in these amounts are realized and unrealized losses attributed to assets reported at fair value of approximately \$142,847,000 and \$12,626,000 for the years ended May 31, 2009 and 2008, respectively, and realized losses attributed to assets reported at cost of approximately \$36,750,000 for the year ended May 31, 2009 and realized gains of \$54,730,000 for the year ended May 31, 2008.

6. Endowment Fund

For the fiscal year ending May 31, 2009, the University adopted the provisions of Financial Accounting Standards Board Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP 117-1). FSP 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA or "the Act") and also requires disclosures about endowment funds, including both donor-restricted endowment funds and funds functioning as endowment funds.

The University's endowment consists of approximately 1,400 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law:

The Board of Trustees of the University has interpreted the UPMIFA as requiring the preservation of the fair value of the original gifts as of the gift dates, absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Board of Trustees in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the Board of Trustees considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the University and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and appreciation of investments
6. Other resources
7. The investment policies of the University

Temporarily restricted and permanently restricted donor-restricted endowment funds were \$413,667,000 and \$449,410,000, respectively, at May 31, 2009 and \$618,502,000 and \$425,577,000 at May 31, 2008. Funds functioning as endowment funds were \$51,393,000 and \$76,465,000 as of May 31, 2009 and 2008, respectively, and are included in unrestricted net assets.

Changes in endowment net assets for the years ended May 31 are as follows (dollars in thousands):

	2009			2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets at beginning of year	\$ 76,465	\$ 618,502	\$ 425,577	\$ 145,146	\$ 379,495	\$ 1,070,205	
Net asset reclassification based on change in law	-	-	-	(474,475)	-	-	
Endowment net assets after reclassification	\$ 76,465	\$ 618,502	\$ 425,577	\$ 619,621	\$ 379,495	\$ 1,070,205	
Gifts	-	-	20,742	-	42,106	42,106	
Investment return:							
Investment income	\$ 1	\$ 3,268	\$ 880	\$ 18	\$ 6,471	\$ 1,740	\$ 8,229
Net realized and unrealized gain (loss)	(11,192)	(166,641)	-	5,851	35,448	-	41,299
Total investment return	\$ (11,191)	\$ (163,373)	\$ 880	\$ 5,869	\$ 41,919	\$ 1,740	\$ 49,528
Endowment funds approved for spending	(3,831)	(51,005)	-	(2,862)	(41,415)	-	(44,277)
Funds functioning as endowment net transfers	(108)	-	-	2,369	-	-	2,369
Other revenues and transfers	(9,942)	9,543	2,211	-	(1,623)	2,236	613
Net assets at end of year	\$ 51,393	\$ 413,667	\$ 449,410	\$ 618,502	\$ 425,577	\$ 1,120,544	

Changes in endowment net assets split between donor-restricted and funds functioning as endowment for the years ended May 31 are as follows (dollars in thousands):

	2009		2008	
	Donor Restricted Endowment	Funds Functioning as Endowment	Donor Restricted Endowment	Funds Functioning as Endowment
Gifts	\$ 20,742	\$ -	\$ 42,106	\$ -
Investment return				
Investment income	\$ 4,148	\$ 1	\$ 8,211	\$ 18
Net realized and unrealized gain (loss)	<u>(166,641)</u>	<u>(11,192)</u>	<u>35,448</u>	<u>5,851</u>
Total investment return	\$ <u>(162,493)</u>	\$ <u>(11,191)</u>	\$ <u>43,659</u>	\$ <u>5,869</u>
Endowment funds approved for spending	(51,005)	(3,831)	(41,415)	(2,862)
Funds functioning as endowment net transfers	-	(108)	-	2,369
Other revenues and transfers	<u>11,754</u>	<u>(9,942)</u>	<u>613</u>	<u>-</u>
Total change in endowment funds	\$ <u>(181,002)</u>	\$ <u>(25,072)</u>	\$ <u>44,963</u>	\$ <u>5,376</u>
				<u>\$ 49,528</u>
				<u>\$ 42,106</u>
				<u>\$ 8,229</u>
				<u>\$ 41,299</u>
				<u>\$ 49,528</u>
				<u>\$ 42,106</u>
				<u>\$ 50,339</u>

Endowment funds classified as permanently restricted net assets of \$449,410,000 and \$425,577,000 for the years ended May 31, 2009 and 2008, respectively, represent the portion of perpetual endowment funds that is required to be retained permanently by explicit donor stipulation.

Endowment funds classified as temporarily restricted net assets and subject to a time restriction under UPMIFA at May 31 are as follows (dollars in thousands):

	2009	2008
With purpose restrictions	\$ 125,985	\$ 159,310
Without purpose restrictions	287,682	459,192
Total endowment funds classified as temporarily restricted net assets	<u>\$ 413,667</u>	<u>\$ 618,502</u>

Funds with Deficiencies:

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the donor or the Act requires the University to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$9,942,000 as of May 31, 2009. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of the permanently restricted contributions. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets. There were no such deficiencies as of May 31, 2008.

Return Objectives and Risk Parameters:

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for a donor-specified period, as well as funds functioning as endowment funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to outperform over the long term (defined as rolling three and five year periods) a blended benchmark composed of 75% of the Russell 3000 and 25% of Barclay's (formerly Lehman Brothers Capital) Government/Credit Index. The University expects its endowment funds, over time, to provide an average rate of return of approximately 9 percent annually (or 5.5% after an expected average rate of University inflation of 3.5% per year), net of all costs of management fees, trading expenses and custody services over the long term. Actual returns in any given year may vary from this target.

The principal risk to the endowment is the possibility of prolonged or severe asset depreciation that impairs the ability of the fund to preserve the value of the corpus after inflation, fees, and the yearly spending distribution. The endowment's broadly diversified portfolio is designed to reduce the volatility of returns. Also, the endowment is invested in asset classes that are projected to perform well and act as a hedge in environments that could cause prolonged or severe asset depreciation such as high inflation or deflation. Risk management is a dynamic process that takes into account general market developments, the proliferation of new investments, and the changing nature of correlation across asset classes. The University and its Investment Committee are responsible for this process, monitoring and managing the factors pertaining to credit, liquidity, market, and operational risks.

Strategies Employed for Achieving Objectives:

To satisfy its long-term return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends, etc.). The University targets a diversified asset allocation that places emphasis on global equities, absolute return, private markets, real assets and fixed income strategies to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and the Investment Objectives Relationship to Spending Policy:

University Administration is authorized to distribute for spending from all endowment funds invested in the Balanced Pool that have sufficient realized and unrealized capital gains, an amount equal to seventy percent (70%) of the spending calculated for the previous fiscal year increased by an inflation factor to be determined each fiscal year (currently 3%), and a percent determined for each fiscal year (currently 4.75%) of thirty percent (30%) of the four-quarter average of market values for the preceding calendar year. In establishing this policy, the University considers the long-term expected return on its endowment. Accordingly, over the long term, the University expects the current spending policy to allow its endowment to maintain its purchasing power by growing a rate at least equal to planned payouts and inflationary increases. Additional real growth will be provided through new gifts and excess investment returns.

7. Fair Value of Financial Instruments

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157). This statement provides a new definition for fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The University adopted the provisions of this statement as of May 31, 2009 for its financial assets and liabilities that are measured and reported at fair value each reporting period. The financial assets recorded at fair value on a recurring basis primarily relate to investments. SFAS 157 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). The adoption of the statement to the University's financial assets did not have an impact on the consolidated financial statements in fiscal year 2009.

Even though the adoption of SFAS 157 did not impact the University's consolidated financial statements, additional disclosures are required under SFAS 157, including segregating asset values among three levels that identify how investments are valued. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets. Fair values determined by Level 2 inputs utilize data points that are observable, such as quoted prices for comparable assets, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset and include situations where there is little, if any, market activity for the asset.

In February 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which permits entities to choose to measure financial instruments and other items at fair value. The

unrealized gains and losses on items for which the fair value option has been elected would be reported in revenue. The University adopted the provisions of this statement as of May 31, 2009, but has not elected to value any additional investments or other financial investments at fair value. Accordingly, there is no impact on the consolidated financial statements resulting from adoption.

For financial statement purposes (balance sheets), venture capital, real estate and other investments are carried on the cost basis. The following table presents information about the University's investments at fair value as of May 31, 2009 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value (dollars in thousands):

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Short-term paper	\$ 194,610	\$ 19,327	\$ -	\$ 213,937
Stocks	142,233	-	-	142,233
Bonds	60,706	45,854	-	106,560
Venture capital	-	-	45,651	45,651
Mortgage and other notes receivable	-	22,465	-	22,465
Real estate:				
Real properties	\$ -	\$ 6,338	\$ 107,047	\$ 113,385
Mineral properties	-	34,409	34,671	69,080
Total real estate	\$ -	\$ 40,747	\$ 141,718	\$ 182,465
Funds held in trust by others	-	9,897	4,224	14,121
Other Investments:				
Private equity	\$ -	\$ -	\$ 179,549	\$ 179,549
Absolute return	-	-	279,115	279,115
Equity funds without daily liquidity	-	-	62,268	62,268
Fixed income funds without daily liquidity	-	-	3,844	3,844
Total other investments	\$ -	\$ -	\$ 524,776	\$ 524,776
Total investments	\$ 397,549	\$ 138,290	\$ 716,369	\$ 1,252,208

As of May 31, 2009, the University has an interest rate swap, annuity obligations, notes payable and bonds payable that have fair values of \$9,156,000, \$6,145,000, \$53,751,000 and \$343,626,000 respectively, which are measured using Level 2 valuation techniques.

For fiscal year 2009, fair value for assets in the previous table using significant unobservable inputs (Level 3) are as follows (dollars in thousands):

	<u>Venture Capital</u>	<u>Real Estate</u>	<u>Funds Held in Trust</u>	<u>Other Investments</u>	<u>Total</u>
Fair value at beginning of year	\$ 49,288	\$ 153,713	\$ 5,962	\$ 746,719	\$ 955,682
Realized losses	(21)	(1,042)	(386)	(31,361)	(32,810)
Unrealized losses	(7,811)	(14,724)	(1,342)	(143,088)	(166,965)
Net purchases and sales	4,195	3,771	(10)	(47,494)	(39,538)
Fair value at end of year	<u>\$ 45,651</u>	<u>\$ 141,718</u>	<u>\$ 4,224</u>	<u>\$ 524,776</u>	<u>\$ 716,369</u>

8. Property, Plant and Equipment

Plant assets include net interest income of \$2,388,000 during fiscal year 2009 and net interest expense of \$1,656,000 during fiscal year 2008 capitalized for construction bond projects and are recorded as follows (dollars in thousands):

	<u>2009</u>	<u>2008</u>
Land	\$ 125,246	\$ 124,892
Land improvements	35,480	31,941
Buildings	585,175	574,982
Equipment	74,997	69,660
Art	32,399	30,152
Construction in progress	29,656	13,456
Total plant assets	<u>\$ 882,953</u>	<u>\$ 845,083</u>
Less accumulated depreciation	<u>(253,282)</u>	<u>(235,097)</u>
Total, net of accumulated depreciation	<u>\$ 629,671</u>	<u>\$ 609,986</u>

The fair value of a liability for a legal obligation associated with the retirement of long-lived assets such as asbestos and lead paint abatement is recognized in the period in which it is incurred, at the present value of expected future cash flows, and is added to the carrying value of the associated asset to be depreciated over the asset's useful life.

The following table summarizes the change in the asset retirement obligation for fiscal years ending May 31, 2009 and May 31, 2008 (dollars in thousands):

	<u>2009</u>	<u>2008</u>
Beginning asset retirement obligations	\$ 14,125	\$ 13,409
Disposal of asset retirement obligations	(1,355)	(75)
Decrease in property, plant and equipment, net of accumulated depreciation	(198)	(421)
Current year accretion and depreciation expense	883	1,212
Ending asset retirement obligations	<u>\$ 13,455</u>	<u>\$ 14,125</u>

9. Accounts Payable and Accrued Expenses

The University has \$127,985,000 and \$199,917,000 reported as accounts payable and accrued expenses for the years ended May 31, 2009 and 2008, respectively. Included in these amounts are the present values of conditional asset retirement obligations, which are adjusted annually, and securities lending obligations through May 31, 2008. Due to the use of present value calculations or the short maturity of the obligations included in accounts payable and accrued expenses, the carrying values reflected on the consolidated financial statements approximate their fair values.

10. Notes and Bonds Payable (dollars in thousands):

Notes payable at May 31 consist of the following:

	<u>2009</u>	<u>2008</u>
Total notes payable prior to unamortized discount, including \$53,784 and \$43,500 borrowed against lines of credit totaling \$58,500 as of May 31, 2009 and \$43,500 as of May 31, 2008, due at various dates through 2018, with average interest rates of 3.00% and 1.77% as of May 31, 2009 and May 31, 2008, respectively, with \$977 and \$1,212 secured by equipment and real property as of May 31, 2009 and May 31, 2008, respectively	\$ 54,922	\$ 80,387
Less unamortized discount on notes	-	(863)
Total notes payable	<u>\$ 54,922</u>	<u>\$ 79,524</u>

Bonds payable at May 31 consist of the following:

	2009	2008
Bonds payable due serially at various dates through 2013, with a fixed interest rate of 3.50%; collateralized by certain revenue	\$ 780	\$ 920
1985 Refunding Series; daily demand put bonds due 2015 with a variable interest rate of 0.25 % on May 31, 2009; secured by a three-year irrevocable letter of credit	49,200	49,200
1999A Serial Bonds; maturing in 2008 and 2009 with fixed interest rates ranging from 4.25% to 4.30% and Serial Bonds and Term Bonds refunded from escrow funds in 2008 (fiscal year 2009) with a fixed interest rate of 5.00% ; secured by unrestricted receivables and escrow investments in state and local government bonds	1,265	46,125
1999B Variable Rate Bonds; weekly demand put bonds maturing 2029 with a variable interest rate of 0.30% on May 31, 2009; secured by a three-year irrevocable letter of credit	1,800	1,800
1999D Term Bonds; maturing 2022 with a fixed interest rate of 5.00%; secured by unrestricted receivables	13,630	13,630
2002 Serial Bonds; maturing from 2008 through 2012 with fixed interest rates ranging from 5.00% to 5.50% and Serial Bonds and Term Bonds with fixed interest rates ranging from 5.00% to 5.50% to be refunded from escrow funds in 2012; secured by unrestricted receivables and escrow investments in state and local government bonds	55,210	56,885
2003 Serial Bonds; maturing from 2008 through 2024 with fixed interest rates ranging from 2.75% to 4.60% and Term Bonds maturing in 2029 and 2033 with fixed interest rates of 4.50% and 4.75%, respectively; secured by unrestricted receivables	27,955	28,590
2006 Variable Rate Bonds; weekly demand put bonds with maturities through 2036; secured by a one-year liquidity facility; swapped to a synthetic fixed rate of 3.497% (see note 1.1); interest payable monthly and principal payable annually from 2008 through 2036	82,500	83,900
2007 Serial Bonds; maturing from 2008 through 2029 with fixed interest rates ranging from 4.00% to 5.25% and Term Bonds maturing in 2032 with a fixed rate of 4.30%; secured by unrestricted receivables	95,335	95,460
Total bonds payable prior to unamortized net premium/(discount)	\$ 327,675	\$ 376,510
Unamortized net premium/(discount)	3,783	4,239
Total bonds payable	<u>\$ 331,458</u>	<u>\$ 380,749</u>

At May 31, 2009, the fair values of the notes and bonds payable are approximately \$53,751,000 and \$343,626,000, respectively. Notes and bonds payable were valued at the present value of future payments discounted at the prevailing interest rates for comparable debt instruments at May 31, 2009.

Net proceeds from Series 2003 bonds are to fund the renovation and expansion of the Dedman Center for Lifetime Sports, construction of parking facilities, and acquisition or construction of any other land, fixtures, equipment and improvements determined by the University to be useful for providing educational facilities and housing facilities and facilities incidental or related in connection therewith. At May 31, 2009, the \$1,631,000 of proceeds that were unexpended was invested in cash and cash equivalents.

Net proceeds from Series 2006 bonds are to fund the construction, renovation, equipping and expansion of various residence halls and Fondren Science building, construction and renovation of street and utility improvements associated with the realignment of University Boulevard, acquisition of land and buildings and building improvements on North Central Expressway, to refund the outstanding Series 1995 bonds, and to fund other educational facilities and housing facilities. At May 31, 2009, the \$5,419,000 of proceeds that were unexpended was invested in cash and cash equivalents.

On February 14, 2007, the University issued Series 2007 bonds totaling \$95,580,000. The proceeds were used to refund portions of the Series 1999A bonds and the Series 2002 bonds. Proceeds from the Series 2007 bonds in escrow refunded \$43,645,000 of Serial and Term bonds of the Series 1999A bonds in 2008. Proceeds from the Series 2007 bonds are in escrow to refund \$44,470,000 of Serial and Term bonds of the Series 2002 bonds in 2012. The assets in the escrow account and the associated debt are included on the consolidated balance sheets of the University.

Bond issuance costs of \$4,190,000 and \$4,554,000 as of May 31, 2009 and 2008, respectively, are capitalized and amortized using the effective interest method over the lives 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, 2009, which have fair values totaling \$8,204,000, of which \$821,000 relates to the \$780,000 bonds payable due through 2013, and \$7,383,000 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. The University also has cash and securities on deposit with the trustee bank as of May 31, 2009, which have a fair value of \$45,855,000, which relates to the \$44,470,000 of bonds payable to be refunded in 2012, as required by the escrow agreement.

Interest expense on notes and bonds payable was \$19,808,000 and \$17,333,000 for fiscal years ending May 31, 2009 and 2008, respectively. As of May 31, 2009, scheduled principal maturities are \$49,881,000, \$16,735,000, \$6,788,000, \$51,510,000 and \$7,400,000 for the years ending May 31, 2010 through 2014, respectively, and \$250,283,000 for 2015 and thereafter.

Included in long-term debt is \$133,500,000 of general obligation demand bonds with maturities as of May 31, 2009 from fiscal years 2010 through 2036. In the event that the agents are unable to remarket the bonds, the bonds become demand notes under an irrevocable letter of credit and a liquidity facility.

11. Derivative Financial Instrument

The University may enter into interest rate swap transactions to take advantage of market opportunities to reduce costs and/or reduce interest rate risk. The University considers the rating of the counterparty when entering into swap arrangements, and under no conditions will it enter into a swap with a firm carrying less than an "A" rating. The University does not enter into swap transactions for speculative purposes.

At May 31, 2009, the University had an interest rate swap that fixed the rate of its 2006 variable rate demand bonds at 3.497 percent through October 1, 2036. In return for paying this fixed rate on the notional amount of the Series 2006 bonds (\$82,500,000 as of May 31, 2009), the University received 67 percent of the London Interbank Offer Rate (LIBOR). The University either paid or received the difference between this 67 percent of LIBOR and the Series 2006 variable bond interest expense, depending on which was higher. In fiscal year 2009, the amount the University paid in addition to the fixed rate and associated costs was \$352,000. This amount is included in the financial statements as interest expense.

The fair value of the interest rate swap included in the University's balance sheets as a payable was \$9,156,000 and \$2,628,000 as of May 31, 2009 and May 31, 2008, respectively. This value represents the estimated payment if the University terminated the swap agreement, taking into account current and projected interest rates. This net change (increase) in liability from May 31, 2008 to May 31, 2009 resulting from the swap's fair value was reported as a loss of \$6,528,000 during fiscal year 2009.

The swap was terminated after the end of the fiscal year, at which time the University paid the swap counterparty \$5,161,000 and Bond Series 2006 reverted to variable rate demand obligations not swapped to a fixed rate.

12. 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 \$412,000 in fiscal year 2009 and \$533,000 in fiscal year 2008.

13. 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. These benefits are provided by an insured Medicare supplement product with no lifetime maximum. The funding for the premium of this product is shared between the University and Plan participants.

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 discount rates of 5.78% and 5.90% per annum in fiscal years 2009 and 2008, respectively. Health care cost trends graded from 10.0% in 2010 to 5.0% in 2023.

The University implemented the requirements of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* as of May 31, 2008. Under Statement No. 158, the funded status of the postretirement benefit plan is required to be reported as an asset (for overfunded plans) or a liability (for underfunded plans). Statement No. 158 requires disclosure of the incremental effect of adopting the standard on certain individual line items of the balance sheet. In addition, the initial implementation of this standard is recognized as a cumulative effect of a change in an accounting principle in the fiscal year 2008 consolidated statements of activities.

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

	<u>2009</u>	<u>2008</u>
Service cost	\$ 786	\$ 1,031
Interest cost	1,571	1,414
Amortization of the:		
Transition obligation	307	307
Prior service cost	132	439
Unrecognized loss	<u>843</u>	<u>38</u>
Net periodic benefit cost	<u>\$ 3,639</u>	<u>\$ 3,229</u>

The transition obligation, prior service cost and net actuarial loss for the defined benefit postretirement plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year are \$307,000, \$132,000 and \$593,000, respectively.

The total benefit obligation is \$31,081,000 and \$27,164,000 for the years ended May 31, 2009 and 2008, respectively.

Net periodic benefit cost recognized and other changes in plan assets and benefit obligations recognized in unrestricted net assets in 2009 and 2008 are as follows (dollars in thousands):

	<u>2009</u>	<u>2008</u>
Net periodic benefit cost recognized	\$ 3,639	\$ 3,229
Other changes in plan assets and benefit obligations recognized in unrestricted net assets:		
Net actuarial loss	1,712	6,375
Prior service cost (credit)	(132)	569
Transition obligation (asset)	<u>(307)</u>	<u>1,539</u>
Total recognized in unrestricted net assets	<u>1,273</u>	<u>8,483</u>
Total recognized in net periodic benefit cost and unrestricted net assets	<u>\$ 4,912</u>	<u>\$ 11,712</u>

The accrued postretirement benefit obligations recognized in the University's balance sheets as of May 31 pursuant to the recognition provisions of Statement No. 158 are as follows (dollars in thousands):

	2009	2008
Benefit obligation, beginning of year	\$ 27,164	\$ 26,979
Service cost	786	1,031
Interest cost	1,571	1,414
Plan participants' contribution	675	946
Benefit payments	(1,670)	(1,803)
Actuarial loss	2,555	3,707
Plan amendments	-	(5,110)
Benefit obligation, end of the year	<u>\$ 31,081</u>	<u>\$ 27,164</u>

The accumulated postretirement benefit includes a current liability of \$1,228,000 for the claims and expenses that are expected to be paid out in the coming year and \$29,853,000 of noncurrent postretirement benefit liabilities.

Health care cost trend assumptions have a significant impact on the amounts reported. A one percentage point increase in the assumed health care cost trend rate would result in a \$290,000 increase in the net periodic postretirement benefit cost recognized in fiscal year 2009 and a \$2,897,000 increase in the accumulated postretirement benefit obligation for health care benefits as of May 31, 2009. A one percentage point decrease in the assumed health care cost trend rate would result in a \$261,000 decrease in the net periodic postretirement benefit cost recognized in fiscal year 2009 and a \$2,618,000 decrease in the accumulated postretirement benefit obligation for health care benefits as of May 31, 2009.

As of May 31, 2009, the University has expected benefit payments through fiscal year 2014 of \$7,486,000. Of these commitments, \$1,228,000, \$1,317,000, \$1,413,000, \$1,686,000 and \$1,842,000 are the expected payments in the fiscal years ending 2010 through 2014, respectively, and \$11,237,000 in fiscal years ending 2015 through 2019.

The University introduced a defined contribution retiree medical plan effective January 1, 2008. Under this program, both the University and employees contribute monthly to the employees' retiree medical benefit. The University contributed \$975,000 to this program in fiscal year 2009. The current defined benefit retiree medical plan will be phased out concurrently with funding of this defined contribution plan.

14. 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 \$12,911,000 in fiscal year 2009 and \$12,265,000 in fiscal year 2008.

15. Net Assets Released from Restrictions

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

	<u>2009</u>	<u>2008</u>
Acquisition of buildings and equipment	\$ 900	\$ 9,848
Scholarships	1,033	1,504
Instruction, research, departmental support and other	13,459	12,188
Endowment funds approved for spending	<u>47,416</u>	<u>38,614</u>
	<u>\$ 62,808</u>	<u>\$ 62,154</u>

16. Restrictions and Limitations on Net Asset Balances

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

	<u>2009</u>		<u>2008</u>	
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Donor-restricted endowment	\$ 413,667	\$ 449,410	\$ 618,502	\$ 425,577
Annuity trust and unitrust	-	4,524	-	5,649
Student loan funds	-	20,075	-	19,767
Gifts and other unexpended revenues and gains available for:				
Acquisition of building and equipment	50,337	-	39,727	-
Scholarships	981	-	713	-
Instruction, research, departmental support and other	<u>48,354</u>	<u>-</u>	<u>45,329</u>	<u>-</u>
	<u>\$ 513,339</u>	<u>\$ 474,009</u>	<u>\$ 704,271</u>	<u>\$ 450,993</u>

17. Commitments and Contingencies

The University is contractually obligated for approximately \$24,129,000 at May 31, 2009 for construction projects with scheduled completion dates through fiscal year 2010.

The University incurred \$1,116,000 and \$945,000 in operating lease expenses for facilities and equipment in the fiscal years ended May 31, 2009 and 2008, respectively. As of May 31, 2009, the University has lease commitments for future periods totaling approximately \$969,000. Of these commitments, \$733,000, \$193,000, \$43,000, are due in the fiscal years ending 2010 through 2012.

The University also has rights to revenues from long-term leases it holds related to independent operations. The University received \$3,939,000 and \$4,059,000 in rental revenue from these leases in the fiscal years ended May 31, 2009 and 2008, respectively. As of May 31, 2009, the total of the future rental revenues from these leases is approximately \$8,991,000. Of these commitments, \$3,153,000, \$2,607,000, \$1,683,000, \$640,000, \$315,000, are due in the fiscal years ending 2010 through 2014, respectively, and \$593,000 is due in fiscal year 2015 and thereafter.

The University has committed to capital draws totaling \$758,253,000 for venture capital, real estate funds and other investments, of which \$498,260,000 had been drawn as of May 31, 2009. The University has committed to pay draws as required for the remaining \$259,993,000 through fiscal year 2018.

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 enters into contracts with vendors, some of which may have penalties for early termination. It is the University's practice when entering into such contracts not to cancel the contracts prior to the end of their term. If, from a business standpoint, including consideration of the cancellation penalty, the University does cancel any such contract, it does not believe there would be any material adverse effect on the University's financial statements.

During fiscal year 2006, Peruna Properties, Inc. (PPI) purchased the University Gardens Condominium property adjacent to its campus. PPI razed the structures in fiscal year 2007. Two previous condominium unit owners and two additional claimants refused to recognize the sale, and as of May 31, 2009, PPI and the University were in litigation with those owners and the additional claimants to resolve the issue. Subsequent to year end, the University and the two previous condominium owners announced a settlement to this litigation. However, since it was announced, a dispute has arisen regarding the terms of the settlement. The court has granted summary judgment in favor of the University as to the two other additional claimants, and no settlement was made with them.

The University is a defendant in several other 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.

The University is subject to laws and regulations concerning environmental remediation and has established reserves for potential obligations that management considers to be probable and for which reasonable estimates can be made. The University owns property that has environmental pollution on it, and depending on the ultimate use of the property, remediation is likely to be necessary. Environmental remediation in the amount of \$3,983,000 has been recorded in the financial statements as a liability. These estimates may change substantially depending on new information regarding the nature and extent of contamination, appropriate remediation technologies and regulatory approvals. Costs of future expenditures for environmental remediation are adjusted, as required.

The University has entered into an agreement with a bank to guarantee the construction loan debt for a sorority house built on University land. Under this agreement if the debtor defaults on its obligation, the University may be required to satisfy all or part of the remaining obligation. As of May 31, 2009, the total amount of this guarantee is \$3,000,000 until 2013 unless the debt is retired earlier. A liability for this guarantee has been recorded as accounts payable and accrued expenses with an offsetting amount to other assets. As of May 31, the current exposure is approximately \$847,000.

In connection with the preparation of the financial statements and in accordance with the recently issued Statement of Financial Accounting Standards No. 165, *Subsequent Events*, the University evaluated subsequent events after the balance sheet date of May 31, 2009 through the date the financial statements were issued.

18. Tax Status

The University has received a determination letter from the Internal Revenue Service indicating it 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., Pony Properties, Inc., the Southern Methodist University Foundation for Research, Peruna Holdings Corporation, Mustang Mockingbird Corporation, Mustang Mockingbird Properties, Mustang Airline Corporation, and The Stadium Club, Inc., are controlled corporations included in the University's consolidated financial statements and 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). The University, Peruna Properties, Inc., Pony Properties, Inc., the Southern Methodist University Foundation for Research, Peruna Holdings Corporation, Mustang Mockingbird Corporation, Mustang Mockingbird Properties, and Mustang Airline Corporation have been classified as organizations that are not private foundations under Sections 509(a)(1) and 509(a)(3), and as such, contributions to these entities qualify for deduction as charitable contributions. SMU Corp., another controlled corporation, is intended to be a tax-exempt supporting organization under Sections 501(c)(3) and 509(a)(3) of the Code, but has not yet filed an application for determination with the Internal Revenue Service. The University and its controlled corporations are exempt from federal income taxes except to the extent they have unrelated business income.

In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), which prescribes a recognition threshold and measurement requirements for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In addition, FIN 48 provides guidance on recognition, classification, accounting in interim periods and disclosure requirements for uncertain tax provisions. The interpretation is effective for the University's fiscal year ended May 31, 2008. The University and its controlled corporations do not have any material unrelated business income tax liability for the years ended May 31, 2009 and May 31, 2008.

19. Accounting Pronouncements Affecting Subsequent Year Financial Statements

Financial Accounting Standards Board Staff Position (FSP) 94-3-1 makes several changes to the guidance on consolidation and the equity method of accounting in AICPA Statement of Position 94-3, *Reporting of Related Entities by Not-for-Profit Organizations*. The FSP requires that not-for-profit organizations apply the guidance in AICPA Statement of Position 78-9, *Accounting for Investments in Real Estate Ventures*, on the equity method of accounting to their non-controlling interests in for-profit real estate partnerships, limited liability companies (LLCs), and similar entities unless those investments are reported at fair value, where permitted. The FSP is effective for financial statements issued for the University's fiscal year ending May 31, 2010. The University is in the process of determining the financial impact of FSP 94-3-1.

In accordance with the provisions of Financial Accounting Standards Board Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157*, the University has elected to defer implementation of SFAS 157 until fiscal year ending May 31, 2010 as it relates to nonfinancial assets and nonfinancial liabilities that are not permitted or required to be measured at fair value on a recurring basis. Management is evaluating the impact, if any; this statement will have on those nonfinancial assets and liabilities.

APPENDIX C

SUMMARY OF PRINCIPAL DOCUMENTS

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APPENDIX C

SUMMARY OF PRINCIPAL DOCUMENTS

DEFINITIONS OF CERTAIN TERMS

Capitalized terms not otherwise defined in the Official Statement or under this caption have the meanings ascribed to them in the Indenture and the Agreement.

"1999 Fixed Rate Bonds" means the Southwest Higher Education Authority, Inc., Higher Education Revenue Bonds (Southern Methodist University Project) Series 1999 A and Series 1999 D.

"1999 Fixed Rate Project" means the facilities described generally in an exhibit to the Agreement which are to be constructed or acquired with proceeds of the 1999 Fixed Rate Bonds.

"Act" means the Higher Education Authority Act, Chapter 53 of the Texas Education Code, as amended effective on September 1, 2005 and recodified as Chapters 53, 53A and 53B, as it may be further amended from time to time, and particularly Section 53.35A(b) thereof, and the Texas Non-Profit Corporation Act, as amended, as made applicable thereby.

"Administration Expenses" means compensation and reimbursement of expenses and advances payable to the Trustee and the Issuer.

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, "control" when used with respect to any Person means the power to direct the policies of such Person, directly or indirectly, whether through the power to appoint and remove its directors, the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Agreement" means the Loan Agreement, dated as of January 1, 1999, between the University and the Issuer, as amended and supplemented from time to time.

"Authorized Issuer Representative" means any person at the time authorized to act on behalf of the Issuer by written certificate furnished to the University and the Trustee containing the specimen signature of such Person and signed by the President or the Vice President of the Issuer.

"Authorized University Representative" means any person at the time authorized to act on behalf of the University by written certificate furnished to the Issuer and the Trustee containing the specimen signature of such Person and signed by the President or any Vice President of the University.

"Board Resolution" of any specified Person means a copy of a resolution certified by the Person responsible for maintaining the records of the Governing Body of such Person to have been duly adopted by the Governing Body of such Person and to be in full force and effect on the date of such certification and delivered to the Trustee.

"Bond Counsel" means the firm of nationally recognized bond counsel designated by the Issuer as its bond counsel with respect to bond financings for the University.

"Bond Documents" means, collectively the Indenture, the Agreement, the Master Indenture, the Purchase Contract and the Bonds.

"Bond Payment Date" means any Interest Payment Date and any other date on which the principal of, premium, if any, or interest on the Bonds is to be paid to the Owners thereof, whether upon redemption, at the Stated Maturity Date, or upon acceleration of the Stated Maturity Date of the Bonds.

“*Bonds*” means the Series 2009 Bonds, the Series 2007 Bonds, the Series 2003 Bonds, the Series 2002 Bonds, the 1999 Fixed Rate Bonds, and any additional Bonds issued by the Issuer and authenticated by the Trustee pursuant to the Indenture and any Supplemental Indenture.

“*Business Day*” shall mean a day other than (1) a Saturday; (2) a Sunday; (3) a day on which banks in New York, New York, Dallas, Texas, or in any city in which the Principal Office of the Trustee is located are required or authorized by law or executive order to remain closed; or (4) a day on which the New York Stock Exchange is closed.

“*Closing*” with respect to any issue of Bonds means the concurrent delivery of such issue against payment therefor.

“*Code*” means the Internal Revenue Code of 1986, as amended from time to time, and includes the United States Treasury Regulations proposed or in effect thereunder and applicable to the Bonds or the use of proceeds thereof, and also includes all amendments and successor provisions unless the context clearly requires otherwise.

“*Completion Date*” means with respect to an issue of Bonds the date on which each Project financed with the proceeds of the Bonds of such issue is completed in its entirety and is ready to be placed in service and operated for the purpose for which it is designed, as determined by the University and as that date shall be certified as provided herein under the caption “THE LOAN AGREEMENT-The Projects-Certification of Completion Date.”

“*Consent*,” “*Order*,” and “*Request*” (i) when used in connection with either the Indenture or Agreement, of any specified Person mean, respectively, a written consent, order or request signed in the name of such Person by the Chairman of the governing body, the President, or a Vice President or by the Treasurer, an Assistant Treasurer, the Controller, or Assistant Controller, the Secretary, or an Assistant Secretary of such Person and delivered to the Trustee, and (ii) when used in connection with the Master Indenture, of any specified Person mean, respectively, a written consent, order or request delivered to the Master Trustee and signed in the name of such Person by its president, its chief executive officer, its chief financial officer, or any other Person designated, in writing and delivered to the Master Trustee, by any of such Persons to execute any such instrument.

“*Costs of Issuance*” means with respect to an issue of Bonds issuance costs with respect to the Bonds of such issue within the meaning of Section 147(g) of the Code.

“*Credit Agreement*” with respect to any series of Securities means any agreement or other obligation of the University entered into to provide credit or liquidity support relating to a series of Securities, or relating to other obligations secured by Securities, and designated as a Credit Agreement by University Order, the Master Indenture or Supplemental Master Indenture.

“*Credit Enhancer*” with respect to any series of Securities means the Person designated as such by University Order, the Master Indenture or Supplemental Master Indenture.

“*Credit Facility*” with respect to any series of Securities means any letter of credit, bond insurance policy, standby purchase agreement, line of credit, or other instrument or undertaking issued by a Credit Enhancer with respect to a series of Securities or other instruments secured by Securities and designated as a Credit Facility by University Order, the Master Indenture or Supplemental Master Indenture.

“*Debt*” of the University means all:

(a) indebtedness incurred or assumed by the University for borrowed money or for the acquisition, construction or improvement of property other than goods or services that are acquired in the ordinary course of business of the University;

(b) lease obligations of the University that, in accordance with generally accepted accounting principles, are shown on the liability side of a balance sheet;

(c) all indebtedness (other than indebtedness otherwise treated as Debt under the Master Indenture) for borrowed money or the acquisition, construction or improvement of property or capitalized lease obligations guaranteed, directly or indirectly, in any manner by the University, or in effect guaranteed, directly or indirectly, by the University through an agreement, contingent or otherwise, to purchase any such indebtedness or to advance or supply funds for the payment or purchase of any such indebtedness or to purchase property or services primarily for the purpose of enabling the debtor or seller to make payment of such indebtedness, or to assure the owner of the indebtedness against loss, or to supply funds to or in any other manner invest in the debtor (including any agreement to pay for property or services irrespective of whether or not such property is delivered or such services are rendered), or otherwise; and

(d) all indebtedness secured by any mortgage, lien, charge, encumbrance, pledge or other security interest upon property owned by the University whether or not the University has assumed or become liable for the payment thereof;

For the purpose of computing the "Debt" of the University, there is excluded any particular Debt if, upon or prior to the Maturity thereof, there has been deposited with the proper depository in trust the necessary funds (or evidences of such Debt or investments that will provide sufficient funds, if permitted by the instrument creating such Debt) for the payment, redemption or satisfaction of such Debt; and thereafter such funds, evidences of Debt and investments so deposited will not be included in any computation of the assets of the University.

"*Defeasance Obligations*" (i) when used in connection with the Indenture means clauses (1) and (2) below and (ii) when used in connection with the Master Indenture means clauses (1), (2) and (3) below:

- (1) Direct obligations of the United States of America or obligations to the full and prompt payment of which the full faith and credit of the United States of America is irrevocably pledged or evidences of direct ownership of interests in future interest and principal payments on such obligations held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor on such obligations, and which underlying obligations are not available to satisfy any claim of the custodian or any Person claiming through the custodian or to whom the custodian may be obligated; or
- (2) Obligations the interest on which is excludable from the gross income of all owners thereof for federal income tax purposes, and provision for the payment of the principal of (and premium, if any) and interest on which shall have been made by the irrevocable deposit at least 123 days preceding the date of determination with a bank or trust company acting as a trustee or escrow agent for holders of such obligations of money, or obligations described in clause (1) above, the maturing principal of and interest on which, when due and payable, without reinvestment will provide money, sufficient to pay when due the principal of (and premium, if any) and interest on such obligations, and which money, or obligations described in clause (1) above, are not available to satisfy any other claim, including any claim of the trustee or escrow agent or any claim of any Person claiming through the trustee or escrow agent or any claim of any Person to whom the Person on whose behalf such irrevocable deposit was made, the trustee or the escrow agent may be obligated, whether arising out of the insolvency of the Person on whose behalf such irrevocable deposit was made, the trustee or escrow agent or otherwise; provided that, at the time of their purchase, such obligations are rated in the highest generic long-term debt rating category by at least one Rating Service; or
- (3) with respect to any series of Securities, such obligations as may be designated in the instruments pursuant to which such series is created as "*Defeasance Obligations*."

"*Designated Corporate Trust Office*" means a corporate trust office designated in writing to the Issuer and the University by the Trustee from time to time as the Designated Corporate Trust Office for purposes of this Indenture, presently 601 Travis Street, 16th Floor, Houston, Texas 77002, Attention: Institutional Trust Services.

“*Event of Default*” as used in the Indenture mean any occurrence or event specified in under the caption “THE INDENTURE—Defaults and Remedies Under the Indenture—*Events of Default*” herein.

“*Event of Default*” as used in the Agreement means any of the events described as an event of default under the caption “THE LOAN AGREEMENT—Defaults and Remedies Under the Loan Agreement—*Events of Default*” herein.

“*Event of Default*” as used in the Master Indenture means any of the events described as an event of default under the caption “THE MASTER INDENTURE—Defaults and Remedies Under the Master Indenture—*Events of Default*” herein.

“*Fiscal Year*” of any specified Person means an annual period adopted by such Person as the accounting period used for preparation of the financial statements required to be delivered pursuant to the Master Indenture.

“*Force Majeure*” means acts of God; strikes, lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the government of the United States or of the State, or any department, agency, political subdivision, court or official of any of them, or any civil or military authority; insurrections; riots; epidemics; landslides; lightning; earthquakes; volcanoes; fires; hurricanes; tornadoes; storms; floods; washouts; droughts; arrests; restraint of government and people; civil disturbances; explosions; breakage or accident to machinery; partial or entire failure of utilities; or any cause or event not reasonably within the control of the University.

“*Funded Debt*” of any Person means all Debt created, assumed or guaranteed by such Person that matures by its terms (in the absence of the exercise of any earlier right of demand), or is renewable at the option of such Person, to a date more than one year after the original creation, assumption or guarantee of such Debt by such Person.

“*Governing Body*” of any specified Person means the board of directors or board of trustees of such Person or any duly authorized committee of that board, or if there be no board of trustees or board of directors, then the Person or body which pursuant to law or the organizational documents of such Person is vested with powers similar to those vested in a board of trustees or a board of directors.

“*Government Obligations*” means direct non-callable obligations of the United States of America or obligations to the full and prompt payment of which the full faith and credit of the United States of America has been pledged.

“*Holder*” or “*Security Holder*” means a Person in whose name a Security is registered in the security register maintained by the Master Trustee pursuant to the Master Indenture.

“*Indenture*” means the Trust Indenture, dated as of January 1, 1999 between the Issuer and the Trustee relating to the issuance of the Bonds, as amended or supplemented from time to time as permitted by the Indenture.

“*Independent*” when used with respect to any specified Person means such a Person who (1) is in fact independent, (2) does not have any direct financial interest or any material indirect financial interest in the University or any other obligor upon the Securities or in any Affiliate of the University or such other obligor, and (3) is not connected with the University or such other obligor or with any Affiliate of the University or such other obligor as an officer, employee, promoter, trustee, partner, director or person performing similar functions. Whenever it is provided that any Independent Person’s opinion or certificate be furnished to the Trustee, such Person will be appointed by Order of the Person making such appointment and such opinion or certificate shall state that the signer has read this definition and that the signer is Independent within the meaning hereof.

“*Interest Payment Date*” means (i) with respect to the 1999 Fixed Rate Bonds, April 1, 1999 and each October 1 and April 1 thereafter, (ii) with respect to the Series 2002 Bonds, October 1, 2002 and each April 1 and October 1 thereafter, (iii) with respect to the Series 2003 Bonds, April 1, 2004 and each October 1 and April 1 thereafter, (iv) with respect to the Series 2007 Bonds, April 1, 2007 and each October 1 and April 1 thereafter,

(v) with respect to the Series 2009 Bonds, April 1, 2010 and each October 1 and April 1 thereafter, (vi) with respect to any other series of Bonds, the meaning set forth in the Supplemental Indenture or Issuer Order authorizing such series, and (vii) with respect to Securities the Stated Maturity of an installment of interest on any Security.

"Investment Agreement" means investment agreements with a domestic or foreign bank or corporation (other than a life or property casualty insurance company), including, without limitation, a municipal bond insurer, the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least "AA" by S&P and "Aa" by Moody's; provided that, by the terms of the investment agreement:

(i) interest payments are to be made to the Trustee at times and in amounts as necessary to pay debt service (or, if the investment agreement is for the Construction Fund, construction draws) on the Bonds;

(ii) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven days' prior notice; the Issuer and the Trustee hereby agree to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;

(iii) the investment agreement shall state that is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof;

(iv) the Issuer or the Trustee receives the opinion of domestic counsel (which opinion shall be addressed to the Issuer and the Trustee) that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms and of foreign counsel (if applicable) in form and substance acceptable, to the Issuer and the Trustee;

(v) the investment agreement shall provide that if during its term

(A) the provider's rating by either S&P or Moody's falls below "AA" or "Aa3," respectively, the provider shall, at its option, within 10 days of receipt of publication of such downgrade, either (i) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the Issuer, the Trustee or a third party acting solely as agent therefor (the *"Holder of the Collateral"*) collateral free and clear of any third-party liens or claims the market value of which collateral is maintained at levels and upon such conditions as would be acceptable to S&P and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach); or (ii) repay the principal of and accrued but unpaid interest on the investment, and

(B) the provider's rating by either S&P or Moody's is withdrawn or suspended or falls below "A-" or "A3," respectively, the provider must, at the direction of the Issuer or the Trustee (who shall give such direction upon University Request), within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment,

in either case with no penalty or premium to the Issuer or Trustee; and

(vi) the investment agreement shall state and an opinion of counsel shall be rendered to the Issuer and the Trustee, in the event collateral is required to be pledged by the provider under the terms of the investment agreement, at the time such collateral is delivered, that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);

(vii) the investment agreement must provide that if during its term

(A) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the Issuer or the Trustee (who shall give such direction upon University Request), be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Issuer or Trustee, as appropriate, and

(B) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Issuer or Trustee, as appropriate.

"Investment Securities" means any of the following obligations or securities: (a) Government Obligations; (b) interest-bearing deposit accounts (which may be represented by certificates of deposit including Eurodollar certificates of deposit) in banks (which may include the Trustee) having a combined capital and surplus of not less than \$100,000,000; (c) bankers' acceptances drawn on and accepted by commercial banks (which may include the Trustee) having a combined capital and surplus of not less than \$100,000,000 which are rated not lower than "A-1" by S&P; (d) obligations of any agency or instrumentality of the United States of America; (e) commercial or finance company paper which is rated in the highest rating category by S&P or Moody's or any successor thereto with a term not exceeding 270 days; (f) Repurchase Agreements; (g) Exempt Securities rated in the highest rating category by a nationally recognized rating agency; (h) money market funds (which may include those of the Trustee or its Affiliates) rated "AAm" or "AAM-G" or better by S&P; (i) Investment Agreements; (j) obligations of any state, municipality or political subdivision of such state rated in one of the three highest categories by S&P or Moody's; (k) obligations (including asset-backed and mortgage backed obligations) of any corporation, partnership, trust or other entity which are rated in one of the three highest rating categories by S&P or Moody's; and (l) other obligations which are rated in one of the three highest categories by S&P or Moody's.

"Issuer" means the Southwest Higher Education Authority, Inc.

"Loan" means the loan made by the Issuer, as lender, from the proceeds of the sale on issue of Bonds, to the University, as borrower, pursuant to the terms of the Agreement.

"Mail" means mail by first class postage to the Owners of the Bonds.

"Master Indenture" means the Master Trust Indenture, dated as of January 1, 1999, from the University to the Master Trustee.

"Master Trustee" means The Bank of New York Mellon Trust Company, National Association (successor in trust to JPMorgan Chase Bank, formerly known as The Chase Manhattan Bank, successor by merger to Chase Bank of Texas, National Association), serving as trustee pursuant to the Master Indenture, and its successors and assigns permitted by the Master Indenture.

"Maturity" means (i) with respect to the Bonds, the date on which the principal of any Bond becomes due and payable whether on the Stated Maturity Date, by declaration of acceleration or otherwise and (ii) with respect to any Security means the date on which the principal of such Security becomes due and payable as therein provided, whether at the Stated Maturity thereof or by declaration of acceleration, call for redemption or otherwise.

"Moody's" means Moody's Investors Service, Inc., a Delaware corporation, and its successors and assigns.

"Officer's Certificate" of any specified Person means (i) when used in connection with the Indenture or the Agreement a certificate signed by the Chairman of the governing body, the President or any Vice President or by the Treasurer, Assistant Treasurer, Secretary or Assistant Secretary of such Person and delivered to the Trustee, or (ii) when used in connection with the Master Indenture means a certificate delivered to the Trustee and signed in the name of such Person by its president, its chief executive officer, its chief financial officer, or any other Person designated in a writing delivered to the Master Trustee by any of such Persons to execute any such instrument.

"Opinion of Bond Counsel" means a written opinion of Bond Counsel.

"Opinion of Counsel" means a written opinion of any legal counsel acceptable to the University and the Trustee and, to the extent the Issuer is asked to take action in reliance thereon, the Issuer, who may be an employee of or counsel to the University.

"Outstanding" or *"Bonds Outstanding"* or *"Prior Bonds"* under the Indenture and with respect to the Bonds means, at any given date, all Bonds which have been authenticated and delivered by the Trustee under the Indenture, except:

- (a) Bonds canceled at or prior to such date or delivered to or acquired by the Trustee on or prior to such date for cancellation;
- (b) Bonds deemed to be paid in accordance with the Indenture; and
- (c) Bonds in lieu of which other Bonds have been authenticated under the Indenture; and

"Outstanding" under the Master Indenture and when used with respect to the Securities means, as of the date of determination, all Securities theretofore authenticated and delivered under the Master Indenture, except:

- (a) Securities theretofore canceled by the Master Trustee or delivered to the Master Trustee for cancellation;
- (b) Securities for whose payment or redemption money (or Defeasance Obligations to the extent permitted by the Master Indenture) in the necessary amount has been theretofore deposited with the Master Trustee or any paying agent for such Securities in trust for the Holders of such Securities pursuant to the Master Indenture; provided, that, if such Securities are to be redeemed, notice of such redemption has been duly given pursuant to the Master Indenture or irrevocable provision therefor satisfactory to the Master Trustee has been made; and
- (c) Securities upon transfer of or in exchange for or in lieu of which other Securities have been authenticated and delivered pursuant to the Master Indenture;

provided, however, that in determining whether the Holders of the requisite principal amount of Outstanding Securities have given any request, demand, authorization, direction, notice, consent or waiver under the Master Indenture, Securities owned by the University or any other obligor (other than a Credit Enhancer that is not an Affiliate of the University) upon the Securities or any Affiliate of the University or such other obligor will be disregarded and deemed not to be Outstanding, except that, in determining whether the Master Trustee will be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Securities which the Master Trustee actually knows to be so owned will be so disregarded. The Master Trustee is under no duty to investigate whether any Securities are so owned, but may, in its discretion, make such further investigation or inquiry as it may see fit. Securities so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Master Trustee the pledgee's right so to act with respect to such Securities and that the pledgee is not the University or any other obligor (other than a Credit Enhancer that is not an Affiliate of the University) upon the Securities or any Affiliate of the University or such other obligor.

"Owner" or *"Owners"* means the Person or Persons in whose name any Bond is registered on the books of the Issuer maintained by the Trustee.

"Payment Date" means any Bond Payment Date.

"Payment Office" means the payment office of the Trustee at 601 Travis Street, 16th Floor, Houston, Texas 77002, Attention: Institutional Trust Services, or such other office designated as such from time to time by the Trustee in writing to the University.

"Permitted Encumbrances" with respect to any specified Person means:

(a) liens or encumbrances on property (or on the income therefrom) received by such Person as a gift, grant or bequest, if such lien or encumbrance constitutes or results from restrictions (other than the requirement that the grantee thereof make payment in respect of Funded Debt incurred by the grantor with respect to such property) placed on such gift, grant or bequest (or on the income therefrom) by the grantor thereof;

(b) liens on proceeds of Debt (or on income from the investment of such proceeds) that secure payment of such Debt;

(c) liens on money or obligations deposited with a trustee or escrow agent to cause all or any portion of Debt to be no longer outstanding;

(d) liens on money or obligations deposited to fund a debt service fund in an amount not exceeding the amount of the Debt to which such debt service fund relates that matures in the Fiscal Year in which such deposit is made plus a reasonable carryover amount or deposited to a reserve fund in an amount not in excess of 15% of the principal amount of the Debt to which such reserve fund relates in accordance with the instrument under which such Debt may be secured; and

(e) liens on debt instruments owned by such Person which have been purchased under a credit or liquidity facility issued to secure or support other Debt.

"Person" means any individual, corporation, limited liability company, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Place of Payment" for any series of Securities means the Designated Corporate Trust Office or other location designated, from time to time, as a place of payment for a series of Securities, by University Order or Supplemental Master Indenture.

"Previously Issued Securities" means the loan agreements of the University relating to the Series 1985 Refunding Bonds, the Series 1995 Bonds, and the Series 2006 Bonds, as such bonds are defined in this Official Statement under "INTRODUCTION—Prior Bonds and University Bonds," and the reimbursement agreement relating to the Series 1985 Refunding Bonds, which are Securities under the Master Indenture.

"Principal Office of the Trustee" means 601 Travis Street, 16th Floor, Houston, Texas 77002, Attention: Institutional Trust Services, or such other office designated as such from time to time by the Trustee in writing to the University.

"Projects" means the Series 2009 Project, the Series 2003 Project, the Series 2002 Project, the 1999 Fixed Rate Project and any other property financed or refinanced from the proceeds of a series of Bonds and "Project" means any of the Projects.

"Project Costs" means any and all costs of acquiring, whether by purchase or otherwise, or constructing, enlarging, extending or improving educational facilities or housing facilities, including, without limitation, costs of acquiring land, costs of furnishing and equipping such facilities, Costs of Issuance relating to a series of Bonds, capitalized interest on a series of Bonds, and all such costs as may be necessary or incident to the financing, acquisition, construction or completion of any Project or any part thereof.

"Purchase Contract" means with respect to the Series 2009 Bonds, the Contract of Purchase between the Issuer and Merrill Lynch, Pierce, Fenner & Smith Incorporated, on behalf of itself and as representative of an underwriting syndicate composed of the underwriters named in such Contract of Purchase, with respect to any other series of Bonds shall have the meaning set forth in the Supplemental Indenture or Issuer Order authorizing such series.

"Record Date" means, with respect to the Series 2009 Bonds, the fifteenth day of the calendar month preceding each Interest Payment Date, and with respect to any other series of Bonds shall have the meaning set forth in the Supplemental Indenture or Issuer Order authorizing such series.

"Repurchase Agreement" means a repurchase agreement with (i) any domestic bank, or domestic branch of a foreign bank, the long-term debt of which is rated at least "A" by S&P and Moody's, or (ii) any broker-dealer with "retail customers" or a related Affiliate thereof which broker-dealer has, or the parent company (which guarantees the obligation of the provider) of which has, long-term debt rated at least "A" by S&P or Moody's, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation, or (iii) any other entity rated "A" or better by S&P and Moody's, provided that:

(a) the market value of the collateral is maintained at levels and upon such conditions as would be acceptable to S&P and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach);

(b) failure to maintain the requisite collateral percentage will require the Issuer or the Trustee to liquidate the collateral;

(c) the Trustee or its agent has possession of the collateral or the collateral has been transferred to the Trustee or its agent in accordance with applicable state and federal laws (other than by means of entries on the transferor's books);

(d) the repurchase agreement shall state and an opinion of counsel shall be rendered at the time such collateral is delivered that the Trustee or its agent has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Trustee or its agent is in possession);

(e) the repurchase agreement is a "repurchase agreement" as defined in the United States Bankruptcy Code or, if the provider is a domestic bank, a "qualified financial contract" as defined in the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") and such bank is subject to FIRREA;

(f) there is or will be a written agreement governing every repurchase transaction;

(g) the Issuer and the Trustee receive the opinion of counsel (which opinion shall be addressed to the Issuer and the Trustee) that such repurchase agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms and satisfies the requirements of the Indenture; and

(h) the repurchase agreement shall provide that if during its term the provider's rating by either Moody's or S&P is withdrawn or suspended or falls below "A-" by S&P or "A3" by Moody's, as appropriate, the provider must, at the direction of the Issuer or the Trustee (who shall give such direction if so directed by the University), within 10 days of receipt of such direction, repurchase all collateral and terminate the agreement, with no penalty or premium to the Issuer or Trustee. Notwithstanding the above, if a repurchase agreement has a term of 270 days or less (with no evergreen provision), collateral levels need not be as specified in (A) above, so long as such collateral levels are 103% or better and the provider is rated at least "A" by S&P or Moody's, respectively.

"Revenues" means all moneys paid or payable to the Trustee for the account of the Issuer in accordance with the Agreement to pay the principal of and premium, if any, on the Bonds upon redemption, at maturity and upon acceleration of and to pay the interest on the Bonds when due.

"Security" means an obligation of the University, authenticated and delivered pursuant to the Master Indenture, including, to the extent so authenticated and delivered, a Credit Agreement.

“*Securities Depository*” means The Depository Trust Company, a New York limited purpose trust company, and any other Person that is a clearing corporation within the meaning of the New York Uniform Commercial Code, and a securities depository within the meaning of Section 17A of the Securities and Exchange Act of 1934 that is designated as such with respect to a series of Bonds by Issuer Order and their respective successors and assigns.

“*Series 2002 Bonds*” means the Southwest Higher Education Authority, Inc. Higher Education Revenue Bonds (Southern Methodist University Project) Series 2002.

“*Series 2002 Project*” means the facilities described generally in an exhibit to Amendment No. 2 to the Agreement which are to be constructed or acquired with proceeds of the Series 2002 Bonds.

“*Series 2003 Bonds*” means the Southwest Higher Education Authority, Inc. Higher Education Revenue Bonds (Southern Methodist University Project) Series 2003.

“*Series 2003 Project*” means the facilities described generally in an exhibit to Amendment No. 3 to the Agreement which are to be constructed or acquired with proceeds of the Series 2003 Bonds.

“*Series 2007 Bonds*” means the Southwest Higher Education Authority, Inc. Higher Education Revenue Bonds (Southern Methodist University Project) Series 2007.

“*Series 2009 Bonds*” means the Southwest Higher Education Authority, Inc. Higher Education Revenue Bonds (Southern Methodist University Project) Series 2009.

“*Series 2009 Project*” means the facilities described generally in an exhibit to Amendment No. 5 to the Agreement which are to be constructed or acquired with proceeds of the Series 2009 Bonds.

“*S&P*” shall mean Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, and its successors and assigns.

“*State*” means the State of Texas.

“*Stated Maturity*” when used in the Master Indenture with respect to any obligation or any installment of interest thereon means the date specified in such obligation as the fixed date on which the principal of such Security or such installment of interest is due and payable.

“*Stated Maturity Date*,” when used with respect to any Bond means the date specified in such Bond as the fixed date on which the principal of such Bond is due and payable.

“*Supplemental Indenture*” means with respect to the Series 2009 Bonds a supplemental indenture between the Issuer and the Trustee entered into pursuant to the Indenture described under the caption “THE INDENTURE—Supplements and Amendments” herein.

“*Supplemental Master Indenture*” with respect to the Master Indenture means an instrument amending or supplementing the Master Indenture entered into pursuant to the Master Indenture described under the caption “THE MASTER INDENTURE—Supplements” herein.

“*Trust Estate*” with respect to the Indenture means all right, title and interest of the Issuer in and to the Agreement (except its certain rights to indemnification and to reimbursement or payment of its fees and expenses, and its rights to receive notices, certificates, requests, requisitions and other communications thereunder), including, without limitation, all right, title and interest of the Issuer in the Revenues, its rights as a holder of a Security entitled to the benefit and security of the Master Indenture and all moneys and other obligations which are, from time to time, deposited with or held by or on behalf of the Trustee in the Bond Proceeds Clearance Fund, the Construction Fund or the Bond Fund under the Indenture.

“Trust Estate” with respect to the Master Indenture is defined under “THE MASTER INDENTURE—General” herein.

“Trustee” means The Bank of New York Mellon Trust Company, National Association (successor in trust to JPMorgan Chase Bank formerly known as The Chase Manhattan Bank, successor by merger to Chase Bank of Texas, National Association), or any successor Trustee appointed under the terms of the Indenture.

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THE LOAN AGREEMENT

The following is a summary of certain provisions of the Agreement which are not discussed in the Official Statement. Such summary does not purport to be complete and is qualified in its entirety by reference to the Agreement.

General

Issuance of Bonds; Deposit of Proceeds. To provide funds to finance and refinance the Project Costs for the various Projects and to refund or refinance from time to time obligations legally permitted to be refunded or refinanced, the Issuer, upon satisfaction of the conditions to the delivery of the Bonds set forth in the Indenture and upon University Request, will issue, sell and deliver the Bonds in one or more series and deposit the proceeds thereof with the Trustee in accordance with the Indenture and such University Request. The deposit of the proceeds of a series of Bonds with the Trustee will constitute the funding of a loan to the University pursuant to the Agreement.

Loan Payments. The University covenants and agrees to pay or cause to be paid to the Trustee for deposit into the Bond Fund, the sum equal to the amount due and payable on each Bond Payment Date on the Bonds, at the times and in the amounts provided in the Indenture. Each payment pursuant to this section is required to be sufficient to pay the total amount of accrued interest, principal (whether on a Stated Maturity Date or upon redemption or acceleration) and premium, if any, due and payable on the Bonds on such Bond Payment Date; provided that the following amounts (to the extent, if any, that such amounts have not previously been the basis for a credit) are required to be credited in the following order, against the payments required to be made by the University on such Bond Payment Date, and such payment shall be accordingly reduced to the extent of any:

- (i) available funds then held by the Trustee in the Bond Fund; and
- (ii) proceeds of any Defeasance Obligations, which have been deposited with the Trustee in accordance with and pursuant to the provisions of the Indenture.

In the event that the University fails to pay on any Bond Payment Date any amount required under the Agreement, such amount will, to the extent permitted by law, continue to bear interest from such Bond Payment Date until paid, at the same rate of interest borne by the Bonds to which such amount relates.

Maximum Interest Rate Permitted by Law. Notwithstanding any provision of the Agreement to the contrary, in no event will the interest contracted for, charged or received in connection with any loan made under the Agreement (including any costs or considerations that constitute interest under applicable laws which are contracted for, charged or received pursuant to the Agreement) exceed the maximum nonusurious rate of interest with respect to the Bonds, allowed under applicable laws as are presently in effect and to the extent allowable by such laws as such laws may be amended from time to time to increase such rate; and excess interest, if any, provided for in the Agreement or otherwise, will be credited to the Loan payments or, if the Loan payments are paid, refunded to the University.

Payment of Expenses. The University covenants to pay, or cause to be paid out of the Construction Fund or other funds provided by the University, all of the Administration Expenses of the Issuer and the Trustee, any such payment to be made directly to such entity.

Issuance of Other Obligations. The University expressly reserves the right to request the Issuer to issue additional Bonds under the Indenture and lend the proceeds to the University under the Agreement, or to issue additional bonds or to enter into, to the extent permitted by law, an agreement other than the Agreement with respect to the issuance by the Issuer under an indenture or indentures other than the Indenture to provide additional funds to acquire and construct facilities available for financing under the Act, or to refund all or any principal amount of the Bonds, or any combination of the foregoing.

Obligation Absolute. The obligation of the University to make the payments required to be made under the Agreement is absolute and unconditional, and is not subject to abatement, diminution, postponement or deduction, or to any defense other than payment or to any right of setoff, counterclaim or recoupment arising out of any breach under the Agreement, the Indenture or otherwise by the Issuer, the Trustee, any Owner of Bonds, or any other Person, or out of any obligation or liability at any time owing to the University by any of the foregoing. The obligation of the University to make the payments as provided in the Agreement and to perform all of its obligations thereunder is absolute and unconditional, irrespective of any defense or any rights of setoff, recoupment or counterclaim the University might otherwise have against the Issuer, the Trustee, or any Owners. The University will not suspend or discontinue any such payment or terminate the Agreement (other than in the manner provided for thereunder) for any cause, including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, failure of title, or commercial frustration of purpose, or any damage to or destruction of the Projects, or the taking by eminent domain of title to or the right or temporary use of all or any part of the Projects, or any change in the tax or other laws of the United States, the State or any political subdivision of either thereof, or any failure of the Issuer or the Trustee to perform and observe any agreement or covenant, whether expressed or implied, or any duty, liability or obligation arising out of or connected with the Agreement or the Indenture.

Effective Date and Term. The Agreement becomes effective upon its execution and delivery by the parties thereto. The term of the Agreement commenced on the date of its execution and delivery and, subject to the provisions of the Agreement, expires at midnight on such date as the principal amount of the Bonds, premium if any, and interest thereon and all other expenses or sums to which the Issuer and the Trustee are entitled have been fully paid and retired or provision for such payment has been made as provided in the Agreement, in the Bonds and in the Indenture; provided that certain covenants of the Agreement will continue in effect with respect to each Project until the Bonds issued to finance such Project have been paid or provision has been made for such payment at or after the Maturity thereof and the indemnification covenants will survive the termination of the Agreement.

Security

Security Clauses. As security for the performance and payment by the University of its obligations under the Agreement, the University grants and assigns a security interest to the Issuer in any and all funds of the University now or hereafter on deposit in the Construction Fund, the Bond Proceeds Clearance Fund and the Bond Fund and the proceeds thereof. The liens, security interests and assignments granted, created or conveyed pursuant to the Agreement have been assigned by the Issuer to the Trustee as security for the payment of the Bonds. The Agreement constitutes a security agreement within the meaning of the Uniform Commercial Code as enacted and in force and effect in the State.

The Projects

Construction of Projects. The University has covenanted to cause each of the Projects to be constructed with all reasonable dispatch in order to effectuate the purposes of the Act. The University has the sole responsibility under the Agreement for the construction of the Projects and may perform the same itself or through its agents, and may make or issue such contracts, orders, receipts and instructions, and in general do or cause to be done all such other things as it may in its sole discretion consider requisite or advisable for the construction of the Projects and for fulfilling its obligations under the Agreement. The University has full authority and the sole right under the Agreement to supervise and control, directly or indirectly, all aspects of the construction of the Projects. The University is required to obtain all necessary approvals under all federal, State and local laws, ordinances and regulations requisite for the construction of the Projects and acquire and complete the Projects in conformity therewith. Upon completion of the construction of the Projects, the University is required to obtain all permits and authorizations from appropriate authorities, if any be required, authorizing the uses of the Projects for the purposes contemplated by the Agreement.

Insufficient Moneys in Construction Fund. If the moneys in the Construction Fund, together with any other moneys made available to pay the Project Costs, is not sufficient to pay the Project Costs in full, then the University is required to pay that portion of the Project Costs in excess of the moneys in the Construction Fund available therefor.

Revision of Plans and Specifications. The University may revise its plans and specifications for any Project (including, without limitation, any changes therein, additions thereto, substitutions therefor and deletions therefrom) at any time and from time to time prior to the Completion Date in any respect; provided, however, that, after giving effect to such revision, the University's representations contained in the Agreement are required to remain true and correct and that if any such revision renders inaccurate the description of the Project described as an exhibit to the Agreement, the University is required to deliver to the Issuer and the Trustee (a) a description of that Project as revised, the accuracy of which has been certified by an Authorized University Representative, and (b) a certificate of the University that the representations and covenants contained in the Agreement will continue to be true and correct following such revision of the plans and specifications. A revision pursuant to this section will not constitute an amendment, change or modification of the Agreement as contemplated in the Indenture. The University by University Request to the Trustee, accompanied by an Opinion of Bond Counsel to the effect that the action described in such University Request will not adversely affect the exclusion from gross income for federal income tax purposes of interest on any Tax-Exempt Bonds and is permitted by the Act, may specify an alternate use for amounts on deposit in the Construction Fund.

Certification of Completion Date. The Completion Date will be the date on which each Project is completed in its entirety and ready to be placed in service and operated for the purposes for which it is designed, all as determined by the University. As promptly as possible after the Completion Date for each Project, the University is required to submit to the Issuer and the Trustee a certificate, executed by an Authorized University Representative, which specifies the Completion Date and states that construction of that Project has been completed and the Project Costs have been paid, except for any portion thereof which has been incurred but is not then due and payable, or the liability for the payment of which is being contested or disputed by the University, and for the payment of which the Trustee is directed to retain specified amounts of moneys in specified accounts within the Construction Fund. Notwithstanding the foregoing, such certificate may state that it is given without prejudice to any rights against third parties which exist at the date thereof or which may subsequently come into being.

Maintenance of Projects; Modifications. The University covenants to maintain and operate the Projects as "educational facilities" and/or "housing facilities," within the meaning of the Act and/or facilities which are incidental, subordinate and related thereto or appropriate in connection therewith; provided, however, that the University may exercise all of such rights, powers, elections and options as owner to discontinue of the operation of the Projects, or any element or unit thereof, if, in the judgment of the University, it is no longer advisable to operate the same, or to sell and dispose of the same so long as the University delivers to the Trustee an Opinion of Bond Counsel to the effect that such sale or disposition does not adversely affect the excludability of interest on the Tax-Exempt Bonds from the gross income of the Owners thereof.

The University may at its own expense cause substitutions, additions, modifications and improvements to be made to each Project from time to time as it, in its discretion, may deem to be desirable for its uses and purposes. No such substitutions, additions, modifications or improvements are subject to the requirements of the Agreement.

Sectarian Use of the Projects. The University agrees and covenants that it will not use the Projects or any substantial part thereof primarily for sectarian instruction or primarily as a place of religious worship or as a facility used primarily in connection with any part of the program (a) of a school or department of divinity for any religious denomination, or (b) for the training of priests, ministers, rabbis, or other similar persons in the field of religion; provided, however, that the foregoing restrictions will apply only to the Projects and the components thereof. The Issuer acknowledges that the University operates its educational programs in accordance with the principles stated in its charter and by-laws, and nothing in the Agreement will be construed to restrain or restrict such operations except as specifically provided in this paragraph.

Special Covenants

Maintenance of Corporate Existence and Accreditation. The University covenants to maintain its corporate existence as a corporation, to not dissolve or otherwise dispose of all or substantially all its assets and to not consolidate with or merge with or into another corporation; provided, however, that the University may consolidate with or merge with or into or sell or otherwise transfer all or substantially all of its assets (and may thereafter dissolve) to another corporation, incorporated under the laws of the United States, one of the states thereof or the District of Columbia, if the surviving, resulting or transferee corporation, as the case may be (if other than the

University), prior to or simultaneously with such consolidation, merger, sale or transfer, assumes, by delivery to the Trustee of an instrument in writing, satisfactory in form and substance to the Trustee, all the obligations of the University under the Agreement.

Status of the University. The University covenants and agrees that it shall at all times be and remain a degree-granting college or university corporation accredited by the Texas Education Agency, or its successor. The University agrees and covenants that it shall operate the University as an "institution of higher education," as defined in the Act.

Tax Covenants. The Issuer agrees that it will not take, or omit to take, any action with respect to the Bonds or the Projects which, under the Code, would adversely affect the exclusion from gross income of interest on any Tax-Exempt Bond on and as of the applicable Closing Date or subsequently; provided, however, that the Issuer and the University may conclusively rely on any opinion of Bond Counsel regarding the applicability of this paragraph to its subsequent actions and as to the effect thereof.

The University covenants it will not take, or omit to take, any action that will adversely affect the exclusion from gross income for federal income tax purposes of interest paid on the Tax-Exempt Bonds, and, in the event of such action or omission, it will use all reasonable efforts to cure the effect of such action or omission. With the intent not to limit the generality of the foregoing, the Agreement enumerates various specific covenants relating to the continued exclusion from gross income for federal income taxation and the University covenants and agrees that prior to the final Maturity of the Bonds, it will maintain the tax covenants specified in the Agreement unless it has received an Opinion of Bond Counsel to the effect that the proposed action will not adversely affect the exclusion from gross income of interest on any Tax-Exempt Bond.

Defaults and Remedies Under the Loan Agreement

Events of Default. Each of the following shall be an "Event of Default" under the Agreement:

(a) Failure by the University to pay or cause to be paid any amount that has become due and payable pursuant to any provision of the Agreement with respect to principal of, premium, if any, or interest on the Bonds at the times specified therein;

(b) Failure by the University to observe and perform any covenant, condition or agreement on its part to be observed or performed under the Agreement (other than a failure resulting in an Event of Default under (a)) for a period of 30 days after written notice, specifying such failure and requesting that it be remedied, has been given to the University by the Issuer or the Trustee; provided, however, if the failure stated in the notice cannot, in the opinion of the University with the consent of the Trustee (which consent shall not be unreasonably denied), be feasibly corrected within the 30-day period, no Event of Default shall have occurred if corrective action is instituted within the 30-day period and diligently pursued in good faith until the occurrence of the earlier of (i) the correction of the default, or (ii) 180 days after the University shall have received written notice of such default;

(c) The University commences a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under the Bankruptcy Code, or any insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official for it or any substantial part of its property, or consents to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or makes a general assignment for the benefit of creditors, or fails generally to pay its debts as they become due, or takes any corporate action to authorize any of the foregoing;

(d) A court having jurisdiction in the premises enters a decree or order for relief in respect of the University in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of the University or for any substantial part of its property, or ordering the winding-up or

liquidation of its affairs and such decree or order remains unstayed and in effect for a period of 60 consecutive days; or

- (e) An Event of Default under the Indenture or the Master Indenture.

If by reason of Force Majeure, the University is unable in whole or in part to carry out any one or more of its agreements or obligations described in subsection (b) above, the University will not be deemed in default by reason of not carrying out such agreement or agreements or performing such obligation or obligations during the continuance of such inability. The University is required to make reasonable effort to remedy with all reasonable dispatch the cause or causes preventing it from carrying out its agreements; provided that the settlement of strikes, lockouts and other industrial disturbances will be entirely within the discretion of the University, and the University will not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is in the judgment of the University unfavorable to the University.

Remedies. Upon the occurrence and continuance of any Event of Default under the Agreement and further upon the condition that, in accordance with the terms of the Indenture, the Bonds have been declared to be immediately due and payable pursuant to any provision of the Indenture, the payments to be made pursuant to the Agreement will, without further action, become and be immediately due and payable.

Any waiver of any "Event of Default" under the Indenture and a rescission and annulment of its consequences will constitute a waiver of the corresponding Event or Events of Default under the Agreement, and a rescission and annulment of the consequences thereof.

Upon the occurrence and continuance of any Event of Default, the Trustee, on behalf of the Issuer, may take any action at law or in equity to collect any payments then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the University under the Agreement.

Any amounts collected from the University, or from other sources, in payment of the University's Loan payment obligations under the Agreement, pursuant to this section, are required to be applied in accordance with the Indenture.

No Remedy Exclusive. No remedy conferred upon or reserved to the Issuer (or the Trustee acting on its behalf) under the Agreement is intended to be exclusive of any other available remedy or remedies, but each and every such remedy is cumulative and in addition to every other remedy given under the Agreement or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any default will impair any such right or power or shall be construed to be a waiver thereof, but any such right or power may be exercised from time to time and as often as may be deemed expedient.

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THE INDENTURE

The following is a summary of certain provisions of the Indenture which are not discussed in the Official Statement. Such summary does not purport to be complete and is qualified in its entirety by reference to the Indenture.

Trust Estate Under the Indenture

The Issuer, in order to secure the payment of the principal of, premium, if any and interest on the Bonds issued and Outstanding under the Indenture and the performance and observance of the covenants and conditions contained in the Indenture and in the Bonds, has granted a security interest to the Trustee in the Trust Estate. The Trustee is required to hold all such property for the benefit of the Owners.

Funds

The Indenture establishes with the Trustee the Bond Fund, the Construction Fund, the Bond Proceeds Clearance Fund and the Rebate Fund.

Bond Proceeds Clearance Fund. The proceeds of the sale of each series of Bonds are to be deposited in the Bond Proceeds Clearance Fund. Such proceeds, together with funds contributed by the University, are then deposited and applied by the Trustee as specified in the Issuer Order to authenticate and deliver the Bonds of such series.

Bond Fund. The Trustee will deposit to the Bond Fund immediately upon receipt all payments made by the University pursuant to the Agreement with respect to principal of or premium, if any, and interest on the Bonds and any other amounts received from or on behalf of the University delivered to the Trustee and designated for deposit therein.

Except as provided in the Indenture or in any Supplemental Indenture, on each Interest Payment Date and on each Maturity of Bonds, the Trustee is required to apply sufficient money from the Bond Fund to pay the principal of (and premium, if any) and interest on the Bonds as the same shall become due and payable.

Construction Fund. The Trustee will deposit to the Construction Fund all amounts paid to the Trustee by the Issuer or the University specifically for deposit to the credit of the Construction Fund and a portion of the proceeds received by the Trustee from the sale of each series of Bonds to the extent specified by Issuer Order. The Trustee may establish separate accounts within the Construction Fund for the deposit of the proceeds of each series of Bonds that are to be deposited to the Construction Fund.

The Trustee will disburse amounts in the Construction Fund in accordance with the Issuer Order delivered to the Trustee in connection with the issuance of each series of Bonds and thereafter will disburse amounts in the Construction Fund to pay or reimburse the University for Project Costs within five Business Days following receipt of and in accordance with a University Request. On receipt of the Officer's Certificate of completion pursuant to the Agreement, the Trustee is required to transfer any amount then on deposit in the account in the Construction Fund relating to the applicable series of Bonds to the Bond Fund (a) except for amounts to be retained in the Construction Fund as provided in the Agreement, or (b) unless the Trustee has received a University Request specifying an alternative use of such amounts accompanied by an Opinion of Bond Counsel to the effect that complying with such University Request will not adversely affect the exclusion from gross income for federal income tax purposes of interest on any Tax-Exempt Bonds and is permitted by the Act.

Rebate Fund. The Trustee will deposit to the credit of the Rebate Fund each amount delivered to the Trustee by the University for deposit thereto. Such amounts are to be used to pay, as necessary, any "rebateable arbitrage" to the United States Treasury.

Investments. The Indenture provides that money held for the credit of the Bond Fund and the Construction Fund will be continuously invested by the Trustee at the direction of the University in Investment Securities.

Obligations purchased as an investment of any money credited to the Construction Fund or Bond Fund will be deemed at all times to be a part of such Fund. Interest accruing on obligations so purchased and any profit realized or loss resulting from such investment will be charged to such Fund (or account within such Fund). The Trustee may make any and all such investments through its own investment department. As and when any amounts thus invested may be needed for disbursements from the Construction Fund or the Bond Fund, the Trustee is required to cause a sufficient amount of such investments to be sold or otherwise converted into cash to the credit of such Fund. Any moneys remaining in the Construction Fund or transferred from the Construction Fund to the Bond Fund following the Completion Date for each Project, if derived from the proceeds of Tax-Exempt Bonds, will be invested at a Yield not in excess of the Yield on those Bonds or will be invested in Exempt Securities.

Defaults and Remedies Under the Indenture

Events of Default. Each of the following events constitutes an "Event of Default" with respect to the Bonds under the Indenture:

- (a) a failure to pay the principal of or premium, if any, on any Bond when the same shall become due and payable at Maturity;
- (b) a failure to pay an installment of interest on any Bond which becomes due and payable;
- (c) a failure by the Issuer to observe and perform any covenant, condition, agreement or provision (other than as specified in clauses (a) and (b) of this section) contained in the Bonds or in the Indenture on the part of the Issuer to be observed or performed, which failure continues for a period of ninety (90) days after written notice, specifying such failure and requesting that it be remedied, has been given to the Issuer and the University by the Trustee, which may give such notice in its discretion and is required to give such notice at the written request of the Owners of not less than 25% in principal amount of the Bonds then Outstanding, unless the Trustee (if such notice was given at the discretion of the Trustee) and the Owners of a principal amount of Bonds not less than the principal amount of Bonds the Owners of which requested such notice (if such notice was given at the request of the Owners), agree in writing to an extension of such period prior to its expiration; provided, however, that the Trustee or the Trustee and the Owners of such principal amount of Bonds, as the case may be, will be deemed to have agreed to an extension of such period if corrective action is initiated by the Issuer or the University on behalf of the Issuer, within such period and is being diligently pursued; or
- (d) an Event of Default under the Agreement or the Master Indenture.

Acceleration; Other Remedies. If an Event of Default occurs and is continuing, then in every such instance the Trustee may, or upon request of the Owners of not less than 25% in aggregate principal amount of the Bonds Outstanding, is required to declare the principal of the Bonds to be due and payable immediately, whereby the principal amount of the Bonds will, without further action, become and be immediately due and payable, anything in the Indenture or in the Bonds to the contrary notwithstanding, and the Trustee is required to give written notice thereof to the University and the Issuer and to all Owners of Outstanding Bonds such notice to be sent by Mail.

The provisions of the preceding paragraph are subject to the condition that if, after the principal of the Bonds has been declared to be due and payable, and before any judgment or decree for the payment of the moneys due has been obtained or entered as hereinafter provided, the Issuer shall cause to be deposited with the Trustee a sum sufficient to pay all matured installments of interest upon all Bonds and the principal of any and all Bonds which have become due otherwise than by reason of such declaration (with interest upon such principal) and such amount as is required to be sufficient to cover compensation and reimbursement of expenses payable to the Trustee, and all Events of Default under the Indenture with respect to Bonds other than nonpayment of the principal of Bonds which have become due by said declaration have been remedied, then, in every such case, such Event of Default may be waived by the Trustee and such declaration and its consequences rescinded and annulled, and the Trustee is required to promptly give written notice of such waiver, rescission or annulment to the Issuer and the University and to give notice thereof by Mail to all Owners of Outstanding Bonds; but no such waiver, rescission and annulment extends to or affects any subsequent Event of Default or impairs any right or remedy consequent thereon.

Actions By Trustee. Upon the occurrence and continuance of any Event of Default, then and in every such case the Trustee, upon the written direction of the Owners of not less than 25% in principal amount of the Bonds then Outstanding and receipt of indemnity to its satisfaction, is required to, in its own name and as the Trustee of an express trust:

(a) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Owners, and require the Issuer or the University to carry out any agreements with or for the benefit of the Owners and to perform its or their duties under the Act, the Agreement and the Indenture, provided that any such remedy may be taken only to the extent permitted under the applicable provisions of the Agreement or the Indenture, as the case may be;

(b) bring suit upon the Bonds; and

(c) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Owners.

Limitation on Right of the Owners to Institute Proceedings. No Owner has any right to institute any suit, action or proceeding in equity or at law for the execution of any trust or power under the Indenture, or any other remedy under the Indenture or on the Bonds, unless such Owner previously has given to the Trustee written notice of an Event of Default as hereinabove provided and unless also the Owners of not less than 25% in principal amount of the Bonds then Outstanding have made written request of the Trustee so to do, after the right to institute said suit, action or proceeding under the heading "THE INDENTURE—Defaults and Remedies Under the Indenture—*Actions by Trustee*" have accrued and have afforded the Trustee a reasonable opportunity to proceed to institute the same in either its name or the name of the Owners or the Issuer, and unless there also has been offered to the Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee has not have complied with such request within a reasonable time; and such notification, request and offer of indemnity are declared in every such case, at the option of the Trustee, to be conditions precedent to the institution of said suit, action or proceeding; it being understood and intended that no one or more of the Owners has any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture, or to enforce any right under the Indenture or under the Bonds, except in the manner therein provided, and that all suits, actions and proceedings at law or in equity will be instituted and maintained in the manner therein provided and for the equal benefit of all Owners.

Application of Moneys. Any moneys received by the Trustee, by any receiver or by any Owner pursuant to any right given or action taken under the provisions of the Indenture with respect to the Bonds, after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the expenses, liabilities and advances incurred or made by the Trustee, are required to be deposited in the Bond Fund and all moneys so deposited in the Bond Fund during the continuance of an Event of Default (other than moneys for the payment of Bonds which had matured or otherwise become payable prior to such Event of Default or for the payment of interest due prior to such Event of Default) are required to be applied as follows:

(a) Unless the principal of all the Bonds has been declared due and payable, all such moneys will be applied (i) first, to the payment to the Persons entitled thereto of all installments of interest then due on the Bonds, in the order of Maturity of the installments of such interest and, if the amount available is not sufficient to pay in full any particular installment of interest, then to the payment ratably, according to the amounts due on such installment, and (ii) second, to the payment to the Persons entitled thereto of the unpaid principal of any of the Bonds which have become due (other than Bonds called for redemption for the payment of which money is held pursuant to the provisions of the Indenture) with interest on such Bonds at their respective rates from the respective dates upon which they became due and, if the amount available is not sufficient to pay in full Bonds due on any particular date, together with such interest, then to the payment ratably, according to the amount of principal and interest due on such date, in each case to the Persons entitled thereto, without any discrimination or privilege.

(b) If the principal of all the Bonds has been declared due and payable, all such moneys are to be applied to the payment of the principal and interest then due and unpaid upon the Bonds, with interest on overdue interest and principal, as aforesaid, without preference or priority of principal over interest or

interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the Persons entitled thereto without any discrimination or privilege. Following payment of the Bonds and any and all interest due thereon, any remaining moneys are to be paid to the University.

Whenever moneys are to be applied pursuant to the provisions of this section, such moneys are to be applied at such times, and from time to time, as the Trustee determines giving due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee applies such funds, it shall fix the date (which shall be an Interest Payment Date unless it shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal and interest to be paid on such date shall cease to accrue. The Trustee is required to give notice of any such moneys on deposit with it and of the fixing of any such date by Mail to all Owners of Outstanding Bonds and is not required to make payment to any Owner until such Bonds is presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Supplements and Amendments

Supplemental Indentures Without Consent of the Owners. Subject to certain provisions of the Indenture, the Issuer and the Trustee may, from time to time and at any time, without the consent of or notice to the Owners, enter into Supplemental Indentures as follows:

- (a) to cure any formal defect, omission, inconsistency or ambiguity in the Indenture;
- (b) to add to the covenants and agreements of the Issuer in the Indenture other covenants, agreements, or to surrender any right or power reserved or conferred upon the Issuer, which shall not adversely affect the interests of the Owners;
- (c) to confirm, as further assurance, any pledge of or lien on the Revenues or of any other moneys, securities or funds subject to the lien of the Indenture;
- (d) to comply with the requirements of the Trust Indenture Act of 1939, as from time to time amended;
- (e) to modify, alter, amend or supplement the Indenture in any other respect which in the judgment of the Trustee is not materially adverse to the Owners;
- (f) to provide for an agreement, commonly referred to as a master trust indenture or master intercreditor agreement, which secures all debt of the University entitled to its benefits on the terms provided therein;
- (g) to add such covenants or requirements as may be necessary to obtain, maintain or improve any rating of the Bonds; or
- (h) to authorize an additional series of Bonds or to make provision for the rebate of investment earnings to the United States of America in connection with the issuance of such additional Bonds or to make other changes authorized by the Indenture.

Before the Issuer and the Trustee may enter into any Supplemental Indenture, it is required that there be delivered to the Trustee and the University an Opinion of Bond Counsel stating that such Supplemental Indenture is authorized or permitted by the Indenture and the Act, complies with their respective terms, will, upon the execution and delivery thereof, be valid and binding upon the Issuer in accordance with its terms and will not adversely affect the exclusion from gross income of the Owners for federal income tax purposes of interest on any Tax-Exempt Bonds.

Supplemental Indentures Requiring Consent of the Owners. Except for any supplemental indenture entered into without the consent of the Owners, subject to the terms and provisions contained in the Indenture and not otherwise, the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding have the right from time to time to consent to and approve the execution and delivery by the Issuer and the Trustee of any Supplemental Indenture deemed necessary or desirable by the Issuer and the Trustee for the purposes of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in the Indenture; provided, however, that, unless approved in writing by the Owners of all the Bonds then Outstanding, nothing permits, or is 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 for any modification, alteration, amendment or supplement to the Agreement.

Consent of the University Required. So long as the University is not in default under the Agreement, no Supplemental Indenture will become effective unless the University has consented thereto.

Amendment of Agreement Without Consent of the Owners. Without the consent of or notice to the Owners of the Bonds, the Issuer and the University may modify, alter, amend or supplement the Agreement, with the consent of the Trustee, as may be required (a) by the provisions of the Agreement and the Indenture, (b) for the purpose of curing any formal defect, omission, inconsistency or ambiguity therein (c) in connection with the issuance of an additional series of Bonds, or (d) in connection with any other change therein which is not materially adverse to the Owners.

Amendment of Agreement Requiring Consent of the Owners. Except in the case of modifications, alterations, amendments or supplements referred to above and subject to University consent, the Issuer may not enter into, and the Trustee may not consent to, any amendment, change or modification of the Agreement without the written approval or consent of the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding, given and procured as provided in the Indenture; provided, however, that, unless approved in writing by the Owners of all Bonds then Outstanding, nothing contained in the Indenture may permit, or be construed as permitting, a change in the obligations of the University under the Agreement, except with respect to additional provisions and obligations of the University relating to the issuance of additional Bonds. If at any time the Issuer or the University requests the consent of the Trustee to any proposed modification, alteration, amendment or supplement, the Trustee is required to cause notice thereof to be given in the same manner as provided by the Indenture with respect to Supplemental Indentures. Such notice is required to state that copies of the instrument embodying the same are on file at the Principal Office of the Trustee for inspection by all the Owners. The Issuer may enter into, and the Trustee may consent to, any such proposed modification, alteration, amendment or supplement subject to the same conditions and with the same effect as provided in the Indenture with respect to Supplemental Indentures.

Notice to Moody's and S&P. The Trustee is required to send a copy of any proposed supplemental indenture or amendment to the Agreement to Moody's and/or S&P, as appropriate, at least 15 days prior to the execution or adoption thereof.

Amendment of Master Indenture. As the Security Holder, as defined in the Master Indenture, the Trustee is required to consent to supplements to the Master Indenture where provided therein upon receipt of the consent of the Owners of the Bonds in the same aggregate principal amount as is required for the consent of the Security Holders of such supplement as provided in the Master Indenture.

Resignation or Removal of the Trustee

The Trustee may resign at any time by giving written notice thereof to the Issuer, the University, and the Owners as prescribed in the Indenture. If a successor has not been appointed within 45 days after the Trustee gives notice of resignation, the resigning Trustee may petition a court of competent jurisdiction for the appointment of a successor.

The Trustee may be removed at any time by the Owners of a majority in principal amount of the Bonds then Outstanding and, if there is no default under the Indenture, with the consent of the University.

No resignation or removal of the Trustee becomes effective until the acceptance of appointment by a successor in such capacity under the Indenture.

If the Trustee resigns, is removed, or becomes incapable of acting, or if a vacancy occurs in the office of Trustee for any cause, the Issuer is required promptly to appoint a successor Trustee acceptable to the University. The owners of the majority principal of the principal amount of Bonds then Outstanding may appoint a successor Trustee by filing with the Issuer and the University a written instrument appointing a new Trustee, and copies of such instrument are required to be delivered to the predecessor Trustee and the Trustee so appointed.

Each Trustee is required at all times to be a bank or trust company duly organized under the laws of the United States or any state or territory thereof authorized by law to perform all the duties imposed upon it by the Indenture, having a combined capital stock, surplus and undivided profits of at least \$50,000,000, and permitted under the laws of the State to perform the duties of the Trustee.

Concerning the Trustee

The Trustee is not liable for any action taken or omitted to be taken by it in good faith in accordance with the permitted direction of the Owners of 25% in principal amount of the Bonds Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or concerning any benefit or power conferred upon the Trustee, under the Indenture. No provision of the Indenture requires the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties under the Indenture, or in the exercise of any of its rights or powers, if it has grounds for believing that repayment of such funds or indemnity satisfactory to it against such risk or liability is not assured to it. In the absence of bad faith on its part, and except during the continuance of an Event of Default under the Indenture, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of the Indenture. If an Event of Default under the Indenture has occurred and is continuing, the Trustee is required to exercise the rights and powers vested in it by the Indenture, and to use the same degree of care and skill in such exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs. The Trustee is not deemed to have notice of any default, or Event of Default, except a payment default unless the Trustee is notified in writing by the Issuer or the Owners of at least 25% in principal amount of the Bonds then Outstanding. When so notified the Trustee is required to give written notice of such default or Event of Default by first class mail to each Owner of Bonds Outstanding.

Defeasance

Satisfaction and Discharge of Indenture. If the University has paid or caused to be paid the principal of (and premium, if any) and interest on all the Bonds Outstanding under the Indenture, as and when the same become due and payable, and if the University has also paid or provided for the payment of all other sums payable under the Indenture by the University and has paid all of the Trustee's fees and expenses, then the Indenture ceases to be of further effect (except as to (i) rights of registration of transfer and exchange of Bonds, (ii) substitution of mutilated, defaced, or apparently destroyed, lost or stolen Bonds, (iii) rights of Owners to receive payments of principal thereof (and premium, if any) and interest thereon, (iv) the rights, remaining obligations, if any, and immunities of the Trustee under the Indenture and (v) the rights of the Owners as beneficiaries of the Indenture with respect to the property so deposited with the Trustee payable to all or any of them) and the Trustee, on University Request accompanied by an Officer's Certificate and an Opinion of Counsel to the effect that the conditions precedent to the satisfaction and discharge of the Indenture have been fulfilled and at the cost and expense of the University, is required to execute proper instruments acknowledging satisfaction of and discharging the Indenture.

Notwithstanding the satisfaction and discharge of the Indenture, the obligations of the University to the Trustee for payment of its fees and expenses and, if funds have been deposited with the Trustee pursuant to the following paragraph, the obligations of the Trustee for Defeasance Obligations and Bonds not presented for payment for which money has been deposited into a separate escrow account will survive.

Bonds Deemed Paid. Any Bonds of any series will be deemed to have been paid if (1) in case said Bonds are to be redeemed on any date prior to their Stated Maturity, the University by University Request has given to the Trustee in form satisfactory to it irrevocable instructions to give notice of redemption of such Bonds on said redemption date, (2) there has been deposited with the Trustee either money sufficient, or Defeasance Obligations the principal of and the interest on which will provide money sufficient without reinvestment (as established by an Officer's Certificate delivered to the Trustee accompanied by a report of an Independent certified public accountant setting forth the calculations upon which such Officer's Certificate is based), to pay when due the principal of (and premium, if any) and interest due and to become due on said Bonds on and prior to the Maturity thereof, and (3) in the event said Bonds are not by their terms subject to redemption within the next 45 days, the University by University Request has given the Trustee in form satisfactory to it irrevocable instructions to give a notice to the Owners of such Bonds that the deposit required by (2) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this section and stating such Maturity date upon which moneys are to be available for the payment of the principal of (and premium, if any) and interest on said Bonds.

Application of Trust Money. The Defeasance Obligations and money deposited with the Trustee pursuant to the foregoing and principal or interest payments on any such Defeasance Obligations are required to be held in trust, not be sold or reinvested, and applied by it, in accordance with the provisions of the Bonds and the Indenture, to the payment, either directly or through any paying agent as the Trustee may determine, to the Persons entitled thereto, of the principal (and premium, if any) and interest for whose payment such money or Defeasance Obligations were deposited; provided that, upon delivery to the Trustee of an Officer's Certificate (accompanied by the report of an Independent certified public accountant setting forth the calculations upon which such Officer's Certificate is based) establishing that the money and Defeasance Obligations on deposit following the taking of the proposed action will be sufficient for the purposes described in clause (2) of the previous paragraph, any money received from principal or interest payments on Defeasance Obligations deposited with the Trustee or the proceeds of any sale of such Defeasance Obligations, if not then needed for such purpose, shall, upon University Request be reinvested in other Defeasance Obligations or disposed of as requested by the University. For purposes of any calculation required by this Defeasance section, any Defeasance Obligation which is subject to redemption at the option of its issuer, the redemption date for which has not been irrevocably established as of the date of such calculation, will be assumed to cease to bear interest at the earliest date on which such obligation may be redeemed at the option of the issuer thereof and the principal of such obligation will be assumed to be received at its stated maturity.

THE MASTER INDENTURE

The following is a summary of certain provisions of the Master Indenture that are not discussed in the Official Statement. Such summary does not purport to be complete and is qualified in its entirety by reference to the Master Indenture.

General

The University has duly granted a security interest to the Master Trustee in (i) 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; (ii) all moneys and securities, if any, at any time held by the Master Trustee in any fund or account under the terms of the Master Indenture; and (iii) any and all other property of every kind and nature from time to time hereafter, by delivery or by writing of any kind, conveyed, pledged, assigned or transferred as additional security under the Master Indenture by the University or by anyone on its behalf to the Master Trustee (herein called the "Trust Estate under the Master Indenture"). The grant of the security interest described in (i) above is subject and subordinate to any and all mortgages, liens, charges, encumbrances, pledges, and security interests granted, created, assumed, incurred, or existing in accordance with the provisions of the Master Indenture as to the property covered thereby as described under "Limitation on Liens" and all revenue, accounts receivable, and receipts derived from such property.

The Master Trustee is required to hold all such property in trust for the equal and proportionate benefit and security of the Holders from time to time of all Outstanding Securities without any priority of any such Securities over any other such Securities except as otherwise expressly provided in the Master Indenture.

If the University pays or causes to be paid all amounts due or to become due on the Previously Issued Securities or the obligations required thereby, the grant of the security interest described in subparagraph (i) will cease, determine and be void.

Covenants of the University

Payment on Debt Service. The University will duly and punctually pay the principal of (and premium, if any) and interest on the Securities in accordance with the terms of the Securities and the Master Indenture.

Money for Security Payments to be Held in Trust; Appointment of Paying Agents. If the University at any time acts as its own Paying Agent, it will, on or before each due date of the principal of (and premium, if any), interest on, or fees or other amounts with respect to any of the Securities, segregate and hold in trust for the benefit of the Holders of such Securities a sum sufficient to pay the principal (and premium, if any), interest, fees or other amounts so becoming due until such sums are paid to such Holders or otherwise disposed of as provided in the Master Indenture or the Security, and will promptly notify the Master Trustee of its action or failure so to act.

Whenever the University has one or more paying agents, it will deposit in immediately available funds with a paying agent, on or prior to the date payment is due, the amount required to pay principal of (and premium, if any), interest on, or fees or other amounts with respect to any Securities. Each paying agent other than the Master Trustee will execute an agreement agreeing to (1) hold all sums for the payment of principal of (and premium, if any) and interest on or fees or other amounts with respect to Securities in trust for the benefit of the Persons entitled thereto, until such sums are paid to such Persons or otherwise disposed of as provided in the Master Indenture; (2) give the Master Trustee notice of any default by the University (or any other obligor) in making payment of principal of (and premium, if any), interest, fees or other amounts on the Securities and (3) at any time during the continuance of any default, upon the written request of the Master Trustee, pay to the Master Trustee all amounts held in trust by such paying agent. The University may at any time direct any paying agent to pay all sums held in trust to the Master Trustee.

Any money deposited with the Master Trustee or any paying agent for the payment of principal or (and premium, if any) and interest on any Security and remaining unclaimed for two years, as provided in the Master Indenture, will be paid to the University on University Request and the Holder of such Security will thereafter be deemed to be an unsecured general creditor and may look only to the University for payment thereof.

Payment of Taxes and Other Claims. The University is required to pay on a timely basis, (1) all taxes, assessments and other governmental charges lawfully levied or assessed or imposed upon it or upon its income, profits or property, and (2) all lawful claims for labor, materials and supplies which, if unpaid, might by law become a lien upon its property; provided, however, that no such Person will be required to pay any such tax, assessment, governmental charge or claim to the extent that the amount, applicability or validity is being contested in good faith and adequate reserves are made for payment.

Statement as to Compliance. The University will deliver to the Master Trustee within 150 days after the end of each Fiscal Year a written statement signed by certain officers stating that (1) a review of the activities of the University during such year and of its performance under the Master Indenture has been made under the signer's supervision, and (2) to the best of the signer's knowledge, based on such review, the University has fulfilled all its obligations under the Master Indenture throughout such year, or, if there has been a default in the fulfillment of any such obligation, specifying each default known and the nature and status thereof.

The University is required to give written notice to the Master Trustee of the discovery of any default under the Master Indenture and the nature thereof which has not been cured or waived.

Corporate Existence. Subject to certain sections of the Master Indenture regarding merger and consolidation, the University is required to do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence, rights (charter and statutory) and franchises; provided, however that no Person is required to preserve such rights and franchises if its Governing Body determines that the preservation thereof is no longer desirable in the conduct of its business and that the loss thereof is not disadvantageous in any material respect to the Holders of the Securities.

To Keep Books; Financial Reports and Inspection by Master Trustee. The University is required to at all times keep books or records and accounts, in accordance with generally accepted accounting principles. The University is required to furnish to the Master Trustee as soon as available, and in any event within 150 days after the end of each Fiscal Year, combined or consolidated financial statements of the University, as of the end of such Fiscal Year or for such Fiscal Year then ended, as applicable, shown in each case in comparative form with the preceding Fiscal Year, together with the report of an Independent Accountant selected by the University who has examined such statements in accordance with generally accepted auditing standards as to the fairness of presentation of such statements. The Master Trustee has no duty with regard to such books, records or financial statement filed with it except to make them available to Holders upon request.

The University upon request of a Holder of \$1,000,000 or more in principal amount of Securities will permit such Holder, by its agents and attorneys to inspect the property of the University, or any of its consolidated subsidiaries and to examine all the books of account, records, reports and other financial papers of such Persons and to take copies and extracts therefrom. The University is required to furnish the Holders and the Master Trustee any and all information as the Holders or the Master Trustee may reasonably request with respect to the performance or observance by such Persons of their covenants in the Master Indenture.

Limitation on Liens. The University is not permitted to grant, create, assume or incur or suffer to be granted, created, assumed or incurred or to exist as security for any Debt, any mortgage, lien, charge or encumbrance of any kind upon, or pledge of or security interest in, any property of the University whether owned at the date of execution and delivery of the Master Indenture or thereafter acquired except the following:

1. *Permitted Encumbrances*; or
2. *Purchase and Construction Money*: Purchase or construction money mortgages, liens, charges, encumbrances, pledges or security interests (which term for purposes of this clause (2) includes

conditional sale agreements or other title retention agreements and leases in the nature of title retention agreements) upon or in property acquired or improved after the date of the Master Indenture, or renewals of any such mortgages, liens, charges, encumbrances, pledges or security interests in connection with the replacement, extension or renewal (without increase in principal amount) of the Debt secured thereby, provided that no such mortgage, lien, charge, encumbrance, pledge or security interest extends or will extend to or cover any property of the University other than the property then being acquired or constructed or on which improvements are being so constructed, and fixed improvements then or thereafter erected thereon and related insurance coverage and proceeds; or

3. *Pari Passu*: Any mortgage, lien, charge, encumbrance, pledge or other security interest of any kind upon any property of any character of the University or any conditional sale agreement or similar title retention agreement with respect to any such property, if the University makes effective provision, and the University covenants that in any such case it will make or cause to be made effective provision, whereby all the Outstanding Securities will be directly secured by such mortgage, lien, charge, encumbrance, pledge or other security agreement equally and ratably upon the same property, or upon other property with a current value at least equal to the current value of property to be mortgaged, with any and all other obligations and indebtedness thereby secured for so long as such obligations or indebtedness are so secured; or

4. *Existing Liens*: Any mortgage, lien, charge, encumbrance, pledge or other security interest that is existing on any property of the University on the date of the Master Indenture or any mortgage, lien, charge, encumbrance, pledge or other security interest that is existing on any real or personal property on the date of acquisition thereof, provided that no lien so described or the Debt secured thereby may be extended or renewed or may be modified to spread to any property of the University not subject to such lien on such date, except to the extent that such lien, as so extended, renewed or modified could have been granted or created under any provision of the Master Indenture; or

5. *Basket*: Any mortgage, lien, charge, encumbrance, pledge or other security interest of any kind if the book value (or, at the option of the University, current value) of all property of the University subjected to mortgages, liens, charges, encumbrances, pledges or other security interests pursuant to this clause (5) does not exceed 25% of the book value (or, if the University chooses to use the current value of the property so subjected, 25% of the current value) of all property of the University; or

6. *Noncampus Property*: Any mortgage, lien, charge, encumbrance, pledge or other security interest of any kind other than the real property, improvements and fixtures owned by the University bounded by Daniel Street, Hillcrest, Mockingbird Lane, Airline Street, Airline Extension, Dublin Street and Central Expressway, in the Town of University Park, Texas.

An oil or gas royalty, overriding royalty or production payment will not be deemed to be a charge or encumbrance upon the related working interest.

Limitations on Debt. The University will not incur, assume, guarantee, or otherwise become liable in respect of any Funded Debt other than:

1. *Pledge Anticipation*. Debt the principal of which is fully secured by a security interest in pledges, confirmed in writing, to make a donation, gift, or other charitable contribution on or before the Maturity of such Debt and is not secured by any other property of the University;

2. *Credit Enhancement*. Debt consisting of an obligation to reimburse payments made under a letter of credit, surety bond, policy of insurance, bond purchase agreement or similar credit or liquidity support obtained to secure payment of other Debt incurred pursuant to this Section and to pay interest thereon until paid;

3. *Completion Debt*. Debt for the purpose of financing the completion of constructing, renovating, or equipping facilities for which Funded Debt has theretofore been incurred in accordance with

the provisions of the Master Indenture, if an Officers' Certificate is delivered to the Master Trustee stating that the amount of such Debt does not exceed the amount (including reserve funds and capitalized interest) necessary to provide a completed and equipped facility of the type and scope contemplated at the time that such other Debt was originally incurred and that such other Debt was estimated when incurred to be sufficient to provide such a completed and equipped facility;

4. *Subordinated Debt.* Debt subordinate in right of payment to the payment of the Securities upon liquidation or reorganization and upon the occurrence and continuance of an Event of Default;

5. *Refunding Debt.* Funded Debt incurred to refund or defease any Debt if the maximum annual debt service requirements in respect of such Debt for the fiscal year in which such Debt is to be incurred or any future fiscal year does not exceed 115% of the maximum annual debt service requirements during such period in respect of the Debt being refunded or defeased; or

6. *Funded Debt.* 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.

7. *Counterparties to Hedge Agreements.* The University will not permit or suffer to continue any Hedge Agreement having a notional amount equal to or greater than \$15,000,000 if the counter party to such Hedge Agreement has an unenhanced long term debt rating lower than A-3 or A- from a Rating Service unless such Hedge Agreement is secured by collateral or the performance by the counterparty of its obligations under the Hedge Agreement is guaranteed by a Person having an unenhanced long term debt rating of A-3 or A- from at least one Rating Service. For the purposes of this section, "Hedge Agreement" means an interest rate swap, collar, floor, forward or other hedging agreement, arrangement or security, however denominated, with respect to a series of Securities designated as such by University Order.

Filing of Continuation Statements. The University will cause all financing statements and continuation statements covering security interests in the Trust Estate to be promptly filed, and at all times to be kept filed, and will execute and file such financing statements and cause to be issued and filed such continuation statements, all in such manner and in such places as may be required by law fully to preserve and protect the rights of the Security Holders and the Master Trustee under the Master Indenture to all property comprising the Trust Estate under the Master Indenture. The University will furnish to the Trustee:

(a) promptly after the execution and delivery of the Master Indenture and of each Supplemental Master Indenture or University Order creating a series of Securities, an Opinion of Counsel stating that, in the opinion of such counsel, all financing statements and continuation statements have been executed and filed that are necessary fully to preserve and protect the rights of the Security Holders and the Master Trustee under the Master Indenture, or stating that, in the opinion of such counsel, no such action is necessary to make such lien effective; and

(b) within 30 days after December 1 in each fifth year beginning with the year 2003, an Opinion of Counsel, dated as of such date, either stating that, in the opinion of such counsel, such action has been taken with respect to the filing and re-filing of all financing statements, continuation statements or other instruments of further assurances as is necessary to maintain the lien of the Master Indenture and reciting the details of such action or referring to prior Opinions of Counsel in which such details are given, and stating that all financing statements and continuation statements have been executed and filed that are necessary fully to preserve and protect the rights of the Security Holders and the Master Trustee under the

Master Indenture, or stating that, in the opinion of such counsel, no such action is necessary to maintain such lien.

Waiver of Certain Covenants. The University is not obligated to comply with certain covenants or conditions set forth in the Master Indenture if before or after the time for such compliance the Holders of the same percentage in principal amount of all Securities then Outstanding the consent of which would be required to amend the provisions of the Master Indenture to permit such noncompliance either waive such compliance in such instance or generally waive compliance with such covenant or condition, but no such waiver will extend to or affect such covenant or condition except to the extent so expressly waived and, until such waiver becomes effective, the obligations of the University and the duties of the Master Trustee in respect of any such covenant or condition will remain in full force and effect.

Consolidation, Merger, Conveyance and Transfer

Consolidation, Merger, Conveyance or Transfer Only on Certain Terms. The University may not consolidate with or merge into any corporation or convey or transfer its properties substantially as an entirety to any Person, unless all of the following conditions exist:

1. the Person formed by such consolidation or into which the University merges or the Person which acquires substantially all of the properties of the University as an entirety is required to be a Person organized and existing under the laws of the United States of America or any state or the District of Columbia and expressly assumes by Supplemental Master Indenture supplemental to the Master Indenture executed and delivered to the Master Trustee, in form satisfactory to the Master Trustee, the due and punctual payment of the principal of (and premium, if any), interest on, fees and other amounts payable on the Securities and the performance and observance of every covenant and condition on the part of the University to be performed or observed;
2. immediately after giving effect to such transaction, no default under the Master Indenture has occurred and is and continuing; and
3. the University has delivered to the Master Trustee an Officer's Certificate and an Opinion of Counsel, each of which state that such consolidation, merger, conveyance or transfer and such Supplemental Master Indenture comply with the Master Indenture and will not affect the status of interest on any indebtedness secured by Outstanding Securities under the Code, that such actions as may be necessary to continue the perfection of the liens with respect to the Trust Estate under the Master Indenture have been complied with, and that all conditions precedent to such transaction have been complied with.

Successor Corporation Substituted. Upon any consolidation or merger or any conveyance or transfer of the properties and assets of the University substantially as an entirety in accordance with the Master Indenture, the successor Person formed by such consolidation or into which the University is merged or to which such conveyance or transfer is made will succeed to, and be substituted for, and may exercise every right and power of, the University with the same effect as if such successor Person had been named as the University therein; provided, however that under the Master Indenture no such conveyance or transfer will have the effect of releasing any other Person which previously became the University in the manner described in the Master Indenture from its liability as obligor and maker or guarantor on any of the Securities.

Defaults and Remedies Under the Master Indenture

Events of Default under the Master Indenture. "Event of Default" means any one of the following events (whatever the reason for such Event of Default and whether it is voluntary or involuntary or is effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

1. default in the payment of the principal of, the premium, if any, or interest or any other amount due on any Security when due; or

2. default in the performance, or breach, of any covenant or agreement on the part of the University contained in the Master Indenture (other than a covenant or agreement whose performance or observance is waived pursuant to the terms of the Master Indenture or whose performance or observance is otherwise specifically dealt with) and continuance of such default or breach for a period of 60 days after there has been given, by registered or certified mail, to the University by the Master Trustee, or to the University and the Master Trustee by the Holders of at least 25% in principal amount of Securities then Outstanding, a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" under the Master Indenture; provided that if such default can be cured by the University but cannot be cured within the 60-day curative period described above, it will not constitute an Event of Default if corrective action is instituted by the University within such 60-day period and diligently pursued until the default is corrected; or

3. a decree or order by a court having jurisdiction in the premises has been entered adjudging the University a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization or arrangement of the University under the Federal Bankruptcy Code or any other similar applicable federal or state law, and such decree or order has continued undischarged and unstayed for a period of 90 days; or a decree or order of a court having jurisdiction in the premises for the appointment of a receiver or trustee or assignee in bankruptcy or insolvency of the University or of the University's property, or for the winding up or liquidation of the University's affairs, has been entered, and such decree or order has remained in force undischarged and unstayed for a period of 90 days; or

4. the University has instituted proceedings to be adjudicated a voluntary bankrupt, or has consented to the institution of a bankruptcy proceeding against it, or has filed a petition or answer or consent seeking reorganization or arrangement under the Federal Bankruptcy Code or any other similar applicable federal or state law, or has consented to the filing of any such petition, or has consented to the appointment of a receiver or trustee or assignee in bankruptcy or insolvency of it or of its property, or has made an assignment for the benefit of creditors, or has admitted in writing its inability to pay its debts generally as they become due, or corporate action has been taken by the University in furtherance of any of the aforesaid purposes; or

5. an event of default, as therein defined, under any Security or any instrument under which any Security 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, occurs and is continuing beyond the applicable period of grace, if any.

Acceleration of Maturity In Certain Cases; Rescission and Annulment. If an Event of Default occurs and is continuing, then and in every such case the Master Trustee may, and at the direction of the Holders (or, in the case of any Securities that are subject to a Credit Facility, or that are pledged to secure the repayment of other indebtedness that is subject to a Credit Facility, the Credit Enhancer with respect to such Securities unless the Credit Enhancer is in default in performance of its obligations with respect to such Credit Facility) of not less than 25% in principal amount of the Securities Outstanding is required to declare the principal of all of the Securities to be due and payable immediately, by a notice in writing to the University (and to the Master Trustee if given by the Security Holders), and upon any such declaration such principal will become immediately due and payable. Acceleration by the Master Trustee of any Security is subject to any provision in the Security or a related document requiring the consent of a third party as a condition precedent to acceleration.

At any time after such a declaration of acceleration has been made and before a judgment or decree for payment of the money due has been obtained by the Master Trustee as provided in the Master Indenture, the Holders of a majority in principal amount of the Securities Outstanding, by written notice to the University and the Master Trustee, may rescind and annul such declaration and its consequences if (1) the University has caused to be paid or deposited with the Master Trustee a sum sufficient to pay (A) all overdue installments of interest on all Securities, (B) the principal of (and premium, if any, on) any Securities which have become due other than by such declaration of acceleration and interest thereon at the rate borne by the Securities; and (C) all sums paid or advanced by the Master Trustee under the Master Indenture and the reasonable compensation expenses, disbursements and advances of the Master Trustee, its agents and counsel; (2) all Events of Default, other than the nonpayment of the principal of Securities which have become due solely by such acceleration, have been cured or waived as provided in the Master

Indenture, and (3) each Credit Enhancer with respect to any series of Securities the maturity of which has been accelerated has expressly reconfirmed its obligations with respect to the Credit Facility issued by it and consented to the annulment of such acceleration. No such rescission will affect any subsequent default or impair any right consequent thereon.

Collection of Indebtedness and Suits for Enforcement by Master Trustee. The University covenants that if (1) default is made in the payment of any installment of interest on any Security when such interest becomes due and payable, (2) default is made in the payment of the principal of (or premium, if any, on) any Security when such principal becomes due and payable, or (3) default is made in the payment of any other amount when such amount is due and payable, the University will, upon demand of the Master Trustee, pay to it, for the benefit of the Holders of such Securities, the whole amount then due and payable on such Securities for principal (and premium, if any) and interest and any other amount, with interest upon the overdue principal (and premium, if any) or other amount, not including interest; and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Master Trustee, its agents and counsel.

If the University fails to pay any of the foregoing amounts forthwith upon demand, the Master Trustee, in its own name and as trustee of an express trust, may institute a judicial proceeding for the collection of the sums so due and unpaid, and may prosecute such proceeding to judgment or final decree, and may enforce the same against the University or any other obligor upon the Securities and collect the moneys adjudged or decreed to be payable in the manner provided by law out of the property of the University or any other obligor upon the Securities, wherever situated and the Master Trustee may also exercise any rights of a secured party under the Uniform Commercial Code with respect to the Trust Estate under the Master Indenture.

If an Event of Default occurs and is continuing, the Master Trustee may in its discretion proceed to protect and enforce its rights and the rights of the Holders of Securities by such appropriate judicial proceedings as the Master Trustee deems most effectual to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in the Master Indenture or in aid of the exercise of any power granted therein, or to enforce any other proper remedy.

Application of Money Collected. Any money collected by the Master Trustee during the continuance of any Event of Default described in clause (1) under the caption, "THE MASTER INDENTURE—Default and Remedies Under the Master Indenture—Events of Default under the Master Indenture," will be applied in the following order, at the date or dates fixed by the Master Trustee and, in case of the distribution of such money on account of principal (or premium, if any) or interest, upon presentation of the Securities and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

First: To the payment of all amounts due the Master Trustee under the Master Indenture including reimbursement of fees and expenses incurred in the collection of the moneys to be distributed;

Second: To the payment of the amounts then due and unpaid upon the Securities for principal (and premium, if any) and interest or any other amount, in respect of which or for the benefit of which such money has been collected, ratably, without preference or priority of any kind, according to the amounts due and payable on such Securities for principal (and premium, if any) and interest or such other amounts, respectively; and

Third: To the University, any remaining amounts of money so collected.

Limitation on Suits. No Holder of any Security has any right to institute any proceeding, judicial or otherwise, with respect to the Master Indenture, or for the appointment of a receiver or trustee, or for any other remedy under the Master Indenture, unless (1) such Holder has previously given written notice to the Master Trustee of a continuing Event of Default; (2) the Holders of not less than 25% in principal amount of the Outstanding Securities have made written request to the Master Trustee to institute proceedings in respect of such Event of Default in its own name as Master Trustee under the Master Indenture; (3) such Holder or Holders have offered to the Master Trustee indemnity satisfactory to the Master Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; (4) the Master Trustee for 60 days after its receipt of such notice, request

and offer of indemnity has failed to institute any such proceeding; and (5) no direction inconsistent with such written request has been given to the Master Trustee during such 60-day period by the Holders of a majority in principal amount of the Outstanding Securities; it being understood and intended that no one or more Holders of Securities has any right in any manner whatever by virtue of, or by availing of, any provision of the Master Indenture to affect, disturb or prejudice the rights of any other Holders of Securities, or to obtain or to seek to obtain priority or preference over any other Holders, or to enforce any right under the Master Indenture, except in the manner provided therein and for the equal and ratable benefit of all the Holders of Securities.

Unconditional Right of Holders of Securities to Receive Principal, Premium and Interest. Notwithstanding any other provision in the Master Indenture, the Holder of any Security has the right which is absolute and unconditional to receive payment of the principal of (and premium, if any), interest on, and fees and other amounts payable with respect to such Security, but solely from the sources provided in the Master Indenture, or any separate collateral security provided for such Security, on the respective Stated Maturities expressed in such Security (or, in the case of redemption, on the redemption date) and to institute suit for the enforcement of any such payment, and such rights will not be impaired without the consent of such Holder.

Control by Holders of Securities. The Holders of a majority in principal amount of the Outstanding Securities have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Master Trustee or exercising any trust or power conferred on the Master Trustee, provided that (1) such direction is not in conflict with any rule of law or with the Master Indenture, (2) the Master Trustee may take any other action deemed proper by the Master Trustee which is not inconsistent with such direction, and (3) the Master Trustee shall have the right to required indemnification and security satisfactory to it for any fees, expenses or liability that it may incur as a result of actions taken pursuant to such direction.

Concerning the Master Trustee

Duties and Liabilities of Master Trustee. The Master Indenture contains various limitations on the liability of the Master Trustee. Except during the continuance of an Event of Default, (i) the Master Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Master Indenture and no implied covenants or obligations shall be read into the Master Indenture against the Master Trustee; and (ii) in the absence of bad faith on its part, the Master Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificates or opinions furnished to the Master Trustee and conforming to the requirements of the Master Indenture. In case any Event of Default has occurred and is continuing, the Master Trustee shall exercise such of the rights and powers vested in it by the Master Indenture, and use the same degree of care and skill in their exercise, as a reasonably prudent man would exercise or use under the circumstances in the conduct of its own affairs.

Master Trustee May Own Securities. The Master Trustee or other agent of the University, in its individual or any other capacity, may become the owner or pledgee of Securities and may otherwise deal with the University with the same rights it would have if it were not Master Trustee or such other agent.

Moneys to Be Held in Trust. All moneys received by the Master Trustee are required to be, until used or applied as in the Master Indenture provided (including payment of monies to the University under certain provisions of the Master Indenture), held in trust for the purposes for which they were received, but need not be segregated from other funds except to the extent required by law. The Master Trustee is under no liability for interest on any moneys received by it under the Master Indenture other than such interest as it expressly agrees to pay.

Corporate Trustee Required; Eligibility. There is required to be at all times be a Master Trustee which must be an entity organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least \$100,000,000, subject to supervision or examination by federal or state authority. If at any time the Master Trustee ceases to be eligible under the Master Indenture, it is required to resign immediately in accordance with the Master Indenture.

Resignation and Removal; Appointment of Successor. No resignation or removal of the Master Trustee and no appointment of a successor Master Trustee may become effective until the acceptance of appointment by the

successor Master Trustee in accordance with the Master Indenture. The Master Trustee may resign at any time upon written notice to the University. The Master Trustee may be removed at any time by the Holders of a majority in principal amount of the Outstanding Securities, or, so long as no Event of Default has occurred and is continuing, by the University, subject to revocation of removal by the Holders of a majority in outstanding principal amount of Securities not held by the Master Trustee, as described in the Master Indenture. If the Master Trustee becomes ineligible or incapable of serving it may be removed in accordance with the procedures described in the Master Indenture.

Merger or Consolidation. Any entity into which the Master Trustee may be merged or with which it may be consolidated, or any entity resulting from any merger or consolidation to which the Master Trustee is a party, or any entity succeeding to all or substantially all of the corporate trust business of the Master Trustee, will be the successor Master Trustee, provided such entity is otherwise qualified and eligible under the Master Indenture.

Supplements

Supplemental Master Indentures Without Consent of Holders of Securities. Without the consent of the Holders of any Securities, the University, when authorized by a Board Resolution, and the Master Trustee at any time may enter into or consent to one or more Supplemental Master Indentures, subject to the Master Indenture, for any of the following purposes:

1. to authorize a series of additional Securities, issued in compliance with the Master Indenture;
2. to evidence the succession of another Person to the University, or successive successions, and the assumption by the successor Person of the covenants, agreements and obligations of the University as permitted by the Master Indenture;
3. to add to the covenants of the University for the benefit of the Holders of Securities or any Credit Enhancer, or to surrender any right or power in the Master Indenture or in such Securities conferred upon the University;
4. to cure any ambiguity or to correct or supplement any provision in the Master Indenture or in the Supplemental Master Indenture which may be inconsistent with any other provision in the Master Indenture or in the Supplemental Master Indenture, or to make any other provisions with respect to matters or questions arising under the Master Indenture which are not inconsistent with the Master Indenture, provided such action does not, in the opinion of the Master Trustee, adversely affect the interests of the Holders of Securities;
5. to modify or supplement the Master Indenture in such manner as may be necessary or appropriate to qualify the Master Indenture under the Trust Indenture Act of 1939, as then amended, or under any similar federal or state statute or regulation; including provisions whereby the Master Trustee accepts such powers, duties, conditions and restrictions under the Master Indenture and the University undertakes such covenants, conditions or restrictions additional to those contained in the Master Indenture as would be necessary or appropriate so to qualify the Master Indenture; provided, however, that nothing in the Master Indenture will be deemed to authorize inclusion in the Master Indenture or in any Supplemental Master Indenture, provisions referred to in Section 31 6(a)(2) of the said Trust Indenture Act or any corresponding provision provided for in any similar statute subsequently effect;
6. to make any amendment to any provision of the Master Indenture to preserve the tax-exempt status of any tax-exempt obligations secured by Securities; and
7. to make any amendment to any provision of the Master Indenture which is only applicable to Securities issued thereafter or which will not apply so long as any Security then Outstanding remains Outstanding.

Supplemental Master Indentures With Consent of Holders of Securities. With the consent of the Holders (or, in the case of any Securities that are subject to a Credit Facility, or that are pledged to secure the repayment of other indebtedness that is subject to a Credit Facility, the Credit Enhancer with respect to such Securities unless the Credit Enhancer is in default in performance of its payment obligations with respect to such Credit Facility) of not less than a majority in principal amount of the Outstanding Securities, by act of said Holders (and such Credit Enhancer) delivered to the University and the Master Trustee, the University, when authorized by a Board Resolution, and the Master Trustee may enter into or consent to a Supplemental Master Indenture for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Master Indenture or of modifying in any manner the rights of the Holders of the Securities under the Master Indenture; provided, however, that no such Supplemental Master Indenture will, without the consent of the Holder of each Outstanding Security affected thereby,

1. change the Stated Maturity of the principal of, or any installment of interest on, any Securities or any date for mandatory redemption thereof, or reduce the principal amount thereof or the interest thereon or any premium payable upon the redemption thereof, or change the coin or currency in which, any Securities or the interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or, in the case of redemption, on or after the redemption date), or
2. reduce the percentage in principal amount of the Outstanding Securities, the consent of whose Holders is required for any such Supplemental Master Indenture, or the consent of whose Holders is required for any waiver (of compliance with certain provisions of the Master Indenture or certain defaults thereunder and their consequences) provided for in the Master Indenture, or
3. modify any of the provisions of this subheading or certain other provisions described in the Master Indenture, except to increase any such percentage or to provide that certain other provisions of the Master Indenture cannot be modified or waived without the consent of the Holder of each Security affected thereby, or
4. permit the preference or priority of any Security or Securities over any other Securities then Outstanding, or
5. modify the right of the Holders of not less than 25% of the aggregate principal amount of the Securities Outstanding to declare the principal amount of all Securities Outstanding to be due and payable as provided in the Master Indenture.

It is not necessary for any act of Holders (or Credit Enhancer) of Securities under this section to approve the particular form of any proposed Supplemental Master Indenture, but it shall be sufficient if such act of Holders (or Credit Enhancer) of Securities approves the substance thereof.

Satisfaction and Discharge of Master Indenture

If at any time the University has paid or caused to be paid the principal of (and premium, if any) and interest on all the Securities Outstanding under the Master Indenture, as and when the same has become due and payable, and if the University also pays or provides for the payment of all other sums payable by the University and has paid all of the Master Trustee's fees and expenses pursuant to the Master Indenture, then the Master Indenture will cease to be of further effect (except as to (i) rights of registration of transfer and exchange, (ii) substitution of mutilated, defaced or apparently destroyed, lost or stolen Securities, (iii) rights of Holders to receive payments of principal thereof (and premium, if any) and interest thereon and remaining obligations of the University to make mandatory sinking fund payments, (iv) the rights, remaining obligations, if any, and immunities of the Master Trustee under the Master Indenture, and (v) the rights of the Holders as beneficiaries of the Master Indenture with respect to the property so deposited with the Master Trustee payable to all or any of them) and the Master Trustee, on the University Request accompanied by an Officer's Certificate and an Opinion of Counsel to the effect that the conditions precedent to the satisfaction and discharge of the Master Indenture have been fulfilled and at the cost and expense of the University, will execute proper instruments acknowledging satisfaction of and discharging the Master Indenture.

Notwithstanding the satisfaction and discharge of the Master Indenture, certain provisions of the Master Indenture will survive.

Securities Deemed Paid. Any Securities of any series will be deemed to have been paid if (1) in case said Securities are to be redeemed on any date prior to their Stated Maturity, the University by University Request has given to the Master Trustee irrevocable instructions to give notice of redemption of such Securities on said redemption date, (2) there have been deposited with the Master Trustee either money sufficient, or Defeasance Obligations the principal of and the interest on which will provide money sufficient without reinvestment (as established by an Officer's Certificate delivered to the Master Trustee accompanied by a report of an Independent Accountant setting forth the calculations upon which such Officer's Certificate is based), to pay when due the principal of (and premium, if any) and interest due and to become due on said Securities on and prior to the Maturity thereof, and (3) in the event said Securities are not by their terms subject to redemption within the next 45 days, the University by University Request will give the Master Trustee irrevocable instructions to give a notice to the Holders of such Securities that the deposit required by (2) above has been made with the Master Trustee and that said Securities are deemed to have been paid in accordance with this provision and stating such Maturity date upon which moneys are to be available for the payment of the principal of (and premium, if any) and interest on said Securities.

Application of Trust Money. The Defeasance Obligations and money deposited with the Master Trustee pursuant to the Master Indenture and principal or interest payments on any such Defeasance Obligations are required to be held in trust, may not be sold or reinvested, and will be applied by it, in accordance with the provisions of the Securities and the Master Indenture, to the payment, either directly or through any paying agent as the Master Trustee may determine, to the Persons entitled thereto, of the principal (and premium, if any) and interest for whose payment such money or Defeasance Obligations were deposited; provided that, upon delivery to the Master Trustee of an Officer's Certificate (accompanied by the report of an Independent Accountant setting forth the calculations upon which such Officer's Certificate is based) establishing that the money and Defeasance Obligations on deposit following the taking of the proposed action will be sufficient for the purposes described in the Master Indenture, any money received from principal or interest payments on Defeasance Obligations deposited with the Master Trustee or the proceeds of any sale of such Defeasance Obligations, if not then needed for such purpose, will, upon University Request be reinvested in other Defeasance Obligations or disposed of as requested by the University. For purposes of any calculation required by this section, any Defeasance Obligation which is subject to redemption at the option of its issuer, the redemption date for which has not been irrevocably established as of the date of such calculation, shall be assumed to cease to bear interest at the earliest date on which such obligation may be redeemed at the option of the issuer thereof and the principal of such obligation shall be assumed to be received at its stated maturity.

Compliance Certificates and Reports

Whenever the amount or date of any of the following is a condition to the taking of any action permitted under the Master Indenture, (1) any of: (A) the amount of net unrestricted assets and temporarily restricted net assets of any Persons, (B) principal of any Debt or the maximum annual debt service with respect to any Debt, and (C) book value of any assets, are required to be established by an Officer's Certificate of the University stating the amount of such item and that such amounts have been derived or calculated from the most recent financial statements of the University delivered to the Master Trustee, or from the books and records of the University and that such books and records have been maintained in compliance with certain sections of the Master Indenture; and (2) the current value of any properties of any Person will be established by an Officer's Certificate which states: (A) the appraised value of the properties of such Person for which an appraisal is attached to such Officer's Certificate, (B) the aggregate book value of all other properties of such Person, and (C) that such aggregate book value does not exceed by more than 5% the aggregate current value of all such other unappraised properties and which is accompanied by one or more written appraisals made by Independent Persons experienced in appraising the value of similar properties stating such Person's opinion of the value of such appraised property as of a date not more than two years preceding the date such Officer's Certificate is delivered to the Master Trustee.

All calculations required to be made under the Master Indenture with respect to any Person are required to be made after elimination of intercompany items on a combined basis. The character or amount of any asset, liability or item of income or expense required to be determined or any consolidation, combination or other accounting computation required to be made for the purposes of the Master Indenture, is required to be determined

or made in accordance with generally accepted accounting principles at the time in effect, and except where such principles are inconsistent with the requirements of the Master Indenture. The Trustee has no duty to verify such calculations or information set forth in any such Officer's Certificate.

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APPENDIX D

PROPOSED FORM OF OPINION OF BOND COUNSEL

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[Closing Date]

Southwest Higher Education Authority, Inc.
3800 University Boulevard
P.O. Box 8005
Dallas, Texas 75205-0005

The Bank of New York Mellon Trust Company,
National Association, as Trustee
601 Travis Street, 16th Floor
Houston, Texas 77002

Ladies and Gentlemen:

We have represented the Southwest Higher Education Authority, Inc. (the "Issuer") as its bond counsel in connection with the issuance by the Issuer of its Higher Education Revenue Bonds (Southern Methodist University Project) Series 2009 (the "Series 2009 Bonds"). The Series 2009 Bonds are issued pursuant to a Trust Indenture dated as of January 1, 1999 as supplemented by a First Supplemental Indenture dated as of January 1, 1999, a Second Supplemental Indenture dated as of July 1, 2002, a Third Supplemental Indenture dated as of December 1, 2003, a Fourth Supplemental Indenture dated as of February 1, 2007, and a Fifth Supplemental Indenture dated as of September 15, 2009 (collectively, the "Indenture"), between the Issuer and The Bank of New York Mellon Trust Company, National Association (successor in trust to JPMorgan Chase Bank, formerly known as The Chase Manhattan Bank, successor by merger to Chase Bank of Texas, National Association), as Trustee (the "Trustee"). The proceeds of the Series 2009 Bonds will be loaned by the Issuer to Southern Methodist University (the "University"), a Texas non-profit corporation, pursuant to a Loan Agreement dated as of January 1, 1999 as amended by an Amendment Number 1 to Loan Agreement dated as of January 1, 1999, an Amendment Number 2 to Loan Agreement dated as of July 1, 2002, an Amendment Number 3 to Loan Agreement dated as of December 1, 2003, an Amendment No. 4 to Loan Agreement dated as of February 1, 2007, and an Amendment No. 5 to Loan Agreement dated as of September 15, 2009 (collectively, the "Loan Agreement"), between the Issuer and the University. Under the Loan Agreement, the University has agreed to make payments to or for the account of the Issuer in amounts necessary to pay when due the principal of and premium (if any) and interest on the Series 2009 Bonds. Such payments and other revenues under the Loan Agreement and the rights of the Issuer under the Loan Agreement (except certain rights to indemnification, reimbursements and administrative fees) are pledged and assigned by the Issuer under the Indenture to the Trustee as security for the Series 2009 Bonds. Capitalized terms not otherwise defined herein have the meanings assigned to such terms in the Indenture and Loan Agreement. The Series 2009 Bonds are payable solely from the Trust Estate. The

Loan Agreement is issued and authenticated as a "Security" under a Master Trust Indenture dated as of January 1, 1999 (the "Master Indenture"), between the University and The Bank of New York Mellon Trust Company, National Association (successor in trust to JPMorgan Chase Bank, formerly known as The Chase Manhattan Bank, successor by merger to Chase Bank of Texas, National Association), as master trustee.

Reference is made to an opinion of even date herewith of Paul J. Ward, General Counsel to the University, with respect to, among other matters, the corporate status, good standing and qualification to do business of the University, the corporate power of the University to enter into and perform its obligations under the Loan Agreement and its authorization, execution, delivery, binding effect and enforceability.

We have not undertaken to review the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Series 2009 Bonds or the University and we express no opinion relating thereto (except to the extent stated in the Official Statement and in a supplemental opinion of even date herewith addressed to the Issuer, the Trustee and Master Trustee and the Underwriters).

As to questions of fact material to our opinion, we have relied upon representations of the Issuer and the University contained in the Loan Agreement, a certain escrow agreement (the "Escrow Agreement") between the University and The Bank of New York Mellon Trust Company, National Association, as escrow agent (the "Escrow Agent"), a certificate (the "Sufficiency Certificate") of the Trustee certifying as to the sufficiency of the deposits made with the Escrow Agent for the defeasance of the Issuer's Higher Education Revenue Bonds (Southern Methodist University Project) Series 1999 D (the "Refunded Bonds"), certified proceedings furnished to us by or on behalf of the Issuer and the University and certain public officials, and such certificates from officers and representatives of the Issuer and the University, and from public officials, as we have deemed necessary, without undertaking to verify the same by independent investigation. We have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

Based upon the foregoing and subject to the assumptions, qualifications and limitations set forth herein, we are of the opinion that, under existing law:

1. The Issuer is validly existing as a nonprofit corporation created pursuant to Chapter 53, Texas Education Code, as amended effective on September 1, 2005 and recodified as Chapters 53, 53A and 53B, particularly Section 53A.35(b) thereof, and has the corporate power to enter into and perform the obligations under the Indenture and the Loan Agreement and to issue the Series 2009 Bonds.
2. The Indenture and the Loan Agreement have each been duly authorized, executed and delivered by the Issuer, each is a valid and binding obligation of

the Issuer, and, subject to the qualifications stated below, each is enforceable upon the Issuer. The Indenture creates a valid security interest in the Trust Estate including the rights of the Issuer in and to the Loan Agreement (except certain rights to indemnification, reimbursements and administrative fees) on a parity with other bonds issued or to be issued under the Indenture.

3. The Series 2009 Bonds have been duly authorized, executed and delivered by the Issuer and are valid and binding limited obligations of the Issuer, payable, together with other bonds issued or to be issued under the Indenture, solely from the Trust Estate.
4. Interest on the Series 2009 Bonds is excludable from gross income for federal income tax purposes under existing law.
5. The Series 2009 Bonds are "qualified 501(c)(3) bonds" within the meaning of section 145 of the Internal Revenue Code of 1986, as amended (the "Code"), and interest on the Series 2009 Bonds is not subject to the alternative minimum tax on individuals and corporations, except that interest on the Series 2009 Bonds will be included in the "adjusted current earnings" of a corporation (other than any S corporation, regulated investment company, REIT, REMIC or FASIT) for purposes of computing its alternative minimum tax.
6. Firm banking and financial arrangements have been made for the discharge and final payment of the Refunded Bonds pursuant to the Escrow Agreement and, therefore, the Refunded Bonds are deemed to be fully paid and no longer outstanding except for the purpose of being paid from the funds provided therefor in the Escrow Agreement.

In rendering the opinions expressed in paragraphs 4 and 5 above, we have relied on, among other things, the opinion of Paul J. Ward, General Counsel to the University, as to the status of the University as an organization described in Section 501(c)(3) of the Code, and certificates signed by officers of the Issuer, the University, the Underwriters and First Southwest Company (the "Financial Advisor") with respect to certain material facts, estimates and expectations that are solely within the knowledge of the Issuer, the University, the Underwriters and the Financial Advisor, which we have not independently verified. In addition, in rendering the opinions set forth in paragraphs 4 and 5, we have assumed continuing compliance with the covenants in the Loan Agreement and the Indenture pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Series 2009 Bonds for federal income tax purposes. Further, we relied on the Sufficiency Certificate with regard to the opinion expressed in paragraph 6 above. If such representations or certificates are determined to be inaccurate or incomplete or the University or the Issuer fail to comply with such covenants, interest on the Series 2009 Bonds could

become includable in gross income from the date of their original delivery, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, we 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 2009 Bonds.

Owners of the Series 2009 Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain 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, individuals 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 of America 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 2009 Bonds).

The opinions set forth above are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given regarding whether or not the Service will commence an audit of the Series 2009 Bonds. If an audit is commenced, in accordance with its current published procedures, the Service is likely to treat the Issuer as the taxpayer.

We express no opinion as to the creation, priority or perfection of the security interest granted by the University in the "Trust Estate" (as defined in the Master Indenture). We call your attention, however, to the facts that: (1) the security interest granted by the University in the "Trust Estate" (as defined in the Master Indenture) to the Master Trustee named in the Master Indenture to secure payment of the Loan Agreement as a "Security" (as defined in the Master Indenture) also secures on a parity basis all other Securities issued and currently outstanding thereunder and all future Securities that may hereafter be issued; (2) the Master Indenture allows the University to grant a security interest in the "Trust Estate" (as defined in the Master Indenture) that may under certain circumstances as provided in the Master Indenture be superior to the security interest in such Trust Estate securing payment of the Securities; (3) subject to certain limitations, the Master Indenture allows additional Securities

to be issued by the University from time to time pursuant to the provisions of the Master Indenture; (4) the security interest granted by the University in the unrestricted receivables of the University pursuant to granting clause First of the Master Indenture, for the benefit of all Securities issued under the Master Indenture, will terminate by its terms at such time as the Securities securing the Variable Rate Demand Higher Education Revenue Bonds (Southern Methodist University Project) Refunding Series 1985 are paid or their payment provided for pursuant to the terms of the Master Indenture.

It is to be understood that the rights of the holders of the Series 2009 Bonds under the Indenture and the Loan Agreement and the enforceability of the Series 2009 Bonds, the Indenture and the Loan Agreement are subject to bankruptcy (including the equitable discretion of bankruptcy courts), insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted, that their enforcement may be limited by general principles of equity (regardless of whether considered in proceedings, in equity or at law), including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing and the possible unavailability of specific performance and that the security interest created by the Indenture may be limited by federal laws that preempt the application of Section 1208 of the Texas Government Code.

This opinion speaks only as of its date and only in connection with the Series 2009 Bonds and may not be applied to any other transaction. Further, this opinion is specifically limited to the laws of the State of Texas and, to the extent applicable, to the laws of the United States of America.

Very truly yours,

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APPENDIX E

BOOK-ENTRY SYSTEM

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BOOK-ENTRY SYSTEM

AS LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE SERIES 2009 BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE "HOLDERS," THE "BONDHOLDERS," OR THE "OWNERS OF THE SERIES 2009 BONDS" SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNER OF THE SERIES 2009 BONDS. WHEN REFERENCE IS MADE TO ANY ACTION WHICH IS REQUIRED OR PERMITTED TO BE TAKEN BY SUCH BENEFICIAL OWNER, SUCH REFERENCE ONLY RELATES TO ACTION BY SUCH BENEFICIAL OWNER OR THOSE PERMITTED TO ACT (BY STATUTE, REGULATION, OR OTHERWISE) ON BEHALF OF SUCH BENEFICIAL OWNER FOR SUCH PURPOSES.

The Issuer, the Trustee and the Underwriters cannot and do not give any assurances that DTC will distribute to its Participants or that Direct Participants or Indirect Participants will distribute to Beneficial Owners of the Series 2009 Bonds (i) payments of the principal of, or interest or premium, if any, on the Series 2009 Bonds, or (ii) confirmation of ownership interests in the Series 2009 Bonds, or (iii) redemption or other notices, or that they will do so on a timely basis, or that DTC, Direct Participants or Indirect Participants will serve and act in the manner described in this Official Statement. The current "rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "procedures" of DTC to be followed in dealing with its Participants are on file with DTC.

THE ISSUER, THE TRUSTEE, AND THE UNDERWRITERS WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC, TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (A) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT; (B) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE SERIES 2009 BONDS; (C) ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO BONDHOLDERS UNDER THE INDENTURE; (D) THE SELECTION OF BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE SERIES 2009 BONDS; OR (E) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT.

General Provisions

The following information concerning The Depository Trust Company, New York, New York ("DTC") and its book-entry system has been furnished for use in this Official Statement by DTC. The Issuer, the University, the Underwriters and the Trustee take no responsibility for the accuracy or completeness of such information.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Series 2009 Bonds (the "Series 2009 Bonds"). The Series 2009 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each maturity of the Series 2009 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC

is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("*Indirect Participants*"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Series 2009 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2009 Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("*Beneficial Owner*") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2009 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2009 Bonds, except in the event that use of the book-entry system for the Series 2009 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2009 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2009 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2009 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2009 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2009 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2009 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the documents. For example, Beneficial Owners of Series 2009 Bonds may wish to ascertain that the nominee holding the Series 2009 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2009 Bonds of a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2009 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2009 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions and dividend payments on the Series 2009 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Issuer or the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee, or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized

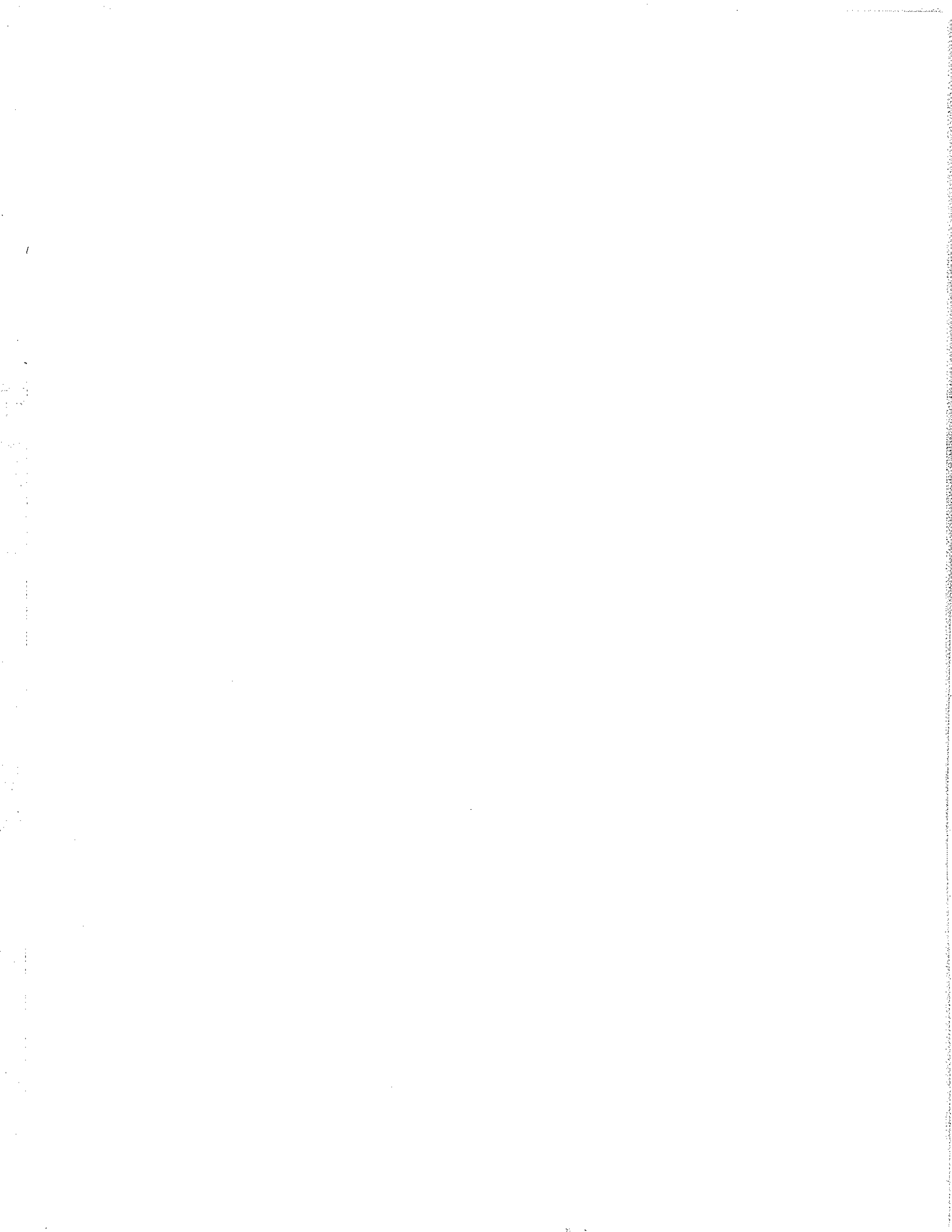
representative of DTC) is the responsibility of the Issuer or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2009 Bonds at any time by giving reasonable notice to the Issuer or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, certificates for the Series 2009 Bonds are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, certificates for the Series 2009 Bonds will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Issuer believes to be reliable, but the Issuer takes no responsibility for the accuracy thereof.

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