OFFICIAL STATEMENT DATED NOVEMBER 30, 2017

NEW ISSUE
BOOK-ENTRY ONLY

RATINGS
S&P: AA-
Fitch: AA-
See "RATINGS" herein.

In the opinion of Bracewell LLP, Bond Counsel, under existing law, interest on the Series 2017 Bonds (defined below) is excludable from gross income for federal income tax purposes and the Series 2017 Bonds are "qualified 501(c)(3) bonds" under the Code (as defined herein), and interest on the Series 2017 Bonds will not be subject to the alternative minimum tax on individuals. See ***"TAX MATTERS—SERIES 2017 BONDS"*** *herein for a discussion of Bond Counsel's opinion, including a description of alternative minimum tax consequences for corporations. THE SERIES 2017 BONDS WILL NOT BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.*

SOUTHERN METHODIST UNIVERSITY

$95,735,000
SOUTHWEST HIGHER EDUCATION AUTHORITY, INC.
Higher Education Revenue Refunding Bonds
(Southern Methodist University Project)
Series 2017

Dated: Date of Delivery

Due: October 1, as shown below

The Southwest Higher Education Authority, Inc. (the "*Issuer*") is offering $95,735,000 of its Higher Education Revenue Refunding Bonds (Southern Methodist University Project) Series 2017 (the "*Series 2017 Bonds*"). Interest on the Series 2017 Bonds accrues from the date of delivery and is payable on April 1, 2018, and semiannually on each October 1 and April 1 thereafter. The Series 2017 Bonds are 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 2017 Bonds. So long as the book-entry system is in effect, purchases of beneficial ownership interests in the Series 2017 Bonds will be made in book-entry form only and purchasers will not receive certificates representing their interests in the Series 2017 Bonds purchased. Principal of, any redemption price for, and interest on the Series 2017 Bonds will be payable by The Bank of New York Mellon Trust Company, National Association (the "*Trustee*") to the registered owners of the Series 2017 Bonds, initially to DTC, which in turn is to remit such payments to its participants for subsequent disbursement to beneficial owners.

The Series 2017 Bonds are subject to optional and mandatory redemption prior to stated maturity, as described herein. See **"THE SERIES 2017 BONDS—REDEMPTION"** herein.

The payment of the principal of, redemption premium, if any, and interest on the Series 2017 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 Trust Indenture, described herein, which further secures the University's obligations under the Loan Agreement.

CUSIP PREFIX: 845040
MATURITY SCHEDULE & 9 DIGIT CUSIP
See Schedule on Page ii

BofA Merrill Lynch **J.P. Morgan**

BOK Financial Securities, Inc. **Wells Fargo Securities**

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 2017 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 2017 BONDS. THE ISSUER HAS NO TAXING POWER.

Series 2017 Bonds
Maturity Schedule
$95,735,000 Serial Bonds

Due Oct. 1	Amount	Interest Rate	Yield	Price	CUSIPs[1]	Due Oct. 1	Amount	Interest Rate	Yield	Price	CUSIPs[1]
2021	$2,715,000	5.000%	1.900%	111.254	LJ1	2032	$4,705,000	5.000%	2.830%	118.422[2]	LV4
2022	2,855,000	5.000%	2.000%	113.609	LK8	2033	4,895,000	3.250%	3.370%	98.537	LW2
2023	3,005,000	5.000%	2.100%	115.705	LL6	2034	5,085,000	4.000%	3.240%	106.323[2]	LX0
2024	3,155,000	5.000%	2.220%	117.407	LM4	2035	5,290,000	4.000%	3.310%	105.721[2]	LY8
2025	3,315,000	5.000%	2.330%	118.896	LN2	2036	5.510,000	4.000%	3.340%	105.464[2]	LZ5
2026	3,485,000	5.000%	2.430%	120.207	LP7	2037	5,735,000	4.000%	3.370%	105.208[2]	MA9
2027	3,665,000	5.000%	2.530%	121.278	LQ5	2038	5,965,000	4.000%	3.390%	105.037[2]	MB7
2028	3,855,000	5.000%	2.620%	120.413[2]	LR3	2039	6,245,000	5.000%	3.070%	116.195[2]	MC5
2029	4,050,000	5.000%	2.690%	119.745[2]	LS1	2040	6,565,000	5.000%	3.080%	116.103[2]	MD3
2030	4,260,000	5.000%	2.750%	119.176[2]	LT9	2041	6,900,000	5.000%	3.090%	116.011[2]	ME1
2031	4,480,000	5.000%	2.800%	118.704[2]	LU6						

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 2017 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 Bracewell LLP, 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, Vice President for Legal Affairs and Government Relations and Secretary, and for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P., Dallas, Texas. Hilltop Securities, Inc. ("*Hilltop Securities*") is serving as Financial Advisor to the University. It is expected that the Series 2017 Bonds will be delivered through the facilities of DTC on or about December 20, 2017.

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[1] CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services.

[2] Priced to the first optional call date of October 1, 2027.

No dealer, salesman or any 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 in this Official Statement and the Appendices hereto in connection with the offering described herein and, if given or made, such other information or representation must not be relied upon. This Official Statement does not constitute an offer to sell the Series 2017 Bonds or a solicitation of an offer to buy, nor shall there be any sale of the Series 2017 Bonds by any person in any state or other jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale.

The information set forth herein under the caption "THE ISSUER" has been furnished by the Issuer. All other information contained in this Official Statement has been obtained from the University and other sources believed to be reliable. Such other information is not guaranteed as to accuracy or completeness by, and is not to be relied upon or construed as a promise or representation by, the Issuer. The Bank of New York Mellon Trust Company, National Association, in each of its capacities, including but not limited to Bond Trustee, Master Trustee, bond registrar and paying agent, has not participated in the preparation of this Official Statement and assumes no responsibility of any kind for its content.

This Official Statement is submitted in connection with the sale of securities referred to herein and may not be used, in whole or in part, for any other purpose. The information and expressions of opinion set forth 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 Issuer, the University or any other person since the date of the information set forth herein. This Official Statement does not constitute a contract among or between the Issuer, the University or the Underwriters and any purchaser of the Series 2017 Bonds.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors, under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information ..

References to web site addresses herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not a part of, this Official Statement.

The Series 2017 Bonds have not been registered with the Securities and Exchange Commission under the Securities Act of 1933, as amended. No registration, qualification or exemption of the Series 2017 Bonds in accordance with the applicable securities laws of any jurisdiction should be regarded as a recommendation thereof. No jurisdiction or agency has guaranteed or passed upon the safety of the Series 2017 Bonds as an investment, upon the probability of any earnings thereon or upon the accuracy or adequacy of this Official Statement.

There are risks associated with the purchase of the Series 2017 Bonds. For a discussion of certain of these risks, see "BONDHOLDERS, RISKS" herein.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2017 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE SERIES 2017 BONDS TO CERTAIN DEALERS AT PRICES LOWER THAN THE OFFERING PRICES RESULTING FROM THE YIELDS STATED ON THE INSIDE COVER PAGE HEREOF, AND SAID OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS WITHOUT NOTICE.

THE COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY AND IS NOT INTENDED AS A SUMMARY OF THIS OFFERING. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL ATTACHED APPENDICES, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

This Official Statement contains "forward-looking statements," which generally can be identified with words or phrases such as "anticipates," "believes," "could," "estimates," "expects," "foresees," "may," "plan," "predict," "should," "will" or other words or phrases of similar import. All statements included in this Official Statement that any person expects or anticipates will, should or may occur in the future are forward-looking statements. These statements are based on assumptions and analyses made by the University in light of its experience and perception of historical trends, current conditions and expected future developments as well as other factors it believes are appropriate in the circumstances. However, whether actual results and developments conform with expectations and predictions is subject to a number of risks and uncertainties, including, without limitation, the information discussed under "BONDHOLDERS' RISKS" in this Official Statement as well as additional factors beyond the University's and the Issuer's control. The important risk factors and assumptions described under that caption and elsewhere herein could cause actual results to differ materially from those expressed in any forward-looking statement. All of the forward-looking statements made in this Official Statement are qualified by these cautionary statements. There can be no assurance that the actual results or developments anticipated will be realized or, even if substantially realized, that they will have the expected consequences to or effects on the University's business or operations. All subsequent forward-looking statements attributable to the University or the Issuer or persons acting on their behalf are expressly qualified in their entirety by the factors and assumptions described above and in any documents containing those forward-looking statement. No person has any obligation to prepare or release any updates or revisions to any forward-looking statement.

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OFFICIAL STATEMENT

$95,735,000
Southwest Higher Education Authority, Inc.
Higher Education Revenue Refunding Bonds
(Southern Methodist University Project)
Series 2017

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 2017 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 Trust 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 2017 Bonds, you may obtain a copy of the documents described herein by contacting FirstSouthwest at the following address or phone number to request a free copy: 1201 Elm Street, Suite 3500, Dallas, Texas 75270, (214) 953-4000. After delivery of the Series 2017 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 $95,735,000 aggregate principal amount of Higher Education Revenue Refunding Bonds (Southern Methodist University Project) Series 2017 (the "*Series 2017 Bonds*"), issued by the Southwest Higher Education Authority, Inc. (the "*Issuer*") pursuant to the Higher Education Authority Act, Chapter 53A of the Texas Education Code, as amended (the "*Act*").

The Series 2017 Bonds

The Series 2017 Bonds bear interest at the fixed rates set forth on the inside cover pages hereto and are payable semiannually on April 1 and October 1, beginning April 1, 2018. The Series 2017 Bonds are subject to optional and mandatory redemption. See **"THE SERIES 2017 BONDS–REDEMPTION"** herein.

Use of Proceeds

The proceeds of the sale of the Series 2017 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 purposes of: (i) refunding a portion of the Issuer's Higher Education Revenue Refunding Bonds (Southern Methodist University Project) Series 2010 (the "*Refunded Bonds*"), and (ii) paying certain costs of issuance of the Series 2017 Bonds. See **SCHEDULE I-SCHEDULE OF REFUNDED BONDS.** See **"PLAN OF FINANCE"** herein.

THE UNIVERSITY

The University owns and operates a private institution of higher education located primarily in University Park, Texas, a city that, with the adjacent Town of Highland Park, is surrounded by the City of Dallas, Texas. For Fall 2017, total enrollment was 11,739 and full-time equivalent was 10,294 students. For additional information regarding the University, see **APPENDIX A, "INFORMATION CONCERNING SOUTHERN METHODIST UNIVERSITY."**

OUTSTANDING OBLIGATIONS OF THE UNIVERSITY

Obligations of Issuer on Behalf of the University

	AMOUNT ORIGINALLY ISSUED	AMOUNT OUTSTANDING, INCLUDING SERIES 2017 BONDS
Higher Education Revenue Bonds (Southern Methodist University Project) Series 2007 (the "*Series 2007 Bonds*")	$ 95,580,000	$ 19,610,000
Higher Education Revenue Bonds (Southern Methodist University Project) Series 2009 (the "*Series 2009 Bonds*")	147,635,000	15,535,000
Higher Education Revenue Bonds (Southern Methodist University Project) Series 2010 (the "*Series 2010 Bonds*")	116,330,000	7,810,000[(1)]
Higher Education Revenue Bonds (Southern Methodist University Project) Tax-Exempt Series 2013A (the "*Series 2013A Bonds*")	99,195,000	99,195,000
Higher Education Revenue Bonds (Southern Methodist University Project) Taxable Series 2013B (the "*Series 2013B Bonds*")	90,090,000	70,810,000
Higher Education Revenue Bonds (Southern Methodist University Project) Tax-Exempt Series 2016A (the "*Series 2016A Bonds*")	118,545,000	118,545,000
Higher Education Revenue Bonds (Southern Methodist University Project) Taxable Series 2016B (the "*Series 2016B Bonds*")	25,250,000	25,250,000
UMB Bank Loan (the "*UMB Loan*")	48,860,000	43,105,000
Higher Education Revenue Refunding Bonds (Southern Methodist University Project) Series 2017 (the "*Series 2017 Bonds*")	95,735,000	95,735,000
TOTAL:	$837,220,000	$495,595,000

(1) The Series 2010 Bonds in principal amount of $99,490,000 are being refunded by the Series 2017 Bonds. See SCHEDULE I – Schedule of Refunded Bonds.

OTHER OBLIGATIONS OF THE UNIVERSITY

Series 2017 Taxable Notes. The University expects to enter into a Note Purchase Agreement (the "*Note Purchase Agreement*"), dated December 15, 2017, with New York Life Insurance Company and related affiliates with respect to $100 million of taxable notes (the "*Series 2017 Taxable Notes*") of the University. Principal of the Series 2017 Taxable Notes amortizes annually beginning in 2018 and have a final maturity in 2046. The Series 2017 Taxable Notes are general, unsecured obligations of the University. The Series 2017 Taxable Notes are not issued pursuant to the Master Trust Indenture and are, therefore, not "Securities" but are "Funded Debt" under the Master Trust Indenture. Pursuant to the Note Purchase Agreement, holders of the Series 2017 Taxable Notes have certain rights, including the right of acceleration upon the occurrence of an "Event of Default" under the Note Purchase Agreement. An "Event of Default" under the Note Purchase Agreement is not an "Event of Default" under the Master Trust Indenture. **As a consequence, even though the Series 2017 Bonds and the Series 2017 Taxable Notes are both unsecured, general obligations of the University, upon an "Event of Default" under the Note Purchase Agreement, payment of the Series 2017 Taxable Notes may be accelerated while the Series 2017 Bonds remain outstanding.** (See **"SOURCES OF PAYMENT AND SECURITY FOR THE BONDS – Enforceability of Remedies."**)

University Guaranties of Certain Debt. The University has entered into loan guarantees (the "*Guarantees*") for five sororities that are located on University-owned land pursuant to long-term ground lease agreements. These sororities have entered into loans with commercial banks for the construction and/or improvement of sorority housing, and the University has agreed to guarantee the payment of the loans. The Guaranties are not Securities under the Master Trust Indenture, but constitute "Fund Debt" thereunder. The amount of outstanding Sorority Guarantees as of the date hereof is approximately $12.56 million.

Revolving Credit Agreement. The University has previously entered into a revolving credit facility in the amount of $25 million with the Bank of Texas (the "*Revolving Credit Agreement*"). The University expects to renew the Revolving Credit Agreement through November, 2018. The Revolving Credit Agreement is a Security under the Master Trust Indenture. As of the date hereof, no funds have been drawn under the Revolving Credit Agreement.

THE SERIES 2017 BONDS

General

The Series 2017 Bonds will be dated the date of delivery ("*Date of Delivery*") and will be issuable in the amounts and with the maturity dates set forth on the cover pages of this Official Statement. Interest on the Series 2017 Bonds will accrue from the Date of Delivery at the rates per annum and will be payable on the dates set forth on the cover pages of this Official Statement. Interest on the Series 2017 Bonds will be calculated on the basis of a 360-day year of twelve 30-day months.

The Series 2017 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 2017 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 2017 Bond will be payable to the Owner upon surrender of such Series 2017 Bond at the principal payment office of the Trustee located in Houston, Texas. Interest on each Series 2017 Bond paid on each Interest Payment Date will be paid to the person in whose name such Series 2017 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 2017 Bonds, all payments on Series 2017 Bonds will be made directly to DTC.

Any interest on the Series 2017 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 of the Series 2017 Bonds. The Series 2017 Bonds maturing on and after October 1, 2028 are subject to redemption upon the 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, 2027 at a redemption price of 100% of the principal amount of the Series 2017 Bonds to be redeemed, plus accrued interest to the applicable redemption date.

Notice of Redemption. The Trustee shall give notice of any redemption of the Series 2017 Bonds by first class mail, postage prepaid, mailed at least 30 days prior to the redemption date, to holders of Series 2017 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 2017 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 2017 Bonds to be redeemed, and if less than all outstanding Series 2017 Bonds are to be redeemed, the identification by CUSIP number and Stated Maturity Date of the Series 2017 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 2017 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 with respect to an optional 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 2017 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 2017 Bonds or the Indenture.

Selection of Series 2017 Bonds to be Redeemed. Series 2017 Bonds may be redeemed only in $5,000 principal amounts or integral multiples thereof. If less than all of the Series 2017 Bonds are to be optionally redeemed, the particular maturities from which they are to be redeemed and the amounts thereof shall be selected by the University and if less than all of the outstanding principal amount of the Series 2017 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 2017 Bonds to be redeemed within each such stated maturity of such Series 2017 Bonds; **provided that, for so long as the only owner of the Series 2017 Bonds is DTC, the selection of Series 2017 Bonds within a stated maturity will be made by DTC.**

SOURCES OF PAYMENT AND SECURITY FOR THE BONDS

General

The Series 2017 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 (defined below), 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 (including the Series 2017 Bonds) when due and the Issuer's rights as a holder of a Security under the Master Trust Indenture. See, **"The Indenture and the Loan Agreement"** and **"Master Trust Indenture"** below 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 2017 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 2017 BONDS. THE ISSUER HAS NO TAXING POWER.

The Indenture and the Loan Agreement

The Series 2017 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 (the "*Trustee*"), as supplemented by the Fourth Supplemental Indenture (the "*Fourth Supplemental Indenture*") dated as of February 1, 2007, the Fifth Supplemental Indenture (the "*Fifth Supplemental Indenture*") dated as of September 15, 2009, the Sixth Supplemental Indenture (the "*Sixth Supplemental Indenture*") dated as of October 15, 2010, the Seventh Supplemental Indenture (the "*Seventh Supplemental Indenture*"), dated as of March 1, 2013, the Eighth Supplemental Indenture (the "*Eighth Supplemental Indenture*") dated as of May 1, 2016 and the Ninth Supplemental Indenture dated as of December 1, 2017 ("*Ninth Supplemental Indenture*") (collectively, with any amendments or supplements thereto, the "*Indenture*"). The Series 2007 Bonds were issued under the Fourth Supplemental Indenture, the Series 2009 Bonds were issued under the Fifth Supplemental Indenture, the Series 2010 Bonds were issued under the Sixth Supplemental Indenture, the Series 2013A Bonds and Series 2013B Bonds were issued under the Seventh Supplemental Indenture, the Series 2016A Bonds and the Series 2016B Bonds issued under the Eighth Supplemental Indenture and the Series 2017 Bonds are being issued under the Ninth Supplemental

Indenture. The Indenture secures the Series 2017 Bonds on a parity with the Series 2007 Bonds, the Series 2009 Bonds, the Series 2010 Bonds, the Series 2013A Bonds and the Series 2013B Bonds, the Series 2016A Bonds, the Series 2016B Bonds, and any other future bonds ("*Additional Bonds*") which may be issued from time to time under the Indenture. The Series 2007 Bonds, the Series 2009 Bonds, the Series 2010 Bonds, the Series 2013A Bonds, and the Series 2013B Bonds, the Series 2016A Bonds, the Series 2016B Bonds, the Series 2017 Bonds and any Additional Bonds are referred to herein collectively as the "*Bonds*."

The proceeds of the Series 2017 Bonds will be loaned to the University pursuant to the Loan Agreement dated as of January 1, 1999 (the "*Original Loan Agreement*"), as amended by an Amendment Number 4 to Loan Agreement ("*Amendment No. 4*") dated as of February 1, 2007, an Amendment Number 5 to Loan Agreement ("*Amendment No. 5*") dated as of September 15, 2009, an Amendment Number 6 to Loan Agreement ("*Amendment No. 6*") dated as of October 15, 2010, an Amendment Number 7 to the Loan Agreement ("*Amendment No. 7*") dated as of March 1, 2013, an Amendment Number 8 to Loan Agreement ("*Amendment No. 8*") dated as of May 1, 2016, and Amendment Number 9 to Loan Agreement ("*Amendment No. 9*) dated as of December 1, 2017 (collectively, with any amendments or supplements thereto, the "*Loan Agreement*"). The obligation of the University to make loan payments with respect to the Series 2017 Bonds is established by Amendment No. 9. 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 2017 Bonds).

Under the Indenture, the Issuer has assigned and pledged to the Trustee as security for the payment of the Bonds, including the Series 2017 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 Trust 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 2017 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 and the loan payments under the UMB Bank Loan Agreement constitute general obligations of the University. The source of payment for the loan payments is not limited to any particular revenue stream. See **"SOURCES OF PAYMENT AND SECURITY FOR THE BONDS – Security Interest, - Enforceability of Remedies."**

Master Trust Indenture

In 1999, the University reorganized the structure of its obligations with respect to certain outstanding bonded indebtedness by entering into the Master Trust Indenture, which provides a coherent security structure related to the "Prior Bonds" and any other future indebtedness or obligations of the University that are designated as a Security under the Master Trust Indenture ("*Additional Securities*"). The Original Loan Agreement, as amended by Amendment No. 4, by Amendment No. 5, by Amendment No. 6, by Amendment No. 7, by Amendment No. 8, by Amendment No. 9, the UMB Loan Agreement and the Revolving Credit Agreement are on a parity as "Additional Securities" under the Master Trust Indenture together with future obligations designated as a Security under the Master Trust Indenture.

Under the Master Trust 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. **However, all of such limitations with respect to Funded Debt and all limitations with respect to granting mortgages and other encumbrances on University Property have been eliminated pursuant to a First Supplement to Master Trust Indenture (the "*First Supplement*"). The provisions of the First Supplement will be effective upon its approval by the holders of a majority of the principal amount of the Securities outstanding in the Master Trust Indenture. The purchasers of the Series 2017 Bonds are deemed to have consented to the First Supplement. Upon delivery of the Series 2017 Bonds, the holders of approximately 46% of the principal amount of outstanding "Securities" will have given such consent. The University anticipates that with the renewal of the Revolving Credit**

Agreement it will achieve the consents necessary for the effectiveness of the First Supplement. See **"Other Indebtedness"** below, **"SOURCES OF PAYMENT AND SECURITY FOR THE BONDS – Security Interest, -Enforceability of Remedies,"** and **APPENDIX C, "SUMMARY OF PRINCIPAL DOCUMENTS—THE MASTER TRUST INDENTURE—Covenants of the University."** Pursuant to the provisions of the Master Trust Indenture, a breach of any of the covenants the University made or that may be made under (i) the various agreements relating to the Bonds, (ii) the UMB Bank Loan Agreement, (iii) the Revolving Credit Agreement, and (iv) any agreements entered into in connection with any Additional Securities, will constitute a default under the Master Trust Indenture so long as the obligation or indebtedness to which the covenant relates remains outstanding. However, the University may incur debt that is not a "Security" under the Master Trust Indenture. Any event of default with respect to such debt would not be an "Event of Default" under the Master Trust Indenture and could result in such debt being accelerated while "Securities" under the Master Trust Indenture remain outstanding. See **"OUTSTANDING OBLIGATIONS OF THE UNIVERSITY – Other Obligations of the University – Series 2017 Taxable Notes"** and **"EVENTS OF DEFAULT."** See **"SOURCES OF PAYMENT AND SECURITY FOR THE BONDS – Security Interest, -Enforceability of Remedies,"** and **APPENDIX C, "SUMMARY OF PRINCIPAL DOCUMENTS—THE MASTER TRUST 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 Trust 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 Trust Indenture. See **"OTHER INDEBTEDNESS"** below. Any Additional Bonds issued under the Indenture will be secured by the collateral pledged under the Master Trust Indenture on a parity with the Series 2007 Bonds, the Series 2009 Bonds, the Series 2010 Bonds, the Series 2013A Bonds, the Series 2013B Bonds, the Series 2016A Bonds, the Series 2016B Bonds, the Series 2017 Bonds, the UMB Loan, the Revolving Credit Agreement, and any other obligations designated as Securities under the Master Trust Indenture.

Other Indebtedness

The Master Trust Indenture limits the University's ability to incur, assume, guarantee or otherwise become liable with 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. **However, all of such limitations with respect to Funded Debt and all limitations with respect to granting mortgages and other encumbrances on University Property have been eliminated pursuant to a First Supplement to Master Trust Indenture (the "*First Supplement*"). The provisions of the First Supplement will be effective upon its approval by the holders of a majority of the principal amount of the Securities outstanding under the Master Trust Indenture. The purchasers of the Series 2017 Bonds are deemed by the purchase thereof to have given such approval.** See, **APPENDIX C, "SUMMARY OF PRINCIPAL DOCUMENTS—THE MASTER TRUST INDENTURE—Covenants of the University—Limitations on Debt."**

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

Amendments to Indenture, Loan Agreement and Master Trust Indenture

The Indenture, the Master Trust Indenture and the Loan Agreement may be modified without the consent of, or notice to, the holders of the Bonds under certain circumstances. See **APPENDIX C, "SUMMARY OF PRINCIPAL DOCUMENTS—THE INDENTURE—Supplements and Amendments"** and **"—THE MASTER TRUST INDENTURE—Supplements."**

Merger, Consolidation, Etc. of University

Under the Loan Agreement and the Master Trust Indenture, unless such action would adversely affect the tax-exempt status of the Series 2017 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 Trust Indenture.

Events of Default

Events of Default under the Master Trust 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 TRUST INDENTURE—DEFAULTS AND REMEDIES UNDER THE MASTER TRUST 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 Trust Indenture. See **"SOURCES OF PAYMENT AND SECURITY FOR THE BONDS – Security Interest, -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 or other Securities when due, covenant defaults, the bankruptcy or insolvency of the University, and an event of default under the Indenture or the Master Trust Indenture. See **"SOURCES OF PAYMENT AND SECURITY FOR THE BONDS – Security Interest, -Enforceability of Remedies,"** and **APPENDIX C, "SUMMARY OF PRINCIPAL DOCUMENTS—THE LOAN AGREEMENT—DEFAULTS AND REMEDIES UNDER THE LOAN AGREEMENT."**

Security Interest

The Series 2017 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 Trust Indenture, the Loan Agreement, the UMB Bank Loan Agreement, and the Revolving Credit Agreement have been authenticated as Securities under the Master Trust Indenture and the University's obligation to make payments under the Loan Agreement, the UMB Bank Loan Agreement and the Revolving Credit Agreement is secured by the "Trust Estate" as defined in the Master Trust Indenture. See, **"-Enforceability of Remedies,"** below and **APPENDIX C, "SUMMARY OF PRINCIPAL DOCUMENTS—THE MASTER TRUST INDENTURE—General."**

While the Master Trust 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 2017 Bonds to realize on the value of the Unrestricted Receivables, under certain circumstances. For example, the Master Trust 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 Trust Indenture was executed) of the University.

Accordingly, to the extent the University issues any Debt secured by an encumbrance permitted by the Master Trust 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, the Loan Agreement and the Master Trust Indenture upon default will depend upon the exercise of various remedies specified by the Indenture, the Loan Agreement, the UMB Bank Loan Agreement, the Revolving Credit Agreement and the Master Trust 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 Trust 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 2017 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, the University can incur debt (outside of the Master Trust Indenture), that could provide the holder of such debt, the right to immediately accelerate such debt, regardless of whether the Trustee has accelerated the Series 2017 Bonds under the Indenture.** (See "**OUTSTANDING OBLIGATIONS OF THE UNIVERSITY-Series 2017 Taxable Notes.**")

THE ISSUER

Southwest Higher Education Authority, Inc. is a Texas nonprofit corporation organized and existing pursuant to the Higher Education Authority Act, Chapter 53A, Texas Education Code, as amended, 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 2017 Bonds are issued under the terms of a bond resolution adopted by the Issuer on November 17, 2017 (the "*Bond Resolution*"), authorizing the issuance and sale of the Series 2017 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 Obligations described herein. The City provides a staff member as needed to assist the Issuer.

The Series 2017 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 2017 Bonds except from the revenues derived from the Loan Agreement. The Issuer has no taxing power.

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.

PLAN OF FINANCE

The proceeds of the Series 2017 Bonds will be applied to finance and refinance the cost of certain "educational facilities" and "housing facilities" and facilities incidental, subordinate or related thereto or appropriate in connection therewith, (i) by refunding a portion of the Issuer's Higher Education Revenue Bonds (Southern Methodist University Project) Series 2010 (the "*Refunded Bonds*"); and (ii) by paying the costs of issuance of the Series 2017 Bonds. See **SCHEDULE I-SCHEDULE OF REFUNDED BONDS.**

The University will deposit with The Bank of New York Mellon Trust Company, National Association, as trustee for the Series 2010 Bonds and as the escrow agent (the "*Escrow Agent*") pursuant to an escrow agreement between the University and the Trustee (the "*Escrow Agreement*"), an amount which will be sufficient to pay the principal of, and interest on the Refunded Bonds on their redemption date. Such funds will be held by the Trustee in an escrow fund (the "*Escrow Fund*") irrevocably pledged to the payment of principal of and interest on the Refunded Bonds and will be used to purchase direct obligations of the United States (the "*Escrowed Securities*"). Such maturing principal of and interest on the Escrowed Securities will be available only to pay the debt service requirements on the Refunded Bonds and not the Series 2017 Bonds. Grant Thornton LLP, certified public accountant (the "*Verification Agent*") will verify at the time of delivery of the Series 2017 Bonds to the Underwriters the mathematical accuracy of the schedules that demonstrate the Escrowed Securities will mature and pay interest in such amounts which, together with cash, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds. By making such deposit, the University will have effected the defeasance of a portion of the Series 2010 Bonds in accordance with the law. It is the opinion of Bond Counsel that as a result of such deposit of the Escrowed Securities and cash, if any, with the Escrow Agent pursuant to the Escrow Agreement, and in reliance upon the Report, such portion of the Series 2010 Bonds will be outstanding only for the purpose of receiving payments from the cash and Escrowed Securities on deposit in the Escrow Fund for such purpose by the Escrow Agent and that the Refunded Bonds will be defeased and will not be deemed as being Outstanding Bonds for any other purpose. See **SCHEDULE I–SCHEDULE OF REFUNDED BONDS.**

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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 2017 Bonds.

Sources of Funds:	
Principal amount of Series 2017 Bonds	$ 95,735,000.00
Net Bond Premium	12,559,902.30
Transfer from Debt Service Fund	1,178,625.03
Total Sources of Funds	$109,473,527.33
Uses of Funds:	
Deposit to Escrow Fund	$108,532,133.15
Underwriters' Discount	439,936.98
Costs of Issuance	501,457.20
Total Uses of Funds	$109,473,527.33

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SCHEDULED ANNUAL DEBT SERVICE REQUIREMENTS

The following table sets forth, for each fiscal year, beginning with the fiscal year ending in May 31, 2018, the amount required for the payment of principal, mandatory sinking fund redemptions, and interest on the Bonds, the UMB Loan and the Series 2017 Taxable Notes. See **APPENDIX B, Note 10** of the University's Consolidated Financial Statements.

Fiscal Year Ending May 31,	Prior Bonds Debt Service [1]	Less Refunded Bonds Debt Service [2]	Series 2017 Debt Service		Total Parity Debt Service	Funded Debt Service [3]	Total Parity and Funded Debt Service
			Principal	Interest			
2018	$ 10,525,728	$ (2,420,150)	$ -	$ 1,241,525	$ 9,347,103	$ 1,045,278	$ 10,392,381
2019	40,389,388	(4,840,300)	-	4,425,238	39,974,325	5,416,275	45,390,600
2020	40,615,197	(4,840,300)	-	4,425,238	40,200,135	5,417,583	45,617,717
2021	38,234,312	(4,840,300)	-	4,425,238	37,819,250	5,416,405	43,235,655
2022	38,202,997	(7,614,175)	2,715,000	4,357,363	37,661,184	5,417,654	43,078,838
2023	36,308,531	(7,613,300)	2,855,000	4,218,113	35,768,344	5,416,240	41,184,584
2024	39,410,996	(7,613,950)	3,005,000	4,071,613	38,873,659	5,417,075	44,290,734
2025	39,381,700	(7,612,825)	3,155,000	3,917,613	38,841,487	5,419,981	44,261,468
2026	38,980,264	(7,612,050)	3,315,000	3,755,863	38,439,077	5,419,870	43,858,947
2027	38,474,099	(7,609,300)	3,485,000	3,585,863	37,935,662	5,416,741	43,352,403
2028	35,717,168	(7,612,675)	3,665,000	3,407,113	35,176,605	5,415,506	40,592,112
2029	36,566,267	(7,611,650)	3,855,000	3,219,113	36,028,729	5,415,988	41,444,717
2030	36,169,973	(7,611,875)	4,050,000	3,021,488	35,629,586	5,418,008	41,047,593
2031	28,293,293	(7,612,875)	4,260,000	2,813,738	27,754,155	5,416,478	33,170,633
2032	28,352,984	(7,613,125)	4,480,000	2,595,238	27,815,096	5,416,309	33,231,405
2033	28,298,442	(7,612,125)	4,705,000	2,365,613	27,756,929	5,417,324	33,174,253
2034	25,652,239	(7,609,375)	4,895,000	2,168,444	25,106,308	5,419,345	30,525,653
2035	23,896,624	(7,614,125)	5,085,000	1,987,200	23,354,699	5,417,284	28,771,983
2036	23,861,397	(7,610,750)	5,290,000	1,779,700	23,320,347	5,416,051	28,736,398
2037	23,817,472	(7,613,625)	5,510,000	1,563,700	23,277,547	5,415,470	28,693,017
2038	20,528,750	(7,612,000)	5,735,000	1,338,800	19,990,550	5,420,274	25,410,824
2039	20,525,802	(7,610,250)	5,965,000	1,104,800	19,985,352	5,415,374	25,400,726
2040	20,533,277	(7,612,500)	6,245,000	829,375	19,995,152	5,415,681	25,410,833
2041	20,532,375	(7,612,875)	6,565,000	509,125	19,993,625	5,415,930	25,409,555
2042	20,528,597	(7,610,625)	6,900,000	172,500	19,990,472	5,415,943	25,406,415
2043	12,925,096	-	-	-	12,925,096	5,415,541	18,340,637
2044	3,167,622	-	-	-	3,167,622	5,419,460	8,587,082
2045	3,163,698	-	-	-	3,163,698	5,417,521	8,581,220
2046	3,163,902	-	-	-	3,163,902	5,419,548	8,583,450
2047	-	-	-	-	-	5,420,273	5,420,273
2048	-	-	-	-	-	5,419,519	5,419,519
	$ 776,218,190	$ (176,797,100)	$ 95,735,000	$ 67,299,606	$ 762,455,696	$ 163,565,925	$ 926,021,622

(1) As of December 1, 2017. Includes debt service on all of the outstanding Prior Bonds and notes payable.
(2) The Series 2010 Bonds in principal amount of $99,490,000 are being refunded by the Series 2017 Bonds. See SCHEDULE I - Schedule of Refunded Bonds
(3) Funded debt service on the New York Life Loan scheduled to deliver on December 15, 2017. See "Outstanding Debt of the University - Anticipated Notes."

FUTURE DEBT

Except for the issuance of its $100,000,000 Series 2017 Taxable Notes scheduled for December 15, 2017, the University does not anticipate incurring any additional long-term debt in the next 24 months.

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 2017 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 2017 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 nonprofit organizations. Unanticipated events and circumstances may occur which cause variations from the University's expectations.

Tax-Exempt Status of the Series 2017 Bonds

The Code imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the Series 2017 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 "*Service*"). 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 2017 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 Service, the Service 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 performed by the Service has increased significantly under the TE/GE Division.

The University has not sought to obtain a private letter ruling from the Service with respect to the Series 2017 Bonds, and the opinion of Bond Counsel is not binding on the Service. There is no assurance that any Service examination of the Series 2017 Bonds will not adversely affect the market value of the Series 2017 Bonds. See **"TAX MATTERS."**

IRS Examination of Series 2010 Bonds

By letter dated August 10, 2017, the University received notice from the United States Department of the Treasury, Internal Revenue Service (the "*Service*") that the Issuer's Higher Education Revenue Bonds (SMU Project), Series 2010 (the "*Series 2010 Bonds*") were selected for examination. The University has engaged Bond Counsel to represent the University in connection with such examination and is cooperating with the Service. At this time, the University does not expect the examination to adversely affect the tax-exempt status of the Series 2010 Bonds. As described in "**PLAN OF FINANCING**" a portion of the proceeds of the Bonds will be used to refund and defease a portion of the Series 2010 Bonds. If the Service challenges the continued excludability from gross income of interest payable on the Series 2010 Bonds and such challenge is ultimately sustained, interest on the Series 2017 Bonds could be included for federal income tax purposes in the gross income of owners of the Series 2017 Bonds from the date of issuance. Further, public awareness of the examination of the Series 2010 Bonds could adversely affect the value and liquidity of the Series 2017 Bonds regardless of the ultimate outcome of the examination.

Tax-Exempt Status of the University

The tax-exempt status of the Series 2017 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 Service. One primary penalty available to the Service 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 Service has not frequently revoked the tax-exempt status of nonprofit 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 2017 Bonds and defaults in covenants regarding the Series 2017 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.

With increasing frequency, the Service 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 Service 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 Service. These liabilities could be materially adverse.

Less onerous sanctions, referred to generally as "intermediate 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 Service, as mentioned above.

The University may be audited by the Service. Because of the complexity of the tax laws and the presence of issues about which reasonable persons can differ, a Service audit could result in additional taxes, interest and penalties. An Service 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 2017 Bonds and any other tax-exempt debt issued for the University.

State and Local Tax Exemption

The Texas Attorney General is responsible for supervising nonprofit organizations within the state, including scrutinizing their tax-exempt status. The University is not aware of any actions, pending or threatened, that would result in the revocation of the University's state and local tax exemption. Moreover, a revocation by the Service of its federal tax exemption could trigger a revocation by the Texas Attorney General of the University's state and local tax exemption. However, the University is not aware of any action by the Texas Attorney General regarding the revocation of the University's state and local tax exemption.

It is not possible to predict the scope or effect of future legislative or regulatory actions with respect to taxation of nonprofit 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 Service 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 2017 Bonds.

Enforceability

The remedies granted to the Trustee or the owners of the Series 2017 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 Bracewell LLP, Bond Counsel, assuming compliance with certain covenants and based on certain representations, (i) interest on the Series 2017 Bonds is excludable from gross income for federal income tax purposes under existing law and (ii) the Series 2017 Bonds are "qualified 501(c)(3) bonds" under the Code, and, interest on the Series 2017 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 2017 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 Internal Revenue Service (the "*Service*"). The Issuer and the University have covenanted in the Indenture and Loan Agreement that they will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the Indenture and 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 excludability of interest on the Series 2017 Bonds from gross income for federal income tax purposes. In addition, Bond Counsel will rely on representations by the Issuer, the University, the Financial Advisor and the Underwriters with respect to matters solely within the knowledge of the Issuer, the Financial Advisor and the Underwriters, respectively, which Bond Counsel has not independently verified. Bond Counsel will further rely on the report (the "*Report*") of Grant Thornton LLP, certified public accountants, regarding the mathematical accuracy of certain computations. If the Issuer or the University fails to comply with the covenants in the Indenture and Loan Agreement or if the foregoing representations or the Report are determined to be inaccurate or incomplete, interest on the Series 2017 Bonds could become includable in gross income from the date of delivery of the Series 2017 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 if the amount of such alternative minimum tax is greater than the amount of the corporation's regular income tax. Generally, the alternative minimum taxable income of a corporation (other than any S corporation, regulated investment company, REIT, or REMIC) includes 75% of the amount by which its "adjusted current earnings" exceeds its other "alternative minimum taxable income." Because interest on tax-exempt obligations, such as the Series 2017 Bonds, is included in a corporation's "adjusted current earnings," ownership of the Series 2017 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 receipt or accrual of interest on, or acquisition, ownership or disposition of, the Series 2017 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 Service; rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems 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 as to whether or not the Service will commence an audit of the Series 2017 Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Issuer as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Series 2017 Bonds could adversely affect the value and liquidity of the Series 2017 Bonds regardless of the ultimate outcome of the audit. See **"BONDHOLDERS' RISKS – Service Examination of Series 2010 Bonds."**

ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS

Collateral Tax Consequences

Prospective purchasers of the Series 2017 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, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit 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 2017 Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of the Series 2017 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 2017 Bonds, received or accrued during the year.

Tax Accounting Treatment of Original Issue Premium

The issue price of a portion of the Series 2017 Bonds exceeds the stated redemption price payable at maturity of such Series 2017 Bonds. Such Series 2017 Bonds (the "*Premium Series 2017 Bonds*") are considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis of a Premium Series 2017 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 Series 2017 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 Series 2017 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 Series 2017 Bond that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Series 2017 Bond) is determined using the yield to maturity on the Premium Series 2017 Bond based on the initial offering price of such Premium Series 2017 Bond.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Series 2017 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 Series 2017 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 Series 2017 Bonds 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 Series 2017 Bonds.

Tax Accounting Treatment of Original Issue Discount

The issue price of a portion of the Series 2017 Bonds is less than the stated redemption price payable at maturity of such Series 2017 Bonds (the "*Original Issue Discount Series 2017 Bonds*"). In such case, the difference between (i) the amount payable at the maturity of each Original Issue Discount Series 2017 Bond, and (ii) the initial offering price to the public of such Original Issue Discount Series 2017 Bond constitutes original issue discount with respect to such Original Issue Discount Series 2017 Bond in the hands of any owner who has purchased such Original Issue Discount Series 2017 Bond in the initial public offering of the Series 2017 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 Series 2017 Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Series 2017 Bond continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussions regarding interest on the Series 2017 Bonds under the captions "**TAX MATTERS – Tax Exemption**" and "**ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS – Collateral Tax Consequences**" and "**—Tax Legislative Changes**" generally apply 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 Series 2017 Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Series 2017 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 Series 2017 Bond was held by such initial owner) is includable in gross income.

The foregoing discussion assumes that (i) the Underwriter has purchased the Series 2017 Bonds for contemporaneous sale to the public and (ii) all of the Original Issue Discount Series 2017 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 inside 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 Series 2017 Bonds will be offered and sold in accordance with such assumptions.

Under existing law, the original issue discount on each Original Issue Discount Series 2017 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 Series 2017 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 Series 2017 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 Original Issue Discount Series 2017 Bond.

The federal income tax consequences of the purchase, ownership, and redemption, sale or other disposition of Original Issue Discount Series 2017 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 Original Issue Discount Series 2017 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 Series 2017 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 Series 2017 Bonds.

Proposed Tax Reform Act

Current law may change so as to directly or indirectly reduce or eliminate the benefit of the excludability of interest on the Series 2017 Bonds from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, could also affect the value and liquidity of the Series 2017 Bonds. As of the date hereof, legislation has been introduced in the United States Congress that, if enacted, would make significant changes to the Code, including, among other provisions, changes to the federal income tax rates for individuals and corporations and the elimination of the alternative minimum tax for tax years beginning after December 31, 2017. Prospective purchasers of the Series 2017 Bonds should consult with their own tax advisors with respect to any proposed, pending or future legislation to assess the impact, if any, of such legislation.

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 2017 Bonds. The University is required to observe the agreement with respect to the Series 2017 Bonds for so long as it remains obligated to advance funds to pay the Series 2017 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.

Annual Reports

The University will provide certain updated financial information and operating data to the Municipal Securities Rulemaking Board ("*MSRB*"). 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, 2018.

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.

Disclosure Event Notices

The University will provide notice to the MSRB of any of the following events with respect to the Series 2017 Bonds: (1) non-payment related defaults, if material; (2) modifications to rights of Bondholders; (3) Bond calls; (4) release, substitution, or sale of property securing repayment of the Bonds; (5) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; and (6) appointment of a successor or additional trustee or the change of name of a trustee.

The University will also provide notice to the MSRB of any of the following events with respect to the Series 2017 Bonds without regard to whether such event is considered material within the meaning of the federal securities laws: (1) principal and interest payment delinquencies; (2) unscheduled draws on debt service reserves reflecting financial difficulties; (3) unscheduled draws on credit enhancements reflecting financial difficulties; (4) substitution of credit or liquidity providers, or their failure to perform; (5) adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (Service Form 5701–TEB) or other material notices or determinations with respect to the tax-exempt status of the Series 2017 Bonds, or other events affecting the tax-exempt status of the Series 2017 Bonds; (6) tender offers; (7) defeasances; (8) rating changes; and (9) bankruptcy, insolvency, receivership or similar event of an obligated person.

The University will provide notice of the aforementioned events to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event). The University will also provide timely notice of any failure by the University to provide annual financial information in accordance with their agreement described above under "Annual Reports."

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 2017 Bonds free of change 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 2017 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 2017 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 2017 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 2017 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 2017 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

In connection with the issuance of the Prior Bonds, the University entered into certain continuing disclosure agreements (the "*Prior Undertakings*") made in accordance with SEC Rule 15c2-12, including agreements to file with the MSRB the University's updated financial information (the "*Financial Information*") and operating data (the "*Operating Data*" and, together with the Financial Information, the "*Annual Report*"). In reviewing its compliance with such Prior Undertakings during the previous five years, the University determined that with respect to its Fiscal Year ended May 31, 2015, the University's Annual Report was not timely filed. The University filed such Annual Report with the MSRB on January 23, 2016. The University has filed an event notice with respect to the non-timely filing of the Annual Report for its Fiscal Year ending May 31, 2015. Additionally, the University failed to file a notice of defeasance with respect to its Series 2009 Bonds and failed to file a notice of its failure to file. Both notices have now been filed. Finally, the University has reviewed the circumstances surrounding these instances and has instituted procedures that it believes will assure timely and complete filings in the future.

RATINGS

The following ratings are not recommendations to buy, sell or hold the Series 2017 Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. S&P Global Ratings, a division of Standard & Poor's Financial Services LLC ("*S&P*") and Fitch Ratings, Inc. ("*Fitch*") have assigned their municipal bond ratings of "AA-" and "AA-" respectively, to the Series 2017 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 S&P or Fitch, circumstances so warrant.

The University currently has parity debt rated by other rating agencies.

The Issuer, the Underwriters and the University have not undertaken any responsibility to bring to the attention of the registered owners of the Series 2017 Bonds subsequent to delivery thereof any proposed revision or withdrawal of the ratings of the Series 2017 Bonds or to oppose any such proposed revision or withdrawal; provided the University is obligated to file a notice of rating change with the MSRB pursuant to the University's obligations under SEC Rule 15c2-12. 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 2017 Bonds.

INDEPENDENT AUDITORS

The consolidated financial statements of the University as of May 31, 2017 and 2016, 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 an explanatory paragraph addressing the University's adoption of Financial Accounting Standards Board Accounting Standards Codification (ASC) 958-810, Reporting of Related Entities by Not-for-Profit Organizations and ASC 970-323, Investments – Equity Method and Joint Ventures as of June 1, 2009.

VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS

The arithmetical accuracy of certain computations included in the schedules provided by the Financial Advisor on behalf of the University was verified by Grant Thornton LLP, certified public accountants (the "*Accountants*"). Such computations were based solely on assumptions and information supplied by the University's

Financial Advisor on behalf of the University. The Accountants have restricted their procedures to verifying the arithmetical accuracy of certain computations and have not made any study or evaluation of the assumptions and information on which the computations are based, and accordingly, have not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome. The Accountants will verify from the information provided to them the mathematical accuracy as of the date of the closing on the Bonds of (i) the computations contained in the provided schedules to determine that the anticipated receipts from the Federal Securities and cash deposits listed in the schedules provided by the University's Co-Financial Advisor, to be held in the Escrow Fund, will be sufficient to pay, when due, the principal and interest requirements of the Refunded Bonds, and (ii) the computations of yield on both the Federal Securities and the Bonds contained in the provided schedules used by Bond Counsel in its determination that the interest on the Bonds is excludable from the gross income of the holders thereof and the effective defeasance of the Refunded Bonds.

UNDERWRITING

Series 2017 Bonds

The Series 2017 Bonds are being purchased by the Underwriters, for which Merrill Lynch Pierce, Fenner & Smith Incorporated is acting as representative, at an underwriters' discount of $439,936.98 from the initial public offering price of the Series 2017 Bonds. The Contract of Purchase provides that the Underwriters will purchase all of the Series 2017 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 2017 Bonds to certain dealers, including dealer banks, dealers depositing the Series 2017 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 securities–related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Products Group, a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934.

Wells Fargo Bank, National Association, acting through its Municipal Products Group ("*WFBNA*"), one of underwriters of the Series 2017 Bonds, has entered into an agreement (the "*WFA Distribution Agreement*") with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name "*Wells Fargo Advisors*") ("*WFA*"), for the distribution of certain municipal securities offerings, including the Series 2017 Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Series 2017 Bonds with WFA. WFBNA has also entered into an agreement (the "*WFSLLC Distribution Agreement*") with its affiliate Wells Fargo Securities, LLC ("*WFSLLC*"), for the distribution of municipal securities offerings, including the Series 2017 Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

One of the Underwriters is BOK Financial Securities, Inc., which is not a bank, and the Series 2017 Bonds are not deposits of any bank and are not insured by the Federal Deposit Insurance Corporation.

J.P. Morgan Securities LLC ("*JPMS*"), one of the Underwriters of the Bonds, has entered into negotiated dealer agreements (each, a "*Dealer Agreement*") with each of Charles Schwab & Co., Inc. ("*CS&Co.*") and LPL Financial LLC ("*LPL*") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, if applicable to this transaction, each of CS&Co. and LPL will purchase Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

Miscellaneous

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage services. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the Issuer and the University, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities, which may include credit default swaps) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of Issuer and the University.

The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

FINANCIAL ADVISOR

Hilltop Securities, Inc. is serving as the financial advisor to the University (the "*Financial Advisor*") with respect to the sale of the Series 2017 Bonds. The Financial Advisor assisted in matters relating to the planning, structuring and issuance of the Series 2017 Bonds and provided other financial advice. The Financial Advisor will not engage in any underwriting activities with regard to the Series 2017 Bonds.

LEGAL MATTERS

Certain legal matters relating to the Series 2017 Bonds will be passed upon by Bracewell LLP, Bond Counsel, whose opinion will be delivered with the initial delivery of the Series 2017 Bonds. Such opinion is expected to be in substantially the form included as **APPENDIX D**. The Series 2017 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 2017 Bonds are contingent on the sale and delivery of the Series 2017 Bonds. The legal opinion of Bond Counsel will accompany the Series 2017 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 2017 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 2017 Bonds are contingent on the sale and delivery of the Series 2017 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 2017 Bonds, or in any way contesting or affecting the validity of the Series 2017 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 2017 Bonds, or the existence or powers of the Issuer relating to the issuance of the Series 2017 Bonds.

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

MISCELLANEOUS

The descriptions of the provisions of the Loan Agreement, the Indenture and the Master Trust 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 2017 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 2017 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 2017 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 2017 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 2017 Bonds.

KPMG LLP, the University's independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the consolidated financial statements addressed in that report. KPMG LLP also has not performed any procedures relating to this official statement.

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

SOUTHWEST HIGHER EDUCATION AUTHORITY, INC.

By: /s/ Syd Carter
Name: Syd Carter
Title: President

SOUTHERN METHODIST UNIVERSITY

By: /s/ R. Gerald Turner
Name: R. Gerald Turner
Title: President

SCHEDULE I

SCHEDULE OF REFUNDED BONDS

Southwest Higher Education Authority Inc.
Higher Education Revenue Bonds
(Southern Methodist University Project)
Series 2010

Maturity	Interest Rate	Par Amount[1]
10/01/2021	5.000%	$ 2,845,000
10/01/2022	5.000%	2,990,000
10/01/2023	3.500%	3,120,000
10/01/2024	3.500%	3,230,000
10/01/2025	5.000%	3,370,000
10/01/2026	5.000%	3,540,000
10/01/2027	5.000%	3,725,000
10/01/2028	4.000%	3,895,000
10/01/2029	5.000%	4,075,000
10/01/2030	5.000%	4,285,000
10/01/2031	5.000%	4,505,000[2]
10/01/2032	5.000%	4,735,000[2]
10/01/2033	5.000%	4,975,000[2]
10/01/2034	5.000%	5,235,000[2]
10/01/2035	5.000%	5,500,000[2]
10/01/2036	5.000%	5,785,000[3]
10/01/2037	5.000%	6,080,000[3]
10/01/2038	5.000%	6,390,000[3]
10/01/2039	5.000%	6,720,000[3]
10/01/2040	5.000%	7,065,000[3]
10/01/2041	5.000%	7,425,000[3]
		$99,490,000

(1) Such amounts are a portion of the outstanding principal amounts of the Series 2010 Bonds and are scheduled to be redeemed on October 1, 2020 at a price of par.
(2) Represents a Term Bond with mandatory sinking fund payments on October 1, in the years 2031 through 2034, and a final maturity on October 1, 2035.
(3) Represents a Term Bond with mandatory sinking fund payments on October 1, in the years 2036 through 2040 and a final maturity on October 1, 2041.

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 234 acres in University Park, Highland Park and Dallas, Texas, five miles from downtown Dallas. SMU also maintains campuses in Plano, Texas, and near Taos, New Mexico. The University was founded in 1911 by what is now The United Methodist Church in partnership with Dallas leaders. SMU opened in 1915 with 706 students and a 35-member faculty. Two permanent buildings included the campus' historic centerpiece, Dallas Hall. As of the fall 2017 the University has a total headcount enrollment of 11,789 (6,452 undergraduate students and 5,337 graduate students) and a full time faculty of nearly 800.

The University offers a strong foundation in the humanities and sciences, as well as undergraduate and graduate degree programs through seven schools. Students benefit from small classes and opportunities for research, leadership development and unique learning experiences on campus and around the world. SMU is dedicated to shaping world changers. It prepares students to make an impact through their chosen professions and service to society. The University's location in Dallas offers students enriching experiences beyond the campus.

Governance of the University is vested in a Board of Trustees comprised of civic, business, and church leaders — both Methodists and non-Methodists. The founders' first charge to the University was that it become not merely a great Methodist university, but a great university. SMU aspires 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, shaping world changers who contribute to their communities and excel in their professions in a 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. SMU affirms its historic commitment to academic freedom and open inquiry, to moral and ethical values, and to its United Methodist heritage.

To fulfill its mission, the University strives for continuous advancement as it pursues the following goals:

- To enhance the academic quality and stature of the University
- To improve teaching and learning
- To strengthen scholarly research, creative achievement, and opportunities for innovation
- To sustain student development and a supportive campus experience
- To broaden global perspectives
- To increase revenue generation and promote responsible stewardship of resources

ACADEMIC PROGRAMS

The University offers undergraduate and graduate degree programs in five of its schools: Dedman College, Meadows School of the Arts, Edwin L. Cox School of Business, Bobby B. Lyle School of Engineering, and Annette Caldwell Simmons School of Education and Human Development. It also offers graduate degree programs in its two professional schools: Dedman School of Law and Perkins School of Theology. The University offers 106 baccalaureate degrees in 92 fields, 114 master's degrees in 105 fields, 31 doctoral-research degrees, one doctoral-professional degree, and one specialist degree.

SMU-in-Plano serves Collin County and its North Texas vicinity, one of the state's fastest growing areas, providing diverse programs that include evening and weekend programs leading to master's degrees and/or graduate certificates, as well as noncredit continuing education and professional education programs. It is home to The Guildhall, one of the world's premier graduate programs in video game development. Outreach services include the Center for Dispute Resolution and Conflict Management, Center for Family Counseling and Diagnostic Center for

Dyslexia and Related Disorders. The Plano campus also offers summer learning opportunities for more than 2,000 students in grades K-12. Local organizations rent classrooms for employee training programs and meetings.

SMU-in-Taos in Northern New Mexico, includes pre-Civil War Fort Burgwin and remains of a 13th-century Native American pueblo. SMU-in-Taos offers summer credit courses in the natural and social sciences, humanities, arts, and business. Classes are enhanced by the region's distinctive mix of cultures and rich natural resources. Short-term courses are offered in January and May. The annual Taos Cultural Institute provides a summer weekend of informal classes for adults taught by SMU faculty. Taos facilities are available for conferences and retreats.

SMU students participate in study abroad through more than 150 programs in 50 countries, in addition to research and service projects abroad. Students also participate in Alternative Break national service projects.

Academic Units and Programs of Study. The University operates on a semester calendar. The calendar consists of Fall, Spring and Summer terms. 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. There also are inter-terms between the primary terms: January Inter-term, May Inter-term and August Inter-Term. 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 for SMU's general education program called the University Curriculum 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 do a major or minor in one or more of the humanities (English, Ethnic Studies, World Languages and Literatures, History, Human Rights, Medieval Studies, Philosophy, Religious Studies, French, German, and Spanish); the social sciences (Anthropology, Health and Society, Economics, Markets and Cultures, Political Sciences, Psychology, International Studies, 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 and International Studies. At the graduate level, Dedman offers master's degrees in 17 academic subjects and doctoral degrees in 14 fields of study.

The Annette Caldwell Simmons School of Education and Human Development. The Annette Caldwell Simmons School of Education and Human Development is comprised of research institutes, undergraduate and graduate programs, and community service centers in the areas of professional education, dispute resolution, counseling, applied physiology, 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.

Undergraduate programs include a major and three minors in applied physiology and sport management and a major and minor in education. The school offers one school-wide doctoral program as well as four Master's degrees and a number of graduate certification programs through five academic departments, which include Teaching and Learning, Education Policy and Leadership, Dispute Resolution and Counseling, Applied Physiology and Wellness, and Lifelong Learning.

The professional education programs fall under the auspices of the Departments 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 Ph.D., Master's degrees and graduate-level certifications – focus on research, literacy and language acquisition; teaching and learning; giftedness; mathematics; science; and technology. A variety of enrichment opportunities serve the continuing education needs of practicing educators. The school promotes high-quality research that combines quantitative and qualitative methodologies, generates new hypotheses, and influences pedagogical practices in early childhood (or "EC") through grade 12 schools. The department's research faculty is among some of the most productive literacy research centers in the nation and performs research concerning reading and writing disabilities, language acquisition, and teaching and learning in mathematics and science.

The Department of Education Policy and Leadership focuses on preparing educators for leadership roles in complex school settings. Coursework and systematic applications of knowledge are designed to ensure that the education leaders of tomorrow are able to develop and support effective teachers and other education service providers; select and implement effective curricula and instructional programs; and identify, implement and sustain effective organizational practices to ensure high levels of student learning and achievement. In service to this mission, the department offers a Master of Education in educational leadership. The department is also dedicated to the preparation and continued development of education policy leaders. The department seeks to improve the quality and rigor of education policy research, development and analysis, and to encourage and facilitate the translation of research into policy and practice at local, state, national and international levels.

The Department of Dispute Resolution and Counseling offers an M.S. in counseling, an M.A. in dispute resolution and a graduate certificate in dispute resolution – all of which draw on social and behavioral science theories to teach the communication skills necessary for the resolution of personal and interpersonal conflicts. Additionally, the department operates three community resource centers: the SMU Conflict Resolution Center and two centers for family counseling.

The Department of Lifelong Learning promotes personal enrichment and achievement of potential through a broad interdisciplinary curriculum. Its credit and noncredit offerings broaden students' perspectives, insights and understandings of the world by exposing them to the ideas and events that constitute the human experience. At the heart of the Lifelong Learning programs is the Master of Liberal Studies and the Doctor of Liberal Studies.

The Department of Applied Physiology and Wellness offers a B.S. in applied physiology and sport management and courses in Personal Responsibility and Wellness, two of which must be completed to earn a baccalaureate degree at SMU. The Personal Responsibility and Wellness courses reflect the University's philosophy that a well-rounded education should enhance the physical and mental well-being of the student.

SMU 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 SMU 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 or specialized topics also are addressed by centers or institutes within the school: the Don Jackson Center for Financial Studies, the Caruth Institute for Entrepreneurship, the Folsom Center for Real Estate and Land Use Economics, the Maguire Energy Institute, the JCPenney Center for Retail Excellence, the Southwestern Graduate School of Banking, the William J. O'Neil Center for Global Markets and Freedom, the Edwin L. Cox B.B.A. Leadership Institute and Business Leadership Center, the Center for Marketing Management Studies, the EnCap Investments & LCM Group Alternative

Asset Management Center and the Kitt Investing and Trading Center. Additionally, SMU Cox offers a variety of executive professional development programs and certificate programs through the Cox Executive Education Department and other departments.

Undergraduate majors in the SMU Cox 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.); the Full-Time Master of Business Administration degree (M.B.A.); the Professional Master of Business Administration Degree (P.M.B.A.); the Executive Master of Business Administration (E.M.B.A.); and, Master of Science degrees in Accounting, Entrepreneurship, Finance and Management. SMU Cox also offers a dual degree in Arts Management (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 *Bloomberg Businessweek, The Economist, Financial Times, Forbes,* and *U.S. News & 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; Civil and Environmental Engineering; and Mechanical Engineering. The school's small student-to-faculty ratio (12:1) guarantees student interaction with faculty members. The Bobby B. Lyle School of Engineering opened the Innovation Gymnasium in December 2009 which is modeled after one of the most innovative research programs in the world, focusing on finding ways to solve real-world challenges in areas like bridge design and clean water technology, the gym was officially named The Deason Innovation Gym in May 2014. 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 has one of the highest percentages of female engineering students in the country, almost double the national average at 33%, 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 Caruth Hall. Caruth Hall opened in spring 2010 and is 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 Hart Center for Engineering Leadership and The Hunt Institute for Engineering and Humanity. 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 art, film and media arts (B.F.A), dance, music or theatre must interview and either audition or submit a portfolio prior to acceptance. The auditions/portfolios 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 five types of graduate degrees: Artist Diploma (music), Performer's Diploma (music), Master of Arts (M.A.), Master of Fine Arts (M.F.A.), Master of Music (M.M.), and Doctor of Philosophy (Ph.D.). In addition, Meadows offers several joint graduate degree programs: the Master of Sacred Music (M.S.M.) with Perkins School of Theology; the Master of Arts/Master of Business Administration (M.A./M.B.A.) in Arts Management/Arts Entrepreneurship with the Edwin L. Cox School of Business; and the Master of Management in International Arts Management with HEC Montréal in Canada and Bocconi University Graduate School of Management in Milan, Italy.

Specific areas of undergraduate study include Advertising, Art, Art History, Arts Management and Arts Entrepreneurship, Creative Computation, Communication Studies, Dance, Film and Media Arts, Interdisciplinary Studies, Journalism, Music (music education, music composition, music therapy, performance in orchestral instruments, guitar, organ, piano, and voice), and Theatre (acting, critical studies, directing, playwriting, stage design, and stage management).

Specific areas of graduate study include Advertising, Art, Art History, Arts Management and Arts Entrepreneurship, Music (choral conducting, composition, instrumental conducting, music education, music history and literature, music theory pedagogy, 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's degree students to begin studies at an extension site in Houston/Galveston.

The basic degree for ordained pastoral leadership is a 73 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 9 credit hour, 9-month-long 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 part-time formats. Degree students may have concentrations in Hispanic Studies, Urban Ministry, Anglican Studies, Pastoral Care, African American Church Studies, and Women's and Gender Studies.

The Master of Arts of Ministry (M.A.M.) degree is a 49 credit hour degree intended to prepare persons for specialized church ministry, both ordained and lay. The degree program currently offers tracks in Christian Education, Urban Ministry, Theology and Social Justice, Christian Spirituality, and Evangelism and Mission.

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.

The Master of Theology (Th.M.) degree is a 24 credit hour degree offered to ministers having furloughs from military chaplaincy, missionary service, or transitions in ministry. It is designed to require one year of full-time study. Students may also earn this degree while fulfilling preparations for Ph.D. studies. It currently is offered in English and, beginning in 2017, will be offered in Spanish as well.

The 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 Doctor of Pastoral Music (D.P.M.) degree is a 39 credit hour degree designed for experienced church musicians who have achieved a Master of Sacred Music degree or its equivalent and who are devoted to increasing their effectiveness in and broadening their vision of the pastoral dimensions of music ministry.

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 School offered in English and Spanish, as well as a short-term intensive Spanish Language Licensing School, providing an alternate route to pastoral ministry for United Methodist "local pastors," and United Methodist certification programs in Children's Ministry, Christian Education, Church Music, Older Adult Ministry, and Youth Ministry. Also, Perkins offers a Certification in Spiritual Direction during which attendees are trained to listen, pray, and ask questions in a fashion that encourages directees to look for the movement of the Holy Spirit in their lives.

Perkins School of Theology houses the Mexican-American and Hispanic-Latino/a Church Ministry Program, the Center for Evangelism and Missional Church Studies, the Center for Methodist Studies, the Center for Religious Leadership, the Center for Preaching Excellence, and the Centers for Teaching and Research at Perkins. 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.

Three programs at Perkins School of Theology have been funded partially or substantially by external grants: Faith Calls (formerly the "Perkins Youth School of Theology"), The Center for the Study of Latino/a Christianity and Religions, and The Center for Preaching Excellence.

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 all over 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 reinstituted 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 L.L.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, Professional 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 Commission on Accrediting of the Association of Theological Schools. Undergraduate programs in Civil Engineering, Mechanical Engineering, Computer Engineering, Environmental Engineering, and Electrical Engineering are accredited by the Engineering Accreditation Commission of ABET (Accreditation Board for Engineering Technology). The undergraduate computer science program that awards the degree Bachelor of Science (B.S.) is accredited by the Computing Accreditation Commission of ABET. The Department of Chemistry is accredited by the Committee on Professional Training of The American Chemical Society. The Department of Psychology Doctoral Program in Clinical Psychology is accredited by the American Psychological Association. 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 Music Therapy program is approved by the American Music Therapy Association; the Art and Art History are accredited 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; 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). In the Linda and Mitch Hart eCenter, The Guildhall at SMU's Master of Interactive Technology is accredited by the National Association of Schools of Art and Design for the two specializations in art creation and level design.

FACILITIES

As of November 2017, the combined University Park, Dallas, and Highland Park campus includes approximately 107 major buildings for academic purposes, student housing and for institutional support and special use, comprising some 6.3 million gross square feet. University-owned Fraternity houses, apartments and residence halls provide capacity to house approximately 2,600 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. University properties in Dallas and Highland Park, Texas, south of East Mockingbird Lane were developed for University purposes to include an intercollegiate Tennis Center, intercollegiate throwing fields, and the University Data Center. The University owns six buildings east of North Central Expressway that hold various administrative offices and academic departments from the various Schools. The University and affiliated corporations also own Park Cities Plaza, a shopping center just south of the main campus in University Park, and other properties in Dallas and University Park east of North Central Expressway. These properties are all used for University purposes or are expected to be developed in the future 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. The SMU-in-Taos campus at Fort Burgwin, near Taos, New Mexico, includes 32 buildings.

Libraries. The Central University Libraries form the nucleus of the SMU Library system and are comprised of the Fondren Library, the Jake and Nancy Hamon Arts Library, the DeGolyer Library, the Norwick Center for Digital Services (nCDS), the SMU-in Plano Library Resource Room, and the Fort Burgwin Library on the SMU-in-Taos campus. 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 Library in the Edwin L. Cox School of Business. The Underwood Law Library is the largest private law library in the southwestern United States. Bridwell Library is one of the finest theological libraries in the nation, housing more than 380,000 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 2014 numbered over 4 million volumes, which include 2 million books, more than 1 million e-books, 650,000 government documents and over 235,000 bound periodicals. In addition, the libraries have a combined total of nearly 2 million microforms. The University's libraries provide mobile device and wireless access from anywhere in the world to a wide variety of electronic resources, as well as offering the more traditional onsite 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 collections devoted to the Trans-Mississippi West are 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 and the history of photography with over 1,000,000 photographs and negatives. The DeGolyer Library also house 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 9,000 prints and negatives in all film formats and more than 3,000 videotapes and videocassettes. The Jones Collection includes 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, Earth Sciences, Communication Arts, Psychology, Physics, Health and Physical Education, Dance, Music, Theatre, Statistics, Computer Science, and Electrical, Civil, Environmental, Computer 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. Engineering departments are housed in the Caruth, Embrey and Junkins 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 and faculty have access to a wide array of specialized instrumentation and laboratory equipment fundamental to studies in the natural sciences and engineering, including spectrophotometers, high performance liquid chromatographs, scintillation counters, a DNA synthesizer, X-ray diffractometers, mass spectrometers, an atomic absorption spectrometer, an automated X-ray fluorescence analyzer, an XIA UltraLo-1800 Alpha Particle Counter, a scanning electron microscope, a transmission electron microscope, and a high-performance computing cluster operated by the Center for Scientific Computation and comprising 213 nodes with 2,040 total cores. The Electron Microprobe Laboratory contains a fully automated JEOL model 733 electron microprobe with four X-ray spectrometers and associated sample preparation equipment. An optoelectronics laboratory is equipped with all necessary equipment to test electrical circuits and analyze spectra, including equipment to analyze performance under conditions of intense radiation. The Bobby B. Lyle School of Engineering has a number of teaching and research laboratories across five departments. Research facilities include the SMU clean room which has a class 10 photolithography area and a class 1000 main area. A partial list of equipment in the clean room includes: hoods, photoresist spinners, contact mask aligners, thermal evaporator, plasma etcher, turbo-pumped reactive ion etcher, ion beam etch system, microprobe stations, ultrasonic cleaners, sputtering system, plasma-enhanced chemical vapor deposition (PECVD) system, e-beam evaporator, photoluminescence system, ellipsometers and profilometers. Support outside the clean room includes a scanning electron microscope, atomic force microscope, wafer lapper, wafer saw, and cleave and scribe tools. Bobby B. Lyle School of Engineering also houses the Research Center for Advanced Manufacturing (RCAM) and the Center for Laser Aided Manufacturing (CLAM). These laboratories possess cutting-edge research equipment for rapid manufacturing processes (include 3-D printer), multi material arc welding and laser-based laser cladding system, friction stir welding system, electron beam materials processing system, abrasive waterjet materials processor, short-pulse lasers for micro-machining and a hybrid welder.

The Office of Information Technology Help Desk, located in Fondren Library Center,, provides support for the instructional, research, administrative computing, high-performance 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 paleo ecologic 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. 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. The Applied Physiology Laboratory of the Annette Caldwell Simmons School of Education and Human Development is equipped with a clinical treadmill, electronically braked cycle ergometer, a friction-braked cycle ergometer, a wireless electrocardiogram system, a metabolic measurement cart, high speed cameras, force plates to measure forces during acceleration, and computers for data acquisition and analysis.

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, Ribera, Zurbarán, El Greco, Murillo, Goya, Miró and Picasso. Highlights of the collection include Renaissance altarpieces, monumental Baroque canvases, exquisite rococo oil sketches, polychrome wood sculptures, impressionist landscapes, modernist abstractions, a comprehensive collection of the graphic works of Goya, and a select group of sculptures by major 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 last 15 years. The Laura Lee Blanton Student Services Building was completed in 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 2005 marked the opening of the James M. Collins Executive Education Center. The Collins Center houses the Edwin L. Cox School of Business' Executive M.B.A. 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. Also opened in 2006 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 student fees. 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 2006, the 50,000 plus square foot J. Lindsay Embrey Engineering Building received LEED Gold certification (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 in 2002. Caruth Hall opened in spring 2010 and received LEED Gold certification. As well, the School of Theology opened Elizabeth Perkins Prothro Hall in 2009 which received LEED Silver certification. Construction of the 40,000 square foot Annette Caldwell Simmons Hall for the School of Education and Human Development was completed in 2010 and received LEED Gold certification. The second 40,000 square foot building for the Simmons School of Education, Harold Clark Simmons Hall, opened in 2016 and received LEED Gold certification. In 2014, SMU completed its largest capital project which included five new residence halls to house a total of 1,250 students, a 30,000 square foot dining facility, and an 800-space parking center. The five residence halls and dining facility all achieved LEED Gold certification. The 26,000 square foot Dr. Bob Smith Health Center, opened in the fall of 2016 and received LEED Silver for Health Care certification. The Aquatics Center natatorium, named for legendary Mustang swim coaches Coach A.R. "Red" Barr and Coach George Mac" McMillion '55, opened in October 2017 and features an indoor Olympic-sized pool configured for eight 50-meter competition lanes or twenty-two 25-yard lanes. Its diving area boasts a 10-meter diving tower with four springboards. It replaces the recently demolished Perkins Natatorium once located on the main campus. In October of 2017 the University dedicated the new Payne Stewart SMU Golf Training Center at Trinity Forest Golf Club in Dallas. The 6,700-square foot facility features team locker rooms, coaches' offices, a conference room, a workout center and kitchen. The center also houses a hitting bay featuring premier equipment, including the Swing Catalyst, which tracks weight shift throughout the swing as well as four video motion-capture cameras and monitors to show swings. A TrackMan system uses dual radar technology to track both club movement and the ball at the moment of impact. This equipment provides a strong foundation for analysis, enabling the Mustang golfers to use real-time data to improve their games.

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

RECENT ADVANCEMENTS

- SMU's main campus in Dallas has grown from 60 buildings and 160 acres in 1995 to 107 buildings and 234 acres in 2016. The campus has expanded east of North Central Expressway along SMU Blvd. with the addition of 19 buildings on 15 acres making up the East Campus.
- SMU consistently ranks in the top one-fourth of the "best national universities" in the guide published by *U.S. News & World Report.* In the 2016 report, SMU ranks 61st among 270 national universities. Individual SMU schools and programs receiving national recognition include Cox School of Business, Dedman School of Law and the music program in Meadows School of the Arts. In 2011 the Carnegie Foundation for the Advancement of Teaching raised SMU's classification to a research university with "higher research activity."
- SMU's endowment surpassed the $1 billion mark in 2005. It is now $1.5 billion. SMU has an operating budget of $635 million for fiscal year 2017.
- Since 1995 SMU has added doctoral programs in art history, biostatistics, chemistry, four fields of education, three fields of engineering, English, history and liberal studies, bringing to 31 the fields offering doctoral-research degrees.
- SMU faculty members have been named to prestigious academies, including the National Academy of Sciences, the American Academy of Arts and Sciences and the National Academy of Engineering.
- The University's eight libraries house the largest private collection of research materials in the Southwest, with more than four million print and electronic volumes, up from1.8 million in 2000.
- SMU's external awards for research and sponsored projects have increased significantly. During 2015-16, SMU received $28.4 million for research and sponsored projects, compared with $4.1 million in 1994-95.
- Applications for the incoming first-year class have increased from 3,869 in 1995 to 13,250 for the fall 2016 incoming class of 1,522. This has enabled SMU to become more selective in its admissions.
- The academic strength of incoming SMU students has grown significantly. The average SAT score of the first-year undergraduate class for fall 2016 was 1314, up from 1217 in 2005.
- SMU's enrollment has become increasingly diverse. In fall 2016 the total minority enrollment was 26.8 percent, up from 18.8 percent in 1995. Students now come from all 50 states, with more than half of undergraduates from outside Texas. A fall 2016 international enrollment of 1,719 (14 percent of total enrollment) represents 124 foreign countries, with China, India and Saudi Arabia the largest international groups.

- Ten years ago SMU offered 18 education abroad programs in 12 countries. Today students have access to more than 150 study abroad programs in 50 countries, plus research and service opportunities overseas.
- SMU is home to the George W. Bush Presidential Center, consisting of a library, museum and independent institute. The Center, which opened in 2013, is a valuable source of research materials and programs for scholars, students and visitors.
- The Meadows Museum at SMU houses one of the largest and most comprehensive collections of Spanish art outside of Spain. The Museum celebrated its 50th anniversary in 2015 with exhibitions never before seen in the U.S.
- SMU is a major contributor to the Dallas economy and enriches the community through diverse educational and cultural opportunities.
- SMU expenditures for operations, capital projects and scholarships, plus spending by students, visitors and alumni, contribute $7 billion annually to the region.
- SMU-in-Plano, which opened in 1997, now occupies four buildings on 25 acres on the campus north of Dallas.
- Recent renovations and expansions have been made at SMU-in-Taos, currently including 32 buildings on 423 acres in Northern New Mexico.

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:

Name	Residence	Principal Occupation
Katherine R. Crow	Dallas, Texas	Civic and Philanthropic Leader
Gary T. Crum	Houston, Texas	President CFP Foundation
Robert H. Dedman, Jr. Vice Chair	Dallas, Texas,	President & CEO DFI Management (GP), Ltd.
Antoine L. V. Dijkstra	The Netherlands	Partner and Co-Founder Implexus Capital & Partners
Gerald J. Ford	Dallas, Texas	Chairman of the Board and CEO Diamond A Ford Corporation
The Honorable Antonio O. Garza, Jr.	Mexico City, Mexico	White & Case S.C.
Juan Gonzalez-Moreno	Irving, Texas	President/Chairman of the Board GRUMA Corporation
Bishop Cynthia Fierro Harvey	Baton Rouge, LA	Louisiana Annual Conference The United Methodist Church
Frederick B. Hegi, Jr.	Dallas, Texas	Founding Partner Wingate Partners
Clark K. Hunt	Dallas, Texas	Chair of the Board & CEO Kansas City Chiefs
Ray L. Hunt	Dallas, Texas	Executive Chairman Hunt Consolidated, Inc.
David S. Huntley	Dallas, Texas	Sr. Executive VP/Chief Compliance Officer AT&T Inc.
Bishop Scott J. Jones	Houston, Texas	Bishop, Houston Area The United Methodist Church
Paul Krueger *	Dallas, Texas	Professor and President of the Faculty Senate Southern Methodist University
Paul B. Loyd, Jr.	Houston, Texas	PBL Enterprises Investments
Bobby B. Lyle	Dallas, Texas	Chairman, President and CEO Lyco Holdings Incorporated
Bishop Michael McKee*	Dallas, Texas	Bishop Dallas Area North Texas Conference The United Methodist Church
Scott McLean	Houston, Texas	President/Chief Operating Officer Zions Bancorporation
David B. Miller Secretary	Dallas, Texas	Co-Founder/Managing Partner EnCap Investments, L.P.
Frances A. Moody-Dahlberg	Dallas, Texas	Chairman/Executive Director The Moody Foundation
Connie O'Neill	Dallas, Texas	Civic and Philanthropic Leader
Sheron Patterson	Dallas, Texas	The United Methodist Church

Name	Residence	Principal Occupation
Sarah F. Perot	Dallas, Texas	Civic and Philanthropic Leader
The Honorable Jeanne L. Phillips	Dallas, Texas	Sr. Vice President Corporate Affairs and International Relations Hunt Consolidated, Inc.
Caren H. Prothro	Dallas, Texas	Civic Leader and Philanthropist
Paul L. Rasmussen	Dallas, Texas	Senior Minister Highland Park United Methodist Church
Carl Sewell	Dallas, Texas	Chairman Sewell Automotive Companies
Douglas C. Smellage*	Dallas, Texas	Alumni Board Chair and Lawns of Dallas
Richard K. Templeton	Plano, Texas	Chairman, President, and CEO Texas Instruments, Inc.
Dr. R. Gerald Turner*	Dallas, Texas	President Southern Methodist University
Andrew Bassey Udofa*	Dallas, Texas	Student Trustee Southern Methodist University
Richard Ware	Amarillo, Texas	President Amarillo National Bank
Royce Ed Wilson	Pacific Palisades, CA	CEO Dreamcatcher, LLC

* Ex officio members

ADMINISTRATION

The following list sets forth the University's key officials and other administrative officials of its various schools for academic year 2017-2018, their titles and dates of employment at the University:

Name	Title	Year of Employment
R. Gerald Turner	President	1995
Steven C. Currall	Provost and Vice President for Academic Affairs	2016
Harold W. Stanley	Vice President for Executive Affairs	2003
Paul J. Ward	General Counsel, Vice President for Legal Affairs and Government Relations and Secretary	2009
Kenechukwu Mmeje	Vice President for Student Affairs	2017
Christine Regis	Vice President for Business and Finance	2007
Brad E. Cheves	Vice President for Development and External Affairs	2004
Rakesh Dahiya	Treasurer and Chief Investment Officer	2016
Rick Hart	Director of Athletics	2012
Jennifer Collins	Dean of the Dedman School of Law	2014

Name	Title	Year of Employment
James Quick	Associate Vice President for Research and Dean of Graduate Studies	2007
Samuel S. Holland	Dean of the Meadows School of the Arts	1991
Craig C. Hill	Dean of the Perkins School of Theology	2016
Thomas DiPiero	Dean of the Dedman College of Humanities and Sciences	2014
Matthew B. Myers	Dean of the Edwin L. Cox School of Business	2017
Stephanie L. Knight	Dean of Annette Caldwell Simmons School of Education and Human Development	2017
Marc Christensen	Dean of the Bobby B. Lyle School of Engineering	2002
Elizabeth Killingsworth	Dean and Director of Central University Libraries, *ad litem*	2013

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 as the University celebrates the centennial of its founding in 2011 and of its opening in 2015.

Under his leadership, the Second Century Campaign, launched in September 2008, seeks resources for a dramatic increase in academic quality and impact. Concluding in February 2016, it has raised $1.15 billion with an original goal of $750 million in additional endowment for student scholarships, academic positions and programs, and the campus experience. The previous Campaign for SMU: A Time to Lead (1997-2002) raised more than $540 million for academic programs, scholarships, professorships, and student life programs.

A strategic plan guides the University's advancement, and a master plan is reshaping the physical profile of the campus, including property acquisition and 26 new or renovated facilities.

Working with the SMU Board of Trustees, President Turner led the University's efforts to attract the George W. Bush Presidential Center, which opened in 2013.

Beyond the campus, Gerald Turner is a member of the board of the American Council on Education and the National Association of Colleges and Universities, and he co-chairs the Knight Commission on Intercollegiate Athletics. In Texas he serves on the boards of the Methodist Hospital Foundation, the Salvation Army of Dallas, and two publicly traded companies.

Before joining SMU, President Turner was the chancellor of the University of Mississippi. A native of 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. He and his wife, Gail, a native of Graham, Texas, have two married daughters. Angela, a professional opera singer, and husband Michael Wilson are the parents of Luke and Wyatt and live in Dallas; Jessica, an SMU alumna and professional actress, and husband Jeff Waugh are the parents of Abigail and Lexie. They live in Boston, Massachusetts.

Steven C. Currall, Provost and Vice President for Academic Affairs, B.A., M.Sc, Ph.D. Dr. Currall joined the University as Provost and Vice President for Academic Affairs at the beginning of 2016. Dr. Currall previously worked at the University of California, Davis (UC Davis), where he served as Senior Advisor to the Chancellor for Strategic Projects and Initiatives and as Professor of Management. As Chancellor's Senior Advisor, Currall co-chaired campus-wide strategic visioning exercises to position UC Davis as the "University of the 21st Century." He also led planning for an additional campus in the Sacramento region, which included the academic strategy, financial plan, fundraising plan, analysis of physical facilities, organization of advisory groups, and liaison to the Academic Senate.

A psychological scientist, Currall has conducted research and taught for nearly three decades on organizational psychology topics such as innovation, emerging technologies, negotiation, and corporate governance. At the invitation of the U.S. President's Council of Advisors on Science and Technology, Currall was a member of the Nanotechnology Technical Advisory Group. He has been a grantee on $21,533,893 in external funding of which over 78% came from refereed research grants from the National Science Foundation (NSF) and National Institutes of Health. Currall was lead author of a book on university-business-government collaboration entitled, Organized Innovation: A Blueprint for Renewing America's Prosperity (Oxford, 2014). Based on a study funded by the NSF, the book is the culmination of a 10-year research project on interdisciplinary research involving science, engineering, and medicine. He has served as a member of several editorial review boards such as Academy of Management Review, Academy of Management Journal, and Organization Science. He is a Fellow of the American Association for the Advancement of Science.

He has served as the Vice Chair of the Board of Directors and member of the Executive Committee for the 10-campus University of California system's Global Health Institute. He also served on the Boards of Directors of the San Francisco Bay Area Council and the California Life Sciences Association.

Additional leadership experience included serving as the Dean of the Graduate School of Management at UC Davis, leading the School to the highest ranking in its history; Endowed Chair holder; founding Chair of an academic department; leadership of seven centers/institutes, and campus-wide service roles as Chair of the Task Force on Faculty Salary Equity, Chair of the Strategic Review of Human Resources, Chair of Board of Directors of the Ecosystem for Biophotonics Innovation, Vice Chair of Chancellor's Blue Ribbon Committee on Research, and member of the Vision of Excellence committee.

Currall has served as a member of the boards of BioHouston (interim Vice Chair; Executive Committee; chair of Governance Committee), Leadership in Medicine, Inc., Nanotechnology Foundation of Texas, and Interferometrics, Inc., a venture-funded medical device start-up. He has been quoted over 600 times in publications such as the New York Times, Wall Street Journal, Washington Post, Financial Times, Business Week, British Broadcasting Corporation (BBC) television, and the Nightly Business Report on public television.

Harold W. Stanley, Vice President for Executive Affairs and the Geurin-Pettus Distinguished Chair in American Politics and Political Economy. B.A., M.Phil., Ph.D. Dr. Stanley was appointed to the position of Vice President for Executive Affairs in February of 2016. Earlier, as Associate Provost at SMU he oversaw the International Center, SMU-in-Taos, the Altshuler Learning Enhancement Center, the Center for the Academic Development of Student Athletes, and the President's Scholars.

Professor Stanley came to SMU in Fall 2003 from the University of Rochester where he had served as the Chair of the Political Science department. He began his career at Rochester in 1979 and served as a Visiting Research Professor at the University of Alabama (1987–1988) and SMU (2000–2001). In 2000-2001 he served as president of the Southern Political Science Association. Professor Stanley began teaching at Yale University in 1979, serving as a Prize Teaching Fellow there.

Professor Stanley holds a Ph.D. in Political Science from Yale, a Masters degree in Politics from Oxford, and a Bachelor's degree in Political Science from Yale, where he graduated *magna cum laude*. He received a Rhodes Scholarship for study at Oxford from 1972–1975.

He has published three books, *Vital Statistics on American Politics 2015–2016* (CQ Press, fifteenth edition), *Voter Mobilization and the Politics of Race: The South and Universal Suffrage, 1952 –1984* (Praeger, 1987), and *Senate vs. Governor, Alabama 1971: Referents for Opposition in a One-Party Legislature* (University of Alabama Press, 1975). He has also published numerous journal articles, book chapters, and reviews.

Professor Stanley was selected as a Phi Beta Kappa Visiting Scholar for 2015-2016.

In 2010 Professor Stanley received the "M" Award, the most highly prized recognition bestowed upon SMU students, faculty, staff and administrators for service to the University. In 2013 Professor Stanley received SMU's Outstanding Administrator Award.

Paul J. 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 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.

Kenechukwu K.C. Mmeje, Vice President for Student Affairs, B.A., M.Ed., Ed.D. Dr. Mmeje oversees the Office of the Dean of Student Life; Residence Life; women's, LGBT, multicultural, volunteer and leadership programs; student activities; student conduct; the Hegi Family Career Development Center; campus ministries; health and wellness programs, including the Dr. Bob Smith Health Center; the Hughes-Trigg Student Center and the Dedman Center for Lifetime Sports.

As assistant vice president and dean of students at Loyola University Chicago, Dr. Mmeje was responsible for several functional areas that support Loyola's academic mission and promote a vibrant campus life, including the Office of the Dean of Students, Off-Campus Student Life, Office of Student Conduct & Conflict Resolution, Student Activities & Greek Affairs, Leadership Development and Second Year Experience, Student Diversity & Multicultural Affairs, and the Student Government of Loyola Chicago (SGLC). He has almost 15 years of progressively responsible student affairs experience in judicial affairs, crisis management, retention and academic support services, and student advocacy and support.

Mmeje received his B.A. degree in sociology and Black studies from the University of California-Santa Barbara. He earned a Master of Education degree in higher education student affairs administration from the University of Vermont and his Ed.D. in educational leadership from USC. In addition, he holds a Certificate in Management and Leadership in Education from Harvard University's Graduate School of Education.

Christine Regis, Vice President for Business and Finance B.S., M.B.A., CPA. Ms. Regis serves as the University's chief business and financial officer and administers the University's operating budget and capital budgets. The Vice President oversees and is accountable for the University Budget Office, Controller's Office, Human Resources, Campus Services, Office of Facilities Planning and Management, and the Office of Police and Risk Management.

Ms. Regis 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 from July 2005 to 2007. Prior to her position at the University of California, she served for 12 years at Western New Mexico University ultimately as Vice President for Business and Administration.

Ms. Regis'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. Regis 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. Regis, 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 serves as Vice President for Development and External Affairs (DEA) at SMU and is responsible for fund-raising and public relations for the University, including oversight of the $750 million Second Century Campaign and the five-year Second Century Celebration marking the centennial of SMU's founding in 1911 and opening in 1915.

This is Cheves' second appointment at SMU. From 1998 to 2001, Cheves was SMU's Associate Vice President for Development. From 2001 to 2004, Cheves was Vice President for Advancement and Public Affairs and an assistant professor of public policy at Pepperdine University. He previously served Pepperdine as Associate Dean at the School of Public Policy and director of alumni relations at the School of Law.

A native of Albuquerque, New Mexico, Cheves earned a Bachelor's degree in business administration and finance from Abilene Christian University and a 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 State Legislature. Cheves currently serves in leadership roles with several Dallas community organizations, including Dallas Assembly, Dallas Summer Musicals, YMCA of Metropolitan Dallas and Circle Ten Boy Scouts. He is also a member of the Texas Lyceum.

Rakesh Dahiya, Treasurer and Chief Investment Officer B.B.A, M.B.A. As the University's treasurer and chief investment officer, Rakesh Dahiya is responsible for oversight of the $1.5 billion endowment, mineral interests and planned giving assets. He works with the Investment Committee 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.

As a senior officer at SMU, Dahiya 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.

Dahiya joined SMU in September 2016 after five years as Director of Marketable Strategies from the University of Florida Investment Corporation (UFICO). Prior to UFICO, he spent nine years at Washington University in St. Louis, and six years at Ralston Purina.

Dahiya graduated from Iowa State University (B.B.A., Finance, 1994) and the University of Illinois (M.B.A., 1996).

STUDENT ENROLLMENT

The University takes an active approach in recruiting students. Representatives of the University visit over 700 secondary schools and nearly 300 college fairs each year and use advanced marketing techniques to support recruiting efforts. Although the preponderance of the student body is from the Southwest (55% of undergraduates), all states as well as 91 foreign countries have representation across the entire student body. In the Fall Semester 2017, 13% of SMU's student body was Methodist; 25% 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 2013 through 2017.

TABLE ONE
First-Year Undergraduate Admission and Enrollment Information

	Academic Year Beginning Fall of				
	2013	**2014**	**2015**	**2016**	**2017**
Number of Applications Completed	12,080	11,817	12,992	13,250	13,128
Number Admitted	6,125	6,192	6,360	6,482	6,402
(% of Applicants)	51%	52%	49%	49%	49%
Number Enrolled	1,431	1,459	1,374	1,522	1,423
(% of Admitted)	24%	24%	22%	23%	22%
Mean Range SAT Score of Enrolled	1230-1380	1240-1390	1250-1390	1250-1390	1290-1430*

* The new SAT scoring format is utilized beginning in 2017. Any scores used from the prior scoring scheme for
2017 data have been converted using the College Board Concordance tables.

The undergraduate student body is primarily full-time. During the Fall Semester 2017, headcount undergraduate enrollment totaled 6,452 which included 6,240 full-time and 212 part-time students. The graduate and professional student headcount enrollment for the Fall Semester 2017 was 5,337. Currently, 97% of first-time/first-year students and 54% 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 20 and the average age of graduate and professional students is 30. The following chart sets forth the student full-time equivalent enrollment by school for the academic years beginning in the fall of 2013 through 2017.

SMU's undergraduate student body primarily enters as first-time freshmen. Admission, scholarship, financial aid and credit policies are inclusive and welcoming of transfer students. In Fall 2017 transfer students accounted for 16% of all new undergraduates. The largest number originate from 2-year schools (53%), followed by 4-year schools (47%).

TABLE TWO
Full-Time Equivalent Enrollment

School	Academic year Beginning Fall of 2013	2014*	2015*	2016*	2017*
Undergraduate					
Dedman I	2,688	2,784	2,699	2,721	2,663
Dedman II	1,166	1,128	1,156	1,160	1,131
COX	916	970	988	1,096	1,131
LYLE	614	644	616	649	643
MSA	726	669	644	623	617
Simmons School of Education & HD	150	155	164	150	136
Total Undergraduate	6,260	6,350	6,267	6,399	6,321
Graduate & Professional					
Dedman College	197	218	226	218	222
Edwin L. Cox School of Business (full-time)	420	478	620	611	580
Edwin L. Cox School of Business (part-time)	207	205	214	200	213
Executive MBA Program	141	133	143	133	139
Lyle School of Enginering	452	523	578	617	632
Meadows School of the Arts	151	143	132	141	162
Perkins School of Theology	216	224	208	161	138
Dedman School of Law	845	957	915	934	952
Guildhall	118	103	103	109	90
Simmons School of Education & HD	354	370	456	446	559
Subtotal	3,101	3,354	3,595	3,570	3,687
Special Studies	86	149	210	263	286
Total Graduate & Professional	3,187	3,503	3,805	3,833	3,973
Total University	**9,447**	**9,853**	**10,072**	**10,232**	**10,294**

Note: Non-degree students included in school totals.
Based on 15 credit hours for undergraduate enrollment; 14 credit hours for juris doctor program in the Dedman School of Law; and 12 credit hours for all other graduate programs.
* The standard changed in 2014 and is based on 15 credit hours for undergraduate enrollment, and 12 credit hours for all graduate programs.

FINANCIAL AID

The University awarded financial aid to approximately 70% of the Fall Semester 2017 undergraduate student body. Student financial aid includes both merit and need-based programs. In the 2016-2017 academic year, the University awarded over $117 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 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 Direct Student Loans to help fund their educational expenses. There are other forms of Federal and State financial assistance as well. The University's most recent student loan default rate is 7.8% for Federal Perkins loan program and 2.7% 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)

	FISCAL YEAR ENDING MAY 31,				
	2013	2014	2015	2016	2017
GRANTS					
Federal	$ 4,929	$ 4,787	$ 4,745	$ 4,332	$ 4,279
State	4,786	4,867	5,027	4,732	4,757
Total	$ 9,714	$ 9,654	$ 9,772	$ 9,064	$ 9,036
SCHOLARSHIPS & FELLOWSHIPS					
Unrestricted Funds	$ 86,455	$ 93,991	$ 100,270	$ 105,093	$ 116,881
Restricted Funds	23,286	26,723	26,894	27,001	28,201
Total	$ 109,742	$ 120,714	$ 127,164	$ 132,094	$ 145,082
OUTSTANDING LOANS TO STUDENTS					
From University Funds	$ 737	$ 783	$ 501	$ 445	$ 385
From Government Funds	74,728	71,898	69,228	67,211	70,327
From Private Funds	6,390	7,835	8,222	8,286	9,856
Total	$ 81,856	$ 80,516	$ 77,951	$ 75,941	$ 80,568
STUDENT EMPLOYMENT					
College Work Study	$ 4,860	$ 4,732	$ 4,501	$ 4,826	$ 3,375
Student Payroll	3,152	3,426	3,463	3,718	3,498
Total	$ 8,012	$ 8,158	$ 7,964	$ 8,544	$ 6,872

FACULTY AND STAFF

As of Fall Semester 2016, the University employed a total of 2,664 employees (both full and part time), including 1,474 staff, 1,190 faculty (including adjuncts). Currently, 51.5% of the University's full-time instructional faculty members are tenured. Females account for 39.4% of the full-time instructional faculty, and 19.4% of the full-time instructional faculty are minorities. Among full-time instructional faculty, 82.2% 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 $17,723,000 for the fiscal year ending May 31, 2017 and $17,102,000 for the fiscal year ending May 31, 2016. 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

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 POSITION FOR THE FISCAL YEAR ENDED MAY 31, 2017

The University's financial position improved from fiscal year 2016 to fiscal year 2017. Following is a summary of the fiscal year 2017 changes in the University's financial position (dollars in thousands):

TABLE FOUR
Changes in Financial Position
(in thousands)

			Net Assets			
	Assets	Liabilities	Total	Unrestricted	Temporarily Restricted	Permanently Restricted
FY2017	$ 2,900,540	$ 911,626	$ 1,988,914	$ 657,809	$ 619,890	$ 711,215
FY2016	2,852,928	915,500	1,937,428	609,020	645,759	682,649
Change	$ 47,612	$ (3,874)	$ 51,486	$ 48,789	$ (25,869)	$ 28,566

Total assets increased by $47.6 million during fiscal year 2017. Changes in the assets were primarily the result of $46.6 million in capital gifts and pledges as well as net realized and unrealized gains on investments totaling $51.4 million, offset by the liquidation of assets to pay scheduled principal maturities and debt service of $46.0 million.

Changes in asset categories that merit mention include a $64.0 million decrease in cash and cash equivalents, or 27.2 percent, to $171.4 million, an increase in accounts receivable of $17.0 million or 66.8 percent to $42.2 million, an increase in investments of $56.6 million, or 4.1 percent, to $1.5 billion, and an increase in property, plant and equipment of $40.6 million, or 3.9 percent, to $1.1 billion. The decrease in cash and cash equivalents was due to the increase in operating investments. The increase in property, plant and equipment resulted primarily from campus construction projects during fiscal year 2017, including the following (dollars in thousands):

Electrical Substation	$18,728
Aquatic Center	18,258
Laboratory Upgrades	10,709
Dr. Bob Smith Health Center	4,952
Energy System Upgrades	4,326
Total	$56,973

Liabilities decreased by $3.9 million, or 0.4 percent, in fiscal year 2017, to $911.6 million at year-end. This was driven by a $22.5 million net decrease in long-term debt offset by an increase of $12.7 in accounts payable and accrued expenses. The University also refunded a majority of the Series 2007 bonds as part of a bank loan agreement entered into during fiscal year 2016.

Net assets increased by $51.5 million, or 2.7 percent, to nearly $2.0 billion at year-end, principally as a result of capital gifts and gains on investments.

ENDOWMENT

The market value of the University's endowment increased $119.4 million during fiscal year 2017. The following is a summary of the changes in endowment market value (dollars in thousands):

TABLE FIVE
Changes in Endowment Value
(in thousands)

Endowment market value at May 31, 2016		$ 1,421,447
Gifts		26,429
Net realized and unrealized gains on investments	$ 50,962	
Less realized gains transferred for spending	(59,422)	(8,460)
Increase in market value of assets not carried at fair value		100,863
Other changes		565
Endowment market value at May 31, 2017		$ 1,540,844

The endowment market values reported above include pledges receivable totaling $35,044,000 and $32,660,000 for fiscal years ending 2017 and 2016, respectively. Pledges receivable are included pursuant to Accounting Standards Codification 958, *Not-for-Profit Entities*. The pledges receivable do not generate income for spending and are not included when the University reports endowment fund market value for purposes other than the financial statements.

These market values include all assets reported at fair value, whereas the financial statements only include marketable securities, funds held in trust by others and equity method of accounting investments reported at fair value. Since the University has elected not to report other investments at fair value for financial statement purposes, the unrealized gains or losses on these investments are not reported for financial statement purposes, except if they are determined to be permanently impaired. Assets determined to be permanently impaired in fiscal year 2017 totaled $8,382,000.

Further, these endowment market values also include non-endowment funds invested in the endowment, including annuity funds and a trust totaling $497,000 and $4,806,000 for fiscal years 2017 and 2016, respectively.

OTHER

The University engaged Bain & Company late in fiscal year 2014 to review the University's administrative functions and explore revenue generating opportunities. This initiative, the Operational Excellence for the Second Century (OE2C) project, instituted changes in the University's organizational structure and processes, redeploying resources to its core mission activities of instruction and research. As of the fall of 2017 the project has captured over $20M in savings that will be redirected to the University's core mission. Payments to Bain & Company were expensed when incurred. Savings generated will be used to fund these onetime costs and for academic and research initiatives.

OPERATING BUDGET

The University conducts its annual operations in accordance with a Board approved detailed operating budget that has produced an operating surplus for 30 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)

	Fiscal Year Ending May 31,				
Unrestricted Net Assets	**2013**	**2014**	**2015**	**2016**	**2017**
Total Revenues	$ 453,291	$ 531,330	$ 534,601	$ 564,125	$ 577,940
Exclude net realized and unrealized (gains)/losses on investments	(5,484)	(3,828)	(2,493)	(4,065)	(1,157)
Total Operating Revenues	$ 447,807	$ 527,502	$ 532,108	$ 560,060	$ 576,783
Total Expenses	447,723	473,044	506,943	512,346	523,698
Increase in Unrestricted Net Assets from Operations	**$ 84**	**$ 54,458**	**$ 25,165**	**$ 47,714**	**$ 53,085**

STUDENT CHARGES

For the fiscal year ending May 31, 2017, income from tuition and fee charges, net of scholarship allowances, accounted for approximately 53% of the University's current fund operating revenues. Approximately 69% of the total tuition and fee revenue for the fiscal year ending May 31, 2017 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

	Academic Year				
	2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**
Tuition	$ 38,870	$ 40,770	$ 42,770	$ 44,694	$ 46,594
General Fee	4,930	5,170	5,420	5,664	5,904
Room and Board	13,955	14,646	15,575	16,125	16,510
Total	$ 57,755	$ 60,586	$ 63,765	$ 66,483	$ 69,008

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, 2017 market value of approximately $1.51 billion. According to the Fiscal Year 2016 NACUBO Endowment Study, prepared by the National Association of College and University Business Officers, the University's endowment was the 68th largest endowment of the 815 public and private institutions in the United States surveyed. The endowment has approximately $1.1 billion reserved to the schools and specific areas and approximately $443 million available for general University use. School endowments range from approximately $26 million for the Simmons School of Education and Human Development to approximately $218 million for The Edwin L. Cox School of Business. The following table shows market value and endowment pool return of the University's endowment for each of the past 18 fiscal years.

TABLE EIGHT
Endowment Fund Growth
Fiscal Years 2000 through 2017
(in thousands)

Fiscal Year Ended May 31,	Value	(Note)	Endowment Pool Total Return
2000	911,121		19.5%
2001	872,388		-1.7%
2002	831,116		-2.1%
2003	807,551		0.4%
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		-24.0%
2010	1,069,399	(1)	7.8%
2011	1,190,709	(1)	14.0%
2012	1,162,415	(1)	-0.1%
2013	1,268,079	(1)	12.1%
2014	1,425,146	(1)	13.9%
2015	1,505,296	(1)	6.6%
2016	1,383,981	(1)	-5.3%
2017	1,505,303	(1)	12.0%

NOTES: [1]The endowment market value does not include pledges recorded, annuity funds, a trust invested in the endowment or other impairments. These are included in the endowment market value 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, 2017.

TABLE NINE
Endowment Assets as of May 31, 2017
(in thousands)

Asset	Cost	Market	Strategic Target	Current Allocation
Global Equities	$492,062	$592,199	40%	41%
Fixed Income	70,218	71,385	13%	5%
Absolute Return	299,415	384,007	25%	27%
Private Markets	122,528	191,032	13%	13%
Real Assets	84.014	114,970	10%	8%
Cash/Cash Equivalent	82,005	82,002	0%	6%
Separately Invested	28,952	69,709	n/a	n/a
Total Endowment	**$ 1,179,194**	**$1,505,304**	**100%**	**100%**

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 corporate bonds and asset backed securities. Diversifying Strategies 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 June 30, 2017, available liquidity in the endowment pool includes within one month $519 million, and within one year $1.014 billion. In total the University could redeem around 89% of its public portfolio within one year, or approximately 67% of the entire endowment.

The University has committed to capital draws totaling $717,421,000 for private equity, venture capital, real estate funds and other investments, of which $518,077,000 had been drawn as of May 31, 2017. The University has committed to pay draws as required for the remaining $188,301,000 through fiscal year 2027. There is no annual limit on such draws and, hence, any remaining amount could be called upon in its entirety at any time. 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 17 to the Financial Statements included in **APPENDIX B** hereto.

The University directs the management of approximately 94% of its Endowment and Similar Funds through the use of approximately 85 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 2017 was 4.85%.

FUNDRAISING

The Campaign for SMU: A Time to Lead exceeded its initial goal of $300 million by raising $542 million from 1997-2002. SMU Unbridled: The Second Century Campaign raised $1.15 billion in gifts from 2008-2016, the largest amount ever raised by a private university in Texas. The combined gifts for the two campaigns have provided funds for 860 scholarships; 148 academic programs, including endowment support for two schools (Annette Caldwell Simmons School of Education and Human Development and Bobby B. Lyle School of Engineering) and one academic department (Roy M. Huffington Department of Earth Sciences); 70 endowed faculty positions, making a total of 116; and 38 capital projects, including new and renovated facilities.

SMU Unbridled: The Second Century Campaign:

- Gained support from the largest number of donors – more than 65,000 from throughout the world, an increase of 58 percent from SMU's previous campaign, which ran from 1997-2002.
- Saw an increase of 135 percent in gifts from outside Texas, as compared to the last campaign.
- Received the largest number of gifts of $1 million or more – 183.
- Exceeded its goal to receive gifts from 50 percent of alumni over the course of the campaign, achieving 59 percent.

- Surpassed its goal to achieve 25 percent of undergraduate alumni giving in a single year, reaching 26 percent for 2014–2015. (This measurement is used by some ranking organizations to gauge the level of alumni satisfaction with their alma mater.)

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,				
	2013 **	**2014**	**2015**	**2016**	**2017**
SOURCES					
Alumni	$ 22,128	$ 17,868	$ 39,121	$ 28,057	$ 13,924
Parents & Friends	22,039	35,321	20,590	14,184	10,722
Foundations	52,549	41,779	36,401	47,768	34,860
Corporations	6,058	6,502	9,804	6,748	10,089
Religious Organizations	2,433	1,868	4,151	2,175	1,609
Other Parents & Organizations	4,267	7,852	8,196	12,053	6,888
Total	$109,474	$ 111,190	$ 118,263	$ 110,986	$ 78,092
NET ASSETS					
Unrestricted	$ 20,114	$ 23,113	$ 18,696	$ 29,472	$ 23,691
Temporarily Restricted	63,281	47,454	52,270	53,553	27,808
Permanently Restricted	26,079	40,623	47,297	27,961	26,593
	$ 109,474	$ 111,190	$ 118,263	$ 110,986	$ 78,092

** FY2013 gifts were reclassified in the FY2014 Audited Financial Statements.

LIQUIDITY

In managing the University's overall investment strategy, providing sufficient liquidity is an important consideration. The following table shows the estimated liquidity availability of the University's endowment and working capital as of May 31, 2017. In addition to internal liquidity sources, the University has access to a working capital line of credit at one commercial bank for a total of $25,000,000.

Liquidity in < 30 days	48%
Liquidity in > 30 days and < 1 year	23%
Liquidity > 1 year	29%

MANAGEMENT DISCUSSION AND ANALYSIS

General. SMU's financial position remains strong with net assets increasing $56.9M for fiscal year 2017. Excluding proceeds from bonds reserved for construction, the University's cash and cash equivalents increased due to strong fundraising and favorable budget results. SMU continues to invest excess operating cash in low risk, secure investments ensuring its cash position remains healthy. SMU's financial philosophy allows the institution to operate in less favorable economic conditions without major changes in operations or negative effects on programs.

As SMU works to limit tuition increases as much as possible, additional measures have been put in place to ensure expense increases are thoroughly reviewed and implemented to achieve the most strategic impact. In 2015 and 2016 the University employed Bain & Company to review administrative operations. The review resulted in the reorganization of the several administrative functions, and the redesign of administrative processes to operate more efficiently allowing resources to be re-allocated to the University's mission. As of October 2017 the University identified over $20,000,000 in savings that will pay back the consulting fees, and be re-allocated to the University's teaching and research activities.

Enrollment. Undergraduate enrollment for fiscal year 2017 met budgeted expectations for net tuition and fees with a one of the largest incoming classes of the past 20 years. Applications remain strong and the fall of 2017 class was smaller than the fall of 2016 due to our continued focus on student quality. The University continues to be selective in its admissions and continues to see increases in the average SAT scores of the incoming, first year undergraduate class. The University's philosophy of maintaining student quality has resulted in SMU's 61st place ranking of National Universities in the 2016 edition of Best Colleges published by U.S. News & World Report.

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. More than 300,000 visitors come to SMU annually for cultural events, lectures, athletics events and other programs. 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 of Spain. Dedman College offers numerous lectures and symposia that 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. Each year the Meadows School presents more than 400 student and professional performances of music, theatre and dance, open to the public. 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 10 clinics serving diverse community needs with free or low-cost legal services. 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 Center on Research and Evaluation, Institute for Evidence-Based Education, Gifted Students Institute, Center for Child and Community Development, Center for Family Counseling, Diagnostic Center for Dyslexia and Related Disorders, Budd Center: Involving Communities in Education, Community Counseling Centers, Mediation Services, and academic enhancement programs for youth.

Student Community Service. Nearly 3,000 undergraduate 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. Students also participate in Alternative Break national service projects.

Engaged Learning. Engaged Learning provides an institutional framework for undergraduates to deepen their SMU education through experiential learning opportunities beyond the classroom, in scholarly research, civic engagement, professional internships and creative projects, on campus and in local and global settings. Service-learning courses combine a classroom component with community service that builds on classroom theory. 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 major 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 student's intern for credit.

INSURANCE

The University maintains a comprehensive insurance program to cover SMU's liability against a broad spectrum of potential incidents. This program includes a blanket "all-risk" property insurance policy that includes coverage for real property, contents, flood, earthquake, and business interruption. SMU also maintains a casualty insurance program to include comprehensive general liability, auto liability, and licensed professional liability with multiple layers of coverage. The University also maintains Educator's Legal Liability or Directors' and Officers' coverage for higher education, to cover wrongful acts and errors and omissions. Additional coverage includes workers' compensation, crime, fiduciary, multi-media, and fine art. SMU's property insurance premium is based on a combination of loss ratios, replacement value costs and a mitigation program for losses and is placed with the world's largest and most financially sound property insurer providing primary coverage up to $1B in losses at the insurer level, with additional exposure reinsured. The University expects that its property rates will remain relatively flat for the near future due to enhanced risk mitigation efforts through a broad-scope, multi-departmental effort to increase risk resilience. All other lines are expected to remain relatively flat with slight increases due to industry-related losses. The University believes that its risk management program is consistent with the practices of other similarly situated institutions in higher education and includes an appropriate risk appetite mix of coverage and retentions appropriate for the University's exposures.

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 began play in the new American Athletic Conference in 2013. University athletic facilities include Moody Coliseum, the Barr Swimming Facility, 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, golf practice facilities at the Dallas Athletic Club, as well as a variety of training rooms, equipment, locker and conference rooms. In November of 2012, SMU Golf Foundation (an entity whose sole member is SMU) entered into a number of agreements with The Company of Trinity Forest Golfers, Inc. ("*CTFG*") and the City of Dallas, giving SMU rights to use a new golf course, being developed by CTFG on land leased from the City of Dallas, for the SMU men's and women's golf 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.

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APPENDIX B

CONSOLIDATED FINANCIAL STATEMENTS, MAY 31, 2017 AND 2016 OF SOUTHERN METHODIST UNIVERSITY

KPMG LLP, the University's independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the consolidated financial statements addressed in that report. KPMG LLP also has not performed any procedures relating to this official statement.

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SOUTHERN METHODIST UNIVERSITY

CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2017 and 2016

(With Independent Auditors' Report Thereon)

KPMG

KPMG LLP
Suite 1400
2323 Ross Avenue
Dallas, TX 75201-2721

Independent Auditors' Report

The Board of Trustees
Southern Methodist University:

We have audited the accompanying consolidated financial statements of Southern Methodist University (the University), which comprise the consolidated balance sheets as of May 31, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Southern Methodist University as of May 31, 2017 and 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Dallas, Texas
September 8, 2017

Southern Methodist University
Consolidated Balance Sheets
As of May 31, 2017, and May 31, 2016
(Dollars in Thousands)

Assets	2017	2016
Cash and cash equivalents (restricted for capital projects: $37,043 in 2017 and $121,210 in 2016)	$ 171,385	$ 235,399
Accounts receivable, less allowance for doubtful accounts of $1,650 in 2017 and $1,982 in 2016	42,249	25,328
Pledges receivable, net	132,542	145,188
Investments:		
Short-term paper (restricted for debt retirement: $0 in 2017 and $3,189 in 2016)	$ 82,612	$ 60,091
Stocks	184,941	170,918
Bonds (restricted for debt retirement: $113,481 in 2017 and $115,153 in 2016; restricted for capital projects: $22,482 in 2017 and $0 in 2016)	271,991	228,579
Venture capital	29,695	35,948
Mortgage and other notes receivable, less allowance for doubtful accounts of $337 in 2017 and $465 in 2016	5,731	6,162
Real estate	17,802	15,723
Funds held in trust by others	21,004	18,516
Other	839,811	861,044
Total investments	$ 1,453,587	$ 1,396,981
Property, plant and equipment, at cost, net of accumulated depreciation	1,068,754	1,028,149
Other assets	32,023	21,883
Total Assets	$ 2,900,540	$ 2,852,928

Liabilities and Net Assets	2017	2016
Liabilities:		
Accounts payable and accrued expenses	$ 196,547	$ 189,316
Deposits and deferred income	38,953	39,750
Long-term debt, net	659,255	681,787
Advances for student loans	3,088	3,041
Other liabilities	8,330	1,606
Total Liabilities	$ 906,173	$ 915,500
Net Assets:		
Unrestricted	$ 663,262	$ 609,020
Temporarily restricted	619,890	645,759
Permanently restricted	711,215	682,649
Total Net Assets	$ 1,994,367	$ 1,937,428
Total Liabilities and Net Assets	$ 2,900,540	$ 2,852,928

See accompanying notes to the consolidated financial statements.

Southern Methodist University
Consolidated Statements of Activities
For the Fiscal Years Ended May 31, 2017, and May 31, 2016
(Dollars in Thousands)

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue:								
Tuition and fees	$ 477,959	$ -	$ -	$ 477,959	$ 453,064	$ -	$ -	$ 453,064
Scholarship allowance - tuition and fees	(168,424)	-	-	(168,424)	(155,346)	-	-	(155,346)
Net tuition	$ 309,535	$ -	$ -	$ 309,535	$ 297,718	$ -	$ -	$ 297,718
Gifts	23,691	27,808	26,593	78,092	29,472	53,553	27,961	110,986
Endowment income, net of investment expenses	12,003	568	972	13,543	10,812	(138)	716	11,390
Net realized and unrealized gains on investments	1,157	49,271	1,001	51,429	4,065	71,619	(1,643)	74,041
Grants and contracts	29,495	-	-	29,495	33,038	-	-	33,038
Organized activities	8,414	-	-	8,414	7,440	-	-	7,440
Other sources	31,184	-	-	31,184	29,988	-	-	29,988
Auxiliary activities	58,939	-	-	58,939	56,427	-	-	56,427
Scholarship allowance - room and board	(3,603)	-	-	(3,603)	(3,617)	-	-	(3,617)
Independent operations	3,609	-	-	3,609	3,514	-	-	3,514
Total revenue	$ 474,424	$ 77,647	$ 28,566	$ 580,637	$ 468,857	$ 125,034	$ 27,034	$ 620,925
Net assets released from restrictions	103,516	(103,516)	-	-	95,268	(95,268)	-	-
Total adjusted revenue	$ 577,940	$ (25,869)	$ 28,566	$ 580,637	$ 564,125	$ 29,766	$ 27,034	$ 620,925
Expenses:								
Program expenses:								
Instructional	$ 187,392	$ -	$ -	$ 187,392	$ 175,784	$ -	$ -	$ 175,784
Academic support	64,936	-	-	64,936	62,893	-	-	62,893
Research	27,506	-	-	27,506	28,624	-	-	28,624
Organized activities	11,364	-	-	11,364	11,581	-	-	11,581
Student services	49,092	-	-	49,092	43,192	-	-	43,192
Auxiliary activities	74,649	-	-	74,649	74,044	-	-	74,044
Total program expenses	$ 414,939	$ -	$ -	$ 414,939	$ 396,118	$ -	$ -	$ 396,118
Institutional support	106,635	-	-	106,635	111,194	-	-	111,194
Independent operations	2,793	-	-	2,793	2,596	-	-	2,596
Total expenses	$ 524,367	$ -	$ -	$ 524,367	$ 509,908	$ -	$ -	$ 509,908
Postretirement plan changes other than net periodic postretirement benefit cost	(669)	-	-	(669)	2,438	-	-	2,438
Total expenses and actuarial adjustment	$ 523,698	$ -	$ -	$ 523,698	$ 512,346	$ -	$ -	$ 512,346
Change in net assets	$ 54,242	$ (25,869)	$ 28,566	$ 56,939	$ 51,779	$ 29,766	$ 27,034	$ 108,579
Net assets at beginning of period	609,020	645,759	682,649	1,937,428	557,241	615,993	655,615	1,828,849
Net assets at end of period	$ 663,262	$ 619,890	$ 711,215	$ 1,994,367	$ 609,020	$ 645,759	$ 682,649	$ 1,937,428

See accompanying notes to the consolidated financial statements.

Southern Methodist University
Consolidated Statements of Cash Flows
For the Fiscal Years Ended May 31, 2017, and May 31, 2016
(Dollars in Thousands)

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ 56,939	$ 108,579
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	38,740	35,818
Long-term debt-related amortization	(3,743)	(1,943)
(Gain) loss on disposal of property, plant and equipment	(2,621)	298
Increase in accounts and pledges receivable	(4,275)	(14,075)
Increase in other assets	(10,140)	(6,107)
Increase (decrease) in accounts payable and accrued expenses for operations	9,600	(47)
Increase (decrease) in deposits and deferred income	(797)	472
Increase in advances for student loans	47	51
Increase in other liabilities for operations	6,769	1,224
Contributions restricted for long-term investment	(45,807)	(50,830)
Noncash contributions	(12,445)	(10,046)
Net realized and unrealized gains on investments	(51,429)	(74,041)
Income restricted for long-term investment	(1,887)	(1,021)
Annuity obligation payments	638	515
Net cash used for operating activities	$ (20,411)	$ (11,153)
Cash flows from investing activities:		
Purchase of property, plant and equipment	$ (74,642)	$ (74,456)
Proceeds from sales of property, plant and equipment	5,545	12
Purchase of investments	(284,343)	(450,931)
Proceeds from the sale of investments	283,552	411,644
Increase (decrease) in accounts payable and accrued expenses for investing activities	(2,369)	554
Disbursements of mortgage and other notes receivable	(357)	(475)
Principal payments received on mortgage and other notes receivable	789	1,479
Net cash used for investing activities	$ (71,825)	$ (112,173)
Cash flows from financing activities:		
Contributions restricted for long-term investment	$ 45,807	$ 50,830
Income restricted for long-term investment	1,887	1,021
Annuity obligation payments	(638)	(515)
Payments on notes payable included in other liabilities	(45)	(47)
Net proceeds from debt issuance	48,471	166,900
Long-term debt payments	(67,260)	(35,470)
Net cash provided by financing activities	$ 28,222	$ 182,719
Net increase (decrease) in cash and cash equivalents	(64,014)	59,393
Cash and cash equivalents at beginning of period	235,399	176,006
Cash and cash equivalents at end of period	$ 171,385	$ 235,399
Supplemental data:		
Gifts of investments, real estate and other	$ 4,818	$ 7,463
Gifts of property, plant and equipment	7,627	2,583
Cash paid for interest	27,187	22,375

See accompanying notes to the consolidated financial statements.

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, federal grants, sponsored research, athletic events and other auxiliary activities, and other sources.

As of May 31, 2017, the University had six corporations under its control that are included in the consolidated financial statements. The Southern Methodist University Foundation for Research was established to support academic scholarship and scientific research. SMU Corp. was established in connection with the location of the George W. Bush Presidential Library and Museum at the University. The SMU Golf Foundation was established in connection with SMU's golf facilities, golf teams, and related activities. Peruna Holdings Corporation, Mustang Mockingbird Properties, and Peruna East Corporation are corporations the University established to acquire, own and manage real estate adjacent to or in the near vicinity of the University campus, on behalf of the University. During the fiscal year ended May 31, 2017, the University dissolved Peruna Properties, Inc., Mustang Mockingbird Corporation, and Mustang Airline Corporation, which had been established to own and manage real estate on behalf of 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, interest, bond issuance costs and the operation and maintenance of University facilities have been allocated among the functional categories. Fundraising expenses of approximately $17,341 and $21,177 incurred by the University in fiscal years 2017 and 2016, respectively, are included primarily as institutional support expenses reported in the consolidated statements of activities.

Cash equivalents include operating cash investments, U.S. Treasury bills and short-term paper with maturities of three months or less from the date of purchase. 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, bonds and funds held in trust by others with readily determinable fair values are recorded at fair value. Equity method investments are valued at the University's percentage of the net asset values reported by the fund managers, which are used as practical expedients to estimate the fair values. 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. Permanent impairment losses are 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. Permanent impairment losses were $8,382 and $13,792 as of May 31, 2017 and 2016, respectively. For the year ended May 31, 2017, the University has investments in venture capital funds, real estate and other investments that have fair values lower than cost by $13,700 that are not reported as permanently impaired. The aggregate related fair value of these 22 investments is $119,178.

The University has an energy hedge agreement that qualifies as a derivative financial instrument under ASC 815, *Derivatives and Hedging*. These instruments are recorded on the consolidated balance sheets as either an asset or liability measured at the fair value as of the reporting date. Changes in fair value of any derivatives are recognized in the consolidated statements of activities.

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 $3,088 and $3,041 of refundable government advances and $393 and $387 of matching University funds in fiscal years 2017 and 2016, respectively.

Property, plant and equipment (including art objects) are recorded at cost, if purchased, or at the fair value at the time of donation, 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 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 before the asset will be capitalized. Property, plant and equipment (except for art objects, land and other assets) 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 income as of May 31, 2017 includes the amount received from the students prior to May 31, 2017 for the 2017 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 consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Significant estimates related to asset valuations, postretirement benefit obligations, and various commitments and contingencies are described later in the Notes. Actual results may differ from these estimates.

Effective in the year ended May 31, 2016, the University retrospectively adopted the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2015-3, *Simplifying the Presentation of Debt Issuance Costs.* The ASU is limited to simplifying the presentation of debt issuance costs, and the recognition and measurement guidance for debt issuance costs is not affected by the ASU.

The University has also adopted certain provisions of FASB ASU No. 2016-1, *Recognition and Measurement of Financial Assets and Financial Liabilities,* which removed the requirement for the disclosure of the fair value of financial instruments measured at amortized cost for non-public entities. As a result, the University has not included the fair value of its bonds and notes payable in the Notes to the Consolidated Financial Statements.

2. Accounting Pronouncements or Laws Affecting Future Year Financial Statements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for the University on June 1, 2019. The standard permits the use of either the retrospective or cumulative effect transition method. The University is evaluating the effect that ASU No. 2014-09 will have on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which replaces most existing guidance on leases and requires that most leases longer then twelve months be recorded on the balance sheet as an asset, representing the value of the right of use and any direct costs under the lease, and a liability representing the present value of the future payments required under the lease. The new standard is effective for the University on June 1, 2020. The University is evaluating the effect ASU No. 2016-02 will have on its consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. This update requires multiple changes to the presentation of the University's financial statements and related disclosures, including changes in the presentation of the University's net assets and expanded reporting related to expenses and liquidity in its financial statements. The standard will not be required for the University until fiscal year 2019, however the University is evaluating early application of the standard.

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, cash equivalents, and accounts receivable totaled $213,634 and $260,727 of which $3,015 and $3,758 represent donations restricted for property, plant and equipment as of May 31, 2017 and 2016, 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 initially recorded at their fair value, which is determined by computing the present value of future cash flows discounted at rates ranging from 3.5% to 7.0%. The present value and the associated incremental income are reflected as gift revenue in the period the agreement is made and in the period accreted, respectively.

(Dollars in Thousands)

Unconditional pledges receivable as of May 31 are expected to be realized in the following periods:

	2017	2016
In one year or less	$ 45,577	$ 45,605
Between one year and five years	93,903	105,223
More than five years	13,823	17,134
Less discount	(20,761)	(22,774)
	$ 132,542	$ 145,188

Unconditional pledges receivable as of May 31 have the following restrictions:

	2017	2016
Endowment for departmental programs and activities	$ 27,465	$ 21,145
Endowment for scholarships	7,579	11,515
Construction projects	32,930	37,206
Scholarships, departmental programs and activities	35,190	45,003
Purpose restriction met	29,378	30,319
	$ 132,542	$ 145,188

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:

	2017	2016
Matching donation/funding requirement	$ 8,500	$ 7,900
Other	1,630	1,750
	$ 10,130	$ 9,650

(Dollars in Thousands)

5. Investments

Total investments as of May 31 are as follows:

	2017		2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Short-term paper	$ 82,612	$ 82,612	$ 60,091	$ 60,091
Stocks	184,941	184,941	170,918	170,918
Bonds	271,991	271,991	228,579	228,579
Venture capital	29,695	42,494	35,948	49,954
Mortgage and other notes receivable, net	5,731	5,731	6,162	6,162
Real estate:				
Real properties	$ 17,802	$ 21,158	$ 15,723	$ 18,827
Mineral rights	-	34,371	-	36,191
Total real estate	$ 17,802	$ 55,529	$ 15,723	$ 55,018
Funds held in trust by others	21,004	21,004	18,516	18,516
Other investments:				
Private equity	$ 169,238	$ 215,616	$ 164,133	$ 192,843
Diversifying strategies	283,285	397,014	282,317	367,614
Equity funds without daily liquidity	358,175	429,626	381,921	397,747
Fixed income funds without daily liquidity	13,846	14,386	12,983	13,279
Equity method investments (carrying value is fair value)	15,267	15,267	19,690	19,690
Total other investments	$ 839,811	$ 1,071,909	$ 861,044	$ 991,173
Total investments	$ 1,453,587	$ 1,736,211	$ 1,396,981	$ 1,580,411

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 the University's interest in venture capital, real estate funds and other investments is based on the net asset value (NAV) reported by the fund managers, which is used as a practical expedient to estimate the fair value of the University's investment therein, unless it is probable that all or a portion of the value is different from NAV. 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.

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 gains associated with split-interest agreements were $2,142 and $1,125 in fiscal years 2017 and 2016, respectively. The fair value of split-interest agreements was $34,151 and $31,480 in fiscal years 2017 and 2016, respectively.

Assets associated with gift annuities, unitrusts and annuity trusts held by the University are included in the applicable investment classifications. 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 consolidated balance sheets at current fair value by discounting the anticipated future payments to the income beneficiaries based on their life expectancies determined from the actuarial tables published by the Internal Revenue Service using discount rates of 3.80% and 3.68% per annum in fiscal years 2017 and 2016, respectively. As of May 31, 2017 and 2016, the present values of the University's financial obligations to beneficiaries were $7,717 and $6,498, 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 investment managers may purchase foreign currency futures contracts which result in unrealized gains and losses that 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 $19,106 and $14,922 for the years ended May 31, 2017 and 2016, respectively, is net of related expenses, such as custodial fees and investment advisory fees. These expenses are approximately $11,308 and $11,947 for the years ended May 31, 2017 and 2016, respectively. Net realized and unrealized gains on investments totaled $51,429 and $74,041 for the years ended May 31, 2017 and 2016, respectively. Included in these amounts are realized and unrealized gains of approximately $24,256 for the year ended May 31, 2017 and realized and unrealized losses of approximately $6,805 for the year ended May 31, 2016, attributed to assets reported at fair value and realized gains attributed to assets reported at cost of approximately $27,172 and $81,301 for the years ended May 31, 2017 and 2016, respectively.

The University applies the guidance in ASC 970-323, *Investments – Equity Method and Joint Ventures*, on the equity method of accounting for its noncontrolling interests in a for-profit real estate partnership and similar for-profit real estate entities unless those investments are reported at fair value. The University has determined those for-profit real estate investments in which it holds an interest equal to or greater than 5% will be reported using the equity method of accounting. The University has noncontrolling interests in two real estate entities for investment purposes that meets this 5% threshold and these have been recorded using the equity method. All disclosures and unrealized gain (loss) adjustments are based on the most recently reported fair values and financial statements of the investment companies.

As of May 31, 2017 and 2016, the University held a 5.4% ownership interest in the Sustainable Woodlands Fund, L.P. The fair value of its ownership using the most recent (unaudited) financial information of the investment company was $9,969 and $10,075 as of May 31, 2017 and 2016, respectively. As of May 31, 2017 and 2016, the University held a 5.0% ownership interest in Star Asia Japan Special Situations II LP. The fair value of its ownership using the most recent (unaudited) financial information of the investment company was $5,298 and $9,615 as of May 31, 2017 and May 31, 2016, respectively.

6. Endowment Fund

The University applies the provisions of ASC 958-205, *Endowments of Not-for-Profit Entities – Presentation of Financial Statements*, which provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to 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 1,650 individual donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments established for a variety of purposes. 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

Based on the interpretation of the UPMIFA by the University's Board of Trustees, absent explicit donor stipulations to the contrary, 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 it is 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

(Dollars in Thousands)

Changes in endowment net assets are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets as of May 31, 2015	$ 72,071	$ 483,155	$ 629,639	$ 1,184,865
Gifts	-	-	27,733	27,733
Investment return:				
Investment income (loss), net of distributions	26	(196)	710	540
Net realized and unrealized gains	4,198	70,543	-	74,741
Total investment return	4,224	70,347	710	75,281
Endowment gains transferred for spending	(3,738)	(54,833)	-	(58,571)
Funds functioning as endowment net transfers	3,592	-	-	3,592
Other revenues and transfers	-	1,447	8,262	9,709
Net assets as of May 31, 2016	$ 76,149	$ 500,116	$ 666,344	$ 1,242,609
Gifts	-	-	26,429	26,429
Investment return:				
Investment income, net of distributions	160	529	968	1,657
Net realized and unrealized gains	3,370	47,592	-	50,962
Total investment return	3,530	48,121	968	52,619
Endowment gains transferred for spending	(3,945)	(55,495)	-	(59,440)
Funds functioning as endowment net transfers	3,517	-	-	3,517
Other revenues and transfers	-	(2,460)	16	(2,444)
Net assets as of May 31, 2017	$ 79,251	$ 490,282	$ 693,757	$ 1,263,290

Endowment net assets split between donor-restricted and funds functioning as endowment are as follows:

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (1,053)	$ 500,116	$ 666,344	$ 1,165,407
Funds functioning as endowment	77,202	-	-	77,202
Balance as of May 31, 2016	$ 76,149	$ 500,116	$ 666,344	$ 1,242,609

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ 1,053	$ 490,282	$ 693,757	$ 1,185,092
Funds functioning as endowment	78,198	-	-	78,198
Balance as of May 31, 2017	$ 79,251	$ 490,282	$ 693,757	$ 1,263,290

(Dollars in Thousands)

Endowment funds classified as temporarily restricted net assets and subject to a time restriction under UPMIFA as of May 31 are as follows:

	2017	2016
With purpose restrictions	$ 70,162	$ 72,100
Without purpose restrictions	420,120	428,016
Total endowment funds classified as temporarily restricted net assets	$ 490,282	$ 500,116

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. As of May 31, 2017, there were no funds with deficiencies. As of May 31, 2016, there were approximately 100 funds with deficiencies totaling $1,053. University practice generally prohibits distributions from newly established endowment funds for four years unless gains exceed 30%. The majority of these prior year deficiencies related to funds currently in this period; as a result, the University's operations are not adversely affected by these deficiencies.

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 donor-specified periods, 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 Government/Credit Index. The University expects its endowment funds, over time, to provide an average rate of return of approximately 9% 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 gains) and current income (interest and dividends, etc.). The University targets a diversified asset allocation that places emphasis on global equities, diversifying strategies, 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 Investment 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 (1% for fiscal year 2017), and a percent determined for each fiscal year (4.55% for fiscal year 2017) of thirty percent (30%) of the four-quarter average of the Investment Pool per share market value for the preceding calendar year multiplied by the number of shares outstanding at the end of that 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 at 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

The University complies with ASC 820, *Fair Value Measurement*. This codification provides a definition for fair value, as well as establishing a framework for measuring it and expanding disclosures about fair value measurements. The financial assets recorded at fair value on a recurring basis primarily relate to investments. ASC 820 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entities (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entities' own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Additional disclosures are required under ASC 820, including segregating asset values among the 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 assets and include situations where there is little, if any, market activity for the assets.

Effective in the year ended May 31, 2016, the University retrospectively adopted the provisions of FASB ASU 2015-07, *Fair Value Measurement: Disclosures for Investments in Certain Entities that Calculate NAV per Share (or its Equivalent)*. ASU 2015-07 removes the requirement to classify within the fair value hierarchy table in Levels 2 or 3 investments in certain funds measured at NAV or its equivalent as a practical expedient to estimate fair value.

ASC 825, *Financial Instruments*, 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 classified as revenue. For financial statement purposes (balance sheets), the University reports marketable securities, funds held in trust by others and equity method investments at fair value. Venture capital, real estate and other investments (other than equity method investments) are carried on the cost basis.

Notes and bonds payable are carried at the amount of debt incurred, net of unamortized issuance costs and unamortized premiums and discounts adjusted for principal payments made. Annuity obligations are valued for financial statement purposes at fair value using the present value of future payments discounted at the prevailing interest rates of comparable debt instruments (Level 2 valuation technique). Annuity obligations value was $7,717 as of May 31, 2017 and $6,498 as of May 31, 2016.

(Dollars in Thousands)

The University entered into an agreement during fiscal year 2015 to hedge a portion of the cost of electricity from January 1, 2018 through December 31, 2026. The transaction allows the University to accurately budget future costs and limit the effect of unexpected changes in utility prices. The estimated fair value of the arrangement, using Level 2 valuation techniques, was a liability of $2,939 and $1,395 as of May 31, 2017 and May 31, 2016, respectively. The change in value is reported as institutional support expense on the consolidated statements of activities. The fair value of the agreement is the estimated amount the University would pay to terminate the contract as of the respective fiscal year ends.

The following table presents information about the University's investments at fair value, the fair value hierarchy utilized to determine such fair value, and the strategies related to them as of May 31, 2017:

	Quoted in Active Markets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Net Asset Value	Total
Short-term paper	$ 82,612	$ -	$ -	$ -	$ 82,612
Stocks	184,941	-	-	-	184,941
Bonds	270,216	1,775	-	-	271,991
Venture capital	-	-	976	41,518	42,494
Mortgage and other notes receivable	-	5,731	-	-	5,731
Real Estate:					
Real Properties					
Directly held real estate	-	125	154	-	279
Real estate funds	-	-	-	13,365	13,365
Timber funds	-	-	-	7,514	7,514
Mineral rights	-	34,371	-	-	34,371
Funds held in trust by others	-	-	21,004	-	21,004
Other Investments:					
Private Equity	-	-	-	215,616	215,616
Diversifying strategies:					
Single strategy hedge funds	-	-	-	214,920	214,920
Multi strategy hedge funds	-	-	-	180,218	180,218
Side pockets/private-like hedge funds	-	-	-	1,876	1,876
Equity funds without daily liquidity:					
Domestic equities, long only	-	-	-	174,713	174,713
International equities emerging markets	-	-	-	50,427	50,427
International equities developed markets	-	-	-	203,380	203,380
Multi strategy equity funds	-	-	1,106	-	1,106
Fixed Income funds without daily liquidity	-	31	476	13,879	14,386
Equity method investments (Timber Fund)	-	-		15,267	15,267
Total Investments	$ 537,769	$ 42,033	$ 23,716	$ 1,132,693	$ 1,736,211

The University has unfunded commitments of $10,880, $12,210 and $165,211 in the venture capital, real estate funds, private equity and other investments categories, respectively.

(Dollars in Thousands)

The following table presents information about the University's investments at fair value, the fair value hierarchy utilized to determine such fair value, and the strategies related to them as of May 31, 2016:

	Quoted in Active Markets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Net Asset Value	Total
Short-term paper	$ 60,091	$ -	$ -	$ -	$ 60,091
Stocks	170,918	-	-	-	170,918
Bonds	226,382	2,197	-	-	228,579
Venture capital	-	-	897	49,057	49,954
Mortgage and other notes receivable	-	6,162	-	-	6,162
Real Estate:					
Real Properties					
Directly held real estate	-	1,433	154	-	1,587
Real estate funds	-	-	-	5,892	5,892
Timber funds	-	-	-	11,348	11,348
Mineral rights	-	36,191	-	-	36,191
Funds held in trust by others	-	4,601	13,915	-	18,516
Other Investments:					
Private Equity	-	-	-	192,843	192,843
Diversifying strategies:					
Single strategy hedge funds	-	-	-	198,100	198,100
Multi strategy hedge funds	-	-	-	167,383	167,383
Side pockets/private-like hedge funds	-	-	-	2,131	2,131
Equity funds without daily liquidity:					
Domestic equities, long only	-	-	-	157,650	157,650
International equities emerging markets	-	-	-	54,155	54,155
International equities developed markets	-	-	-	184,950	184,950
Multi strategy equity funds	-	-	992	-	992
Fixed Income funds without daily liquidity	-	-	486	12,793	13,279
Equity method investments (Timber Fund)	-	-		19,690	19,690
Total Investments	$ 457,391	$ 50,584	$ 16,444	$ 1,055,992	$ 1,580,411

At May 31, 2016, the University had unfunded commitments of $3,038, $13,652 and $180,263 in the venture capital, real estate funds, private equity and other investments categories, respectively.

The University's policy is to recognize transfers among levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were transfers of $4,601 into Level 3 from Level 2 during fiscal year 2017 and no transfers into or out of Level 1, Level 2, or Level 3 during fiscal year 2016.

(Dollars in Thousands)

For fiscal years 2017 and 2016, changes in fair value for assets using significant unobservable inputs (Level 3) is as follows after the retroactive application of ASU 2015-07, *Fair Value Measurement: Disclosures for Investments in Certain Entities that Calculate NAV per Share (or its Equivalent)*:

2017	Opening Balance	Transfers In	Realized Gains	Unrealized Gains	Sales	Purchases	Ending Balance
Venture capital	$ 897	$ -	$ -	$ -	$ (79)	$ 158	$ 976
Real estate	154	-	-	-	-	-	154
Funds held in trust	13,915	4,601	-	2,364	(124)	248	21,004
Other investments	1,478	-	-	137	(33)	-	1,582
Total	$ 16,444	$ 4,601	$ -	$ 2,501	$ (236)	$ 406	$ 23,716

2016	Opening Balance	Transfers In	Realized Gains (Losses)	Unrealized Gains (Losses)	Sales	Purchases	Ending Balance
Venture capital	$ 797	$ -	$ -	$ -	$ -	$ 100	$ 897
Real estate	290	-	-	(136)	-	-	154
Funds held in trust	5,601	-	(310)	919	(361)	8,066	13,915
Other investments	1,614	-	36	(134)	(70)	32	1,478
Total	$ 8,302	$ -	$ (274)	$ 649	$ (431)	$ 8,198	$ 16,444

(Dollars in Thousands)

The following table presents the liquidity of the University's investments at fair value at May 31, 2017:

	Within 30 Days[1]	Quarterly[2]	Semi-Annual or Annual[3]	Illiquid[4]	Total
Venture capital	$ -	$ -	$ -	$ 42,494	$ 42,494
Real Estate:					
Real Properties					
Directly held real estate	-	-	-	279	279
Real estate funds	-	-	-	13,365	13,365
Timber funds	-	-	-	7,514	7,514
Mineral rights	-	-	-	34,371	34,371
Funds held in trust by others	-	-	-	21,004	21,004
Other Investments:					
Private Equity	-	-	-	215,616	215,616
Diversifying strategies:					
Single strategy hedge funds	-	61,538	109,277	44,105	214,920
Multi strategy hedge funds	-	116,409	5,472	58,337	180,218
Side pockets/private-like hedge funds	-	-	-	1,876	1,876
Equity funds without daily liquidity:					
Domestic equities, long only	-	53,416	54,836	66,461	174,713
International equities emerging markets	48,136	2,291	-	-	50,427
International equities developed markets	134,324	26,369	-	42,687	203,380
Multi strategy equity funds	1,106	-	-	-	1,106
Fixed Income funds without daily liquidity	14,356	-	-	30	14,386
Equity method investments	-	-	-	15,267	15,267
Total	$ 197,922	$ 260,023	$ 169,585	$ 563,406	$ 1,190,936
Level 1 Securities					537,769
Other investments not subject to redemption terms					7,506
Total Investments					$ 1,736,211

[1] With 3 business days to 60 days notice
[2] With 30 to 90 days notice
[3] With 45 to 90 days notice
[4] Includes funds under lock up as of May 31, 2017

(Dollars in Thousands)

The following table presents the liquidity of the University's investments at fair value at May 31, 2016:

	Within 30 Days[1]	Quarterly[2]	Semi-Annual or Annual[3]	Illiquid[4]	Total
Venture capital	$ -	$ -	$ -	$ 49,954	$ 49,954
Real Estate:					
Real Properties					
Directly held real estate	-	-	-	1,587	1,587
Real estate funds	-	-	-	5,892	5,892
Timber funds	-	-	-	11,348	11,348
Mineral rights	-	-	-	36,191	36,191
Funds held in trust by others	-	-	-	18,516	18,516
Other Investments:					
Private Equity	-	-	-	192,843	192,843
Diversifying strategies:					
Single strategy hedge funds	-	55,390	103,150	39,560	198,100
Multi strategy hedge funds	-	105,515	5,055	56,813	167,383
Side pockets/private-like hedge funds	-	-	-	2,131	2,131
Equity funds without daily liquidity:					
Domestic equities, long only	-	47,560	50,230	59,860	157,650
International equities emerging markets	37,533	16,622	-	-	54,155
International equities developed markets	133,718	20,652	-	30,580	184,950
Multi strategy equity funds	992	-	-	-	992
Fixed Income funds without daily liquidity	13,279	-	-	-	13,279
Equity method investments (Timber Fund)	-	-	-	19,690	19,690
Total	$ 185,522	$ 245,739	$ 158,435	$ 524,965	$ 1,114,661
Level 1 Securities					457,391
Other investments not subject to redemption terms					8,359
Total Investments					$ 1,580,411

[1] With 3 business days to 60 days notice
[2] With 30 to 90 days notice
[3] With 45 to 90 days notice
[4] Includes funds under lock up as of May 31, 2016

(Dollars in Thousands)

8. Property, Plant and Equipment

Plant assets include net interest expense of $2,361 and $2,038 capitalized for construction bond projects during fiscal years 2017 and 2016, respectively, and included in property, plant and equipment in the following table:

	2017	2016
Land	$ 176,950	$ 176,011
Land improvements	110,436	105,082
Buildings	1,007,032	960,015
Equipment	109,725	101,813
Art	40,312	37,939
Other assets	19,543	19,316
Construction in progress	73,404	60,236
Total property, plant and equipment	$ 1,537,402	$ 1,460,412
Less accumulated depreciation	(468,648)	(432,263)
Total, net of accumulated depreciation	$ 1,068,754	$ 1,028,149

The fair value of a liability for the legal obligation for asbestos and lead paint abatement associated with the retirement of long-lived assets 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 ended May 31, 2017 and 2016:

	2017	2016
Asset retirement obligations at beginning of year	$ 16,935	$ 16,288
Disposal of asset retirement obligations	(15)	(207)
Decrease in property, plant and equipment, net of accumulated depreciation	(99)	(141)
Current year accretion and depreciation expense	1,031	995
Asset retirement obligations at end of year	$ 17,852	$ 16,935

9. Accounts Payable and Accrued Expenses

The University has $196,547 and $189,316 reported as accounts payable and accrued expenses as of May 31, 2017 and 2016, respectively. Included in these amounts is postretirement benefit obligations, the present value of conditional asset retirement obligations and performance on a long-term lease obligation, which are adjusted annually. 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.

(Dollars in Thousands)

10. Long-term Debt

Long-term debt as of May 31 consists of the following:

	2017	2016
2007 Serial Bonds; maturing from 2026 through 2029 with fixed interest rate of 5.25% and Term Bonds maturing in 2032 with a fixed rate of 4.30%; secured by unrestricted receivables	$ 21,240	$ 75,630
2009 Serial Bonds; maturing from 2016 through 2029 with fixed interest rates ranging from 4.00% to 5.00% and Term Bonds maturing in 2032 and 2036 with fixed interest rates of 4.25% and 5.00%, respectively; secured by unrestricted receivables	124,050	129,845
2010 Serial Bonds; maturing from 2016 through 2030 with fixed interest rates ranging from 3.00% to 5.00% and Term Bonds maturing in 2035 and 2041 with a fixed interest rate of 5.00%; secured by unrestricted receivables	109,710	112,015
2013A Serial Bonds; maturing from 2029 through 2033 with fixed interest rates ranging from 3.25% to 5.00% and Term Bonds maturing in 2038 with a fixed interest rate of 5.00% and maturing in 2042 with fixed interest rates of 4.00% and 5.00%; secured by unrestricted receivables	99,195	99,195
2013B Serial Bonds; maturing from 2016 through 2028 with fixed interest rates ranging from 0.92% to 3.62% and Term Bonds maturing in 2033 with a fixed interest rate of 4.16%; secured by unrestricted receivables	75,630	80,400
2016A Serial Bonds; maturing from 2020 through 2035 with fixed interest rates ranging from 2.50% to 5.00% and Term Bonds maturing from 2036 through 2045 with a fixed interest rate of 5.00%; secured by unrestricted receivables	118,545	118,545
2016B Serial Bonds; maturing from 2023 through 2031 with fixed interest rates ranging from 2.26% to 3.42% and Term Bonds maturing from 2032 through 2045 with a fixed interest rates ranging from 3.80% to 3.95%; secured by unrestricted receivables	25,250	25,250
Private Bank Loan; maturing from 2017 through 2032 with fixed interest rate of 2.35%; secured by unrestricted receivables	48,860	-
Total long-term debt payable prior to unamortized net premium and issuance costs	$ 622,480	$ 640,880
Unamortized issuance costs included in long-term debt	(5,284)	(5,141)
Unamortized net premium	42,059	46,048
Total long-term debt, net	$ 659,255	$ 681,787

(Dollars in Thousands)

On February 14, 2017, the University received funds from a loan entered into on October 1, 2015. The funds were placed in escrow with the trustee of the Series 2007 bonds. The trustee defeased $48,875 in par value using these proceeds and existing escrow funds. The defeased bonds were redeemed on April 1, 2017.

On May 27, 2016, the University issued Series 2016A tax-exempt and Series 2016B taxable bonds totaling $143,795. The majority of the proceeds were used to purchase securities with a fair value of $111,706 which are being held in escrow in order to refund Series 2009 bonds with a par value of $102,600 in 2019. The remaining proceeds are expected to partially fund various construction projects including parking facilities, child care facilities, and an aquatics center. As of May 31, 2017, $21,627 of proceeds from the Series 2016A bonds and $25,127 of proceeds from the Series 2016B bonds are invested in bonds and cash and cash equivalents.

On April 16, 2013, the University issued Series 2013A and Series 2013B bonds totaling $189,285. The proceeds of the Series 2013A tax-exempt bonds are being used for various construction projects including the new Residential Commons, renovation of existing educational facilities and housing facilities, the Dr. Bob Smith Health Center, and to purchase property on the east side of campus for future University growth. The proceeds of the Series 2013B taxable bonds are being used to partially fund the building of the SMU Tennis Center, renovate Moody Coliseum, equip a distributed antenna system, refund a portion of a prior bond issuance, and purchase property on the east side of campus. As of May 31, 2017, $17,546 of proceeds from the Series 2013A bonds and $13,843 of proceeds from the Series 2013B bonds are invested in cash and cash equivalents.

Debt issuance costs of $5,284 and $5,141 as of May 31, 2017 and 2016, respectively, are recorded as a reduction of long-term debt. All bond issuance costs are amortized using the straight-line method over the lives of the bonds.

In addition, the University has cash and securities in escrow with the trustee bank as of May 31, 2017, with a fair value totaling $1,775 that relates to a donor gift that will be applied to bond principal of $1,630 on the Series 2007 bonds.

Interest expense on long-term debt was $21,067 and $18,391 for the fiscal years ended May 31, 2017 and 2016, respectively. As of May 31, 2017, the University had scheduled principal maturities for the following fiscal years:

2018	$	18,900
2019		19,705
2020		20,615
2021		28,935
2022		30,210
Thereafter		504,115
	$	622,480

11. Related Party Transactions

In the ordinary course of business, the University may have business transactions with entities in which University board members or employees have an interest. Although generally such transactions are immaterial, the University does engage in such business transactions that may be material. The University has invested funds totaling $5,525 and $5,799 in fiscal years 2017 and 2016, respectively, with investment firms with which board members are affiliated.

(Dollars in Thousands)

12. Postemployment Benefits

The University accrues obligations for certain other future postemployment benefits payable to former or inactive employees, if they are determinable. The University has postemployment benefit obligations of $925 and $855 in fiscal year 2017 and 2016, respectively.

13. Postretirement Healthcare Benefits

The University provides postretirement healthcare 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 was amortized over twenty years.

Actuarial assumptions used to determine the value of the APBO and the benefit costs included discount rates of 3.80% and 3.68% per annum for fiscal years 2017 and 2016, respectively. Healthcare cost trends are graded from 8.0% in 2017 to 5.5% in 2023.

ASC 715, *Compensation – Retirement Benefits*, requires the funded status of the postretirement benefit plan to be reported as an asset (for overfunded plans) or a liability (for underfunded plans). ASC 715 also requires disclosure of the incremental effect of adopting the standard on certain individual line items of the consolidated balance sheets.

The components of the net periodic benefit cost for the year ended May 31 are as follows:

	2017	2016
Service cost	$ 557	$ 685
Interest cost	1,749	1,756
Amortization:		
Prior service cost (credit)	(25)	(330)
Unrecognized loss	1,357	949
Net periodic benefit cost	$ 3,638	$ 3,060

The unrecognized 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 and is a loss of $1,340.

(Dollars in Thousands)

Net periodic benefit cost and other changes in plan assets and benefit obligations recognized in unrestricted net assets in 2017 and 2016 are as follows:

	2017	2016
Net periodic benefit cost recognized	$ 3,638	$ 3,060
Other changes in plan assets and benefit obligations recognized in unrestricted net assets:		
Net actuarial gain (loss)	(694)	2,108
Prior service cost	25	330
Total recognized in unrestricted net assets	(669)	2,438
Total recognized in net periodic benefit cost and unrestricted net assets	$ 2,969	$ 5,498

The accrued postretirement benefit obligations recognized in the University's consolidated balance sheets as of May 31 pursuant to the recognition provisions of ASC 715 are as follows:

	2017	2016
Benefit obligation, beginning of year	$ 48,708	$ 45,216
Service cost	557	685
Interest cost	1,749	1,756
Plan participants' contribution	1,240	1,163
Benefit payments	(3,631)	(3,169)
Actuarial loss	663	3,057
Benefit obligation, end of year	$ 49,286	$ 48,708

The accumulated postretirement benefit includes a current liability of $2,539 for the claims and expenses that are expected to be paid out in the coming year and $46,747 of noncurrent postretirement benefit liabilities.

Healthcare cost trend assumptions have a significant impact on the amounts reported. A one percentage point increase in the assumed healthcare cost trend rate would result in a $112 increase in the net periodic postretirement benefit cost recognized in fiscal year 2017 and a $2,318 increase in the accumulated postretirement benefit obligation for healthcare benefits as of May 31, 2017. A one percentage point decrease in the assumed healthcare cost trend rate would result in a $108 decrease in the net periodic postretirement benefit cost recognized in fiscal year 2017, and a $2,220 decrease in the accumulated postretirement benefit obligation for healthcare benefits as of May 31, 2017.

(Dollars in Thousands)

As of May 31, 2017, the University had expected benefit payments in the following fiscal year:

2018	$	2,539
2019		2,672
2020		2,747
2021		2,961
2022		3,156
2023-2027		16,891
	$	30,966

The University also has a defined contribution retiree medical plan intended to replace the University's defined benefit retiree medical plan. Under this program, both the University and employees contribute monthly to the employees' retiree medical accounts. The University contributed $2,391 and $2,006 to this program in fiscal years 2017 and 2016, respectively. The current defined benefit retiree medical plan will be phased out concurrently with funding of this defined contribution plan.

14. Retirement Plan

Full-time and part-time benefits-eligible employees are eligible for the 403(b) Retirement Plan at age 21. Full-time employees are required to enroll if age 36 or older. Retirement benefit expenses under this plan were approximately $17,723 and $17,102 in fiscal years 2017 and 2016, respectively.

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:

	2017	2016
Acquisition of buildings and equipment	$ 17,248	$ 23,878
Instruction, research, departmental support, scholarships and other	86,268	71,390
	$ 103,516	$ 95,268

(Dollars in Thousands)

16. Restrictions and Limitations on Net Asset Balances

Temporarily and permanently restricted net assets as of May 31 consist of the following:

	2017		2016	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Donor-restricted endowment	$ 490,282	$ 693,757	$ 500,116	$ 666,344
Annuity trust and unitrust	677	4,890	324	3,937
Student loan funds	-	12,568	-	12,368
Gifts and other unexpended revenues and gains available for:				
Acquisition of building and equipment	76,595	-	81,742	-
Instruction, research, departmental support, scholarships and other	52,336	-	63,577	-
	$ 619,890	$ 711,215	$ 645,759	$ 682,649

17. Commitments and Contingencies

The University is contractually obligated for approximately $24,210 as of May 31, 2017 for construction projects with scheduled completion dates through fiscal year 2018.

The University is party to various lease agreements which requires the University to make future lease payments and other agreements that entitle the University to future independent operations revenues. During the fiscal year, the University incurred $853 and $745 in operating lease expenses for facilities and equipment and received $4,120 and $4,085 in rental revenue in the fiscal years ended May 31, 2017 and 2016, respectively. As of May 31, 2017, the University has lease commitments and future lease revenue for the following future fiscal years:

	Lease Commitments	Lease Revenues
2018	$ 262	$ 4,151
2019	52	3,275
2020	20	2,845
2021	20	2,879
2022	20	1,059
Thereafter	83	3,064
	$ 457	$ 17,273

Accounts payable and accrued expenses include $44,607 reflecting the fair value of a ground lease contribution to The George W. Bush Foundation for the location, construction and operation of the George W. Bush Presidential Library Center facilities at the University as of May 31, 2017. This balance is being accreted over the 249 years of the lease, including extensions.

The University has committed to capital draws totaling $717,421 for venture capital, real estate funds and other investments, of which $518,077 had been drawn as of May 31, 2017. The University has committed to pay draws as required for the remaining $188,301 through fiscal year 2027.

(Dollars in Thousands)

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 to not 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 consolidated financial statements.

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

The University has entered into various agreements with banks to guarantee the construction loan debt for sorority houses built on University land. Under these agreements if the debtors default on their obligations, the University may be required to satisfy all or part of the remaining obligation. The liability for these guarantees has been recorded as accounts payable and accrued expenses with an offsetting amount recorded as other assets. The following guarantees were outstanding at the end of the respective fiscal years. The maximum amount of the guarantee is equal to the amount outstanding. The Kappa Alpha Theta guarantee was issued during fiscal year 2016.

	2017	2016	Expiration
Pi Beta Phi	$ 380	$ 503	2021
Tri Delta	3,062	3,062	2027
Chi Omega	2,366	2,739	2028
Delta Gamma	2,500	2,500	2029
Kappa Alpha Theta	4,939	1,479	2027
	$ 13,247	$ 10,283	

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 (the Code), as amended, as an organization described in Section 501(c)(3). Pony Properties, Inc., the Southern Methodist University Foundation for Research, Peruna Holdings Corporation, Mustang Mockingbird Properties, SMU Corp., Peruna East Corporation, and SMU Golf Foundation are controlled corporations included in the University's consolidated financial statements and exempt from federal income taxes under Section 501(a) of the Code, as amended, as organizations described in Sections 501(c)(3) and 501(c)(7).

The University, Pony Properties, Inc., the Southern Methodist University Foundation for Research, Peruna Holdings Corporation, Mustang Mockingbird Properties, SMU Corp., Peruna East Corporation, and SMU Golf Foundation 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. The University and its controlled corporations are exempt from federal income taxes except to the extent they have unrelated business income. As discussed in Note 1, Peruna Properties, Inc., Mustang Mockingbird Corporation, and Mustang Airline Corporation were dissolved during the fiscal year ended May 31, 2017.

The University complies with the requirements of ASC 740, *Income Taxes*, 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, ASC 740 provides guidance on recognition, classification, and accounting in interim periods and disclosure requirements for uncertain tax provisions. The University and its controlled corporations do not have any uncertain tax positions and, therefore, have recorded no liability or benefit for such positions for the years ended May 31, 2017 and 2016.

19. Subsequent Events

The University has evaluated subsequent events from the balance sheet date through September 8, 2017, the issue date of the financial statements, and determined that there are no other items to disclose.

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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.

"*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 2017 Bonds, the Series 2013 Bonds, the Series 2010 Bonds, the Series 2009 Bonds, the Series 2007 Bonds, the Series 2003 Bonds and the Series 2002 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 Series 2002 Bonds, October 1, 2002 and each April 1 and October 1 thereafter, (ii) with respect to the Series 2003 Bonds, April 1, 2004 and each October 1 and April 1 thereafter, (iii) with respect to the Series 2007 Bonds, April 1, 2007 and each October 1 and April 1 thereafter, (iv) with respect to the Series 2009 Bonds, April 1, 2010 and each October 1 and April 1 thereafter, (v) with respect to any other series of Bonds, the meaning set forth in the Supplemental Indenture or Issuer Order, (vi) with respect to the Series 2010 Bonds, April 1, 2011, and each October 1 and April 1 thereafter, (vii) with respect to the Series 2013 Bonds, October 1, 2013 and each October 1 and April 1 thereafter authorizing such series, and (viii) 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 (1) 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 agreement of the University relating to the Series 1985 Refunding Bonds, as such bonds are defined in this Official Statement under "INTRODUCTION—Prior Bonds and University Bonds," which is Security 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 2016 Project, the Series 2013 Project, the Series 2010 Project, the Series 2009 Project, the Series 2003 Project and the Series 2002 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 2017 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, 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.

"*Record Date*" means, with respect to the Series 2017 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 fails 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.

"Series 2010 Bonds" means the Southwest Higher Education Authority, Inc. Higher Education Revenue Bonds (Southern Methodist University Project) Series 2010.

"Series 2010 Project" means the facilities described generally in an exhibit to Amendment No. 6 to the Agreement which are to be constructed or acquired with proceeds of the Series 2010 Bonds.

"*Series 2013 Bonds*" means the Southwest Higher Education Authority, Inc. Higher Education Revenue Bonds (Southern Methodist University Project) Tax-Exempt Series 2013A and Taxable Series 2013B.

"*Series 2013 Project*" means the facilities described generally in an exhibit to Amendment No. 7 to the Agreement which are to be constructed or acquired with the proceeds of the Series 2013 Bonds.

"Series 2016 Bonds" means collectively, the Tax-Exempt Series 2016A Bonds and the Taxable Series 2016B Bonds.

"Series 2017 Bonds" means the Southwest Higher Education Authority, Inc. Higher Education Revenue Refunding Bonds (Southern Methodist University Project), Series 2017 Bonds.

"Series 2016 Project" means the facilities described generally in an exhibit to Amendment No. 8 to the Agreements which are to be constructed or acquired with the proceeds of the Taxable Series 2016B 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 2017 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.

"*Tax-Exempt Series 2013A Bonds*" means the Southwest Higher Education Authority, Inc. Higher Education Revenue Bonds (Southern Methodist University Project) Tax-Exempt Series 2013A.

"*Taxable Series 2013B Bonds*" means the Southwest Higher Education Authority, Inc. Higher Education Revenue Bonds (Southern Methodist University Project) Taxable Series 2013B.

"*Tax-Exempt Series 2016A Bonds*" means the Southwest Higher Education Authority, Inc. Higher Education Revenue Bonds (Southern Methodist University Project) Tax-Exempt Series 2016A.

"*Taxable Series 2016B Bonds*" means the Southwest Higher Education Authority, Inc. Higher Education Revenue Bonds (Southern Methodist University Project) Taxable Series 2016B.

"*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 *"rebatable 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.

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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 clause (i) of the first paragraph above 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.

However, all of the matters discussed under the caption *Limitations on Liens* above have been eliminated pursuant to a First Supplement to Master Indenture (the "*First Supplement*"). The provisions of the First Supplement will be effective upon its approval by the holders of a majority of the principal amount of Funded Debt outstanding. The purchasers of the Series 2017 Bonds are deemed by the purchase thereof to have given such approval.

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.

However, all of the matters discussed under *Limitations on Debt* have been eliminated pursuant to a First Supplement to Master Indenture (the "*First Supplement*"). The provisions of the First Supplement will be effective upon its approval by the holders of a majority of the principal amount of Funded Debt outstanding. The purchasers of the Series 2017 Bonds are deemed by the purchase thereof to have given such approval.

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;

<u>Second</u>: 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

<u>Third</u>: 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

FORM OF OPINION OF BOND COUNSEL

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[FORM OF OPINION OF BOND COUNSEL]

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 Refunding Bonds (Southern Methodist University Project) Series 2017 (the "Series 2017 Bonds"). The Series 2017 Bonds are issued pursuant to a Trust Indenture dated as of January 1, 1999 as supplemented by a Fourth Supplemental Indenture dated as of February 1, 2007, a Fifth Supplemental Indenture dated as of September 15, 2009, a Sixth Supplemental Indenture dated as of October 15, 2010, a Seventh Supplemental Indenture dated as of March 1, 2013, and an Eighth Supplemental Indenture dated May 1, 2016; and a Ninth Supplemental Indenture dated December 1, 2017 (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 2017 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 No. 4 to Loan Agreement dated as of February 1, 2007, an Amendment No. 5 to Loan Agreement dated as of September 15, 2009, an Amendment No. 6 to Loan Agreement dated as of October 15, 2010, an Amendment No. 7 to Loan Agreement dated as of March 1, 2013, an Amendment No. 8 to Loan Agreement dated as of May 1, 2016 and an Amendment No. 9 to Loan Agreement dated as of December 1, 2017 (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 2017 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 2017 Bonds. Capitalized terms not otherwise defined herein have the meanings assigned to such terms in the Indenture and Loan Agreement. The Series 2017 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 Trust 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 2017 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, 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 2017 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 2017 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 2017 Bonds is excludable from gross income for federal income tax purposes under existing law.

5. The Series 2017 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 2017 Bonds is not (i) a specific preference item subject to the alternative minimum tax on individuals and corporations, or (ii) included in a corporation's adjusted current earnings for purposes of the alternative minimum tax.

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 Hilltop Securities, Inc. (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 2017 Bonds for federal income tax purposes. Bond Counsel will further rely on the Report (the "Report") of Grant Thornton LLP, Certified Public Accountants, regarding the mathematical accuracy of certain computations. If such representations, certificates or the Report are determined to be inaccurate or incomplete or the University or the Issuer fail to comply with such covenants, interest on the Series 2017 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 2017 Bonds.

Owners of the Series 2017 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, 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 2017 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 2017 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 Trust 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 Trust Indenture) to the Master Trustee named in the Master Trust Indenture to secure payment of the Loan Agreement as a "Security" (as defined in the Master Trust 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 Trust Indenture allows the University to grant a security interest in the "Trust Estate" (as defined in the Master Trust Indenture) that may under certain circumstances as provided in the Master Trust Indenture be superior to the security interest in such Trust Estate securing payment of the Securities; (3) subject to certain limitations, the Master Trust Indenture allows additional Securities to be issued by the University from time to time pursuant to the provisions of the Master Trust Indenture; (4) the security interest granted by the University pursuant to granting clause First of the Master Trust Indenture, for the benefit of all Securities issued under the Master Trust Indenture, will terminate by its terms at such time as the "Previously Issued Securities" (as defined in the Master Trust Indenture) are paid or their payment provided for pursuant to the terms of the Master Trust Indenture.

It is to be understood that the rights of the holders of the Series 2017 Bonds under the Indenture and the Loan Agreement and the enforceability of the Series 2017 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 pre-empt 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 2017 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.

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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 2017 BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE "HOLDERS," THE "BONDHOLDERS," OR THE "OWNERS OF THE SERIES 2017 BONDS" SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNER OF THE SERIES 2017 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 University, 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 2017 Bonds (i) payments of the principal of, or interest or premium, if any, on the Series 2017 Bonds, or (ii) confirmation of ownership interests in the Series 2017 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 UNIVERSITY, 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 2017 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 2017 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 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.

DTC will act as securities depository for the Series 2017 Bonds (the "*Series 2017 Bonds*"). The Series 2017 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 2017 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 rating AA+. 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 2017 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2017 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 2017 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 2017 Bonds, except in the event that use of the book-entry system for the Series 2017 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2017 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 2017 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 2017 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2017 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 2017 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2017 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the documents. For example, Beneficial Owners of Series 2017 Bonds may wish to ascertain that the nominee holding the Series 2017 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 2017 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 2017 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 2017 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds payments on the Series 2017 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 University, 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 2017 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 2017 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 2017 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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