

**NEW ISSUE
BOOK-ENTRY ONLY**

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

The delivery of the Series 2013 Bonds (as described below) is subject to the opinion of Bracewell & Giuliani LLP, Bond Counsel, to the effect that interest on the Series 2013 Bonds is excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX MATTERS" herein, and is not a specific preference item or included in a corporation's adjusted current earnings for purposes of the federal alternative minimum tax. See "TAX MATTERS—TAX EXEMPTION" herein for a discussion of Bond Counsel's opinion, including a description of alternative minimum tax consequences for corporations and other federal tax consequences.



**SOUTHERN
METHODIST
UNIVERSITY**

**\$99,195,000
SOUTHWEST HIGHER EDUCATION AUTHORITY, INC.
Higher Education Revenue Bonds
(Southern Methodist University Project)
Tax-Exempt Series 2013A**

Dated: Date of Delivery

Due: October 1, as shown below

The Southwest Higher Education Authority, Inc. (the "Issuer") is offering \$99,195,000 of its Higher Education Revenue Bonds (Southern Methodist University Project) Tax-Exempt Series 2013A (the "Tax-Exempt Series 2013A Bonds" and together with the Taxable Series 2013B Bonds, the "Series 2013 Bonds"). Interest on the Tax-Exempt Series 2013A Bonds accrues from the date of delivery and is payable on October 1, 2013, and semiannually on each April 1 and October 1 thereafter. The Tax-Exempt Series 2013A Bonds will be issued as fully registered bonds in denominations of \$5,000 or integral multiples thereof and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Tax-Exempt Series 2013A Bonds. So long as the book-entry system is in effect, purchases of beneficial ownership interests in the Tax-Exempt Series 2013A Bonds will be made in book-entry form only and purchasers will not receive certificates representing their interests in the Tax-Exempt Series 2013A Bonds purchased. Principal of, any redemption price for, and interest on the Tax-Exempt Series 2013A Bonds will be payable by The Bank of New York Mellon Trust Company, National Association (the "Trustee") to the registered owners of the Tax-Exempt Series 2013A Bonds, initially to DTC, which in turn is to remit such payments to its participants for subsequent disbursement to beneficial owners.

The Tax-Exempt Series 2013A Bonds are subject to optional and mandatory redemption prior to maturity, as described herein. See "THE SERIES 2013 BONDS—REDEMPTION" herein.

The payment of the principal of, redemption premium, if any, and interest on the Tax-Exempt Series 2013A Bonds constitute limited obligations of the Issuer, payable solely from payments required to be made pursuant to the Loan Agreement (as amended) between the Issuer and Southern Methodist University (the "University"). The Loan Agreement is authenticated as a "Security" under a Master Indenture, described herein, which further secures the University's obligation under the Loan Agreement.

NEITHER THE STATE OF TEXAS NOR ANY POLITICAL SUBDIVISION, OR AGENCY THEREOF, INCLUDING THE CITY OF UNIVERSITY PARK, TEXAS, IS OBLIGATED TO PAY THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON THE TAX-EXEMPT SERIES 2013A 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 TAX-EXEMPT SERIES 2013A BONDS. THE ISSUER HAS NO TAXING POWER.

**Maturity Schedule
\$26,705,000 Serial Bonds**

Due October 1	Amount	Interest Rate	Yield	CUSIPs⁽¹⁾
2029	\$5,220,000 ⁽²⁾	5.000%	3.100%	845040 JV7
2030	5,440,000	3.250%	3.480%	845040 JW5
2031	5,670,000 ⁽²⁾	5.000%	3.230%	845040 JX3
2032	5,960,000 ⁽²⁾	5.000%	3.270%	845040 JY1
2033	4,415,000	3.500%	3.610%	845040 JZ8

\$36,540,000 5.000% Term Bonds due October 1, 2038 Price: 112.481%⁽²⁾ CUSIP No.⁽¹⁾ 845040 KB9
\$5,950,000 5.000% Term Bonds due October 1, 2042 Price: 111.647%⁽²⁾ CUSIP No.⁽¹⁾ 845040 KA1
\$30,000,000 4.000% Term Bonds due October 1, 2042 Price: 100.423%⁽²⁾ CUSIP No.⁽¹⁾ 845040 KC7

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.

Separate Issues. The Tax-Exempt Series 2013A Bonds are being offered by the Issuer concurrently with the Issuer's Higher Education Revenue Bonds (Southern Methodist University Project), Taxable Series 2013B (the "Taxable Series 2013B" and together with the Tax-Exempt Series 2013A Bonds, the "Series 2013 Bonds"), under a common Official Statement. The Tax-Exempt Series 2013A Bonds and the Taxable Series 2013B Bonds are separate and distinct securities offerings being issued and sold independently except for the common Official Statement, and while the Series 2013 Bonds share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently, including the type of obligation being offered, its terms for payment, the security for its payment, the rights of the holders, the tax status of its interest and other features.

The Tax-Exempt Series 2013A 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 & Giuliani 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 and Vice President for Legal Affairs and Government Relations, and for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P. First Southwest Company is serving as Financial Advisor to the University. It is expected that the Tax-Exempt Series 2013A Bonds will be delivered through the facilities of DTC on or about April 16, 2013.

BofA Merrill Lynch

BOSC, Inc. **J.P. Morgan** **Stephens, Inc.** **Raymond James**

**A subsidiary of BOK
Financial Corporation**

⁽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, October 1, 2023.

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**NEW ISSUE
BOOK-ENTRY ONLY**

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

Interest on the Taxable Series 2013B Bonds (defined below) is not excludable from gross income for federal income tax purposes.



**SOUTHERN
METHODIST
UNIVERSITY**

\$90,090,000
SOUTHWEST HIGHER EDUCATION AUTHORITY, INC.
Higher Education Revenue Bonds
(Southern Methodist University Project)
Taxable Series 2013B

Dated: Date of Delivery

Due: October 1, as shown below

The Southwest Higher Education Authority, Inc. (the "Issuer") is offering \$90,090,000 of its Higher Education Revenue Bonds (Southern Methodist University Project) Taxable Series 2013B (the "Taxable Series 2013B Bonds" and together with the Tax-Exempt Series 2013A Bonds, the "Series 2013 Bonds"). Interest on the Taxable Series 2013B Bonds accrues from the date of delivery and is payable on October 1, 2013, and semiannually on each April 1 and October 1 thereafter. The Taxable Series 2013B Bonds will be issued as fully registered bonds in denominations of \$5,000 or integral multiples thereof and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Taxable Series 2013B Bonds. So long as the book-entry system is in effect, purchases of beneficial ownership interests in the Taxable Series 2013B Bonds will be made in book-entry form only and purchasers will not receive certificates representing their interests in the Taxable Series 2013B Bonds purchased. Principal of, any redemption price for, and interest on the Taxable Series 2013B Bonds will be payable by The Bank of New York Mellon Trust Company, National Association (the "Trustee") to the registered owners of the Taxable Series 2013B Bonds, initially to DTC, which in turn is to remit such payments to its participants for subsequent disbursement to beneficial owners.

The Taxable Series 2013B Bonds are subject to optional and mandatory redemption prior to maturity, as described herein. See "THE SERIES 2013 BONDS—REDEMPTION" herein.

The payment of the principal of, redemption premium, if any, and interest on the Taxable Series 2013B Bonds constitute limited obligations of the Issuer, payable solely from payments required to be made pursuant to the Loan Agreement (as amended) between the Issuer and Southern Methodist University (the "University"). The Loan Agreement is authenticated as a "Security" under a Master Indenture, described herein, which further secures the University's obligation under the Loan Agreement.

NEITHER THE STATE OF TEXAS NOR ANY POLITICAL SUBDIVISION, OR AGENCY THEREOF, INCLUDING THE CITY OF UNIVERSITY PARK, TEXAS, IS OBLIGATED TO PAY THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON THE TAXABLE SERIES 2013B 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 TAXABLE SERIES 2013B BONDS. THE ISSUER HAS NO TAXING POWER.

Maturity Schedule
\$80,090,000 Serial Bonds

<u>Due</u> <u>October 1</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIPs⁽³⁾</u>	<u>Due</u> <u>October 1</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIPs⁽³⁾</u>
2013	\$ 265,000	0.350%	0.350%	845040 JC9	2021	\$5,175,000	2.416%	2.416%	845040 JL9
2014	4,695,000	0.540%	0.540%	845040 JD7	2022	5,310,000	2.616%	2.616%	845040 JM7
2015	4,730,000	0.692%	0.692%	845040 JE5	2023	5,455,000	2.766%	2.766%	845040 JN5
2016	4,770,000	0.917%	0.917%	845040 JF2	2024	5,610,000	2.946%	2.946%	845040 JQ8
2017	4,820,000	1.229%	1.229%	845040 JG0	2025	5,790,000	3.166%	3.166%	845040 JR6
2018	4,885,000	1.479%	1.479%	845040 JH8	2026	5,975,000	3.316%	3.316%	845040 JS4
2019	4,965,000	1.871%	1.871%	845040 JJ4	2027	6,180,000	3.466%	3.466%	845040 JT2
2020	5,060,000	2.071%	2.071%	845040 JK1	2028	6,405,000	3.616%	3.616%	845040 JU9

\$10,000,000 4.156% Term Bonds due October 1, 2033 Price: 100.0% CUSIP No.⁽³⁾ 845040 JP0

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Separate Issues. The Taxable Series 2013B Bonds are being offered by the Issuer concurrently with the Issuer's Higher Education Revenue Bonds (Southern Methodist University Project), Tax-Exempt Series 2013A (the "Tax-Exempt Series 2013A" and together with the Taxable Series 2013B Bonds, the "Series 2013 Bonds"), under a common Official Statement. The Taxable Series 2013B Bonds and the Tax-Exempt Series 2013A Bonds are separate and distinct securities offerings being issued and sold independently except for the common Official Statement, and while the Series 2013 Bonds share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently, including the type of obligation being offered, its terms for payment, the security for its payment, the rights of the holders, the tax status of its interest and other features.

The Taxable Series 2013B 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 & Giuliani 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 and Vice President for Legal Affairs and Government Relations, and for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P. First Southwest Company is serving as Financial Advisor to the University. It is expected that the Taxable Series 2013B Bonds will be delivered through the facilities of DTC on or about April 16, 2013.

J.P. Morgan
BofA Merrill Lynch **BOSC, Inc.** **Stephens, Inc.** **Raymond James**
A subsidiary of BOK
Financial Corporation

⁽³⁾ 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.

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THE SERIES 2013 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAS THE INDENTURE OR THE MASTER INDENTURE BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE SERIES 2013 BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAW OF THE STATES IN WHICH THE SERIES 2013 BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. THE SERIES 2013 BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

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

NEITHER THE UNIVERSITY, THE ISSUER NOR THE UNDERWRITERS MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM AS SUCH INFORMATION WAS FURNISHED BY THE DEPOSITORY TRUST COMPANY.

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 respective 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.

This Official Statement is delivered in connection with the sale of securities referred to herein and may not be reproduced or used, in whole or in part, for any other purposes. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series 2013 Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation, or sale. No dealer, salesperson, or other person has been authorized by the Issuer, the University or the Underwriters to give any information or to make any representation other than those contained herein, and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the University or the other matters described herein since the date hereof.

The prices and other terms respecting the offering and sale of the Series 2013 Bonds may be changed from time to time by the Underwriters after such bonds are released for sale, and the Series 2013 Bonds may be offered and sold at prices other than the initial offering prices, including to dealers who may sell the bonds into investment accounts.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2013 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

This Official Statement includes "forward-looking statements" by using forward-looking words such as "may," "will," "should," "intends," "expects," "believes," "anticipates," "estimates," or others. These forward-looking statements are subject to a variety of uncertainties that could cause actual results to differ from the projected results. Those risks and uncertainties include the conditions described under "BONDOWNERS' RISKS—

GENERAL.” Because it is not possible to predict all factors that may affect future decisions, actions, events, or financial circumstances, what actually happens may be different from what is included in forward-looking statements.

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

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OFFICIAL STATEMENT

\$99,195,000

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

and

\$90,090,000

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

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 2013 Bonds to potential investors is made only by means of this Official Statement. All capitalized terms used in this Official Statement and not otherwise defined herein have the same meanings as in the Loan Agreement, the Indenture or the Master Indenture, as applicable. See **APPENDIX C, "SUMMARY OF PRINCIPAL DOCUMENTS—DEFINITIONS OF CERTAIN TERMS."** The document summaries contained in **APPENDIX C** are not intended to be comprehensive and are qualified in their entirety by reference to the entire documents. Until the issuance of the Series 2013 Bonds, you may obtain a copy of the documents described herein by contacting First Southwest Company at the following address or phone number to request a free copy: 325 North St. Paul Street, Suite 800, Dallas, Texas 75201, (214) 953-4000. After delivery of the Series 2013 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 \$99,195,000 aggregate principal amount of Higher Education Revenue Bonds (Southern Methodist University Project) Tax-Exempt Series 2013A (the "*Tax-Exempt Series 2013A Bonds*"), and \$90,090,000 aggregate principal amount of Higher Education Revenue Bonds (Southern Methodist University Project) Taxable Series 2013B (the "*Taxable Series 2013B Bonds*" and together with the Tax-Exempt Series 2013A Bonds, the "*Series 2013 Bonds*"), 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 2013 Bonds

The Series 2013 Bonds will bear interest at the fixed rates set forth on the cover page hereto and will be payable semiannually on April 1 and October 1, beginning October 1, 2013. The Series 2013 Bonds are subject to optional and mandatory redemption. See "**THE SERIES 2013 BONDS—REDEMPTION**" herein.

Use of Proceeds

Tax-Exempt Series 2013A Bonds

The proceeds of the sale of the Tax-Exempt Series 2013A Bonds will be loaned by the Issuer to Southern Methodist University (the "*University*"), a Texas nonprofit corporation exempt from taxation as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "*Code*"), for the purpose of:

(i) financing and refinancing the cost of “educational facilities” and “housing facilities” (as defined in the Act) and facilities incidental, subordinate or related thereto or appropriate in connection therewith, (ii) paying interest on the Tax-Exempt Series 2013A Bonds for a portion of the construction period, and (iii) paying certain costs of issuance of the Tax-Exempt Series 2013A Bonds.

Taxable Series 2013B Bonds

The proceeds of the sale of the Taxable Series 2013B Bonds will be loaned by the Issuer to the University, for the purpose of: (i) financing and refinancing the costs of “educational facilities” and “housing facilities” (as defined in the Act) and facilities incidental, subordinate, or related thereto or appropriate in connection therewith (ii) refunding all or a portion of the Issuer’s Higher Education Revenue Bonds (Southern Methodist University Project) Series 2003 (the “*Refunded Bonds*”), (iii) paying interest on the Taxable Series 2013B Bonds for a portion of the construction period, and (iv) paying certain costs of issuance of the Taxable Series 2013B Bonds.

See “**PLAN OF FINANCE**” and “**THE SERIES 2013 PROJECTS**” 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 City of Highland Park, is surrounded by the City of Dallas, Texas. For fall 2012, the University has approximately 10,893 full-time equivalent students and a faculty of approximately 774. For additional information regarding the University, see **APPENDIX A, “INFORMATION CONCERNING SOUTHERN METHODIST UNIVERSITY.”**

Prior Bonds Issued by the Issuer

The Issuer has previously issued the following outstanding bonds on behalf of the University (collectively, the “*Prior Bonds*”):

<u>BONDS</u>	AMOUNT ORIGINALLY ISSUED	AMOUNT OUTSTANDING AS OF 2/1/2013
Higher Education Revenue Bonds (Southern Methodist University Project) Series 2010 (the “ <i>Series 2010 Bonds</i> ”)	\$116,330,000	\$116,330,000
Higher Education Revenue Bonds (Southern Methodist University Project) Series 2009 (the “ <i>Series 2009 Bonds</i> ”)	147,635,000	141,170,000
Higher Education Revenue Bonds (Southern Methodist University Project) Series 2007 (the “ <i>Series 2007 Bonds</i> ”)	95,580,000	88,575,000
Higher Education Revenue Bonds (Southern Methodist University Project) Series 2003 (the “ <i>Series 2003 Bonds</i> ”)	31,000,000	25,185,000
Variable Rate Demand Higher Education Revenue Bonds (Southern Methodist University Project) Refunding Series 1985 (the “ <i>Series 1985 Refunding Bonds</i> ”)	<u>49,295,000</u>	<u>19,200,000</u>
TOTAL:	<u>\$439,840,000</u>	<u>\$390,460,000</u>

The loan agreements relating to the Prior Bonds have all been authenticated as Securities under the Master Indenture. See “**THE INDENTURE, THE LOAN AGREEMENT AND THE MASTER INDENTURE.**”

Line of Credit Obligation Secured under the Master Indenture

The University has entered into an agreement with Bank of Texas, N.A. authorizing a \$25,000,000 line of credit (the "*Line of Credit*") that has been authenticated as a Security under the Master Indenture. The University currently has no indebtedness outstanding under the Line of Credit. The Line of Credit is scheduled to expire on November 13, 2013. See APPENDIX A, "*-Liquidity.*"

University Guaranties of Certain Debt

The University has entered into loan guarantees (the "*Guarantees*") for two sororities that are located on University owned land pursuant to lease agreements. These sororities have entered into loans with commercial banks for the construction and improvement of sorority housing, and the University has agreed to guarantee the payment of the loans. The outstanding Sorority Guarantees have been approved by the Board of Trustees of the University and are treated as Debt under the terms of the Master Indenture, and as such, are included in the coverage calculation of Debt for purposes of the issuance of the Series 2013 Bonds. The amount of outstanding Sorority Guarantees as of February 28, 2013 was approximately \$2.3 million. The maximum amount of loans the University expects to guarantee, including the outstanding Sorority Guarantees, is approximately \$8.5 million.

The University has made arrangements to move its intercollegiate athletics program from Conference USA ("*CUSA*") to the Big East Conference effective July 1, 2013. The Bylaws of CUSA (the "*Bylaws*") require that the University pay an exit fee consisting of a withdrawal fee of \$500,000 and the amount of estimated lost television rights fees resulting from the University leaving the conference for the five year period subsequent to the University's departure. On November 2, 2011, CUSA notified SMU that the Commissioner of CUSA (the "*Commissioner*") had made a preliminary estimate that the total withdrawal fee required to be paid under the Bylaws would be more or less \$6,750,000. The Bylaws further require that the payment of the final withdrawal fee determined by the Commissioner, less any applicable credits be secured, so the University has entered into an irrevocable standby letter of credit in favor of CUSA for \$6,750,000 expiring on July 10, 2013.

George W. Bush Presidential Center Lease

During fiscal year 2011, the University recorded an expense representing the fair value of its ground lease contribution to The George W. Bush Foundation for the location, construction and operation of the George W. Bush Presidential Center facilities. The term of the lease contributed to the Foundation is 249 years, with extensions. For more information, see Note 17 to the Financial Statements.

The Indenture, the Loan Agreement and the Master Indenture

The Series 2013 Bonds will be issued under the Act, and pursuant to a Trust Indenture dated as of January 1, 1999 (the "*Original Indenture*") between the Issuer and The Bank of New York Mellon Trust Company, National Association, as Trustee (successor in trust to JPMorgan Chase Bank, National Association, formerly known as The Chase Manhattan Bank, successor by merger to Chase Bank of Texas, National Association) (the "*Trustee*"), as supplemented by the First Supplemental Indenture dated as of January 1, 1999 (the "*First Supplemental Indenture*") between the Issuer and the Trustee, the Second Supplemental Indenture (the "*Second Supplemental Indenture*") dated as of July 1, 2002 between the Issuer and the Trustee, the Third Supplemental Indenture (the "*Third Supplemental Indenture*") dated as of December 1, 2003 between the Issuer and the Trustee, the Fourth Supplemental Indenture (the "*Fourth Supplemental Indenture*") dated as of February 1, 2007 between the Issuer and the Trustee, the Fifth Supplemental Indenture (the "*Fifth Supplemental Indenture*") dated as of September 15, 2009 between the Issuer and the Trustee, the Sixth Supplemental Indenture (the "*Sixth Supplemental Indenture*") dated as of October 15, 2010 between the Issuer and the Trustee and the Seventh Supplemental Indenture (the "*Seventh Supplemental Indenture*"), dated as of March 1, 2013 between the Issuer and the Trustee (collectively, with any amendments or supplements thereto, the "*Indenture*"). The Series 2003 Bonds were issued under the Third Supplemental 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 and the Series 2013 Bonds are being issued under the Seventh Supplemental Indenture. The Indenture secures the Series 2013 Bonds on a parity with the Series 2003 Bonds, the Series 2007 Bonds, the Series 2009 Bonds, the Series 2010 Bonds and any other future bonds ("*Additional Bonds*") which may be issued from

time to time under the Indenture. The Series 2003 Bonds, the Series 2007 Bonds, the Series 2009 Bonds, the Series 2010 Bonds, the Series 2013 Bonds and any Additional Bonds are referred to herein collectively as the “Bonds.”

The proceeds of the Series 2013 Bonds will be loaned to the University pursuant to the Loan Agreement dated as of January 1, 1999 (the “*Original Loan Agreement*”) between the Issuer and the University, as amended by an Amendment Number 1 to Loan Agreement (“*Amendment No. 1*”) dated as of January 1, 1999 between the Issuer and the University, an Amendment Number 2 to Loan Agreement (“*Amendment No. 2*”) dated as of July 1, 2002 between the Issuer and the University, an Amendment Number 3 to Loan Agreement (“*Amendment No. 3*”) dated as of December 1, 2003 between the Issuer and the University, an Amendment Number 4 to Loan Agreement (“*Amendment No. 4*”) dated as of February 1, 2007 between the Issuer and the University, an Amendment Number 5 to Loan Agreement (“*Amendment No. 5*”) dated as of September 15, 2009 between the Issuer and the University and an Amendment Number 6 to Loan Agreement (“*Amendment No. 6*”) dated as of October 15, 2010 between the Issuer and the University and an Amendment Number 7 to the Loan Agreement (“*Amendment No. 7*”) dated as of March 1, 2013 between the Issuer and the University (collectively, with any amendments or supplements thereto, the “*Loan Agreement*”). The obligation of the University to make loan payments with respect to the Series 2013 Bonds is established by Amendment No. 7. 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 2013 Bonds). The Issuer has pledged to the Trustee a security interest in the Issuer’s rights under the Loan Agreement (subject to certain exceptions) to secure payment of the Bonds, including the Series 2013 Bonds.

In addition, to secure the obligation of the University to make loan payments with respect to the Bonds, the Original Loan Agreement, as amended by Amendment No. 1, Amendment No. 2, Amendment No. 3, Amendment No. 4, Amendment No. 5, Amendment No. 6 and Amendment No. 7, and as the Loan Agreement may hereafter be further amended from time to time, was authenticated as a Security under the Master Indenture between the University and The Bank of New York Mellon Trust Company, National Association (successor in trust to JPMorgan Chase Bank, National Association, formerly known as The Chase Manhattan Bank, successor by merger to Chase Bank of Texas, National Association) as Master Trustee. The loan agreement relating to the Series 1985 Refunding Bonds and the agreement authorizing the Line of Credit are also Securities of the University secured under the Master Indenture. So long as the Series 1985 Refunding Bonds are outstanding under the Master Indenture, the University grants to the Master Trustee a limited security interest in the University’s Unrestricted Receivables (hereafter defined) for the benefit of holders of the Securities to secure payment of the Securities and imposes certain covenants on the University. Such limited security interest will terminate when the Series 1985 Refunding Bonds are no longer outstanding. Under the Master Indenture, additional loan agreements, reimbursement agreements for letters of credit and other types of obligations of the University, and amendments to the foregoing, relating to additional obligations of the University can be authenticated as Securities under the Master Indenture and be secured by the University’s pledge of its Unrestricted Receivables. Once the Series 1985 Refunding Bonds are no longer outstanding, there will be no specific revenues pledged to the payment of the Bonds and no security interest for the benefit of the Bonds in any revenues of the University, except such revenues as have been paid to the Trustee to pay amounts due and payable on the Bonds pursuant to the Loan Agreement. See APPENDIX C, “SUMMARY OF PRINCIPAL DOCUMENTS—THE MASTER INDENTURE,” “SUMMARY OF PRINCIPAL DOCUMENTS—THE LOAN AGREEMENT,” “SUMMARY OF PRINCIPAL DOCUMENTS—THE INDENTURE,” “SOURCES OF PAYMENT AND SECURITY FOR THE BONDS” and “LIMITATIONS ON SECURITY INTEREST AND ENFORCEABILITY OF REMEDIES.”

THE SERIES 2013 BONDS

General

The Series 2013 Bonds will be dated the date of delivery and will be issuable in the amounts and with the maturity dates set forth on the cover page of this Official Statement. Interest on the Series 2013 Bonds will accrue at the rates per annum and will be payable on the dates set forth on the cover page of this Official Statement. Interest on the Series 2013 Bonds will be calculated on the basis of a 360-day year of twelve 30-day months.

The Series 2013 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 2013 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 2013 Bond will be payable to the Owner upon surrender of such Series 2013 Bond at the principal payment office of the Trustee located in Houston, Texas. Interest on each Series 2013 Bond paid on each Interest Payment Date will be paid to the person in whose name such Series 2013 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 2013 Bonds, all payments on Series 2013 Bonds will be made directly to *DTC*.

Any interest on the Series 2013 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 Tax-Exempt Series 2013A Bonds. The Tax-Exempt Series 2013A Bonds maturing on and after October 1, 2029 are subject to redemption upon request and at the direction of the University, prior to their stated maturity, in whole or in part, on any date on and after October 1, 2023, in any order, at a redemption price of 100% of the principal amount of the Series 2013 Bonds to be redeemed, plus accrued interest to the applicable redemption date.

Optional Redemption of the Taxable Series 2013B Bonds. The Taxable Series 2013B Bonds maturing on and after October 1, 2024 are subject to redemption upon request and at the direction of the University, prior to their stated maturity, in whole or in part, on any date on and after October 1, 2023, in any order, at a redemption price of 100% of the principal amount of the Taxable Series 2013 Bonds to be redeemed, plus accrued interest to the applicable redemption date.

Mandatory Sinking Fund Redemption – Tax-Exempt Series 2013A Bonds. The Tax-Exempt Series 2013A Bonds maturing on October 1, 2038 and October 1, 2042 are subject to mandatory sinking fund redemption on October 1, in the principal amounts and in the years specified below at a redemption price equal to 100% of the principal amounts thereof plus accrued interest thereon from the most recent Interest Payment Date to the redemption date:

Term Bonds Maturing October 1, 2038

<u>Year</u>	<u>Principal Amount</u>
2034	\$6,595,000
2035	6,935,000
2036	7,290,000
2037	7,665,000
2038*	8,055,000

*Maturity

5.000% Term Bonds Maturing October 1, 2042

<u>Year</u>	<u>Principal Amount</u>
2039	\$1,380,000
2040	1,450,000
2041	1,520,000
2042*	1,600,000

*Maturity

4.000% Term Bonds Maturing October 1, 2042

<u>Year</u>	<u>Principal Amount</u>
2039	\$7,055,000
2040	7,345,000
2041	7,645,000
2042*	7,955,000

*Maturity

Mandatory Sinking Fund Redemption – Taxable Series 2013B Bonds. The Taxable Series 2013B Bonds maturing on October 1, 2033 are subject to mandatory sinking fund redemption on October 1, in the principal amounts and in the years specified below at a redemption price equal to 100% of the principal amounts thereof plus accrued interest thereon from the most recent Interest Payment Date to the redemption date:

Term Bonds Maturing October 1, 2033

<u>Year</u>	<u>Principal Amount</u>
2029	\$1,505,000
2030	1,570,000
2031	1,640,000
2032	1,700,000
2033*	3,585,000

*Maturity

The principal amount of the Series 2013 Bonds of any stated maturity subject to mandatory sinking fund redemption may be reduced by the University by the principal amount of the Series 2013 Bonds of such stated maturity either (1) surrendered uncanceled and in proper form for transfer (subject to certain restrictions) by the University to the Trustee for cancellation not less than 30 days prior to the redemption date or (2) selected for redemption not less than 30 days prior to such redemption date pursuant to an optional redemption, if such Series 2013 Bonds have not previously been reduced pursuant to a redemption.

Notice of Redemption. The Trustee shall give notice of any redemption of the Series 2013 Bonds by first class mail, postage prepaid, mailed at least 30 days prior to the redemption date, to holders of Series 2013 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 2013 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 2013 Bonds to be redeemed, and if less than all outstanding Series 2013 Bonds are to be redeemed, the identification by CUSIP number and Stated Maturity Date of the Series 2013 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 2013 Bonds or portions thereof to be redeemed shall cease to bear interest. The University has retained the right to give a conditional notice of redemption which notice may be rescinded at any time prior to and including the scheduled redemption date upon delivery of written instructions from the University to the Trustee instructing the Trustee to rescind the redemption notice. Upon such rescission, the notice and redemption will be of no effect. The Trustee shall give prompt notice of any such rescission of a notice of redemption to the affected Owners. Any Series 2013 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 2013 Bonds or the Indenture.

Selection of Series 2013 Bonds to be Redeemed. Series 2013 Bonds may be redeemed only in \$5,000 principal amounts or integral multiples thereof. If less than all of the Series 2013 Bonds are to be optionally redeemed, the particular maturities from which they are to be redeemed shall be selected by the University and if less than all of the outstanding principal amount of the Series 2013 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 2013 Bonds to be redeemed within each such stated maturity; provided that, for so long as the only owner of the Series 2013 Bonds is DTC, the selection of Series 2013 Bonds within a stated maturity will be made by DTC.

SOURCES OF PAYMENT AND SECURITY FOR THE BONDS

General

The Series 2013 Bonds are limited, non-recourse obligations of the Issuer payable by the Issuer solely from and to the extent of the trust estate under the Indenture, which includes the Issuer's interest in and to the Loan Agreement (subject to certain exceptions) including the right to receive loan payments from the University to pay principal and interest on the Bonds when due and the Issuer's rights as a holder of a Security. See, "THE INDENTURE, THE LOAN AGREEMENT AND THE MASTER INDENTURE" and APPENDIX C, "SUMMARY OF PRINCIPAL DOCUMENTS-DEFINITIONS OF CERTAIN TERMS."

NEITHER THE STATE OF TEXAS NOR ANY POLITICAL SUBDIVISION OR AGENCY THEREOF, INCLUDING THE CITY OF UNIVERSITY PARK, TEXAS, IS OBLIGATED TO PAY THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2013 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 2013 BONDS. THE ISSUER HAS NO TAXING POWER.

The Indenture, the Loan Agreement and the Master Indenture

Under the Indenture, the Issuer has assigned and pledged to the Trustee as security for the payment of the Bonds, including the Series 2013 Bonds, all right, title, and interest of the Issuer in and to, among other things: (i) the Loan Agreement (with certain exceptions and reservations relating to indemnification and reimbursement of the Issuer noted in such Loan Agreement), including the loan payments; (ii) the rights of the Issuer as the holder of the Loan Agreement as a Security entitled to the benefit and security of the Master Indenture; and (iii) all money and investments from time to time held for the credit of the Construction Fund, the Bond Proceeds Clearance Fund, and the Bond Fund established under the Indenture, excluding, however, the Rebate Fund and all money and investments held for the credit of the Rebate Fund. Pursuant to the Loan Agreement, the University agrees to make loan payments sufficient to pay in full the debt service requirements of the Series 2013 Bonds. The University further agrees under the Loan Agreement to pay certain fees and expenses (consisting generally of fees, charges, and expenses of the Trustee). The loan payments under the Loan Agreement constitute a general obligation of the University. The source of payment for the loan payments is not limited to any particular revenue stream. See "LIMITATIONS ON SECURITY INTEREST AND ENFORCEABILITY OF REMEDIES."

In 1999, the University reorganized the structure of its obligations with respect to certain outstanding bonded indebtedness by entering into the Master Indenture, which provides a coherent security structure related to the Prior Bonds, the Series 2013 Bonds, the Line of Credit and any other future indebtedness or obligations of the University secured by a Security issued under the Master Indenture ("*Additional Securities*"). The Original Loan

Agreement, as amended by Amendment No. 1, by Amendment No. 2, by Amendment No. 3, by Amendment No. 4, by Amendment No. 5, by Amendment No. 6 and by Amendment No. 7, and as it may be further amended from time to time, is authenticated as a "Security" under the Master Indenture and is on a parity with the Securities issued under the Master Indenture to secure the Series 1985 Refunding Bonds and the Line of Credit. See **"INTRODUCTION-THE INDENTURE, THE LOAN AGREEMENT AND THE MASTER INDENTURE."**

Under the Master Indenture, the University has made certain covenants which, among other things, limit the ability of the University to incur Funded Debt or to encumber its property. See **"OTHER INDEBTEDNESS"** below, **"LIMITATIONS ON SECURITY INTEREST AND ENFORCEABILITY OF REMEDIES—SECURITY INTEREST,"** and **APPENDIX C, "SUMMARY OF PRINCIPAL DOCUMENTS—THE MASTER INDENTURE—Covenants of the University."** In addition, by virtue of the cross-default provisions of the Master Indenture, a breach of any of the covenants the University made or may make under (i) the various agreements relating to the Prior Bonds, (ii) the agreement in connection with the Line of Credit and (iii) any agreements entered into in connection with any Additional Securities, will constitute a default under the Master Indenture so long as the obligation or indebtedness to which the covenant relates remains outstanding. See **"EVENTS OF DEFAULT."** Pursuant to the Master Indenture, the University has pledged to the Master Trustee as collateral an interest in the Unrestricted Receivables of the University, to secure payment of the Securities. Once the Series 1985 Refunding Bonds are paid or defeased, the pledge of Unrestricted Receivables under the Master Indenture will cease as to all Securities issued under the Master Indenture, including the Loan Agreement securing the Prior Bonds and the Series 2013 Bonds, which has been authenticated as a Security under the Master Indenture. See **"SOURCES OF PAYMENT AND SECURITY FOR THE BONDS"** and **"LIMITATIONS ON SECURITY INTEREST AND ENFORCEABILITY OF REMEDIES"** and **APPENDIX C, "SUMMARY OF PRINCIPAL DOCUMENTS—THE MASTER INDENTURE—General."**

Additional Bonds

Additional Bonds may be issued under the Indenture upon satisfaction of certain conditions including delivery of an Officer's Certificate to the effect that such issuance will not create a default under the Master Indenture and an Opinion of Counsel to the effect that the obligations of the University under the Loan Agreement with respect to the Additional Bonds are entitled to the benefit and security of the Master Indenture. See **"OTHER INDEBTEDNESS"** below. Any Additional Bonds issued under the Indenture will be secured by the collateral pledged under the Indenture on a parity with the Series 2003 Bonds, the Series 2007 Bonds, the Series 2009 Bonds, the Series 2010 Bonds and the Series 2013 Bonds and any other Additional Bonds.

Other Indebtedness

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

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

Amendments to Indenture, Loan Agreement and Master Indenture

The Indenture, the Master Indenture and the Loan Agreement may be modified without the consent of, or notice to, the holders of the Series 2013 Bonds under certain circumstances. See **“APPENDIX C, “SUMMARY OF PRINCIPAL DOCUMENTS—THE INDENTURE—Supplements and Amendments”** and **“—THE MASTER INDENTURE—Supplements.”**

Merger, Consolidation, Etc. of University

Under the Loan Agreement and the Master Indenture, unless such action would adversely affect the tax-exempt status of the Series 2013 Bonds, the University may consolidate with or merge with or into or sell or otherwise transfer all or substantially all of its assets to another domestic corporation, if the surviving entity, prior to or simultaneously with such consolidation, merger, sale or transfer, assumes all the obligations of the University under the Loan Agreement and the Master Indenture.

Events of Default

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

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

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

LIMITATIONS ON SECURITY INTEREST AND ENFORCEABILITY OF REMEDIES

Security Interest

The Series 2013 Bonds are not secured by a mortgage on or a security interest in the University’s facilities or on any tangible real or personal property of the University. Under the Master Indenture, the Loan Agreement has been authenticated as a Security under the Master Indenture and the University’s obligation to make payments under the Loan Agreement is secured by the “Trust Estate” as defined in the Master Indenture. So long as the Series 1985 Refunding Bonds remain outstanding, the Trust Estate under the Master Indenture includes all rents, issues, profits, income, revenues, receipts and rights to the payment of money and receivables derived by the University from any and all sources, including, without limitation, all accounts, contract rights and general intangibles, now owned or hereafter acquired, and all proceeds thereof whether cash or noncash; excluding, however, gifts, grants, bequests, donations and contributions to the University heretofore or hereafter made, and the proceeds thereof, which are specifically restricted by the donor, testator or grantor to a particular purpose which is inconsistent with their use for payments required under the Master Indenture (the *“Unrestricted Receivables”*). The final maturity of the Series 1985 Bonds is July 1, 2015. See, **“ENFORCEABILITY OF REMEDIES”** below and **APPENDIX C, “SUMMARY OF PRINCIPAL DOCUMENTS—THE MASTER INDENTURE—General.”** ONCE THE

SERIES 1985 REFUNDING BONDS ARE PAID OR DEFEASED, THE PLEDGE OF UNRESTRICTED RECEIVABLES WILL TERMINATE WITH RESPECT TO ALL SECURITIES, INCLUDING THE SECURITIES SECURING THE SERIES 2013 BONDS AND ALL THE PRIOR BONDS.

While the Master Indenture generally prohibits the University from encumbering its property, the University may grant a security interest in its property that will rank prior to the rights of the Securities (including the rights of the Issuer and the Trustee with respect to the Loan Agreement), and thus prior to the rights of the holders of the Series 2013 Bonds to realize on the value of the Unrestricted Receivables, under certain circumstances. For example, the Master Indenture permits the following encumbrances on University property:

- debt service reserves;
- purchase and construction money encumbrances;
- encumbrances representing up to 25% of the book value (or if the University chooses to use current value, up to 25% of the current value) of all property of the University; and
- encumbrances with respect to property located beyond the main campus (as it existed in 1999 when the Master Indenture was executed) of the University.

See, **APPENDIX C, "SUMMARY OF PRINCIPAL DOCUMENTS—THE MASTER INDENTURE—COVENANTS OF THE UNIVERSITY—Limitation on Liens."**

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

Enforceability of Remedies

The actual realization of amounts to be derived upon the enforcement of the security interest granted by the Indenture, Loan Agreement and Master Indenture upon default will depend upon the exercise of various remedies specified by the Indenture, the Loan Agreement, and the Master Indenture. These and other remedies may require judicial action which is often subject to discretion and delay. Under existing law, the remedies specified by the Indenture, the Loan Agreement and the Master Indenture may not be readily available or may be limited. A court may decide not to order the performance of the covenants contained in those documents. The various legal opinions delivered concurrently with the delivery of the Series 2013 Bonds are qualified as to the enforceability of the various legal instruments by, among other matters, limitations imposed by state and federal laws, rulings and decisions affecting remedies, general principles of equity and bankruptcy, insolvency, moratorium, reorganization or other laws affecting the enforcement of creditors' rights generally, as well as limitations that might be imposed on enforcement of security interests under the laws as in effect in any applicable jurisdiction, or the effect of preemption by federal law to applicable state law. In addition, if otherwise permitted under the Master Indenture, the University can incur debt (whether or not secured by a Security), that could provide the holder of such debt or the trustee acting on behalf of such debt holder, the right to immediately accelerate such debt, regardless of whether the Trustee has accelerated the Series 2013 Bonds under the Indenture.

Limitations on Security Interest in Unrestricted Receivables

The security interest in the University's Unrestricted Receivables under the Master Indenture, granted by the University to the Master Trustee to secure payment of Securities (including the Loan Agreement), may be affected by various matters, including (i) federal bankruptcy laws which could, among other things, preclude enforceability of the security interest as to Unrestricted Receivables arising subsequent to the commencement of bankruptcy proceedings and limit such enforceability as to Unrestricted Receivables arising prior to such commencement, to the extent a security interest therein would constitute a voidable preference, (ii) rights of third parties in cash, securities and instruments in possession of the Master Trustee, including accounts and general intangibles converted to cash, (iii) rights arising in favor of the United States of America or any agency thereof, (iv) present or future prohibitions against assignment in any federal statutes or regulations, (v) constructive trusts, equitable liens or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction and rights of donors of property, (vi) claims that might obtain priority if continuation statements are not

filed in accordance with applicable laws, (vii) the rights of holders of prior perfected security interests in equipment and other goods owned by the University and in the proceeds of sale of such property, (viii) statutory liens, (ix) the rights of parties secured by Permitted Encumbrances, (x) preemption by federal law of state law as to creation and perfection, and (xi) limitations that might be imposed on the enforcement of remedies by the Uniform Commercial Code as in effect in any applicable jurisdiction. If an event of default does occur, it is uncertain that the Master Trustee could successfully obtain an adequate remedy at law or in equity on behalf of the Trustee. In addition, Securities may be issued from time to time in the future pursuant to the Master Indenture, and the holders of such Securities will be entitled to the benefit of the security interest in the Unrestricted Receivables created by the Master Indenture.

ONCE THE SERIES 1985 REFUNDING BONDS ARE PAID OR DEFEASED, THE PLEDGE OF UNRESTRICTED RECEIVABLES WILL TERMINATE WITH RESPECT TO ALL SECURITIES, AND THE LOAN AGREEMENTS SECURING THE SERIES 2013 BONDS AND ALL THE PRIOR BONDS WILL CEASE TO BE SECURED BY SUCH PLEDGE.

THE ISSUER

Southwest Higher Education Authority, Inc. is a Texas nonprofit corporation organized and existing pursuant to the Higher Education Authority Act, Chapter 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 2013 Bonds will be issued under the terms of a bond resolution adopted by the Issuer on March 7, 2013 (the "Bond Resolution"), authorizing the issuance and sale of the Series 2013 Bonds.

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

<u>Name</u>	<u>Office</u>
Jerry Grable	President
Syd Carter	Secretary
Wayne Tenney	Vice President
James "Blackie" Holmes	Boardmember
Jim Johnston	Boardmember
Harry Shawver	Boardmember
Paula F. Calise	Boardmember

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

The Series 2013 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 2013 Bonds except from the revenues derived from the Loan Agreement. The Issuer has no taxing power.

PLAN OF FINANCE

Tax-Exempt Series 2013A Bonds

The proceeds of the Tax-Exempt Series 2013A Bonds will be applied to: (i) finance and refinance the cost of certain “educational facilities” and “housing facilities” and facilities incidental, subordinate or related thereto or appropriate in connection therewith, including the Series 2013 Projects described below, (ii) pay interest on the Tax-Exempt Series 2013A Bonds during a portion of the construction period, if any, and (iii) pay the costs of issuance of the Tax-Exempt Series 2013A Bonds.

Taxable Series 2013B Bonds

The proceeds of the Taxable Series 2013B Bonds will be applied to: (i) finance and refinance the cost of certain “educational facilities” and “housing facilities” and facilities incidental, subordinate or related thereto or appropriate in connection therewith, including the Series 2013 Projects described below, (ii) refinance the costs of “educational facilities” and “housing facilities” (as defined in the Act) and facilities incidental, subordinate, or related thereto or appropriate in connection therewith by refunding all or a portion of the Issuer’s Higher Education Revenue Bonds (Southern Methodist University Project) Series 2003 (the “*Refunded Bonds*”). (See Schedule I – Schedule of Refunded Bonds), (iii) pay interest on the Taxable Series 2013B Bonds during a portion of the construction period, if any, and (iv) pay the costs of issuance of the Taxable Series 2013B Bonds.

See “**ESTIMATED SOURCES AND USES OF FUNDS**” and “**THE SERIES 2013 PROJECTS**” for additional information regarding the application of the Series 2013 Bond proceeds.

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds relating to the issuance of the Series 2013 Bonds.

Sources of Funds:	<u>Tax-Exempt Series 2013A</u>	<u>Taxable Series 2013B</u>
Principal Amount of Series 2013 Bonds	\$99,195,000.00	\$90,090,000.00
Net Bond Premium [Discount]	<u>7,819,349.35</u>	<u>-0-</u>
Total Sources of Funds	\$107,014,349.35	\$90,090,000.00
 Uses of Funds:		
Capital Projects	\$106,188,000.00	\$64,432,000.00
Deposit to Escrow Fund	n/a	24,965,202.63
Underwriters’ Discount	433,429.35	329,266.27
Costs of Issuance	<u>392,920.00</u>	<u>363,531.10</u>
Total Uses of Funds	\$107,014,349.35	\$90,090,000.00

THE SERIES 2013 PROJECTS

The Series 2013 Projects include the following projects:

1. Construction, renovation, equipping and improvement of residence halls, dining facilities, parking structures and surface parking, athletic and recreational facilities, a high voltage electrical substation, a technology and data center, health center facilities, a distributed antenna system, telecommunications facilities, campus generators and generating facilities, University library facilities and other University academic and administrative buildings, structures and improvements;

2. Planning and site preparation for “educational facilities” and “housing facilities” (as defined in the Act), and facilities incidental, subordinate, or related thereto or appropriate in connection therewith, including but not limited to (i) abatement and demolition, (ii) environmental remediation, (iii) acquisition, construction, relocation and improvement of streets, promenades and other walkways, sidewalks, sewers and other underground utilities, and (iv) acquisition of property;
3. Payment of costs of issuance of the Series 2013 Bonds;
4. Payment of interest on the Series 2013 Bonds for a portion of the construction period;
5. Refinancing of the Refunded Bonds (with respect to the Taxable Series 2013B Bonds only);
6. Acquisition and construction of any other land, fixtures, equipment and improvements determined by the University to be useful in providing “educational facilities” and “housing facilities” (as defined in the Act) and facilities incidental, subordinate, or related thereto or appropriate in connection therewith; and/or
7. The payment of costs incurred in connection with a credit facility liquidity facility and/or swap agreement, if any, including but not limited to, costs to purchase a swap option or terminate a swap agreement.

While the information relating to the Series 2013 Projects reflects the University’s current plans and estimates regarding such projects, there can be no assurance that such project plan will be fully executed. See **APPENDIX A, “SERIES 2013 BOND PROJECTS.”**

REFUNDING OF THE SERIES 2003 BONDS

The University has determined to use a portion of the proceeds of the Taxable Series 2013B Bonds, together with other available funds, to refund a portion of the Issuers Higher Education Revenue Bonds (Southern Methodist University Project), Series 2003 identified on Schedule I - Schedule of Refunded Bonds (the “*Refunded Bonds*”). The University will deposit with The Bank of New York Mellon Trust Company, National Association (successor in trust to JPMorgan Chase Bank, National Association, formerly known as The Chase Manhattan Bank, successor by merger to Chase Bank of Texas, National Association), as trustee for the Series 2003 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 2013 Bonds. A certified public accountant will verify at the time of delivery of the Taxable Series 2013B 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 the Series 2003 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, the Series 2003 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.”**

ESTIMATED ANNUAL DEBT SERVICE REQUIREMENTS

The following table sets forth, for each fiscal year, beginning with the fiscal year ending May 31, 2014, the amount (estimated with respect to variable rate bonds as described in footnote (2)) required for the payment of principal, mandatory sinking fund redemptions, and interest on the Series 2013 Bonds and the Prior Bonds. See APPENDIX B, Note 9 of the University's Consolidated Financial Statements.

Fiscal Year Ending May 31,	Prior Bonds Debt Service	Tax-Exempt Series 2013A Bonds Debt Service ⁽¹⁾	Taxable Series 2013B Bonds Debt Service ⁽¹⁾	Less Refunded Bonds Debt Service ⁽³⁾	Total Debt Service ⁽²⁾
2014	\$27,252,983.57	\$ 4,310,894.79	\$ 2,425,450.65	\$ (1,091,088.76)	\$ 32,898,240.25
2015	29,759,008.57	4,498,325.00	6,936,263.20	(1,860,388.76)	39,333,208.01
2016	48,330,584.23	4,498,325.00	6,942,220.90	(1,863,288.76)	57,907,841.37
2017	30,481,358.54	4,498,325.00	6,943,984.66	(1,864,788.76)	40,058,879.44
2018	30,313,238.74	4,498,325.00	6,942,495.31	(1,864,888.76)	39,889,170.29
2019	30,348,907.89	4,498,325.00	6,941,751.83	(1,863,010.63)	39,925,974.09
2020	30,577,014.76	4,498,325.00	6,939,179.69	(1,863,667.50)	40,150,851.95
2021	30,492,088.51	4,498,325.00	6,935,335.81	(1,861,795.00)	40,063,954.32
2022	30,463,708.13	4,498,325.00	6,935,425.50	(1,862,218.75)	40,035,239.88
2023	28,568,695.00	4,498,325.00	6,938,456.70	(1,864,500.00)	38,140,976.70
2024	26,807,515.00	4,498,325.00	6,938,559.25	(1,863,875.00)	36,380,524.25
2025	26,781,312.50	4,498,325.00	6,935,481.30	(1,860,400.00)	36,354,718.80
2026	26,377,497.50	4,498,325.00	6,941,190.30	(1,864,450.00)	35,952,562.80
2027	25,883,415.00	4,498,325.00	6,935,469.10	(1,861,512.50)	35,455,696.60
2028	23,126,833.75	4,498,325.00	6,934,304.20	(1,860,987.50)	32,698,475.45
2029	23,969,502.50	4,498,325.00	6,936,402.40	(1,862,650.00)	33,541,579.90
2030	23,537,008.75	9,587,825.00	1,889,326.10	(1,861,387.50)	33,152,772.35
2031	15,588,111.25	9,588,925.00	1,890,427.60	(1,865,000.00)	25,202,463.85
2032	15,561,857.50	9,588,775.00	1,893,723.80	(1,863,168.75)	25,181,187.55
2033	15,531,653.75	9,588,025.00	1,884,318.60	(1,862,656.25)	25,141,341.10
2034	12,878,600.00	7,816,762.50	3,659,496.30	(1,863,225.00)	22,491,633.80
2035	10,983,875.00	9,754,625.00	-	-	20,738,500.00
2036	10,943,625.00	9,756,375.00	-	-	20,700,000.00
2037	10,903,875.00	9,755,750.00	-	-	20,659,625.00
2038	7,612,000.00	9,756,875.00	-	-	17,368,875.00
2039	7,610,250.00	9,753,875.00	-	-	17,364,125.00
2040	7,612,500.00	9,756,900.00	-	-	17,369,400.00
2041	7,612,875.00	9,758,150.00	-	-	17,371,025.00
2042	7,610,625.00	9,754,100.00	-	-	17,364,725.00
2043	-	9,754,100.00	-	-	9,754,100.00
Totals	<u>\$623,520,520.44</u>	<u>\$205,756,832.29</u>	<u>\$117,719,263.20</u>	<u>\$(38,348,948.18)</u>	<u>\$898,893,567.75</u>

- (1) Principal is due on October 1 in each such fiscal year either at maturity or pursuant to mandatory sinking fund redemption.
(2) Includes debt service on all of the outstanding Prior Bonds and notes payable. The Series 1985 Refunding Bonds (which bear interest at a variable rate) are assumed to have an "all in" interest cost of 4.00% through their final scheduled maturity.
(3) The Series 2003 Bonds in the principal amount of \$24,430,000 are being refunded by the Taxable Series 2013B Bonds.

FUTURE DEBT

The University does not currently anticipate issuing Additional Bonds within the next twenty-four 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 2013 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 2013 Bonds.

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

Tax-Exempt Status of the Tax-Exempt Series 2013A Bonds

The Code imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the Tax-Exempt Series 2013A Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds, limitations on the investment earnings of bond proceeds prior to expenditure, a requirement that certain investment earnings on bond proceeds be paid periodically to the United States, and a requirement that issuers file an information report with the Internal Revenue Service (the "IRS"). The University has agreed that it will comply with such requirements. Failure to comply with the requirements stated in the Code and related regulations, rulings and policies may result in the treatment of the interest on the Tax-Exempt Series 2013A Bonds as taxable. Such adverse treatment may be retroactive to the date of issuance. See also "TAX MATTERS."

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

The University has not sought to obtain a private letter ruling from the IRS with respect to the Tax-Exempt Series 2013A Bonds, and the opinion of Bond Counsel is not binding on the IRS. There is no assurance that any IRS examination of the Tax-Exempt Series 2013A Bonds will not adversely affect the market value of the Tax-Exempt Series 2013A Bonds. See "TAX MATTERS."

Tax-Exempt Status of the University

The tax-exempt status of the Tax-Exempt Series 2013A Bonds currently depends upon maintenance by the University of its status as an organization described in section 501(c)(3) of the Code. The maintenance of this status depends on compliance with general rules regarding the organization and operation of tax-exempt entities, including operation for charitable and educational purposes and avoidance of transactions that may cause earnings or assets to inure to the benefit of private individuals, such as the private benefit and inurement rules.

Tax-exempt organizations are subject to scrutiny from and face the potential for sanction and monetary penalties imposed by the IRS. One primary penalty available to the IRS under the Code with respect to a tax-exempt entity engaged in inurement or unlawful private benefit is the revocation of tax-exempt status. Although the IRS has not frequently revoked the tax-exempt status of non-profit organizations, it could do so in the future. Loss of tax-exempt status by the University could result in loss of tax exemption of the Tax-Exempt Series 2013A Bonds and defaults in covenants regarding the Tax-Exempt Series 2013A 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 IRS is imposing substantial monetary penalties and future charity or public benefit obligations on tax-exempt entities in lieu of revoking tax-exempt status, as well as requiring that certain transactions be altered, terminated or avoided in the future and/or requiring governance or management changes. These penalties and obligations typically are imposed on the tax-exempt organization pursuant to a "closing agreement," a contractual agreement pursuant to which a taxpayer and the IRS agree to settle a disputed matter. Given the exemption risks involved in certain transactions, the University may be at risk for incurring monetary and other liabilities imposed by the IRS. These liabilities could be materially adverse.

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

The University may be audited by the IRS. Because of the complexity of the tax laws and the presence of issues about which reasonable persons can differ, an IRS audit could result in additional taxes, interest and penalties. An IRS audit ultimately could affect the tax-exempt status of the University, as well as the exclusion from gross income for federal income tax purposes of the interest on the Tax-Exempt Series 2013A Bonds and any other tax-exempt debt issued for the University.

State and Local Tax Exemption

Texas has not been as active as the IRS in scrutinizing the tax-exempt status of nonprofit organizations. It is possible that legislation may be proposed to strengthen the role of the Texas Attorney General in supervising nonprofit organizations. It is likely that the loss by the University of federal tax exemption also would trigger a challenge to the state or local tax exemption of the University. Depending on the circumstances, such event could be adverse and material.

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

Unrelated Business Income

The IRS and state, county and local tax authorities may undertake audits and reviews of the operations of tax-exempt organizations with respect to the generation of unrelated business taxable income ("UBTI"). The University may participate in activities that generate UBTI. An investigation or audit could lead to a challenge that could result in taxes, interest and penalties with respect to UBTI and, in some cases, ultimately could affect the tax-

exempt status of the University as well as the exclusion from gross income for federal income tax purposes of the interest payable on the Tax-Exempt Series 2013A Bonds.

Enforceability

The remedies granted to the Trustee or the owners of the Series 2013 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-EXEMPT SERIES 2013A BONDS

Tax Exemption

In the opinion of Bracewell & Giuliani LLP, Bond Counsel, assuming compliance with certain covenants and based on certain representations, (i) interest on the Tax-Exempt Series 2013A Bonds is excludable from gross income for federal income tax purposes under existing law, (ii) the Tax-Exempt Series 2013A Bonds are “qualified 501(c)(3) bonds” under the Code, and interest on the Tax-Exempt Series 2013A Bonds will not be subject to the alternative minimum tax on individuals and corporations, except as described below in the discussion regarding the adjusted current earnings for corporations.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Tax-Exempt Series 2013A Bonds, to be excludable from gross income for federal income tax purposes. These requirements include a requirement that the University be a tax-exempt organization described in section 501(c)(3) of the Code, limitations on the use of bond proceeds and the source of repayment of bonds, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of bond proceeds be paid periodically to the United States and a requirement that the Issuer file an information report with the IRS. The University and the Issuer have covenanted in the Indenture and the Loan Agreement that they will comply with these requirements.

For purposes of its opinion that the Tax-Exempt Series 2013A Bonds are “qualified 501(c)(3) bonds,” Bond Counsel will assume continuing compliance with the covenants of the Indenture and the Loan Agreement pertaining to those sections of the Code that affect the status of the University as an organization described in section 501(c)(3) of the Code and the exclusion from gross income of interest on the Tax-Exempt Series 2013A Bonds for federal income tax purposes. In addition, Bond Counsel will rely on representations by the Issuer, the University, the Underwriters and the Financial Advisor with respect to matters solely within the knowledge of the Issuer, the University, the Underwriters and the Financial Advisor, respectively, which Bond Counsel has not independently verified. If the University or the Issuer should fail to comply with the covenants in the Indenture and the Loan Agreement or the foregoing representations should be determined to be incorrect, inaccurate or incomplete, interest on the Tax-Exempt Series 2013A Bonds could become includable in gross income for federal income tax purposes from the date of delivery of the Tax-Exempt Series 2013A Bonds, regardless of the date on which the event causing such inclusion occurs.

The Code also imposes a 20% alternative minimum tax on the “alternative minimum taxable income” of a corporation (other than any S corporation, regulated investment company, REIT, or REMIC) 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 includes 75% of the amount by which its “adjusted current earnings” exceeds its other “alternative minimum taxable income.” Because interest on certain tax-exempt obligations is included in a corporation’s “adjusted current earnings,” ownership of the Tax-Exempt Series 2013A Bonds could subject a corporation to alternative minimum tax consequences.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of, the Tax-Exempt Series 2013A Bonds.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the IRS. Rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions as of the date of the opinion and the representations and covenants of the Issuer and the University that it deems relevant to such opinions. Bond Counsel observes that the University has covenanted in the Loan Agreement not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in treatment of interest on the Tax-Exempt Series 2013A Bonds as includable in gross income for federal income tax purposes. The IRS has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given regarding whether or not the IRS will commence an audit of the Tax-Exempt Series 2013A Bonds. If an audit is commenced, in accordance with its current published procedures, the IRS is likely to treat the Issuer as the taxpayer and the owners of the Tax-Exempt Series 2013A Bonds may not have a right to participate in such audit. Public awareness of any future audit of the Tax-Exempt Series 2013A Bonds could adversely affect the value and liquidity of the Tax-Exempt Series 2013A Bonds regardless of the ultimate outcome of the audit.

Additional Federal Income Tax Considerations

Collateral Tax Consequences

Prospective purchasers of the Tax-Exempt Series 2013A 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 may be subject to the "branch profits tax" on their effectively connected earnings and profits, including tax-exempt interest such as interest on the Tax-Exempt Series 2013A Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of the Tax-Exempt Series 2013A 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 Tax-Exempt Series 2013A Bonds, received or accrued during the year.

Tax Accounting Treatment of Original Issue Discount

The issue price for all or a portion of the Tax-Exempt Series 2013A Bonds may be less than the stated redemption price payable at maturity of such Tax-Exempt Series 2013A Bonds (the "*Original Issue Discount Bonds*"). In such case, the difference between (i) the amount payable at the maturity of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond in the initial public offering of the Tax-Exempt Bonds. Generally, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussion regarding interest on the Tax-Exempt Bonds under the captions "**Tax Exemption**" and "**Additional Federal Income Tax Considerations - Collateral Tax Consequences**" above generally applies, and should be considered in connection with the discussion in this portion of the Official Statement.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

The foregoing discussion assumes that (i) the Underwriters have purchased the Tax-Exempt Series 2013A Bonds for contemporaneous sale to the public and (ii) all of the Original Issue Discount Bonds have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm's-length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof stated on the cover page of this Official Statement. Neither the Issuer nor Bond Counsel has made any investigation or offers any comfort that the Original Issue Discount Bonds will be offered and sold in accordance with such assumptions.

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

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

Tax Accounting Treatment of Original Issue Premium

The issue price of all or a portion of the Tax-Exempt Series 2013A Bonds may exceed the stated redemption price payable at maturity of such Tax-Exempt Series 2013A Bonds. Such Tax-Exempt Series 2013A Bonds (the "*Premium Bonds*") are considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis of a Premium Bond in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Bond in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Bond by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Bond that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined using the yield to maturity on the Premium Bond based on the initial offering price of such Tax-Exempt Bond.

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

Tax Legislative Changes

Current law may change so as to directly or indirectly reduce or eliminate the benefit of the exclusion of interest on the Tax-Exempt Series 2013A 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 Tax-Exempt Series 2013A Bonds. Prospective purchasers of the Tax-Exempt Series 2013A Bonds should consult with their own tax advisors with respect to any proposed, pending or future legislation.

TAX MATTERS – TAXABLE SERIES 2013B BONDS

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, PROSPECTIVE HOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS OFFICIAL STATEMENT IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY HOLDERS OF THE TAXABLE SERIES 2013B BONDS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON SUCH HOLDERS UNDER THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE “CODE”); (B) SUCH DISCUSSION IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) PROSPECTIVE HOLDERS OF THE TAXABLE SERIES 2013B BONDS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

General

The following discussion summarizes certain U.S. federal income tax considerations that may be relevant to the acquisition, ownership and disposition of the Taxable Series 2013B Bonds by a U.S. holder (as defined below). This discussion is based upon the provisions of the Code, applicable U.S. Treasury Regulations promulgated thereunder, judicial authority and administrative interpretations, as of the date of this document, all of which are subject to change, possibly with retroactive effect, or are subject to different interpretations. Neither the Issuer nor Bond Counsel offers any assurance that the Internal Revenue Service, or IRS, will not challenge one or more of the tax consequences described in this discussion, and neither the Issuer nor Bond Counsel has obtained, nor do the Issuer or Bond Counsel intend to obtain, a ruling from the IRS or an opinion of counsel with respect to the U.S. federal tax consequences of acquiring, holding or disposing of the Taxable Series 2013B Bonds.

This discussion is limited to U.S. holders who purchase the Taxable Series 2013B Bonds in this offering for a price equal to the issue price of the Taxable Series 2013B Bonds (i.e., the first price at which a substantial amount of the Taxable Series 2013B Bonds is sold for cash other than to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) and who hold the Taxable Series 2013B Bonds as capital assets (generally, property held for investment). This discussion does not address the tax considerations arising under the laws of any foreign, state, local or other jurisdiction or income tax treaties or any U.S. federal estate or gift tax considerations. In addition, this discussion does not address all tax considerations that may be important to a particular holder in light of the holder’s circumstances, or to certain categories of investors that may be subject to special rules, such as:

- dealers in securities or currencies;
- traders in securities that have elected the mark-to-market method of accounting for their securities;
- U.S. holders (as defined below) whose functional currency is not the U.S. dollar;
- persons holding the Taxable Series 2013B Bonds as part of a hedge, straddle, conversion or other “synthetic security” or integrated transaction;
- certain U.S. expatriates;
- financial institutions;

- insurance companies;
- regulated investment companies;
- real estate investment trusts;
- persons subject to the alternative minimum tax;
- entities that are tax-exempt for U.S. federal income tax purposes; and
- partnerships and other pass-through entities and holders of interests therein.

If a partnership (including an entity treated as a partnership for U.S. federal income tax purposes) holds the Taxable Series 2013B Bonds, the tax treatment of a partner of the partnership generally will depend upon the status of the partner and the activities of the partnership. A partner of a partnership acquiring the Taxable Series 2013B Bonds should consult his/her own tax advisor about the U.S. federal income tax consequences of acquiring, holding and disposing of the Taxable Series 2013B Bonds.

INVESTORS CONSIDERING THE PURCHASE OF THE TAXABLE SERIES 2013B BONDS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS REGARDING THE APPLICATION OF THE U.S. FEDERAL INCOME TAX LAWS TO THEIR PARTICULAR SITUATIONS AS WELL AS ANY TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP OR DISPOSITION OF THE TAXABLE SERIES 2013B BONDS UNDER THE LAWS OF ANY STATE, LOCAL OR FOREIGN JURISDICTION OR UNDER ANY APPLICABLE TAX TREATY.

Tax Consequences to U.S. Holders

As used herein "U.S. holder" means a beneficial owner of a Taxable Series 2013B Bond and who or that is, for U.S. federal income tax purposes:

- an individual who is a U.S. citizen or U.S. resident alien;
- a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, that was created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate whose income is subject to U.S. federal income taxation regardless of its source; or
- a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust, or that has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a United States person.

Interest on the Taxable Series 2013B Bonds and Original Issue Discount . . . Interest on the Taxable Series 2013B Bonds generally will be taxable to a bondholder as ordinary income at the time it is received or accrued in accordance with the bondholder's regular method of accounting for U.S. federal income tax purposes. In addition, all or a portion of the Taxable Series 2013B Bonds may be issued with original issue discount ("OID") for U.S. federal income tax purposes. The amount of OID is generally equal to the excess of the principal amount of the Taxable Series 2013B Bonds over the issue price of the Taxable Series 2013B Bonds. The issue price of a Taxable Bond will be equal to the first price at which a substantial amount of Taxable Series 2013B Bonds are sold for cash (excluding sales to underwriters or placement agents). Accordingly, a bondholder will be required to include OID in income for U.S. federal income tax purposes as it accrues, in accordance with a constant yield method based on a compounding of interest, before the receipt of cash payments attributable to this income. Under this method, a bondholder generally will be required to include in income increasingly greater amounts of OID in successive accrual periods.

Premium . . . A bondholder who purchases a Taxable Series 2013B Bond in the initial offering for an amount that exceeds the principal amount of such Taxable Series 2013B Bond will be considered to have purchased the Taxable Series 2013B Bond with “amortizable bond premium” equal in amount to the excess. Generally, a bondholder may elect to amortize the bond premium (or, if it results in a smaller amortizable bond premium attributable to the period of an earlier call date, an amount determined with reference to the amount payable on the earlier call date) as an offset to stated interest income, using a constant yield method, over the remaining term of the Taxable Series 2013B Bond (or assuming the exercise of a call option, if use of the call date in lieu of the stated maturity date results in a smaller amortizable bond premium for the period ending on the call date). If a bondholder elects to amortize bond premium, the bondholder must reduce its adjusted tax basis in the Taxable Series 2013B Bond by the amount of the bond premium used to offset stated interest income as set forth above. An election to amortize bond premium applies to all taxable debt obligations held or subsequently acquired by a bondholder on or after the first day of the first taxable year to which the election applies and may be revoked only with the consent of the IRS.

Disposition of the Taxable Series 2013B Bonds . . . A bondholder will generally recognize capital gain or loss on the sale, redemption, exchange, retirement or other taxable disposition of a Taxable Series 2013B Bond. This gain or loss will equal the difference between the bondholder’s adjusted tax basis in the Taxable Series 2013B Bond and the proceeds received (excluding any proceeds attributable to accrued but unpaid stated interest which will be recognized as ordinary interest income to the extent any such bondholder has not previously included such amounts in income) by the bondholder. The proceeds the bondholder receives will include the amount of any cash and the fair market value of any other property received for the Taxable Series 2013B Bond. The adjusted tax basis in the Taxable Series 2013B Bond will generally equal the amount the bondholder paid for the Taxable Series 2013B Bond. The gain or loss will be long-term capital gain or loss if the bondholder held the Taxable Series 2013B Bond for more than one year at the time of the sale, redemption, exchange, retirement or other disposition. Long-term capital gains of individuals, estates and trusts currently are subject to a reduced rate of U.S. federal income tax. The deductibility of capital losses is subject to certain limitations.

Information Reporting and Backup Withholding . . . Information reporting will apply to payments of interest on, and the proceeds of the sale, redemption, exchange, retirement or other disposition of, the Taxable Series 2013B Bonds held by a bondholder, and backup withholding may apply to such payments unless a bondholder provides the appropriate intermediary with a taxpayer identification number, certified under penalties of perjury, as well as certain other information. Backup withholding is not an additional tax. Any amount withheld under the backup withholding rules is allowable as a credit against a bondholder’s U.S. federal income tax liability, if any, and a refund may be obtained if the amounts withheld exceed the bondholder’s actual U.S. federal income tax liability and the bondholder timely provides the required information or appropriate claim form to the IRS.

New Legislation Relating to Net Investment Income . . . For taxable years beginning after December 31, 2012, newly-enacted legislation is scheduled to impose a 3.8% tax on the “net investment income” of certain United States citizens and resident aliens and on the undistributed “net investment income” of certain estates and trusts. Among other items, “net investment income” generally would include interest and certain net gain from the sale, redemption, exchange, retirement or other taxable disposition of a Taxable Series 2013B Bond, less certain deductions.

Prospective holders should consult their tax advisors with respect to the tax consequences of the new legislation described above.

Tax Consequences to Non-U.S. Holders

As used herein, a “non-U.S. holder” means a beneficial owner of a Taxable Series 2013B Bond that is an individual, corporation, estate or trust that is not a U.S. holder.

Interest on the Taxable Series 2013B Bonds . . . Payments to a non-U.S. holder of interest on the Taxable Series 2013B Bonds generally will be exempt from withholding of U.S. federal tax under the “portfolio interest” exemption if the bondholder properly certifies as to the bondholder’s foreign status as described below, and:

- the bondholder does not own, actually or constructively, 10% or more of the Issuer's capital or profits interests;
- the bondholder is not a "controlled foreign corporation" for U.S. federal income tax purposes that is related to the Issuer (actually or constructively);
- the bondholder is not a bank whose receipt of interest on the Taxable Series 2013B Bonds is in connection with an extension of credit made pursuant to a loan agreement entered into in the ordinary course of the bondholder's trade or business; and
- interest on the Taxable Series 2013B Bonds is not effectively connected with the bondholder's conduct of a U.S. trade or business.

The portfolio interest exemption and several of the special rules for non-U.S. holders described below generally apply only if a non-U.S. holder appropriately certifies as to the bondholder's foreign status. A bondholder can generally meet this certification requirement by providing a properly executed IRS Form W-8BEN or appropriate substitute form to the withholding agent. If a non-U.S. holder holds the Taxable Series 2013B Bonds through a financial institution or other agent acting on the bondholder's behalf, the bondholder may be required to provide appropriate certifications to the agent. The agent will then generally be required to provide appropriate certifications to the withholding agent, either directly or through other intermediaries. Special rules apply to foreign partnerships, estates and trusts, and in certain circumstances certifications as to the foreign status of partners, trust owners or beneficiaries may have to be provided to the Issuer or its paying agent. In addition, special rules apply to qualified intermediaries that enter into withholding agreements with the IRS.

If a non-U.S. holder cannot satisfy the requirements described above, payments of interest made to the bondholder will be subject to U.S. federal withholding tax at a 30% rate, unless the bondholder provides the withholding agent with a properly executed IRS Form W-8BEN (or successor form) claiming an exemption from (or a reduction of) withholding under the benefit of an applicable income tax treaty, or the payments of interest are effectively connected with the bondholder's conduct of a trade or business in the United States and the bondholder meets the certification requirements described below. (See "**—Tax Consequences to Non-U.S. Holders—Income or Gain Effectively Connected With a U.S. Trade or Business**").

Disposition of the Taxable Series 2013B Bonds . . . A non-U.S. holder generally will not be subject to U.S. federal income tax on any gain realized on the sale, redemption, exchange, retirement or other taxable disposition of a Taxable Series 2013B Bond unless:

- the gain is effectively connected with the conduct by the bondholder of a U.S. trade or business (and, if required by an applicable income tax treaty, is treated as attributable to a permanent establishment maintained by the bondholder in the United States); or
- the bondholder is a nonresident alien individual who has been present in the United States for 183 days or more in the taxable year of disposition and certain other requirements are met.

If a bondholder is a non-U.S. holder described in the first bullet point above, the bondholder generally will be subject to U.S. federal income tax in the same manner as a U.S. holder (See "**—Tax Consequences to Non-U.S. Holders—Income or Gain Effectively Connected With a U.S. Trade or Business**"). If a bondholder is a non-U.S. holder described in the second bullet point above, the bondholder generally will be subject to U.S. federal income tax at a flat rate of 30% on the gain derived from the sale or other disposition, which may be offset by U.S. source capital losses.

Income or Gain Effectively Connected with a U.S. Trade or Business . . . If any interest on the Taxable Series 2013B Bonds or gain from the sale, redemption, exchange, retirement or other taxable disposition of the Taxable Series 2013B Bonds is effectively connected with a U.S. trade or business conducted by a non-U.S. holder, then the income or gain will be subject to U.S. federal income tax at regular graduated income tax rates in the same manner as a U.S. holder unless an applicable tax treaty provides otherwise. Effectively connected income will not be

subject to U.S. withholding tax if a non-U.S. holder satisfies certain certification requirements by providing to the withholding agent a properly executed IRS Form W-8ECI or IRS Form W-8BEN (claiming exemption under an income tax treaty). For a non-U.S. holder that is a corporation, that portion of earnings and profits that is effectively connected with its U.S. trade or business may also be subject to a "branch profits tax" at a 30% rate, although an applicable income tax treaty may provide for a lower rate.

Information Reporting and Backup Withholding . . . Payments to a non-U.S. holder of interest on a Taxable Series 2013B Bond, and amounts withheld from such payments, if any, generally will be required to be reported to the IRS and to the non-U.S. holder. Copies of the information returns reporting such interest may also be made available to the tax authorities in the country in which the non-U.S. holder resides under the provisions of a treaty or agreement.

United States backup withholding generally will not apply to payments to a non-U.S. holder of interest on a Taxable Series 2013B Bond if the statement described in "**Tax Consequences to Non-U.S. Holders—Interest on the Taxable Series 2013B Bonds**" is duly provided or the bondholder otherwise establishes an exemption, provided that the City does not have actual knowledge or reason to know that the bondholder is a United States person.

Payment of the proceeds of a disposition of a Taxable Series 2013B Bond effected by the U.S. office of a U.S. or foreign broker will be subject to information reporting requirements and backup withholding unless a non-U.S. holder properly certifies under penalties of perjury as to the bondholder's foreign status and certain other conditions are met or the bondholder otherwise establishes an exemption. Information reporting requirements and backup withholding generally will not apply to any payment of the proceeds of the disposition of a Taxable Series 2013B Bond effected outside the United States by a foreign office of a broker. However, unless such a broker has documentary evidence in its records that a bondholder is a non-U.S. holder and certain other conditions are met, or the bondholder otherwise establishes an exemption, information reporting will apply to a payment of the proceeds of the disposition of a Taxable Series 2013B Bond effected outside the United States by such a broker if the broker is:

- a United States person;
- a foreign person that derives 50% or more of its gross income for certain periods from the conduct of a trade or business in the United States;
- a controlled foreign corporation for U.S. federal income tax purposes; or
- a foreign partnership that, at any time during its taxable year, has more than 50% of its income or capital interests owned by United States persons or is engaged in the conduct of a U.S. trade or business.

Backup withholding is not an additional tax. Any amount withheld under the backup withholding rules is allowable as a credit against a non-U.S. holder's U.S. federal income tax liability, if any, and a refund may be obtained if the amounts withheld exceed the non-U.S. holder's actual U.S. federal income tax liability and the non-U.S. holder timely provides the required information or appropriate claim form to the Service.

THE PRECEDING DISCUSSION OF CERTAIN U.S. FEDERAL INCOME CONSIDERATIONS IS FOR GENERAL INFORMATION ONLY AND IS NOT TAX ADVICE. WE URGE EACH PROSPECTIVE INVESTOR TO CONSULT ITS OWN TAX ADVISOR REGARDING THE PARTICULAR U.S. FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF PURCHASING, HOLDING AND DISPOSING OF THE TAXABLE SERIES 2013B BONDS, INCLUDING THE CONSEQUENCES OF ANY PROPOSED CHANGE IN APPLICABLE LAWS.

In addition, reference is made to the discussion of the material adverse impact on the financial condition of the University that would result from loss of tax exemption of the University under "Tax-Exempt Status of the University" and "State and Local Tax Exemption."

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 2013 Bonds. The University is required to observe the agreement with respect to the Series 2013 Bonds for so long as it remains obligated to advance funds to pay the Series 2013 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, 2013.

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 2013 Bonds, if such event is material within the meaning of the federal securities laws: (1) non-payment related defaults; (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 2013 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 (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax-exempt status of the Series 2013 Bonds, or other events affecting the tax-exempt status of the Series 2013 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 2013 Bonds free of charge at www.emma.msrb.org.

Limitations and Amendments

The University has agreed to update information and to provide notices of material events only as described above. The University has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The University makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Series 2013 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 2013 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 2013 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 2013 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 2013 Bonds. If the University amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under “**Annual Reports**” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

Compliance with Prior Undertakings

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

RATINGS

The following ratings are not recommendations to buy, sell or hold the Series 2013 Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC Business. (“*Standard & Poor’s*”) and Moody’s Investors Service, Inc. (“*Moody’s*”) have assigned their municipal bond ratings of “AA-” and “Aa3” respectively, to the Series 2013 Bonds. There is no assurance that a particular rating will be maintained for any given period of time or that it will not be lowered or withdrawn entirely if, in the judgment of Moody’s or Standard & Poor’s, circumstances so warrant.

The Issuer, the Underwriters and the University have not undertaken any responsibility to bring to the attention of the registered owners of the Series 2013 Bonds subsequent to delivery thereof any proposed revision or withdrawal of the ratings of the Series 2013 Bonds or to oppose any such proposed revision or withdrawal. Any downward revision or withdrawal of such ratings by either or both rating agencies may have an adverse effect on the market price and/or marketability of the Series 2013 Bonds.

INDEPENDENT AUDITORS

The consolidated financial statements of the University as of May 31, 2012 and 2011, 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.

UNDERWRITING

Tax-Exempt Series 2013A Bonds

The Tax-Exempt Series 2013A Bonds are being purchased by the Underwriters, for which Merrill Lynch, Pierce, Fenner & Smith Incorporated is acting as representative, at an underwriters' discount of \$433,429.35 from the initial public offering price of the Tax-Exempt Series 2013A Bonds. The Contract of Purchase provides that the Underwriters will purchase all of the Tax-Exempt Series 2013A 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 Tax-Exempt Series 2013A Bonds to certain dealers, including dealer banks, dealers depositing the Tax-Exempt Series 2013A 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.

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 UBS Financial Services Inc. ("*UBSFS*") and Charles Schwab & Co., Inc. ("*CS&Co.*") 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 UBSFS and CS&Co. 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.

Taxable Series 2013B Bonds

The Taxable Series 2013B Bonds are being purchased by the Underwriters, for which J.P. Morgan Securities is acting as representative, at an underwriters' discount of \$329,266.27 from the initial public offering price of the Taxable Series 2013B Bonds. The Contract of Purchase provides that the Underwriters will purchase all of the Taxable Series 2013B 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 Taxable Series 2013B Bonds to certain dealers, including dealer banks, dealers depositing the Taxable Series 2013B 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.

Miscellaneous

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 UBS Financial Services Inc. ("*UBSFS*") and Charles Schwab & Co., Inc. ("*CS&Co.*") 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 UBSFS and CS&Co. 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.

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.

One of the Underwriters is BOSC, Inc., which is not a bank, and the Series 2013 Bonds are not deposits of any bank and are not insured by the Federal Deposit Insurance Corporation.

FINANCIAL ADVISOR

First Southwest Company is serving as the financial advisor to the University (the "*Financial Advisor*") with respect to the sale of the Series 2013 Bonds. The Financial Advisor assisted in matters relating to the planning, structuring and issuance of the Series 2013 Bonds and provided other financial advice. The Financial Advisor will not engage in any underwriting activities with regard to the Series 2013 Bonds.

LEGAL MATTERS

Certain legal matters relating to the Series 2013 Bonds will be passed upon by Bracewell & Giuliani LLP, Bond Counsel, whose opinion will be delivered with the initial delivery of the Series 2013 Bonds. Such opinion is expected to be in substantially the form included as **APPENDIX D**. The Series 2013 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 2013 Bonds are contingent on the sale and delivery of the Series 2013 Bonds. The legal opinion of Bond Counsel will accompany the Series 2013 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 2013 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 2013 Bonds are contingent on the sale and delivery of the Series 2013 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 2013 Bonds, or in any way contesting or affecting the validity of the Series 2013 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 2013 Bonds, or the existence or powers of the Issuer relating to the issuance of the Series 2013 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 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 2013 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 2013 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 2013 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 2013 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 2013 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.

/s/ Jerry Grable

By: Jerry Grable
President

Southern Methodist University

/s/ R. Gerald Turner

By: R. Gerald Turner
President

SCHEDULE I

SCHEDULE OF REFUNDED BONDS

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

<u>Maturity</u>	<u>Interest Rate</u>	<u>Principal Amount</u>
2014	4.000%	\$ 785,000
2015	4.000%	820,000
2016	4.000%	855,000
2017	4.000%	890,000
2018	4.125%	925,000
2019	4.200%	965,000
2020	4.300%	1,005,000
2021	4.375%	1,050,000
2022	4.500%	1,100,000
2023	4.500%	1,150,000
2024	4.600%	1,200,000
2029 ⁽¹⁾	4.500%	6,895,000
2033 ⁽²⁾	4.750%	6,790,000

⁽¹⁾ Represents a Term Bond with mandatory sinking fund payments on October 1, in the years 2025, 2026, 2027, 2028 and a final maturity on October 1, 2029.

⁽²⁾ Represents a Term Bond with mandatory sinking fund payments on October 1, in the years 2030, 2031, 2032 and a final maturity on October 1, 2033.

The 2014-2024, 2029 and 2033 maturities will be redeemed on October 1, 2013 at a price of par.

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APPENDIX A

INFORMATION CONCERNING SOUTHERN METHODIST UNIVERSITY

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SOUTHERN METHODIST UNIVERSITY

GENERAL DESCRIPTION

Southern Methodist University (the “*University*” or “*SMU*”) is a private, nonprofit, coeducational institution located on a 210-acre main campus in University Park, Texas. SMU also maintains campuses at Fort Burgwin, New Mexico and in Plano, Texas. Founded in 1911 by a Methodist education commission, now The United Methodist Church, SMU opened in 1915 to 706 students who were educated by 35 faculty members in two buildings, including the campus’ now historic centerpiece, Dallas Hall. Today, the University has a total headcount enrollment that has averaged over 10,000 for the past ten years (6,249 undergraduate students and 4,644 graduate or professional students for fall 2012), a faculty close to 800, and assets of \$2.2 billion as of May 31, 2012.

The University’s enrollment places the school among the larger *private* educational institutions in the southern and southwestern geographical areas of the United States. The University presently awards 109 baccalaureate degrees in 95 programs through five undergraduate schools and a wide variety of graduate and professional degrees through graduate programs in the five undergraduate schools and two professional schools. Seventy-three percent of the University’s students finished in the top 25% of their high school graduating classes, with more than 42% in the top 10%. Approximately three-fourths of the University’s students receive some form of financial aid through a diverse and growing program of merit scholarships, grants, loans, and part-time jobs.

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

STATEMENT OF MISSION

Southern Methodist University will create, expand, and impart knowledge through teaching, research, and service, while shaping individuals to contribute to their communities and excel in their professions in an emerging global society. Among its faculty, students, and staff, the University will cultivate principled thought, develop intellectual skills, and promote an environment emphasizing individual dignity and worth. The University is dedicated to the values of academic freedom and open inquiry and to its United Methodist heritage.

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

- To enhance the academic quality and reputation of the University
- To improve teaching and learning
- To strengthen scholarly research and creative achievement
- To support and sustain student development and quality of life
- To broaden global perspectives

ACADEMIC PROGRAMS

The University offers undergraduate and graduate degrees in five of its schools: Dedman College, the Meadows School of the Arts, the Edwin L. Cox School of Business, the Bobby B. Lyle School of Engineering, and the Annette Caldwell Simmons School of Education and Human Development. It also offers degree programs in its two professional schools: the Dedman School of Law and Perkins School of Theology. The University offers 109 baccalaureate degrees in 95 fields, 109 master degrees in 104 fields, one specialist degree in one field, 27 doctoral degrees in 27 fields, and two professional degrees in two fields.

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

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

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

SMU students participate in international study through 148 programs in 50 countries throughout Europe, Latin America, Africa, the Middle East, Asia and the Pacific.

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

Dedman College. Dedman College offers studies in the humanities, social sciences, and natural sciences. All entering first-year SMU students are admitted into Dedman College, where faculty and advisors assist students with their selection of courses 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 earn their degrees in one or more of the humanities (English, Ethnic Studies, World Languages and Literatures, History, Medieval Studies, Philosophy, Religious Studies, French, German, and Spanish); the social sciences (Anthropology, Economics, Markets and Cultures, Political Sciences, Psychology, Public Policy, and Sociology), as well as in the natural and mathematical sciences (Biochemistry, the Biological Sciences, Chemistry, Earth Sciences, Environmental Science, Geophysics, Mathematics, Physics, and the Statistical Sciences). In addition, Dedman College offers undergraduate degrees in interdisciplinary areas including Individualized Studies in Liberal Arts and International Studies. At the graduate level, Dedman offers master's degrees in 19 academic subjects and doctoral degrees in 13 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 minor in education. The school offers one school-wide doctoral program as well as eight 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 Department of Teaching and Learning and represent SMU's commitment to the professional development of educators through innovative and research-based undergraduate, graduate and continuing education programs. The undergraduate curriculum prepares students for initial teacher certification. Graduate programs – which include a 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 efforts are supported by the Institute for Reading Research, one of the most productive literacy research centers in the nation. The Institute for Reading Research performs research concerning reading and reading disabilities, language acquisition, and teaching and learning. A second institute housed in the department, the Gifted Students Institute, was founded on the premise that "giftedness" is a resource that should be nurtured for the benefit of all. The Gifted Students Institute focuses on professional development for teachers and is an integral part of the department's focus on differentiated instruction.

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 education 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.

The Department of Applied Physiology and Wellness offers a B.S. in applied physiology and sport management and the Personal Responsibility and Wellness courses, 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; Environmental and Civil 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 Lockheed Martin Skunk Works® Lab 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 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 32%, and offers modern facilities such as the Jerry Junkins Electrical Engineering Building, J. Lindsey Embrey Engineering building—one of the first academic buildings in the country to be designed and constructed to LEED Standards (Leadership in Energy and Environmental Design) and 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 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 degree students to begin studies at an extension site in Houston/Galveston.

The basic degree for ordained pastoral leadership is an 85 credit hour Master of Divinity (M.Div.) degree. In addition to a common program of biblical, historical, theological, and practical studies for all candidates, it provides a 12 credit hour, supervised internship in a setting similar to that in which the student hopes to serve his or her ministry. Internships are offered in both full-time and concurrent formats. Degree students may also earn certificates in Hispanic Studies, Urban Ministry, Anglican Studies, Pastoral Care, African American Church Studies and Women's Studies.

The Master of Church Ministries (C.M.M.) degree is a 55 credit hour degree intended to prepare persons for specialized church ministry, both ordained and lay. The degree program currently offers tracks in Christian Education and Urban Ministry.

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

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

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

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

Perkins School of Theology houses the Mexican-American Program, the Center for Methodist Studies, and the Center for the Advanced Study and Practice of Evangelism. It is one of the 13 graduate theological schools of The United Methodist Church and one of five university-based schools of theology in the denomination. It is accredited by the Association of Theological Schools and approved by The United Methodist Church University Senate.

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

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

The law faculty is comprised of a diverse and highly talented group of men and women who hold outstanding academic credentials and are dedicated to teaching and scholarship. Students come from a wide variety of backgrounds from all over the United States and other countries. The Dedman School of Law enjoys a national and international reputation, with its graduates practicing 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 reinstated in 2004. The purpose of the Juris Doctor program is to train students for competent and ethical practice of law on behalf of both private and public clients and for effective use of law in business, government, and other pursuits. The course of study requires reading and analysis of legal materials, training in effective advocacy of positions in both oral and written form, and the acquisition of other legal skills, such as counseling clients, negotiating disputes, and drafting of documents.

In addition to the J.D. degree, the Dedman School of Law offers several advanced law degrees. The Master of Laws in Comparative and International Law (LL.M.) is designed primarily to provide non-U.S. trained law graduates an opportunity to acquire knowledge of the U.S. legal system as well as to advance knowledge in international and comparative law. The Master of Laws in Taxation (LL.M. in Taxation) is a comprehensive advanced-degree program for lawyers holding a J.D. degree who intend to specialize in tax practice. The General Masters of Law program (LL.M.) offers J.D. degree graduates an opportunity to broaden their backgrounds in certain specialized areas of law by enrolling in advanced courses and seminars and by engaging in specialized research. The degree of Doctor of the Science of Law (S.J.D.) is the highest postgraduate law degree offered by the Dedman School of Law. It is primarily a research and writing degree program during which the S.J.D. candidate conducts extensive postgraduate-level legal research with a view toward submitting a dissertation of publishable quality. Admission preference is given to a very limited number of highly qualified graduates of the law school's 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 December 2012, the University Park campus includes approximately 87 major buildings for academic purposes, student housing and for institutional support and special use, comprising some 5.4 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 are expected to be developed for University purposes. The University owns four 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 29 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 Institute for the Study of Earth and Man Reading Room, the SMU-in Plano Library Resource Room, and the Fort Burgwin Library in Taos. The University's library system also includes the Bridwell Library in Perkins School of Theology; the Underwood Law Library in the Dedman School of Law; and the Business Information Center in the Edwin L. Cox School of Business. The Underwood Law Library is the largest private law library in the southwestern United States. Bridwell Library is one of the finest theological libraries in the nation, housing more than 375,000 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 2012 numbered nearly 4 million volumes, which include 2 million books, nearly 900,000 additional e-books, 800,000 government documents and over 260,000 bound periodicals. In addition, the libraries have a combined total of nearly 2 million microforms. The University's libraries also provide offsite computer access to a wide variety of electronic resources, as well as offering the more traditional services of Interlibrary Loan and document delivery.

The DeGolyer Library's great strengths include the European discovery and exploration of the New World, particularly the Spanish colonial enterprise in North America. The DeGolyer collection devoted to the Trans-Mississippi West is numbered among the finest in the country. The DeGolyer also has strong collections in the fields of business history and transportation history, most notably the history of railroads. Other collections are devoted to English and American authors and literary genres. The history of science and technology is well represented, especially the history of geology. The DeGolyer Library is also the home of the University Archives, the official repository for SMU records of historical importance, and the Archives of Women of the Southwest.

The Jake and Nancy Hamon Fine Arts Library, opened in 1990, houses SMU's collections in art, arts administration, cinema, dance, music and theater. It includes the G. William Jones Film and Video Collection, comprising more than 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 asher, 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 the Fondren Library East, 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 paleoecologic significance. The collection, which specializes in vertebrate paleontology, includes more than 150,000 fossils from the United States, Central America, and northeastern Africa. The Geothermal Laboratory is the focus of an extensive program of research in the thermal field of the earth's geothermal energy resources. 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. The Meadows Museum recently announced the extension of a three year partnership with the Prado Museum in Madrid, Spain.

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

Other Facilities. The University has undertaken a variety of major construction, renovation and expansion projects over the past few years. The Jack S. and Laura Lee Blanton Student Services Building was completed in October 2003 and offers one-stop student services for undergraduate admission, enrollment, financial aid, and student account services, as well as The Office of Information Technology. September 9, 2005 marked the opening of the James M. Collins Executive Education Center. The Collins Center houses the Edwin L. Cox School of Business' Executive 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 May 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 August 2006, the 50,000 plus square foot J. Lindsay Embrey Engineering Building is designed and constructed to LEED Gold Standards (Leadership in Energy and Environmental Design) and is a living laboratory for students and faculty as well as a showpiece for design and construction in the region. It houses the Environmental and Civil Engineering department, Mechanical Engineering department, classrooms, laboratories, and faculty offices. The J. Lindsay Embrey Engineering Building is the second new engineering facility constructed at SMU since 2000, with the Jerry R. Junkins Engineering Building for Electrical Engineering having opened in August 2002. Caruth Hall opened in spring 2010 and was constructed to LEED Gold status. As well, The School of Theology opened Prothro Hall which is also LEED certified. Construction of the Annette Caldwell Simmons Hall for the School of Education and Human Development was completed in 2010.

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

RECENT ACCOMPLISHMENTS

SMU is celebrating the centennial of its founding in 1911 and its opening in 1915. The University was founded by what is now The United Methodist Church, with support from Dallas leaders.

- SMU's campus has grown from 60 buildings and 176 acres in 1995 to 106 buildings and 237 acres in 2012, including property acquired east of Central Expressway to accommodate additional space needs. Currently under construction are five new residence halls and an additional dining facility as part of SMU's new Residential Commons Complex.

- SMU consistently ranks in the top one-fourth of national universities in the guide *America's Best Colleges*, published by *U.S. News & World Report*. In 2011 the Carnegie Foundation for the Advancement of Teaching raised SMU's classification to a research university with "high research activity."
- Edwin L. Cox School of Business has three M.B.A. programs (Full-time, Executive and Professional) ranked in the top 20 nationally by leading business publications such as *Bloomberg*, *Businessweek* and *U.S. News & World Report*.
- SMU's endowment surpassed the \$1 billion mark in 2005. As of May 31, 2012, the market value was \$1.2 billion.
- SMU's external awards for research and sponsored projects have more than doubled since 1995. During 2011-12, SMU received \$22.4 million for research and sponsored projects, up from \$9.5 million in 1995-1996.
- The academic strength of incoming SMU students has grown significantly. The average SAT score of the first-year undergraduate class has risen 134 points over the last 16 years, from 1140 to 1274 in 2012.
- Applications for the incoming first-year class have increased from 3,869 in 1995 to 13,800 (of which 11,217 were completed) for the fall 2012 incoming class of 1,426. This has enabled SMU to become more selective in its admissions. In the 2012 first-year class, 57% of students were from out of state, with California and Florida following Texas as leading home states of first-year students.
- Since 1995, SMU has added new Ph.D. programs in History, Chemistry, Civil Engineering, English, Education and Art History and a Doctorate of Engineering degree in Software Engineering, bringing the total of fields offering doctorates at SMU to 27.
- Ten years ago SMU offered 18 education abroad programs in 12 countries. Today students have access to nearly 150 study abroad programs in 50 countries, plus research and service opportunities overseas.
- SMU is home to the new George W. Bush Presidential Center, consisting of a library, museum and institute. The Center, opening in spring 2013, will be a valuable source of research materials and is already sponsoring programs for scholars, students and visitors.
- A new partnership between SMU's Meadows Museum and the Prado Museum in Madrid includes the loan of major paintings from the Prado and an internship exchange.
- SMU Unbridled: The Second Century Campaign, launched in 2008, is the largest fund-raising effort in the University's history, with a goal of \$750 million. As of February 2013, gifts totaling \$715 million are providing funds for 365 scholarships, 26 endowed academic positions, 17 academic program endowments, including support for nine Institutes, Center and Academic Programs; and 24 new or renovated facilities.
- Through gifts to The Second Century Campaign, the Annette Caldwell Simmons School of Education and Human Development was endowed and named in 2007, the School of Engineering was renamed as the Bobby B. Lyle School of Engineering in 2008 and the Roy M. Huffington Department of Earth Sciences in Dedman College was endowed and named in 2008. New academic programs funded by other endowment gifts include the Embrey Human Rights Program in Dedman College (offering one of only five human rights majors in the nation), the Dedman College Interdisciplinary Institute and the Hunter and Stephanie Hunt Institute for Engineering and Humanity in the Bobby B. Lyle School of Engineering.

- SMU-in-Plano, on a 25-acre campus north of Dallas, offers graduate programs designed for working professionals, noncredit continuing education and professional development programs. It is home to The Guildhall at SMU, one of the world's premier graduate education programs in video game development.
- SMU-in-Taos, on a 423-acre campus in northern New Mexico, has added facilities and improvements that allow extension of the regular summer study season with a new term of fall classes. The SMU-in-Taos Cultural Institute, initiated in 2005, offers a summer weekend of informal classes for adults taught by SMU faculty members.
- 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.
- Meadows School of the Arts is one of the first schools in the U.S. to offer a minor in arts entrepreneurship.
- The Bobby B. Lyle School of Engineering is the nation's first engineering school to host a Lockheed Martin Skunk Works® Lab modeled after the iconic California research facility.
- Dedman School of Law ranks first among all law schools in the number of graduates who are CEOs at Fortune 50 companies.
- With an enrollment of 10,893 students in fall 2012, a full-time faculty of 774 and 1,537 staff and administrators, SMU is a major contributor to the Dallas economy. Expenditures by SMU and its 44,000 alumni in the area contribute \$7 billion to the region's economy annually.

GOVERNANCE

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

There are currently 42 individuals serving on SMU's Board of Trustees. The full list of members follows. The Articles of Incorporation provide that the Board of Trustees shall have representatives of the Annual Conferences within the South Central Jurisdiction of The United Methodist Church (these members shall be recommended for nomination by the College of Bishops of the South Central Jurisdiction of The United Methodist Church), plus no fewer than 28 additional members (including ex-officio members). The President of the University and representatives of the Faculty Senate, student body, and Alumni Association serve as ex-officio members of the Board of Trustees. The Board of Trustees is nominated to the South Central Jurisdiction for election every four years. The current Board of Trustees is as follows:

<u>Name</u>	<u>Residence</u>	<u>Principal Occupation</u>
Caren H. Prothro Chairman	Dallas, Texas	Civic Leader and Philanthropist
Ruth S. Altshuler	Dallas, Texas	Civic Leader and Philanthropist
William D. Armstrong	Cherry Hills Village, Colorado	President/Owner Armstrong Oil and Gas, Inc.
Michael M. Boone Chair Elect	Dallas, Texas	Partner Haynes and Boone LLP
Bradley Brookshire	Tyler, Texas	Chairman of the Board Brookshire Grocery Company

<u>Name</u>	<u>Residence</u>	<u>Principal Occupation</u>
Laura W. Bush	Dallas, Texas	Civic Leader and Philanthropist
Richie L. Butler	Richardson, Texas	Pastor Union Cathedral
Kelly H. Compton	Dallas, Texas	Executive Director The Hogle Foundation
Jeanne T. Cox	Dallas, Texas	Civic and Philanthropic Leader
Rev. W. Mark Craig	Dallas, Texas	Senior Minister Highland Park United Methodist Church
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 DFI Management (GP), Ltd.
Antoine L. V. Dijkstra	The Netherlands	Partner and Co-Founder Implexus Capital & Partners
Bishop James E. Dorff	San Antonio, Texas	Bishop The United Methodist Church San Antonio Area
Professor Steven Edwards*	Dallas, Texas	Director, Temerlin Institute Southern Methodist University
Larry R. Faulkner	Austin, Texas	Retired President Houston Endowment, Inc.
Gerald J. Ford	Dallas, Texas	Chairman of the Board and CEO Diamond A Ford Corporation
Antonio O. Garza, Jr.	Mexico City, Mexico	White & Case S.C.
Dr. James R. Gibbs	Houston, Texas	Retired Chairman Frontier Oil Corporation
Dr. 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	Chair, President and CEO Hunt Consolidated, Inc.
Gene C. Jones	Dallas, Texas	Civic and Philanthropic Leader
Bishop Scott J. Jones	Wichita, Kansas	Bishop, Great Plains Area The United Methodist Church
Fredrick Leach	Dallas, Texas	Physician Private Practice
Paul B. Loyd, Jr.	Houston, Texas	Managing Director JVL Partners
Bobby B. Lyle	Dallas, Texas	Chairman, President and CEO Lyco Holdings Incorporated

<u>Name</u>	<u>Residence</u>	<u>Principal Occupation</u>
Bishop Michael McKee	Dallas, Texas	Resident Bishop North Texas Annual Conference The United Methodist Church
Scott McLean	Houston, Texas	CEO Amegy Bank of Texas
David B. Miller Secretary	Dallas, Texas	Co-Founder/ Managing Partner EnCap Investments, L.P.
John Oakes*	Dallas, Texas	Student Trustee
Connie O'Neill	Dallas, Texas	Civic and Philanthropic Leader
Sheron Patterson	Dallas, Texas	Communications Officer North Texas Conference The United Methodist Church
Sarah Perot	Dallas, Texas	Civic and Philanthropic Leader
Jeanne L. Phillips	Dallas, Texas	Sr. Vice President Corporate Affairs and International Relations Hunt Consolidated, Inc.
Carl Sewell	Dallas, Texas	Chairman Sewell Automotive Companies
Richard K. Templeton	Plano, Texas	Chairman and CEO Texas Instruments, Inc.
R. Gerald Turner*	Dallas, Texas	President Southern Methodist University
Bill Vanderstraaten* Alumni Association Representative	Dallas, Texas	President Chief Partners, L.P.
Richard Ware	Amarillo, Texas	President Amarillo National Bank
Royce E. Wilson	Pacific Palisades, CA	Co-Chair and CEO Attensity Media, 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 2012-2013, their titles and dates of employment at the University:

<u>Name</u>	<u>Title</u>	<u>Year of Employment</u>
R. Gerald Turner	President	1995
Paul W. Ludden	Provost and Vice President for Academic Affairs	2007
Thomas E. Barry	Vice President for Executive Affairs	1970
Paul Ward	General Counsel, Vice President for Legal Affairs & Government Relations and Secretary	2009
Lori S. White	Vice President for Student Affairs	2007
Christine Regis	Vice President for Business and Finance	2007

<u>Name</u>	<u>Title</u>	<u>Year of Employment</u>
Brad E. Cheves	Vice President for Development and External Affairs	2004
Michael A. Condon	Treasurer and Chief Investment Officer	2008
Rick Hart	Director of Athletics	2012
John B. Attanasio	Dean of the Dedman School of Law	1998
James Quick	Associate Vice President for Research and Dean of Graduate Studies	2007
Jose A. Bowen	Dean of the Meadows School of the Arts	2006
William Lawrence	Dean of the Perkins School of Theology	2002
William Tsutsui	Dean of the Dedman College of Humanities and Sciences	2010
Albert W. Niemi, Jr.	Dean of the Edwin L. Cox School of Business	1997
David J. Chard	Dean of Annette Caldwell Simmons School of Education and Human Development	2008
Marc Christensen	Dean <i>ad interim</i> of the Bobby B. Lyle School of Engineering	2002
Gillian M. McCombs	Dean and Director of Central University Libraries	1998

KEY ADMINISTRATIVE OFFICIALS

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

R. Gerald Turner, President, A.A., B.S., M.A., Ph.D. As the president of Southern Methodist University since 1995, R. Gerald Turner is leading an era of unprecedented progress 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. As of February, it has raised \$715 million toward a 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 is scheduled to open on the SMU campus 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.

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

A native of Lincoln, Nebraska, Dr. Ludden received his B.S. degree in chemistry from the University of Nebraska in 1972 and his Ph.D. in biochemistry from the University of Wisconsin-Madison in 1977. After a Rockefeller postdoctoral fellowship at Michigan State University, he served as an assistant professor at the University of California-Riverside. In 1981 he returned to the University of Wisconsin-Madison, where he rose to the rank of full professor.

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

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

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

Thomas E. Barry, Vice President for Executive Affairs and Professor of Marketing, B.S., M.S., Ph.D. Dr. Barry has been SMU's Vice President for Executive Affairs since October 1995. He works closely with Dr. Turner on strategic planning, master planning and other University matters. A member of SMU's business faculty since 1970, Dr. Barry served as associate dean for academic affairs in the Edwin L. Cox School of Business from 1990 to 1995. He previously served as chair of the Department of Marketing in SMU Cox and on numerous committees of the school and the University, including the admissions, judiciary, curriculum, development, honors, and promotion and tenure committees. He was a member of the consulting committee on the reorganization of the Office of the Provost in 1994. In all, Dr. Barry has served on over 100 committees while at SMU and has written more than 60 articles for journals and professional proceedings, as well as several textbooks and monographs in marketing and advertising management. He has been one of the most frequent contributors to the three leading advertising journals: *Journal of Advertising Research*, *Journal of Advertising*, and *Journal of Current Issues and Research in Advertising*. He serves on the editorial review boards of the latter two journals. Dr. Barry earned his B.S. and M.S. degrees in marketing from Southern Illinois University in Carbondale and his Ph.D. degree in marketing from The University of North Texas, Denton.

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

Lori S. White, Vice President for Student Affairs, B.A., Ph.D. Dr. White is the Vice President for Student Affairs at Southern Methodist University a position she has held since 2007. She also serves as clinical professor in the SMU Simmons School of Education.

Dr White has spent over 30 years working in higher education. Prior to her arrival at SMU she served as Associate Vice President for Student Affairs at the University of Southern California and has also worked at Stanford, Georgetown and San Diego State Universities and the University of California, Irvine.

At SMU, Dr. White and her colleagues are responsible for student life programs including residence halls; women's, multi-cultural and volunteer and leadership programs; student conduct; campus ministries; health and wellness programs; career services; the Hughes-Trigg Student Center and the Dedman Center for Lifetime Sports.

Dr. White is active nationally in several higher education organizations and serves on the Board of Directors for the Association for Sustainability in Higher Education (AASHE) and for the National Association of Student Personnel Administrators (NASPA) Foundation. In 2009 she was named a *Pillar of the Profession* by NASPA.

Dr. White's areas of emphasis in research and teaching include the student experience in higher education and the preparation and mentorship of new, mid-level and aspiring senior student affairs professionals. She is the author of a number of articles and book chapters and has presented widely at professional meetings.

Dr. White was born and raised in San Francisco, CA. She earned an undergraduate degree in psychology and English from the University of California, Berkeley and a Ph.D. from Stanford University in education administration and policy analysis with emphasis in higher education. She also participated in Harvard University's Management and Leadership in Education Program. Her claim to fame is that she can name the mascot of just about every Division I college.

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, the Office of Information Technology Services, Human Resources, Campus Services, Office of Planning, Design, and Construction, 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.

Michael A. Condon, Treasurer, B.S., M.B.A. Mr. Condon is responsible for oversight of the endowment, mineral interests and planned giving assets. He plans the work of the Committee on Investments of the Board of Trustees, setting agendas, developing policies, formulating investment strategies, as well as recommending specific investment managers and vehicles for carrying out the investment program. SMU's endowment market value was over \$1.2 billion as of May 31, 2012.

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

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

STUDENT ENROLLMENT

The University takes an active approach in recruiting students. Representatives of the University visit over 600 secondary schools each year and use advanced marketing techniques to support recruiting efforts. Although the preponderance of the student body is from the Southwest (53% of undergraduates), all states as well as 92 foreign countries have representation. In the Fall Semester 2012, 17% of SMU's student body was Methodist; 26% 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 2008 through 2012.

TABLE ONE
First-Year Undergraduate Admission and Enrollment Information

	2008	Academic Year Beginning Fall of			2012
		2009	2010	2011	
Number of Applications Completed	8,270	8,071	8,239	10,338	11,217
Number Admitted	4,113	4,471	4,899	5,641	6,031
(% of Applicants)	50%	55%	59%	55%	54%
Number Enrolled	1,398	1,329	1,479	1,382	1,426
(% of Admitted)	34%	30%	30%	25%	24%
Mean Range SAT Score of Enrolled	1150-1340	1150-1340	1160-1340	1200-1360	1200-1350

The undergraduate student body is primarily full-time. During the Fall Semester 2012, headcount undergraduate enrollment totaled 6,249 which included 6,000 full-time and 249 part-time students. The graduate and professional student headcount enrollment for the Fall Semester 2012 was 4,644. Currently, 96% of first-

time/first-year students and 42% 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 31. The following chart sets forth the student full-time equivalent enrollment by school for the academic years beginning in the fall of 2008 through 2012.

TABLE TWO
Full-Time Equivalent Enrollment

<u>School</u>	<u>Academic Year Beginning Fall of</u>				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Undergraduate					
Dedman College (under class)	2,746	2,731	2,761	2,741	2,650
Dedman College (upper class)	1,271	1,291	1,168	1,181	1,168
Edwin L. Cox School of Business	929	913	957	942	868
Bobby B. Lyle School of Engineering	349	388	424	502	605
Meadows School of the Arts	748	692	661	627	712
Simmons School of Education & HD		34	63	100	152
Subtotal	<u>6,043</u>	<u>6,049</u>	<u>6,034</u>	<u>6,093</u>	<u>6,155</u>
Special Studies (1)	<u>30</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Undergraduate	6,073	6,049	6,034	6,093	6,155
Graduate & Professional					
Dedman College	158	166	178	193	204
Edwin L. Cox School of Business (full-time)	297	360	429	421	489
Edwin L. Cox School of Business (part-time)	287	279	250	230	209
Executive MBA Program	140	132	129	126	138
Bobby B. Lyle School of Engineering	411	402	390	429	405
Meadows School of the Arts	137	156	150	152	141
Perkins School of Theology	231	210	224	243	235
Dedman School of Law	966	909	963	909	872
Guildhall	92	91	109	127	150
Simmons School of Education & HD	<u>230</u>	<u>287</u>	<u>324</u>	<u>310</u>	<u>328</u>
Subtotal	<u>2,949</u>	<u>2,992</u>	<u>3,146</u>	<u>3,140</u>	<u>3,171</u>
Special Studies	<u>172</u>	<u>152</u>	<u>102</u>	<u>113</u>	<u>84</u>
Total Graduate & Professional	3,121	3,144	3,248	3,253	3,255
Total University	<u>9,194</u>	<u>9,193</u>	<u>9,282</u>	<u>9,346</u>	<u>9,410</u>

NOTES: Non-degree students included in school totals.

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

(1) Special Studies in 2008 was replaced by the Simmons School of Education in 2009 forward.

FINANCIAL AID

The University awarded financial aid to approximately 78% of the Fall Semester 2011 undergraduate student body. Student financial aid includes both merit and need based programs. In the 2011-2012 academic year, the University awarded over \$78.9 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 Stafford Student Loans (FSSL), repayment of which is guaranteed by the United States Government. There are other forms of Federal and State financial assistance as well. The University's most recent student loan default rate is 7.6% for Federal Perkins loan program and 5.9% for the Stafford loan program.

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

TABLE THREE
Student Financial Aid
(in thousands)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
GRANTS					
Federal	\$ 3,593	\$3,578	\$5,251	\$5,355	\$ 5,274
State	<u>5,996</u>	<u>5,309</u>	<u>5,329</u>	<u>6,348</u>	<u>4,868</u>
Total	<u>\$9,589</u>	<u>\$8,887</u>	<u>\$10,580</u>	<u>\$11,703</u>	<u>\$10,142</u>
SCHOLARSHIPS & FELLOWSHIPS					
Unrestricted Funds	\$49,594	\$58,031	\$66,363	\$72,688	\$78,966
Restricted Funds	<u>15,795</u>	<u>17,313</u>	<u>20,521</u>	<u>23,343</u>	<u>26,716</u>
Total	<u>\$65,389</u>	<u>\$75,344</u>	<u>\$86,884</u>	<u>\$96,031</u>	<u>\$105,682</u>
OUTSTANDING LOANS TO STUDENTS					
From University Funds	\$ 1,860	\$ 1,152	\$ 902	\$ 791	\$ 540
From Government Funds	60,589	62,803	48,602	80,057	82,459
From Private Funds	<u>7,455</u>	<u>7,091</u>	<u>5,648</u>	<u>5,524</u>	<u>5,769</u>
Total	<u>\$69,904</u>	<u>\$71,046</u>	<u>\$55,152</u>	<u>\$86,372</u>	<u>\$88,768</u>
STUDENT EMPLOYMENT					
College Work Study	\$3,271	\$3,219	\$4,437	\$5,548	\$5,716
Student Payroll	<u>2,949</u>	<u>2,949</u>	<u>2,832</u>	<u>2,820</u>	<u>3,348</u>
Total	<u>\$6,220</u>	<u>\$6,168</u>	<u>\$7,269</u>	<u>\$8,368</u>	<u>\$9,064</u>

FACULTY AND STAFF

As of Fall Semester 2012, the University employed a total of 2,332 employees, including 1,537 staff, 774 faculty and 21 postdoctoral students. Currently, 50.1% of the University's full-time instructional faculty members are tenured. Females account for 38.5% of the full-time instructional faculty, and 18.3% of the full-time instructional faculty are minorities. Among full-time instructional faculty, 84.1% 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 \$14,510,000 for the fiscal year ending May 31, 2012 and \$14,181,000 for the fiscal year ending May 31, 2011. The University provides retiree health care benefits for employees who meet minimum age and service requirements and retire from the University. See Note 14 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, 2012

The University's financial position improved modestly from fiscal year 2011 to fiscal year 2012. Following is a summary of the fiscal year 2012 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
FY 2012	\$ 2,197,681	\$ 665,341	\$ 1,532,340	\$ 475,446	\$ 520,780	\$ 536,114
FY 2011	2,160,167	658,763	1,501,404	462,959	529,499	508,946
Change	\$ 37,514	\$ 6,578	\$ 30,936	\$ 12,487	\$ (8,719)	\$ 27,168

Total assets increased by \$37.5 million during fiscal year 2012. Changes in the assets were primarily the result of net realized and unrealized gains on investments totaling \$15.8 million and capital gifts resulting from gifts received and pledges receivable increases of \$19.3 million.

Changes in asset categories that merit mention include a \$7.6 million increase in *accounts receivable*, or 28.2 percent, to \$34.8 million, a \$19.3 million increase in *pledges receivable*, or 28.5 percent, to \$87.1 million, a decrease in *investments* of \$18.2 million, or 1.5 percent, to just over \$1.2 billion and an increase in *property, plant and equipment* of \$27.7 million, or 4.1 percent to \$710.9 million. The increase in *accounts receivable* resulted primarily from a receivable due from the George W. Bush Foundation (the "*Foundation*") pursuant to the agreement between the University and the Foundation. The increase in *pledges receivable, net* is due primarily to pledges for the Residential Commons Complex, the Moody Coliseum Renovation and Health Center. The decrease in *investments* resulted primarily from endowment spending distributions in excess of new gifts, income and net realized and unrealized gains. The increase in *property, plant and equipment* resulted primarily from property acquisitions and campus construction projects during fiscal year 2012, including the following (dollars in thousands):

Project 2014 Residential Commons Complex	\$21,187
Property Acquisitions	4,556
Airline Underground Utilities	3,351
Plano Data Recovery Center and University Data Center	2,545
Project 2014 Electrical Substation	2,459
Moody Coliseum Renovation and Expansion	2,152
Football Locker and Meeting Room Renovation	2,073
Street and Alley Realignment	2,052
The R. Gerald Turner Centennial Quadrangle and Cooper Centennial Fountain	<u>1,784</u>
Total	<u>\$42,159</u>

Liabilities increased by \$6.6 million, or 1.0 percent, in fiscal year 2012, to \$665.3 million at year-end. A notable change in liabilities is an increase in *accounts payable and accrued expenses* of \$15.7 million, or 10.2 percent. The increase in *accounts payable and accrued expenses* resulted primarily from the Project 2014 Residential Commons Complex construction payables and the change in the Retiree Medical liability accrued.

Net assets increased by \$30.9 million, or 2.1 percent, at over \$1.5 billion at year-end, principally as a result of gifts and positive operating results.

TABLE FIVE
Changes in Endowment Value
(in thousands)

Endowment

The market value of the University's endowment decreased \$27.3 million during fiscal year 2012. The following is a summary of the changes in endowment market value (dollars in thousands):

Endowment market value at May 31, 2011		\$ 1,217,937
Gifts		26,386
Net realized and unrealized gains on investments	\$ 17,418	
Less realized gains transferred for spending	<u>(49,567)</u>	(32,149)
Decrease in market value of assets not carried at fair value		(22,672)
Other changes		<u>1,114</u>
Endowment market value at May 31, 2012		<u>\$ 1,190,616</u>

The endowment market values reported above include pledges receivable totaling \$21,669,000 and \$21,429,000 for fiscal years ending 2012 and 2011, respectively, which are included pursuant to Accounting Standards Codification 958, *Not-for-Profit Entities*. Pledges do not generate income for spending and normally are not included when the University reports endowment fund market value for purposes other than the financial statements.

These market values include all assets reported at fair value, whereas the financial statements only include marketable securities, funds held in trust by others and equity 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 2012 totaled \$770,000.

Further, these endowment market values also include nonendowment funds invested in the endowment, including annuity funds and a trust totaling \$4,112,000 and \$3,831,000 for fiscal years 2012 and 2011, respectively.

OPERATING BUDGET

The University conducts its annual operations in accordance with a Board approved detailed operating budget that has produced an operating surplus for 25 consecutive fiscal years. The budget is organized to assign operational responsibility and accountability both for achieving revenue targets and for controlling expenses.

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

The following table presents this data for the past five fiscal years.

TABLE SIX
Annual Operating Results
(in thousands)

<u>Unrestricted Net Assets</u>	<u>Fiscal Year Ending May 31,</u>				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Total Revenues	\$403,817	\$404,235	\$450,281	\$462,624	\$453,333
Exclude net realized and unrealized (gains)/losses on investments	6,639	37,142	(20,037)	(14,382)	5,084
Include realized gains transferred for spending	<u>44,277</u>	<u>54,836</u>	<u>60,320</u>	<u>50,836</u>	<u>49,567</u>
Total Operating Revenues	454,733	496,213	490,564	499,078	507,984
Total Expenses	<u>367,195</u>	<u>406,929</u>	<u>394,499</u>	<u>462,746</u>	<u>440,846</u>
Increase in Unrestricted Net Assets from Operations	<u>\$87,538</u>	<u>\$89,284</u>	<u>\$96,065</u>	<u>\$36,332</u>	<u>\$67,138</u>

STUDENT CHARGES

For the fiscal year ending May 31, 2012, income from tuition and fee charges, net of scholarship allowances, accounted for approximately 52% of the University's current fund operating revenues. Approximately 70% of the total tuition and fee revenue for the fiscal year ending May 31, 2012 came from the University's regular undergraduate program. The total charges per typical undergraduate resident student for the five most recent academic years are as follows:

TABLE SEVEN
Undergraduate Student Charges

	<u>2008-2009</u>	<u>2009-2010</u>	<u>2010-2011</u>	<u>2011-2012</u>	<u>2012-2013</u>
Tuition	\$29,430	\$31,200	\$33,040	\$34,990	\$37,050
General Fee	3,740	3,960	4,190	4,440	4,700
Room and Board	<u>11,875</u>	<u>12,445</u>	<u>12,565</u>	<u>13,035</u>	<u>13,540</u>
Total Resident Student Charges	<u>\$45,045</u>	<u>\$47,605</u>	<u>\$49,795</u>	<u>\$52,465</u>	<u>\$55,290</u>

In setting the level of tuition, fees, room and board, the University takes into account anticipated expense increases and attempts to keep student charges in balance with other sources of revenue. In addition, it considers its charges in relation to other colleges and universities. The approved tuition, general fee, and room and board for 2013/2014 are \$38,870, \$4,930, and \$13,955 for a total of \$57,755, respectively.

SUBSEQUENT EVENTS

The University has made arrangements to move its intercollegiate athletics program from Conference USA (“CUSA”) to the Big East Conference effective July 1, 2013. The Bylaws of CUSA (the “Bylaws”) require that the University pay an exit fee consisting of a withdrawal fee of \$500,000 and the amount of estimated lost television rights fees resulting from the University leaving the conference for the five year period subsequent to the University’s departure. On November 2, 2011, CUSA notified SMU that the Commissioner of CUSA (the “Commissioner”) had made a preliminary estimate that the total withdrawal fee required to be paid under the Bylaws would be more or less \$6,750,000. The Bylaws further require that the payment of the final withdrawal fee determined by the Commissioner, less any applicable credits be secured, so the University has entered into an irrevocable standby letter of credit in favor of CUSA for \$6,750,000 expiring on July 10, 2013.

ENDOWMENT

Endowment and Similar Funds. The University’s endowment had a May 31, 2012 market value of approximately \$1.16 billion. According to the Fiscal Year 2011 NACUBO Endowment Study, prepared by the National Association of College and University Business Officers, the University’s endowment was the 61st largest endowment of the 823 public and private institutions in the United States surveyed. The endowment has approximately \$832 million reserved to the schools and specific areas and approximately \$331 million available for general University use. School endowments range from approximately \$14 million for the Simmons School of Education and Human Development to approximately \$174 million for Perkins School of Theology. The following table shows market value and endowment pool return of the University’s endowment for each of the past ten fiscal years.

TABLE EIGHT
Endowment Fund Growth
Fiscal Years 2002 through 2012

<u>Fiscal Year Ended May 31,</u>	<u>Market Value (in thousands)</u>	<u>Endowment Pool Total Return</u>
2002	\$ 831,116	-2.1%
2003	807,551	0.4%
2004	908,903	15.4%
2005	1,008,505	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%

NOTES: ¹The endowment market value does not include for pledges recorded and or annuity funds and a trust invested in the endowment or other impairments. These are included in the endowment market value shown in Table 5.

As of December 2012, the endowment market value is \$1.220 billion with an endowment pool total return of 4.8%.

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, 2012.

TABLE NINE
Endowment Assets as of May 31, 2012
(in thousands)

<u>Asset</u>	<u>Cost</u>	<u>Market</u>	<u>Policy Target</u>	<u>Current Allocation</u>
Global Equities	\$294,124	\$ 286,674	39%	26%
Fixed income	75,841	77,835	9%	7%
Diversifying Strategies	149,155	236,203	24%	22%
Private Markets	201,665	227,345	13%	21%
Real Assets	213,053	247,161	15%	23%
Cash/Cash Equivalents	12,591	12,590	0%	1%
Separately Invested	<u>23,233</u>	<u>74,607</u>	<u>n/a</u>	<u>n/a</u>
Total Endowment	<u>\$969,662</u>	<u>\$1,162,415</u>	<u>100%</u>	<u>100%</u>

The University has a wide variety of investments in the categories above. Global equities include U.S. equities and international equities (both developed and emerging markets). Fixed Income includes 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 1, 2012, available liquidity in the endowment pool includes within one week \$262.2 million, within one month \$329.5 million, and within one year \$555.9 million. In total the University could redeem around 90% of its public portfolio within one year, or approximately 51% of the entire endowment.

The University has committed to capital draws totaling \$821,640,000 for private equity, venture capital, real estate funds and other investments, of which \$691,155,000 had been drawn as of May 31, 2012. The University has committed to pay draws as required for the remaining \$130,485,000 through fiscal year 2021. 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 15 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 70 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 2012 was 4.92%.

CAPITAL CAMPAIGN

Gifts and Bequests. On May 31, 2003, SMU ended the most successful fund-raising campaign in the University's history. Commitments to the Campaign totaled \$541.5 million, far exceeding the \$400 million goal. The Campaign resulted in 171 new scholarships and academic awards; 80 new academic programs; 28 new campus life programs; 16 new faculty positions; and 14 new or renovated facilities. More than 40,000 donors supported the Campaign through annual, capital, endowment and planned gifts. In September 2008, SMU launched SMU Unbridled: The Second Century Campaign with a goal of \$750 million with a target date of December 31, 2015. As of February, 2013, approximately \$715 million has been raised. In addition to supporting operating funds, the campaign has:

- Provided endowments naming two of SMU's Schools; The Bobby B. Lyle School of Engineering and the Annette Caldwell Simmons School of Education and Human Development.
- Endowed the Roy M. Huffington Department of Earth Sciences.
- Established 9 new endowed academic institutes, centers and initiatives.
- Created 26 new endowed faculty positions.

- Created 365 new endowed scholarships.
- Supported construction or renovation of 24 facilities.

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

TABLE TEN
Total Gifts and Bequests
(in thousands)

	Fiscal Year Ended May 31,				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Sources					
Alumni	\$37,948	\$22,441	\$15,979	\$14,776	\$17,627
Parents and Friends	27,129	4,555	8,070	8,901	6,422
Foundations	32,941	62,568	20,384	30,064	58,140
Corporations	5,253	9,545	6,713	4,048	5,155
Religious Organizations	2,445	2,473	2,142	1,599	1,769
Other Organizations	<u>179</u>	<u>203</u>	<u>2,536</u>	<u>4,229</u>	<u>8,479</u>
Total	<u>\$105,895</u>	<u>\$101,785</u>	<u>\$55,824</u>	<u>\$63,617</u>	<u>\$97,592</u>
Net Assets					
Unrestricted:					
General	\$15,350	\$53,020	\$13,781	\$11,360	\$4,718
Auxiliary	4,658	5,896	4,957	7,029	8,267
Temporarily Restricted	43,628	21,821	19,493	29,974	22,638
Permanently Restricted	<u>42,259</u>	<u>21,048</u>	<u>17,593</u>	<u>15,254</u>	<u>61,969</u>
Total	<u>\$105,895</u>	<u>\$101,785</u>	<u>\$55,824</u>	<u>\$63,617</u>	<u>\$97,592</u>

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, 2012. 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	36%
Liquidity in > 30 days and < 1 year	60%
Liquidity > 1 year	100%

MANAGEMENT DISCUSSION AND ANALYSIS 2013

General. SMU's financial position remains strong with net assets increasing \$30.9M for fiscal year 2012. The impacts of the decline in the endowment value are being addressed in the short term through the utilization of fund balances and in the long term through adjustments to operations as well as continued fund raising efforts. Only 11% of the University's operations are supported by the endowment so managing the budget reductions does not substantially affect operations. 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. SMU continues to preserve cash and invest in low risk, secure investments ensuring its cash position remains healthy. SMU's financial philosophy has allows the institution to operate in less favorable economic conditions without major changes in operations or negative effects on programs.

Enrollment. Undergraduate enrollment for the fall of 2012 fully met budgeted expectations and demand remains strong as application numbers continue to rise. 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 58th place ranking in the 2012 edition of Best Colleges published by U.S. News Media Group.

SERIES 2013 BOND PROJECTS

The proceeds of the Series 2013 Bonds will be used primarily to fund, in part, construction, renovation, equipping and improvement of residence halls, dining facilities, parking structures and surface parking, athletic and recreational facilities, a high voltage electrical substation, a technology and data center, a distributed antenna system, telecommunications facilities, campus generators and generating facilities, University library facilities and other University buildings, structures and improvements; and planning and site preparation, including abatement and demolition, environmental remediation, acquisition, construction, relocation and improvement of streets, promenades and other walkways, sidewalks, sewers and underground utilities and acquisition of property. The residence halls are presently expected to add 1,250 beds to the University's inventory and will allow it to put into place the requirement that sophomores live on campus. The halls will be built under the residential commons concept to provide a living/learning environment to enhance personal exploration and growth.

The University expects to issue not just tax exempt but also taxable bonds for projects that may have private business use as well as being used for the university's exempt purpose. A portion of proceeds from the Taxable Series 2013B Bonds will be used to refund certain outstanding debt.

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. The Meadows School presents 400-plus music, dance and theatre performances open to the public each year. 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 six clinics serving diverse community needs. Perkins School of Theology provides continuing education programs for ministers and lay people. Annette Caldwell Simmons School of Education and Human Development serves the community through its 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, Community Counseling Centers, Mediation Services and academic enhancement programs for youth.

Student Community Service. More than 2,500 undergraduate 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.

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 activity, on campus and in local and global communities. 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 Big iDeas program each year gives 10 undergraduate interdisciplinary teams up to \$5,000 each to research and address challenges facing the Dallas area. The Cary M. Maguire Center for Ethics and Public Responsibility awards summer internship stipends to students engaged in public service. SMU has partnered with numerous public service agencies to create internships through which students intern for credit. Students also participate in Alternative Break national service projects.

INSURANCE

The University maintains a comprehensive insurance program that incorporates a blanket "all-risk" property policy and comprehensive general and excess liability policies that include business auto, medical professional coverage, a statutory workers' compensation policy, employee dishonesty, fiduciary, special crime policies, and an educator's legal liability policy that includes directors' and officers' coverage. The insurance market threatened to tighten up in 2012 and many insurance buyers experienced the first increase in rates, terms and conditions in several years. However, SMU's property rates were set by contract for another year and an insurance carrier dividend helped offset a modest increase. Property insurance rates nationwide are up 5-10% or more depending upon the risk profile of the insured, with improving sub-limits, broader terms, and capacity. Workers' compensation rates are increasing for most insureds, but SMU's have remained generally flat due to its history of good loss ratios. General liability and educators' legal liability rates are also increasing due to an increasingly litigious society. Miscellaneous lines remain relatively flat. The University believes its risk management programs are consistent with the practices of other similarly situated institutions of higher learning and embody a mix of broad insurance coverages and retention programs that reflect an appropriate and prudent approach toward the protection of the institution.

INTERCOLLEGIATE ATHLETICS

Intercollegiate athletics at the University includes 17 sports, all competing at the Division 1 level: (six for men and eleven for women). The men's sports include basketball, football, golf, soccer, swimming and diving, and tennis. The women's sports include basketball, cross country, equestrian, golf, indoor and outdoor track and field, rowing, soccer, swimming and diving, tennis, and volleyball. The University is a member of the Football Bowl Subdivision of Division 1 in the National Collegiate Athletic Association and Conference U.S.A. The University has announced its intent to withdraw from Conference U.S.A. effective June 30, 2013 and to join the Big East Conference, or its successor organization, effective July 1, 2013. University athletic facilities include Moody Coliseum, the Barr Swimming Facility and Perkins Natatorium, the Morrison-Bell Track, Westcott Field for soccer, the Turpin Tennis Center, the Gerald J. Ford Stadium and Pettus Practice Fields for football, the Paul B. Loyd, Jr. All-Sports Center, Crum Basketball Center, Buck Branch Equestrian Center, White Rock Boathouse as well as a variety of training rooms, equipment, locker and conference rooms. An outdoor short game course practice facility has been completed and ground has been broken on new indoor hitting bays for the men's and women's golf teams at the Dallas Athletic Club.

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

APPENDIX B

CONSOLIDATED FINANCIAL STATEMENTS, MAY 31, 2012 AND 2011 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, 2012 and 2011

(With Independent Auditors' Report Thereon)

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

Independent Auditors' Report

The Board of Trustees
Southern Methodist University:

We have audited the accompanying consolidated balance sheets of Southern Methodist University (the University) as of May 31, 2012 and 2011, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University as of May 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

September 13, 2012

Southern Methodist University
Consolidated Balance Sheets
As of May 31, 2012 and 2011
(Dollars in Thousands)

Assets	<u>2012</u>	<u>2011</u>	Liabilities and Net Assets	<u>2012</u>	<u>2011</u>
Cash and cash equivalents (restricted for capital projects: \$21,269 in 2012 and \$16,608 in 2011)	\$ 125,614	\$ 123,525	Liabilities:		
Accounts receivable, less allowance for doubtful accounts of \$699 in 2012 and \$1,044 in 2011	34,789	27,146	Accounts payable and accrued expenses	\$ 169,098	\$ 153,425
Pledges receivable, net	87,092	67,765	Deposits and deferred income	25,680	25,518
Investments:			Notes payable	777	781
Short-term paper (restricted for debt retirement: \$969 in 2012 and \$961 in 2011)	\$ 83,716	\$ 86,851	Bonds payable	466,960	476,268
Stocks	206,902	218,261	Advances for student loans	<u>2,826</u>	<u>2,771</u>
Bonds (restricted for debt retirement: \$50,732 in 2012 and \$50,787 in 2011; restricted for capital projects: \$90,935 in 2012 and \$110,082 in 2011)	243,218	241,361	Total Liabilities	<u>\$ 665,341</u>	<u>\$ 658,763</u>
Venture capital	39,682	39,202			
Mortgage and other notes receivable, less allowance for doubtful accounts of \$853 in 2012 and \$642 in 2011	8,827	9,855	Net Assets:		
Real estate	126,672	127,030	Unrestricted	\$ 475,446	\$ 462,959
Funds held in trust by others	18,056	19,281	Temporarily restricted	520,780	529,499
Other	<u>502,313</u>	<u>505,763</u>	Permanently restricted	<u>536,114</u>	<u>508,946</u>
Total investments	\$ 1,229,386	\$ 1,247,604	Total Net Assets	<u>\$ 1,532,340</u>	<u>\$ 1,501,404</u>
Property, plant and equipment, at cost, net of accumulated depreciation	710,894	683,145	Total Liabilities and Net Assets	<u>\$ 2,197,681</u>	<u>\$ 2,160,167</u>
Other assets	<u>9,906</u>	<u>10,982</u>			
Total Assets	<u>\$ 2,197,681</u>	<u>\$ 2,160,167</u>			

See accompanying notes to the consolidated financial statements.

Southern Methodist University
Consolidated Statements of Activities
For the Years Ended May 31, 2012 and 2011
(Dollars in Thousands)

	2012				2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue:								
Tuition and fees	\$ 362,409	\$ -	\$ -	\$ 362,409	\$ 344,008	\$ -	\$ -	\$ 344,008
Scholarship allowance - tuition and fees	(125,742)	-	-	(125,742)	(120,098)	-	-	(120,098)
Net tuition	\$ 236,667	\$ -	\$ -	\$ 236,667	\$ 223,910	\$ -	\$ -	\$ 223,910
Gifts	20,494	42,242	26,590	89,326	15,103	25,900	15,254	56,257
Endowment income, net of investment expenses	13,727	54	966	14,747	11,963	11	1,173	13,147
Net realized and unrealized gain on investments	(5,084)	21,254	(388)	15,782	14,832	95,345	(114)	110,063
Grants and contracts	28,242	-	-	28,242	30,761	-	-	30,761
Organized activities	8,728	-	-	8,728	7,929	-	-	7,929
Other sources	30,453	-	-	30,453	31,494	-	-	31,494
Auxiliary activities	41,249	5,868	-	47,117	42,934	953	-	43,887
Scholarship allowance - room and board	(2,829)	-	-	(2,829)	(2,557)	-	-	(2,557)
Independent operations	3,549	-	-	3,549	3,495	-	-	3,495
Total revenue	\$ 375,196	\$ 69,418	\$ 27,168	\$ 471,782	\$ 379,864	\$ 122,209	\$ 16,313	\$ 518,386
Net assets released from restrictions	78,137	(78,137)	-	-	82,760	(82,760)	-	-
Total adjusted revenue	\$ 453,333	\$ (8,719)	\$ 27,168	\$ 471,782	\$ 462,624	\$ 39,449	\$ 16,313	\$ 518,386
Expenses:								
Program expenses:								
Instructional	\$ 154,440	\$ -	\$ -	\$ 154,440	\$ 146,377	\$ -	\$ -	\$ 146,377
Academic support	52,971	-	-	52,971	51,464	-	-	51,464
Research	22,053	-	-	22,053	22,570	-	-	22,570
Organized activities	10,374	-	-	10,374	9,591	-	-	9,591
Student services	41,664	-	-	41,664	40,158	-	-	40,158
Auxiliary activities	59,734	-	-	59,734	55,963	-	-	55,963
Total program expenses	\$ 341,236	\$ -	\$ -	\$ 341,236	\$ 326,123	\$ -	\$ -	\$ 326,123
Institutional support	89,653	-	-	89,653	131,692	-	-	131,692
Independent operations	3,113	-	-	3,113	4,499	-	-	4,499
Total expenses	\$ 434,002	\$ -	\$ -	\$ 434,002	\$ 462,314	\$ -	\$ -	\$ 462,314
Postretirement plan changes other than net periodic postretirement benefit cost	6,844	-	-	6,844	432	-	-	432
Total expenses and actuarial adjustment	\$ 440,846	\$ -	\$ -	\$ 440,846	\$ 462,746	\$ -	\$ -	\$ 462,746
Change in net assets	\$ 12,487	\$ (8,719)	\$ 27,168	\$ 30,936	\$ (122)	\$ 39,449	\$ 16,313	\$ 55,640
Net assets at beginning of year	462,959	529,499	508,946	1,501,404	463,081	490,050	492,633	1,445,764
Net assets at end of year	\$ 475,446	\$ 520,780	\$ 536,114	\$ 1,532,340	\$ 462,959	\$ 529,499	\$ 508,946	\$ 1,501,404

Southern Methodist University
Consolidated Statements of Cash Flows
For the Years Ended May 31, 2012 and 2011
(Dollars in Thousands)

	2012	2011
Cash flows from operating activities:		
Change in net assets	\$ 30,936	\$ 55,640
Adjustments to reconcile change in net assets to net cash used for operating activities:		
Depreciation	29,658	31,627
Loss on disposal of property, plant and equipment	306	1,995
Increase in accounts and pledges receivable	(26,970)	(10,682)
Decrease in other assets	1,076	150
Increase in accounts payable and accrued expenses for operations	6,013	47,591
Increase (decrease) in deposits and deferred income and advances for student loans	217	(1,403)
Contributions restricted for long-term investment	(29,240)	(21,296)
Noncash contributions	(5,618)	(7,255)
Net realized and unrealized gain on investments	(15,782)	(110,063)
Income restricted for long-term investment	(1,217)	(1,224)
Annuity obligation payments	731	734
Other adjustments	(2,128)	(1,955)
Net cash used for operating activities	\$ (12,018)	\$ (16,141)
Cash flows from investing activities:		
Purchase of property, plant and equipment	\$ (55,398)	\$ (47,970)
Proceeds from sales of property, plant and equipment	867	19
Purchase of investments	(346,116)	(344,670)
Proceeds from the sale of investments	381,524	281,037
Increase (decrease) in accounts payable and accrued expenses for investments and property, plant and equipment	9,660	(5,491)
Disbursements of mortgage and other notes receivable	(1,661)	(1,047)
Principal payments received on and sales of mortgage and other notes receivable	2,689	2,800
Net cash used for investing activities	\$ (8,435)	\$ (115,322)
Cash flows from financing activities:		
Contributions restricted for long-term investment	\$ 29,240	\$ 21,296
Income restricted for long-term investment	1,217	1,224
Annuity obligation payments	(731)	(734)
Payments on notes payable	(46)	(60)
Proceeds from bond issue	-	124,998
Long-term bond payments	(7,180)	(6,890)
Net cash provided by financing activities	\$ 22,542	\$ 139,834
Net increase in cash and cash equivalents	2,089	8,371
Cash and cash equivalents at beginning of year	123,525	115,154
Cash and cash equivalents at end of year	\$ 125,614	\$ 123,525
Supplemental data:		
Gifts of investments and real estate	\$ 2,436	\$ 7,101
Gifts of property, plant and equipment	3,182	154
Cash paid for interest	15,483	14,626

Southern Methodist University
Notes to the Consolidated Financial Statements
May 31, 2012 and 2011

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations:

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

The University currently has ten corporations under its control that are included in the consolidated financial statements. Peruna Properties, Inc., Pony Properties, Inc., Peruna Holdings Corporation, Mustang Mockingbird Corporation, Mustang Mockingbird Properties, Mustang Airline Corporation and Peruna East Corporation are corporations the University established to acquire, own and manage, on behalf of the University, real estate adjacent to or in the near vicinity of the University campus. The University also has established the Stadium Club, Inc. to operate a private club in the Gerald J. Ford Stadium, the Southern Methodist University Foundation for Research to support academic scholarship and scientific research in the public interest for the benefit of the University and to assist in fulfilling the educational and research purposes of the University, and SMU Corp. in connection with the location of the George W. Bush Presidential Library and Museum at the University.

Financial Reporting:

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

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

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

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

Basis of Accounting:

The consolidated financial statements have been prepared on the accrual basis of accounting. The costs of providing various programs and support services have been summarized on a functional basis in the consolidated statements of activities. Accordingly, expenses such as depreciation, interest, bond issue costs and the operation and maintenance of University facilities have been allocated among the functional categories. Fund-raising expenses of approximately \$21,364,000 and \$19,941,000 incurred by the University in fiscal years 2012 and 2011, 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. However, such assets when purchased with endowment, loan, annuity and life income assets or trust funds are classified as investments.

Investments in short-term paper, stocks, 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 \$770,000 as of May 31, 2012. None were recognized in fiscal year 2011. For the year ended May 31, 2012, the University has investments in venture capital funds, real estate and other investments that have fair values lower than cost by \$42,985,000 that are not reported as permanently impaired. The aggregate related fair value of these investments is \$194,377,000.

Gifts are recorded at fair value at the date of donation or a nominal value if fair value is not readily determinable. Recorded realized and unrealized gains on investments are reported in the appropriate net asset classifications in the consolidated statements of activities. Gifts and income thereon that are restricted in perpetuity by the donors for the purpose of making loans to students are reported as permanently restricted net assets. Refundable advances from the federal government for student loans are reported as long-term liabilities. University resources designated for student loans are reported as unrestricted net assets. Federally funded student loan programs consist of \$2,826,000 and \$2,771,000 of refundable government advances and \$325,000 and \$318,000 of matching University funds in fiscal years 2012 and 2011, 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 \$5,000 and over and have an estimated useful life of at least two (2) years, with the exception of software,

where the cost must exceed \$75,000 before the asset will be capitalized. Property, plant and equipment (except for art objects) are depreciated on the straight-line basis over their estimated useful lives with equipment, vehicles, furniture, software and "other" depreciating in 5 to 15 years; land improvements depreciating in 15 to 50 years; and buildings depreciating in 20 to 40 years.

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

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

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

Tuition revenue is recognized in the fiscal year in which the predominant portion of instruction occurs. Accordingly, deferred revenue as of May 31, 2012 includes the amount received from the students prior to May 31, 2012 for the 2012 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. Actual results could differ from these estimates.

Certain fiscal year 2011 amounts have been reclassified to conform to the University's financial presentation in fiscal year 2012. On the consolidated statements of activities, bond issuance amortization was reclassified from institutional support expense to other functional expense categories. Certain program expenses were reclassified from organized activities expense to instructional expense. Also, certain revenues were reclassified from organized activities and gifts to other sources. Further, certain auxiliary activities revenue reflected as unrestricted was reclassified to temporarily restricted, and the amounts released from restriction were revised. On the fiscal year 2011 consolidated balance sheet, the University made a reclassification from unrestricted net assets to temporarily restricted net assets.

2. Accounting Pronouncements or Laws Affecting Current Year Financial Statements:

In July 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, to provide financial statement users with greater transparency about an entity's allowance for credit losses and the credit quality of its financing receivables. The University has elected to not disclose any information in fiscal year 2012 on financing receivables because the amounts are immaterial in relation to the total assets.

3. Cash, Cash Equivalents, and Accounts Receivable

The fair value of cash, cash equivalents, and accounts receivable is estimated to be the same as carrying (book) value because of their short maturities. Operating funds invested in short-term paper are included as cash equivalents, the value of which may fluctuate based on the financial environment and the type of short-term investment. The fair value of cash equivalents is at market. The fair value of cash, cash equivalents, and accounts receivable totaled \$160,403,000 and \$150,671,000 of which \$8,913,000 and \$4,783,000 represent donations restricted for property, plant and equipment as of May 31, 2012 and 2011, 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 4% to 7%. 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.

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

	2012	2011
In one year or less	\$ 21,435	\$ 20,216
Between one year and five years	57,399	40,112
More than five years	35,846	30,268
Less discount	(27,588)	(22,831)
	<u>\$ 87,092</u>	<u>\$ 67,765</u>

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

	2012	2011
Endowment for departmental programs and activities	\$ 14,326	\$ 13,165
Endowment for scholarships	7,342	8,264
Construction projects	29,533	11,968
Scholarships, departmental programs and activities	28,554	26,089
Purpose restriction met	7,337	8,279
	<u>\$ 87,092</u>	<u>\$ 67,765</u>

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

	<u>2012</u>	<u>2011</u>
Contingent on donor's earnings	\$ 3,125	\$ 4,375
Matching donation requirement	6,761	26,917
Other	3,250	4,500
	<u>\$ 13,136</u>	<u>\$ 35,792</u>

5. Investments

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

	<u>2012</u>		<u>2011</u>	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Short-term paper	\$ 83,716	\$ 83,716	\$ 86,851	\$ 86,851
Stocks	206,902	206,902	218,261	218,261
Bonds	243,218	243,218	241,361	241,361
Venture capital	39,682	47,894	39,202	44,028
Mortgage and other notes receivable, net	8,827	8,827	9,855	9,855
Real estate:				
Real properties	\$ 126,672	\$ 114,627	\$ 127,030	\$ 113,430
Mineral rights	-	50,302	-	51,952
Total real estate	<u>\$ 126,672</u>	<u>\$ 164,929</u>	<u>\$ 127,030</u>	<u>\$ 165,382</u>
Funds held in trust by others	18,056	18,056	19,281	19,281
Other investments:				
Private equity	\$ 219,734	\$ 286,759	\$ 225,017	\$ 303,122
Absolute return	132,683	217,041	121,576	213,323
Equity funds without daily liquidity	95,548	90,246	101,129	110,859
Fixed income funds without daily liquidity	516	562	499	533
Equity method investments (carrying value is fair value)	53,832	53,832	57,542	57,542
Total other investments	<u>\$ 502,313</u>	<u>\$ 648,440</u>	<u>\$ 505,763</u>	<u>\$ 685,379</u>
Total investments	<u>\$ 1,229,386</u>	<u>\$ 1,421,982</u>	<u>\$ 1,247,604</u>	<u>\$ 1,470,398</u>

The fair value of short-term paper, stocks, bonds and funds held in trust by others is based on quoted market prices. The fair value of 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 \$1,107,000 and \$1,249,000 in fiscal years 2012 and 2011, respectively. The fair value of split-interest agreements were \$29,645,000 and \$31,117,000 in fiscal years 2012 and 2011, 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 estimated cash flows using discount rates of 3.70% and 4.98% per annum in fiscal years 2012 and 2011, respectively. The anticipated future payments to the income beneficiaries are based on their life expectancies determined from the actuarial tables published by the Internal Revenue Service, using the prevailing rate as of the date of each agreement. As of May 31, 2012 and 2011, the present values of the University's financial obligations to beneficiaries were \$6,662,000 and \$6,521,000, respectively.

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

Investment return is comprised of investment income and net realized and unrealized gains. Investment income of \$23,041,000 and \$22,500,000 for the years ended May 31, 2012 and 2011, respectively, is net of related expenses, such as custodial fees and investment advisory fees. These expenses are approximately \$8,943,000 and \$9,689,000 for the years ended May 31, 2012 and 2011, respectively. Net realized and unrealized gains on investments totaled \$15,782,000 and \$110,063,000 for the years ended May 31, 2012 and 2011, respectively. Included in these amounts are realized and unrealized losses attributed to assets reported at fair value of approximately \$22,064,000 for the year ended May 31, 2012 and realized and unrealized gains of \$46,630,000 for the year ended May 31, 2011, and realized gains attributed to assets reported at cost of approximately \$37,846,000 and \$63,433,000 for the years ended May 31, 2012 and 2011, respectively.

The University applies the guidance in Accounting Standards Codification (ASC) 970-323, *Investments - Equity Method and Joint Ventures*, on the equity method of accounting for its noncontrolling interests in for-profit real estate partnerships, limited liability companies (LLCs), and similar entities unless those investments are reported at fair value. The University has determined those investments in which it holds an interest equal to or greater than 5% will be reported using the equity method of accounting. The University holds interests in various LLCs and a for-profit real estate partnership for investment purposes that meet this 5% threshold and 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.

The University's percentage ownership and the fair value of its ownership using the most recent (unaudited) financial information of the investment companies as of May 31, 2012 and 2011 are reflected in the table below (dollars in thousands):

Investment Companies	2012		2011	
	Percentage of Ownership	Fair Value	Percentage of Ownership	Fair Value
Venture capital:				
Silver Creek Ventures III, L.P.	16.1%	\$ 3,326	16.1%	\$ 2,762
Pinnacle Ventures Equity Fund I	14.3	5,909	14.3	5,767
Knightsbridge III	9.9	876	9.9	885
Silver Creek Ventures II, L.P.	8.5	1,890	8.5	2,021
Endowment Venture Partners	-	-	5.6	121
Commonfund Capital New Leaders II, L.P.	5.0	1,626	5.0	2,033
Real estate properties:				
Sustainable Woodlands Fund, L.P.	5.4	9,423	5.4	10,028
Private equity:				
Amberbrook IV, LLC	5.9	4,314	5.9	4,949
Private Advisors Small Company Buyout Fund, L.P.	5.7	4,614	5.7	5,851
Absolute return:				
Whippoorwill Offshore Distressed Opportunity Fund, Ltd.	7.9	21,854	7.3	23,125
Total		<u>\$ 53,832</u>		<u>\$ 57,542</u>

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 an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA or the Act) and also requires disclosures about endowment funds, including both donor-restricted endowment funds and funds functioning as endowment funds.

The University's endowment consists of approximately 1,498 individual funds established for a variety of purposes, including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law:

Based on the interpretation of the UPMIFA by the Board of Trustees of the University, 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 those amounts are appropriated for expenditure by the Board of Trustees in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the Board of Trustees considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Temporarily restricted and permanently restricted donor-restricted endowment funds were \$427,956,000 and \$511,151,000, respectively, as of May 31, 2012 and \$456,316,000 and \$483,796,000, respectively, as of May 31, 2011. Funds functioning as endowment funds were \$74,322,000 and \$78,379,000 as of May 31, 2012 and 2011, respectively, and are included in unrestricted net assets.

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

	2012				2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets at beginning of year	\$ 77,409	\$ 456,316	\$ 483,796	\$ 1,017,521	\$ 64,947	\$ 408,673	\$ 467,697	\$ 941,317
Gifts	-	-	26,386	26,386	-	-	15,147	15,147
Investment return:								
Investment income, net of distributions	\$ 345	\$ -	\$ 966	\$ 1,311	\$ 60	\$ -	\$ 1,173	\$ 1,233
Net realized and unrealized gains	273	17,145	-	17,418	9,942	100,126	-	110,068
Total investment return	\$ 618	\$ 17,145	\$ 966	\$ 18,729	\$ 10,002	\$ 100,126	\$ 1,173	\$ 111,301
Endowment gains transferred for spending	(3,634)	(45,933)	-	(49,567)	(3,783)	(47,053)	-	(50,836)
Funds functioning as endowment net transfers	(1,041)	-	-	(1,041)	1,309	-	-	1,309
Other revenues and transfers	413	428	3	844	4,934	(5,430)	(221)	(717)
Net assets at end of year	<u>\$ 73,765</u>	<u>\$ 427,956</u>	<u>\$ 511,151</u>	<u>\$ 1,012,872</u>	<u>\$ 77,409</u>	<u>\$ 456,316</u>	<u>\$ 483,796</u>	<u>\$ 1,017,521</u>

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

	2012			2011		
	Donor-Restricted Endowment	Funds Functioning as Endowment	Total	Donor-Restricted Endowment	Funds Functioning as Endowment	Total
Gifts	\$ 26,386	\$ -	\$ 26,386	\$ 15,147	\$ -	\$ 15,147
Investment return						
Investment income, net of distribution	\$ 966	\$ 345	\$ 1,311	\$ 1,173	\$ 60	\$ 1,233
Net realized and unrealized gains	17,145	273	17,418	100,126	9,942	110,068
Total investment return	\$ 18,111	\$ 618	\$ 18,729	\$ 101,299	\$ 10,002	\$ 111,301
Endowment gains transferred for spending	(45,933)	(3,634)	(49,567)	(47,053)	(3,783)	(50,836)
Funds functioning as endowment net transfers	-	(1,041)	(1,041)	-	1,309	1,309
Other revenues and transfers	844	-	844	(717)	-	(717)
Total change in endowment funds	\$ (592)	\$ (4,057)	\$ (4,649)	\$ 68,676	\$ 7,528	\$ 76,204

Endowment funds classified as permanently restricted net assets of \$511,151,000 and \$483,796,000 as of May 31, 2012 and 2011, respectively, represent the portion of perpetual endowment funds that is required to be retained permanently by explicit donor stipulation.

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

	<u>2012</u>	<u>2011</u>
With purpose restrictions	\$ 152,863	\$ 146,690
Without purpose restrictions	275,093	309,626
Total endowment funds classified as temporarily restricted net assets	<u>\$ 427,956</u>	<u>\$ 456,316</u>

Funds with Deficiencies:

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the donor or the Act requires the University to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$557,000 and \$970,000 as of May 31, 2012 and 2011, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of the permanently restricted contributions. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as increases in unrestricted net assets.

Return Objectives and Risk Parameters:

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

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

Strategies Employed for Achieving Objectives:

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

Spending Policy and the Investment Objectives Relationship to Spending Policy:

University Administration is authorized to distribute for spending from all endowment funds invested in the 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 2012), and a percent determined for each fiscal year (currently 4.75%) of thirty percent (30%) of the four-quarter average of market values for the preceding calendar year. In establishing this policy, the University considers the long-term expected return on its endowment. Accordingly, over the long term, the University expects the current spending policy to allow its endowment to maintain its purchasing power by growing 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 new 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 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.

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 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.

The following table presents information about the University's investments at fair value as of May 31, 2012, including the fair value hierarchy to determine such fair value, as well as the strategies, liquidity, and unfunded commitments related to them (dollars in thousands):

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total	Unfunded Commitments	Investment Redemption Frequency	Investment Redemption Notice Period (Days)
Short-term paper	\$ 83,716	\$ -	\$ -	\$ 83,716	\$ -		
Stocks	206,902	-	-	206,902	-		
Bonds	195,556	47,662	-	243,218	-		
Venture capital	-	-	47,894	47,894	13,390	Illiquid	N/A
Mortgage and other notes receivable	-	8,827	-	8,827	-		
Real estate:							
Real properties							
Directly held real estate	-	5,538	290	5,828	-	Illiquid	N/A
Real estate funds	-	-	85,679	85,679	16,606	Illiquid	N/A
Timber funds	-	-	23,120	23,120	24	Illiquid	N/A
Mineral rights	-	50,302	-	50,302	-		
Funds held in trust by others	-	13,397	4,659	18,056	-		
Other investments:							
Private equity	-	-	286,759	286,759	70,823	Illiquid	N/A
Absolute return:							
Single strategy hedge funds	-	-	64,629	64,629	-	Annually	45 to 90
Single strategy hedge funds	-	-	15,184	15,184	-	Locked up (1)	45
Single strategy hedge funds	-	-	21,701	21,701	-	Quarterly	30 to 90
Multi strategy hedge funds	-	-	22,989	22,989	-	Annually	90
Multi strategy hedge funds	-	-	76,464	76,464	-	Quarterly	60 to 90
Multi strategy hedge funds	-	-	3,719	3,719	-	Monthly	60
Multi strategy hedge funds	-	-	6,975	6,975	23,000	Locked up (2)	45 to 60
Multi strategy hedge funds	-	-	883	883	-	Illiquid	N/A
Side pockets/private-like hedge funds	-	-	4,497	4,497	-	Illiquid	N/A
Equity funds without daily liquidity:							
International equities emerging markets	-	-	16,472	16,472	-	Quarterly	90
International equities emerging markets	-	-	319	319	-	Illiquid	N/A
International equities developing markets	-	-	1,358	1,358	-	Illiquid	N/A
International equities developing markets	-	-	20,757	20,757	-	Quarterly	90
International equities developing markets	-	-	26,871	26,871	-	Monthly	6 business days
International equities developing markets	-	-	23,788	23,788	-	Monthly	15 business days
Multi strategy equity funds	-	-	681	681	-	End of Month	5
Fixed Income funds without daily liquidity	-	-	562	562	-	End of Month	5
Equity method investments:							
Venture capital	-	-	13,628	13,628	5,987	Illiquid	N/A
Private equity	-	-	8,928	8,928	655	Illiquid	N/A
Single strategy hedge funds	-	-	21,853	21,853	-	Quarterly	30 to 90
Timber funds	-	-	9,423	9,423	-	Illiquid	N/A
Total investments	\$ 486,174	\$ 125,726	\$ 810,082	\$ 1,421,982	\$ 130,485		

(1) Semiannual liquidity after completion of 2 year lockup expiring December 31, 2012. (2) Quarterly liquidity after completion of 1 year lockup expiring April 30, 2013.

The following table presents information about the University's investments at fair value as of May 31, 2011, including the fair value hierarchy to determine such fair value, as well as the strategies, liquidity, and unfunded commitments related to them (dollars in thousands):

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total	Unfunded Commitments	Investment Redemption Frequency	Investment Redemption Notice Period (Days)
Short-term paper	\$ 86,851	\$ -	\$ -	\$ 86,851	\$ -		
Stocks	218,261	-	-	218,261	30,000		
Bonds	193,249	48,112	-	241,361	-		
Venture capital	-	-	44,028	44,028	17,685	Illiquid	N/A
Mortgage and other notes receivable	-	9,855	-	9,855	-		
Real estate:							
Real properties							
Directly held real estate	-	5,735	290	6,025	-	Illiquid	N/A
Real estate funds	-	-	83,184	83,184	29,938	Illiquid	N/A
Timber funds	-	-	24,221	24,221	36	Illiquid	N/A
Mineral rights	-	51,952	-	51,952	-		
Funds held in trust by others	-	14,141	5,140	19,281	-		
Other investments:							
Private equity	-	-	303,122	303,122	76,837	Illiquid	N/A
Absolute return:							
Single strategy hedge funds	-	-	38,392	38,392	-	Annually	45 to 90
Single strategy hedge funds	-	-	15,989	15,989	-	Locked up (1)	45
Single strategy hedge funds	-	-	37,884	37,884	-	Quarterly	30 to 90
Multi strategy hedge funds	-	-	23,021	23,021	-	Annually	90
Multi strategy hedge funds	-	-	74,815	74,815	-	Quarterly	60 to 90
Multi strategy hedge funds	-	-	17,115	17,115	-	Monthly	60
Side pockets/private-like hedge funds	-	-	6,107	6,107	-	Illiquid	N/A
Equity funds without daily liquidity:							
International equities emerging markets	-	-	23,310	23,310	-	Quarterly	90
International equities emerging markets	-	-	727	727	-	Illiquid	N/A
International equities developing markets	-	-	1,399	1,399	-	Illiquid	N/A
International equities developing markets	-	-	19,763	19,763	-	Quarterly	90
International equities developing markets	-	-	32,977	32,977	-	Monthly	6 business days
International equities developing markets	-	-	31,953	31,953	-	Monthly	15 business days
Multi strategy equity funds	-	-	730	730	-	End of Month	5
Fixed Income funds without daily liquidity	-	-	533	533	-	End of Month	5
Equity method investments:							
Venture capital	-	-	13,590	13,590	7,995	Illiquid	N/A
Private equity	-	-	10,800	10,800	760	Illiquid	N/A
Single strategy hedge funds	-	-	23,124	23,124	-	Quarterly	30 to 90
Timber funds	-	-	10,028	10,028	-	Illiquid	N/A
Total investments	\$ 498,361	\$ 129,795	\$ 842,242	\$ 1,470,398	\$ 163,251		

(1) Semiannual liquidity after completion of 2 year lockup expiring December 31, 2012.

For fiscal years 2012 and 2011, fair value for assets in the previous table using significant unobservable inputs (Level 3) is as follows (dollars in thousands):

	2012					
	Opening Balance	Realized Gains (Losses)	Unrealized Gains (Losses)	Sales	Purchases	Ending Balance
Venture capital	\$ 44,028	\$ 1,195	\$ 3,386	\$ (5,264)	\$ 4,549	\$ 47,894
Real estate	107,695	1,809	859	(12,021)	10,747	109,089
Funds held in trust	5,140	(263)	(222)	-	4	4,659
Other investments	685,379	32,721	(37,326)	(96,002)	63,668	648,440
Total	<u>\$ 842,242</u>	<u>\$ 35,462</u>	<u>\$ (33,303)</u>	<u>\$ (113,287)</u>	<u>\$ 78,968</u>	<u>\$ 810,082</u>

	2011					
	Opening Balance	Realized Gains (Losses)	Unrealized Gains (Losses)	Sales	Purchases	Ending Balance
Venture capital	\$ 36,843	\$ 2,619	\$ 4,930	\$ (7,644)	\$ 7,280	\$ 44,028
Real estate	93,732	7,944	(268)	(14,043)	20,330	107,695
Funds held in trust	4,575	(83)	664	(16)	-	5,140
Other investments	659,658	52,869	30,078	(157,122)	99,896	685,379
Total	<u>\$ 794,808</u>	<u>\$ 63,349</u>	<u>\$ 35,404</u>	<u>\$ (178,825)</u>	<u>\$ 127,506</u>	<u>\$ 842,242</u>

The fair value of annuity obligations, notes payable and bonds payable measured using Level 2 valuation techniques were \$6,662,000, \$720,000 and \$519,444,000, respectively, as of May 31, 2012 and \$6,521,000, \$671,000 and \$514,718,000, respectively, as of May 31, 2011. Annuity obligations, notes and bonds payable were valued at the present value of future payments discounted at the prevailing interest rates for comparable debt instruments.

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 no transfers into or out of Level 1, Level 2, or Level 3 during fiscal years 2012 and 2011.

8. Property, Plant and Equipment

Plant assets include net interest expense of \$3,933,000 and \$2,040,000 capitalized for construction bond projects during fiscal years 2012 and 2011, respectively, and included in property, plant and equipment in the following table (dollars in thousands):

	2012	2011
Land	\$ 156,262	\$ 150,780
Land improvements	50,732	46,768
Buildings	654,727	648,103
Equipment	83,281	83,208
Art	38,032	36,090
Construction in progress	47,307	20,402
Total property, plant and equipment	<u>\$ 1,030,341</u>	<u>\$ 985,351</u>
Less accumulated depreciation	<u>(319,447)</u>	<u>(302,206)</u>
Total, net of accumulated depreciation	<u>\$ 710,894</u>	<u>\$ 683,145</u>

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, 2012 and 2011 (dollars in thousands):

	<u>2012</u>	<u>2011</u>
Asset retirement obligations at beginning of year	\$ 13,858	\$ 14,007
Disposal of asset retirement obligations	(311)	(1,033)
Increase (decrease) in property, plant and equipment, net of accumulated depreciation	(72)	81
Current year accretion and depreciation expense	857	803
Asset retirement obligations at end of year	<u>\$ 14,332</u>	<u>\$ 13,858</u>

9. Accounts Payable and Accrued Expenses

The University has \$169,098,000 and \$153,425,000 reported as accounts payable and accrued expenses as of May 31, 2012 and 2011, respectively. Included in these amounts is 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.

10. Notes and Bonds Payable:

Notes payable as of May 31 consist of the following (dollars in thousands):

	<u>2012</u>	<u>2011</u>
Total notes payable , includes notes due at various dates through 2021, with average interest rates of 1.57% and 1.58% as of May 31, 2012 and 2011, respectively, with \$417 and \$381 secured by equipment and property as of May 31, 2012 and 2011, respectively. The University drew on neither its \$25,000 line of credit as of May 31, 2012 nor its \$15,000 line of credit as of May 31, 2011.	<u>\$ 777</u>	<u>\$ 781</u>

Bonds payable as of May 31 consist of the following (dollars in thousands):

	<u>2012</u>	<u>2011</u>
Bonds payable due serially at various dates through 2013, with a fixed interest rate of 3.50%; collateralized by certain revenue	\$ 320	\$ 480
1985 Refunding Series ; weekly demand put bonds due 2015 with a variable interest rate of 0.17% on May 31, 2012; secured by unrestricted receivables supported by self liquidity	19,200	19,200
2002 Serial Bonds ; maturing from 2011 through 2012 with fixed interest rates ranging from 5.25% to 5.50% and Serial Bonds and Term Bonds with fixed interest rates of 5.00% to 5.50% to be refunded from escrow funds in 2012; secured by unrestricted receivables and escrow investments in state and local government bonds	47,375	50,125
2003 Serial Bonds ; maturing from 2011 through 2024 with fixed interest rates ranging from 3.50% to 4.60% and Term Bonds maturing in 2029 and 2033 with fixed interest rates of 4.50% and 4.75%, respectively; secured by unrestricted receivables	25,915	26,620
2007 Serial Bonds ; maturing from 2011 through 2029 with fixed interest rates ranging from 4.00% to 5.25% and Term Bonds maturing in 2032 with a fixed rate of 4.30%; secured by unrestricted receivables	92,215	93,745
2009 Serial Bonds ; maturing from 2011 through 2029 with fixed interest rates ranging from 2.00% 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	143,600	145,635
2010 Serial Bonds ; maturing from 2014 through 2030 with fixed interest rates ranging from 3.00% to 5.00% and Term Bonds maturing in 2035 and 2041 with fixed interest rates of 5.00%, respectively; secured by unrestricted receivables	<u>116,330</u>	<u>116,330</u>
Total bonds payable prior to unamortized net premium	\$ 444,955	\$ 452,135
Unamortized net premium	22,005	24,133
Total bonds payable	<u><u>\$ 466,960</u></u>	<u><u>\$ 476,268</u></u>

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

On October 28, 2010, the University issued Series 2010 bonds totaling \$116,330,000. The proceeds are being used to begin construction of the new Residential Commons and related projects and to renovate existing educational facilities and housing facilities. As of May 31, 2012, the \$103,291,000 of proceeds not expended was invested in cash and cash equivalents and United States Treasury notes.

Bond issuance costs of \$3,423,000 and \$3,845,000 as of May 31, 2012 and 2011, respectively, are capitalized and amortized using the effective interest method or the straight-line method over the lives of the bonds.

As required by bond indenture agreements, the University has cash and securities on deposit with the trustee banks as of May 31, 2012, that have fair values totaling \$7,020,000, of which \$842,000 relates to the \$320,000 bonds payable due through 2013, and \$6,178,000 relates to the \$19,200,000 bonds payable due in 2015. These assets are restricted for the payment of principal and interest on the related indebtedness. The University also has cash and securities on deposit with the trustee bank as of May 31, 2012, which have a fair value totaling \$44,681,000, which relates to the \$44,470,000 of bonds payable to be refunded in 2012, as required by the escrow agreement.

Interest expense on notes and bonds payable was \$13,307,000 and \$13,547,000 for the fiscal years ended May 31, 2012 and 2011, respectively. As of May 31, 2012, scheduled principal maturities are \$52,347,000, \$9,032,000, \$11,842,000, \$31,607,000 and \$14,895,000 for the years ending May 31, 2013 through 2017, respectively, and \$326,009,000 for 2018 and thereafter.

Included in long-term debt is \$19,200,000 of general obligation demand bonds maturing in fiscal year 2016. In the event that the agents are unable to remarket the bonds, the bonds become demand notes and will be funded through self-liquidity.

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 \$3,270,000 and \$2,567,000 in fiscal years 2012 and 2011, respectively, with one investment firm with which a board member is affiliated.

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 post-employment benefit obligations of \$657,000 in fiscal year 2012 and \$507,000 in fiscal year 2011.

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 is being amortized over twenty years.

Actuarial assumptions used to determine the value of the APBO and the benefit costs included discount rates of 3.70% and 4.98% per annum for fiscal years 2012 and 2011, respectively. Health care cost trends graded from 10% in 2013 to 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 sheet.

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

	2012	2011
Service cost	\$ 935	\$ 944
Interest cost	1,773	1,693
Amortization:		
Transition obligation	307	307
Prior service cost	132	132
Unrecognized loss	799	668
Net periodic benefit cost	<u>\$ 3,946</u>	<u>\$ 3,744</u>

The transition obligation, prior service cost and 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 are \$307,000, \$132,000 and \$1,776,000, respectively.

Net periodic benefit cost recognized and other changes in plan assets and benefit obligations recognized in unrestricted net assets in 2012 and 2011 are as follows (dollars in thousands):

	<u>2012</u>	<u>2011</u>
Net periodic benefit cost recognized	\$ 3,946	\$ 3,744
Other changes in plan assets and benefit obligations recognized in unrestricted net assets:		
Net actuarial loss	7,283	871
Prior service cost (credit)	(132)	(132)
Transition obligation (asset)	<u>(307)</u>	<u>(307)</u>
Total recognized in unrestricted net assets	<u>6,844</u>	<u>432</u>
Total recognized in net periodic benefit cost and unrestricted net assets	<u>\$ 10,790</u>	<u>\$ 4,176</u>

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 (dollars in thousands):

	<u>2012</u>	<u>2011</u>
Benefit obligation, beginning of year	\$ 36,290	\$ 33,785
Service cost	935	944
Interest cost	1,773	1,693
Plan participants' contribution	1,097	1,008
Benefit payments	(2,961)	(2,679)
Actuarial loss	<u>8,082</u>	<u>1,539</u>
Benefit obligation, end of year	<u>\$ 45,216</u>	<u>\$ 36,290</u>

The accumulated postretirement benefit includes a current liability of \$1,559,000 for the claims and expenses that are expected to be paid out in the coming year and \$43,657,000 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 \$249,000 increase in the net periodic postretirement benefit cost recognized in fiscal year 2012 and a \$3,690,000 increase in the accumulated postretirement benefit obligation for healthcare benefits as of May 31, 2012. A one percentage point decrease in the assumed healthcare cost trend rate would result in a \$228,000 decrease in the net periodic postretirement benefit cost recognized in fiscal year 2012, and a \$3,398,000 decrease in the accumulated postretirement benefit obligation for healthcare benefits as of May 31, 2012.

As of May 31, 2012, the University has expected benefit payments through fiscal year 2022 of \$23,063,000. Of these commitments, \$1,559,000, \$1,599,000, \$1,703,000, \$2,046,000 and \$2,265,000 are the expected payments in the fiscal years ending 2013 through 2017 and \$13,891,000 in the fiscal years ending 2018 through 2022.

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 benefit. The University contributed \$1,201,000 and \$1,195,000 to this program in fiscal years 2012 and 2011, 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 \$14,510,000 and \$14,181,000 in fiscal years 2012 and 2011, 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 (dollars in thousands):

	<u>2012</u>	<u>2011</u>
Acquisition of buildings and equipment	\$ 9,915	\$ 20,751
Instruction, research, departmental support, scholarships and other	68,222	62,009
	<u>\$ 78,137</u>	<u>\$ 82,760</u>

16. Restrictions and Limitations on Net Asset Balances

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

	<u>2012</u>		<u>2011</u>	
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Donor-restricted endowment	\$ 427,956	\$ 511,151	\$ 456,316	\$ 483,796
Annuity trust and unitrust	190	4,794	-	5,038
Student loan funds	-	20,169	-	20,112
Gifts and other unexpended revenues and gains available for:				
Acquisition of building and equipment	42,336	-	13,417	-
Instruction, research, departmental support, scholarships and other	50,298	-	59,766	-
	<u>\$ 520,780</u>	<u>\$ 536,114</u>	<u>\$ 529,499</u>	<u>\$ 508,946</u>

17. Commitments and Contingencies

The University is contractually obligated for approximately \$120,282,000 as of May 31, 2012 for construction projects with scheduled completion dates through fiscal year 2015.

The University incurred \$1,013,000 and \$983,000 in operating lease expenses for facilities and equipment in the fiscal years ended May 31, 2012 and 2011, respectively. As of May 31, 2012, the University has lease commitments for future periods totaling approximately \$1,901,000. Of these commitments, \$791,000, \$299,000, \$280,000, \$156,000, and \$148,000 are due in the fiscal years ending 2013 through 2017, respectively, and \$227,000 is due in the fiscal year 2018 and thereafter.

The University also has rights to revenues from long-term leases it holds related to independent operations. The University received \$3,202,000 and \$3,174,000 in rental revenue from these leases in the fiscal years ended May 31, 2012 and 2011, respectively. As of May 31, 2012, the total of the future rental revenues from these leases is approximately \$16,169,000. Of these commitments, \$2,804,000, \$2,454,000, \$2,078,000, \$1,806,000, and \$1,607,000, are due in the fiscal years ending 2013 through 2017, respectively, and \$5,420,000 is due in the fiscal year 2018 and thereafter.

Accounts payable and accrued expenses include \$44,626,000, offsetting the amount reported as expense in the statements of activities and 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, 2012. This balance is accreted over the 249 years of the lease, with extensions.

The University has committed to capital draws totaling \$613,292,000 for venture capital, real estate funds and other investments, of which \$482,807,000 had been drawn as of May 31, 2012. The University has committed to pay draws as required for the remaining \$130,485,000 through fiscal year 2022.

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 an agreement with a bank to guarantee the construction loan debt for a sorority house built on University land. Under this agreement if the debtor defaults on its obligation, the University may be required to satisfy all or part of the remaining obligation.

As of May 31, 2012 and 2011, the guarantee is approximately \$1,223,000 and \$1,716,000, respectively. The guarantee is in place until 2013 unless the debt is retired earlier. A liability for this guarantee has been recorded as accounts payable and accrued expenses with an offsetting amount recorded as other assets.

18. Tax Status

The University has received a determination letter from the Internal Revenue Service indicating it is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code of 1986, as amended, as an organization described in Section 501(c)(3). Peruna Properties, Inc., Pony Properties, Inc., the Southern Methodist University Foundation for Research, Peruna Holdings Corporation, Mustang Mockingbird Corporation, Mustang Mockingbird Properties, Mustang Airline Corporation, The Stadium Club, Inc., and SMU Corp. are controlled corporations included in the University's consolidated financial statements and exempt from federal income taxes under Section 501(a) of the Internal Revenue Code of 1986, as amended, as organizations described in Sections 501(c)(3) and 501(c)(7). The University, Peruna Properties, Inc., Pony Properties, Inc., the Southern Methodist University Foundation for Research, Peruna Holdings Corporation, Mustang Mockingbird Corporation, Mustang Mockingbird Properties, Mustang Airline Corporation, and SMU Corp. 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. Peruna East Corporation, another controlled corporation, is intended to be a tax-exempt supporting organization under Sections 501(c)(3) and 509(a)(3) of the Code, but has not yet filed an application for determination with the Internal Revenue Service. The University and its controlled corporations are exempt from federal income taxes except to the extent they have unrelated business income.

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, 2012 and 2011.

19. Subsequent Events

Subsequent to fiscal year 2012, the University entered into an irrevocable standby letter of credit in favor of Conference USA (the Conference) for \$6,750,000 expiring on July 10, 2013 to provide support for the as of yet undetermined exit fee from the Conference. The \$6,750,000 consists of the withdrawal fee of \$500,000 and an amount provided by the Conference of \$6,250,000 representing its initial estimate of lost television rights fees resulting from the withdrawal for the five year period subsequent to withdrawal. The University has accrued the withdrawal fee, but has not recorded a liability associated with lost television rights fees, as management believes the actual loss is incalculable at this time and will be much less or no loss at all.

The University has evaluated subsequent events from the balance sheet date through September 13, 2012, 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 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 (l) other obligations which are rated in one of the three highest categories by S&P or Moody's.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

“*Payment Date*” means any Bond Payment Date.

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

“*Permitted Encumbrances*” with respect to any specified Person means:

- (a) liens or encumbrances on property (or on the income therefrom) received by such Person as a gift, grant or bequest, if such lien or encumbrance constitutes or results from restrictions (other than the

requirement that the grantee thereof make payment in respect of Funded Debt incurred by the grantor with respect to such property) placed on such gift, grant or bequest (or on the income therefrom) by the grantor thereof;

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

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

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

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

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

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

“*Previously Issued Securities*” means the loan 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 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 Tax-Exempt Series 2013A Bonds, the Contract of Purchase between the Issuer and Bank of America Merrill Lynch, on behalf of itself and as representative of an underwriting syndicate composed of the underwriters named in such Contract of Purchase, with respect to the Taxable Series 2013B Bonds, the contract of Purchase between the Issuer and J.P. Morgan Securities LLC, 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 2013 Bonds, the fifteenth day of the calendar month preceding each Interest Payment Date, and with respect to any other series of Bonds shall have the meaning set forth in the Supplemental Indenture or Issuer Order authorizing such series.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

“*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.

“*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 2013 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.

“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 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 "rebtable arbitrage" to the United States Treasury.

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

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

Defaults and Remedies Under the Indenture

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

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

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

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

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

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

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

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

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

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

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

Supplements and Amendments

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

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

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

Supplemental Indentures Requiring Consent of the Owners. Except for any supplemental indenture entered into without the consent of the Owners, subject to the terms and provisions contained in the Indenture and not otherwise, the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding have the right from time to time to consent to and approve the execution and delivery by the Issuer and the Trustee of any Supplemental Indenture deemed necessary or desirable by the Issuer and the Trustee for the purposes of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in the Indenture; provided, however, that, unless approved in writing by the Owners of all the Bonds then Outstanding, nothing permits, or is construed as permitting, (i) a change in the times, amounts or currency of payment of the principal of or interest on any Outstanding Bond, or a reduction in the principal amount or redemption price of any Outstanding Bond or the rate of interest thereon, or (ii) a reduction in the aggregate principal amount of Bonds the consent of the Owners of which is required for any such Supplemental Indenture or which is required for any modification, alteration, amendment or supplement to the Agreement.

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

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

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

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

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

Resignation or Removal of the Trustee

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

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

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

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

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

Concerning the Trustee

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

Defeasance

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

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

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

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

THE MASTER INDENTURE

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

General

The University has duly granted a security interest to the Master Trustee in (i) all rents, issues, profits, income, revenues, receipts and rights to the payment of money and receivables derived by the University from any and all sources, including, without limitation, all accounts, contract rights and general intangibles, now owned or hereafter acquired, and all proceeds thereof whether cash or noncash; excluding, however, gifts, grants, bequests, donations and contributions to the University heretofore or hereafter made, and the proceeds thereof, which are specifically restricted by the donor, testator or grantor to a particular purpose which is inconsistent with their use for payments required under the Master Indenture; (ii) all moneys and securities, if any, at any time held by the Master Trustee in any fund or account under the terms of the Master Indenture; and (iii) any and all other property of every kind and nature from time to time hereafter, by delivery or by writing of any kind, conveyed, pledged, assigned or transferred as additional security under the Master Indenture by the University or by anyone on its behalf to the Master Trustee (herein called the "Trust Estate under the Master Indenture"). The grant of the security interest described in (i) above is subject and subordinate to any and all mortgages, liens, charges, encumbrances, pledges, and security interests granted, created, assumed, incurred, or existing in accordance with the provisions of the Master Indenture as to the property covered thereby as described under "Limitation on Liens" and all revenue, accounts receivable, and receipts derived from such property.

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

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

Covenants of the University

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

6. *Funded Debt.* Funded Debt if after giving effect to the issuance of such Funded Debt and the application of the proceeds thereof, (i) the quotient obtained by dividing the total amount of Funded Debt of the University by the sum of the net unrestricted assets of the University plus the temporarily restricted net assets of the University is not greater than 2.0, and (ii) the quotient obtained by dividing the total amount of Funded Debt bearing interest at a rate that is not fixed to the Stated Maturity of the Funded Debt in question by the sum of the net unrestricted assets of the University plus the temporarily restricted net assets of the University is not greater than 0.5, all as demonstrated by an Officer's Certificate setting forth such calculations.

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

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

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

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

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

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

Consolidation, Merger, Conveyance and Transfer

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

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

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

Defaults and Remedies Under the Master Indenture

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

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

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

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

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

5. an event of default, as therein defined, under any Security or any instrument under which any Security may be created or secured, or under which Debt issued by or on behalf of a state or a political subdivision secured by a pledge of a series of Securities is incurred or secured, occurs and is continuing beyond the applicable period of grace, if any.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Concerning the Master Trustee

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

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

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

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

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

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

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

Supplements

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

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

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

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

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

Satisfaction and Discharge of Master Indenture

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

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

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

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

Compliance Certificates and Reports

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

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

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

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APPENDIX D

PROPOSED FORM OF OPINION OF BOND COUNSEL

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[Closing Date]

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

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

Ladies and Gentlemen:

We have represented the Southwest Higher Education Authority, Inc. (the "Issuer") as its bond counsel in connection with the issuance by the Issuer of its Higher Education Revenue Bonds (Southern Methodist University Project) Tax-Exempt Series 2013A (the "Series 2013A Bonds"). The Series 2013A Bonds are issued pursuant to a Trust Indenture dated as of January 1, 1999 as supplemented by a First Supplemental Indenture dated as of January 1, 1999, a Second Supplemental Indenture dated as of July 1, 2002, a Third Supplemental Indenture dated as of December 1, 2003, a Fourth Supplemental Indenture dated as of February 1, 2007, a Fifth Supplemental Indenture dated as of September 15, 2009, a Sixth Supplemental Indenture dated as of October 15, 2010 and a Seventh Supplemental Indenture dated as of March 1, 2013 (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 2013A Bonds will be loaned by the Issuer to Southern Methodist University (the "University"), a Texas non-profit corporation, pursuant to a Loan Agreement dated as of January 1, 1999 as amended by an Amendment Number 1 to Loan Agreement dated as of January 1, 1999, an Amendment Number 2 to Loan Agreement dated as of July 1, 2002, an Amendment Number 3 to Loan Agreement dated as of December 1, 2003, an Amendment No. 4 to Loan Agreement dated as of February 1, 2007, an Amendment No. 5 to Loan Agreement dated as of September 15, 2009, and an Amendment No. 6 to Loan Agreement dated as of October 15, 2010 and an Amendment No. 7 to Loan Agreement dated as of March 1, 2013 (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 2013A 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 2013A Bonds. Capitalized terms not otherwise defined herein have the meanings assigned to such terms in the Indenture and Loan Agreement. The Series 2013A Bonds are payable solely from the Trust Estate. The Loan Agreement is issued and authenticated as a "Security" under a Master Trust Indenture dated as of January 1, 1999 (the "Master Indenture"), between the University and The Bank of New York Mellon Trust Company, National Association (successor in trust to JPMorgan Chase Bank, formerly known as The Chase Manhattan Bank, successor by merger to Chase Bank of Texas, National Association), as master trustee.

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

We have not undertaken to review the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Series 2013A 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 2010 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 2013A 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 2013A Bonds is excludable from gross income for federal income tax purposes under existing law.
5. The Series 2013A 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 2013A 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 First Southwest Company (the "Financial Advisor") with respect to certain material facts, estimates and expectations that are solely within the knowledge of the Issuer, the University, the Underwriters and the Financial Advisor, which we have not independently verified. In addition, in rendering the opinions set forth in paragraphs 4 and 5, we have assumed continuing compliance with the covenants in the Loan Agreement and the Indenture pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Series 2013A Bonds for federal income tax purposes. If such representations or certificates are determined to be inaccurate or incomplete or the University or the Issuer fail to comply with such covenants, interest on the Series 2013A 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 2013A Bonds.

Owners of the Series 2013A 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 2013A 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 2013A Bonds. If an audit is commenced, in accordance with its current published procedures, the Service is likely to treat the Issuer as the taxpayer.

We express no opinion as to the creation, priority or perfection of the security interest granted by the University in the "Trust Estate" (as defined in the Master Indenture). We call your attention, however, to the facts that: (1) the security interest granted by the University in the "Trust Estate" (as defined in the Master Indenture) to the Master Trustee named in the Master Indenture to secure payment of the Loan Agreement as a "Security" (as defined in the Master Indenture) also secures on a parity basis all other Securities issued and currently outstanding thereunder and all future Securities that may hereafter be issued; (2) the Master Indenture allows the University to grant a security interest in the "Trust Estate" (as defined in the Master Indenture) that may under certain circumstances as provided in the Master Indenture be superior to the security interest in such Trust Estate securing payment of the Securities; (3) subject to certain limitations, the Master Indenture allows additional Securities to be issued by the University from time to time pursuant to the provisions of the Master Indenture; (4) the security interest granted by the University in the unrestricted receivables of the University pursuant to granting clause First of the Master Indenture, for the benefit of all Securities issued under the Master Indenture, will terminate by its terms at such time as the Securities securing the Variable Rate Demand Higher Education Revenue Bonds (Southern Methodist University Project) Refunding Series 1985 are paid or their payment provided for pursuant to the terms of the Master Indenture.

It is to be understood that the rights of the holders of the Series 2013A Bonds under the Indenture and the Loan Agreement and the enforceability of the Series 2013A Bonds, the Indenture and the Loan Agreement are subject to bankruptcy (including the equitable

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

This opinion speaks only as of its date and only in connection with the Series 2013A Bonds and may not be applied to any other transaction. Further, this opinion is specifically limited to the laws of the State of Texas and, to the extent applicable, to the laws of the United States of America.

Very truly yours,

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[Closing Date]

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

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

Ladies and Gentlemen:

We have represented the Southwest Higher Education Authority, Inc. (the "Issuer") as its bond counsel in connection with the issuance by the Issuer of its Higher Education Revenue Bonds (Southern Methodist University Project) Taxable Series 2013B (the "Series 2013B Bonds"). The Series 2013B Bonds are issued pursuant to a Trust Indenture dated as of January 1, 1999 as supplemented by a First Supplemental Indenture dated as of January 1, 1999, a Second Supplemental Indenture dated as of July 1, 2002, a Third Supplemental Indenture dated as of December 1, 2003, a Fourth Supplemental Indenture dated as of February 1, 2007, a Fifth Supplemental Indenture dated as of September 15, 2009, a Sixth Supplemental Indenture dated as of October 15, 2010 and a Seventh Supplemental Indenture dated as of March 1, 2013 (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 2013B Bonds will be loaned by the Issuer to Southern Methodist University (the "University"), a Texas non-profit corporation, pursuant to a Loan Agreement dated as of January 1, 1999 as amended by an Amendment Number 1 to Loan Agreement dated as of January 1, 1999, an Amendment Number 2 to Loan Agreement dated as of July 1, 2002, an Amendment Number 3 to Loan Agreement dated as of December 1, 2003, an Amendment No. 4 to Loan Agreement dated as of February 1, 2007, an Amendment No. 5 to Loan Agreement dated as of September 15, 2009, and an Amendment No. 6 to Loan Agreement dated as of October 15, 2010 and an Amendment No. 7 to Loan Agreement dated as of March 1, 2013 (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 2013B 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 2013B Bonds. Capitalized terms not otherwise defined herein have the meanings assigned to such terms in the Indenture and Loan Agreement. The Series 2013B Bonds are payable solely from the Trust Estate. The Loan Agreement is issued and authenticated as a "Security" under a Master Trust Indenture dated as of January 1, 1999 (the "Master Indenture"), between the University and The Bank of New York Mellon Trust Company, National Association (successor in trust to JPMorgan Chase Bank, formerly known as The Chase Manhattan Bank, successor by merger to Chase Bank of Texas, National Association), as master trustee.

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

We have not undertaken to review the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Series 2013B 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 2010 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 2013B 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.

WE OBSERVE THAT interest on the Series 2013B Bonds is generally includable in gross income for federal income tax purposes under existing law. We 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 2013B Bonds. Prospective purchasers should consult their tax advisors with respect to such matters.

We express no opinion as to the creation, priority or perfection of the security interest granted by the University in the "Trust Estate" (as defined in the Master Indenture). We call your attention, however, to the facts that: (1) the security interest granted by the University in the "Trust Estate" (as defined in the Master Indenture) to the Master Trustee named in the Master Indenture to secure payment of the Loan Agreement as a "Security" (as defined in the Master Indenture) also secures on a parity basis all other Securities issued and currently outstanding thereunder and all future Securities that may hereafter be issued; (2) the Master Indenture allows the University to grant a security interest in the "Trust Estate" (as defined in the Master Indenture) that may under certain circumstances as provided in the Master Indenture be superior to the security interest in such Trust Estate securing payment of the Securities; (3) subject to certain limitations, the Master Indenture allows additional Securities to be issued by the University from time to time pursuant to the provisions of the Master Indenture; (4) the security interest granted by the University in the unrestricted receivables of the University pursuant to granting clause First of the Master Indenture, for the benefit of all Securities issued under the Master Indenture, will terminate by its terms at such time as the Securities securing the Variable Rate Demand Higher Education Revenue Bonds (Southern Methodist University Project) Refunding Series 1985 are paid or their payment provided for pursuant to the terms of the Master Indenture.

It is to be understood that the rights of the holders of the Series 2013B Bonds under the Indenture and the Loan Agreement and the enforceability of the Series 2013B Bonds, the Indenture and the Loan Agreement are subject to bankruptcy (including the equitable discretion of bankruptcy courts), insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted, that their enforcement may be limited by general principles of equity (regardless of whether considered in proceedings, in equity or at law), including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing and the possible unavailability of specific performance and that the

security interest created by the Indenture may be limited by federal laws that preempt the application of Section 1208 of the Texas Government Code.

This opinion speaks only as of its date and only in connection with the Series 2013B Bonds and may not be applied to any other transaction. Further, this opinion is specifically limited to the laws of the State of Texas and, to the extent applicable, to the laws of the United States of America.

Very truly yours,

APPENDIX E

BOOK-ENTRY SYSTEM

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BOOK-ENTRY SYSTEM

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

The Issuer, the Trustee and the Underwriters cannot and do not give any assurances that DTC will distribute to its Participants or that Direct Participants or Indirect Participants will distribute to Beneficial Owners of the Series 2013 Bonds (i) payments of the principal of, or interest or premium, if any, on the Series 2013 Bonds, or (ii) confirmation of ownership interests in the Series 2013 Bonds, or (iii) redemption or other notices, or that they will do so on a timely basis, or that DTC, Direct Participants or Indirect Participants will serve and act in the manner described in this Official Statement. The current "rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "procedures" of DTC to be followed in dealing with its Participants are on file with DTC.

THE ISSUER, THE TRUSTEE, AND THE UNDERWRITERS WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC, TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (A) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT; (B) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE SERIES 2013 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 2013 BONDS; OR (E) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT.

General Provisions

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

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Series 2013 Bonds (the "Series 2013 Bonds"). The Series 2013 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 2013 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest 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 of 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 2013 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2013 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 2013 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 2013 Bonds, except in the event that use of the book-entry system for the Series 2013 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2013 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 2013 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 2013 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Series 2013 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 2013 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2013 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the documents. Beneficial Owners of Series 2013 Bonds may wish to ascertain that the nominee holding the Series 2013 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.

While the Series 2013 Bonds are in the book-entry system, redemption notices shall be sent to DTC. If less than all of the Series 2013 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 2013 Bonds unless authorized by a Direct Participant in accordance with DTC’s 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 2013 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payment of principal of and interest on the Series 2013 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from the Issuer or the Trustee, on the payable date in accordance with their respective holdings shown on DTC’s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee, or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2013 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 2013 Bonds are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, certificates for the Series 2013 Bonds will be printed and delivered.

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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