



FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2011

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KPMG LLP
Suite 1501
222 South 15th Street
Omaha, NE 68102-1610

Suite 1600
233 South 13th Street
Lincoln, NE 68508-2041

Independent Auditors' Report

The Board of Directors
Creighton University:

We have audited the accompanying consolidated statements of financial position of Creighton University (the University) as of June 30, 2011 and 2010, 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 also 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 Creighton University as of June 30, 2011 and 2010, 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

Omaha, Nebraska
October 25, 2011

CREIGHTON UNIVERSITY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2011 AND 2010
(all amounts in thousands)

	2011	2010
ASSETS		
Cash and cash equivalents	\$ 16,444	\$ 5,889
Collateral held for securities lending agreement (note 4)	-	29,011
Accounts receivable, net (note 3)	27,973	30,752
Contributions receivable, net (note 7)	11,020	11,401
Student loans receivable, net of reserve for doubtful accounts of \$392 and \$323 in 2011 and 2010, respectively	37,896	38,702
Prepaid expenses, inventories and other assets	5,457	5,106
Investments (notes 4, 5 and 12)	436,037	372,618
Land, buildings and equipment, net (note 6)	383,537	390,824
Total assets	\$ 918,364	\$ 884,303
LIABILITIES & NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 52,007	\$ 52,160
Short-term borrowings (note 9)	-	33,493
Deferred income	13,687	14,780
Liability under securities lending agreement (note 4)	-	29,771
Other liabilities	46,486	47,945
Refundable government student loan funds	29,876	29,792
Bonds and notes payable (note 8)	183,518	163,257
Total liabilities	325,574	371,198
Commitments and contingencies (note 15)		
Net assets: (notes 2 and 5)		
Unrestricted	256,630	209,365
Temporarily restricted	154,156	130,934
Permanently restricted	182,004	172,806
Total net assets	592,790	513,105
Total liabilities and net assets	\$ 918,364	\$ 884,303

See accompanying notes to the consolidated financial statements

CREIGHTON UNIVERSITY
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011
(all amounts in thousands)

	2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
NET OPERATING REVENUES				
Tuition and fees	\$ 239,068	\$ -	\$ -	\$ 239,068
Tuition discount and scholarship allowances	(63,450)	-	-	(63,450)
Net tuition and fees	175,618	-	-	175,618
Health care services revenue	206,501	-	-	206,501
Health care services revenue deductions	(74,466)	-	-	(74,466)
Net health care services revenue	132,035	-	-	132,035
Grants and contracts	35,574	-	-	35,574
Contributions	12,869	-	-	12,869
Investment income appropriated for operations	12,656	-	-	12,656
Auxiliary enterprises	29,979	-	-	29,979
Other revenues	11,813	-	-	11,813
Net assets released from restrictions (note 2)	4,213	-	-	4,213
Total net operating revenues	<u>414,757</u>	<u>-</u>	<u>-</u>	<u>414,757</u>
OPERATING EXPENSES				
Salaries, wages and benefits	265,744	-	-	265,744
Contracted services	29,014	-	-	29,014
Supplies and materials	27,946	-	-	27,946
Provision for uncollectible accounts	7,303	-	-	7,303
Depreciation and amortization	23,784	-	-	23,784
Interest expense	8,432	-	-	8,432
Utilities and communications	12,054	-	-	12,054
Other operating expenses	32,847	-	-	32,847
Total operating expenses	<u>407,124</u>	<u>-</u>	<u>-</u>	<u>407,124</u>
Changes in net assets from operating activities	<u>7,633</u>	<u>-</u>	<u>-</u>	<u>7,633</u>
NON-OPERATING CHANGES IN NET ASSETS				
Investment return in excess of amounts appropriated for operations	26,751	20,884	3,578	51,213
Equity earnings in minority owned affiliates	(951)	-	-	(951)
Change in fair value of interest rate swaps	4,341	-	-	4,341
Contributions for non-operating purposes	2,701	12,403	6,051	21,155
Other changes in net assets	760	178	(431)	507
Net assets released from restrictions (note 2)	6,030	(10,243)	-	(4,213)
Net non-operating changes in net assets	<u>39,632</u>	<u>23,222</u>	<u>9,198</u>	<u>72,052</u>
Increase in net assets	47,265	23,222	9,198	79,685
Net assets, beginning of year	209,365	130,934	172,806	513,105
Net assets, end of year	<u>\$ 256,630</u>	<u>\$ 154,156</u>	<u>\$ 182,004</u>	<u>\$ 592,790</u>

See accompanying notes to consolidated financial statements

CREIGHTON UNIVERSITY
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010
(all amounts in thousands)

	2010			Total
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
NET OPERATING REVENUES				
Tuition and fees	\$ 223,211	\$ -	\$ -	\$ 223,211
Tuition discount and scholarship allowances	<u>(57,444)</u>	<u>-</u>	<u>-</u>	<u>(57,444)</u>
Net tuition and fees	165,767	-	-	165,767
Health care services revenue	212,623	-	-	212,623
Health care services revenue deductions	<u>(80,099)</u>	<u>-</u>	<u>-</u>	<u>(80,099)</u>
Net health care services revenue	132,524	-	-	132,524
Grants and contracts	38,944	-	-	38,944
Contributions	10,811	-	-	10,811
Investment income appropriated for operations	14,831	-	-	14,831
Auxiliary enterprises	28,192	-	-	28,192
Other revenues	11,342	-	-	11,342
Net assets released from restrictions (note 2)	<u>3,524</u>	<u>-</u>	<u>-</u>	<u>3,524</u>
Total net operating revenues	<u>405,935</u>	<u>-</u>	<u>-</u>	<u>405,935</u>
OPERATING EXPENSES				
Salaries, wages and benefits	263,300	-	-	263,300
Contracted services	25,222	-	-	25,222
Supplies and materials	28,538	-	-	28,538
Provision for uncollectible accounts	7,109	-	-	7,109
Depreciation and amortization	23,829	-	-	23,829
Interest expense	7,631	-	-	7,631
Utilities and communications	11,689	-	-	11,689
Other operating expenses	<u>32,591</u>	<u>-</u>	<u>-</u>	<u>32,591</u>
Total operating expenses	<u>399,909</u>	<u>-</u>	<u>-</u>	<u>399,909</u>
Changes in net assets from operating activities	<u>6,026</u>	<u>-</u>	<u>-</u>	<u>6,026</u>
NON-OPERATING CHANGES IN NET ASSETS				
Investment return in excess of amounts appropriated for operations	15,245	13,186	3,023	31,454
Equity earnings in minority owned affiliates	(653)	-	-	(653)
Change in fair value of interest rate swaps	(6,747)	-	-	(6,747)
Contributions for non-operating purposes	6,261	5,352	3,058	14,671
Other changes in net assets	722	(5,007)	(665)	(4,950)
Net assets released from restrictions (note 2)	<u>6,976</u>	<u>(10,392)</u>	<u>(108)</u>	<u>(3,524)</u>
Net non-operating changes in net assets	<u>21,804</u>	<u>3,139</u>	<u>5,308</u>	<u>30,251</u>
Increase in net assets	27,830	3,139	5,308	36,277
Net assets, beginning of year	181,535	127,795	167,498	476,828
Net assets, end of year	<u>\$ 209,365</u>	<u>\$ 130,934</u>	<u>\$ 172,806</u>	<u>\$ 513,105</u>

See accompanying notes to consolidated financial statements

CREIGHTON UNIVERSITY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010
(all amounts in thousands)

Cash flows from operating activities:	2011	2010
Increase in net assets	\$ 79,685	\$ 36,277
Adjustments to reconcile changes in net assets to net cash provided by operating activities -		
Non-cash investment income	(196)	(341)
Equity losses from minority owned affiliates	951	653
Unrealized gains on securities lending assets	(760)	(722)
Non-cash contribution income	(1,412)	(6,942)
Depreciation, amortization and accretion	24,117	24,123
Provision for uncollectible accounts and contractual allowances	514	6,250
Actuarial loss on annuities payable	588	580
Contributions for non-operating purposes	(19,742)	(7,728)
Change in fair value of interest rate swap agreements	(4,341)	6,747
Net realized and unrealized gains on investments	(55,493)	(35,808)
Changes in operating assets and liabilities -		
Accounts receivable	2,219	(3,343)
Prepaid expenses, inventories and other assets	(393)	(894)
Accounts payable and accrued expenses	(1,893)	(5,434)
Deferred income	(1,093)	(909)
Other liabilities	2,920	(696)
Net cash provided by operating activities	\$ 25,671	\$ 11,813
Cash flows from investing activities:		
Repayments on student loans	4,620	12,107
Student loans issued	(3,814)	(5,715)
Proceeds from the sales of investments	298,858	331,876
Purchases of investments	(305,931)	(331,336)
Purchases of land, buildings and equipment, net	(14,445)	(17,384)
Net cash used by investing activities	\$ (20,712)	\$ (10,452)
Cash flows from financing activities:		
Cash contributions for non-operating purposes	20,123	10,053
Proceeds from the issuance of long term debt	50,030	19,156
Payments on long term debt	(29,957)	(30,164)
Net payments on short term debt	(33,493)	(43,748)
Increase (decrease) in federal student loan funds	84	(45)
Net payments on annuity agreements	(1,191)	(1,093)
Net cash provided by (used by) financing activities	\$ 5,596	\$ (45,841)
Net increase (decrease) in cash and cash equivalents	10,555	(44,480)
Cash and cash equivalents, beginning of year	5,889	50,369
Cash and cash equivalents, end of year	\$ 16,444	\$ 5,889
Supplemental cash flow data		
Cash paid for interest	\$ 7,158	\$ 8,608
Capital assets acquired through accounts payable	1,801	4,611
Capital assets acquired through capital lease	167	296
Non-cash contributions	1,412	6,942

See accompanying notes to consolidated financial statements

CREIGHTON UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(all amounts in thousands)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Creighton University ("Creighton" or "the University") is a private, Catholic, Jesuit, comprehensive university located in Omaha, Nebraska. Creighton offers degree programs through three colleges, five professional schools, a graduate school and summer sessions. In conjunction with providing degrees in the health sciences, Creighton operates an academic medical center with services provided in Omaha and elsewhere in Nebraska and western Iowa. Creighton's students come from nearly every state in the country, as well as from numerous foreign countries, with the majority of students coming from the mid-western region of the United States.

Sources of operating revenues to Creighton predominantly consist of student tuition and fees and charges for health care services, and also include grants and contracts, contributions, investment earnings, auxiliary services and others. No single source represents a majority of total operating revenues.

Basis of Presentation

The financial statements have been prepared on the accrual basis of accounting and include the accounts of Creighton University, Creighton Healthcare, Inc. (CHC), a wholly-owned, non-profit subsidiary, and Creighton Soccer Stadium, Inc. (CSSI), a wholly-owned, for-profit subsidiary. Creighton University, CHC and CSSI are together referred to as the University. All material transactions between the parent, CHC and CSSI have been eliminated.

Resources are reported in three separate categories of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets that have similar characteristics have been combined into categories as follows:

- Unrestricted - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties.
- Temporarily restricted - Net assets whose use by the University is subject to donor-imposed stipulations that will be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.
- Permanently restricted - Net assets subject to donor-imposed stipulations that they be maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the income earned on these assets for purposes consistent with the donor's intent. Such assets primarily include the University's permanent endowment funds and irrevocable trusts held by others.

Expenses are generally reported as decreases in unrestricted net assets. Expirations of donor-imposed stipulations that simultaneously increase one category of net assets and decrease another are reported as releases between the applicable categories.

Temporarily restricted net assets for which donor-imposed restrictions are met in subsequent reporting periods are reclassified to unrestricted net assets and reported as net assets released from restrictions. Net assets released from restrictions also include unrestricted, temporarily restricted or permanently restricted net assets for which donors have added, changed or removed restrictions on contributions. Net assets which have no donor-imposed restrictions, as well as contributions for which donors have stipulated restrictions that are met within the same reporting period, are reported as unrestricted support.

Conditional promises to give are not recorded until the condition is either substantially met or it is deemed remote that the condition will not be met. Unconditional promises to give are recorded as receivables and revenues at fair value in the period the promise is made. Unconditional promises to give with payments due in future periods are reported as restricted support. Amounts due more than one year from the statement of financial position date are recorded at the net realizable discounted cash flow, while amounts due in one year or less are recorded at undiscounted net realizable value.

Gifts of land, building, equipment or other assets are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used are reported as restricted support. Absent explicit donor stipulation, the University reports expirations of donor restrictions on long-lived assets as the assets are depreciated over their useful lives. Gifts of land, building, equipment or other assets are recorded at estimated fair value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

(all amounts in thousands)

Use of Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Measure of Operations

The increase or decrease in unrestricted net assets from operating activities reflected on the accompanying statements includes primarily activities closely related to the educational, health care, research, auxiliary and administrative functions of the University. Amounts not included in the measure of operations consist of contributions for non-operating or long term purposes, investment income on endowments in excess of the established spending policy, including realized and unrealized gains and losses on investments, if any, certain amounts released from restrictions, the change in the fair value of the interest swaps and significant items of an unusual or non-recurring nature.

Tuition and Fees

Gross tuition and fees represent charges for educational programs and services based on the University's standard rates. Reductions in gross charges funded by University operating sources are reported as tuition discounts, while reductions funded by endowment and other sources are classified as scholarship allowances. The resulting net tuition and fees generally represent the amount of tuition and fee charges that require payment by the student in cash, student loans or other personal sources. Advance payments for tuition, room and board related to the next semester have been deferred and will be reported as unrestricted revenue in the year in which the services are rendered.

Health Care Services

Health care services revenues represent net patient charges for services provided through the University's health sciences clinical operations, (including the schools of Medicine, Dentistry and Pharmacy and Health Professions) and revenues from affiliated regional medical organizations for services provided by the University's clinical faculty, health care staff and students. Payments for clinical charges are generally received through medical insurance arrangements (including Medicare and Medicaid) and payments from patients. Clinical operations revenues are shown at estimated realizable value, net of deductions for contractual and other allowances. Payments received for services provided to the affiliated regional medical organizations are based upon the corresponding operating agreements.

It is inherent in Creighton University's mission to provide necessary medical care to an indigent patient population, which results in medical care being provided free of charge or at significantly reduced rates to individuals having no insurance or other means of paying for such care. The University provided charity care of approximately \$1,355 and \$1,029 in 2011 and 2010, respectively. As the amounts determined to qualify as charity care are not pursued for collection, they are not included in net health care services revenue as presented in the Consolidated Statements of Activities.

Grants and Contracts

Grants and contracts consist primarily of contractual agreements with governmental and private entities for the conduct of research and other sponsored programs. These agreements represent exchange transactions between the University and the grantors and are accordingly included in unrestricted net assets. Revenues are recognized on grants and contracts as expenses are incurred and amounts received in advance are reflected as deferred income.

Auxiliary Enterprises

Auxiliary enterprises include student housing and dining services, intercollegiate athletics, campus recreation, the student center and a child care center.

Annuities Payable

Annuities payable, included in Other liabilities in the Consolidated Statements of Financial Position, represent the University's liability under annuity and life income contracts with donors. The liability is established at the time of the contribution using actuarial tables and an assumed interest rate. The interest rates used for the establishment of the liability were 2.0% for 2011 and 3.2% to 3.4% for 2010. The University's liability amounts were \$9,979 and \$10,371 at June 30, 2011 and 2010, respectively. Annuity obligations are adjusted annually for actuarial changes in life expectancy. The increases or decreases to the liability are reflected as temporarily or permanently restricted, consistent with the method used to initially record the contributions. It is at least reasonably possible that the estimate of annuities payable will be revised in the near term due to mortality of the annuitants.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

(all amounts in thousands)

Cash and Cash Equivalents

Cash and cash equivalents represent unrestricted cash on hand and highly liquid investments with original maturities of less than three months from the date of purchase. Cash and cash equivalents representing assets of endowment and similar funds are included in long term investments. The carrying amounts approximate fair values because of the short maturity of those investments. Financial instruments that potentially subject the University to a concentration of credit risk consist of cash and cash equivalents. Cash and cash equivalents are deposited in demand and money market accounts and deposits held with banks may exceed the amount of insurance provided on such deposits. The University has not experienced any losses on its deposits of cash and cash equivalents.

Investments

Investments are stated at fair value, except for investments in minority owned subsidiaries. Investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in values will occur in the near term and that such changes could materially affect the University's financial statements.

In accordance with the accounting policy of stating investments at fair value, the change in unrealized appreciation or depreciation of those securities is reflected in the accompanying statements. The cost of investments sold is determined by use of the specific identification method for all investments except those in the endowment. The cost of the endowment investments combined with another related party entity (Note 4 and Note 5) is determined using individual unit values.

Funds held in trust by others represent amounts held by third party trustees for the beneficial interest of the University under perpetual trust agreements created by donors. The University's interests in the trusts are recorded at estimated fair value, with increases or decreases in fair value being reported as investment gains or losses during the year. Trust distributions are reflected in the University's investment income.

The University has two investments in minority owned subsidiaries and affiliates: 26% of Creighton Saint Joseph Regional HealthCare System and 33% of Children's Physicians, both recorded using the equity method (Note 12).

Student Loans Receivable

Student loans receivable consist primarily of loans made to students under U.S. government loan programs. The loans are stated at net realizable value in the accompanying statements. These receivables are not saleable and contain federally-mandated interest rates and repayment terms subject to significant restrictions as to their transfer and disposition. The receivables are reported at carrying value, which approximates fair value. The University reviews receivables on an ongoing basis to assess collectibility and records an allowance for potential uncollectible balances based on historical experience and aging of the account balances.

Refundable Government Student Loans

Refundable government student loan funds consist of amounts advanced by the federal government on the condition that the University administer various campus-based student loan programs subject to federal regulations. Under certain conditions, the funds must be returned to the federal government. The amounts are not saleable, and can only be assigned to the U.S. Government or its designees. Accordingly, they are reported as liabilities at carrying value which approximates fair value in the Consolidated Statements of Financial Position.

Land, Buildings and Equipment

Land, buildings and equipment are primarily stated at cost of acquisition less accumulated depreciation. Generally, renovations equal to or greater than \$25 are capitalized. The library collection is stated at cost or, if acquired by donation, at the appraised value at the date of acquisition. Land, buildings and equipment are removed from the records at the time of disposal. Depreciation is computed on a straight line basis over the estimated useful life of buildings (10-40 years), library books and periodicals (25 years) and equipment (3-15 years). Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Gifts of land, building, equipment or other assets are recorded at estimated fair value when received.

Income Taxes

The University and CHC have been recognized by the Internal Revenue Service as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code. CSSI, a taxable subsidiary, had no taxable income for 2011 or 2010. Accordingly, no federal or state income taxes have been provided. As of June 30, 2011 and 2010, the University, CHC and CSSI had no liability for unrecognized tax benefits.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

(all amounts in thousands)

Postretirement Benefits

The University provides access to medical benefits to employees between the ages of 60 and 65 who retire with at least 10 years of service. These retirees are eligible to enroll themselves and dependents in the University group medical plan and are required to pay the full cost of their participation. Upon reaching age 65, the participants must transition to Medicare and related supplemental coverage.

Subsequent Events

The University has evaluated subsequent events through October 25, 2011, the date the financial statements were available to be issued. No subsequent events requiring adjustment to, or disclosure in, the financial statements were identified as a result of this evaluation.

(2) NET ASSETS

Unrestricted net assets (deficit) consist of the following:

	<u>June 30,</u>	
	<u>2011</u>	<u>2010</u>
Available for current operations	\$ 64,243	\$ 33,118
Designated by University for specific purposes	(27,109)	(10,087)
Endowment funds (note 5)	93,313	68,811
Invested in property, plant & equipment	126,183	117,523
Total unrestricted net assets	<u>\$ 256,630</u>	<u>\$ 209,365</u>

Temporarily restricted net assets consist of the following:

	<u>June 30,</u>	
	<u>2011</u>	<u>2010</u>
Contributions for buildings, amortized over the life of the corresponding facility	\$ 102,934	\$ 93,180
Contributions receivable	2,214	2,963
Annuity and life income funds	4,851	4,522
Unexpended income and contributions for restricted purposes	4,532	4,979
Endowment funds (note 5):		
- Unappropriated income with specific purpose on permanently restricted endowments	39,423	25,163
- Unappropriated income without specific purpose on permanently restricted endowments	202	127
Total temporarily restricted net assets	<u>\$ 154,156</u>	<u>\$ 130,934</u>

Permanently restricted net assets consist of the following:

	<u>June 30,</u>	
	<u>2011</u>	<u>2010</u>
Endowment funds (note 5)	\$ 142,877	\$ 135,470
Endowment funds held in trust by others (note 5)	24,626	23,460
Contributions receivable	8,806	8,437
Student loan funds	2,348	2,765
Annuity and life income funds	3,347	2,674
Total permanently restricted net assets	<u>\$ 182,004</u>	<u>\$ 172,806</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

(all amounts in thousands)

Net assets released from restrictions included in operations consisted of the following:

	June 30,	
	2011	2010
Departmental and other operational expenses	\$ 636	\$ 257
Additions to or renovations of plant facilities	3,577	3,125
Scholarships	-	142
Total net assets released from restrictions	<u>\$ 4,213</u>	<u>\$ 3,524</u>

Net assets released from restrictions included in non-operating changes in unrestricted net assets consist primarily of endowment assets appropriated for spending as discussed in Note 5.

(3) ACCOUNTS RECEIVABLE, NET

Accounts receivable consist of the following:

	June 30,	
	2011	2010
Student accounts receivable	\$ 3,407	\$ 3,331
Patient accounts receivable	6,661	7,430
Grant funds receivable	4,603	5,843
Creighton University Medical Center (note 11)	8,283	9,432
Miscellaneous receivables	5,019	4,716
Total accounts receivable, net	<u>\$ 27,973</u>	<u>\$ 30,752</u>

Patient and student accounts receivable are recorded net of estimated reserves. Estimated reserves for uncollectible amounts and contractual allowances for patient accounts receivable were \$11,288 and \$11,870 at June 30, 2011 and 2010, respectively. The University also established a reserve of \$1,412 in fiscal year 2009 for a receivable related to medical services provided to an affiliate. Approximately \$67 of this amount was recovered and the remaining reserve and related receivable were written off in the fiscal year ended June 30, 2010. Estimated reserves for uncollectible amounts on student accounts receivable were \$768 and \$700 at June 30, 2011 and 2010. It is at least reasonably possible that the reserve estimates will be revised in the near term.

(4) INVESTMENTS

University investments as of June 30, 2011 and 2010 are comprised of the following:

	June 30, 2011	June 30, 2010
Pooled investments:		
Short term investments	\$ 6,546	\$ 6,526
Long term investments	375,629	312,332
Investment in minority owned subsidiaries and affiliates	28,389	29,252
Funds held in trust by others	25,473	24,508
Total University investments	<u>\$ 436,037</u>	<u>\$ 372,618</u>

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820, *Fair Value Measurements and Disclosure*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets to identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of inputs that may be used to measure fair value are:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

(all amounts in thousands)

Level 1: Observable inputs such as quoted prices in active markets that the University has the ability to access at the measurement date.

Level 2: Inputs other than quoted prices in active markets such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs where there is little or no market data and which require the University to develop its own assumptions about the inputs that market participants would use to price an instrument based on the best available information.

The table below summarizes the University's classification of fair value measurements of the assets to which ASC 820 is applicable, and provides a reconciliation to the total investments on the Consolidated Statements of Financial Position as of June 30, 2011:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents	\$ 979	\$ 979	\$ -	\$ -
Investment money markets	\$ 10,475	\$ 10,475	\$ -	\$ -
Domestic equities	85,094	85,094	-	-
Domestic funds	4,793	4,793	-	-
International equities	2,105	2,105	-	-
international funds	93,192	17,609	75,583	-
Corporate bonds	12,543	5,330	7,213	-
Fixed income funds	42,132	42,132	-	-
Government obligations	9,667	-	9,667	-
Alternative investments				
Fixed income funds	17,806	-	17,806	-
Private equity funds	19,321	-	-	19,321
Real assets	12,747	-	-	12,747
Commodity funds	26,332	-	26,332	-
Hedge funds	28,400	849	1,232	26,319
Notes and mortgages	2,300	-	-	2,300
Real estate	6,052	-	-	6,052
Commercial paper	8,577	-	8,577	-
Funds held in trust by others	25,473	-	-	25,473
Other	639	241	398	-
Subtotal	\$ 407,648	\$ 168,628	\$ 146,808	\$ 92,212
Investments in minority affiliates recorded using equity method	28,389	-	-	-
Total University investments	<u>\$ 436,037</u>	<u>\$ 168,628</u>	<u>\$ 146,808</u>	<u>\$ 92,212</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

(all amounts in thousands)

The table below summarizes the University's classification of fair value measurements of the assets to which ASC 820 is applicable, and provides a reconciliation to the total investments on the Consolidated Statements of Financial Position as of June 30, 2010:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents	\$ 1,042	\$ 1,042	\$ -	\$ -
Collateral held for securities lending agreement	\$ 29,011	\$ -	\$ 29,011	\$ -
Investment money markets	\$ 7,346	\$ 7,346	\$ -	\$ -
Stocks	146,431	59,824	86,607	-
Corporate bonds and government obligations	78,487	60,431	18,056	-
Alternative investments	74,500	1,641	28,833	44,026
Real estate, notes and mortgages	8,466	-	-	8,466
Commercial paper	2,882	-	2,882	-
Funds held in trust by others	24,508	-	-	24,508
Other	746	677	69	-
Subtotal	\$ 343,366	\$ 129,919	\$ 136,447	\$ 77,000
Investments in minority affiliates recorded using equity method	29,252	-	-	-
Total University investments	\$ 372,618	\$ 129,919	\$ 136,447	\$ 77,000

Certain investments classified in Levels 2 and 3 consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Because the net asset value reported by each fund is a practical expedient to estimate the fair value of the University's interest therein, its classification in Level 2 or 3 is based on the University's ability to redeem its interest at or near the date of the statement of financial position. If the interest can be redeemed in the near term, the investment is classified in Level 2. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

Fair value of the University's financial instruments is determined using the methods and assumptions as set forth below. While the University believes that its valuation methods are appropriate and consistent with those of other market participants, use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value at the reporting date.

Money market funds in cash and cash equivalents - Money market funds included with cash and cash equivalents are recorded at fair value using quoted market prices. These are classified as Level 1 as they are traded in an active market for which closing prices are readily available.

Collateral held for securities lending agreement - The collateral held consists primarily of money market funds and fixed income securities, for which the valuation is based on quoted prices provided by the trustee. The investments in this pooled investment fund are classified as level 2.

Stocks - Investments in publicly traded equity securities and mutual funds are measured at fair value using quoted market prices. These are classified as Level 1 if they are traded in an active market for which closing market prices are readily available. Equity investments in non-publicly traded commingled funds are classified as Level 2. These investments are valued based on the funds' net asset value, as a practical expedient to fair value, or its equivalent, as supplied by the fund administrator or trust and these valuations are reviewed and tested by University management.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

(all amounts in thousands)

Corporate bonds and government obligations - Investments in fixed income securities are comprised of publicly traded mutual funds, government and agency obligations and corporate bonds. Publicly traded fixed income securities and funds are classified as Level 1 and valued based upon observable market prices on the reporting date. Fixed income securities for which a market price is not available as of the valuation date are valued using various methods based on observable market data for similar investments, and are classified as Level 2.

Alternative investments - Alternative investments include investments in private equity funds, hedge funds and energy and real estate limited partnerships. These investments are valued based on the funds' net asset value, or its equivalent, as supplied by the fund administrator or trust and these valuations are reviewed and tested by University management as a practical expedient to fair value. Classification as Level 2 or Level 3 is based on the University's ability to redeem its interest in the near term.

Real estate, notes and mortgages - Investments in real property represent various real properties donated to the University and initially valued at appraised value on the date of receipt. Valuations for real properties are classified as Level 3 and the properties are valued based upon market comparisons. The fair value of notes and mortgages is based upon the principal outstanding that approximates estimated net present value of estimated future cash flows.

Commercial paper - Investments in commercial paper are primarily commercial paper, certificates of deposit and other short term investments which are reported at face value plus accrued interest at the reporting date. These investments are classified as Level 2.

Funds held in trust by others - Funds held in trust by others represent the University's beneficial interest in certain assets held by third parties. The valuation of these funds is calculated based upon information received from the trustee times the University's percent of ownership. These interests are classified as Level 3 investments as the reported fair values are based on a combination of Level 2 inputs and significant unobservable inputs as determined by the trustees.

Other - Items included in this category include primarily accrued interest which is reported at fair value at the reporting date and futures contracts which are recorded at fair value based on quoted market prices.

Investment in minority-owned affiliates - The University holds minority interests in certain affiliates, which are recorded using the equity method and are carried at the value of the original investment, adjusted for entity earnings and losses.

The following table summarizes the changes in fair value of Level 3 investments for the year ended June 30, 2011:

	Alternative Investments	Real Estate, Notes, and Mortgages	Funds Held in Trust by Others	Total Level 3
Balance at June 30, 2010	\$ 44,026	\$ 8,466	\$ 24,508	\$ 77,000
Realized and unrealized gains, net	6,855	-	1,397	8,252
Purchases and sales, net	7,506	-	(432)	7,074
Mortgage payments	-	(114)	-	(114)
Balance at June 30, 2011	<u>\$ 58,387</u>	<u>\$ 8,352</u>	<u>\$ 25,473</u>	<u>\$ 92,212</u>
Total gains included in changes in net assets attributable to the change in unrealized gains relating to assets still held at the reporting date.	<u>\$ 6,138</u>	<u>\$ -</u>	<u>\$ 1,397</u>	<u>\$ 7,535</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

(all amounts in thousands)

The following table summarizes the changes in fair value of Level 3 investments for the year ended June 30, 2010:

	Alternative Investments	Real Estate, Notes, and Mortgages	Funds Held in Trust by Others	Total Level 3
Balance at June 30, 2009	\$ 58,743	\$ 2,634	\$ 22,731	\$ 84,108
Realized and unrealized gains, net	3,469	-	1,777	5,246
Purchases and sales, net	15,636	5,899	-	21,535
Mortgage payments	-	(67)	-	(67)
Transfers out of Level 3	(33,822)	-	-	(33,822)
Balance at June 30, 2010	<u>\$ 44,026</u>	<u>\$ 8,466</u>	<u>\$ 24,508</u>	<u>\$ 77,000</u>
Total gains included in changes in net assets attributable to the change in unrealized gains relating to assets still held at the reporting date.	<u>\$ 3,948</u>	<u>\$ -</u>	<u>\$ 1,777</u>	<u>\$ 5,725</u>

The majority of the University's investments are held in a pooled endowment fund (note 5) with a related party, Health Future Foundation (HFF). Short term investments consist of operational funds invested in the pooled endowment fund. The cost and fair value of the University pooled investments at June 30, 2011 and 2010 are as follows:

	June 30, 2011		June 30, 2010	
	Cost	Fair Value	Cost	Fair Value
Short term pooled investments	\$ 6,531	\$ 6,546	\$ 6,515	\$ 6,526
Investments:				
Stocks	\$ 7,659	\$ 8,790	\$ 7,926	\$ 7,448
Corporate bonds	6,752	7,144	6,302	6,684
Government obligations	4,449	4,514	5,019	5,272
University share of pooled endowment fund (note 5)	316,282	337,853	296,633	281,131
Notes and mortgages	2,300	2,300	2,413	2,413
Real estate	6,250	6,053	6,250	6,053
Commercial paper	8,577	8,577	2,882	2,882
Other	398	398	453	449
Long term pooled investments	<u>\$ 352,667</u>	<u>\$ 375,629</u>	<u>\$ 327,878</u>	<u>\$ 312,332</u>

Until 2011, the University participated in a securities lending program, whereby securities owned by the University and included in the pooled endowment were loaned to other institutions. The University required that collateral from the borrower in an amount equal to 102% of the market value of the loaned securities be placed with a third party trustee. At June 30, 2010, securities on loan from the University totaled \$29,771 and the value of collateral held was \$29,011. During the fiscal year ended June 30, 2009, the collateral which had a value of \$21,600 when initially invested by the trustee experienced a decrease in value of \$1,482, of which \$722 was recovered in the fiscal year ended June 30, 2010 and \$487 was recovered in the fiscal year ended June 30, 2011. These changes in value are included in Other changes in unrestricted net assets in the Consolidated Statement of Activities and the amounts are treated as non-cash items for purposes of the cash flow statement. The trustee invests the collateral in U.S. government obligations, commercial paper, certificates of deposit and other specified short term investments. In the event of a borrower default where the collateral is not adequate to cover the market value of loaned securities, the trustee was required to indemnify the University. During May 2011, the University discontinued its participation in the securities lending program by paying a termination fee of \$273 to the program administrator.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

(all amounts in thousands)

The following table summarizes investment return for 2011 and classification in the consolidated financial statements:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Dividends and interest	\$ 4,656	\$ 3,623	\$ 258	\$ 8,537
Other investment income	(160)	-	-	(160)
Net realized and unrealized gains	34,911	17,261	3,320	55,492
Gain on investments	\$ 39,407	\$ 20,884	\$ 3,578	\$ 63,869
Less: Investment income appropriated for operations	(12,656)	-	-	(12,656)
Investment return in excess of amounts appropriated for operations	<u>\$ 26,751</u>	<u>\$ 20,884</u>	<u>\$ 3,578</u>	<u>\$ 51,213</u>

The following table summarizes investment return for 2010 and classification in the consolidated financial statements:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Dividends and interest	\$ 6,473	\$ 3,644	\$ 272	\$ 10,389
Other investment income	89	-	-	89
Net realized and unrealized gains	23,514	9,542	2,751	35,807
Gain on investments	\$ 30,076	\$ 13,186	\$ 3,023	\$ 46,285
Less: Investment income appropriated for operations	(14,831)	-	-	(14,831)
Investment return in excess of amounts appropriated for operations	<u>\$ 15,245</u>	<u>\$ 13,186</u>	<u>\$ 3,023</u>	<u>\$ 31,454</u>

The estimated fair value of certain alternative investments, such as partnerships, hedge funds and private equity funds was provided by the respective companies. For these alternative investments, the University used the net asset value (or its equivalent) reported by the underlying fund to estimate the fair value of the investment as a practical expedient to fair value. Below is a summary of investments accounted for at net asset value for the fiscal years ended June 30, 2011 and 2010:

FY Ended June 30, 2011	Fair Value	Unfunded Commitment	Redemption Frequency (if Currently Eligible)	Redemption Notice Period	Investment Strategy
Fixed income funds	\$ 17,806	-	Daily	1 day	Core fixed income
Private equity funds (a)	19,321	17,539	Illiquid	-	Venture capital, distressed
Domestic and international equity funds	75,583	-	1-60 days	5-60 days	Domestic and international
Real assets (b)	12,747	23,838	Illiquid	-	Energy and real estate
Commodity funds	26,332	-	Monthly	-	Commodities markets
Hedge fund	27,551	-	Semi-annual	95 days	Multiple strategies
Totals	<u>\$ 179,340</u>	<u>41,377</u>			

(a) These funds are expected to liquidate within two to 10 years.

(b) These funds are expected to liquidate within three to 11 years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

(all amounts in thousands)

FY Ended June 30, 2010	Fair Value	Unfunded Commitment	Redemption Frequency (if)		Investment Strategy
			Currently Eligible	Redemption Notice Period	
Fixed income funds	\$ 5,770	-	Daily	1 day	Core fixed income
Private equity funds (a)	12,309	18,320	Illiquid	-	Venture capital, distressed
Domestic and international equity funds	86,607	-	1-60 days	5-60 days	Domestic and international
Real assets (b)	7,323	16,315	Illiquid	-	Energy and real estate
Commodity funds	20,494	-	Monthly	-	Commodities markets
Hedge fund	26,955	-	Semi-annual	95 days	Multiple strategies
Totals	<u>\$ 159,458</u>	<u>34,635</u>			

(a) These funds are expected to liquidate within two to 10 years.

(b) These funds are expected to liquidate within three to 11 years.

Due to the nature of the investments held by the funds, changes in market conditions and the economic environment may significantly impact the net asset value of the funds and, consequently, the fair value of the University's interests in the funds. Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported net asset value. It is therefore reasonably possible that if the University were to sell these investments in the secondary market a buyer may require a discount to the reported net asset value, and the discount could be significant.

(5) ENDOWMENT FUND

The University's endowment consists primarily of funds invested in an externally-managed pooled endowment fund. The composition of the total endowment fund as of June 30, 2011 and 2010 is as follows:

	June 30,	
	2011	2010
University share of pooled endowment fund	\$ 337,853	\$ 281,132
Short term pooled investments	6,546	6,526
Miscellaneous securities in non-pooled assets	69	69
Operational and other funds invested in the pooled fund	(71,474)	(60,527)
Endowment funds held in trust by others	24,626	23,460
Non-pooled assets, including cash and cash equivalents, notes receivable, real estate and other	2,821	2,370
Total endowment	<u>\$ 300,441</u>	<u>\$ 253,030</u>

Certain assets of the endowment fund are pooled on a market value basis. Each individual pooled endowment fund subscribes to or disposes of units on the basis of the per-unit market value at the beginning of the calendar month within which the transaction takes place. The following table illustrates the relative percentage composition of the investments at June 30, 2011 and 2010 by security type, based upon the function that the investment serves in the portfolio:

	June 30,	
	2011	2010
Equities - Domestic	17%	15%
Equities - International	27%	31%
Fixed income securities	20%	25%
Commodities	8%	7%
Hedge funds	8%	9%
Private capital funds	17%	9%
Cash and cash equivalents	3%	4%
	<u>100%</u>	<u>100%</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

(all amounts in thousands)

The total rate of return on the pooled endowment fund was 18.9% for the year ended June 30, 2011 and 15.5% for the year ended June 30, 2010.

Adoption of UPMIFA

The University applies the provisions of the Nebraska Uniform Prudent Management of Institutional Funds Act (the Act) and the related provisions of ASC 958-205-05, *Reporting Endowment Funds*, in managing its endowment. ASC 958-205-05 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 Act and also requires certain disclosures about both donor-restricted and board-designated endowment funds.

The University's endowment consists of in excess of 900 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the University Board of Directors to function as endowments. Net assets associated with the endowment, including the board-designated funds, are classified and reported based upon the presence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The University Board of Directors has interpreted the Act as allowing the University to appropriate for expenditure or accumulate as much of an endowment fund as the University determines is prudent for the uses, benefits, purposes and direction for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of the 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 in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by the Act.

Endowment Net Asset Composition by Fund Type

The endowment composition by type of fund is illustrated in the following tables:

As of June 30, 2011	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowments	\$ (3,520)	\$ 39,625	\$ 167,503	\$ 203,608
Board designated endowments	96,833	-	-	96,833
Endowment totals	<u>\$ 93,313</u>	<u>\$ 39,625</u>	<u>\$ 167,503</u>	<u>\$ 300,441</u>

As of June 30, 2010	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowments	\$ (12,931)	\$ 25,290	\$ 158,930	\$ 171,289
Board designated endowments	81,741	-	-	81,741
Endowment totals	<u>\$ 68,810</u>	<u>\$ 25,290</u>	<u>\$ 158,930</u>	<u>\$ 253,030</u>

Endowment Net Asset Reconciliation

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning balance July 1, 2010	\$ 68,810	\$ 25,290	\$ 158,930	\$ 253,030
Investment income	2,763	3,438	58	6,259
Net investment appreciation	25,133	16,535	1,846	43,514
Contributions	419	-	5,678	6,097
Amounts appropriated for expenditure	(4,389)	(4,767)	-	(9,156)
Other changes	577	(871)	991	697
Ending balance June 30, 2011	<u>\$ 93,313</u>	<u>\$ 39,625</u>	<u>\$ 167,503</u>	<u>\$ 300,441</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

(all amounts in thousands)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning balance July 1, 2009	\$ 51,936	\$ 19,601	\$ 153,908	\$ 225,445
Investment income	3,285	3,479	72	6,836
Net investment appreciation	18,154	8,827	1,947	28,928
Contributions	64	-	2,868	2,932
Amounts appropriated for expenditure	(4,054)	(5,789)	-	(9,843)
Other changes	(575)	(828)	135	(1,268)
Ending balance June 30, 2010	<u>\$ 68,810</u>	<u>\$ 25,290</u>	<u>\$ 158,930</u>	<u>\$ 253,030</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 that the donor or the Act requires the University to retain as a fund of perpetual duration. The University considers funds for which the fair value of the assets is less than the value of all contributions to the fund to be deficient and such funds are referred to as "under water" funds. Deficiencies of this nature reported in unrestricted net assets were (\$3,520) and (\$12,931) as of June 30, 2011 and 2010, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions and continued appropriation for certain programs as deemed prudent. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

In accordance with the Act, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds in cases where the endowment funds are under water: 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 the investments; 6) other resources of the University, and 7) the investment policies of the University.

Return Objectives and Risk Parameters

The University has adopted investment and spending policies that attempt to provide a predictable stream of funding to programs supported by the endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the spending rate and long-term inflation rate while assuming a prudent level of investment risk. The University expects its endowment funds, over three to five years, to provide an average nominal rate of return, net of investment fees, of approximately 7.75% annually. Actual returns in any given year may vary from this amount.

Strategies Employed For Achieving Objectives

To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that places emphasis on investments in equities, fixed income, hedge funds, commodities and other strategies to achieve its long-term return objectives within prudent risk constraints.

Endowment Spending Policy

The Creighton University endowment spending formula represents a 50/50 weighting between market value and prior year's spending. It is designed to provide a measure of stability for budgeting purposes and help preserve the purchasing power of the endowment over the long term. There is also a spending cap of 5% and a floor of 2% to further ensure that significant fluctuations and "overspending" are avoided.

Specifically, the calculated distribution is the sum of:

- Prior year distribution x inflation rate x 50%
- Market value (one year prior to start of year being budgeted) x 4.25% x 50%

The amounts calculated for distribution are further reviewed for any funds that are under water. Based on the review and assessment of the specific factors described above, the distribution may be reduced or suspended for the applicable year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

(all amounts in thousands)

Endowment distributions net of investment management fees of \$1,761 and \$1,566 totaled \$9,156 and \$9,843 in the fiscal years ended June 30, 2011 and 2010, respectively. In establishing the spending policy, the University considered the expected return on its endowment and, accordingly, expects the current spending policy to allow the endowment to maintain its purchasing power by growing at a rate equal to planned distributions over the long term. Additional real growth will be provided through new gifts and any excess investment return.

(6) LAND, BUILDINGS AND EQUIPMENT, NET

Land, buildings and equipment consist of the following:

	June 30,	
	2011	2010
Land	\$ 45,056	\$ 44,670
Land improvements	32,579	32,437
Buildings	415,459	412,994
Equipment	112,827	104,966
Library collection	66,696	63,393
Construction in progress	5,416	3,890
	<u>678,033</u>	<u>662,350</u>
Accumulated depreciation	(294,496)	(271,526)
	<u>\$ 383,537</u>	<u>\$ 390,824</u>

The University recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which the obligation was incurred. The values of the asset retirement obligations (ARO) are calculated using a range of discount rates from 4.18% to 5.07%, as determined by the year of the expected obligation settlement. The University recorded ARO liability accretion expenses of \$354 and \$339 for the fiscal years ended June 30, 2011 and 2010, respectively. The present value of the ARO liability is \$8,390, based on an estimated inflation rate of 3%. This liability is included in other liabilities in the Consolidated Statements of Financial Position. The following schedule illustrates the 2011 and 2010 activity of the ARO liability:

	June 30,	
	2011	2010
Beginning balance	\$ 8,044	\$ 7,722
Current year accretion of liability	354	339
Current year abatement costs	(8)	(17)
Ending balance	<u>\$ 8,390</u>	<u>\$ 8,044</u>

(7) CONTRIBUTIONS RECEIVABLE

Unconditional promises to give are included in the financial statements as contributions receivable and revenue of the appropriate net asset category. Values expected to be received are discounted to net present value using the University's credit adjusted risk free interest rates, ranging from 4.32% to 4.41%. Unconditional promises to give are expected to be realized in the following periods:

	June 30,	
	2011	2010
One year or less	\$ 650	\$ 1,150
Between one and five years	725	1,275
More than 5 years	13,645	13,431
Less: discount	(4,000)	(4,455)
	<u>\$ 11,020</u>	<u>\$ 11,401</u>

In addition, donors to the University have indicated intentions to contribute in future periods approximately \$71,334 and \$74,874 at June 30, 2011, and 2010, respectively. These amounts are not included in contributions receivable because they do not constitute unconditional promises to give. It is not practicable to estimate the net realizable value of these intentions to contribute or the period over which they will be collected.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

(all amounts in thousands)

(8) BONDS AND NOTES PAYABLE

Bonds and notes payable at June 30, 2011 and 2010, consist of the following:

	June 30,	
	2011	2010
\$38,995 issuance of bonds (Nebraska Educational Finance Authority 1999); annual principal payments through 2015; interest rates 3.35% to 5.00% (collateralized by unrestricted receipts, revenues and income of the University)	\$ -	\$ 4,246
\$20,000 issuance of bonds (Douglas County Educational Facilities Revenue Bonds, 2005A); annual principal payments through 2026; interest rates 3.00% to 5.00% (collateralized by unrestricted receipts, revenues and income of the University)	16,692	17,510
\$17,360 issuance of bonds (Nebraska Educational Finance Authority 2005B); annual principal payments through 2011; interest rates variable, 0.09% to 0.39% for 2011; (collateralized by unrestricted receipts, revenues and income of the University)	7,445	10,330
\$1,450 issuance of loan notes (Nebraska Educational Finance Authority 2008); semi-annual principal and interest payments 2008 through 2023; interest rate 4.72% (collateralized by certain buildings and equipment)	-	1,310
\$9,500 issuance of loan notes (Douglas County Loan Note 2008); semi-annual principal and interest payments 2008 through 2023; interest rates 3.43% to 5.14% (collateralized by certain buildings and equipment)	-	5,813
\$104,690 issuance of bonds (Nebraska Educational Finance Authority 2008); annual principal and interest payments 2009 through 2036; interest rates variable, based on daily remarketing rate; 0.04% to 0.30% for 2011; (collateralized by unrestricted receipts, revenues and income of the University)	103,636	104,080
\$7,076 issuance of loan notes (Douglas County Educational Facilities Loan Notes 2009); semi-annual principal and interest payments 2009 through 2021; interest rates variable, 0.90% to 1.00% for 2011; (collateralized by certain buildings and equipment)	3,791	1,919
\$33,435 issuance of loan notes (Douglas County Educational Facilities Loan Notes 2010A); annual principal and interest payments 2011 through 2041; interest rates 2.00% to 5.88%; (collateralized by unrestricted receipts, revenues and income of the University)	33,438	-
\$13,180 issuance of loan notes (Douglas County Educational Facilities Loan Notes 2010B); annual principal and interest payments 2011 through 2029; interest rates 1.25% to 7.34%; (collateralized by unrestricted receipts, revenues and income of the University)	13,180	-
\$4,150 issuance of unsecured bank promissory notes, annually renewable, interest rate 3.58% for 2011	3,473	4,150
\$11,800 issuance of unsecured bank promissory notes, annually renewable; interest rate variable, 2.05% for 2010	-	11,800

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

(all amounts in thousands)

	June 30,	
	2011	2010
Other promissory notes	\$ 400	\$ -
Installment purchases, collateralized by equipment	1,463	2,099
Total bonds and notes payable	183,518	163,257
Less current portion of bonds and notes payable	(10,151)	(20,161)
Non-current portion of bonds and notes payable	<u>\$ 173,367</u>	<u>\$ 143,096</u>

The fair value of the University's long term debt approximates \$182,958 and \$136,131 at June 30, 2011 and 2010, respectively. The fair value of the bonds is estimated based on quoted market prices for the same or similar issues. The market prices utilized reflect the rate that the University would have to pay to a credit worthy third party to assume its obligation and do not reflect an additional liability to the University. The fair value of the notes payable is estimated based upon the University's long term borrowing rate for similar debt.

The Series 2005B and 2008 bonds operate in a variable rate mode, and holders of the bonds have a put option that allows them to redeem the bonds prior to maturity. The University has an agreement with a financial institution to remarket any bonds redeemed pursuant to the exercise of a put option. In addition, the Series 2005B bonds are secured by a Standby Bond Purchase Agreement with a commercial bank that was extended to December 17, 2012, prior to its stated expiration date of December 18, 2010. The Series 2008 variable rate bonds are secured by an irrevocable letter of credit agreement with a commercial bank that was extended to July 30, 2014, before its stated expiration date of July 30, 2011. Under these agreements, the financial institutions would make liquidity advances to the University in the amount necessary to purchase the Variable Rate Demand Bonds in the event that the bonds are not remarketed. Any liquidity advance for either of the bond issues would be amortized in 12 equal quarterly installments, commencing 12 months after the first draw and due on the first business day of every quarter, or until the bonds are successfully remarketed, whichever comes first. The maturity date on the Series 2005B and 2008 bonds may be accelerated upon the occurrence of specified events.

On November 25, 2009, the University executed a Master Loan Agreement dated as of October 1, 2009, with the County of Douglas, Nebraska, for a \$7,100 Educational Facilities Loan Note Series 2009 (the "Series 2009 Note"). Concurrently, the University executed a Remarketing Agreement and Pledge and Security Agreement with Wells Fargo Securities, LLC, as Lender under the Series 2009 Note. Proceeds from the Series 2009 Note will be used to finance medical equipment for the School of Medicine, telephone switching equipment and various other capital equipment and improvements. Amounts outstanding under the Series 2009 Note initially bear interest at a variable rate, but the University has the option to convert to a fixed rate upon written notice to the Lender.

On December 15, 2010, the University issued \$33,400 tax-exempt Series 2010A bonds and \$13,200 taxable Series 2010B bonds through the County of Douglas, Nebraska. The proceeds for the Series 2010A bonds were used to: 1) fund construction and installation of an electronic health records system, telephone switching equipment, and various other capital improvement projects; 2) refinance \$20,000 outstanding of the 2007 County of Douglas, Nebraska, Development Revenue Short-Term Bond; and 3) refinance \$2,500 outstanding of Revenue Bonds, Series 1999B. Proceeds from the Series 2010B bonds were used to refinance \$11,800 outstanding of the Non-Revolving Credit Note dated June 11, 2010.

Proceeds from both the Series 2010A and Series 2010B bonds were used also to fund various debt service reserve accounts and to pay issuance costs. Amounts outstanding under both series were issued on a serial basis with various maturity dates and will bear interest at a fixed rate paid on a semi-annual basis. The final maturity dates are July 1, 2040, and July 1, 2028, respectively, for the Series 2010A and Series 2010B bonds.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

(all amounts in thousands)

Repayments of bond and note principal in each of the five fiscal years subsequent to June 30, 2011 are scheduled as follows:

<u>Year ended June 30,</u>	<u>Bond and Note Principal</u>
2012	\$ 10,151
2013	7,095
2014	4,833
2015	4,112
2016	1,832
Thereafter	155,495
Total payments	<u>\$ 183,518</u>

Interest expense on long term debt was \$8,164 in 2011 and \$7,326 in 2010. Interest expense is net of capitalized interest on construction projects of \$52 in 2011 and \$213 in 2010. Bond discounts, premiums and issuance costs are deferred and amortized over the life of the related indebtedness based on the effective interest method.

Debt Covenant Ratios

Covenants of the bonds restrict the University from incurring additional indebtedness if, after giving effect to the incurrence of the additional debt, the University's: 1) maximum annual amount payable for debt service on all funded debt after incurring the additional debt exceeds 15% of "total revenue" (as defined in the Loan Agreement), and 2) the ratio of "ready current assets" to "pro forma funded debt service" (as defined in the Loan Agreement) is less than 1.5 to 1. As of June 30, 2011, the University's maximum annual amount payable for funded debt service is 3.9% of total revenue and the ratio of "ready current assets" to "pro forma funded debt service" is 4.6 to 1. Additionally, the University is subject to certain covenants under the credit support arrangements related to the Series 2005B and the Series 2008 bonds. Specifically: 1) the ratio of the University's maximum annual debt service to income available for debt service cannot be less than 1 to 1; and 2) the ratio of the University's total cash and investments to total debt cannot be less than 0.50 to 1. As of June 30, 2011, these ratios were 1.8 to 1 and 1.4 to 1, respectively. The University was in compliance with all applicable debt covenants as of June 30, 2011 and 2010.

Interest Rate Swap Agreements

The University uses derivative financial instruments to offset interest rate risk or to otherwise modify the characteristics of its debt portfolio. The interest rate swap agreements were not entered into for trading or speculative purposes. All such financial instruments and derivatives are marked to market and recorded at estimated fair value. These financial instruments necessarily involve counterparty credit exposure. The counterparties for these swap transactions are major financial institutions that meet the University's criteria for financial stability and credit-worthiness.

The swap agreements are considered derivative financial instruments and the estimated values have been reported in other liabilities in the Consolidated Statements of Financial Position at June 30, 2011 and 2010. The net changes in the estimated fair value of the agreements have been reported as a component of unrestricted non-operating changes in net assets in the Consolidated Statements of Activities for the years ended June 30, 2011 and 2010.

The swap agreements involve the exchange of floating and fixed-rate interest payments over the life of the agreements without an exchange of the underlying principal amount. The differential to be paid or received is recognized as an adjustment to interest expense related to the debt.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

(all amounts in thousands)

The University had the following interest rate swaps outstanding at June 30, 2011:

<u>Purchase Date</u>	<u>Notional</u>	<u>Creighton pays</u>	<u>Creighton receives</u>	<u>Change in fair value</u>
Aug. 2001	\$ 25,000	4.455%	68% of 1 month LIBOR	\$ 1,160
Mar. 2003	28,200	3.520%	70% of 1 month LIBOR	883
Aug. 2004	17,575	3.600%	68% of 1 month LIBOR	630
Jan. 2004	3,130	5.115%	70% of 1 month LIBOR plus 0.25%	139
Feb. 2005	8,500	3.642%	Greater of 67% of 1 month LIBOR or 63% of 1 month LIBOR plus 0.20%	304
Feb. 2005	8,500	3.642%	Greater of 67% of 1 month LIBOR or 63% of 1 month LIBOR plus 0.20%	362
Apr. 2005	13,000	3.769%	67% of 1 month LIBOR	621
Totals	<u>\$ 103,905</u>			<u>\$ 4,099</u>
		\$4,315 swap expired January 1, 2011		<u>242</u>
		Total change in fair value for the year ended June 30, 2011		<u>\$ 4,341</u>

The total fair value of the swap agreements at June 30, 2011, an unrealized loss of \$17,630, is recorded as a liability in Other liabilities on the Consolidated Statement of Financial Position. The swap agreements do not qualify for hedge accounting. Accordingly, the University recorded the net fair value adjustment of the agreements, unrealized gains of \$4,341 for the year ended June 30, 2011 and unrealized losses of (\$6,747) for the year ended June 30, 2010, as a component of unrestricted non-operating changes in net assets in the Consolidated Statements of Activities. On March 25, 2010, the University terminated two swap arrangements having a total notional amount of \$30,000. As a result of these terminations, the University received cash payments from counterparties totaling \$1,025 in 2010, based upon the mark-to-market valuations at the time of termination. These cash payments were recognized as income. Prior to the termination, these swaps experienced a decrease in value of \$777 in 2010. During 2011, the January 2004 swap agreement having a notional amount of \$4,315 expired per the swap agreement. The 2011 change in fair value of this swap arrangement prior to expiration was \$242.

The following schedule presents the notional principal amounts and estimated fair values of the University's interest rate swaps at June 30, 2011 and 2010:

<u>Notional Amounts</u>	<u>Expiration Dates</u>	<u>Estimated Fair Value of Swaps at June 30:</u>	
		<u>2011</u>	<u>2010</u>
\$ 25,000	Aug. 1, 2030	\$ (6,632)	\$ (7,792)
28,200	Mar. 1, 2033	(3,291)	(4,174)
17,575	Aug. 1, 2031	(2,942)	(3,572)
4,315	Jan. 1, 2011	-	(242)
3,130	Dec. 15, 2012	(172)	(311)
8,500	Sept. 18, 2031	(1,140)	(1,444)
8,500	Sept. 18, 2031	(1,150)	(1,512)
13,000	Aug. 23, 2035	(2,303)	(2,924)
<u>\$ 108,220</u>		<u>\$ (17,630)</u>	<u>\$ (21,971)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

(all amounts in thousands)

The University's interest rate swaps are valued using level 2 inputs by the swap managers using a discounted cash flow analysis. The following tables summarize the classification of the University's fair value measurement of swaps as of June 30, 2011 and 2010:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Interest rate swaps (2011)	\$ (17,630)	\$ -	\$ (17,630)	\$ -
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Interest rate swaps (2010)	\$ (21,971)	\$ -	\$ (21,971)	\$ -

(9) SHORT TERM BORROWINGS

The University has two current revolving lines of credit established for daily operating needs as of June 30, 2011. A third revolving line of credit that was in place at June 30, 2010 was closed during fiscal 2011. One operating line of credit has a maximum borrowing capacity of \$25,000. The interest rate payable on this line of credit is established at 2.00% over the daily LIBOR rate, or 2.19% at June 30, 2011. The outstanding balances on this line of credit were \$0 and \$4,770 at June 30, 2011 and 2010, respectively.

The second operating line of credit, which was established in fiscal 2010, has a maximum borrowing capacity of \$25,000. The interest rate payable on this line of credit is established at 2.00% over the daily LIBOR rate. The rate had a contractual floor of 4.00% at June 30, 2010, but this floor was eliminated pursuant to an amendment during fiscal 2011. The interest rate was 2.19% at June 30, 2011. The outstanding balance on this line of credit was \$0 at June 30, 2011 and 2010.

A third operating line of credit, which was closed during fiscal 2011, had a maximum borrowing capacity of \$25,000. The interest rate payable on this operating line of credit was established at 69.3% of the sum of the one-month LIBOR plus 0.50%, or 0.54% at June 30, 2010. The outstanding balance on this line of credit was \$25,000 at June 30, 2010.

In addition to the three revolving lines of credit, the University has entered into a collateralized short term loan agreement (reverse repurchase agreement). Under the terms of this agreement, the University may borrow funds using certain of its zero-coupon bond investments as collateral. Interest for each borrowed amount is set at the daily federal funds rate plus approximately 35 basis points for the term of the borrowing. Outstanding balances and related interest rates under this agreement at June 30, 2011 and 2010 were \$0 at 1.05% and \$3,723 at 1.10%, respectively.

Due to the short term maturity of these items, the carrying amount approximates fair value.

(10) FUNCTIONAL EXPENSES

The University's classifications of unrestricted expenses in the Consolidated Statements of Activities are combined by functional category as follows:

	<u>Year Ended June 30,</u>	
	<u>2011</u>	<u>2010</u>
Instructional	\$ 129,644	\$ 124,238
Health care services	94,764	94,175
Student Aid	1,641	1,609
Sponsored research	26,680	27,894
Academic support	48,516	47,541
Libraries	10,465	10,790
Student services	17,662	17,608
Institutional support	31,430	31,474
Auxiliary enterprises	46,322	44,580
Total	<u>\$ 407,124</u>	<u>\$ 399,909</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

(all amounts in thousands)

Included under Institutional support in the above table are University fundraising expenses of \$3,293 and \$3,211 for the fiscal years ended June 30, 2011 and 2010, respectively.

(11) TRANSACTIONS WITH RELATED PARTIES

The University is affiliated by agreement with Tenet Healthcare Corp. (Tenet) which owns 74% of Creighton Saint Joseph Regional HealthCare System (CSJRHC) and operates a teaching hospital, Saint Joseph Hospital at Creighton University Medical Center (CUMC). CUMC is owned by CSJRHC and is adjacent to the University's campus. Selected financial information from the December 31, 2010 audited financial statements for CSJRHC is as follows:

Net operating revenue	\$194,030
Total operating expenses	\$193,109
Members' equity at December 31, 2010	\$113,083

Significant transactions with CUMC for the years ended June 30, 2011 and 2010 are as follows:

	Year Ended June 30,	
	2011	2010
Revenues		
Ancillary departments	\$ 37,653	\$ 37,047
Expenses		
Rent	\$ 2,055	\$ 2,050
Ancillary departments	\$ 60	\$ 654

The University receives funding from HFF, primarily in the form of grants for its health care and research activities. Amounts received from HFF during 2011 and 2010 were \$1,801 and \$1,679, respectively.

(12) INVESTMENT IN MINORITY OWNED SUBSIDIARIES AND AFFILIATES

Creighton Saint Joseph Regional HealthCare System

The University, through CHC, has a 26% ownership interest in CSJRHC, a limited liability company, which consists of CUMC. This investment is accounted for using the equity method. The Consolidated Statements of Activities for 2011 and 2010 include (\$1,338) and (\$482), respectively, in non-operating equity losses, representing CHC's equity in CSJRHC earnings.

Children's Physicians

The University has a 33% ownership in Children's Physicians, a non-profit corporation jointly operated with Children's Hospital and Medical Center, an Omaha non-profit pediatric hospital. The University contributed its one-third share of the corporation by transferring a combination of fixed assets, accounts receivable and cash totaling \$333 in 1998.

Children's Physicians is an integrated pediatric health delivery system that is linked to comprehensive pediatric medical education and research programs. The system owns and operates certain primary care pediatric clinics in Omaha and the surrounding communities. Net operating results of Children's Physicians of \$387 in 2011 and (\$171) in 2010 are included in non-operating equity earnings in the Consolidated Statements of Activities for 2011 and 2010. This investment is accounted for using the equity method.

(13) RETIREMENT PLAN

A defined contribution retirement plan is available to employees who have met certain employment requirements. Contributions by employees and the University are used to purchase individual annuities or interests in mutual funds. University contributions during the years ended June 30, 2011 and 2010 were \$8,852 and \$11,451, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

(all amounts in thousands)

(14) SELF-INSURED BENEFIT PLANS

The University has a self-insured health benefit plan covering active employees and their dependents. The plan also covers medical house staff whose cost of participation is paid by CUMC, and retirees who pay the full cost of their participation in the plan. Total claims paid under the plan for the fiscal years 2011 and 2010 were \$18,042 and \$18,648, respectively. The University carries stop-loss insurance coverage that limits the University's claim liability to \$200 per individual. The University has also contracted with an insurance carrier to provide administrative services for the plan. The liability estimated by the University for claims incurred but not reported was \$2,149 at June 30, 2011 and June 30, 2010. The University is also partially self-insured for workers' compensation and medical malpractice insurance and accrues an estimated liability for claims incurred but not paid, based on studies performed by an outside actuarial firm. The liability amounts are included in accounts payable and accrued expenses.

(15) COMMITMENTS AND CONTINGENCIES

The University is involved in various litigation arising in the normal course of operations. On the basis of information presently available and the advice of legal counsel, management is of the opinion that any liability, to the extent not provided for through reserves or otherwise, for pending litigation is not likely to be material in relation to the University's financial position or activities.

The University leases space at various locations under long term operating leases. Annual rental payments totaled \$5,781 and \$5,212 for the years ended June 30, 2011 and 2010, respectively. Future minimum lease payments for which the University has made contractual commitments for the five years subsequent to June 30, 2011 are as follows:

2012	\$	4,040
2013		3,488
2014		3,301
2015		3,119
2016		<u>732</u>
Total	\$	<u>14,680</u>

The University has entered into a series of fixed price purchase order agreements with an energy company to purchase volumes of natural gas, ranging from 2,500 to 10,000 decatherms (Dth) per month at fixed prices ranging from \$6.00/Dth to \$9.21/Dth. The period covered by the purchase agreements is through March 2014. No amounts were paid on these agreements up front and there is no provision for a net settlement of the agreements. Payments on these contracts are made based upon the volume ordered at the contract price in the applicable periods. The cost of the natural gas purchased through these agreements is recorded as an expense in the period that the gas is delivered.

As of June 30, 2011, the University has contractual obligations of approximately \$ 2,905 for completion of certain construction projects in process at that date.

Research grants and contracts normally provide for the recovery of direct and indirect costs. Recovery of indirect costs on U.S. government grants is recorded at fixed or predetermined rates negotiated with the government. Indirect cost recovery rates have been established with the U.S. government through fiscal year 2012.