

Creighton  
UNIVERSITY

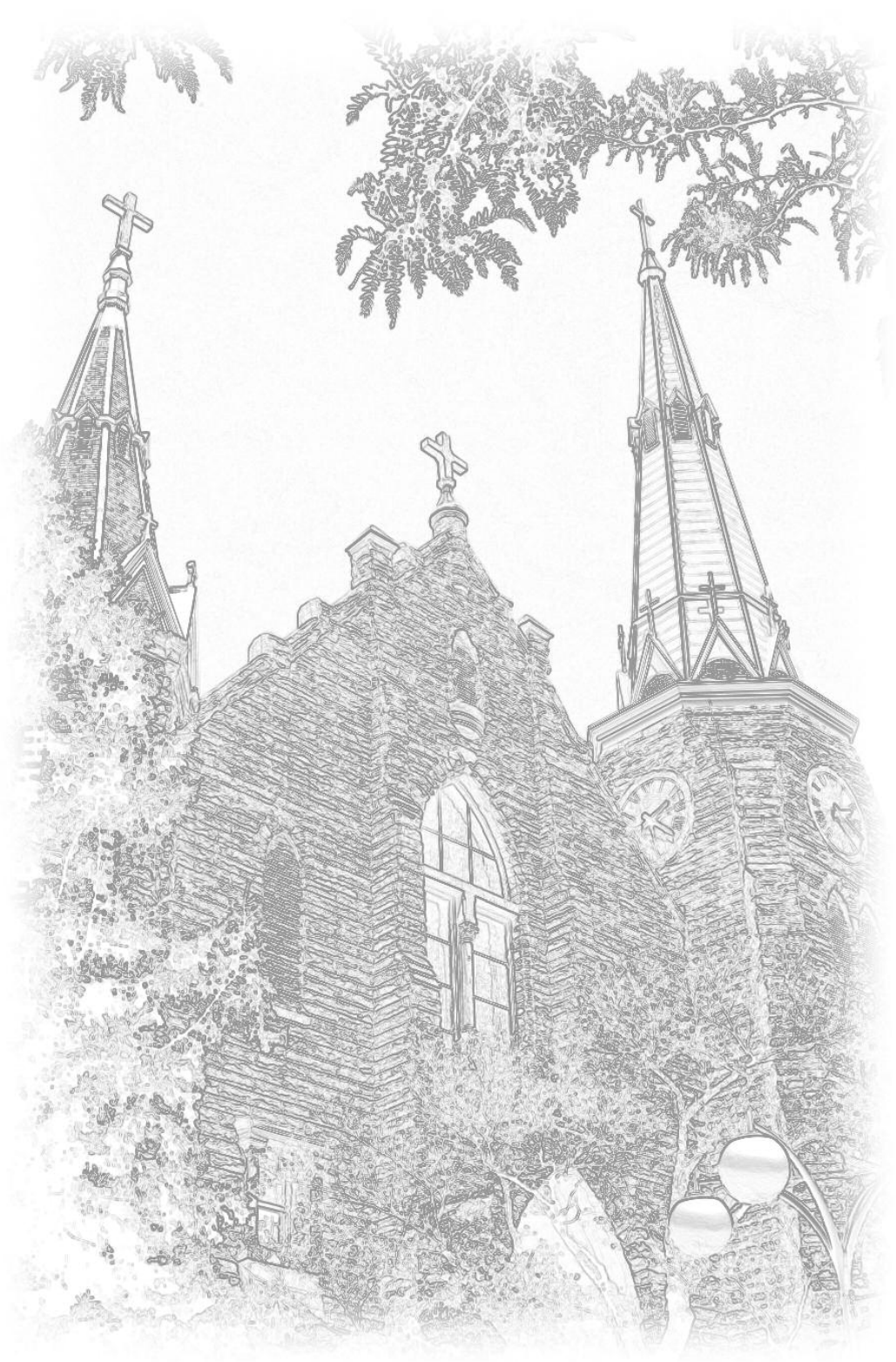
Financial  
 Report 2006

FOR THE YEAR ENDED JUNE 30, 2006



# TABLE OF CONTENTS

<b>President's Letter</b> .....	1
<b>Executive Summary</b> .....	3
<b>Independent Auditors' Report</b> .....	9
<b>Consolidated Statements of Financial Position</b> .....	10
<b>Consolidated Statements of Unrestricted Revenues, Expenses and Other Changes in Unrestricted Net Assets</b> .....	11
<b>Consolidated Statements of Changes in Net Assets</b> .....	12
<b>Consolidated Statements of Cash Flows</b> .....	13
<b>Notes to Consolidated Financial Statements</b> .....	14
<b>Board of Directors</b> .....	27
<b>Officers of the University</b> .....	28



# President's Letter

## 2005-06 Fiscal Year

Dear Friends,

This was a monumental year for Creighton University! Our campus enrolled a record number of students, we celebrated our Ignatian spirituality with a Jesuit Jubilee, and we kicked off a historic capital campaign that sets the stage for an amazing future—to name just a few of this year's highlights. We finished the year with a surplus in operations, and our endowment increased \$28 million to \$268 million due to a combination of investment return and contributions. Creighton University is definitely on the move.

We were thrilled in the fall of 2005 to welcome one of our largest first-year classes—976 freshman students and 110 transfer students—and the most academically gifted group to date. This group, assisted by strong retention of current students, helped us record our largest enrollment ever: 6,804, representing a 4.4 percent increase in full-time enrollment.

We also had some very special students arrive in September 2005, after the semester had begun. Creighton University admitted 60 New Orleans students displaced by Hurricane Katrina. The campus opened its heart in many ways to these students, most from Loyola University New Orleans, with a few from Tulane University and the University of New Orleans. We allowed the home institutions to retain the students' tuition to help in their recovery from the devastation. Creighton community members also assisted evacuees who landed in Omaha and countless student groups held fundraisers for the victims.

For the third year in a row, we were No. 1 in *U.S. News & World Report's* ranking of Midwest master's universities in its "America's Best Colleges" edition. The graduation rate for our students was among the top five in the region, and Creighton University was listed as a "best value," meaning students get the best return on their tuition investment.

The wisdom and foresight of our campus master plan, the most ambitious campus expansion in Creighton University's history, was affirmed this year by architectural experts. Our renovated California Mall received the highest award in landscape architecture from *American School & University Architectural Portfolio*. The judges also recognized the University for "outstanding project" in the master planning category.

The unfolding beauty of our campus definitely renews people's spirits—if you haven't visited recently, I urge you to do so. Two new, long-needed parking structures opened, significantly improving the parking situation for everyone, and the mild winter facilitated steady construction on Opus Hall, which is opening its doors to students as I write this letter. A beautiful red brick gothic structure, Opus Hall, like Davis Square, offers juniors and seniors convenient, apartment-style living and will be home to some 286 students.

On December 3, 2005, we took a leap of faith and launched "Willing to Lead: The Campaign for Creighton University" with a courageous goal of \$350 million over three years. With the confidence of our founding Creighton families, we asked supporters to join our vision of a "second founding" to secure Creighton University's place at the forefront as one of the finest Jesuit, Catholic universities in the country. The campaign will allow us to grow our endowment, continue to innovate in science and health care, enhance our Jesuit identity and mission, persevere in our eastward expansion, and dream big dreams. We are now more than 70 percent of the way to our goal.

For the last year and a half, Creighton University has been involved in “self-analysis,” preparing our Self-Study Report as part of the requirements for reaccreditation by The Higher Learning Commission of the North Central Association of Colleges and Schools, which happens every 10 years. The thorough process results in our understanding what we do well at Creighton and identifying those areas that need attention. A team from the Commission will study the report and then visit our campus in March, 2007.

Our Jesuit Jubilee in March, 2006 celebrated the 450<sup>th</sup> anniversary of the death of St. Ignatius Loyola and the 500<sup>th</sup> anniversary of the births of Peter Faber and Francis Xavier, the three men who started the Jesuit tradition. And, in that tradition, I am pleased to report that our Online Ministries website drew some one million visitors on average per month from 125 countries, and we sponsored 150 outreach programs at 440 sites for those in need—locally, regionally, nationally and internationally.

It was an exciting year for Creighton University athletics. The Bluejay men’s basketball team made Creighton the first school in the 99-year history of the Missouri Valley Conference to post eight straight 20-win seasons, and with five out of eight league tournament titles, the Jays also rose to the top—only three schools in the country have more: Duke (7), Gonzaga (7) and Winthrop (6). Men’s soccer captured its MVC record ninth tournament title and ended sixth in the nation. Women’s soccer won its second straight MVC Tournament title and advanced to the NCAA Tournament for the third time in the last four years. Four baseball players were picked in the Major League draft.

As proud as I am of these and all our athletic endeavors, I am even more proud of our athletes’ hard work in the classroom. Creighton University won the MVC Team Academic Award for the second straight season, and 124 of our 241 student-athletes made the Dean’s List at least once during the academic year. Our 95 percent student-athlete graduation rate places us in the lead in the MVC and 15<sup>th</sup> nationally.

All in all, it was a very good year at Creighton University. We look to build upon that momentum as we go forward. Our undergraduate, graduate and professional programs offer students an outstanding, comprehensive education grounded in the Jesuit, Catholic tradition, and prepare them to be leaders in their many chosen fields. Our students are the best and we continually strive to give them nothing less.

Sincerely,

A handwritten signature in black ink that reads "John P. Schlegel S.J." The signature is written in a cursive, flowing style.

John P. Schlegel, S.J.  
President

# CREIGHTON UNIVERSITY

## FISCAL YEAR 2006 FINANCIAL REPORT

### FINANCIAL HIGHLIGHTS

The fiscal year ended June 30, 2006, was successful for Creighton University on many fronts. With growth in some new programs and very good retention, the University experienced an increase in enrollment for the fifth straight year, reaching record levels. For the nineteenth straight year, the University was ranked at or near the top of the U.S. News and World Report rankings. Creighton also inaugurated a capital campaign, designed to assure that the University remains a leader in private education. These and other notable 2006 University accomplishments are described in the President's Letter. The analysis below highlights significant items impacting the fiscal 2006 financial results as reported in the accompanying statements.

#### Financial Position

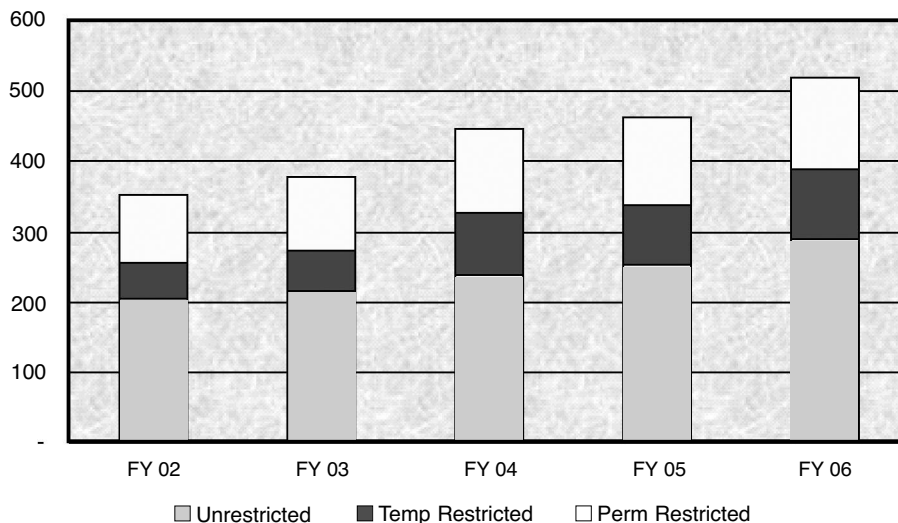
##### Net Assets

Total	\$56 million increase (12%)
Unrestricted	\$38 million increase (15%)
Temporarily restricted	\$11 million increase (12%)
Permanently restricted	\$7 million increase (6%)

The University's net assets represent accumulated equity available to fund new objectives, support the University's mission and provide a cushion during periodic economic downturns. In fiscal 2006, net assets of the University exceeded the one-half billion level for the first time, increasing from \$464 million to \$520 million. The \$56 million increase in net assets represents a 12% return on net assets for 2006, compared to a 4% return in 2005. Excluding the \$6 million cumulative effect of the change in accounting principle discussed below, the adjusted return on net assets exceeded 13% in 2006.

The \$38 million increase in unrestricted net assets produced a \$17 million increase in plant net assets and a \$21 million increase in the unrestricted endowment. The remaining \$18 million increase in total net assets was largely the result of \$21 million in contributions to temporarily and permanently restricted net asset groups, less \$3 million in released restrictions. A graphical summary of the composition of the University's net assets and the annual increases in each net asset category is presented below.

**University Net Assets (\$ millions)**



## Assets

Total	\$91 million increase (11%)	
Collateral held for securities lending		\$11 million increase (27%)
Accounts receivable, net		\$14 million increase (44%)
Investments		\$34 million increase (12%)
Assets held for sale		\$13 million increase
Land, buildings and equipment, net		\$38 million increase (14%)

University assets increased by \$91 million during fiscal 2006, from \$793 million at June 30, 2005, to \$884 million at the current year-end. The increases in investments (\$34 million) and land, buildings and equipment (\$38 million) were the primary causes of the overall increase. Significant changes in several asset categories are explained more fully below.

The University utilizes securities lending agreements to enhance returns from its endowment investments. The value of securities held as collateral under these agreements at the end of fiscal 2006 was \$11 million above that of fiscal year end 2005. This asset is offset by a corresponding liability as noted in the liabilities section below. Accounts receivable increased by 44% due in part to an increase in accruals for medical affiliate revenue and an increase in School of Medicine clinical patient accounts receivable. The patient receivables increases reflect higher overall clinical revenues and certain processing delays related to the implementation of a new billing system. The growth in University investments is in part the result of a more favorable investment market during fiscal 2006, represented by an overall 9% investment return on the University's pooled endowment, plus generous contributions received during the fiscal year in response to the University's new capital campaign.

During 2006, the University finalized plans to sell two donated properties. The net realizable values of these properties total \$13 million and are reported as assets held for sale at June 30, 2006. Property, plant and equipment increased by \$38 million (14%) due to the net effects of \$54 million in capital projects and acquisitions and \$16 million of depreciation expense. Capital additions consisted primarily of construction on a junior-senior apartment style housing facility (\$19 million) and two campus parking structures (\$14 million), along with a number of smaller projects, land acquisitions and improvements, capital equipment purchases and additions to the library collection.

## Liabilities

Total	\$34 million increase (10%)	
Bonds and notes payable		\$21 million increase (14%)
Liability under securities lending agreement		\$11 million increase (27%)
Interest rate swap agreements		\$10 million decrease (87%)
Other liabilities		\$8 million increase (120%)
Short-term borrowings		\$5 million increase (22%)

Total liabilities of the University increased from \$330 million at June 30, 2005 to \$364 million at June 30, 2006. The largest cause of the \$34 million increase was a \$21 million increase in bonds and notes payable, which rose from \$148 million to \$169 million during fiscal 2006. A new \$30 million bond issue was completed in July 2005 to provide funding for construction of the new junior-senior housing facility (nearly complete at June 30, 2006), a campus parking structure (completed in January 2006) and partial funding for a new student life facility (planning and design nearly complete at June 30, 2006). In addition, the University made scheduled principle payments of approximately \$9 million on its other bonds. The University continues to maintain a manageable level of overall debt, as evidenced by the Moody's Investor Service rating of A2 on the most recent \$30 million issue.

Also contributing to the overall increase in liabilities was an \$11 million increase in the obligation to return collateral held by the University under its securities lending program, as noted above. The liability for the value of the University's interest swap agreements decreased markedly during fiscal 2006, from \$11 million at June 30, 2005 to \$1 million at June 30, 2006, reflective of the upward movement in the interest rate environment during this period. The University uses derivative financial instruments to offset its interest rate risk on outstanding debt and not for trading or speculative purposes.

The \$8 million increase in other liabilities consists primarily of a new \$7 million liability for asset retirement obligations, first recorded in FY 2006 pursuant to a new reporting requirement. This change in accounting principle and associated financial statement impacts are more fully explained in Note 16 to the statements. The \$5 million increase in short-term borrowings was related primarily to increased operating cash needs at fiscal year-end, which was largely the result of the increase in patient receivables balances.

## Results of Operations

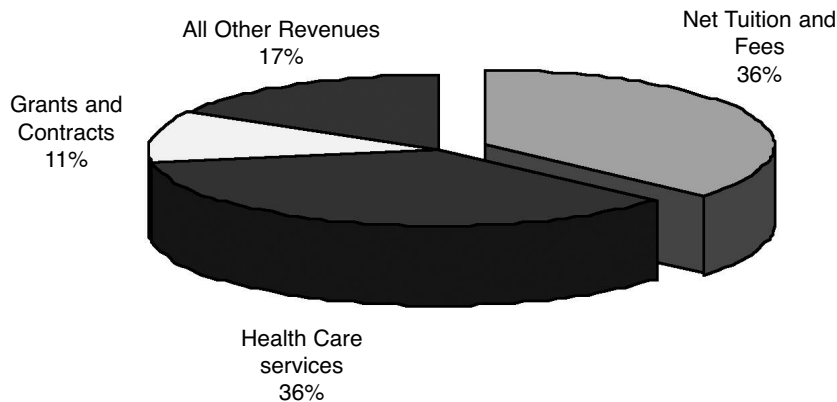
Operating activities produced a \$9 million increase in unrestricted net assets in fiscal 2006, compared to \$4 million in 2005. Operating revenues increased by \$24 million in fiscal 2006, while operating expenses rose by \$19 million, producing the \$5 million net improvement in operating results. The primary factor in this improvement was an 8% increase net tuition revenue, while personnel and benefits costs, by far the largest expense category, increased at only 6%.

### Operating Revenues

Total	\$24 million increase (8%)
Net tuition and fees	\$9 million increase (8%)
Healthcare services	\$5 million increase (4%)
Investment income	\$3 million increase (25%)
Auxiliary enterprises	\$2 million increase (10%)

The following chart illustrates the composition of the University's net operating revenues for the fiscal year ended June 30, 2006. The composition is largely unchanged from that in fiscal 2005.

### Operating Revenue Distribution



Net tuition and fees revenue, which comprised 36% of the University's net operating revenue, increased by more than \$9 million in fiscal 2006. This increase is a combination of a \$13 million growth in gross tuition and fees over fiscal 2005, partially offset by \$4 million higher tuition discounts and scholarship allowances. The tuition and fee increase resulted from the combined effects of a record enrollment in 2006, together with a tuition price increase of 6% for most of the University's schools and colleges. As a percentage of gross tuition and fees, the combined tuition discounts and scholarship allowances were up slightly, from 23.2% to 23.7% in fiscal 2006.

Health care services revenue, which includes medical affiliate revenue and revenue for patient services provided in the University's medical and other health sciences clinics, increased by more than \$5 million over fiscal 2005. This 4% improvement was largely attributable to the addition of several faculty physicians in Cardiology, Surgery and Surgical Oncology as part of ongoing recruiting initiatives undertaken in the School of Medicine.

Investment income appropriated for operations during fiscal 2006 exceeded the fiscal 2005 amount by \$3 million, due to a combination of factors. Endowment distributions increased by \$1 million in 2006 due primarily to a higher endowment balance, as the spending formula remained unchanged. Investment income on unspent bond proceeds increased by over \$1 million due to significantly higher average balances on hand and higher interest rates during the year.

The \$2 million increase in auxiliary revenues was primarily the result of a 5% average increase in room and board rates, along with increased revenues from athletic events.

## Operating Expenses

Total	\$19 million increase (6%)
Salaries, wages and benefits	\$12 million increase (6%)
Contracted services	\$ 2 million increase (8%)
Interest expense	\$ 1 million increase (17%)
Other operating expenses	\$ 2 million increase (11%)

Salaries, wages and benefits represents by far the largest component of operating expenses, constituting in excess of 66% of the total in both fiscal 2005 and 2006. Accordingly, the \$12 million increase in salaries, wages and benefits in fiscal 2006 was the primary cause of the \$19 million overall increase. Salaries and wages rose by \$10 million (6%) in 2006 due to the combined effects of a 3% merit pool, equity adjustments in certain areas and a small increase in employment. Total benefit costs rose by a manageable 5%, heavily influenced by improved experience on the University's health plan, which saw an increase of only 3% in 2006.

Contracted services expense increased by 8% over fiscal 2005, partly the result of the implementation of a new billing system for the University's medical clinic operations. In addition, the University initiated projects with consultants to upgrade its software and business processes in the areas of employee benefits, database management and electronic medical records.

The \$1 million growth in interest expense over fiscal 2005 relates to the increased amount of long-term debt outstanding in 2006 and higher interest rates on the University's line of credit. Other operating expenses increased by \$2 million, from \$19 million in fiscal 2005 to \$21 million in fiscal 2006, as a result of a large number of individually small increases.

## Other Highlights

The University continued its aggressive pursuit of its campus master plan implementation in 2006. As the fiscal year drew to a close, Opus Hall, the second phase of junior-senior apartment style housing was nearing completion. Together, Opus Hall and Davis Square (the first phase of on-campus junior-senior housing), accommodate nearly 550 students in Creighton's expanded east campus. These facilities are similar but uniquely designed gothic red brick structures, consistent with campus design guidelines. Both facilities have proven extremely popular with students, with reservation requests well in excess of available beds. During 2006, the University also constructed two new, long-awaited parking structures on campus. These structures, which have a combined capacity of nearly 1,100 vehicles, are accessible to students, faculty and staff and provided significant relief for the campus parking situation.

A full square-block footprint adjacent to the new junior-senior housing was designated as the site of a new student-centered facility. Design work was nearly complete at the end of fiscal 2006, with construction anticipated to begin on this \$55 million project in October 2006. Growth of the student body and additional on-campus housing created a need to relieve core campus crowding and provide for additional student services, classrooms, meeting rooms and recreational space. A generous donor and property acquired as part of the eastward expansion of the campus provided the means and the opportunity to satisfy these needs and create a signature facility for the campus. The University looks forward to the anticipated August 2008 opening of this significant addition to campus.



## Capital Campaign

In December 2005, the University inaugurated the public phase of the most aggressive capital campaign in its history. The Campaign for Creighton University has a three-year goal of \$350 million and signals that the University intends to take bold steps to create its future, a deliberate and willed future, and become a model for an urban university. The public inaugural included an announcement that \$226 million had already been raised during the pre-public phase of the campaign. By the end of fiscal year 2006, the amount raised exceeded \$250 million.

The Campaign for Creighton University will aid in addressing four critical issues: attracting and retaining students who enable Creighton to thrive as a university, revising the University business model to decrease dependency on tuition and clinical income, ensuring that the current and future infrastructures and support systems enhance Creighton's core purposes and increasing the capacity for research to raise Creighton's national stature and enhance student learning.

The campaign goals, reflective of the University's priorities, seek donor support as follows:

- \$14 million for support of Creighton's Jesuit mission and Catholic identity,
- \$62 million to support science education and technology,
- \$99 million to support east campus expansion,
- \$145 million to support endowments for financial aid, faculty and programs,
- \$30 million for annual operating budget support.

With the assistance of generous donors, thoughtful planning and intelligent, focused faculty and staff, Creighton University looks forward to a very bright future.



## INDEPENDENT AUDITORS' REPORT

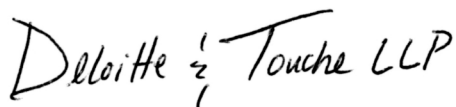
To the Board of Directors of  
Creighton University:

We have audited the accompanying consolidated statements of financial position of Creighton University (the "University") as of June 30, 2006 and 2005, and the related consolidated statements of unrestricted revenues, expenses and other changes in unrestricted net assets, changes in net assets 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 controls 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, such consolidated financial statements present fairly, in all material respects, the financial position of the University as of June 30, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 16 to the accompanying consolidated financial statements, the University changed its method of accounting for conditional asset retirement obligations in fiscal 2006.

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

October 12, 2006

# CREIGHTON UNIVERSITY

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

### AS OF JUNE 30, 2006 AND 2005

	2006	2005
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,505,509	\$ 7,912,953
Short-term investments (note 4)	8,992,436	7,492,589
Collateral held for securities lending agreement (note 4)	51,213,714	40,321,997
Accounts receivable, net (note 3)	44,818,288	31,180,503
Contributions receivable, net (note 7)	27,599,191	35,275,040
Student loans receivable, net of reserve for doubtful accounts of \$176,000 and \$190,000 in 2006 and 2005, respectively	30,552,871	31,753,245
Prepaid expenses, inventories and other	5,006,260	4,830,974
Investments (notes 4 and 5)	315,225,382	281,514,546
Assets held for sale (note 17)	12,715,865	—
Unspent bond proceeds (note 4)	15,762,772	21,029,620
Investment in minority owned subsidiaries and affiliates (note 12)	27,723,389	27,931,594
Funds held in trust by others	25,095,875	25,778,622
Debt reserve deposits	3,498,825	3,515,265
Land, buildings and equipment, net (note 6)	312,916,496	274,813,140
	<b>\$ 883,626,873</b>	<b>\$ 793,350,088</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable	\$ 20,757,154	\$ 21,570,733
Accrued compensation	10,439,185	10,571,135
Liability under securities lending agreement (note 4)	51,213,714	40,321,997
Short-term borrowings (note 9)	28,702,394	23,503,661
Reserves for employee benefits and compensated absences (note 14)	11,023,933	10,537,933
Current portion of bonds and notes payable (note 8)	8,519,137	8,903,119
Other liabilities	15,187,706	6,903,843
Deferred income	20,011,090	20,692,076
Refundable government student loan funds	29,079,285	29,057,269
Annuities payable	6,817,608	6,814,718
Interest rate swap agreements (note 8)	1,481,079	11,588,331
Long term portion of bonds and notes payable (note 8)	160,518,230	139,196,936
	<b>\$ 363,750,515</b>	<b>\$ 329,661,751</b>
Commitments and contingencies (note 15)		
<b>Net Assets</b>		
Unrestricted -		
Available for current operations	\$ 7,421,713	\$ 7,107,799
Designated for specific purposes	25,097,933	25,230,528
Endowment (note 5)	141,580,962	120,688,823
Invested in property, plant & equipment	116,974,971	99,907,719
Total unrestricted	291,075,579	252,934,869
Temporarily restricted (notes 2 and 5)	97,114,572	86,526,686
Permanently restricted (notes 2 and 5)	131,686,207	124,226,782
	<b>519,876,358</b>	<b>463,688,337</b>
Total net assets	<b>\$ 883,626,873</b>	<b>\$ 793,350,088</b>
Total liabilities and net assets	<b>\$ 883,626,873</b>	<b>\$ 793,350,088</b>

The accompanying notes to consolidated financial statements are an integral part of these statements.

**CREIGHTON UNIVERSITY**  
**CONSOLIDATED STATEMENTS OF UNRESTRICTED**  
**REVENUES, EXPENSES AND OTHER CHANGES**  
**IN UNRESTRICTED NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>NET OPERATING REVENUES:</b>		
Tuition and fees	\$ 163,117,937	\$ 149,728,466
Tuition discount	(33,398,969)	(30,022,270)
Scholarship allowances	(5,310,656)	(4,689,334)
Net tuition and fees	<u>124,408,312</u>	<u>115,016,862</u>
Health care services	123,771,230	118,341,486
Grants and contracts	37,108,709	35,766,779
Contributions	8,192,326	7,520,140
Investment income appropriated for operations (note 4)	15,576,482	12,459,454
Equity in earnings of CSJRHC (note 12)	554,795	24,433
Auxiliary enterprises	21,228,374	19,304,008
Other revenues	8,255,233	7,144,033
Operating net assets released from restrictions	2,855,388	2,004,281
Total net operating revenues	<u>\$ 341,950,849</u>	<u>\$ 317,581,476</u>
<b>OPERATING EXPENSES (note 10):</b>		
Salaries, wages and benefits	\$ 220,489,177	\$ 208,310,237
Contracted services	21,353,514	19,770,436
Supplies and materials	27,956,830	27,014,734
Depreciation and amortization (note 6)	16,222,688	15,724,640
Interest expense (notes 8 and 9)	7,582,419	6,457,164
Utilities and communications	10,304,632	9,644,848
Rents, leases, repairs and maintenance	7,833,949	7,672,738
Other operating expenses	21,181,673	19,148,954
Total operating expenses	<u>\$ 332,924,882</u>	<u>\$ 313,743,751</u>
<b>Results of operations</b>	<u><b>\$ 9,025,967</b></u>	<u><b>\$ 3,837,725</b></u>
<b>NONOPERATING REVENUES AND EXPENSES:</b>		
Investment return in excess of amounts appropriated for operations (note 4)	\$ 12,136,752	\$ 12,066,962
Change in fair value of interest rate swap agreements (note 8)	10,107,252	(9,526,662)
Contributions for endowments and other long-term purposes	13,218,543	2,988,077
Release of restrictions on nonoperating net assets	—	4,100,000
Net nonoperating revenues and expenses	<u>\$ 35,462,547</u>	<u>\$ 9,628,377</u>
Cumulative effect of change in accounting principle (note 16)	\$ (6,347,804)	\$ —
<b>Net increase in unrestricted net assets</b>	<u><b>\$ 38,140,710</b></u>	<u><b>\$ 13,466,102</b></u>

The accompanying notes to consolidated financial statements are an integral part of these statements.

**CREIGHTON UNIVERSITY**  
**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Net assets, June 30, 2004</b>	<b>\$ 239,468,767</b>	<b>\$ 88,648,866</b>	<b>\$ 118,482,168</b>	<b>\$ 446,599,801</b>
<b>Revenues, Gains and Other Support:</b>				
Unrestricted	\$ 321,105,572	\$ —	\$ —	\$ 321,105,572
Restricted:				
Contributions	—	5,006,953	5,093,241	10,100,194
Investment income (note 4)	—	158,636	375,327	533,963
Net gain on investments (note 4)	—	219,614	313,400	533,014
Net assets released from restrictions	6,104,281	(6,168,428)	64,147	—
	<u>\$ 327,209,853</u>	<u>\$ (783,225)</u>	<u>\$ 5,846,115</u>	<u>\$ 332,272,743</u>
<b>Expenses and Losses:</b>				
Unrestricted	\$ 313,743,751	\$ —	\$ —	\$ 313,743,751
Restricted:				
Net actuarial adjustments, annuities and pledges	—	1,338,955	82,817	1,421,772
Other	—	—	18,684	18,684
	<u>\$ 313,743,751</u>	<u>\$ 1,338,955</u>	<u>\$ 101,501</u>	<u>\$ 315,184,207</u>
Increase (decrease) in net assets	13,466,102	(2,122,180)	5,744,614	17,088,536
<b>Net assets, June 30, 2005</b>	<b>\$ 252,934,869</b>	<b>\$ 86,526,686</b>	<b>\$ 124,226,782</b>	<b>\$ 463,688,337</b>
<b>Revenues, Gains and Other Support:</b>				
Unrestricted	\$ 374,558,008	\$ —	\$ —	\$ 374,558,008
Restricted:				
Contributions	—	13,309,228	7,865,509	21,174,737
Investment income (note 4)	—	244,295	60,735	305,030
Net gain (loss) on investments (note 4)	—	125,203	(319,360)	(194,157)
Net assets released from restrictions	2,855,388	(2,836,462)	(18,926)	—
	<u>\$ 377,413,396</u>	<u>\$ 10,842,264</u>	<u>\$ 7,587,958</u>	<u>\$ 395,843,618</u>
<b>Expenses and Losses:</b>				
Unrestricted	\$ 332,924,882	\$ —	\$ —	\$ 332,924,882
Restricted:				
Net actuarial adjustments, annuities and pledges	—	254,378	104,892	359,270
Other	—	—	23,641	23,641
	<u>\$ 332,924,882</u>	<u>\$ 254,378</u>	<u>\$ 128,533</u>	<u>\$ 333,307,793</u>
Increase in net assets	44,488,514	10,587,886	7,459,425	62,535,825
Cumulative effect of change in accounting principle (note 16)	(6,347,804)	—	—	(6,347,804)
<b>Net assets, June 30, 2006</b>	<b>\$ 291,075,579</b>	<b>\$ 97,114,572</b>	<b>\$ 131,686,207</b>	<b>\$ 519,876,358</b>

The accompanying notes to consolidated financial statements are an integral part of these statements.

# CREIGHTON UNIVERSITY

## CONSOLIDATED STATEMENTS OF CASH FLOWS

### FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
<b>Cash flows from operating activities:</b>		
Increase in net assets	\$ 56,188,021	\$ 17,088,536
Adjustments to reconcile increase in net assets to net cash provided by operating activities -		
Non-cash investment income	(680,059)	(746,969)
Non-cash contribution income	(6,158,076)	(1,903,953)
Depreciation, amortization and accretion	16,515,150	15,724,640
Long-term investment income reinvested	(336,000)	(266,667)
Actuarial adjustments	239,512	(12,992)
Cumulative effect of change in accounting principle	6,347,804	—
Contributions with donor restrictions and for unrestricted endowment	(35,911,053)	(20,348,661)
Change in fair value of interest rate swap agreements	(10,107,252)	9,526,662
Net realized and unrealized gain on investments	(17,583,189)	(17,332,449)
Changes in operating assets and liabilities -		
Short-term investment income	(1,499,847)	163,247
Accounts receivable	(13,637,785)	5,021,875
Contributions receivable	7,675,849	9,431,142
Prepaid expenses, inventories and other	246,414	(1,946,107)
Accounts payable and accrued expenses	(1,664,271)	(3,191,978)
Reserves for employee benefits and compensated absences	486,000	443,533
Deferred income	(680,986)	790,024
Other liabilities	1,388,682	794,939
<b>Net cash provided by operating activities</b>	<b>828,914</b>	<b>13,234,822</b>
<b>Cash flows from investing activities:</b>		
Repayments on student loans	11,035,061	10,821,296
Student loans issued	(9,834,687)	(12,824,217)
Proceeds from sales of investments	229,987,044	188,533,873
Purchases of investments	(245,872,781)	(202,435,185)
Purchases of land, buildings and equipment, net	(53,149,573)	(33,716,566)
<b>Net cash used in investing activities</b>	<b>(67,834,936)</b>	<b>(49,620,799)</b>
<b>Cash flows from financing activities:</b>		
Cash contributions with donor restrictions and for unrestricted endowment	35,911,053	20,348,661
Proceeds from the issuance of bonds and notes payable	40,998,812	65,648,727
Proceeds from short-term borrowings	5,198,733	4,620,531
Payments on bonds and notes payable	(20,686,014)	(51,776,769)
Increase in federal student loan funds	22,016	536,730
Net proceeds from sale of student loan portfolio	—	346,268
Net payments on annuity agreements	(182,022)	(243,603)
Long-term investment income reinvested	336,000	266,667
<b>Net cash provided by financing activities</b>	<b>61,598,578</b>	<b>39,747,212</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(5,407,444)</b>	<b>3,361,235</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>7,912,953</b>	<b>4,551,718</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 2,505,509</b>	<b>\$ 7,912,953</b>

The accompanying notes to consolidated financial statements are an integral part of these statements.

# CREIGHTON UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### (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 being from the midwestern portion of the United States.

Sources of operating revenues to Creighton predominantly consist of student tuition and fees and charges for health care services, but also include grants and contracts, contributions, investment earnings 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. Unconditional promises to give are recorded as receivables and revenues in the period the promise is made. All contributions are recorded at fair value at the time the promise is made. 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.

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 can 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 reclassifications 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 includes unrestricted, temporarily restricted or permanently restricted net assets where donors have added, changed or removed restrictions on contributions. Net assets which have no donor stipulated restrictions, as well as contributions for which donors have stipulated restrictions but which are met within the same reporting period, are reported as unrestricted support.

Unconditional promises to give with payments due in future periods are reported as restricted support. Amounts due more than one year from the balance sheet date are recorded at the net realizable discounted cash flow, while amounts due in less than one year are recorded at undiscounted net realizable value. It is at least reasonably possible that the estimates of net realizable value will be revised in the near term.

Gifts of land, building, equipment and cash 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 donor 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.

#### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

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.

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 the values will occur in the near term and that such changes could materially affect the financial statements.

## **Fair Value of Financial Instruments**

The fair value of the University's financial instruments has been determined by using appropriate valuation methodologies, where practicable.

## **Measure of Operations**

The increase or decrease in unrestricted net assets from operating activities reflected on the accompanying statements includes substantially all of the activity related to unrestricted net assets. Amounts not included in the measure of operations consist of contributions to unrestricted endowments or for other 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, and significant items of an unusual or non-recurring nature. Amounts related to these excluded items were also removed from net cash provided by operating activities on the consolidated statements of cash flows.

## **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.

## **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, Pharmacy, and Occupational and Physical Therapy) and revenues from affiliated regional medical organizations for services provided by the University's clinical faculty and health care staff. 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 for services provided to the affiliated regional medical organizations are based upon the corresponding contractual agreements.

## **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.

## **Annuities Payable and Actuarial Adjustments on Annuity Obligations**

Annuities payable 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 and revalued at the end of each fiscal year. The assumed interest rate was 5.2% and 4.6% at June 30, 2006 and 2005, respectively. Actuarial adjustments (gains and losses) resulting from the annual revaluation of annuity obligations 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.

## **Cash and Cash Equivalents**

Cash and cash equivalents include investments (at cost) with original maturities less than 90 days. 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.

## **Investments and Debt Reserve Deposits**

Investments, including short term investments, generally are stated at fair value based on quoted market prices when available. Real estate investments are recorded at cost which approximates fair value in the opinion of the University.

In accordance with the collateral provisions of certain bond indentures, the University has debt reserve deposits with trustees. These deposits are stated at fair value.

In accordance with the 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 entity (Note 4 and Note 5) is determined using individual unit values.

## **Student Loans**

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. It is not practicable to estimate the fair value of these receivables since they contain federally-mandated interest rates and repayment terms subject to significant restrictions as to their transfer and disposition.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

## Funds Held in Trust by Others

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 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.

## Land, Buildings and Equipment

Land, buildings and equipment are primarily stated at cost of acquisition less accumulated depreciation. Generally, renovations exceeding \$25,000 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 to 40 years), library books and periodicals (25 years) and equipment (3 to 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.

## Income Taxes

The University files as a tax-exempt organization under Section 501(c)3 of the Internal Revenue Code and similar statutes of Nebraska law. CSSI, a taxable subsidiary, had no taxable income for 2006 or 2005. Accordingly, no federal or state income taxes have been provided.

## Postretirement Benefits

The University provides retired employees access to certain health care benefits. Substantially all of the University's employees may become eligible for access to these benefits if they reach normal retirement age while working for the University. The retired employees are required to pay the full cost of their participation in the health care plans.

## Reclassification

Certain reclassifications were made to the 2005 amounts in order to conform to the 2006 presentation. These reclassifications were not material, individually or in the aggregate.

## (2) RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	June 30,	
	2006	2005
Contributions for buildings, amortized over the life of the corresponding facility	\$ 63,254,234	\$ 45,577,546
Contributions receivable	25,761,459	33,497,414
Annuity and life income funds	4,691,008	4,215,900
Unexpended income and contributions for restricted purposes	3,277,700	3,159,166
Endowment funds (note 5)	130,171	76,660
Total temporarily restricted net assets	<u>\$ 97,114,572</u>	<u>\$ 86,526,686</u>

Permanently restricted net assets consist of the following:

	June 30,	
	2006	2005
Endowment funds (note 5)	\$ 102,330,075	\$ 94,302,770
Endowment funds held in trust by others (note 5)	23,725,023	24,448,946
Contributions receivable	1,837,733	1,777,627
Student loan funds	2,665,038	2,662,959
Annuity and life income funds	1,128,338	1,034,480
Total permanently restricted net assets	<u>\$ 131,686,207</u>	<u>\$ 124,226,782</u>

## (3) ACCOUNTS RECEIVABLE, NET

Accounts receivable consist of the following:

	June 30,	
	2006	2005
Student	\$ 2,331,881	\$ 2,658,056
Interest	103,261	144,118
Patient	14,765,810	8,564,029
Grant funds	5,911,914	5,295,978
Saint Joseph Hospital (note 11)	11,103,033	10,841,199
Miscellaneous	10,602,389	3,677,123
	<u>\$ 44,818,288</u>	<u>\$ 31,180,503</u>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

Patient and student accounts receivable are recorded net of estimated reserves. Estimated reserves for uncollectible amounts and contractual allowances for patient accounts receivable were \$16,601,437 and \$9,737,357 at June 30, 2006 and 2005, respectively. Estimated reserves for uncollectible amounts on student accounts receivable were \$69,800 and \$60,000 at June 30, 2006 and 2005, respectively. It is at least reasonably possible that the reserve estimates will be revised in the near term.

## (4) INVESTMENTS

The majority of the University's endowment investments are held in a pooled endowment fund (Note 5) with a related party, Health Future Foundation (HFF).

A summary of investments held by the University on June 30, 2006 and 2005 is as follows:

	June 30, 2006		June 30, 2005	
	Cost	Fair Value	Cost	Fair Value
Short-term investments	\$ 8,973,097	\$ 8,992,436	\$ 7,463,520	\$ 7,492,589
Investments:				
Stocks	\$ 4,096,292	\$ 4,395,064	\$ 4,010,241	\$ 4,096,938
Corporate bonds	2,995,635	3,138,848	2,826,129	2,976,802
Government obligations	13,504,073	14,199,914	13,009,934	14,476,028
University share of pooled endowment fund (note 5)	237,334,970	272,894,190	211,277,412	238,445,549
Real estate	1,750,913	1,750,913	5,715,246	11,615,246
Money market funds	3,884,517	3,884,517	1,959,594	1,959,594
Commercial paper	14,923,558	14,923,558	7,410,362	7,410,362
Other	38,378	38,378	534,027	534,027
	<u>\$278,528,336</u>	<u>\$315,225,382</u>	<u>\$246,742,945</u>	<u>\$281,514,546</u>

Short-term investments consist of operational funds invested in the pooled endowment fund. In addition to the above investments, unspent bond proceeds of \$15,762,772 and \$21,029,620 were invested in money market funds at June 30, 2006 and 2005, respectively.

The University participates in a securities lending program, whereby securities owned by the University and included in the pooled endowment fund are loaned to other institutions. The University requires 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, 2006, securities on loan totaled \$49,564,920 and the value of collateral held was \$51,213,714. These amounts are treated as non-cash items for purposes of the cash flow. 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 is required to indemnify the University.

The following summarizes the return on investments for 2006 and its classification in the accompanying financial statements:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest	\$ 9,845,839	\$ 244,295	\$ 60,735	\$ 10,150,869
Other investment income	90,049	—	—	90,049
Net realized and unrealized gains (losses)	17,777,346	125,203	(319,360)	17,583,189
Return on investments	27,713,234	369,498	(258,625)	27,824,107
Less: Investment return appropriated for operations	(15,576,482)	—	—	(15,576,482)
Investment return in excess of amounts appropriated for operations	<u>\$ 12,136,752</u>	<u>\$ 369,498</u>	<u>\$ (258,625)</u>	<u>\$ 12,247,625</u>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

The following summarizes the return on investments for 2005 and its classification in the accompanying financial statements:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Dividends and interest	\$ 7,660,929	\$ 158,636	\$ 375,327	\$ 8,194,892
Other investment income	63,689	—	—	63,689
Net realized and unrealized gains	<u>16,801,798</u>	<u>219,614</u>	<u>313,400</u>	<u>17,334,812</u>
Return on investments	24,526,416	378,250	688,727	25,593,393
Less: Investment return appropriated for operations	<u>(12,459,454)</u>	<u>—</u>	<u>—</u>	<u>(12,459,454)</u>
Investment return in excess of amounts appropriated for operations	<u>\$ 12,066,962</u>	<u>\$ 378,250</u>	<u>\$ 688,727</u>	<u>\$ 13,133,939</u>

## (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, 2006 and 2005 is as follows:

	<u>June 30,</u>	
	<u>2006</u>	<u>2005</u>
University share of pooled endowment fund	\$281,886,626	\$ 245,938,138
Operational and other funds invested in the pooled fund	(48,094,723)	(42,616,951)
Endowment funds held in trust by others	23,725,023	24,448,946
Non-pooled assets, including cash and cash equivalents, notes receivable, real estate and other	<u>10,249,304</u>	<u>11,747,066</u>
Total endowment	<u>\$267,766,232</u>	<u>\$ 239,517,199</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 principal objective of the University's pooled endowment fund is to provide a level of spendable income which is sufficient to meet the current and future budgetary requirements of the University and which is consistent with the goal of protecting the purchasing power of the fund. State law allows the board to appropriate investment income and as much of the net appreciation as is prudent considering the University's needs and general economic conditions. Under the University's endowment spending policy, approximately 4% of the value of fixed income investments and 4.5% of the value of equity investments is appropriated to support current operations. The income is distributed based on rates (stated in dollars per unit) established by the University. These distributions totalled \$11,057,116 and \$9,824,365 for the years ended June 30, 2006 and 2005, respectively. Any excess of income earned over the University's fiscal year budgeted income distribution is reinvested in the pooled endowment fund and is unrestricted. This excess income may be expended in any year that the pooled endowment income earned fails to meet the University's budgeted income distribution.

A summary of the percentage of investments by security type based upon carrying value held in the pooled endowment fund at June 30, 2006 and 2005 is as follows:

	<u>June 30,</u>	
	<u>2006</u>	<u>2005</u>
Equities—Domestic	55%	58%
Equities—International	12%	10%
Fixed income securities	23%	25%
Alternative investments	8%	6%
Cash and cash equivalents	<u>2%</u>	<u>1%</u>
	<u>100%</u>	<u>100%</u>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

The total rate of return on the pooled endowment fund was 9.1% for the year ended June 30, 2006 and 7.2% for the year ended June 30, 2005. The following tables summarize changes in the relationships between cost and carrying values of the pooled net assets for 2006 and 2005:

	Pooled Net Assets - 2006		
	Carrying Value	Cost	Net Gains
As of June 30, 2006	\$281,886,627	\$240,557,557	\$ 41,329,070
As of June 30, 2005	245,938,138	214,342,909	31,595,229
Unrealized net gains for 2006			9,733,841
Realized net gains for 2006			8,859,788
Net gains for 2006			<u>\$ 18,593,629</u>

	Pooled Net Assets - 2005		
	Carrying Value	Cost	Net Gains
As of June 30, 2005	\$245,938,138	\$214,342,909	\$ 31,595,229
As of June 30, 2004	226,161,084	203,904,364	22,256,720
Unrealized net gains for 2005			9,338,509
Realized net gains for 2005			2,013,131
Net gains for 2005			<u>\$ 11,351,640</u>

The state of Nebraska adopted the 1972 Uniform Management of Institutional Funds Act (the Act). Under the provisions of the Act, appreciation of permanently restricted endowment net assets is considered unrestricted unless the applicable gift instrument specifically states such appreciation should not be spent. This appreciation continues to be invested in the University's pooled endowment. The composition of the University's endowment net assets is as follows:

	June 30,	
	2006	2005
Unrestricted	\$141,580,962	\$ 120,688,823
Temporarily restricted (note 2)	130,172	76,660
Permanently restricted (note 2)	126,055,098	118,751,716
	<u>\$267,766,232</u>	<u>\$ 239,517,199</u>

## (6) LAND, BUILDINGS AND EQUIPMENT, NET

Land, buildings and equipment consist of the following:

	June 30,	
	2006	2005
Land	\$ 28,442,437	\$ 27,048,796
Land improvements	24,030,955	21,030,065
Buildings	297,557,224	255,537,717
Equipment	64,441,661	60,882,186
Library collection	50,176,629	46,770,622
Construction in progress	36,500,362	36,060,086
	\$501,149,268	\$ 447,329,472
Accumulated depreciation	(188,232,772)	(172,516,332)
	<u>\$312,916,496</u>	<u>\$ 274,813,140</u>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

## (7) CONTRIBUTIONS RECEIVABLE

Unconditional promises to give are included in the financial statements as contributions receivable and revenue of the appropriate net asset category. Unconditional promises to give are expected to be realized in the following periods:

	June 30,	
	2006	2005
One year or less	\$ 9,552,500	\$ 9,892,500
Between one year and five years	19,144,638	27,217,138
More than five years	3,650,166	4,995,541
Less: discount	(4,748,113)	(6,830,139)
	<u>\$ 27,599,191</u>	<u>\$ 35,275,040</u>

In addition, donors to the University have indicated intentions to contribute in future periods approximately \$51,129,000 and \$40,015,000 at June 30, 2006, and 2005, 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.

## (8) BONDS AND NOTES PAYABLE

Bonds and notes payable consist of the following:

	June 30,	
	2006	2005
\$22,500,000 issuance of bonds (Nebraska Educational Finance Authority 1996); annual principal payments through 2011; interest rates 5.20% to 5.95%; refinanced in 2006 by NEFA 2005B (collateralized by unrestricted receipts, revenues and income of the University)	\$ —	\$ 12,893,888
\$20,000,000 issuance of bonds (Nebraska Educational Finance Authority 1997); annual principal payments through 2013; interest rates 4.35% to 5.15% (collateralized by unrestricted receipts, revenues and income of the University)	7,645,000	8,405,000
\$38,995,000 issuance of bonds (Nebraska Educational Finance Authority 1999); annual principal payments through 2014; interest rates 3.55% to 4.80% (collateralized by unrestricted receipts, revenues and income of the University)	18,897,914	23,287,027
\$30,000,000 issuance of bonds (Nebraska Educational Finance Authority 2003); annual principal payments beginning 2008 through 2032; interest rates variable, 0.90% to 3.05% for 2005 and 1.70% to 3.82% for 2006 (collateralized by unrestricted receipts, revenues and income of the University)	29,553,011	29,536,249
\$1,000,000 issuance of bonds (Nebraska Educational Finance Authority 2003B); annual principal payments through 2009; interest rates 1.25% to 3.35% (collateralized by unrestricted receipts, revenues and income of the University)	680,000	840,000
\$7,258,278 issuance of bonds (Nebraska Educational Finance Authority 2004B); annual principal payments through 2009; fixed interest rate 3.12% for the issue (collateralized by certain land, buildings and equipment)	4,489,033	5,895,087
\$20,000,000 issuance of bonds (Douglas County Educational Facilities Revenue Bonds, 2005A); annual principal payments through 2025; interest rate 4.08% (collateralized by unrestricted receipts, revenues and income of the University)	20,548,373	20,585,541
\$43,600,000 issuance of bonds (Nebraska Educational Finance Authority, 2005; three annual principal payments, 2030 through 2032; interest rates 3.60 to 4.46% (collateralized by unrestricted receipts, revenues and income of the University)	43,466,446	43,461,068

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

\$11,405,000 issuance of bonds (Nebraska Educational Finance Authority 2005B); annual principal payments through 2011; interest rates variable, 2.61% to 4.09% for 2006 (collateralized by unrestricted receipts, revenues and income of the University)	11,354,074	—
\$30,000,000 issuance of bonds (Nebraska Educational Finance Authority 2005C); annual principal payments beginning 2027 through 2036; interest rates variable, 2.56% to 4.04% for 2006 (collateralized by unrestricted receipts, revenues and income of the University)	30,000,000	—
Installment purchases, collateralized by equipment	<u>2,403,516</u>	<u>3,196,195</u>
Total bonds and notes payable	\$169,037,367	\$148,100,055
Less current portion of bonds and notes payable	<u>(8,519,137)</u>	<u>(8,903,119)</u>
Non-current portion of bonds and notes payable	<u>\$160,518,230</u>	<u>\$139,196,936</u>

The fair value of the University's long-term debt approximates \$166,696,993 and \$146,016,408 at June 30, 2006 and 2005, 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.

Principal payments in each of the five fiscal years subsequent to June 30, 2006 are as follows:

2007	\$ 8,519,137
2008	7,624,286
2009	7,838,933
2010	11,792,119
2011	7,468,105
Thereafter	<u>125,794,787</u>
Total	<u>\$169,037,367</u>

Cash paid for interest was \$7,236,658 in 2006 and \$6,287,716 in 2005. Cash paid for interest is net of capitalized interest on construction projects of \$304,896 in 2006 and \$56,013 in 2005. Bond discounts, premiums and issuance costs are deferred and amortized over the life of the related indebtedness.

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 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 also defined in the Loan Agreement) is less than 1.5 to 1. As of June 30, 2006, the University's maximum amount payable for debt service is 5.7% of total revenue and the ratio of "ready current assets" to "pro forma funded debt service" is 3.6 to 1.

## 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 and swap option (swaption) agreements were not entered 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 agreements are considered derivative financial instruments and the estimated values have been reported as a liability in the consolidated statements of financial position at June 30, 2006 and 2005. The net changes in the estimated fair value of the agreements have been reported as a component of non-operating revenues and expenses in the consolidated

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

statement of revenues, expenses and other changes in unrestricted net assets and the consolidated statement of changes in net assets for the year ended June 30, 2006 and 2005.

## Interest Rate Swaps

Creighton has entered into interest rate swap agreements to modify the interest rate characteristics of certain of its outstanding debt from floating to a fixed rate. These 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. The related amount payable to or receivable from counterparties is included in other liabilities or assets in the consolidated statements of financial position.

The University entered into certain interest rate swap agreements in August 2001, March 2003 and August 2004 to reduce exposure to future fluctuations in interest rates related to the University's variable rate debt. The fixed rate swap agreements have rates of 4.455%, 3.520% and 3.600%, respectively, with a combined notional amount of \$72,575,000. The August 2001 and August 2004 floating rate agreements have rates equal to 68% of the one-month London Interbank Offered Rate (LIBOR), extend over a 25 year period, and have a combined notional amount of \$42,575,000. The March 2003 floating rate agreement has a rate equal to 70% of the one-month LIBOR, extends over a 27 year period and has a notional amount of \$30,000,000. The combined estimated value of these 3 swap agreements was (\$246,151) and (\$8,310,033) at June 30, 2006 and 2005, respectively. The net change in the fair value of these swap agreements was \$8,063,882 and (\$6,842,424) for the fiscal years ended June 30, 2006 and 2005, respectively.

In February, March and April of 2005, the University entered into 3 forward-starting interest rate swap agreements which expire in 2031 and 2035. Under the terms of these agreements, the University issued tax-exempt variable-rate bonds in 2005 and used the proceeds of \$30,000,000 for certain projects. With the issuance of the 2005 bonds, the University will pay bondholders a variable rate based on the Bond Market Association Municipal Swap Index and the University will receive a similar payment from the swap counterparty, and the University will pay the counterparty a fixed rate of 3.642% and 3.769%. For that portion of the swaps that relate to \$17,000,000 of the notional amount, the University receives the greater of 67% of the one-month LIBOR or 63% of the one-month LIBOR plus 0.20%. For that portion of the swaps that relate to \$13,000,000 of the notional amount, the University receives 67% of the one-month LIBOR. The combined estimated value of these 3 swap agreements was \$647,793 and (\$2,343,615) at June 30, 2006 and 2005. The net change in the fair value of these 3 swap agreements was \$2,991,408 and (\$2,343,615) for the fiscal years ended June 30, 2006 and 2005.

In May, 2006, the University entered into 2 basis swap agreements related to the Nebraska Educational Finance Authority (NEFA) 2005C bond issue. These swap agreements provide the University a payment from the counterparty based on a certain percentage of the 10-year swap rate (Constant Maturity Swap) in exchange for a payment by the University to the counterparty of a certain percentage of the one-month LIBOR for a total notional amount of \$30,000,000. For the swap related to the \$17,000,000 notional amount, the University receives 58.625% of the 10-year LIBOR rate in exchange for 67% of the one-month LIBOR. For the swap related to the remaining \$13,000,000 notional amount, the University receives 59.2% of the 10-year LIBOR rate in exchange for 67% of the one-month LIBOR. The swap related to the \$17,000,000 notional amount was effective on June 1, 2006 and the swap related to the \$13,000,000 notional amount will be effective November 16, 2006. The differential to be paid or received is recognized as an adjustment to interest expense related to the debt. The related amount payable to or receivable from the counterparties is included in other liabilities or assets in the consolidated statement of financial position. At the inception date, each swap instrument had a value of zero. At June 30, 2006, the combined change for these two swap agreements was (\$967,615).

## Interest Rate Swaptions

The University has entered into interest rate swaption agreements to modify the interest rate characteristics of certain of its outstanding debt from a fixed rate to a floating rate. These agreements involve the exchange of floating and fixed-rate interest payments over the life of the agreement without an exchange of the underlying principal amount. The swaptions give the counterparty the option to enter into a pay-fixed, receive-variable interest rate swap with the University. If the option is exercised, the University would then expect to issue variable-rate refunding bonds. The differential to be paid or received is recognized as an adjustment to interest expense related to the debt. The related amount payable to or receivable from counterparties is included in other liabilities or assets in the consolidated statements of financial position.

On January 9, 2004, the University entered into 2 swaption contracts that provided the University up-front payments from the counterparty totaling \$600,000. The contracts serve as a synthetic refunding of 1996 and 1997 bonds, with the

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

payments representing the risk-adjusted, present-value savings of a refunding as of January 9, 2004, without issuing refunding bonds. The counterparty exercised the agreement related to the 1996 bonds (notional amount \$11,405,000) on December 1, 2005. The counterparty has the option to exercise the remaining agreement on December 15, 2007 for the 1997 bonds (notional amount \$5,955,000). If that option is exercised, the related swap will commence 30 days after exercise date. The fixed swap rate for both agreements was set at a rate that, when added to an assumption for remarketing and liquidity costs, will approximate the coupon values of the "refunded" bonds. The swap's variable payment would be 70% of LIBOR plus 0.25%. The combined estimated value for these 2 swaptions was (\$915,106) and (\$934,683) at June 30, 2006 and 2005, respectively. The net change in the fair value of these swaptions was \$19,577 and (\$340,623) for the fiscal years ended June 30, 2006 and 2005, respectively.

If the remaining option is exercised and refunding bonds are not issued, the 1997 bonds would not be refunded and the University would make net swap payments as required by the terms of the contract - that is, making fixed payments to the counterparty for the term of the swap and receiving variable payments of 70% of LIBOR plus 0.25%. If the option is exercised and variable-rate bonds are issued, the actual savings ultimately recognized by the transactions will be affected by the relationship between the interest rate terms of the to-be-issued variable-rate bonds versus the variable payments on the swap (70% of LIBOR plus 0.25%).

## Interest Rate Swap Agreements Summary

The total fair value of the swap and swaption agreements at June 30, 2006, an unrealized loss of \$1,481,079, is recorded as a liability. The swap agreements do not qualify for hedge accounting. Accordingly, the University recorded the net mark-to-market fair value adjustment of the agreements, a gain of \$10,107,252 and a loss of \$9,526,662 for the years ended June 30, 2006 and 2005, respectively, as a component of non-operating activities in the statement of revenues, expenses and other changes in unrestricted net assets and the consolidated statement of changes in unrestricted net assets. The following schedule presents the notional principal amounts and estimated fair value of the University's interest rate swaps and swaptions at June 30, 2006 and 2005:

Notional Amounts	Expiration Dates	Estimated Fair Value of Swaps at:	
		June 30, 2006	June 30, 2005
\$ 11,405,000	Jan. 1, 2011	\$ (822,802)	\$ (693,028)
5,955,000	Dec. 15, 2012	(92,304)	(241,655)
25,000,000	Aug. 1, 2030	(1,973,538)	(5,211,243)
17,575,000	July 1, 2031	272,810	(1,623,570)
8,500,000	Sept. 18, 2031	247,920	(559,394)
8,500,000	Sept. 18, 2031	244,505	(559,394)
17,000,000	Sept. 18, 2031	(552,312)	—
30,000,000	Mar. 1, 2033	1,454,577	(1,475,220)
13,000,000	Jun. 23, 2035	155,368	(1,224,827)
13,000,000	Aug. 23, 2035	(415,303)	—
<u>\$149,935,000</u>		<u>\$ (1,481,079)</u>	<u>\$ (11,588,331)</u>

## (9) SHORT-TERM BORROWINGS

The University has two revolving lines of credit. One was established for daily operating needs and the other was established for management of the Stafford loan program. The operating line of credit has a maximum borrowing of \$50,000,000. The interest payable on this operating line of credit is established at 0.50% over the one-month LIBOR rate, or 5.875% at June 30, 2006. The outstanding balance for this line of credit was \$17,315,000 and \$9,905,000 at June 30, 2006 and 2005, respectively.

The Stafford loan program line of credit has a maximum borrowing of \$7,500,000 with interest payable at 0.45% over the one-month LIBOR, or 5.825% at June 30, 2006. The outstanding balances as of June 30, 2006 and 2005 were \$296,858 and \$126,843, respectively.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

In addition to the two 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 bonds 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. The outstanding balances and related interest rates under this agreement at June 30, 2006 and 2005 were \$8,809,000 at 5.40% and \$9,706,000 at 3.74%, respectively.

Short-term borrowings include \$2,281,536 and \$3,765,818 at June 30, 2006 and 2005, respectively, representing the overnight advances in the University's zero-balance operating accounts.

## (10) FUNCTIONAL EXPENSES

The University's classifications of expenses in the Consolidated Statements of Unrestricted Revenues, Expenses and Other Changes in Unrestricted Net Assets are combined by functional category as follows:

	<u>Year Ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
Instructional	\$ 103,471,934	\$ 95,959,073
Health care services	84,554,413	78,044,348
Student aid	1,287,141	1,987,273
Sponsored research	23,567,347	24,384,333
Academic support	41,428,655	38,210,530
Libraries	8,581,577	7,982,092
Student services	12,626,490	11,852,291
Institutional support	25,197,437	25,262,632
Auxiliary enterprises	32,209,888	30,061,179
	<u>\$ 332,924,882</u>	<u>\$ 313,743,751</u>
Total		

## (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 (SJH). SJH is owned by CSJRHC and is adjacent to the University's campus.

Significant transactions with SJH for the years ended June 30, 2006 and 2005, are as follows:

	<u>2006</u>	<u>2005</u>
<b>Revenues</b>		
Ancillary Departments	\$ 36,576,314	\$ 37,801,427
<b>Operating Expenses</b>		
Rent	\$ 1,815,552	\$ 1,595,064
Ancillary Departments	2,943,371	3,175,230

The University receives funding from HFF, primarily in the form of grants for its health care and research activities. Amounts received from HFF during 2006 and 2005 were \$3,020,795 and \$2,287,105, respectively.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

## (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 SJH. The Consolidated Statements of Unrestricted Revenues, Expenses and Other Changes in Unrestricted Net Assets for 2006 and 2005 include \$554,795 and \$24,433, respectively, 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, 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 \$333,333 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 were not significant to the University's change in net assets in 2006 and 2005.

## (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 applied to individual annuities. University contributions during the years ended June 30, 2006 and 2005 were \$9,177,705 and \$8,874,793, respectively.

## (14) SELF-INSURED HEALTH BENEFIT PLAN

The University has a self-insured benefit plan covering active employee health costs. The plan also covers medical house staff whose cost of participation is paid by SJH, and retirees who pay the full cost of their participation in the plan. Total claims paid under the plan for the fiscal years 2006 and 2005 were \$16,456,409 and \$16,899,004, respectively. The University carries stop-loss insurance coverage that limits the University's claim liability to \$200,000 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 \$3,472,000 and \$3,272,000 at June 30, 2006 and 2005, respectively. This liability is included in the reserves for employee benefits and compensated absences.

## (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, in 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 \$4,938,704 and \$4,478,958 for the years ended June 30, 2006 and 2005, respectively. Future minimum lease payments for which the University has made contractual commitments for the five years subsequent to June 30, 2006 are as follows:

2007	\$ 3,881,667
2008	3,005,762
2009	2,807,671
2010	2,500,862
2011	62,195
Total	<u>\$12,258,157</u>

In January 2006, the University entered into a 36-month fixed-price purchase order agreement 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 \$9.32/Dth to \$10.30/Dth. The period covered by the purchase agreement is April, 2006 through March, 2009. No amounts were paid for this agreement up front and there is no provision for a net settlement of the agreement. Payments on this contract are made based upon the volume ordered at the contract price in the applicable periods. The cost of the natural gas

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

purchased through this agreement is recorded as an expense in the period that the gas is delivered. Additionally, as of June 30, 2006, the University has contractual obligations of approximately \$355,000 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 2008.

### **(16) CHANGE IN ACCOUNTING PRINCIPLE - RECOGNITION OF ASSET RETIREMENT OBLIGATION**

In March 2005, the Financial Accounting Standards Board (FASB) issued Interpretation No. 47 (FIN 47), "Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143." This interpretation, effective for fiscal years ending after December 15, 2005, clarifies that an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. Uncertainty about the timing and (or) settlement method of a conditional asset retirement obligation is to be factored into the measurement of the liability.

The types of asset retirement obligations (ARO's) that are covered by FIN 47 are those for which an entity has a legal obligation to perform an asset retirement activity, however the timing and (or) method of settling the obligation are conditional on a future event that may or may not be within the control of the entity. FASB Statement 143 requires the fair value of the liability for a legal obligation associated with an asset retirement be recorded in the period in which the obligation is incurred. When the liability is initially recorded, the cost of the asset retirement is capitalized. The University's ARO liability recorded under FIN 47 primarily relates to costs associated with the appropriate treatment or disposal of asbestos-containing building materials in the event the materials are exposed during building renovation or demolition.

In adopting FIN 47 for the year ended June 30, 2006, the University recorded the cumulative effect of the change in accounting principle in the Consolidated Statements of Unrestricted Revenues, Expenses and Other Changes in Net Assets. FIN 47 requires retrospective application to the inception of the liability. Accordingly, the values of the asset retirement obligations were calculated using a range of discount rates from 4.18% to 5.07%, as determined by the year of the expected obligation settlement.

The cumulative effect of the change in accounting principle resulted in a \$6,347,804 reduction in net assets, consisting of the net effect of establishing the ARO liability, \$6,602,719, and capitalizing the related fixed asset component, \$254,915, as of June 30, 2005. Also recorded in the year ended June 30, 2006 was ARO liability accretion expense of \$292,462 and depreciation expense of \$38,924 associated with the related fixed assets, increasing the ARO liability to \$6,895,181 and decreasing the corresponding fixed assets to \$215,991 as of June 30, 2006. The ARO liability is included in Other liabilities in the Statement of Financial Position. The future value of the ARO liability is \$9,498,909, based on an estimated inflation rate of 3%.

### **(17) ASSETS HELD FOR SALE**

Assets held for sale consist of a residence in Pebble Beach, California contributed to the University in April 2005 and a commercial property in Eagan, Minnesota contributed to the University in May 2006. The residential property was originally recorded at \$10,000,000 based on an appraisal from the donor's estate. During the process of listing the property for sale it was determined that the market for Pebble Beach properties had declined subsequent to the date of the donation. Accordingly, an unrealized loss of \$1,000,000 was recorded to reduce the property to its net realizable value of \$9,000,000 as of June 30, 2006. The Minnesota commercial property is recorded at \$3,715,865 as of June 30, 2006.

Both properties are recorded net of anticipated selling costs. The residential property was included in investments as of June 30, 2005, since a plan to market the property was not in place and it was not probable that a sale would be completed within one year. As of June 30, 2006, specific plans to sell both properties are in place and management believes it is probable that both sales will be completed within one year.

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