CREIGHTON UNIVERSITY

Consolidated Financial Statements

June 30, 2012 and 2011

and

Schedule of Expenditures of Federal Awards

June 30, 2012

(With Independent Auditors' Report Thereon)

CREIGHTON UNIVERSITY

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Independent Auditors' Report

The Board of Trustees
Creighton University:

We have audited the accompanying consolidated statements of financial position of Creighton University (the University) as of June 30, 2012 and 2011, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2012 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

KPMG LLP

Omaha, Nebraska
October 26, 2012

CREIGHTON UNIVERSITY

Consolidated Statements of Financial Position

June 30, 2012 and 2011

(All amounts in thousands)

Assets		**2012**	**2011**
Cash and cash equivalents	$	32,112	16,444
Accounts receivable, net (note 3)		29,308	27,973
Contributions receivable, net (note 7)		10,139	11,020
Student loans receivable, net of reserve for doubtful accounts of $410 and $392 in 2012 and 2011, respectively		36,719	37,896
Prepaid expenses, inventories, and other assets		6,044	5,457
Investments (notes 4, 5, and 12)		402,509	436,037
Land, buildings, and equipment, net (note 6)		382,522	383,537
Total assets	$	899,353	918,364
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	55,417	52,007
Deferred income		13,868	13,687
Other liabilities		63,525	46,486
Refundable government student loan funds		29,954	29,876
Bonds and notes payable (note 8)		172,447	183,518
Total liabilities		335,211	325,574
Commitments and contingencies (note 15)			
Net assets (notes 2 and 5):			
Unrestricted		228,573	256,630
Temporarily restricted		148,129	154,156
Permanently restricted		187,440	182,004
Total net assets		564,142	592,790
Total liabilities and net assets	$	899,353	918,364

See accompanying notes to consolidated financial statements.

CREIGHTON UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2012

(All amounts in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net operating revenues:				
Tuition and fees	$ 251,345	—	—	251,345
Tuition discount and scholarship allowances	(68,175)	—	—	(68,175)
Net tuition and fees	183,170	—	—	183,170
Healthcare services revenue	210,295	—	—	210,295
Healthcare services revenue deductions	(79,675)	—	—	(79,675)
Net healthcare services revenue	130,620	—	—	130,620
Grants and contracts	33,724	—	—	33,724
Contributions	11,966	—	—	11,966
Investment income appropriated for operations	12,989	—	—	12,989
Auxiliary enterprises	30,714	—	—	30,714
Other revenues	11,194	—	—	11,194
Net assets released from restrictions (note 2)	5,324	—	—	5,324
Total net operating revenues	419,701	—	—	419,701
Operating expenses:				
Salaries, wages, and benefits	273,638	—	—	273,638
Contracted services	33,418	—	—	33,418
Supplies and materials	28,808	—	—	28,808
Depreciation and amortization	23,967	—	—	23,967
Interest expense	7,548	—	—	7,548
Utilities and communications	11,918	—	—	11,918
Other operating expenses	31,383	—	—	31,383
Total operating expenses	410,680	—	—	410,680
Changes in net assets from operating activities	9,021	—	—	9,021
Nonoperating changes in net assets:				
Investment return in excess of (less than) amounts appropriated for operations	(12,250)	2,118	(22)	(10,154)
Equity earnings (losses) in minority-owned affiliates	(20,678)	—	—	(20,678)
Change in fair value of interest rate swaps	(16,848)	—	—	(16,848)
Contributions for nonoperating purposes	3,579	3,532	6,318	13,429
Other changes in net assets	2,696	(581)	(209)	1,906
Net assets released from restrictions (note 2)	6,423	(11,096)	(651)	(5,324)
Net nonoperating changes in net assets	(37,078)	(6,027)	5,436	(37,669)
Increase (decrease) in net assets	(28,057)	(6,027)	5,436	(28,648)
Net assets, beginning of year	256,630	154,156	182,004	592,790
Net assets, end of year	$ 228,573	148,129	187,440	564,142

See accompanying notes to consolidated financial statements.

CREIGHTON UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2011

(All amounts in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
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
Healthcare services revenue	206,501	—	—	206,501
Healthcare services revenue deductions	(81,769)	—	—	(81,769)
Net healthcare services revenue	124,732	—	—	124,732
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	407,454	—	—	407,454
Operating expenses:				
Salaries, wages, and benefits	265,744	—	—	265,744
Contracted services	29,014	—	—	29,014
Supplies and materials	27,946	—	—	27,946
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	399,821	—	—	399,821
Changes in net assets from operating activities	7,633	—	—	7,633
Nonoperating 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 nonoperating 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 nonoperating changes in net assets	39,632	23,222	9,198	72,052
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	$ 256,630	154,156	182,004	592,790

See accompanying notes to consolidated financial statements.

CREIGHTON UNIVERSITY

Consolidated Statements of Cash Flows

Years ended June 30, 2012 and 2011

(All amounts in thousands)

		2012	2011
Cash flows from operating activities:			
Increase (decrease) in net assets	$	(28,648)	79,685
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:			
Noncash investment income		—	(196)
Equity losses from minority-owned affiliates		20,678	951
Unrealized gains on securities lending assets		—	(760)
Noncash contribution income		(1,153)	(1,412)
Depreciation, amortization, and accretion		23,940	24,117
Provision for uncollectible accounts and contractual allowances		(2,508)	514
Actuarial loss on annuities payable		613	588
Contributions for nonoperating purposes		(12,275)	(19,742)
Change in fair value of interest rate swap agreements		16,847	(4,341)
Net realized and unrealized (gains) losses on investments		6,500	(55,493)
Changes in operating assets and liabilities:			
Accounts receivable		712	2,219
Prepaid expenses, inventories, and other assets		(653)	(393)
Accounts payable and accrued expenses		1,696	(1,893)
Deferred income		181	(1,093)
Other liabilities		531	2,920
Net cash provided by operating activities		26,461	25,671
Cash flows from investing activities:			
Repayments on student loans		4,715	4,620
Student loans issued		(3,538)	(3,814)
Proceeds from the sales of investments		201,727	298,858
Purchases of investments		(194,533)	(305,931)
Purchases of land, buildings, and equipment, net		(20,457)	(14,445)
Net cash used in investing activities		(12,086)	(20,712)
Cash flows from financing activities:			
Cash contributions for nonoperating purposes		13,156	20,123
Proceeds from the issuance of long-term debt		—	50,030
Payments on long-term debt		(11,040)	(29,957)
Net payments on short-term debt		—	(33,493)
Increase in federal student loan funds		77	84
Net payments on annuity agreements		(900)	(1,191)
Net cash provided by financing activities		1,293	5,596
Net increase in cash and cash equivalents		15,668	10,555
Cash and cash equivalents, beginning of year		16,444	5,889
Cash and cash equivalents, end of year	$	32,112	16,444
Supplemental cash flow data:			
Cash paid for interest	$	7,823	7,158
Capital assets acquired through accounts payable		2,329	1,801
Capital assets acquired through capital lease		—	167
Noncash contributions		1,153	1,412

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

(a) 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 Midwestern region of the United States.

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

(b) 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, nonprofit 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 Trustees 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 that 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.

(c) 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.

(d) 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, healthcare, research, auxiliary, and administrative functions of the University. Amounts not included in the measure of operations consist of contributions for nonoperating or long-term purposes, equity earnings in minority-owned affiliates, 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 nonrecurring nature.

(e) 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.

(f) Healthcare Services

Healthcare 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, healthcare 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. Provision for bad debts is a reduction of patient service revenue.

The following illustrates the University's clinical patient service charges at its established rates and related revenue deductions for the years ended June 30, 2012 and 2011:

		2012	2011
Clinical patient service charges	$	143,001	140,300
Contractual allowances		(71,771)	(74,048)
Patient service revenue (net of contractual allowances and discounts)	$	71,230	66,252

Revenue from the Medicare program accounted for approximately 22% and 23% of the University's net clinical patient service revenues for the years ended June 30, 2012 and 2011, respectively. Clinical patient service revenue, (net of contractual allowances and discounts, but before the provision for bad debts), for the major payor sources during the year ended June 30, 2012 is as follows:

Commercial insurance and other third-parties	$	32,613
Medicare		15,670
Private (self-pay)		14,086
Medicaid		8,861
	$	71,230

It is inherent in Creighton'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. As the amounts

determined to qualify as charity care are not pursued for collection, they are not included in net healthcare services revenue as presented in the consolidated statements of activities.

(g) 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.

(h) Auxiliary Enterprises

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

(i) 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 1.6% – 2.0% for 2012 and 2.0% for 2011. The University's liability amounts were $9,537 and $9,979 at June 30, 2012 and 2011, 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.

(j) 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.

(k) 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 (notes 4 and 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).

(l) 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. Provision for bad debt and write-off activity related to the allowance for potential uncollectible balances for student loans is not material to the financial statements. At June 30, 2012, the amount of loans past due under the student loan programs are $2.1 million.

(m) 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.

(n) 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.

(o) 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. Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken and recognize a tax liability (or asset) if the organization has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. The University is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any tax periods. CSSI, a taxable subsidiary, had no taxable income for 2012 or 2011. Accordingly, no federal or state income taxes have been provided. As of June 30, 2012 and 2011, the University, CHC, and CSSI had no liability for unrecognized tax benefits.

(p) 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. Refer to note 14 for additional information on postretirement benefits.

(q) New Accounting Standards

Effective June 30, 2012, the University adopted Accounting Standards Update (ASU) 2011-07, *Health Care Entities: Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* (ASU 2011-07), which requires health care entities to present the provision for bad debt as a reduction of patient service revenue in the consolidated statements of operations rather than as operating expense. Additional disclosures relating to the sources of patient revenue and the allowance for doubtful accounts related to patient accounts receivable are also required. Due to the adoption of ASU 2011-07, the University reclassified $7,303 of provision for uncollectible accounts from operating expenses to health care services revenue deductions in the consolidated statement of activities for the year ended June 30, 2011.The adoption of this ASU had no impact on the financial condition, results of operations, or cash flows.

(2) Net Assets

Unrestricted net assets (deficit) consist of the following:

		2012	2011
Available for current operations	$	77,050	64,243
Designated by University for specific purposes		(53,613)	(27,109)
Endowment funds (note 5)		89,744	93,313
Invested in property, plant, and equipment		115,392	126,183
Total unrestricted net assets	$	228,573	256,630

Temporarily restricted net assets consist of the following:

		2012	2011
Contributions for buildings, amortized over the life of the corresponding facility	$	101,854	102,934
Contributions receivable		1,371	2,214
Annuity and life income funds		4,644	4,851
Unexpended income and contributions for restricted purposes		5,055	4,532
Endowment funds (note 5):			
Unappropriated income with specific purpose on permanently restricted endowments		35,011	39,423
Unappropriated income without specific purpose on permanently restricted endowments		194	202
Total temporarily restricted net assets	$	148,129	154,156

Permanently restricted net assets consist of the following:

		2012	2011
Endowment funds (note 5)	$	150,180	142,877
Endowment funds held in trust by others (note 5)		24,734	24,626
Contributions receivable		8,768	8,806
Student loan funds		416	2,348
Annuity and life income funds		3,342	3,347
Total permanently restricted net assets	$	187,440	182,004

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

		2012	2011
Departmental and other operational expenses	$	850	636
Additions to or renovations of plant facilities		3,830	3,577
Scholarships		644	—
Total net assets released from restrictions	$	5,324	4,213

Net assets released from restrictions included in nonoperating changes in unrestricted and temporarily restricted 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:

		2012	2011
Student accounts receivable	$	3,691	3,407
Patient accounts receivable		8,200	6,661
Grant funds receivable		3,982	4,603
Creighton University Medical Center (note 11)		7,641	8,283
Miscellaneous receivables		5,794	5,019
Total accounts receivable, net	$	29,308	27,973

Accounts receivable are reduced by an allowance for doubtful accounts and contractual adjustments. In evaluating patient accounts receivable by financial class, management regularly reviews an analysis of its historical collectability trends along with an aging of accounts receivable. For receivables associated with services provided to patients who have other third party payor or commercial insurance coverage, collectability is determined based on a combination of historical trends and contractual agreements. For receivables associated with self-pay patients, including patients without insurance and patients with deductibles and copayments, management analyzes historical trends in each of its predetermined stages of collectability and status of agreed upon payment plans. The difference between the standard or negotiated discounted rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Patient and student accounts receivable are recorded net of estimated reserves. Estimated reserves for uncollectible amounts and contractual allowances for patient accounts receivable were $13,530 and $11,288 at June 30, 2012 and 2011, respectively. Estimated reserves for uncollectible amounts on student accounts receivable were $1,033 and $768 at June 30, 2012 and 2011, respectively. 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, 2012 and 2011 are comprised of the following:

		2012	2011
Pooled investments:			
Short-term investments	$	6,898	6,546
Long-term investments		360,176	375,629
Investment in minority-owned subsidiaries and affiliates		9,906	28,389
Funds held in trust by others		25,529	25,473
Total University investments	$	402,509	436,037

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. Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, 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:

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, 2012:

	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 6,150	6,150	—	—
Investment money markets	947	947	—	—
Domestic equities	69,481	69,481	—	—
Domestic funds	4,731	4,731	—	—
International equities	1,708	1,708	—	—
International funds	83,818	14,373	69,445	—
Real asset funds	19,647	19,647	—	—
Corporate bonds	5,560	5,560	—	—
Fixed-income funds	42,052	39,552	2,500	—
Government obligations	5,099	5,099	—	—
Alternative investments:				
Fixed-income funds	18,365	—	18,365	—
Private equity funds	25,914	—	—	25,914
Real assets	26,705	—	—	26,705
Commodity funds	22,943	—	22,943	
Hedge funds	27,195	—	809	26,386
Notes and mortgages	1,447	—	—	1,447
Real estate	6,053	—	—	6,053
Commercial paper	5,246	—	5,246	—
Funds held in trust by others	25,530	—	—	25,530
Other	162	—	162	—
Subtotal	392,603	$ 161,098	119,470	112,035
Investments in minority affiliates recorded using equity method	9,906			
Total University investments	$ 402,509			

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:

	Total	Level 1	Level 2	Level 3
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	$ 436,037			

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. There were no changes in valuation methodology from 2011 to 2012.

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.

Equities and mutual funds – 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 nonpublicly 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.

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, commodities and fixed-income 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 based on fair value information received from external trustees and is calculated based upon information received from the trustee times the University's percentage 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 that 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 is 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.

There were no transfers between Level 1, 2, and 3 investments for the year ended June 30, 2012. The following table summarizes the changes in fair value of Level 3 investments for the year ended June 30, 2012:

		Alternative investments	Real estate, notes, and mortgages	Funds held in trust by others	Total Level 3
Balance at June 30, 2011	$	58,387	8,352	25,473	92,212
Realized and unrealized gains, net		3,957	—	57	4,014
Purchases		24,359	—	—	24,359
Sales		(7,698)	—	—	(7,698)
Mortgage payments		—	(852)	—	(852)
Balance at June 30, 2012	$	79,005	7,500	25,530	112,035
Total gains included in changes in net assets attributable to the change in unrealized gains relating to assets still held at the reporting date	$	1,055	—	57	1,112

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	$	58,387	8,352	25,473	92,212
Total gains included in changes in net assets attributable to the change in unrealized gains relating to assets still held at the reporting date	$	6,138	—	1,397	7,535

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, 2012 and 2011 are as follows:

		2012		2011	
		Cost	Fair value	Cost	Fair value
Short-term pooled investments	$	7,248	6,898	6,531	6,546
Investments:					
Stocks	$	7,664	8,184	7,659	8,790
Corporate bonds		7,474	7,722	6,752	7,144
Government obligations		1	1	4,449	4,514
University share of pooled endowment fund (note 5)		321,209	331,361	316,282	337,853
Notes and mortgages		1,447	1,447	2,300	2,300
Real estate		6,250	6,053	6,250	6,053
Commercial paper		5,246	5,246	8,577	8,577
Other		162	162	398	398
Long-term pooled investments	$	349,453	360,176	352,667	375,629

The following table summarizes investment return for 2012 and classification in the consolidated financial statements:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Dividends and interest	$ 4,753	4,144	242	9,139
Other investment income	196	—	—	196
Net realized and unrealized losses	(4,210)	(2,026)	(264)	(6,500)
Gain (loss) on investments	739	2,118	(22)	2,835
Less investment income appropriated for operations	(12,989)	—	—	(12,989)
Investment return in excess of (less than) amounts appropriated for operations	$ (12,250)	2,118	(22)	(10,154)

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

	Unrestricted	Temporarily restricted	Permanently restricted	Total
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	$ 26,751	20,884	3,578	51,213

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, 2012 and 2011:

Fiscal year ended June 30, 2012	Fair value	Unfunded commitment	Redemption frequency (if currently eligible)	Redemption notice period	Investment strategy
Fixed-income funds	$ 18,365	—	Daily	1 day	Core fixed income
Private equity funds (a)	25,914	24,744	Illiquid	—	Venture capital, distressed
Domestic and international equity funds	69,445	—	1-60 days	5-60 days	Domestic and international
Real assets (b)	26,705	18,469	Illiquid	—	Energy and real estate
Commodity funds	22,943	—	Monthly	—	Commodities markets
Hedge fund	27,195	—	Semi-annual	95 days	Multiple strategies
Totals	$ 190,567	43,213			

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

Fiscal year 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	—	Semiannual	95 days	Multiple strategies
Totals	$ 179,340	41,377			

(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, 2012 and 2011 is as follows:

		2012	2011
University share of pooled endowment fund	$	331,361	337,853
Short-term pooled investments		6,898	6,546
Miscellaneous securities in nonpooled assets		—	69
Operational and other funds invested in the pooled fund		(65,721)	(71,474)
Endowment funds held in trust by others		24,734	24,626
Nonpooled assets, including cash and cash equivalents, notes receivable, real estate, and other		2,592	2,821
Total endowment	$	299,864	300,441

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, 2012 and 2011 by security type, based upon the function that the investment serves in the portfolio:

	2012	2011
Equities – domestic	19%	17%
Equities – international	24	27
Fixed income securities	22	20
Commodities	6	8
Hedge funds	7	8
Private capital funds	20	17
Cash and cash equivalents	2	3
	100%	100%

The total rate of return on the pooled endowment fund was (0.2)% for the year ended June 30, 2012 and 18.9% for the year ended June 30, 2011.

(a) 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 Trustees 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.

(b) Interpretation of Relevant Law

The University Board of Trustees 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.

(c) Endowment Net Asset Composition by Fund Type

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

	Unrestricted	Temporarily restricted	Permanently restricted	Total
June 30, 2012:				
Donor-restricted endowments	$ (5,009)	35,205	174,915	205,111
Board-designated endowments	94,753	—	—	94,753
Endowment totals	$ 89,744	35,205	174,915	299,864

	Unrestricted	Temporarily restricted	Permanently restricted	Total
June 30, 2011:				
Donor-restricted endowments	$ (3,520)	39,625	167,503	203,608
Board-designated endowments	96,833	—	—	96,833
Endowment totals	$ 93,313	39,625	167,503	300,441

(d) Endowment Net Asset Reconciliation

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Beginning balance, July 1, 2011	$ 93,313	39,625	167,503	300,441
Investment income	3,218	3,971	64	7,253
Net investment depreciation	(3,031)	(2,005)	(71)	(5,107)
Contributions	574	—	6,109	6,683
Amounts appropriated for expenditure	(4,246)	(4,835)	—	(9,081)
Other changes	(84)	(1,551)	1,310	(325)
Ending balance, June 30, 2012	$ 89,744	35,205	174,915	299,864

	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	$ 93,313	39,625	167,503	300,441

(e) 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 $(5,009) and $(3,520) as of June 30, 2012 and 2011, 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.

(f) 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 Trustees, 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.

(g) 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.

(h) 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 multiplied by inflation multiplied by 50%
- Market value (one year prior to start of year being budgeted) multiplied by 4.25% multiplied by 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.

Endowment distributions net of investment management fees of $2,176 and $1,761 totaled $9,081 and $9,156 in the fiscal years ended June 30, 2012 and 2011, 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:

		2012	2011
Land	$	45,207	45,056
Land improvements		31,314	32,579
Buildings		422,954	415,459
Equipment		119,434	112,827
Library collection		70,096	66,696
Construction in progress		8,226	5,416
		697,231	678,033
Accumulated depreciation		(314,709)	(294,496)
	$	382,522	383,537

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 $102 and $354 for the fiscal years ended June 30, 2012 and 2011, respectively. The present value of the ARO liability is $8,371 as of June 30, 2012, and is 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 2012 and 2011 activity of the ARO liability:

		2012	2011
Beginning balance	$	8,390	8,044
Current year accretion of liability		102	354
Current year abatement costs		(121)	(8)
Ending balance	$	8,371	8,390

(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:

		2012	2011
One year or less	$	425	650
Between one and five years		300	725
More than five years		13,276	13,645
Less discount		(3,862)	(4,000)
	$	10,139	11,020

In addition, donors to the University have indicated intentions to contribute in future periods approximately $21,105 and $71,334 at June 30, 2012, and 2011, 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 at June 30, 2012 and 2011 consist of the following:

		2012	2011
$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)	$	15,850	16,692
$17,360 issuance of bonds (Nebraska Educational Finance Authority 2005B); annual principal payments through 2013; interest rates variable, 0.08% to 0.40% for 2012; (collateralized by unrestricted receipts, revenues, and income of the University)		2,180	7,445
$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)		103,091	103,636

		2012	2011
$7,076 issuance of loan notes (Douglas County Educational Facilities Loan Notes 2009); semiannual principal and interest payments 2009 through 2021; interest rates variable, 0.90% to 0.98% for 2012; (collateralized by certain buildings and equipment)	$	2,652	3,791
$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)		32,853	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)		12,745	13,180
$4,150 issuance of unsecured bank promissory notes; interest rate 3.58%		2,526	3,473
Other promissory notes		231	400
Installment purchases, collateralized by equipment		319	1,463
Total bonds and notes payable		172,447	183,518
Less current portion of bonds and notes payable		(6,980)	(10,151)
Noncurrent portion of bonds and notes payable	$	165,467	173,367

The fair value of the University's long-term debt approximates $168,328 and $182,958 at June 30, 2012 and 2011, 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 creditworthy 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 were 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 Nonrevolving 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 semiannual basis. The final maturity dates are July 1, 2040 and July 1, 2028, respectively, for the Series 2010A and Series 2010B bonds.

Repayments of bond and note principal in each of the five fiscal years subsequent to June 30, 2012 are scheduled as follows:

	Bond and note principal
Year ended June 30:	
2013	$ 6,980
2014	4,718
2015	3,879
2016	2,684
2017	2,776
Thereafter	151,410
Total payments	$ 172,447

Interest expense on long-term debt was $7,503 in 2012 and $8,164 in 2011. Interest expense is net of capitalized interest on construction projects of $0 in 2012 and $52 in 2011. 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, 2012, the University's maximum annual amount payable for funded debt service is 4.9% of total revenue and the ratio of "ready current assets" to "pro forma funded debt service" is 5.6 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, 2012, these ratios were 1.9 to 1 and 1.4 to 1, respectively. The University was in compliance with all applicable debt covenants as of June 30, 2012 and 2011.

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 creditworthiness.

The swap agreements are considered derivative financial instruments and the estimated fair values have been reported in other liabilities in the consolidated statements of financial position at June 30, 2012 and 2011. The net changes in the estimated fair value of the agreements have been reported as a component of unrestricted nonoperating changes in net assets in the consolidated statements of activities for the years ended June 30, 2012 and 2011.

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.

The University had the following interest rate swaps outstanding at June 30, 2012:

Purchase date	Notional	Creighton pays	Creighton receives	Change in fair value
Aug. 2001	$ 25,000	4.455%	68% of 1 month LIBOR	$ (4,646)
Mar. 2003	27,650	3.520%	70% of 1 month LIBOR	(3,939)
Aug. 2004	17,575	3.600%	68% of 1 month LIBOR	(2,970)
Jan. 2004	2,180	5.150%	70% of 1 month LIBOR plus 0.25%	120
Feb. 2005	8,500	3.642%	Greater of 67% of 1 month LIBOR or 63% of 1 month LIBOR plus 0.20%	(1,359)
Feb. 2005	8,500	3.642%	Greater of 67% of 1 month LIBOR or 63% of 1 month LIBOR plus 0.20%	(1,368)
Apr. 2005	13,000	3.769%	67% of 1 month LIBOR	(2,686)
Total	$ 102,405	Total change in fair value for the year ended June 30, 2012		$ (16,848)

The total fair value of the swap agreements at June 30, 2012, an unrealized loss of $34,478, 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 losses of $16,848 for the year ended June 30, 2012 and unrealized gains of $4,341 for the year ended June 30, 2011, as a component of unrestricted nonoperating changes in net assets in the consolidated statements of activities. 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, 2012 and 2011:

Notional amounts	Expiration dates	Estimated fair value of swaps at June 30 2012	Estimated fair value of swaps at June 30 2011
$ 25,000	Aug. 1, 2030	$ (11,279)	(6,632)
27,650	Mar. 1, 2033	(7,229)	(3,291)
17,575	Aug. 1, 2031	(5,912)	(2,942)
2,180	Dec. 15, 2012	(51)	(172)
8,500	Sept. 18, 2031	(2,500)	(1,140)
8,500	Sept. 18, 2031	(2,518)	(1,150)
13,000	Aug. 23, 2035	(4,989)	(2,303)
$ 102,405		$ (34,478)	(17,630)

The University's interest rate swaps are valued at fair value using Level 2 inputs by the swap managers using a discounted cash flow analysis. The following table summarizes the classification of the University's fair value measurement of swaps as of June 30, 2012 and 2011:

	Total	Level 1	Level 2	Level 3
Interest rate swaps (2012)	$ (34,478)	—	(34,478)	—
Interest rate swaps (2011)	(17,630)	—	(17,630)	—

(9) Short-Term Borrowings

The University has two current revolving lines of credit established for daily operating needs as of June 30, 2012. 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 1.25% over the one-month LIBOR, or 1.49% at June 30, 2012. The outstanding balances on this line of credit were $0 and $0 at June 30, 2012 and 2011, 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 one-month LIBOR. The interest rate was 2.24% at June 30, 2012. The outstanding balance on this line of credit was $0 and $0 at June 30, 2012 and 2011.

In addition to the two revolving lines of credit, the University had a collateralized short-term loan agreement (reverse repurchase agreement), that expired during fiscal 2012. Under the terms of this agreement, the University could borrow funds using certain of its zero-coupon bond investments as collateral. Interest for each borrowed amount was 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, 2012 and 2011 were $0 at 0.61% and $0 at 1.05%, 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:

	Year ended June 30	
	2012	**2011**
Instructional	$ 130,414	129,644
Healthcare services	93,538	94,764
Student aid	1,630	1,641
Sponsored research	25,381	26,680
Academic support	49,886	48,516
Libraries	10,239	10,465
Student services	17,728	17,662
Institutional support	34,935	31,430
Auxiliary enterprises	46,929	46,322
Total	$ 410,680	407,124

Included under Institutional support in the above table are University fundraising expenses of $3,153 and $3,293 for the fiscal years ended June 30, 2012 and 2011, respectively.

(11) Transactions with Related Parties

The University is affiliated by agreement with Tenet Healthcare Corporation that 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, 2011 audited financial statements for CSJRHC is as follows:

Net operating revenue	$ 180,250
Total operating expenses	188,630
Members' equity at December 31, 2011	104,702

Significant transactions with CUMC for the years ended June 30, 2012 and 2011 are as noted below. Refer to note 16 for a subsequent event involving CUMC.

	Year ended June 30	
	2012	**2011**
Revenues:		
Ancillary departments	$ 38,044	37,653
Expenses:		
Rent	$ 2,088	2,055
Ancillary departments	526	60

The University receives funding from HFF, primarily in the form of grants for its healthcare and research activities. Amounts received from HFF during 2012 and 2011 were $1,884 and $1,801, 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 2012 and 2011 include $(21,629) and $(1,338), respectively, in nonoperating equity losses, representing CHC's equity in CSJRHC earnings.

Children's Physicians

The University has a 33% ownership in Children's Physicians, a nonprofit corporation jointly operated with Children's Hospital and Medical Center, an Omaha nonprofit pediatric hospital.

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 $951 in 2012 and $387 in 2011 are included in nonoperating equity earnings in the consolidated statements of activities for 2012 and 2011. 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, 2012 and 2011 were $8,784 and $8,852, respectively.

(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 2012 and 2011 were $20,630 and $18,042, 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 $2,237 and $2,149 at June 30, 2012 and 2011, respectively. 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 $5,487 and $5,781 for the years ended June 30, 2012 and 2011, respectively. Future minimum lease payments for which the University has made contractual commitments for the five years subsequent to June 30, 2012 are as follows:

2013	$	3,966
2014		3,592
2015		3,375
2016		904
2017		772
Total	$	12,609

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, 2012, the University has contractual obligations of approximately $4,521 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.

(16) Subsequent Events

In July 2012, the University signed an asset purchase agreement with Tenet Healthcare Corporation (Tenet) and Alegent Health (Alegent), where a wholly-owned subsidiary of Alegent purchased certain assets and assumed certain liabilities of CUMC. Effective with the asset purchase agreement, the University and Tenet entered into a member agreement, where the University transferred its ownership in CUMC to Tenet. As a result of these agreements, the University received ownership of CUMC's real property.

Concurrent with the agreements above, the University entered into a strategic affiliation agreement with Alegent whereby Alegent hospitals (including CUMC) will become the primary teaching sites for the University's school of medicine. The strategic affiliation agreement will require payments by Alegent to the University for costs associated with medical residents and other guaranteed educational support. Further, as part of the agreement, the University contributed substantially all of the assets and liabilities of the University's clinical health practice, Creighton Medical Associates, to Alegent. This affiliation significantly expands patient access for the University's medical and other health science students to include all Alegent hospitals.

The strategic affiliation agreement requires a $50 million contribution by the University to a shared strategic investment fund at Alegent to support the new affiliation between the parties. The $50 million contribution to be made by the University will be funded through a contribution from Health Future Foundation.

The University has evaluated subsequent events through October 26, 2012, the date the consolidated financial statements were available to be issued, and noted no additional items to disclose.

CREIGHTON UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2012

Federal grantor/program or cluster title	CFDA No.	Federal expenditures	Pass-through funds	
			Awarding organization	Program number
Student Financial Assistance Cluster:				
Department of Education:				
Federal Supplemental Educational Opportunity Grants	84.007	$ 694,006		
Federal Work-Study Program	84.033	1,029,280		
Federal Pell Grant Program	84.063	3,108,208		
Department of Health and Human Services:				
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342	31,911		
Nursing Student Loans	93.364	10,301		
Total Student Financial Assistance Cluster		4,873,706		
Research and Development Cluster:				
Department of Health and Human Services:				
Public Health and Emergency Preparedness	93.069	25,055	University of Nebraska Medical Center	3U90-TP716975
Food & Drug Administration Research	93.103	29,061	Columbia University	1R01 FD003902-01
Environmental Health	93.113	170,982		
Oral Diseases and Disorders Research	93.121	203,382		
Oral Diseases and Disorders Research	93.121	35,837	Harvard School of Dental Medicine	1R01 DE021051-01
Research Related to Deafness and Communication Disorders	93.173	476,054		
Research Related to Deafness and Communication Disorders	93.173	81,188	University of California, Davis	1R01 DC008649
Research on Healthcare Costs, Quality and Outcomes	93.226	446,030		
Grants for Dental Public Health Residency Training	93.236	30,661		
Mental Health Research Grants	93.242	217,120		
Mental Health Research Grants	93.242	2,391	Molecular Targeting Technologies Inc	7R44 MH079805
Mental Health Research Grants	93.242	24,263	Columbia University	5R01 MH081107-03
Drug Abuse and Addiction Research Programs	93.279	39,438	University of Kansas Center for Research	5R01 DA018832
Drug Abuse and Addiction Research Programs	93.279	7,014	University of Kansas	1R01 DA032928-01
Drug Abuse and Addiction Research Programs	93.279	7,013	University of Kansas	2R01 DA018832-06A1
Minority Health and Health Disparities Research	93.307	83,764		
Trans NIH Research Support	93.310	85,530	Scripps Research Institute	3U54 MH084572-04S1
Nursing Research	93.361	516,329		
National Center for Research Resources	93.389	739,490	University of Nebraska Medical Center	1P20 RR018788-01
National Center for Research Resources	93.389	558,821	University of Nebraska Medical Center	1P20 RR16469-01
National Center for Research Resources	93.389	12,455	University of Nebraska Medical Center	1P20 GM103427-12
Cancer Cause and Prevention Research	93.393	1,137,194		
Cancer Cause and Prevention Research	93.393	20,317	University of Massachusetts	5R01 CA136888
Cancer Control	93.399	655,047	Missouri Valley Cancer Consortium	5U10 CA63849
ARRA – Trans-NIH Recovery Act Research Support	93.701	1,646,979		
ARRA – Trans-NIH Recovery Act Research Support	93.701	11,373	University of Kansas	2R01 DA010035
ARRA – Recovery Act – Comparative Effectiveness Research	93.715	31,237	Boston University	1R21 HS019527
Cardiovascular Diseases Research	93.837	1,234,040		
Cardiovascular Diseases Research	93.837	292	New England Research Institute	N01-HC-45207
Cardiovascular Diseases Research	93.837	19	BWH	5R01 HL091069
Blood Diseases and Resources Research	93.839	276,094		
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	958,514		
Diabetes, Endocrinology and Metabolism Research	93.847	489,081		
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	654,847		
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	207,787	University of California, San Diego	2R01 NS053398-10A1
Allergy, Immunology and Transplantation Research	93.855	1,334,272		

(Continued)

CREIGHTON UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2012

Federal grantor/program or cluster title	CFDA No.	Federal expenditures	Pass-through funds Awarding organization	Pass-through funds Program number
Biomedical Research and Research Training	93.859	$ 227,610		
Biomedical Research and Research Training	93.859	10,008	University of Southern California	R01 GM043236-15A2
Child Health and Human Development Extramural Research	93.865	45,068		
Child Health and Human Development Extramural Research	93.865	45,355	Children's Hospital of Philadelphia	R01 HD058886
Aging Research	93.866	55,017		
Aging Research	93.866	55,134	University of Nebraska Medical Center	1R01 AG034995
Vision Research	93.867	92,995		
Vision Research	93.867	4,113	Texas Southern University	1R15 N5053398-10A1
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988	62,477	Glaucoma Caucus Foundation	E11 CDC 220462-01
National Aeronautics and Space Administration:				
National Aeronautics and Space Administration	43.RD	21,491	University of Nebraska at Omaha	NNX10AN62H
National Science Foundation:				
Mathematical and Physical Sciences	47.049	55,642		
Education and Human Resources	47.076	24,929		
Office of Experimental Program to Stimulate Competitive Research	47.081	192,612	University of Nebraska, Lincoln	EPS 1004094
Department of Energy:				
Office of Science Financial Assistance Program	81.049	189,102		
Renewable Energy Research and Development	81.087	848,427		
Department of Commerce:				
Climate and Atmospheric Research	11.431	58,845		
Educational Partnership Program	11.481	65,233	Florida A&M University	NA060AR4810164
Department of Defense:				
Military Medical Research and Development	12.420	404,393		
Department of Veteran Affairs:				
IPA Agreement – Research Scholar	27.011	68,196		
National Intelligence Agency:				
Basic, Applied and Advanced Research in Science and Engineering	12.630	50,131	University of Nebraska, Lincoln	25-1201-0015-001
Total Research and Development Cluster		15,025,749		
Department of Education:				
Trio Cluster:				
Student Support Services	84.042	292,199		
Talent Search	84.044	306,056		
Upward Bound	84.047	861,010		
Educational Opportunity Centers	84.066	231,667		
Total Trio Cluster		1,690,932		

(Continued)

CREIGHTON UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2012

Federal grantor/program or cluster title	CFDA No.	Federal expenditures	Pass-through funds	
			Awarding organization	Program number
Other federal assistance:				
Department of Health and Human Services:				
Maternal and Child Health Federal Consolidated Programs	93.110	2,210	Father Flanagan's Boys Home	
Epidemiology Cooperative Agreements	93.231	5,154	Great Plains Tribal Chairmen's Health Board	U261 HS300288-03
Substance Abuse and Mental Health Services	93.243	2,071	Omaha Nations	5U79 SM058399
Substance Abuse and Mental Health Services	93.243	8,091	NHHS	
Advanced Nursing Education Traineeships	93.358	22,491		
Health Careers Opportunity Program	93.822	202,069		
Health Care and Other Facilities	93.887	382,391		
Biomedical Research and Research Training	93.859	34,964	University of Nebraska Medical Center	5R25 GM074089-08
National Network of Libraries of Medicine	93.879	81,209	University of Utah	N01-LM-6-3504
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation	93.988	98,179		
Total Department of Health and Human Services		838,829		
Department of Agriculture:				
Child and Adult Care Food Program	10.588	15,863		
Department of Commerce:				
Economic Development Technical Assistance	11.303	120,558		
Department of Education:				
College Access Challenge Grant Program	84.378	7,562	State of Nebraska	
Department of Justice:				
Crime Victim Assistance	16.582	12,505		
Total Expenditures of Federal Awards		$ 22,585,704		

See accompanying independent auditors' report and notes to schedule of expenditures of federal awards.

(1) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying supplementary schedule of expenditures of federal awards (the Schedule) presents the activity of federal financial assistance received from federal agencies and pass-through entities by Creighton University (the University).

Expenditures for direct costs are recognized as incurred using the accrual method of accounting and the cost accounting principles contained in the U.S. Office of Management and Budget (OMB) Circular A-21, *Cost Principles for Educational Institutions*. Under those cost principles, certain expenditures are not allowable or are limited as to reimbursement. Moreover, expenditures include a portion of costs associated with general University activities, which are allocated to federal awards under negotiated formulas, referred to as "indirect costs." Indirect costs and related revenue applicable to these cost recoveries are classified as unrestricted expenditures and revenues in the University's consolidated financial statements.

Expenses are subject to audit by the U.S. government, and in the opinion of management, disallowed costs, if any, will not have a material effect on the financial position of the University or its federal programs.

(2) Reconciliation of Federal Awards to Basic Financial Statements

The following schedule is a reconciliation of total expenditures as shown on the Schedule to grants and contracts revenue presented in the consolidated statement of activities, which is included as part of the University's basic financial statements.

Total expenditures per the supplementary schedule of expenditures of federal awards	$	22,585,704
Student assistance not considered revenues per consolidated financial statements		(3,150,420)
Grants and contracts revenues related to private and nonfederal government grants		14,288,769
Grants and contracts per the consolidated statement of activities	$	33,724,053

(3) Loans Outstanding

Outstanding balances of student loans held by the University at June 30, 2012 and student loans advanced during the year were as follows:

Federal program	CFDA No.		Amount outstanding	Loans advanced
Federal Perkins Loan Program	84.038	$	27,852,592	2,742,771
Health Professions Student Loans	93.342		7,030,522	413,170
Nursing Student Loans	93.364		1,863,781	440,636
		$	36,746,895	3,596,577

The University is a direct lender under the above student loan programs. The University also participated in the U.S. Department of Education William P. Ford Federal Direct Loan Program (CFDA No. 84.268). During the year ended June 30, 2012, the University's students received $132,157,940 in new loans under this program.

(4) Funds Passed through to Subrecipients

Certain federal funds are provided to subrecipient organizations by the University. The following expenditures of federal awards were incurred by subrecipients and reimbursed by the University and included on the Schedule as part of direct awards for the year ended June 30, 2012:

Cluster	CFDA No.	Subrecipient expenditures
Research and Development Cluster	12.420	$ 36,388
Research and Development Cluster	93.121	78,828
Research and Development Cluster	93.393	20,937
Research and Development Cluster	93.701	382,931
Research and Development Cluster	93.837	25,000
Research and Development Cluster	93.846	162,278
Research and Development Cluster	93.847	90,751
Research and Development Cluster	93.855	32,888
Research and Development Cluster	93.859	48,764
Research and Development Cluster	93.866	37,840
Research and Development Cluster	93.988	(10,251)
		$ 906,354

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Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Trustees
Creighton University:

We have audited the consolidated financial statements of Creighton University (the University) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the University is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Trustees, others within the entity, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Omaha, Nebraska
October 26, 2012

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Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

The Board of Trustees
Creighton University:

Compliance

We have audited Creighton University's (the University) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* (Compliance Supplement) that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2012, except the requirements discussed in the second paragraph of this report. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We did not audit the University's compliance with the requirements governing the student loan repayments special test and provision compliance requirement in accordance with the requirements of the Student Financial Assistance Cluster: Federal Perkins Loan program as described in the Compliance Supplement. Those requirements govern functions performed by Educational Computer Services, Inc. (ECSI). Since we did not apply auditing procedures to satisfy ourselves as to compliance with those requirements, the scope of work was not sufficient to enable us to express, and we do not express, an opinion on compliance with those requirements. ECSI's compliance with the requirements governing the functions that it performs for the University for the year ended June 30, 2012 was examined by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Our report does not include the results of the other accountants' examination of ECSI's compliance with such requirements.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements described in the Compliance Supplement that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the University's compliance with those requirements.

In our opinion, Creighton University complied, in all material respects, with the compliance requirements referred to in the first paragraph above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133, and which is described in the accompanying schedule of findings and questioned costs as finding 2012-1.

Internal Control over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

Requirements governing the student loan repayments special test and provision compliance requirement in the Student Financial Assistance Cluster: Federal Perkins Loan program as described in the Compliance Supplement are performed by ECSI. Internal control over compliance related to such functions for the year ended June 30, 2012 was reported on by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Our report does not include the results of the other accountants' testing of ECSI's internal control over compliance related to such functions.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as findings 2012-1 and 2012-2. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Schedule of Expenditures of Federal Awards

We have audited the consolidated financial statements of the University as of and for the year ended June 30, 2012, and have issued our report thereon dated October 26, 2012, which contained an unqualified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. We have not performed any procedures with respect to the audited consolidated financial statements subsequent to October 26, 2012. The

accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

The University's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the University's responses, and accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Board of Trustees, management of the University, others within the entity, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Omaha, Nebraska
November 2, 2012,
except for our report in the Schedule of
Expenditures of Federal Awards, for
which the date is October 26, 2012

CREIGHTON UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

(1) Summary of Auditors' Results

Financial Statements

Type of auditors' report issued on the consolidated financial statements:	**Unqualified opinion**
Internal control over financial reporting:	
• Material weaknesses identified:	**No**
• Significant deficiencies identified that are not considered to be material weaknesses:	**None Reported**
Noncompliance material to consolidated financial statements noted:	**No**

Federal Awards

Internal control over major programs:	
• Material weaknesses identified:	**No**
• Significant deficiencies identified that are not considered to be material weaknesses:	**Yes**
Type of auditors' report issued on compliance for major programs:	**Unqualified opinions**
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133:	**Yes**

Identification of major programs:

- **Student Financial Assistance Cluster**
- **Research and Development Cluster**
- **TRIO Cluster**

Dollar threshold used to distinguish between Type A and Type B programs:	**$531,360**
Auditee qualified as low-risk auditee under Section 530 of OMB Circular A-133:	**Yes**

(2) Findings Related to the Consolidated Financial Statements Reported in Accordance with *Government Auditing Standards*

None

(Continued)

(3) Findings and Questioned Costs Related to Federal Awards

Finding 2012-1

Federal Agency: Various

Federal Program Title: Research and Development Cluster (Various CFDA Nos.)

Grant Identification Numbers: Various under Research and Development Cluster

Compliance Requirement: Equipment and Real Property Management

Criteria: OMB Circular A-110 (2 CFR Section 215.34) sets forth the requirements of managing equipment purchased with federal funds, including the use, control system to be put in place, property management records to be maintained, inventory observations required, and the requirements of the disposal of the equipment and related proceeds. Specifically, Section 215.34 f(2) requires that equipment owned by the federal government shall be identified to indicate federal ownership.

Conditions Found: The University uses physical tags to be applied to capitalizable equipment, including equipment purchased with federal funds. In testing the equipment and real property management compliance requirement, it was discovered that 3 of 25 assets tested were not tagged. During 2012, the Controller's Office began to keep a log of what tags were sent to the University's departments and on what date they were sent. However, for the selected items that were purchased prior to fiscal year 2012, no log was kept and tags produced could not be located for all the assets selected.

Questioned Costs: None

Context: For all exceptions, the University's departments could not locate a tag for the asset. For one of the 25 items, the equipment was not able to be identified by the department and could not be physically inspected by the audit team. The remaining equipment items were identified and inspected by the audit team.

Cause and Effect: The University has policies in place to ensure tags are produced and applied to assets purchased with federal funds; however, these policies were not being consistently applied and enforced, which caused noncompliance with federal regulations.

Recommendations: We recommend that the University follow their policies and ensure tags are placed on equipment on a timely basis. As a part of that process, the Controller's Office should develop a process to clearly inform the department of their responsibilities and the specified time line, and to develop a mechanism to track and monitor compliance.

View of Responsible Officials and Corrective Action Plan: The University concurs with the observation. The asset tagging instructions were updated during fiscal 2012 to more clearly define the departmental responsibilities and time line for tagging new equipment purchases. Departments to whom asset tags are sent are now required to confirm with the Controller's Office that they have received the tags and have affixed the tags within the required time line. Some of the exceptions noted were purchased prior to this change in procedure during fiscal 2012.

Finding 2012-2

Federal Agency: Various

Federal Program Title: Research and Development Cluster (Various CFDA Nos.)

Grant Identification Numbers: Various under Research and Development Cluster

Compliance Requirement: Allowable Costs/Cost Principles

Criteria: OMB Circular A-21, Section G.2, sets forth the requirements of ensuring that an appropriate distribution basis is determined to apply federally approved indirect cost rates or award-specific rates in the determination of facilities and administrative costs charged to research grants.

Conditions Found: The University's financial system is configured to calculate a facilities and administrative cost for each direct cost charged to a grant based on the federally approved or award-specific rate input into the system and the system configuration of the direct cost general ledger accounts to be included in the distribution base. In testing of indirect costs, it was determined that controls requiring review of system configuration changes were not operating effectively to ensure that changes in the standard system configuration of the direct cost general ledger accounts to be included in the distribution base were accurate.

Questioned Costs: None

Context: For 1 out of 40 direct costs tested, it was determined that the indirect cost rate was not applied to the appropriate indirect cost base. Due to inaccurate input of award information into the system configuration of the general ledger accounts to be applied to indirect costs rates, certain direct cost general ledger accounts were excluded from the calculation of indirect costs for grant award R01CA129488, Cancer Cause and Prevention Research, CFDA No. 93.393. Based on this finding, management determined that for the year ended June 30, 2012, $90,605 of allowable indirect cost charges had not been charged to this grant. Based on the grant agreement, this grant allowed for rent costs to be charged as a direct cost; however, the rent costs were to be excluded from the distribution base. This required a change to the standard system configuration, which is based on the requirements of OMB Circular A-21. There is no noncompliance related to this finding.

Cause and Effect: The University has policies in place to ensure changes to the system configurations are being reviewed; however, these policies were not being consistently applied and enforced, which caused noncompliance with federal regulations.

Recommendations: We recommend that the University follow their policies and ensure changes in system configuration are reviewed.

View of Responsible Officials and Corrective Action Plan: The University concurs with the observation. Creation of new basis codes is an infrequent event and as such should require an extra level of review. The procedure for creating a new basis code has been modified to include review by a manager at the time of initial setup. In addition, a recalculation of the indirect costs will be performed 30 days after setup to confirm the accuracy of the setup.