CREIGHTON UNIVERSITY

Consolidated Financial Statements

June 30, 2015 and 2014

(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 financial statements of Creighton University (the University), which comprise the consolidated statements of financial position as of June 30, 2015 and 2014, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

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, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Omaha, Nebraska
October 26, 2015

CREIGHTON UNIVERSITY

Consolidated Statements of Financial Position

June 30, 2015 and 2014

(All amounts in thousands)

Assets		**2015**	**2014**
Cash and cash equivalents	$	29,738	35,468
Accounts receivable, net (note 3)		17,710	20,843
Contributions receivable, net (note 7)		19,221	18,783
Student loans receivable, net of reserve for doubtful accounts of $687 and $516 in 2015 and 2014, respectively		32,776	34,460
Prepaid expenses, inventories, and other assets		8,168	7,601
Investments (notes 4, 5, and 12)		619,944	575,501
Land, buildings, and equipment, net (note 6)		400,058	400,056
Total assets	$	1,127,615	1,092,712
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	52,596	56,682
Deferred income		18,625	17,040
Other liabilities		57,819	54,694
Refundable government student loan funds		30,326	30,253
Bonds and notes payable (note 8)		154,172	157,216
Total liabilities		313,538	315,885
Commitments and contingencies (note 15)			
Net assets (note 2):			
Unrestricted		375,314	360,876
Temporarily restricted		223,587	208,668
Permanently restricted		215,176	207,283
Total net assets		814,077	776,827
Total liabilities and net assets	$	1,127,615	1,092,712

See accompanying notes to consolidated financial statements.

CREIGHTON UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2015

(All amounts in thousands)

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Net operating revenue:					
Tuition and fees	$	287,606	—	—	287,606
Tuition discount and scholarship allowances		(77,781)	—	—	(77,781)
Net tuition and fees		209,825	—	—	209,825
Educational support contract revenue		37,545	—	—	37,545
Net healthcare services revenue		11,570	—	—	11,570
Grants and contracts		22,057	—	—	22,057
Contributions		11,018	—	—	11,018
Investment income appropriated for operations		17,388	—	—	17,388
Auxiliary enterprises		35,957	—	—	35,957
Other revenue		15,602	—	—	15,602
Net assets released from restrictions (note 2)		6,079	—	—	6,079
Total net operating revenue		367,041	—	—	367,041
Operating expenses:					
Salaries, wages, and benefits		212,240	—	—	212,240
Contracted services		46,541	—	—	46,541
Supplies and materials		18,385	—	—	18,385
Depreciation and amortization		24,232	—	—	24,232
Interest expense		7,382	—	—	7,382
Utilities and communications		11,184	—	—	11,184
Other operating expenses		28,523	—	—	28,523
Total operating expenses		348,487	—	—	348,487
Changes in net assets from operating activities		18,554	—	—	18,554
Nonoperating changes in net assets:					
Investment return in excess of (less than) amounts appropriated for operations		(11,454)	5,618	512	(5,324)
Equity earnings in minority-owned affiliates		400	—	—	400
Change in fair value of interest rate swaps		(2,210)	—	—	(2,210)
Contributions for nonoperating purposes		192	23,679	8,448	32,319
Other changes in net assets		—	(33)	(377)	(410)
Net assets released from restrictions (note 2)		8,956	(14,345)	(690)	(6,079)
Net nonoperating changes in net assets		(4,116)	14,919	7,893	18,696
Increase in net assets		14,438	14,919	7,893	37,250
Net assets, beginning of year		360,876	208,668	207,283	776,827
Net assets, end of year	$	375,314	223,587	215,176	814,077

See accompanying notes to consolidated financial statements.

CREIGHTON UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2014

(All amounts in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net operating revenue:				
Tuition and fees	$ 274,226	—	—	274,226
Tuition discount and scholarship allowances	(74,158)	—	—	(74,158)
Net tuition and fees	200,068	—	—	200,068
Educational support contract revenue	37,687	—	—	37,687
Net healthcare services revenue	11,446	—	—	11,446
Grants and contracts	24,643	—	—	24,643
Contributions	12,982	—	—	12,982
Investment income appropriated for operations	16,503	—	—	16,503
Auxiliary enterprises	35,864	—	—	35,864
Other revenue	23,972	—	—	23,972
Net assets released from restrictions (note 2)	7,905	—	—	7,905
Total net operating revenue	371,070	—	—	371,070
Operating expenses:				
Salaries, wages, and benefits	218,750	—	—	218,750
Contracted services	46,468	—	—	46,468
Supplies and materials	19,855	—	—	19,855
Depreciation and amortization	22,903	—	—	22,903
Interest expense	7,399	—	—	7,399
Utilities and communications	11,751	—	—	11,751
Other operating expenses	28,568	—	—	28,568
Total operating expenses	355,694	—	—	355,694
Changes in net assets from operating activities	15,376	—	—	15,376
Nonoperating changes in net assets:				
Investment return in excess of amounts appropriated for operations	19,849	35,648	2,686	58,183
Equity earnings in minority-owned affiliates	992	—	—	992
Change in fair value of interest rate swaps	(634)	—	—	(634)
Contributions for nonoperating purposes	39,573	16,025	7,017	62,615
Other changes in net assets	—	(17)	(457)	(474)
Net assets released from restrictions (note 2)	10,190	(18,116)	21	(7,905)
Net nonoperating changes in net assets	69,970	33,540	9,267	112,777
Increase in net assets	85,346	33,540	9,267	128,153
Net assets, beginning of year	275,530	175,128	198,016	648,674
Net assets, end of year	$ 360,876	208,668	207,283	776,827

See accompanying notes to consolidated financial statements.

CREIGHTON UNIVERSITY

Consolidated Statements of Cash Flows

Years ended June 30, 2015 and 2014

(All amounts in thousands)

		2015	2014
Cash flows from operating activities:			
Increase in net assets	$	37,250	128,153
Adjustments to reconcile increase in net assets to net cash provided by operating activities:			
Equity earnings from minority-owned affiliates		(400)	(992)
Noncash contribution income		(16,026)	(36,809)
Depreciation, amortization, and accretion		24,309	22,976
Actuarial loss on annuities payable		533	603
Contributions for nonoperating purposes		(14,333)	(22,477)
Change in fair value of interest rate swap agreements		2,210	634
Net realized and unrealized gains on investments		(832)	(63,130)
Changes in operating assets and liabilities:			
Accounts receivable		3,133	10,070
Prepaid expenses, inventories, and other assets		(652)	(2,457)
Accounts payable and accrued expenses		(4,488)	(1,942)
Deferred income		1,585	1,247
Other liabilities		1,125	(1,182)
Net cash provided by operating activities		33,414	34,694
Cash flows from investing activities:			
Repayments on student loans		6,004	5,343
Student loans issued		(4,320)	(4,185)
Proceeds from the sales of investments		148,259	272,606
Purchases of investments		(188,570)	(318,384)
Purchases of land, buildings, and equipment, net		(23,746)	(35,349)
Net cash used in investing activities		(62,373)	(79,969)
Cash flows from financing activities:			
Cash contributions for nonoperating purposes		27,071	29,063
Proceeds from issuance of long-term debt		—	99,675
Payments on long-term debt		(3,013)	(105,906)
Increase in federal student loan funds		73	251
Net payments on annuity agreements		(902)	(941)
Net cash provided by financing activities		23,229	22,142
Net decrease in cash and cash equivalents		(5,730)	(23,133)
Cash and cash equivalents, beginning of year		35,468	58,601
Cash and cash equivalents, end of year	$	29,738	35,468
Supplemental cash flow data:			
Cash paid for interest	$	7,377	7,559
Capital assets acquired through accounts payable		402	621
Noncash contributions		17,985	37,139

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. 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 revenue to Creighton predominantly consist of student tuition and fees, and also include charges for healthcare services, grants and contracts, contributions, investment earnings, auxiliary services, and others.

(b) Basis of Presentation

The consolidated 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. During fiscal year 2015, CHC was dissolved.

Resources are reported in three separate categories of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying consolidated 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.

(Continued)

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 revenue 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 consolidated 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 revenue, 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 consolidated financial 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, certain amounts released from restrictions, the change in the fair value of interest rate 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 revenue represents 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.

Payments received for services provided to the affiliated regional medical organizations are based upon the corresponding operating agreements.

Payments for patient clinical charges are generally received through medical insurance arrangements (including Medicare and Medicaid) and payments from patients. Clinical operations revenue is shown at estimated realizable value, net of deductions for contractual and other allowances.

(g) Educational Support

Educational support contract revenue represents contract payments received for services, which support the University's educational mission. These primarily include payments from affiliated health systems for the services of medical residents, physicians and other medical staff from the University's Health Sciences schools.

(h) 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. Revenue is recognized on grants and contracts as expenses are incurred and amounts received in advance are reflected as deferred income.

(i) Auxiliary Enterprises

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

(j) Annuities Payable

Annuities payable represent the University's liability under annuity and life income contracts with donors. The liability is established at the time of the contribution using actuarial tables and an assumed interest rate. The interest rates used for the establishment of the liability were 6.4%–9.5% for 2015 and 5.4%–9.0% for 2014. The University's liability amounts were $8,231 and $8,550 at June 30, 2015 and 2014, respectively, which is recorded in other liabilities in the accompanying consolidated statements of financial position. 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.

(k) 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 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.

(l) 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 investment income within the accompanying consolidated financial 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 (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.

The University owns a minority interest in an affiliated entity, Children's Physicians. The University's 33% ownership of this entity is recorded using the equity method (note 12).

(m) 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 consolidated financial 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. Management utilized Level 2 inputs in the fair value hierarchy in determining fair value of student loans receivable. 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, 2015 and 2014, the amount of loans past due under the student loan programs were $2.5 million and $2.7 million, respectively.

(n) Refundable Government Student Loan Funds

Refundable government student loan funds consist of amounts advanced by the federal government on the condition that the University administers 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.

(o) 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.

(p) Income Taxes

The University has been recognized by the Internal Revenue Service as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. U.S. generally accepted accounting principles 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 2015 or 2014. Accordingly, no federal or state income taxes have been provided. As of June 30, 2015 and 2014, the University and CSSI had no liability for unrecognized tax benefits.

(q) New Accounting Standards

Effective June 30, 2015, the University adopted Accounting Standards Update (ASU) 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*, which removes the requirement to categorize within the fair value hierarchy all investments using the net asset value per share as a practical expedient to fair value. Consistent with the amendments in the ASU, this adoption has been applied retrospectively to all periods presented. Thus, all investments measured using the net asset value per share (or its equivalent) have been removed from the fair value hierarchy and related disclosures for all periods presented. Adoption of ASU 2015-07 has no effect on the University's income or net assets.

(All amounts in thousands)

(r) Reclassifications

Certain reclassifications have been made to the 2014 financial statements in order to conform to the 2015 presentation.

(2) Net Assets

Unrestricted net assets consist of the following:

		2015	2014
Available for current operations	$	45,518	38,988
Endowment funds (note 5)		176,946	172,607
Invested in land, buildings, and equipment		152,850	149,281
Total unrestricted net assets	$	375,314	360,876

Temporarily restricted net assets consist of the following:

		2015	2014
Contributions for buildings, amortized over the life of the corresponding facility	$	129,308	114,401
Contributions receivable		10,267	9,829
Annuity and life income funds		4,577	4,469
Unexpended income and contributions for restricted purposes		8,590	6,277
Endowment funds (note 5):			
Unappropriated income with specific purpose on permanently restricted endowments		70,439	73,308
Unappropriated income without specific purpose		406	384
Total temporarily restricted net assets	$	223,587	208,668

Permanently restricted net assets consist of the following:

		2015	2014
Endowment funds (note 5)	$	176,357	168,656
Endowment funds held in trust by others (note 5)		25,295	24,829
Contributions receivable		8,954	8,954
Student loan funds		425	430
Annuity and life income funds		4,145	4,414
Total permanently restricted net assets	$	215,176	207,283

(All amounts in thousands)

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

		2015	2014
Departmental and other operational expenses, net	$	1,385	2,742
Additions to or renovations of plant facilities, net		4,694	4,666
Scholarships		—	497
Total net assets released from restrictions	$	6,079	7,905

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:

		2015	2014
Student accounts receivable, net	$	5,735	4,696
Grant funds receivable		2,684	2,487
Medical affiliate receivables		4,412	6,815
Miscellaneous receivables		4,879	6,845
Total accounts receivable, net	$	17,710	20,843

Accounts receivable are reduced by an allowance for doubtful accounts and contractual adjustments.

Patient and student accounts receivable are recorded net of estimated reserves. Estimated reserves for uncollectible amounts and contractual allowances for patient accounts receivable were $1,164 and $686 at June 30, 2015 and 2014, respectively. Estimated reserves for uncollectible amounts on student accounts receivable were $1,798 at June 30, 2015 and 2014. 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, 2015 and 2014 comprise the following:

		2015	2014
Pooled investments:			
Short-term investments	$	6,862	6,843
Long-term investments		582,976	539,454
Investment in minority-owned subsidiaries and affiliates		3,808	3,408
Funds held in trust by others		26,298	25,796
Total University investments	$	619,944	575,501

(Continued)

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. The University discloses a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data (Level 3). In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. The lowest-level input that is significant to a fair value measurement in its entirety determines the applicable level in the fair value hierarchy. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability. Fair value measurements are categorized as Level 3 when a significant amount of price or other inputs that are considered to be unobservable are used in their valuations.

The three levels of inputs that may be used to measure fair value are as follows:

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.

(All amounts in thousands)

The table below summarizes the University's classification of fair value measurements utilized for assets recorded at fair value on a recurring basis, and provides a reconciliation to the total investments on the consolidated statements of financial position as of June 30, 2015:

	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 16	16	—	—
Investments:				
Investment money markets	3,670	3,670	—	—
Domestic equities	167,578	167,578	—	—
Domestic funds	446	446	—	—
International equities	2,656	2,656	—	—
International funds	23,554	23,554	—	—
Real asset funds	5,053	5,053	—	—
Corporate bonds	42,143	39,550	2,593	—
Fixed-income funds	61,322	61,322	—	—
Notes and mortgages	1,112	—	—	1,112
Real estate	4,803	—	—	4,803
Commercial paper	2,595	—	2,595	—
Funds held in trust by others	26,298	—	—	26,298
Other	805	805	—	—
Subtotal	342,035	$ 304,634	5,188	32,213
Alternative investments recorded at NAV (*)	274,101			
Investments in minority affiliates recorded using equity method	3,808			
Total University investments	$ 619,944			

(*) Certain investments that are measured at fair value using the net asset value (NAV) per share (or its equivalent) as a practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statements of financial position.

(All amounts in thousands)

The table below summarizes the University's classification of fair value measurements utilized for assets recorded at fair value on a recurring basis, and provides a reconciliation to the total investments on the consolidated statements of financial position as of June 30, 2014:

	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 156	156	—	—
Investments:				
Investment money markets	18,473	18,473	—	—
Domestic equities	148,506	148,506	—	—
Domestic funds	3,356	3,356	—	—
International equities	2,765	2,765	—	—
International funds	24,347	24,347	—	—
Real asset funds	27,919	27,919	—	—
Corporate bonds	20,740	18,240	2,500	—
Fixed-income funds	67,805	67,805	—	—
Notes and mortgages	1,231	—	—	1,231
Real estate	4,070	—	—	4,070
Commercial paper	3,884	—	3,884	—
Funds held in trust by others	25,796	—	—	25,796
Other	173	173	—	—
Subtotal	349,065	$ 311,584	6,384	31,097
Alternative investments recorded at NAV (*)	223,028			
Investments in minority affiliates recorded using equity method	3,408			
Total University investments	$ 575,501			

(*) Certain investments that are measured at fair value using the net asset value (NAV) per share (or its equivalent) as a practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statements of financial position.

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 2014 to 2015.

Investment money market funds and cash and cash equivalents – Money market funds included with cash and cash equivalents and investment money market funds 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.

Corporate bonds and government obligations – Investments in fixed-income securities comprised 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. When quoted prices of identical investment securities in active markets are not available, the fair values for the investment securities are obtained primarily from pricing services; one evaluated price is received for each security. The fair values provided by the pricing services are estimated using matrix pricing or other pricing models, where the inputs are based on observable market inputs or recent trades of similar securities. Such investment securities are generally 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 used by University management as a practical expedient to fair value.

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.

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 and adjusted for entity earnings and losses.

(All amounts in thousands)

The University's policy is to reflect transfers between levels at the beginning of the year in which a change in circumstances resulted in the transfer. There were no transfers between Level 1, 2, or 3 investments for the years ended June 30, 2015 and 2014.

The following tables summarize the changes in fair value of Level 3 investments for the years ended June 30, 2015 and 2014:

		Notes and mortgages	Real estate investments	Funds held in trust by others	Total Level 3
Balance at June 30, 2014	$	1,231	4,070	25,796	31,097
Investment income (excluding unrealized gains, net)		—	(19)	—	(19)
Unrealized gains, net		—	—	502	502
Purchases		—	2,850	—	2,850
Sales		—	(2,098)	—	(2,098)
Mortgage payments		(119)	—	—	(119)
Balance at June 30, 2015	$	1,112	4,803	26,298	32,213
Total gains included in changes in net assets attributable to the change in unrealized gains on assets still held at the reporting date	$	—	—	502	502

		Notes and mortgages	Real estate investments	Funds held in trust by others	Total Level 3
Balance at June 30, 2013	$	1,321	6,214	25,005	32,540
Unrealized gains (losses), net		—	(2,030)	791	(1,239)
Sales		—	(114)	—	(114)
Mortgage payments		(90)	—	—	(90)
Balance at June 30, 2014	$	1,231	4,070	25,796	31,097
Total gains included in changes in net assets attributable to the change in unrealized gains on assets still held at the reporting date	$	—	—	791	791

(All amounts in thousands)

The majority of the University's investments are held in a pooled endowment fund with certain parties who have a percentage of the pool. Short-term investments consist of operational funds invested in the pooled endowment fund.

The following table summarizes investment return for 2015 and classification in the consolidated financial statements:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Dividends and interest	$	5,566	4,988	309	10,863
Other investment income		369	—	—	369
Net realized and unrealized gains		(1)	630	203	832
Gain on investments		5,934	5,618	512	12,064
Less investment income appropriated for operations		(17,388)	—	—	(17,388)
Investment return in excess of (less than) amounts appropriated for operations	$	(11,454)	5,618	512	(5,324)

The following table summarizes investment return for 2014 and classification in the consolidated financial statements:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Dividends and interest	$	6,170	4,565	130	10,865
Other investment income		691	—	—	691
Net realized and unrealized gains		29,491	31,083	2,556	63,130
Gain on investments		36,352	35,648	2,686	74,686
Less investment income appropriated for operations		(16,503)	—	—	(16,503)
Investment return in excess of amounts appropriated for operations	$	19,849	35,648	2,686	58,183

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

(Continued)

(All amounts in thousands)

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, 2015 and 2014:

Fiscal year ended June 30, 2015		Fair value	Unfunded commitment	Redemption frequency (if currently eligible)	Redemption notice period	Investment strategy
Fixed-income funds	$	38,381	—	Daily	1 day	Core fixed income
Private equity funds (a)		51,057	25,922	Illiquid	—	Venture capital, distressed
International equity funds		63,464	—	1–60 days	5–60 days	International
Real assets (b)		62,898	20,223	Illiquid	—	Multiple strategies
Commodity funds		6,967	—	Monthly	1 day	Commodities markets
Hedge fund		51,334	—	1–180 days	1–95 days	Multiple strategies
Total	$	274,101	46,145			

(a) These funds are expected to liquidate within 1 to 12 years.
(b) These funds are expected to liquidate within 2 to 12 years.

Fiscal year ended June 30, 2014		Fair value	Unfunded commitment	Redemption frequency (if currently eligible)	Redemption notice period	Investment strategy
Fixed-income funds	$	32,930	—	Daily	1 day	Core fixed income
Private equity funds (a)		46,194	29,253	Illiquid	—	Venture capital, distressed
International equity funds		63,757	—	1–60 days	5–60 days	International
Real assets (b)		38,250	25,300	Illiquid	—	Energy and real estate
Commodity funds		10,260	—	Monthly	—	Commodities markets
Hedge fund		31,637	—	Semiannual	95 days	Multiple strategies
Total	$	223,028	54,553			

(a) These funds are expected to liquidate within 2 to 10 years.
(b) These funds are expected to liquidate within 3 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.

(All amounts in thousands)

(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, 2015 and 2014 is as follows:

		2015	2014
University share of pooled endowment fund	$	520,141	500,714
Short-term pooled investments		6,862	6,843
Operational and other funds invested in the pooled fund		(106,897)	(95,637)
Endowment funds held in trust by others		25,313	24,829
Nonpooled assets, including cash and cash equivalents, notes receivable, real estate, and other		4,024	3,035
Total endowment	$	449,443	439,784

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, 2015 and 2014 by security type, based upon the function that the investment serves in the portfolio:

	2015	2014
Equities – domestic	24%	20%
Equities – international	22	24
Fixed-income securities	21	22
Commodities	1	2
Hedge funds	10	6
Private capital funds	21	22
Cash and cash equivalents	1	4
	100%	100%

The total rate of return on the pooled endowment fund was 1.6% for the year ended June 30, 2015 and 15.9% for the year ended June 30, 2014.

(a) UPMIFA

The University applies the provisions of the Nebraska Uniform Prudent Management of Institutional Funds Act (the Act) and the related provisions of Accounting Standards Codification (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.

(All amounts in thousands)

The University's endowment consists of in excess of 1,000 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the University's 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's 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, 2015:					
Donor-restricted endowments	$	(762)	70,845	201,652	271,735
Board-designated endowments		177,708	—	—	177,708
Endowment totals	$	176,946	70,845	201,652	449,443

		Unrestricted	Temporarily restricted	Permanently restricted	Total
June 30, 2014:					
Donor-restricted endowments	$	(642)	73,692	193,485	266,535
Board-designated endowments		173,249	—	—	173,249
Endowment totals	$	172,607	73,692	193,485	439,784

(All amounts in thousands)

(d) Endowment Net Asset Reconciliation

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Beginning balance, July 1, 2014	$	172,607	73,692	193,485	439,784
Investment income		4,852	4,872	128	9,852
Net investment appreciation		51	555	409	1,015
Contributions		192	—	8,310	8,502
Amounts appropriated for expenditure		(5,669)	(6,301)	(1,136)	(13,106)
Other changes		4,913	(1,973)	456	3,396
Ending balance, June 30, 2015	$	176,946	70,845	201,652	449,443

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Beginning balance, July 1, 2013	$	102,936	48,400	184,892	336,228
Investment income		4,569	4,467	67	9,103
Net investment appreciation		20,570	29,955	1,373	51,898
Contributions		36,573	—	6,940	43,513
Amounts appropriated for expenditure		(5,672)	(6,048)	(1,488)	(13,208)
Other changes		13,631	(3,082)	1,701	12,250
Ending balance, June 30, 2014	$	172,607	73,692	193,485	439,784

(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 $(762) and $(642) as of June 30, 2015 and 2014, 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 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 4.90% 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 $3,179 and $3,406 totaled $13,106 and $13,208 in the fiscal years ended June 30, 2015 and 2014, 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.

(All amounts in thousands)

(6) Land, Buildings, and Equipment, Net

Land, buildings, and equipment consist of the following:

		2015	2014
Land	$	55,185	55,185
Land improvements		36,510	33,518
Buildings		472,756	461,254
Equipment		99,501	94,161
Library collection		80,451	76,938
Construction in progress		4,307	5,982
		748,710	727,038
Accumulated depreciation		(348,652)	(326,982)
	$	400,058	400,056

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 present value of the ARO liability is based on an estimated inflation rate of 3.00%. This liability is included in other liabilities in the consolidated statements of financial position. The following schedule illustrates the 2015 and 2014 activity of the ARO liability:

		2015	2014
Beginning balance	$	8,396	8,405
Current year accretion of liability		108	104
Current year abatement costs		(67)	(113)
Ending balance	$	8,437	8,396

(7) Contributions Receivable

Unconditional promises to give are included in the consolidated 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 risk-adjusted discount rates, ranging from 3.00% to 6.08%. Unconditional promises to give are expected to be realized in the following periods:

(All amounts in thousands)

		2015	2014
One year or less	$	—	—
Between one and five years		12,000	12,000
More than five years		16,211	16,169
Less discount		(8,990)	(9,386)
	$	19,221	18,783

In addition, donors to the University have indicated intentions to contribute in future periods approximately $32,708 and $24,210 at June 30, 2015, and 2014, 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, 2015 and 2014 consist of the following:

		2015	2014
$20,000 issuance of bonds (Douglas County Educational Facilities Revenue Bonds, 2005A); annual principal payments through 2026; interest rates 4.00% to 5.00% (collateralized by unrestricted receipts, revenue, and income of the University)	$	13,159	14,086
$99,675 issuance of bonds (Douglas County Educational Facilities Revenue Refunding Bonds 2014); annual principal and interest payments through 2036; interest rates variable, 0.40% to 0.49% for 2015 (collateralized by unrestricted receipts, revenue, and income of the University)		98,995	99,539
$7,076 issuance of loan notes (Douglas County Educational Facilities Loan Notes 2009); semiannual principal and interest payments 2009 through 2021; interest rates variable, 0.96% for 2014; (collateralized by certain buildings and equipment)		—	343
$33,435 issuance of loan notes (Douglas County Educational Facilities Loan Notes 2010A); annual principal and interest payments 2011 through 2041; interest rates 5.00% to 5.88%; (collateralized by unrestricted receipts, revenue, and income of the University)		30,743	31,468

(All amounts in thousands)

		2015	2014
$13,180 issuance of loan notes (Douglas County Educational Facilities Loan Notes 2010B); annual principal and interest payments 2011 through 2029; interest rates 4.04% to 7.34%; (collateralized by unrestricted receipts, revenue, and income of the University)	$	11,275	11,780
Total bonds and notes payable		154,172	157,216
Less current portion of bonds and notes payable		(2,681)	(3,044)
Noncurrent portion of bonds and notes payable	$	151,491	154,172

The fair value of the University's long-term debt approximates $167,223 and $165,608 at June 30, 2015 and 2014, respectively, and is estimated based on Level 2 inputs of the fair value hierarchy. These estimates 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 long-term debt is estimated based upon the University's long-term borrowing rate for similar debt.

On May 16, 2014, the University issued $99,675 tax-exempt Series 2014 bonds through the County of Douglas, Nebraska. The proceeds from the Series 2014 bonds were used to refinance $99,675 outstanding of the Series 2008 bonds. The Series 2014 bonds were purchased by one investor in a direct placement transaction, but the investor may sell all or a portion of the bonds at any time. Amounts outstanding under the Series 2014 bonds initially bear interest at a variable rate, but the University has the option to convert to a fixed rate upon written notice to the trustee.

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 November 25, 2014, the University made the final principal payment to fully retire this issuance.

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.

(Continued)

(All amounts in thousands)

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, 2015 are scheduled as follows:

		Bond and note principal
Year ending June 30:		
2016	$	2,681
2017		2,776
2018		2,881
2019		3,096
2020		3,216
Thereafter		139,522
Total payments	$	154,172

Interest expense on long-term debt was $7,121 in 2015 and $7,345 in 2014. Bond discounts, premiums, and issuance costs are deferred and amortized over the life of the related indebtedness based on the straight-line 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 Bond Documents), and 2) the ratio of "ready current assets" to "pro forma funded debt service" (as defined in the Bond Documents) is less than 1.5 to 1. As of June 30, 2015, the University's maximum annual amount payable for funded debt service is 4.6% of total revenue and the ratio of "ready current assets" to "pro forma funded debt service" is 7.9 to 1. The University is subject to an additional covenant under the Series 2014 Bond Documents. This covenant specifies that the ratio of the University's maximum annual debt service to income available for debt service cannot be less than 1 to 1. As of June 30, 2015, this ratio was 2.4 to 1. The University was in compliance with applicable debt covenants as of June 30, 2015 and 2014.

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.

(Continued)

(All amounts in thousands)

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, 2015 and 2014. The swap agreements do not qualify for hedge accounting. Accordingly, 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, 2015 and 2014.

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, 2015:

Purchase date	Creighton pays	Creighton receives		2015 Change in fair value	2014 Change in fair value
August 2001	4.455%	68% of 1-month LIBOR	$	(567)	(171)
March 2003	3.520	70% of 1-month LIBOR		(403)	(70)
August 2004	3.600	68% of 1-month LIBOR		(394)	(103)
February 2005	3.642	Greater of 67% of 1-month LIBOR or 63% of 1-month LIBOR plus 0.20%		(163)	(64)
February 2005	3.642	Greater of 67% of 1-month LIBOR or 63% of 1-month LIBOR plus 0.20%		(187)	(67)
April 2005	3.769	67% of 1-month LIBOR		(496)	(159)
	Total change in fair value for the years ended June 30, 2015 and 2014		$	(2,210)	(634)

The following schedule presents the notional principal amounts and estimated fair values of the University's interest rate swaps at June 30, 2015 and 2014:

	Notional amounts		Expiration		Estimated fair value of swaps at June 30	
	2015	2014	dates		2015	2014
$	25,000	25,000	August 1, 2030	$	(8,749)	(8,182)
	26,000	26,550	March 1, 2033		(5,003)	(4,601)
	17,575	17,575	August 1, 2031		(4,427)	(4,033)
	8,500	8,500	September 18, 2031		(1,863)	(1,699)
	8,500	8,500	September 18, 2031		(1,869)	(1,682)
	13,000	13,000	August 23, 2035		(3,854)	(3,358)
$	98,575	99,125		$	(25,765)	(23,555)

(All amounts in thousands)

The University's interest rate swaps are valued at fair value using Level 2 inputs of the fair value hierarchy by the swap managers using a discounted cash flow analysis.

(9) Short-Term Borrowings

The University has two current revolving lines of credit established for daily operating needs as of June 30, 2015. One operating line of credit has a maximum borrowing capacity of $25,000 and expires March 31, 2016. The interest rate payable on this line of credit is established at 1.00% over the one-month LIBOR, or 1.19% at June 30, 2015. The outstanding balances on this line of credit were $0 at June 30, 2015 and 2014.

The second operating line of credit, which was established in fiscal 2010, has a maximum borrowing capacity of $25,000 and expires February 1, 2018. The interest rate payable on this line of credit is established at 1.20% over the one-month LIBOR. The interest rate was 1.39% at June 30, 2015. The outstanding balances on this line of credit were $0 at June 30, 2015 and 2014.

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	
	2015	**2014**
Instructional	$ 119,875	119,812
Healthcare services	25,948	28,200
Student aid	1,398	1,486
Sponsored research	18,886	21,520
Academic support	57,426	57,437
Libraries	10,614	10,542
Student services	21,118	20,132
Institutional support	39,719	45,342
Auxiliary enterprises	53,503	51,223
Total	$ 348,487	355,694

Included under Institutional support in the above table are University fund-raising expenses of $3,290 and $2,936 for the fiscal years ended June 30, 2015 and 2014, respectively.

(11) Transactions with Related Parties

During 2014, the University received $557 in grants primarily related to health care and research activities from Health Future Foundation (HFF), an affiliated organization. The HFF Board of Directors voted to dissolve the HFF corporation as of December 31, 2013 and contributed the remaining HFF investments of $20.9 million to the University's unrestricted endowment at that time.

(12) Investment in Minority-Owned Subsidiaries and Affiliates

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 $400 in 2015 and $992 in 2014 are included in nonoperating equity earnings in the consolidated statements of activities. 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, 2015 and 2014 were $7,679 and $7,740, 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 the affiliated organizations for whom they provide services. Total claims paid under the plan for the fiscal years 2015 and 2014 were $16,605 and $17,865, 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 $2,012 at June 30, 2015 and 2014. 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 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 dekatherms (Dth) per month at fixed prices ranging from $4.03/Dth to $5.35/Dth. The period covered by the purchase agreements is through August 2017. 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.

(Continued)

As of June 30, 2015, the University has contractual obligations of approximately $84 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 2017.

(16) Subsequent Events

The University has evaluated subsequent events through October 26, 2015, the date the consolidated financial statements were issued, and noted no additional items to disclose.