CREIGHTON UNIVERSITY

Consolidated Financial Statements

June 30, 2014 and 2013

(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, 2014 and 2013, 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, 2014 and 2013, and the changes in their net assets and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Omaha, Nebraska
October 29, 2014

CREIGHTON UNIVERSITY

Consolidated Statements of Financial Position

June 30, 2014 and 2013

(All amounts in thousands)

Assets		**2014**	**2013**
Cash and cash equivalents	$	35,468	58,601
Restricted cash and cash equivalents		—	13,900
Accounts receivable, net (note 3)		20,843	30,914
Contributions receivable, net (note 7)		18,783	9,803
Student loans receivable, net of reserve for doubtful accounts of $516 and $603 in 2014 and 2013, respectively		34,460	35,618
Prepaid expenses, inventories, and other assets		7,601	5,244
Investments (notes 4, 5, and 12)		575,501	444,582
Land, buildings, and equipment, net (note 6)		400,056	386,889
Total assets	$	1,092,712	985,551
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	56,682	58,003
Deferred income		17,040	15,793
Other liabilities		54,694	55,701
Tax refunds payable to medical residents and affiliates		—	13,900
Refundable government student loan funds		30,253	30,002
Bonds and notes payable (note 8)		157,216	163,478
Total liabilities		315,885	336,877
Commitments and contingencies (note 15)			
Net assets (note 2):			
Unrestricted		360,876	275,530
Temporarily restricted		208,668	175,128
Permanently restricted		207,283	198,016
Total net assets		776,827	648,674
Total liabilities and net assets	$	1,092,712	985,551

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
Healthcare services revenue	67,490	—	—	67,490
Healthcare services revenue deductions	(2,755)	—	—	(2,755)
Net healthcare services revenue	64,735	—	—	64,735
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	8,370	—	—	8,370
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 Statement of Activities

Year ended June 30, 2013

(All amounts in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net operating revenue:				
Tuition and fees	$ 262,185	—	—	262,185
Tuition discount and scholarship allowances	(71,890)	—	—	(71,890)
Net tuition and fees	190,295	—	—	190,295
Healthcare services revenue	133,101	—	—	133,101
Healthcare services revenue deductions	(17,812)	—	—	(17,812)
Net healthcare services revenue	115,289	—	—	115,289
Grants and contracts	26,975	—	—	26,975
Contributions	11,916	—	—	11,916
Investment income appropriated for operations	14,652	—	—	14,652
Auxiliary enterprises	31,679	—	—	31,679
Other revenue	11,895	—	—	11,895
Net assets released from restrictions (note 2)	5,194	—	—	5,194
Total net operating revenue	407,895	—	—	407,895
Operating expenses:				
Salaries, wages, and benefits	255,071	—	—	255,071
Contracted services	43,905	—	—	43,905
Supplies and materials	21,046	—	—	21,046
Depreciation and amortization	22,216	—	—	22,216
Interest expense	7,709	—	—	7,709
Utilities and communications	10,816	—	—	10,816
Other operating expenses	33,055	—	—	33,055
Total operating expenses	393,818	—	—	393,818
Changes in net assets from operating activities	14,077	—	—	14,077
Nonoperating changes in net assets:				
Investment return in excess of amounts appropriated for operations	11,728	22,065	640	34,433
Equity earnings in minority-owned affiliates	1,089	—	—	1,089
Change in fair value of interest rate swaps	11,557	—	—	11,557
Contributions for nonoperating purposes	513	18,655	10,367	29,535
Other changes in net assets	—	(543)	(422)	(965)
Net assets released from restrictions (note 2)	7,993	(13,178)	(9)	(5,194)
Net nonoperating changes in net assets	32,880	26,999	10,576	70,455
Increase in net assets	46,957	26,999	10,576	84,532
Net assets, beginning of year	228,573	148,129	187,440	564,142
Net assets, end of year	$ 275,530	175,128	198,016	648,674

See accompanying notes to consolidated financial statements.

CREIGHTON UNIVERSITY

Consolidated Statements of Cash Flows

Years ended June 30, 2014 and 2013

(All amounts in thousands)

		2014	2013
Cash flows from operating activities:			
Increase in net assets	$	128,153	84,532
Adjustments to reconcile increase in net assets to net cash provided by operating activities:			
Equity (gains) from minority-owned affiliates		(992)	(1,089)
Gain on transfer of CMA and CUMC		—	(1,490)
Noncash contribution income		(36,809)	(6,078)
Depreciation, amortization, and accretion		22,976	22,286
Actuarial loss on annuities payable		603	826
Contributions for nonoperating purposes		(22,477)	(23,457)
Change in fair value of interest rate swap agreements		634	(11,557)
Net realized and unrealized gains on investments		(63,130)	(39,103)
Changes in operating assets and liabilities:			
Accounts receivable		10,070	(1,606)
Prepaid expenses, inventories, and other assets		(2,457)	731
Accounts payable and accrued expenses		(1,942)	2,234
Deferred income		1,247	1,926
Other liabilities		(1,182)	4,055
Net cash provided by operating activities		34,694	32,210
Cash flows from investing activities:			
Repayments on student loans		5,343	5,062
Student loans issued		(4,185)	(3,960)
Proceeds from the sales of investments		272,606	200,605
Purchases of investments		(318,384)	(205,217)
Purchases of land, buildings, and equipment, net		(35,349)	(16,092)
Net cash used in investing activities		(79,969)	(19,602)
Cash flows from financing activities:			
Cash contributions for nonoperating purposes		29,063	23,793
Proceeds from issuance of long-term debt		99,675	—
Payments on long-term debt		(105,906)	(8,938)
Increase in federal student loan funds		251	48
Net payments on annuity agreements		(941)	(1,022)
Net cash provided by financing activities		22,142	13,881
Net increase (decrease) in cash and cash equivalents		(23,133)	26,489
Cash and cash equivalents, beginning of year		58,601	32,112
Cash and cash equivalents, end of year	$	35,468	58,601
Supplemental cash flow data:			
Cash paid for interest	$	7,559	7,705
Capital assets acquired through accounts payable		621	352
Noncash contributions		37,139	6,078

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 revenues 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. Tuition and fees represent a majority of total operating revenue.

(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 2014, 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. 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 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 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 revenue from affiliated regional medical organizations for services provided by the University's clinical faculty, healthcare staff, and students.

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 are shown at estimated realizable value, net of deductions for contractual, and other allowances.

In July 2012, the University entered into strategic affiliation and practice group integration agreements with Alegent Health (Alegent). Pursuant to these agreements, the University transferred essentially all of the assets and liabilities of the University's clinical healthcare practice, Creighton Medical Associates (CMA) to Alegent. Beginning September 1, 2012, substantially all of CMA's patient service revenue, deductions, and related expenses became Alegent operations. During fiscal year 2013, the physicians of CMA remained employees of the University and were leased to Alegent. Effective August 1, 2013, the physicians of CMA became employees of Alegent, which reduced salaries, wages, and benefits expense and related healthcare services revenue during 2014.

(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 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 5.4%–9.0% for 2014 and 8.7%–9.2% for 2013. The University's liability amounts were $8,550 and $9,115 at June 30, 2014 and 2013, 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.

(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 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.

During 2014, the University received the final distribution from the U.S. government related to FICA refund claims made on behalf of medical residents and healthcare organizations where the medical residents performed services. These refunds related to employee withholdings made and paid to the U.S. government from January 1995 through March 2005. These funds were considered restricted at June 30, 2013. Substantially, all amounts were paid to the medical residents and the appropriate healthcare organizations as of June 30, 2014.

(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 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).

(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 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, 2014 and 2013, the amount of loans past due under the student loan programs were $2.7 million and $2.8 million respectively.

(m) Refundable Government Student Loans

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.

(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 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 2014 or 2013. Accordingly, no federal or state income taxes

have been provided. As of June 30, 2014 and 2013, the University and CSSI had no liability for unrecognized tax benefits.

(2) Net Assets

Unrestricted net assets consist of the following:

		2014	2013
Available for current operations	$	38,988	24,983
Endowment funds (note 5)		172,607	102,936
Invested in land, buildings, and equipment		149,281	147,611
Total unrestricted net assets	$	360,876	275,530

Temporarily restricted net assets consist of the following:

		2014	2013
Contributions for buildings, amortized over the life of the corresponding facility	$	114,401	112,348
Contributions receivable		9,829	849
Annuity and life income funds		4,469	4,930
Unexpended income and contributions for restricted purposes		6,277	8,601
Endowment funds (note 5):			
Unappropriated income with specific purpose on permanently restricted endowments		73,308	48,118
Unappropriated income without specific purpose		384	282
Total temporarily restricted net assets	$	208,668	175,128

Permanently restricted net assets consist of the following:

		2014	2013
Endowment funds (note 5)	$	168,656	160,724
Endowment funds held in trust by others (note 5)		24,829	24,168
Contributions receivable		8,954	8,954
Student loan funds		430	426
Annuity and life income funds		4,414	3,744
Total permanently restricted net assets	$	207,283	198,016

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

		2014	2013
Departmental and other operational expenses, net	$	2,742	1,489
Additions to or renovations of plant facilities, net		4,666	3,705
Scholarships		497	—
Total net assets released from restrictions	$	7,905	5,194

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:

		2014	2013
Student accounts receivable, net	$	4,696	4,597
Grant funds receivable		2,487	2,854
Medical affiliate receivables		6,815	19,517
Miscellaneous receivables		6,845	3,946
Total accounts receivable, net	$	20,843	30,914

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 $686 and $500 at June 30, 2014 and 2013, respectively. Estimated reserves for uncollectible amounts on student accounts receivable were $1,798 and $1,298 at June 30, 2014 and 2013, 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, 2014 and 2013 comprise the following:

		2014	2013
Pooled investments:			
Short-term investments	$	6,843	6,983
Long-term investments		539,454	410,178
Investment in minority-owned subsidiaries and affiliates		3,408	2,416
Funds held in trust by others		25,796	25,005
Total University investments	$	575,501	444,582

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:

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 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	88,104	24,347	63,757	—
Real asset funds	27,919	27,919	—	—
Corporate bonds	20,740	18,240	2,500	—
Fixed-income funds	67,805	67,805	—	—
Alternative investments:				
Fixed-income funds	32,930	—	32,930	—
Private equity funds	46,194	—	—	46,194
Real assets	38,250	—	—	38,250
Commodity funds	10,260	—	10,260	—
Hedge funds	31,637	—	344	31,293
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	572,093	$ 311,584	113,675	146,834
Investments in minority affiliates recorded using equity method	3,408			
Total University investments	$ 575,501			

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, 2013:

	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 13,137	13,137	—	—
Investments:				
Investment money markets	2,311	2,311	—	—
Domestic equities	85,296	85,296	—	—
Domestic funds	3,929	3,929	—	—
International equities	1,757	1,757	—	—
International funds	97,614	17,915	79,699	—
Real asset funds	24,163	24,163	—	—
Corporate bonds	10,939	10,939	—	—
Fixed-income funds	43,346	40,846	2,500	—
Alternative investments:				
Fixed-income funds	29,704	—	29,704	—
Private equity funds	33,766	—	—	33,766
Real assets	32,867	—	—	32,867
Commodity funds	9,514	—	9,514	—
Hedge funds	29,033	—	289	28,744
Notes and mortgages	1,321	—	—	1,321
Real estate	6,214	—	—	6,214
Commercial paper	5,148	—	5,148	—
Funds held in trust by others	25,005	—	—	25,005
Other	239	239	—	—
Subtotal	442,166	$ 187,395	126,854	127,917
Investments in minority affiliates recorded using equity method	2,416			
Total University investments	$ 444,582			

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 2013 to 2014.

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. 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. Classification as Level 2 or Level 3 is based on the University's ability to redeem its interest in the near term. 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.

Corporate bonds and government obligations – Investments in fixed-income securities comprised 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. 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. Classification as Level 2 or Level 3 is based on the University's ability to redeem its interest in the near term. If the interest can be redeemed in the near term, the investment is classified in Level 2.

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, adjusted for entity earnings and losses.

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 Levels 1, 2, and 3 investments for the years ended June 30, 2014 and 2013.

The following table summarizes the changes in fair value of Level 3 investments for the year ended June 30, 2014:

	Alternative investments	Real estate, notes, and mortgages	Funds held in trust by others	Total Level 3
Balance at June 30, 2013	$ 95,377	7,535	25,005	127,917
Investment income (excluding unrealized gains, net)	6,296	—	—	6,296
Unrealized gains (losses), net	11,614	(2,030)	791	10,375
Expenses	(2,209)	—	—	(2,209)
Purchases	17,652	—	—	17,652
Sales	(12,993)	(113)	—	(13,106)
Mortgage payments	—	(91)	—	(91)
Balance at June 30, 2014	$ 115,737	5,301	25,796	146,834
Total gains included in changes in net assets attributable to the change in unrealized gains on assets still held at the reporting date	$ 11,614	—	791	12,405

The following table summarizes the changes in fair value of Level 3 investments for the year ended June 30, 2013:

	Alternative investments	Real estate, notes, and mortgages	Funds held in trust by others	Total Level 3
Balance at June 30, 2012	$ 79,005	7,500	25,530	112,035
Investment income (excluding unrealized gains, net)	2,898	—	—	2,898
Unrealized gains (losses), net	7,098	—	(525)	6,573
Expenses	(1,285)	—	—	(1,285)
Purchases	13,231	161	—	13,392
Sales	(5,570)	—	—	(5,570)
Mortgage payments	—	(126)	—	(126)
Balance at June 30, 2013	$ 95,377	7,535	25,005	127,917
Total gains (losses) included in changes in net assets attributable to the change in unrealized gains on assets still held at the reporting date	$ 7,098	—	(525)	6,573

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 cost and fair value of the University pooled investments at June 30, 2014 and 2013 are as follows:

	2014		2013	
	Cost	Fair value	Cost	Fair value
Short-term pooled investments	$ 7,244	6,843	6,990	6,983
Investments:				
Equities	7,622	8,642	7,525	7,869
Corporate bonds	20,912	20,740	8,218	7,937
University share of pooled endowment fund (note 5)	417,603	500,714	345,174	381,449
Notes and mortgages	1,231	1,231	1,321	1,321
Real estate	6,623	4,070	6,411	6,214
Commercial paper	3,884	3,884	5,148	5,148
Other	173	173	239	239
Long-term pooled investments	$ 458,048	539,454	374,036	410,177

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 following table summarizes investment return for 2013 and classification in the consolidated financial statements:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Dividends and interest	$ 5,329	4,262	182	9,773
Other investment income	209	—	—	209
Net realized and unrealized gains	20,842	17,803	458	39,103
Gain on investments	26,380	22,065	640	49,085
Less investment income appropriated for operations	(14,652)	—	—	(14,652)
Investment return in excess of amounts appropriated for operations	$ 11,728	22,065	640	34,433

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, 2014 and 2013:

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.

Fiscal year ended June 30, 2013	Fair value	Unfunded commitment	Redemption frequency (if currently eligible)	Redemption notice period	Investment strategy
Fixed-income funds	$ 29,704	—	Daily	1 day	Core fixed income
Private equity funds (a)	33,766	24,546	Illiquid	—	Venture capital, distressed
International equity funds	79,699	—	1–60 days	5–60 days	International
Real assets (a)	32,867	11,971	Illiquid	—	Energy and real estate
Commodity funds	9,514	—	Monthly	—	Commodities markets
Hedge fund	29,033	—	Semiannual	95 days	Multiple strategies
Total	$ 214,583	36,517			

(a) These funds are expected to liquidate within 2 to 10 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, 2014 and 2013 is as follows:

		2014	2013
University share of pooled endowment fund	$	500,714	381,449
Short-term pooled investments		6,843	6,983
Operational and other funds invested in the pooled fund		(95,637)	(77,264)
Endowment funds held in trust by others		24,829	24,168
Nonpooled assets, including cash and cash equivalents, notes receivable, real estate, and other		3,035	892
Total endowment	$	439,784	336,228

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, 2014 and 2013 by security type, based upon the function that the investment serves in the portfolio:

	2014	2013
Equities – domestic	20%	20%
Equities – international	24	24
Fixed-income securities	22	23
Commodities	2	2
Hedge funds	6	7
Private capital funds	22	23
Cash and cash equivalents	4	1
	100%	100%

The total rate of return on the pooled endowment fund was 15.9% for the year ended June 30, 2014 and 12.1% for the year ended June 30, 2013.

(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.

The University's endowment consists of in excess of 975 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, 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

	Unrestricted	Temporarily restricted	Permanently restricted	Total
June 30, 2013:				
Donor-restricted endowments	$ (1,901)	48,400	184,892	231,391
Board-designated endowments	104,837	—	—	104,837
Endowment totals	$ 102,936	48,400	184,892	336,228

(d) Endowment Net Asset Reconciliation

	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

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Beginning balance, July 1, 2012	$ 89,744	35,205	174,915	299,864
Investment income	3,636	4,134	72	7,842
Net investment appreciation	14,341	17,086	(135)	31,292
Contributions	505	—	9,997	10,502
Amounts appropriated for expenditure	(5,112)	(5,695)	(906)	(11,713)
Other changes	(178)	(2,330)	949	(1,559)
Ending balance, June 30, 2013	$ 102,936	48,400	184,892	336,228

(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 $(642) and $(1,901) as of June 30, 2014 and 2013, 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 4.90% 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 $3,406 and $2,442 totaled $13,208 and $11,713 in the fiscal years ended June 30, 2014 and 2013, 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:

		2014	2013
Land	$	55,185	55,192
Land improvements		33,518	33,213
Buildings		461,254	431,709
Equipment		94,161	87,468
Library collection		76,938	73,459
Construction in progress		5,982	10,753
		727,038	691,794
Accumulated depreciation		(326,982)	(304,905)
	$	400,056	386,889

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 $104 and $101 for the fiscal years ended June 30, 2014 and 2013, respectively. The present value of the ARO liability is $8,396 as of June 30, 2014, 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 2014 and 2013 activity of the ARO liability:

		2014	2013
Beginning balance	$	8,405	8,371
Current year accretion of liability		104	101
Current year abatement costs		(113)	(67)
Ending balance	$	8,396	8,405

(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:

		2014	2013
One year or less	$	—	—
Between one and five years		12,000	12,000
More than five years		16,169	1,128
Less discount		(9,386)	(3,325)
	$	18,783	9,803

In addition, donors to the University have indicated intentions to contribute in future periods approximately $24,210 and $23,468 at June 30, 2014, and 2013, 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, 2014 and 2013 consist of the following:

		2014	2013
$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, revenue, and income of the University)	$	14,086	14,983
$99,675 issuance of bonds (Douglas County Educational Facilities Revenue Refunding Bonds 2014); annual principal and interest payments through 2036; interest rates variable, 0.44% to 0.46% for 2014 (collateralized by unrestricted receipts, revenue and income of the University)		99,539	—
$104,690 issuance of bonds (Nebraska Educational Finance Authority 2008); annual principal and interest payments through 2036; interest rates variable, based on daily remarketing rate; 0.06% to 0.19% for 2013; (collateralized by unrestricted receipts, revenue, and income of the University)		—	102,548

		2014	2013
$7,076 issuance of loan notes (Douglas County Educational Facilities Loan Notes 2009); semiannual principal and interest payments 2009 through 2021; interest rates variable, 0.98% for 2013; (collateralized by certain buildings and equipment)	$	343	1,504
$33,435 issuance of loan notes (Douglas County Educational Facilities Loan Notes 2010A); annual principal and interest payments 2011 through 2041; interest rates 3.00% to 5.88%; (collateralized by unrestricted receipts, revenues, and income of the University)		31,468	32,173
$13,180 issuance of loan notes (Douglas County Educational Facilities Loan Notes 2010B); annual principal and interest payments 2011 through 2029; interest rates 2.84% to 7.34%; (collateralized by unrestricted receipts, revenues, and income of the University)		11,780	12,270
Total bonds and notes payable		157,216	163,478
Less current portion of bonds and notes payable		(3,044)	(3,670)
Noncurrent portion of bonds and notes payable	$	154,172	159,808

The fair value of the University's long-term debt approximates $165,608 and $166,940 at June 30, 2014 and 2013, 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.

The Series 2008 variable rate bonds were 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 the bond issue 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 came first.

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 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, 2014 are scheduled as follows:

		Bond and note principal
Year ending June 30:		
2015	$	3,044
2016		2,681
2017		2,776
2018		2,881
2019		3,096
Thereafter		142,738
Total payments	$	157,216

Interest expense on long-term debt was $7,345 in 2014 and $7,704 in 2013. 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, 2014, the University's maximum annual amount payable for funded debt service is 3.8% of total revenue and the ratio of "ready current assets" to "pro forma funded debt service" is 7.1 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, 2014, this ratio was 2.2 to 1. The University was in compliance with all applicable debt covenants as of June 30, 2014 and 2013.

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, 2014 and 2013. 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, 2014 and 2013.

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, 2014:

Purchase date	Creighton pays	Creighton receives	2014 Change in fair value	2013 Change in fair value
Aug. 2001	4.455%	68% of 1-month LIBOR	$ (171)	3,266
Mar. 2003	3.520	70% of 1-month LIBOR	(70)	2,699
Aug. 2004	3.600	68% of 1-month LIBOR	(103)	1,983
Feb. 2005	3.642	Greater of 67% of 1-month LIBOR or 63% of 1-month LIBOR plus 0.20%	(64)	885
Feb. 2005	3.642	Greater of 67% of 1-month LIBOR or 63% of 1-month LIBOR plus 0.20%	(67)	883
Apr. 2005	3.769	67% of 1-month LIBOR	(159)	1,790
	Total change in fair value for the years ended June 30, 2014 and 2013		$ (634)	11,506

The total fair value of the swap agreements 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 records the net fair value adjustment of the agreements as a component of unrestricted nonoperating changes in net assets in the consolidated statements of activities. During 2013, the January 2004 swap agreement having a notional amount of $2,180 expired per the swap agreement. The 2013 change in fair value of this swap arrangement prior to expiration was $51.

The following schedule presents the notional principal amounts and estimated fair values of the University's interest rate swaps at June 30, 2014 and 2013:

Notional amounts		Expiration dates	Estimated fair value of swaps at June 30	
2014	2013		2014	2013
$ 25,000	25,000	Aug. 1, 2030	$ (8,182)	(8,012)
26,550	27,100	Mar. 1, 2033	(4,601)	(4,531)
17,575	17,575	Aug. 1, 2031	(4,033)	(3,929)
8,500	8,500	Sept. 18, 2031	(1,699)	(1,615)
8,500	8,500	Sept. 18, 2031	(1,682)	(1,635)
13,000	13,000	Aug. 23, 2035	(3,358)	(3,199)
$ 99,125	99,675		$ (23,555)	(22,921)

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, 2014. One operating line of credit has a maximum borrowing capacity of $25,000 and expires March 31, 2015. The interest rate payable on this line of credit is established at 1.25% over the one-month LIBOR, or 1.40% at June 30, 2014. The outstanding balances on this line of credit were $0 at June 30, 2014 and 2013.

The second operating line of credit, which was established in fiscal 2010, has a maximum borrowing capacity of $25,000 and expires February 1, 2016. The interest rate payable on this line of credit is established at 1.20% over the one-month LIBOR. The interest rate was 1.35% at June 30, 2014. The outstanding balances on this line of credit were $0 at June 30, 2014 and 2013.

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	
	2014	2013
Instructional	$ 119,812	112,585
Healthcare services	28,200	85,815
Student aid	1,486	1,561
Sponsored research	21,520	24,149
Academic support	57,437	53,016
Libraries	10,542	10,805
Student services	20,132	18,663
Institutional support	45,342	37,243
Auxiliary enterprises	51,223	49,981
Total	$ 355,694	393,818

Included under Institutional support in the above table are University fundraising expenses of $2,936 and $3,392 for the fiscal years ended June 30, 2014 and 2013, respectively.

(11) Transactions with Related Parties

In July 2012, the University entered into a series of agreements designed to expand access to patients for its medical and other health sciences educational programs. In conjunction with the agreements and accompanying transactions, the University transferred its minority ownership interest in its primary teaching hospital, Saint Joseph Hospital at Creighton University Medical Center (CUMC) and its clinical healthcare practice, CMA to other parties.

The agreements, which became effective September 1, 2012, consisted of an asset purchase agreement between the University, Tenet Healthcare Corporation (Tenet) and Alegent; a member agreement between

the University and Tenet; a strategic affiliation agreement between the University and Alegent; and a practice group integration agreement between the University and Alegent.

Prior to the September 1, 2012 effective date of these agreements, the University was affiliated by agreement with Tenet, which owned 74% of Creighton Saint Joseph Regional HealthCare System (CSJRHC), a limited liability company that consisted of CUMC. Pursuant to the member and asset purchase agreements, the University's 26% ownership interest in CUMC was transferred to Tenet, and Alegent acquired certain assets and assumed certain liabilities of CUMC and the University received ownership of the CUMC real property.

The strategic affiliation agreement established Alegent's medical facilities, including CUMC, as the primary teaching sites for the University's school of medicine and requires payments by Alegent for costs associated with the medical residents and other guaranteed educational support. Under the practice group integration agreement, the University transferred substantially all of the assets and liabilities of CMA to Alegent.

The strategic affiliation agreement required contributions of $50 million each from the University and Alegent into a shared strategic investment fund at Alegent to support the new affiliation between the parties. In September 2012, the University's $50 million contribution was funded through a contribution from a related party, Health Future Foundation (HFF). The contribution from HFF and subsequent University contribution to the shared strategic investment fund at Alegent were recorded on a net basis and, therefore, not reflected on the accompanying consolidated financial statements. Because the initial purpose of HFF was substantially fulfilled by the contributions to the University related to the strategic affiliation agreement, the HFF Board of Directors voted to dissolve the corporation as of December 31, 2013, and contributed investments of $20.9 million to the University's unrestricted endowment reflected in unrestricted contributions for nonoperating purposes in the consolidated statement of activities for the year ended June 30, 2014.

Prior to the dissolution of HFF, the University received funding from HFF, primarily in the form of grants for its healthcare and research activities. During 2014 and 2013, the University received individual grant funding amounts of $557 and $316, respectively.

(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 $992 in 2014 and $1,133 in 2013 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, 2014 and 2013 were $7,740 and $8,344, 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 2014 and 2013 were $17,865 and $19,081, 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, 2014 and 2013. 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 $6.74/Dth. The period covered by the purchase agreements is through June 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.

As of June 30, 2014, the University has contractual obligations of approximately $1,596 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 29, 2014, the date the consolidated financial statements were issued, and noted no additional items to disclose.