KPMG

CREIGHTON UNIVERSITY

Consolidated Financial Statements

June 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

CREIGHTON UNIVERSITY

Table of Contents

	Page(s)
Independent Auditors’ Report	1–2
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4–5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7–34

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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, 2017 and 2016, 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, 2017 and 2016, 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 24, 2017

CREIGHTON UNIVERSITY

Consolidated Statements of Financial Position

June 30, 2017 and 2016

(All amounts in thousands)

Assets		2017		2016
Cash and cash equivalents	$	25,387	$	22,120
Accounts receivable, net		17,649		17,524
Contributions receivable, net		1,020		10,277
Student loans receivable, net of reserve for doubtful accounts of $947 and $1,021 in 2017 and 2016, respectively		29,738		31,242
Notes receivable, net		13,842		478
Prepaid expenses, inventories, and other assets		11,885		8,292
Investments		691,854		614,745
Land, buildings, and equipment, net		415,507		387,032
Total assets	$	1,206,882	$	1,091,710
Liabilities and Net Assets				
Liabilities:				
Accounts payable and accrued expenses	$	46,550	$	51,858
Deferred income		22,328		18,971
Other liabilities		33,924		31,606
Interest rate swap liability		24,393		34,219
Refundable government student loan funds		29,665		29,331
Bonds and notes payable		155,014		138,615
Total liabilities		311,874		304,600
Commitments and contingencies				
Net assets:				
Unrestricted		440,915		361,110
Temporarily restricted		228,906		210,197
Permanently restricted		225,187		215,803
Total net assets		895,008		787,110
Total liabilities and net assets	$	1,206,882	$	1,091,710

See accompanying notes to consolidated financial statements.

CREIGHTON UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2017

(All amounts in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net operating revenue:				
Tuition and fees	$ 305,059	$ —	$ —	$ 305,059
Tuition discount and scholarship allowances	(85,561)	—	—	(85,561)
Net tuition and fees	219,498	—	—	219,498
Educational support contract revenue	38,810	—	—	38,810
Net healthcare services revenue	11,345	—	—	11,345
Grants and contracts	21,612	—	—	21,612
Contributions	13,653	—	—	13,653
Investment income appropriated for operations	24,772	—	—	24,772
Auxiliary enterprises	40,588	—	—	40,588
Other revenue	17,665	—	—	17,665
Net assets released from restrictions	6,362	—	—	6,362
Total net operating revenue	394,305	—	—	394,305
Operating expenses:				
Salaries, wages, and benefits	232,011	—	—	232,011
Contracted services	48,749	—	—	48,749
Supplies and materials	19,408	—	—	19,408
Depreciation and amortization	25,453	—	—	25,453
Interest expense	6,715	—	—	6,715
Utilities and communications	10,268	—	—	10,268
Other operating expenses	32,746	—	—	32,746
Total operating expenses	375,350	—	—	375,350
Changes in net assets from operating activities	18,955	—	—	18,955
Nonoperating changes in net assets:				
Investment return in excess of amounts appropriated for operations	23,369	33,696	524	57,589
Equity losses in minority-owned affiliates	(266)	—	—	(266)
Change in fair value of interest rate swaps	9,826	—	—	9,826
Contributions for nonoperating purposes	17,087	2,591	9,326	29,004
Other changes in net assets	512	(894)	(466)	(848)
Net assets released from restrictions	10,322	(16,684)	—	(6,362)
Net nonoperating changes in net assets	60,850	18,709	9,384	88,943
Increase (decrease) in net assets	79,805	18,709	9,384	107,898
Net assets, beginning of year	361,110	210,197	215,803	787,110
Net assets, end of year	$ 440,915	$ 228,906	$ 225,187	$ 895,008

See accompanying notes to consolidated financial statements.

CREIGHTON UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2016

(All amounts in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net operating revenue:				
Tuition and fees	$ 294,917	$ —	$ —	$ 294,917
Tuition discount and scholarship allowances	(82,270)	—	—	(82,270)
Net tuition and fees	212,647	—	—	212,647
Educational support contract revenue	37,576	—	—	37,576
Net healthcare services revenue	10,964	—	—	10,964
Grants and contracts	22,921	—	—	22,921
Contributions	14,744	—	—	14,744
Investment income appropriated for operations	20,245	—	—	20,245
Auxiliary enterprises	37,849	—	—	37,849
Other revenue	15,866	—	—	15,866
Net assets released from restrictions	6,344	—	—	6,344
Total net operating revenue	379,156	—	—	379,156
Operating expenses:				
Salaries, wages, and benefits	222,913	—	—	222,913
Contracted services	45,352	—	—	45,352
Supplies and materials	20,049	—	—	20,049
Depreciation and amortization	24,790	—	—	24,790
Interest expense	6,712	—	—	6,712
Utilities and communications	10,316	—	—	10,316
Other operating expenses	34,845	—	—	34,845
Loss on impairment of assets held for sale	14,052	—	—	14,052
Total operating expenses	379,029	—	—	379,029
Changes in net assets from operating activities	127	—	—	127
Nonoperating changes in net assets:				
Investment return in excess of (less than) amounts appropriated for operations	(27,650)	(6,328)	1,014	(32,964)
Equity losses in minority-owned affiliates	(105)	—	—	(105)
Change in fair value of interest rate swaps	(8,454)	—	—	(8,454)
Contributions for nonoperating purposes	11,078	9,173	1,399	21,650
Other changes in net assets	—	(595)	(282)	(877)
Net assets released from restrictions	10,800	(15,640)	(1,504)	(6,344)
Net nonoperating changes in net assets	(14,331)	(13,390)	627	(27,094)
Increase (decrease) in net assets	(14,204)	(13,390)	627	(26,967)
Net assets, beginning of year	375,314	223,587	215,176	814,077
Net assets, end of year	$ 361,110	$ 210,197	$ 215,803	$ 787,110

See accompanying notes to consolidated financial statements.

CREIGHTON UNIVERSITY

Consolidated Statements of Cash Flows

Years ended June 30, 2017 and 2016

(All amounts in thousands)

	2017	2016
Cash flows from operating activities:		
Increase (decrease) in net assets	$ 107,898	$ (26,967)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Equity losses in minority-owned affiliates	266	105
Noncash contribution income	(18,130)	(567)
Depreciation, amortization, and accretion	25,656	24,868
Actuarial loss on annuities payable	915	374
Contributions for nonoperating purposes	(758)	(9,953)
Change in fair value of interest rate swap agreements	(9,826)	8,454
Net realized and unrealized (gains)/losses on investments	(72,862)	22,081
Impairment loss on assets held for sale	—	14,052
Changes in operating assets and liabilities:		
Accounts receivable	(125)	(292)
Prepaid expenses, inventories, and other assets	(3,593)	(1,025)
Accounts payable and accrued expenses	(14,278)	(1,717)
Deferred income	3,357	346
Other liabilities	2,443	(196)
Net cash provided by operating activities	20,963	29,563
Cash flows from investing activities:		
Repayments on student loans	5,397	5,630
Student loans issued	(3,892)	(4,096)
Proceeds from the sales of investments	394,554	77,736
Purchases of investments	(399,372)	(94,702)
Purchases of land, buildings, and equipment, net	(44,958)	(24,838)
Cash outflow from issuance of notes receivable	(13,364)	—
Net cash used in investing activities	(61,635)	(40,270)
Cash flows from financing activities:		
Cash contributions for nonoperating purposes	28,144	19,464
Proceeds from the issuance of long-term debt	18,037	—
Payments on long-term debt	(1,775)	(14,670)
Increase (decrease) in federal student loan funds	334	(995)
Net payments on annuity agreements	(801)	(710)
Net cash provided by financing activities	43,939	3,089
Net increase (decrease) in cash and cash equivalents	3,267	(7,618)
Cash and cash equivalents, beginning of year	22,120	29,738
Cash and cash equivalents, end of year	$ 25,387	$ 22,120
Supplemental cash flow data:		
Cash paid for interest	$ 6,595	$ 6,749
Capital assets acquired through accounts payable	8,970	978
Noncash contributions	18,944	2,743

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, and a graduate school. 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 Soccer Stadium, Inc. (CSSI), a wholly owned for-profit subsidiary, and Creighton Dental QALICB, Inc. (Creighton Dental), a nonprofit subsidiary. Creighton University, CSSI, and Creighton Dental are together referred to as the University. All material transactions between the parent, CSSI, and Creighton Dental have been eliminated.

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

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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) 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.

(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

(Continued)

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 collectability 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, 2017 and 2016, the amount of loans past due under the student loan programs were $2,200 and $2,500, respectively.

(m) 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.

(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) 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 8.7%–9.5% for 2017 and 5.7%–8.4% for 2016. The University's liability amounts were $7,726 and $7,916 at June 30, 2017 and 2016, 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.

(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 while Creighton Dental has been recognized by the Internal Revenue Service as a tax-exempt organization under Section 501(c)(2) 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. After evaluating the tax positions for the University and Creighton Dental, none are considered to be uncertain. CSSI, a taxable subsidiary, had no taxable income for 2017 and 2016. Accordingly, no federal or state income taxes have been provided. As of June 30, 2017 and 2016, the University, CSSI, and Creighton Dental had no liability for unrecognized tax benefits.

(q) Accounting Standards Issued but not yet Implemented

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This ASU will replace most existing revenue recognition guidance in U.S. GAAP. The University is required to apply the new revenue standard beginning July 1, 2018. The standard permits the use of either the retrospective or cumulative-effect transition method. The University is evaluating the effect that ASU 2014-09 will have on the consolidated financial statements and related disclosures and has not yet determined the impact of the new standard on its current policies for revenue recognition.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). Under this guidance, an entity is required to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. This guidance offers specific accounting guidance for a lessee, a lessor, and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing, and uncertainty of cash flows from leases. This guidance is effective for annual reporting periods beginning after December 15, 2018 and requires a modified retrospective adoption, with early adoption permitted. The University is currently evaluating the impact on the consolidated financial statements and related disclosures and has not yet determined the impact of the new standard.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statement of Not-for-Profit Entities*. The guidance changes how not-for-profit entities report net asset classes, expenses, investment return, and liquidity in their financial statements. This ASU is effective for annual periods beginning after December 15, 2017. Retrospective application is required in the year of adoption. The University is currently evaluating the impact on the consolidated financial statements and related disclosures and has not yet determined the impact of the new standard.

(All amounts in thousands)

(2) Net Assets

Unrestricted net assets consist of the following:

		2017	2016
Available for current operations	$	69,186	51,136
Endowment funds (note 5)		226,925	181,332
Invested in land, buildings, and equipment		144,804	128,642
Total unrestricted net assets	$	440,915	361,110

Temporarily restricted net assets consist of the following:

		2017	2016
Contributions for buildings, amortized over the life of the corresponding facility	$	134,295	130,160
Contributions receivable		1,020	10,277
Annuity and life income funds		4,336	4,159
Unexpended income and contributions for restricted purposes		10,849	10,154
Endowment funds (note 5):			
Unappropriated income with specific purpose on permanently restricted endowments		77,724	55,180
Unappropriated income without specific purpose		682	267
Total temporarily restricted net assets	$	228,906	210,197

Permanently restricted net assets consist of the following:

		2017	2016
Endowment funds (note 5)	$	195,853	186,177
Endowment funds held in trust by others (note 5)		24,398	25,501
Student loan funds		420	411
Annuity and life income funds		4,516	3,714
Total permanently restricted net assets	$	225,187	215,803

(All amounts in thousands)

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

		2017	2016
Departmental and other operational expenses, net	$	1,437	1,385
Additions to or renovations of plant facilities, net		4,806	4,914
Scholarships		119	45
Total net assets released from restrictions	$	6,362	6,344

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:

		2017	2016
Student accounts receivable, net	$	5,485	5,790
Grant funds receivable		4,085	3,753
Medical affiliate receivables		4,128	4,071
Miscellaneous receivables		3,951	3,910
Total accounts receivable, net	$	17,649	17,524

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 $965 and $859 at June 30, 2017 and 2016, respectively. Estimated reserves for uncollectible amounts on student accounts receivable were $2,926 and $2,598 at June 30, 2017 and 2016, 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, 2017 and 2016 comprise the following:

		2017	2016
Short-term investments	$	4,232	6,915
Long-term investments		658,985	577,859
Investment in minority-owned subsidiaries and affiliates		3,437	3,703
Funds held in trust by others		25,200	26,268
Total University investments	$	691,854	614,745

(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, 2017:

	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 4,305	4,305	—	—
Investments:				
Investment money markets	42,323	42,323	—	—
Domestic equities	27	27	—	—
Domestic funds	98,564	98,564	—	—
International funds	112,512	112,512	—	—
Global funds	96,749	96,749	—	—
Real asset funds	44,382	44,382	—	—
Corporate bonds	11,252	8,752	2,500	—
Fixed-income funds	90,116	90,116	—	—
Notes and mortgages	854	—	—	854
Real estate	4,546	—	—	4,546
Commercial paper	3,786	—	3,786	—
Funds held in trust by others	25,200	—	—	25,200
Other	197	197	—	—
Subtotal	530,508	$ 493,622	6,286	30,600
Alternative investments recorded at NAV (*)	157,909			
Investments in minority affiliates recorded using equity method	3,437			
Total University investments	$ 691,854			

(*) 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, 2016:

	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 537	537	—	—
Investments:				
Investment money markets	777	777	—	—
Domestic equities	26	26	—	—
Domestic funds	128,893	128,893	—	—
International funds	110,358	110,358	—	—
Real asset funds	24,611	24,611	—	—
Corporate bonds	34,589	32,089	2,500	—
Fixed-income funds	104,162	104,162	—	—
Notes and mortgages	991	—	—	991
Real estate	4,636	—	—	4,636
Commercial paper	3,951	—	3,951	—
Funds held in trust by others	26,268	—	—	26,268
Hedge funds	27,439	27,439	—	—
Other	459	459	—	—
Subtotal	467,160	$ 428,814	6,451	31,895
Alternative investments recorded at NAV (*)	143,882			
Investments in minority affiliates recorded using equity method	3,703			
Total University investments	$ 614,745			

(*) 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 2016 to 2017.

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.

Real asset funds – Investments in natural resources, infrastructure, commodities and real estate 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.

(All amounts in thousands)

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.

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, 2017 and 2016.

The following tables summarize the changes in fair value of Level 3 investments for the years ended June 30, 2017 and 2016:

		Notes and mortgages	Real estate investments	Funds held in trust by others	Total Level 3
Balance at June 30, 2016	$	991	4,636	26,268	31,895
Investment income (excluding unrealized gains, net)		—	—	—	—
Unrealized losses, net		—	(90)	(1,068)	(1,158)
Purchases		—	—	—	—
Sales		—	—	—	—
Mortgage payments		(137)	—	—	(137)
Balance at June 30, 2017	$	854	4,546	25,200	30,600
Total losses included in changes in net assets attributable to the change in unrealized gains and losses on assets still held at the reporting date	$	—	(90)	(1,068)	(1,158)

(All amounts in thousands)

		Notes and mortgages	Real estate investments	Funds held in trust by others	Total Level 3
Balance at June 30, 2015	$	1,112	4,803	26,298	32,213
Investment losses (excluding unrealized gains, net)		—	—	—	—
Unrealized losses, net		—	(167)	(30)	(197)
Purchases		—	—	—	—
Sales		—	—	—	—
Mortgage payments		(121)	—	—	(121)
Balance at June 30, 2016	$	991	4,636	26,268	31,895
Total losses included in changes in net assets attributable to the change in unrealized gains and losses on assets still held at the reporting date	$	—	(167)	(30)	(197)

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 2017 and classification in the consolidated financial statements:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Dividends and interest	$	5,961	3,281	275	9,517
Other investment losses		(18)	—	—	(18)
Net realized and unrealized gains		42,198	30,415	249	72,862
Gain on investments		48,141	33,696	524	82,361
Less investment income appropriated for operations		(24,772)	—	—	(24,772)
Investment return in excess of amounts appropriated for operations	$	23,369	33,696	524	57,589

(All amounts in thousands)

The following table summarizes investment return for 2016 and classification in the consolidated financial statements:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Dividends and interest	$	5,377	2,362	1,352	9,091
Other investment income		271	—	—	271
Net realized and unrealized losses		(13,053)	(8,690)	(338)	(22,081)
Gain (loss) on investments		(7,405)	(6,328)	1,014	(12,719)
Less investment income appropriated for operations		(20,245)	—	—	(20,245)
Investment return in excess of (less than) amounts appropriated for operations	$	(27,650)	(6,328)	1,014	(32,964)

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, 2017 and 2016:

Fiscal year ended June 30, 2017		Fair value	Unfunded commitment	Redemption frequency (if currently eligible)	Redemption notice period	Investment strategy
Private equity funds (a)	$	63,583	28,431	Illiquid	—	Multiple strategies
Real assets (b)		51,671	17,355	Illiquid	—	Multiple strategies
Hedge fund		42,655	—	1–180 days	1–95 days	Multiple strategies
Total	$	157,909	45,786			

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

(All amounts in thousands)

Fiscal year ended June 30, 2016		Fair value	Unfunded commitment	Redemption frequency (if currently eligible)	Redemption notice period	Investment strategy
Private equity funds (a)	$	53,717	32,445	Illiquid	—	Venture capital, distressed
Real assets (b)		50,440	21,581	Illiquid	—	Multiple strategies
Hedge fund		39,725	—	1–180 days	1–95 days	Multiple strategies
Total	$	143,882	54,026			

(a) These funds are expected to liquidate within 1 to 12 years.
(b) These funds are expected to liquidate within 2 to 12 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, 2017 and 2016 is as follows:

		2017	2016
University share of pooled endowment fund	$	634,475	532,725
Operational and other funds invested in the pooled fund		(133,724)	(112,127)
Endowment funds held in trust by others		24,398	25,565
Nonpooled assets, including cash and cash equivalents, notes receivable, real estate, and other		433	2,294
Total endowment	$	525,582	448,457

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, 2017 and 2016 by security type, based upon the function that the investment serves in the portfolio:

(All amounts in thousands)

	2017	2016
Equities – domestic	15%	23%
Equities – international	17	20
Equities – global	15	—
Fixed-income securities	16	22
Hedge funds	7	12
Private capital funds	24	23
Cash and cash equivalents	6	—
	100%	100%

The total rate of return (loss) on the pooled endowment fund was 13.2% for the year ended June 30, 2017 and (3.2)% for the year ended June 30, 2016.

(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 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.

(All amounts in thousands)

(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, 2017:					
Donor-restricted endowments	$	(1,202)	78,406	220,251	297,455
Board-designated endowments		228,127	—	—	228,127
Endowment totals	$	226,925	78,406	220,251	525,582

		Unrestricted	Temporarily restricted	Permanently restricted	Total
June 30, 2016:					
Donor-restricted endowments	$	(2,168)	55,447	211,678	264,957
Board-designated endowments		183,500	—	—	183,500
Endowment totals	$	181,332	55,447	211,678	448,457

(d) Endowment Net Asset Reconciliation

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Beginning balance, July 1, 2016	$	181,332	55,447	211,678	448,457
Investment income		3,958	3,171	78	7,207
Net investment appreciation (depreciation)		28,277	29,788	(491)	57,574
Contributions		17,087	—	9,027	26,114
Amounts appropriated for expenditure		(7,989)	(10,493)	—	(18,482)
Other changes		4,260	493	(41)	4,712
Ending balance, June 30, 2017	$	226,925	78,406	220,251	525,582

(Continued)

(All amounts in thousands)

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Beginning balance, July 1, 2015	$	176,946	70,845	201,652	449,443
Investment income		3,587	2,270	1,163	7,020
Net investment depreciation		(8,737)	(8,626)	(85)	(17,448)
Contributions		11,078	—	10,353	21,431
Amounts appropriated for expenditure		(6,297)	(7,759)	(1,104)	(15,160)
Other changes		4,755	(1,283)	(301)	3,171
Ending balance, June 30, 2016	$	181,332	55,447	211,678	448,457

(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 $(1,202) and $(2,168) as of June 30, 2017 and 2016, 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 7.00% 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.

(All amounts in thousands)

(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 $4,287 and $3,241 totaled $18,482 and $15,160 in the fiscal years ended June 30, 2017 and 2016, 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:

	2017	2016
Land	$ 43,902	43,832
Land improvements	36,904	35,834
Buildings	478,820	476,551
Equipment	91,620	93,191
Library collection	71,653	69,107
Construction in progress	42,225	12,696
	765,124	731,211
Accumulated depreciation	(349,617)	(344,179)
	$ 415,507	387,032

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 2017 and 2016 activity of the ARO liability:

(All amounts in thousands)

		2017	2016
Beginning balance	$	8,429	8,437
Current year accretion of liability		66	63
Current year abatement costs		(30)	(71)
Ending balance	$	8,465	8,429

(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 a risk-adjusted discount rate of 3.00%. Unconditional promises to give are expected to be realized in the following periods:

		2017	2016
One year or less	$	—	—
Between one and five years		321	—
More than five years		957	16,260
Less discount		(258)	(5,983)
	$	1,020	10,277

In addition, donors to the University have indicated intentions to contribute in future periods approximately $34,936 and $35,831 at June 30, 2017 and 2016, 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.

(All amounts in thousands)

(8) Bonds and Notes Payable

Bonds and notes payable, net of premium, discount and issuance costs at June 30, 2017 and 2016 consist of the following:

		2017	2016
$99,675 issuance of bonds (Douglas County Educational Facilities Revenue Refunding Bonds 2014); annual principal and interest payments through 2036; interest rates variable, 0.77% to 1.30% for 2017 (collateralized by unrestricted receipts, revenue, and income of the University)	$	97,139	97,745
$33,435 issuance of loan notes (Douglas County Educational Facilities Loan Notes 2010A); annual principal and interest payments through 2041; interest rates 5.00% to 5.88%; (collateralized by unrestricted receipts, revenue, and income of the University)		29,543	30,120
$13,180 issuance of loan notes (Douglas County Educational Facilities Loan Notes 2010B); annual principal and interest payments through 2029; interest rates 5.01% to 7.34%; (collateralized by unrestricted receipts, revenues, and income of the University)		10,205	10,750
$5,457 issuance of notes payable (URP Subsidiary CDE XXIX, LLC CDE Loan A); quarterly interest payments through 2023; interest rate 0.763%; (collateralized by certain University property)		5,298	—
$1,943 issuance of notes payable (URP Subsidiary CDE XXIX, LLC CDE Loan B); quarterly interest payments through 2023; interest rate 0.763%; (collateralized by certain University property)		1,886	—
$4,452 issuance of notes payable (UACD Sub CDE 27 LLC CDE Loan A); quarterly interest payments through 2023; interest rate 1.269%; (collateralized by certain University property)		4,323	—
$1,918 issuance of notes payable (UACD Sub CDE 27 LLC CDE Loan B); quarterly interest payments through 2023; interest rate 1.269%; (collateralized by certain University property)		1,862	—
$3,423 issuance of notes payable (UACD Sub CDE 26 LLC CDE Loan A); quarterly interest payments through 2023; interest rate 1.239%; (collateralized by certain University property)		3,324	—
$1,477 issuance of notes payable (UACD Sub CDE 26 LLC CDE Loan B); quarterly interest payments through 2023; interest rate 1.239%; (collateralized by certain University property)		1,434	—
Total bonds and notes payable		155,014	138,615
Less current portion of bonds and notes payable		(1,693)	(1,803)
Noncurrent portion of bonds and notes payable	$	153,321	136,812

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 May 1, 2017, the Series 2014 bond documents were amended to provide for i) an extension of the direct placement period for three years to May 15, 2020; ii) a revision to the financial covenants; and iii) a revision to the floating rate index and applicable spread.

(All amounts in thousands)

On December 15, 2010, the University issued $33,435 tax-exempt Series 2010A bonds and $13,180 taxable Series 2010B bonds through the County of Douglas, Nebraska. The proceeds for the Series 2010A bonds were used to 1) fund construction and installation of an electronic health records system, telephone switching equipment, and various other capital improvement projects; 2) refinance $20,000 outstanding of the 2007 County of Douglas, Nebraska, Development Revenue Short-Term Bond; and 3) refinance $2,500 outstanding of Revenue Bonds, Series 1999B. Proceeds from the Series 2010B bonds were used to refinance $11,800 outstanding of the Non-revolving Credit Note dated June 11, 2010.

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

On October 18, 2016, certain entities provided $18,670 in debt financing to Creighton Dental through the New Markets Tax Credit Financing (note 16). Creighton Dental is required to make interest-only payments on the six notes payable for a period of seven years. As described more fully below, the notes payable have put and call options that can be exercised at the end of the new markets tax credit seven-year compliance period.

Repayments of bond and note principal, including amortization of premium, discount and debt issuance costs in each of the five fiscal years subsequent to June 30, 2017 are scheduled as follows:

	Bond and note principal
Year ending June 30:	
2018	$ 1,693
2019	1,858
2020	1,929
2021	2,008
2022	2,193
Thereafter	145,333
Total payments	$ 155,014

Interest expense on long-term debt was $6,558 in 2017 and $6,489 in 2016. 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, 2017, the University's maximum annual amount payable for funded debt service is 5.3% of total revenue and the ratio of "ready current assets" to "pro forma funded debt service" is 7.4 to 1. The University is subject to two additional covenants under the Series 2014 Bond Documents. One 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, 2017, this ratio was 2.4 to 1. The other specifies that the ratio of the University's unrestricted cash and investments to funded debt cannot be less than 0.75 to 1. As of June 30, 2017, this ratio was 2.1 to 1. The University was in compliance with applicable debt covenants as of June 30, 2017 and 2016.

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, 2017 and 2016. 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, 2017 and 2016.

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.

(All amounts in thousands)

The University had the following interest rate swaps outstanding at June 30, 2017:

Purchase date	Creighton pays	Creighton receives		2017 Change in fair value	2016 Change in fair value
August 2001	4.455%	68% of 1-month LIBOR	$	2,843	(2,439)
March 2003	3.520	70% of 1-month LIBOR		2,278	(1,920)
August 2004	3.600	68% of 1-month LIBOR		1,732	(1,559)
February 2005	3.642	Greater of 67% of 1-month LIBOR or 63% of 1-month LIBOR plus 0.20%		646	(207)
February 2005	3.642	Greater of 67% of 1-month LIBOR or 63% of 1-month LIBOR plus 0.20%		760	(687)
April 2005	3.769	67% of 1-month LIBOR		1,567	(1,642)
	Total change in fair value for the years ended June 30, 2017 and 2016		$	9,826	(8,454)

The following schedule presents the notional principal amounts and estimated fair values of the University's interest rate swaps at June 30, 2017 and 2016:

	Notional amounts		Expiration		Estimated fair value of swaps at June 30	
	2017	2016	dates		2017	2016
$	25,000	25,000	August 1, 2030	$	(8,347)	(11,190)
	24,700	25,350	March 1, 2033		(4,645)	(6,923)
	17,575	17,575	August 1, 2031		(4,254)	(5,986)
	8,500	8,500	September 18, 2031		(1,423)	(2,069)
	8,500	8,500	September 18, 2031		(1,796)	(2,555)
	13,000	13,000	August 23, 2035		(3,928)	(5,496)
$	97,275	97,925		$	(24,393)	(34,219)

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, 2017. One operating line of credit has a maximum borrowing capacity of $25,000 and expires March 31, 2018. The interest rate payable on this line of credit is established at 1.00% over the one-month LIBOR, or 2.22% at June 30, 2017. The outstanding balances on this line of credit were $0 at June 30, 2017 and 2016.

(All amounts in thousands)

The second operating line of credit 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 1.00% over the one-month LIBOR. The interest rate was 2.22% at June 30, 2017. The outstanding balances on this line of credit were $0 at June 30, 2017 and 2016.

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	
		2017	**2016**
Instructional	$	125,683	122,542
Healthcare services		26,138	39,689
Student aid		1,203	1,186
Sponsored research		18,560	19,187
Academic support		60,538	57,386
Libraries		11,454	11,208
Student services		22,369	21,624
Institutional support		46,774	44,696
Auxiliary enterprises		62,631	61,511
Total	$	375,350	379,029

Included under Institutional support in the above table are University fund-raising expenses of $5,587 and $3,734 for the fiscal years ended June 30, 2017 and 2016, respectively.

(11) Impairment of Assets Held for Sale

During 2016, the University negotiated the transfer of the Creighton University Medical Center building to an outside party. As a result of the transfer, the University recognized an impairment of the assets held for sale of $14,052 during the year ended, June 30, 2016. The transferred building did not represent a discontinued segment of the University operations, and the impairment loss is included as a separate line item under operating expenses on the consolidated statement of activities.

(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. Children's Physicians owns and operates certain primary care pediatric clinics in Omaha and the surrounding communities. Net operating results of Children's

Physicians of $(266) in 2017 and $(105) in 2016 are included in nonoperating equity losses 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, 2017 and 2016 were $8,184 and $8,054, 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 2017 and 2016 were $19,868 and $16,559, respectively. The University carries stop-loss insurance coverage that limits the University’s claim liability to $225 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 $1,962 and $2,012 at June 30, 2017 and 2016, respectively. The University is also partially self-insured for workers’ compensation and medical malpractice insurance and accrues an estimated liability for claims incurred but not paid, based on studies performed by an outside actuarial firm. The liability amounts are included in accounts payable and accrued expenses.

(15) Commitments and Contingencies

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

The University has entered into a series of fixed price forward purchase agreements with various counterparties to purchase volumes of natural gas on a forward basis. These agreements range from 2,500 to 10,000 dekatherms (Dth) per month at fixed prices ranging from $2.85/Dth to $4.51/Dth. The period covered by the various forward purchase agreements is through June 2020. 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 purchased at the contract price in the applicable periods. Net settlement amounts for natural gas purchased under these agreements are recorded in the period that the gas is delivered.

As of June 30, 2017, the University has contractual obligations of approximately $5,782 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 2021.

(All amounts in thousands)

(16) New Market Tax Credit Financing

The University and Creighton Dental entered into a financing agreement with various entities for the purpose of receiving financing for the construction of a new dental school. The new market tax credit structure consists of new market tax credit investors and other lenders that provide qualified equity investments to community development entities (CDE) who in turn provide debt financing to qualified active low-income community businesses (QALICB).

The University is the leveraged lender in this process and holds notes with the US Bank Investment Fund and Capital One Investment Fund (Investment Funds). During the period from inception (September 9, 2016) through June 30, 2017, the University transferred cash of $1,784 and land at cost of $1,747 to Creighton Dental. The Investment Funds made qualified equity investments to URP Subsidiary CDE XXIX, UACD Sub-CDE 26, and UACD Sub-CDE 27, which qualify as CDEs. These CDEs have provided debt financing to Creighton Dental of $18,670 for the qualified purpose of constructing a dental school building, as required by the terms of the agreement.

The notes payable have put and call options that can be exercised at the end of the new markets tax credit seven-year compliance period. If either option is exercised, Creighton Dental will purchase the third-party investor interests in the Investment Funds at an amount as defined in the Agreements. Once the option is exercised and agreed-upon consideration is paid, notes payable related to the new market tax credit structure will be considered settled in full which would result in the forgiveness of the QLICI B notes payable of $5,182.

The University has not exercised these options as of June 30, 2017.

(17) Related Party Transactions

As a part of the new market tax credit financing transaction, the University entered into a long-term lease agreement with Creighton Dental. The University will be required to make quarterly lease payments for the term of the new market tax credit financing agreement up to a maximum of 30 years commencing with its occupation of the building.

Future lease payments under the lease are as follows:

2019	$	256
2020		316
2021		316
2022		316
2023		332

As a result of the new market tax credit financing structure, the University is the holder of promissory notes with US Bank Investment Fund and Capital One Investment Fund effective October 18, 2016, for the face value of $9,909 and $3,423, respectively. These notes bear interest at 1.00% per annum and is due in interest-only payments terminating on October 18, 2023, which coincides with the expiration date of the new market tax credit compliance period. If the put or call options described above are not exercised upon expiration of the new market tax credit compliance period, the principal balance will amortize over the life of the note maturing on September 30, 2041. Interest income for the year ended June 30, 2017 totaled $94 and is included in investment income in the combined statements of activities.

(18) Subsequent Events

The University has evaluated subsequent events through October 24, 2017, the date the consolidated financial statements were issued, and noted no additional items to disclose.