



CREIGHTON UNIVERSITY

Consolidated Financial Statements

June 30, 2018 and 2017

and

Schedule of Expenditures of Federal Awards

June 30, 2018

(With Independent Auditors' Reports Thereon)

CREIGHTON UNIVERSITY

Table of Contents

	Page(s)
Independent Auditors' Report	1–2
Consolidated Financial Statements:	
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
Single Audit Information	
Schedule of Expenditures of Federal Awards	35–36
Notes to Schedule of Expenditures of Federal Awards	37–38
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	39–40
Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance	41–42
Schedule of Findings and Questioned Costs	43



KPMG LLP
Suite 300
1212 N. 96th Street
Omaha, NE 68114-2274

Suite 1120
1248 O Street
Lincoln, NE 68508-1493

Independent Auditors' Report

The Board of Trustees
Creighton University:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Creighton University, which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2018 and 2017, 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.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2018 on our consideration of Creighton University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Creighton University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Creighton University's internal control over financial reporting and compliance.

KPMG LLP

Omaha, Nebraska
October 23, 2018

CREIGHTON UNIVERSITY

Consolidated Statements of Financial Position

June 30, 2018 and 2017

(All amounts in thousands)

Assets	2018	2017
Cash and cash equivalents	\$ 12,397	25,387
Accounts receivable, net	21,653	17,649
Contributions receivable, net	1,509	1,020
Student loans receivable, net of reserve for doubtful accounts of \$1,019 and \$947 in 2018 and 2017, respectively	28,693	29,738
Notes receivable, net	13,876	13,842
Prepaid expenses, inventories, and other assets	15,846	11,885
Investments	748,783	691,854
Land, buildings, and equipment, net	475,476	415,507
Total assets	\$ 1,318,233	1,206,882
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 46,081	46,550
Short-term borrowings	5,000	—
Deferred income	20,171	22,328
Other liabilities	32,276	33,924
Interest rate swap liability	18,225	24,393
Refundable government student loan funds	29,074	29,665
Bonds and notes payable	203,502	155,014
Total liabilities	354,329	311,874
Commitments and contingencies		
Net assets:		
Unrestricted	478,594	440,915
Temporarily restricted	247,018	228,906
Permanently restricted	238,292	225,187
Total net assets	963,904	895,008
Total liabilities and net assets	\$ 1,318,233	1,206,882

See accompanying notes to consolidated financial statements.

CREIGHTON UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2018

(All amounts in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net operating revenue:				
Tuition and fees	\$ 318,958	—	—	318,958
Tuition discount and scholarship allowances	(91,059)	—	—	(91,059)
Net tuition and fees	227,899	—	—	227,899
Educational support contract revenue	38,461	—	—	38,461
Net healthcare services revenue	11,746	—	—	11,746
Grants and contracts	17,766	—	—	17,766
Contributions	12,699	—	—	12,699
Investment income appropriated for operations	21,609	—	—	21,609
Auxiliary enterprises	41,139	—	—	41,139
Other revenue	13,288	—	—	13,288
Net assets released from restrictions	6,254	—	—	6,254
Total net operating revenue	390,861	—	—	390,861
Operating expenses:				
Salaries, wages, and benefits	233,227	—	—	233,227
Contracted services	45,642	—	—	45,642
Supplies and materials	19,781	—	—	19,781
Depreciation and amortization	25,446	—	—	25,446
Interest expense	7,437	—	—	7,437
Utilities and communications	10,002	—	—	10,002
Other operating expenses	35,896	—	—	35,896
Total operating expenses	377,431	—	—	377,431
Changes in net assets from operating activities	13,430	—	—	13,430
Nonoperating changes in net assets:				
Investment return in excess of amounts appropriated for operations	8,414	21,075	1,194	30,683
Equity losses in minority-owned affiliates	(329)	—	—	(329)
Loss on extinguishment of debt	(2,852)	—	—	(2,852)
Change in fair value of interest rate swaps	6,168	—	—	6,168
Contributions for nonoperating purposes	579	14,809	12,566	27,954
Other changes in net assets	(488)	1,239	(655)	96
Net assets released from restrictions	12,757	(19,011)	—	(6,254)
Net nonoperating changes in net assets	24,249	18,112	13,105	55,466
Increase in net assets	37,679	18,112	13,105	68,896
Net assets, beginning of year	440,915	228,906	225,187	895,008
Net assets, end of year	\$ 478,594	247,018	238,292	963,904

See accompanying notes to consolidated financial statements.

CREIGHTON UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2017

(All amounts in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
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 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 Statements of Cash Flows
Years ended June 30, 2018 and 2017
(All amounts in thousands)

	2018	2017
Cash flows from operating activities:		
Increase in net assets	\$ 68,896	107,898
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Equity losses in minority-owned affiliates	329	266
Receipt of contributed securities	(4,388)	(18,944)
Proceeds from sale of unrestricted contributed securities	1,006	815
Depreciation, amortization, and accretion	25,404	25,656
Actuarial loss on annuities payable	528	915
Actuarial adjustment on contributions receivable	(489)	—
Cash contributions for nonoperating purposes	(23,566)	(10,060)
Change in fair value of interest rate swap agreements	(6,168)	(9,826)
Net realized and unrealized gains on investments	(42,814)	(72,862)
Loss on extinguishment of debt	2,852	—
Changes in operating assets and liabilities:		
Accounts receivable	(4,005)	(125)
Notes receivable	(34)	—
Contributions receivable	—	9,301
Prepaid expenses, inventories, and other assets	(3,960)	(3,593)
Accounts payable and accrued expenses	2,402	(14,278)
Deferred income	(2,157)	3,357
Other liabilities	(1,134)	2,443
Net cash provided by operating activities	12,702	20,963
Cash flows from investing activities:		
Repayments on student loans	5,387	5,397
Student loans issued	(4,342)	(3,892)
Proceeds from the sales of investments	169,753	394,554
Purchases of investments	(184,483)	(399,372)
Purchases of land, buildings, and equipment, net	(88,287)	(44,958)
Cash outflow from issuance of notes receivable	—	(13,364)
Net cash used in investing activities	(101,972)	(61,635)
Cash flows from financing activities:		
Cash contributions for nonoperating purposes	23,566	10,060
Proceeds from sale of restricted contributed securities	3,382	18,084
Proceeds from the issuance of long-term debt	76,574	18,037
Payments on long-term debt	(30,835)	(1,775)
Proceeds from short-term debt	5,000	—
Increase (decrease) in federal student loan funds	(592)	334
Net payments on annuity agreements	(815)	(801)
Net cash provided by financing activities	76,280	43,939
Net increase (decrease) in cash and cash equivalents	(12,990)	3,267
Cash and cash equivalents, beginning of year	25,387	22,120
Cash and cash equivalents, end of year	\$ 12,397	25,387
Supplemental cash flow data:		
Cash paid for interest	\$ 6,487	6,595
Capital assets acquired through accounts payable	6,099	8,970
Contributed securities	4,388	18,944

See accompanying notes to consolidated financial statements.

CREIGHTON UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(All amounts in thousands)

(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 four colleges, four 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.
- 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

CREIGHTON UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(All amounts in thousands)

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 consolidated 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, losses on extinguishment of debt, 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.

CREIGHTON UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(All amounts in thousands)

(f) Healthcare Services

Healthcare services revenue represents net patient charges for services provided through the University's health sciences clinical operations, including the schools of Medicine, Dentistry, and Pharmacy and Health Professions.

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

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

(g) Educational Support

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

(h) Grants and Contracts

Grants and contracts consist primarily of contractual agreements with governmental and private entities for the conduct of research and other sponsored programs. These agreements represent exchange transactions between the University and the grantors and are accordingly included in unrestricted net assets. Revenue is recognized on grants and contracts as expenses are incurred and amounts received in advance are reflected as deferred income.

(i) Auxiliary Enterprises

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

(j) 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

CREIGHTON UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(All amounts in thousands)

values will occur in the near term and that such changes could materially affect the University's consolidated 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 11).

(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 consolidated financial statements. At June 30, 2018 and 2017, the amount of loans past due under the student loan programs was \$2,423 and \$2,200, 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

CREIGHTON UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(All amounts in thousands)

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 5.0%–7.0% for 2018 and 8.7%–9.5% for 2017. The University's liability amounts were \$7,152 and \$7,726 at June 30, 2018 and 2017, 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. At inception, Creighton Dental had been recognized by the Internal Revenue Service (IRS) as a tax-exempt organization under Section 501(c)(2) of the Internal Revenue Code. Effective November 14, 2017, Creighton Dental was reclassified 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. 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 2018 and 2017. Accordingly, no federal or state income taxes have been provided. As of June 30, 2018 and 2017, the University, CSSI, and Creighton Dental had no liability for unrecognized tax benefits.

H.R. 1, originally known as the Tax Cuts and Jobs Act (the Act), was signed into law on December 22, 2017. The Act contains various provisions affecting both for-profit and not-for-profit entities. Tax-exempt entities are impacted in part by the inclusion of a new excise tax on excess compensation for covered employees, changes to unrelated business income, as well as their ability to advance refund bonds. In addition, tax-exempt entities may be impacted through certain for-profit subsidiaries and/or joint ventures based on the Act's provisions for tax rates, measurement of deferred taxes as well as other limitations on deductions. The Act's provisions may also impact donor incentives for charitable giving. Management is currently assessing the overall impact of the Act and its impact on the consolidated financial statements.

CREIGHTON UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(All amounts in thousands)

(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 has evaluated the effect that ASU 2014-09 will have on the consolidated financial statements and related disclosures and has determined the impact of the new revenue recognition standard to be immaterial.

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 consolidated 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.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The guidance provides a more robust framework for determining whether a grant (or similar transaction) should be accounted for as a contribution or an exchange transaction. The ASU also helps determine whether a contribution is conditional and better distinguishes a donor-imposed condition from a donor-imposed restriction. This ASU is effective for annual periods beginning after June 15, 2018. The University has evaluated the effect that ASU 2018-08 will have on the consolidated financial statements and related disclosures as it relates to grants and has determined the impact of the new standard to be immaterial.

(r) Reclassification

Certain amounts in the 2017 financial statements have been reclassified to conform to the 2018 presentation.

CREIGHTON UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(All amounts in thousands)

(2) Net Assets

Unrestricted net assets consist of the following:

	<u>2018</u>	<u>2017</u>
Available for current operations	\$ 86,162	69,186
Endowment funds (note 5)	244,741	226,925
Invested in land, buildings, and equipment	<u>147,691</u>	<u>144,804</u>
Total unrestricted net assets	<u>\$ 478,594</u>	<u>440,915</u>

Temporarily restricted net assets consist of the following:

	<u>2018</u>	<u>2017</u>
Contributions for buildings, amortized over the life of the corresponding facility	\$ 140,196	134,295
Contributions receivable	1,509	1,020
Annuity and life income funds	3,941	4,336
Unexpended income and contributions for restricted purposes	10,373	10,849
Endowment funds (note 5):		
Unappropriated income with specific purpose on permanently restricted endowments	90,156	77,724
Unappropriated income without specific purpose	<u>843</u>	<u>682</u>
Total temporarily restricted net assets	<u>\$ 247,018</u>	<u>228,906</u>

Permanently restricted net assets consist of the following:

	<u>2018</u>	<u>2017</u>
Endowment funds (note 5)	\$ 208,566	195,853
Endowment funds held in trust by others (note 5)	24,507	24,398
Student loan funds	435	420
Annuity and life income funds	<u>4,784</u>	<u>4,516</u>
Total permanently restricted net assets	<u>\$ 238,292</u>	<u>225,187</u>

CREIGHTON UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(All amounts in thousands)

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

	<u>2018</u>	<u>2017</u>
Departmental and other operational expenses, net	\$ 1,638	1,437
Additions to or renovations of plant facilities, net	4,759	4,806
Scholarships	104	119
Change in designation	<u>(247)</u>	<u>—</u>
Total net assets released from restrictions	<u>\$ 6,254</u>	<u>6,362</u>

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, net consist of the following:

	<u>2018</u>	<u>2017</u>
Student accounts receivable, net	\$ 5,586	5,485
Grant funds receivable	2,533	4,085
Medical affiliate receivables	5,921	4,128
Miscellaneous receivables	<u>7,613</u>	<u>3,951</u>
Total accounts receivable, net	<u>\$ 21,653</u>	<u>17,649</u>

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 \$958 and \$965 at June 30, 2018 and 2017, respectively. Estimated reserves for uncollectible amounts on student accounts receivable were \$3,054 and \$2,926 at June 30, 2018 and 2017, respectively.

CREIGHTON UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(All amounts in thousands)

(4) Investments

University investments as of June 30, 2018 and 2017 comprise the following:

	<u>2018</u>	<u>2017</u>
Short-term investments	\$ 218	4,232
Long-term investments	720,143	658,985
Investment in minority-owned subsidiaries and affiliates	3,108	3,437
Funds held in trust by others	<u>25,314</u>	<u>25,200</u>
Total University investments	<u>\$ 748,783</u>	<u>691,854</u>

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.

CREIGHTON UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(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, 2018:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Investment money markets	\$ 10,905	10,905	—	—
Domestic funds	119,816	119,816	—	—
International funds	127,620	127,620	—	—
Global funds	107,167	107,167	—	—
Real asset funds	45,352	45,352	—	—
Corporate bonds	2,500	—	2,500	—
Fixed-income funds	112,612	112,612	—	—
Notes and mortgages	717	—	—	717
Real estate	4,546	—	—	4,546
Commercial paper	12,749	—	12,749	—
Funds held in trust by others	25,314	—	—	25,314
Other	<u>172</u>	<u>172</u>	<u>—</u>	<u>—</u>
Subtotal	569,470	\$ <u>523,644</u>	<u>15,249</u>	<u>30,577</u>
Alternative investments recorded at NAV (*)	176,205			
Investments in minority affiliates recorded using equity method	<u>3,108</u>			
Total University investments	\$ <u>748,783</u>			

(*) 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.

CREIGHTON UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(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:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents	\$ 4,305	4,305	—	—
Investments:				
Investment money markets	42,323	42,323	—	—
Domestic funds	98,591	98,591	—	—
International funds	112,512	112,512	—	—
Global funds	96,749	96,749	—	—
Real asset funds	44,382	44,382	—	—
Corporate bonds	2,500	—	2,500	—
Fixed-income funds	98,868	98,868	—	—
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	\$ <u>493,622</u>	<u>6,286</u>	<u>30,600</u>
Alternative investments recorded at NAV (*)	157,909			
Investments in minority affiliates recorded using equity method	<u>3,437</u>			
Total University investments	\$ <u>691,854</u>			

(*) 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 2017 to 2018.

CREIGHTON UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(All amounts in thousands)

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.

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.

CREIGHTON UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(All amounts in thousands)

Investment in minority-owned affiliates – The University holds minority interests in 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, 2018 and 2017.

The following tables summarize the changes in fair value of Level 3 investments for the years ended June 30, 2018 and 2017:

	<u>Notes and mortgages</u>	<u>Real estate investments</u>	<u>Funds held in trust by others</u>	<u>Total Level 3</u>
Balance at June 30, 2017	\$ 854	4,546	25,200	30,600
Investment income	—	—	—	—
Unrealized gains and losses, net	—	—	114	114
Purchases	—	—	—	—
Sales	—	—	—	—
Mortgage payments	<u>(137)</u>	<u>—</u>	<u>—</u>	<u>(137)</u>
Balance at June 30, 2018	\$ <u>717</u>	<u>4,546</u>	<u>25,314</u>	<u>30,577</u>
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	\$ —	—	114	114

	<u>Notes and mortgages</u>	<u>Real estate investments</u>	<u>Funds held in trust by others</u>	<u>Total Level 3</u>
Balance at June 30, 2016	\$ 991	4,636	26,268	31,895
Investment losses	—	—	—	—
Unrealized gains and losses, net	—	(90)	(1,068)	(1,158)
Purchases	—	—	—	—
Sales	—	—	—	—
Mortgage payments	<u>(137)</u>	<u>—</u>	<u>—</u>	<u>(137)</u>
Balance at June 30, 2017	\$ <u>854</u>	<u>4,546</u>	<u>25,200</u>	<u>30,600</u>
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)

CREIGHTON UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(All amounts in thousands)

The following table summarizes investment return for 2018 and classification in the consolidated financial statements:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Dividends and interest	\$ 5,861	3,297	269	9,427
Other investment losses	51	—	—	51
Net realized and unrealized gains	<u>24,111</u>	<u>17,778</u>	<u>925</u>	<u>42,814</u>
Gain on investments	30,023	21,075	1,194	52,292
Less investment income appropriated for operations	<u>(21,609)</u>	<u>—</u>	<u>—</u>	<u>(21,609)</u>
Investment return in excess of amounts appropriated for operations	\$ <u>8,414</u>	<u>21,075</u>	<u>1,194</u>	<u>30,683</u>

The following table summarizes investment return for 2017 and classification in the consolidated financial statements:

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

CREIGHTON UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(All amounts in thousands)

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, 2018 and 2017:

<u>Fiscal year ended June 30, 2018</u>	<u>Fair value</u>	<u>Unfunded commitment</u>	<u>Redemption frequency (if currently eligible)</u>	<u>Redemption notice period</u>	<u>Investment strategy</u>
Private equity funds (a) \$	73,726	56,629	Illiquid	—	Multiple strategies
Real assets (b)	54,924	26,226	Illiquid	—	Multiple strategies
Hedge fund	47,555	—	1–180 days	1–95 days	Multiple strategies
Total	<u>\$ 176,205</u>	<u>82,855</u>			

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

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

<u>Fiscal year ended June 30, 2017</u>	<u>Fair value</u>	<u>Unfunded commitment</u>	<u>Redemption frequency (if currently eligible)</u>	<u>Redemption notice period</u>	<u>Investment strategy</u>
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	<u>\$ 157,909</u>	<u>45,786</u>			

(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.

CREIGHTON UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(All amounts in thousands)

(5) Endowment Fund

The University's endowment consists primarily of funds invested in an externally managed pooled endowment fund. The composition of the total endowment fund as of June 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
University share of pooled endowment fund	\$ 687,533	634,475
Operational and other funds invested in the pooled fund	(148,138)	(133,724)
Endowment funds held in trust by others	24,507	24,398
Nonpooled assets, including cash and cash equivalents, notes receivable, real estate, and other	<u>4,911</u>	<u>433</u>
Total endowment	\$ <u><u>568,813</u></u>	<u><u>525,582</u></u>

Certain assets of the endowment fund are pooled on a market value basis. Each individual pooled endowment fund subscribes to or disposes of units on the basis of the per-unit market value at the beginning of the calendar month within which the transaction takes place. The following table illustrates the relative percentage composition of the investments at June 30, 2018 and 2017 by security type, based upon the function that the investment serves in the portfolio:

	<u>2018</u>	<u>2017</u>
Equities – domestic	16 %	15 %
Equities – international	18	17
Equities – global	15	15
Fixed-income securities	17	16
Hedge funds	7	7
Private capital funds	25	24
Cash and cash equivalents	<u>2</u>	<u>6</u>
	<u><u>100 %</u></u>	<u><u>100 %</u></u>

The total rate of return (loss) on the pooled endowment fund was 7.0% for the year ended June 30, 2018 and 13.2% for the year ended June 30, 2017.

(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.

CREIGHTON UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(All amounts in thousands)

The University's endowment consists of in excess of 1,000 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the University's Board of Trustees to function as endowments. Net assets associated with the endowment, including the board-designated funds, are classified and reported based upon the presence or absence of donor-imposed restrictions.

(b) Interpretation of Relevant Law

The University's Board of Trustees has interpreted the Act as allowing the University to appropriate for expenditure or accumulate as much of an endowment fund as the University determines is prudent for the uses, benefits, purposes, and direction for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by the Act.

(c) Endowment Net Asset Composition by Fund Type

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

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
June 30, 2018:				
Donor-restricted endowments \$	(1,110)	90,999	233,073	322,962
Board-designated endowments	<u>245,851</u>	—	—	<u>245,851</u>
Endowment totals \$	<u><u>244,741</u></u>	<u><u>90,999</u></u>	<u><u>233,073</u></u>	<u><u>568,813</u></u>

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
June 30, 2017:				
Donor-restricted endowments \$	(1,202)	78,406	220,251	297,455
Board-designated endowments	<u>228,127</u>	—	—	<u>228,127</u>
Endowment totals \$	<u><u>226,925</u></u>	<u><u>78,406</u></u>	<u><u>220,251</u></u>	<u><u>525,582</u></u>

CREIGHTON UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(All amounts in thousands)

(d) Endowment Net Asset Reconciliation

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Beginning balance, July 1, 2017 \$	226,925	78,406	220,251	525,582
Investment income	3,768	3,190	74	7,032
Net investment appreciation (depreciation)	14,593	17,477	383	32,453
Contributions	579	—	12,365	12,944
Amounts appropriated for expenditure	(6,348)	(10,194)	—	(16,542)
Other changes	5,224	2,120	—	7,344
Ending balance, June 30, 2018 \$	<u>244,741</u>	<u>90,999</u>	<u>233,073</u>	<u>568,813</u>

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
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 \$	<u>226,925</u>	<u>78,406</u>	<u>220,251</u>	<u>525,582</u>

(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 \$(1,110) and \$(1,202) as of June 30, 2018 and 2017, 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.

CREIGHTON UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(All amounts in thousands)

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.

(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 \$2,888 and \$4,287 totaled \$16,542 and \$18,482 in the fiscal years ended June 30, 2018 and 2017, 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

CREIGHTON UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(All amounts in thousands)

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:

	<u>2018</u>	<u>2017</u>
Land	\$ 45,193	43,902
Land improvements	39,826	36,904
Buildings	487,896	478,820
Equipment	89,715	91,620
Library collection	71,677	71,653
Construction in progress	<u>93,190</u>	<u>42,225</u>
	827,497	765,124
Accumulated depreciation	<u>(352,021)</u>	<u>(349,617)</u>
	\$ <u><u>475,476</u></u>	<u><u>415,507</u></u>

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 2018 and 2017 activity of the ARO liability:

	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 8,465	8,429
Current year accretion of liability	61	66
Current year abatement costs	<u>(95)</u>	<u>(30)</u>
Ending balance	\$ <u><u>8,431</u></u>	<u><u>8,465</u></u>

CREIGHTON UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(All amounts in thousands)

(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:

	<u>2018</u>	<u>2017</u>
One year or less	\$ 891	—
Between one and five years	—	321
More than five years	773	957
Less discount	<u>(155)</u>	<u>(258)</u>
	<u>\$ 1,509</u>	<u>1,020</u>

In addition, donors to the University have indicated intentions to contribute in future periods approximately \$50,936 and \$34,936 at June 30, 2018 and 2017, 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, net of premium, discount and issuance costs at June 30, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
\$99,675 issuance of bonds (Douglas County Educational Facilities Revenue Refunding Bonds 2014); annual principal and interest payments through 2036; interest rates variable, 1.13% to 2.10% for 2018 (collateralized by unrestricted receipts, revenue, and income of the University)	\$ 96,532	97,139
\$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
\$72,250 issuance of loan notes (Douglas County Educational Facilities Loan Notes 2017); annual principal and interest payments through 2047; interest rates 3.00% to 5.00%; (collateralized by unrestricted receipts, revenue, and income of the University)	79,122	—

CREIGHTON UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(All amounts in thousands)

	<u>2018</u>	<u>2017</u>
\$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)	\$ 9,630	10,205
\$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)	5,325	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)	1,896	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)	4,345	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)	1,871	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)	3,340	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)	<u>1,441</u>	<u>1,434</u>
Total bonds and notes payable	203,502	155,014
Less current portion of bonds and notes payable	<u>(5,083)</u>	<u>(1,803)</u>
Noncurrent portion of bonds and notes payable	\$ <u><u>198,419</u></u>	\$ <u><u>153,211</u></u>

On December 4, 2017, the University issued \$72,250 tax-exempt Series 2017 bonds through the County of Douglas, Nebraska. The proceeds from the Series 2017 bonds were used to fund construction of and equipment for a new dental school facility and to refinance \$29,610 outstanding of the Series 2010A bonds. The Series 2010A debt service reserve fund was redeemed as part of this transaction and the amount applied against the outstanding Series 2010A amount. The bonds were issued on a serial basis with various maturities and will bear interest at a fixed rate paid on a semi-annual basis. The University recognized a net loss on extinguishment of debt of \$2,852 during the year ended June 30, 2018.

CREIGHTON UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(All amounts in thousands)

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. Effective January 1, 2018, the floating rate index and applicable spread were increased in accordance with the Indenture due to a decrease in the corporate tax rate.

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 date is July 1, 2028 for the 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 15). 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, 2018 are scheduled as follows:

	Bond and note principal
Year ending June 30:	
2019	\$ 5,083
2020	5,178
2021	5,283
2022	4,183
2023	4,368
Thereafter	<u>179,407</u>
Total payments	<u>\$ 203,502</u>

CREIGHTON UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(All amounts in thousands)

Interest expense on long-term debt was \$7,285 in 2018 and \$6,558 in 2017. 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, 2018, the University's maximum annual amount payable for funded debt service is 5.4% of total revenue and the ratio of "ready current assets" to "pro forma funded debt service" is 7.9 to 1. The University is subject to 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, 2018, this ratio was 2.2 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, 2018, this ratio was 1.4 to 1. The University was in compliance with applicable debt covenants as of June 30, 2018 and 2017.

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, 2018 and 2017. 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, 2018 and 2017.

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.

CREIGHTON UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(All amounts in thousands)

The University had the following interest rate swaps outstanding at June 30, 2018:

<u>Purchase date</u>	<u>Creighton pays</u>	<u>Creighton receives</u>	<u>2018 Change in fair value</u>	<u>2017 Change in fair value</u>
August 2001	4.455 %	68% of 1-month LIBOR	\$ 1,824	2,843
March 2003	3.520	70% of 1-month LIBOR	1,394	2,278
August 2004	3.600	68% of 1-month LIBOR	1,129	1,732
February 2005	3.642	Greater of 67% of 1-month LIBOR or 63% of 1-month LIBOR plus 0.20%	437	646
February 2005	3.642	Greater of 67% of 1-month LIBOR or 63% of 1-month LIBOR plus 0.20%	472	760
April 2005	3.769	67% of 1-month LIBOR	912	1,567
Total change in fair value for the years ended June 30, 2018 and 2017			\$ <u>6,168</u>	<u>9,826</u>

The following schedule presents the notional principal amounts and estimated fair values of the University's interest rate swaps at June 30, 2018 and 2017:

<u>Notional amounts</u>		<u>Expiration dates</u>	<u>Estimated fair value of swaps at June 30</u>	
<u>2018</u>	<u>2017</u>		<u>2018</u>	<u>2017</u>
\$ 25,000	25,000	August 1, 2030	\$ (6,523)	(8,347)
24,050	24,700	March 1, 2033	(3,251)	(4,645)
17,575	17,575	August 1, 2031	(3,125)	(4,254)
8,500	8,500	September 18, 2031	(986)	(1,423)
8,500	8,500	September 18, 2031	(1,324)	(1,796)
13,000	13,000	August 23, 2035	(3,016)	(3,928)
\$ <u>96,625</u>	<u>97,275</u>		\$ <u>(18,225)</u>	<u>(24,393)</u>

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, 2018. One operating line of credit has a maximum borrowing capacity of \$25,000 and expires March 31, 2019. The interest rate payable on this line of credit is established at 1.00% over the one-month LIBOR, or

CREIGHTON UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(All amounts in thousands)

3.09% at June 30, 2018. The outstanding balances on this line of credit were \$0 at June 30, 2018 and 2017.

The second operating line of credit has a maximum borrowing capacity of \$25,000 and expires December 1, 2020. The interest rate payable on this line of credit is established at 1.00% over the one-month LIBOR. The interest rate was 3.09% at June 30, 2018. The outstanding balances on this line of credit were \$5,000 at June 30, 2018 and \$0 at June 30, 2017.

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	
	2018	2017
Instructional	\$ 130,272	125,683
Healthcare services	26,653	26,138
Student aid	1,237	1,203
Sponsored research	17,189	18,560
Academic support	59,124	60,538
Libraries	10,935	11,454
Student services	28,093	22,369
Institutional support	39,902	46,774
Auxiliary enterprises	64,026	62,631
Total	\$ 377,431	375,350

Included under Institutional support in the above table are University fund-raising expenses of \$4,834 and \$5,587 for the fiscal years ended June 30, 2018 and 2017, respectively.

(11) 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 \$(329) in 2018 and \$(266) in 2017 are included in nonoperating equity losses in the consolidated statements of activities. This investment is accounted for using the equity method.

CREIGHTON UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(All amounts in thousands)

(12) 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, 2018 and 2017 were \$9,189 and \$8,184, respectively.

(13) 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 2018 and 2017 were \$18,327 and \$19,868, 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 \$1,662 and \$1,962 at June 30, 2018 and 2017, 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.

(14) 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 1,848 to 10,000 dekatherms (Dth) per month at fixed prices ranging from \$2.72/Dth to \$3.29/Dth. The period covered by the various forward purchase agreements is through June 2021. 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, 2018, the University has contractual obligations of approximately \$3,169 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.

CREIGHTON UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

(All amounts in thousands)

(15) 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). 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 provided debt financing to Creighton Dental of \$18,670 beginning in October 2016 for the qualified purpose of constructing a dental school building, as required by the terms of the agreement.

The University and owners of the Investment Funds 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, 2018.

As a result of the new market tax credit financing structure, the University is the leveraged lender in this process and holder of promissory notes with the Investment Funds effective October 18, 2016, for the face value of \$13,332. 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 years ended June 30, 2018 and 2017 was \$100 and \$94, respectively, and is included in investment income in the combined statements of activities.

(16) Subsequent Events

The University has evaluated subsequent events through October 23, 2018, the date the consolidated financial statements were issued.

On September 18, 2018, the University announced that it had reached an agreement on the construction of a new, nearly \$100 million health sciences campus at Park Central in midtown Phoenix, a significant expansion of the University's current presence in the state. The project encompasses a new building totaling 200,000 square feet that eventually will house nearly 800 Creighton health sciences students in Arizona. The expansion will include a four-year medical school, nursing school, occupational and physical therapy schools, pharmacy school, physician assistant school, and emergency medical services program. Construction on the new building will begin in spring 2019 and is expected to be completed in spring 2021. The University expects to fund the project with a combination of donations, reserves, and debt.

CREIGHTON UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2018

Federal grantor/program or cluster title	CFDA number	Federal expenditures	Pass-through funds		Expenditures to subrecipients
			Awarding organization	Program number	
Student Financial Assistance Cluster:					
Department of Education:					
Federal Supplemental Educational Opportunity Grants	84.007	\$ 822,560			\$ —
Federal Work-Study Program	84.033	912,792			—
Federal Perkins Loan	84.038	23,978,961			—
Federal Pell Grant Program	84.063	2,670,579			—
Federal Direct Loan Program	84.268	143,183,222			—
Health Professions Student Loans, Including Primary Care Loans and Loans for Disadvantaged Students	93.342	8,286,459			—
Nursing Student Loans	93.364	2,574,620			—
Total Student Financial Assistance Cluster		182,429,193			—
Research and Development Cluster:					
Department of Health and Human Services:					
Food & Drug Administration Research	93.103	64,906	Columbia University	R01 FD005114	—
Food & Drug Administration Research	93.103	72,444	Columbia University	R01FD00930205	—
Subtotal CFDA 93.103		137,350			—
Research Related to Deafness and Communication Disorders	93.173	172,517			—
Mental Health Research Grants	93.242	37,897			—
Mental Health Research Grants	93.242	54,138	University of Nebraska Medical Center	1R01 MH106425	—
Mental Health Research Grants	93.242	54,489	University of Nebraska Medical Center	2R01MH06025209A1	—
Subtotal CFDA 93.242		146,524			—
Drug Abuse and Addiction Research Programs	93.279	84,092	University of Florida	R01 DA023924	—
Drug Abuse and Addiction Research Programs	93.279	13,337	University of Florida	R01 DA018832	—
Subtotal CFDA 93.279		97,429			—
Minority Health and Health Disparities Research	93.307	80,548			—
Research Infrastructure Programs	93.351	5,645			—
Nursing Research	93.361	104,836	University of Nebraska Medical Center	1R01 NR015029	—
Cancer Cause and Prevention Research	93.393	29,819	Cornell University	1R01 CA167824	—
Cancer Treatment Research	93.395	139,184			61,040
Cardiovascular Diseases Research	93.837	1,676,260			—
Lung Diseases Research	93.838	169,240			3,817
Blood Diseases and Resources Research	93.839	(157)			—
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	456,135			2,930
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	1			—
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	26,521	University of Nebraska Medical Center	5R01 NS091220	—
Subtotal CFDA 93.853		482,657			2,930
Allergy and Infectious Diseases Research	93.855	1,064,894			81,202
Allergy and Infectious Diseases Research	93.855	126,369	Colorado State University	1R01 AI116525	—
Allergy and Infectious Diseases Research	93.855	241	Oregon Health and Science University	U01A 1095776	—
Allergy and Infectious Diseases Research	93.855	201,981	University of Texas	2P01 A1077774	—
Allergy and Infectious Diseases Research	93.855	19,991	University of Nebraska Medical Center	5R01A12513702	—
Subtotal CFDA 93.855		1,413,476			81,202
Biomedical Research and Research Training	93.859	395,625	University of Nebraska Medical Center	5P20 GM103427	—
Biomedical Research and Research Training	93.859	103,589	University of Nebraska Medical Center	1P30 GM110768	—
Subtotal CFDA 93.859		499,214			—
Child Health and Human Development Extrmural Research	93.865	87,410	University of Nebraska, Omaha	R01 HD89147	—

CREIGHTON UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2018

Federal grantor/program or cluster title	CFDA number	Federal expenditures	Pass-through funds		Expenditures to subrecipients
			Awarding organization	Program number	
National Aeronautics and Space Administration:					
Education	43.008	\$ 26,470	University of Nebraska, Omaha	NNX15AI09H	\$ —
Education	43.008	9,826	University of Nebraska, Omaha	NNX15AK50A	—
Subtotal CFDA 43.008		<u>36,296</u>			<u>—</u>
National Science Foundation:					
Geosciences	47.050	8,743	University of Georgia	OCE1237140	—
Biological Sciences	47.074	60,174			22,847
Social, Behavioral, and Economic Sciences	47.075	34,249			—
Office of Integrative Activities	47.083	28,541	University of Nebraska, Lincoln	1557417	—
Department of Energy:					
Office of Science Financial Assistance Program	81.049	213,147			—
Department of Commerce:					
Educational Partnership Program	11.481	11,540	Florida Agricultural & Mechanical University	NA11SEC4810001	—
Department of Defense:					
Military Medical Research and Development	12.420	2,096			—
Military Medical Research and Development	12.420	54,557	University of Florida	W81XWH 1510464	—
Subtotal CFDA 12.420		<u>56,653</u>			<u>—</u>
Total Research and Development Cluster		<u>5,691,295</u>			<u>171,836</u>
Trio Cluster:					
Department of Education:					
Student Support Services	84.042	313,518			—
Talent Search	84.044	312,110			—
Upward Bound	84.047	705,168			—
Educational Opportunity Centers	84.066	264,016			—
Total Trio Cluster		<u>1,594,812</u>			<u>—</u>
Other federal assistance:					
Department of Health and Human Services:					
Public Health Emergency Preparedness	93.069	11,696	University of Nebraska Medical Center	NU90TP921891	—
Birth Defects and Developmental Disabilities – Prevention and Surveillance	93.073	21,973	University of Missouri	NU01DD001145	—
Racial and Ethnic Approaches to Community Health	93.304	445,673			142,698
Cancer Detection and Diagnosis Research	93.394	14,245	University of Massachusetts Worcester	1R01 CA194787	—
Medical Library Assistance	93.879	70,849	University of Utah	1UG4LM01234	—
Grants for Primary Care Training and Enhancement	93.884	22,076	University of Nebraska Medical Center	2D88HP20110600/6D88HP201110602	—
National Aeronautics and Space Administration:					
Education	43.008	4,962	University of Nebraska at Omaha	NNX15A109H	—
Department of Agriculture:					
Child and Adult Care Food Program	10.558	14,507			—
Department of Justice:					
Crime victim Assistance	16.575	56,822	Nebraska Crime Commission	2015 VFGX0041	—
Department of Education:					
Supporting Effective Instruction State Grants	84.367	36,855			—
Total Expenditures of Federal Awards		<u>\$ 190,414,958</u>			<u>\$ 314,534</u>

See accompanying independent auditors' report and notes to the Schedule of Expenditures of Federal Awards.

CREIGHTON UNIVERSITY

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2018

(1) Summary of Significant Accounting Policies

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

Expenditures for direct costs are recognized as incurred using the accrual method of accounting and the cost accounting principles contained in 2 C.F.R. § 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards from the Office of Management and Budget* (Uniform Guidance).

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

(2) Reconciliation of Federal Awards to Basic Financial Statements

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

Total expenditures per the schedule of expenditures of federal awards	\$ 190,414,958
Student assistance not considered revenue per consolidated financial statements	(177,973,262)
Grants and contracts revenue related to private and nonfederal government grants	<u>5,324,140</u>
Grants and contracts per the consolidated statement of activities	<u><u>\$ 17,765,836</u></u>

(3) Loans Outstanding

Outstanding balances of student loans held by the University at June 30, 2018 and student loans advanced during the year ended June 30, 2018 were as follows:

<u>Federal program</u>	<u>CFDA No.</u>	<u>Amount outstanding</u>	<u>Loans advanced</u>
Federal Perkins Loan Program	84.038	\$ 20,441,611	2,863,436
Health Professions Student Loans	93.342	6,979,810	865,550
Nursing Student Loans	93.364	<u>2,144,103</u>	<u>583,346</u>
		<u><u>\$ 29,565,524</u></u>	<u><u>4,312,332</u></u>

CREIGHTON UNIVERSITY

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2018

The University is a direct lender under the above student loan programs. The University also participated in the U.S. Department of Education Federal Direct Loan Program (CFDA No. 84.268). During the year ended June 30, 2018, the University's students received \$143,183,222 in new loans under this program.

(4) Indirect Cost Rate

The University did not elect to use the 10% de minimis indirect cost rate as discussed in the Uniform Guidance Section 200.414. For all sponsored programs where indirect costs are allowed to be claimed, the rates approved by the University's cognizant agency were used.



KPMG LLP
Suite 300
1212 N. 96th Street
Omaha, NE 68114-2274

Suite 1120
1248 O Street
Lincoln, NE 68508-1493

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

The Board of Trustees
Creighton University:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Creighton University (the University), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 23, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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



Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Omaha, Nebraska
October 23, 2018



KPMG LLP
Suite 300
1212 N. 96th Street
Omaha, NE 68114-2274

Suite 1120
1248 O Street
Lincoln, NE 68508-1493

**Independent Auditors' Report on Compliance for Each Major Federal Program;
Report on Internal Control over Compliance; and Report on Schedule of
Expenditures of Federal Awards Required by Uniform Guidance**

The Board of Trustees
Creighton University:

Report on Compliance for Each Major Federal Program

We have audited Creighton University's (the University) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the University's major federal programs for the year ended June 30, 2018. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on Each Major Federal Program

In our opinion, Creighton University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance



for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the consolidated financial statements of Creighton University as of and for the year ended June 30, 2018, and have issued our report thereon dated October 23, 2018, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Omaha, Nebraska
October 23, 2018

CREIGHTON UNIVERSITY
 Schedule of Findings and Questioned Costs
 Year ended June 30, 2018

(1) Summary of Auditors' Results

Consolidated Financial Statements

Type of auditors' report issued on whether the consolidated financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified opinion**

Internal control deficiencies over financial reporting disclosed by the audit of the consolidated financial statements:

- Material weaknesses? **yes** **no**
- Significant deficiencies? **yes** **none reported**

Noncompliance material to the consolidated financial statements noted?

yes **no**

Federal Awards

Internal control deficiencies over major programs disclosed by the audit:

- Material weaknesses? **yes** **no**
- Significant deficiencies? **yes** **none reported**

Type of auditors' report issued on compliance for major programs:

Unmodified opinion

Audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

yes **no**

Identification of major programs:

<u>CFDA No.</u>	<u>Name of federal program or cluster</u>
84.007, 84.033, 84.038, 84.063, 84.268, 93.342, and 93.364	Student Financial Assistance Cluster
84.042, 84.044, 84.047, and 84.066	TRIO Cluster

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? **yes** **no**

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

None

(3) Findings and Questioned Costs Related to Federal Awards

None