CREIGHTON UNIVERSITY

Consolidated Financial Statements

June 30, 2016 and 2015

and

Schedule of Expenditures of Federal Awards

June 30, 2016

(With Independent Auditors' Reports Thereon)

CREIGHTON UNIVERSITY

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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, 2016 and 2015, 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 consolidated financial position of Creighton University as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2016 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 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 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 17, 2016

CREIGHTON UNIVERSITY

Consolidated Statements of Financial Position

June 30, 2016 and 2015

(All amounts in thousands)

Assets		2016	2015
Cash and cash equivalents	$	22,120	29,738
Accounts receivable, net		18,002	17,710
Contributions receivable, net		10,277	19,221
Student loans receivable, net of reserve for doubtful accounts of $1,021 and $687 in 2016 and 2015, respectively		31,242	32,776
Prepaid expenses, inventories, and other assets		8,292	7,267
Investments		614,745	619,944
Land, buildings, and equipment, net		387,032	400,058
Total assets	$	1,091,710	1,126,714
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	51,858	52,596
Deferred income		18,971	18,625
Other liabilities		31,606	32,054
Interest rate swap liability		34,219	25,765
Refundable government student loan funds		29,331	30,326
Bonds and notes payable		138,615	153,271
Total liabilities		304,600	312,637
Commitments and contingencies			
Net assets:			
Unrestricted		361,110	375,314
Temporarily restricted		210,197	223,587
Permanently restricted		215,803	215,176
Total net assets		787,110	814,077
Total liabilities and net assets	$	1,091,710	1,126,714

See accompanying notes to consolidated financial statements.

CREIGHTON UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2016

(All amounts in thousands)

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

See accompanying notes to consolidated financial statements.

CREIGHTON UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2015

(All amounts in thousands)

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

See accompanying notes to consolidated financial statements.

CREIGHTON UNIVERSITY

Consolidated Statements of Cash Flows

Years ended June 30, 2016 and 2015

(All amounts in thousands)

		2016	2015
Cash flows from operating activities:			
Increase (decrease) in net assets	$	(26,967)	37,250
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:			
Equity (earnings) losses from minority-owned affiliates		105	(400)
Noncash contribution income		(567)	(16,026)
Depreciation, amortization, and accretion		24,868	24,309
Actuarial loss on annuities payable		374	533
Contributions for nonoperating purposes		(9,953)	(14,333)
Change in fair value of interest rate swap agreements		8,454	2,210
Net realized and unrealized (gains) losses on investments		22,081	(832)
Impairment loss on assets held for sale		14,052	—
Changes in operating assets and liabilities:			
Accounts receivable		(292)	3,133
Prepaid expenses, inventories, and other assets		(1,025)	(652)
Accounts payable and accrued expenses		(1,717)	(4,488)
Deferred income		346	1,585
Other liabilities		(196)	1,125
Net cash provided by operating activities		29,563	33,414
Cash flows from investing activities:			
Repayments on student loans		5,630	6,004
Student loans issued		(4,096)	(4,320)
Proceeds from the sales of investments		77,736	148,259
Purchases of investments		(94,702)	(188,570)
Purchases of land, buildings, and equipment, net		(24,838)	(23,746)
Net cash used in investing activities		(40,270)	(62,373)
Cash flows from financing activities:			
Cash contributions for nonoperating purposes		19,464	27,071
Payments on long-term debt		(14,670)	(3,013)
Increase (decrease) in federal student loan funds		(995)	73
Net payments on annuity agreements		(710)	(902)
Net cash provided by financing activities		3,089	23,229
Net decrease in cash and cash equivalents		(7,618)	(5,730)
Cash and cash equivalents, beginning of year		29,738	35,468
Cash and cash equivalents, end of year	$	22,120	29,738
Supplemental cash flow data:			
Cash paid for interest	$	6,749	7,377
Capital assets acquired through accounts payable		978	402
Noncash contributions		2,743	17,985

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

(a) Nature of Operations

Creighton University (Creighton or the University) is a private, Catholic, Jesuit, comprehensive university located in Omaha, Nebraska. Creighton offers degree programs through three colleges, five professional schools, a graduate school, and summer sessions. Creighton's students come from nearly every state in the country, as well as from numerous foreign countries, with the majority of students coming from the Midwestern region of the United States.

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

(b) Basis of Presentation

The consolidated financial statements have been prepared on the accrual basis of accounting and include the accounts of Creighton University and Creighton Soccer Stadium, Inc. (CSSI), a wholly owned for-profit subsidiary. Creighton University and CSSI are together referred to as the University. All material transactions between the parent and CSSI have been eliminated.

Resources are reported in three separate categories of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying consolidated financial statements, net assets that have similar characteristics have been combined into categories as follows:

- Unrestricted – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.
- Temporarily restricted – Net assets whose use by the University is subject to donor-imposed stipulations that will be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.
- Permanently restricted – Net assets subject to donor-imposed stipulations that they be maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the income earned on these assets for purposes consistent with the donor's intent. Such assets primarily include the University's permanent endowment funds and irrevocable trusts held by others.

Expenses are generally reported as decreases in unrestricted net assets. Expirations of donor-imposed stipulations that simultaneously increase one category of net assets and decrease another are reported as releases between the applicable categories.

(Continued)

Temporarily restricted net assets for which donor-imposed restrictions are met in subsequent reporting periods are reclassified to unrestricted net assets and reported as net assets released from restrictions. Net assets released from restrictions also include unrestricted, temporarily restricted, or permanently restricted net assets for which donors have added, changed, or removed restrictions on contributions. Net assets that have no donor-imposed restrictions, as well as contributions for which donors have stipulated restrictions that are met within the same reporting period, are reported as unrestricted support.

Conditional promises to give are not recorded until the condition is either substantially met or it is deemed remote that the condition will not be met. Unconditional promises to give are recorded as receivables and revenue at fair value in the period the promise is made. Unconditional promises to give with payments due in future periods are reported as restricted support. Amounts due more than one year from the statement of financial position date are recorded at the net realizable discounted cash flow, while amounts due in one year or less are recorded at undiscounted net realizable value.

Gifts of land, building, equipment, or other assets are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used are reported as restricted support. Absent explicit donor stipulation, the University reports expirations of donor restrictions on long-lived assets as the assets are depreciated over their useful lives. Gifts of land, building, equipment, or other assets are recorded at estimated fair value.

(c) Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

(d) Measure of Operations

The increase or decrease in unrestricted net assets from operating activities reflected on the accompanying consolidated financial statements includes primarily activities closely related to the educational, healthcare, research, auxiliary, and administrative functions of the University. Amounts not included in the measure of operations consist of contributions for nonoperating or long-term purposes, equity earnings in minority-owned affiliates, investment income on endowments in excess of the established spending policy, certain amounts released from restrictions, the change in the fair value of interest rate swaps, and significant items of an unusual or nonrecurring nature.

(Continued)

(e) Tuition and Fees

Gross tuition and fees represent charges for educational programs and services based on the University's standard rates. Reductions in gross charges funded by University operating sources are reported as tuition discounts, while reductions funded by endowment and other sources are classified as scholarship allowances. The resulting net tuition and fees generally represent the amount of tuition and fee charges that require payment by the student in cash, student loans, or other personal sources. Advance payments for tuition, room, and board related to the next semester have been deferred and will be reported as unrestricted revenue in the year in which the services are rendered.

(f) Healthcare Services

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

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

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

(g) Educational Support

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

(h) Grants and Contracts

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

(i) Auxiliary Enterprises

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

(j) Annuities Payable

Annuities payable represent the University's liability under annuity and life income contracts with donors. The liability is established at the time of the contribution using actuarial tables and an assumed interest rate. The interest rates used for the establishment of the liability were 5.7%–8.4% for 2016 and 6.4%–9.5% for 2015. The University's liability amounts were $7,916 and $8,231 at June 30, 2016 and 2015, respectively, which is recorded in other liabilities in the accompanying consolidated statements of financial position. Annuity obligations are adjusted annually for actuarial changes in life expectancy. The increases or decreases to the liability are reflected as temporarily or permanently restricted, consistent with the method used to initially record the contributions. It is at least reasonably possible that the estimate of annuities payable will be revised in the near term due to mortality of the annuitants.

(k) Cash and Cash Equivalents

Cash and cash equivalents represent unrestricted cash on hand and highly liquid investments with original maturities of less than three months from the date of purchase. Cash and cash equivalents representing assets of endowment and similar funds are included in investments. The carrying amounts approximate fair values because of the short maturity of those investments. Financial instruments that potentially subject the University to a concentration of credit risk consist of cash and cash equivalents. Cash and cash equivalents are deposited in demand and money market accounts and deposits held with banks may exceed the amount of insurance provided on such deposits. The University has not experienced any losses on its deposits of cash and cash equivalents.

(l) Investments

Investments are stated at fair value, except for investments in minority-owned subsidiaries. Investments are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in values will occur in the near term and that such changes could materially affect the University's financial statements.

In accordance with the accounting policy of stating investments at fair value, the change in unrealized appreciation or depreciation of those securities is reflected in investment income within the accompanying consolidated financial statements. The cost of investments sold is determined by use of the specific-identification method for all investments except those in the endowment. The cost of the endowment investments (notes 4 and 5) is determined using individual unit values.

Funds held in trust by others represent amounts held by third-party trustees for the beneficial interest of the University under perpetual trust agreements created by donors. The University's interests in the trusts are recorded at estimated fair value, with increases or decreases in fair value being reported as investment gains or losses during the year.

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

(m) Student Loans Receivable

Student loans receivable consist primarily of loans made to students under U.S. government loan programs. The loans are stated at net realizable value in the accompanying consolidated financial statements. These receivables are not saleable and contain federally mandated interest rates and repayment terms subject to significant restrictions as to their transfer and disposition. The receivables are reported at carrying value, which approximates fair value. Management utilized Level 2 inputs in the fair value hierarchy in determining fair value of student loans receivable. The University reviews receivables on an ongoing basis to assess collectibility and records an allowance for potential uncollectible balances based on historical experience and aging of the account balances. Provision for bad debt and write-off activity related to the allowance for potential uncollectible balances for student loans is not material to the financial statements. At June 30, 2016 and 2015, the amount of loans past due under the student loan programs were $2.5 million.

(n) Refundable Government Student Loan Funds

Refundable government student loan funds consist of amounts advanced by the federal government on the condition that the University administers various campus-based student loan programs subject to federal regulations. Under certain conditions, the funds must be returned to the federal government. The amounts are not saleable, and can only be assigned to the U.S. government or its designees. Accordingly, they are reported as liabilities at carrying value, which approximates fair value in the consolidated statements of financial position.

(o) Land, Buildings, and Equipment

Land, buildings, and equipment are primarily stated at cost of acquisition less accumulated depreciation. Generally, renovations equal to or greater than $25 are capitalized. The library collection is stated at cost or, if acquired by donation, at the appraised value at the date of acquisition. Land, buildings, and equipment are removed from the records at the time of disposal. Depreciation is computed on a straight-line basis over the estimated useful life of buildings (10–40 years), library books and periodicals (25 years), and equipment (3–15 years). Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Gifts of land, building, equipment, or other assets are recorded at estimated fair value when received.

(p) Income Taxes

The University has been recognized by the Internal Revenue Service as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. U.S. generally accepted accounting principles require management to evaluate tax positions taken and recognize a tax liability (or asset) if the organization has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. The University is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any tax periods. CSSI, a taxable subsidiary, had no taxable income for 2016 and 2015. Accordingly, no federal or state income taxes have been provided. As of June 30, 2016 and 2015, the University and CSSI had no liability for unrecognized tax benefits.

 (Continued)

(All amounts in thousands)

(q) New Accounting Standards

Effective June 30, 2016, the University adopted Accounting Standards Update (ASU) 2015-03, *Interest – Imputation of Interest (Subtopic 835-30), Simplifying the Presentation of Debt Issuance Costs*, which requires debt issuance costs related to a recognized debt liability to be presented on the consolidated statements of financial position as a direct deduction of the debt liability. Consistent with the amendments in the ASU, this adoption has been applied retrospectively to all periods presented. Thus, all bond issuance costs have been reclassified from prepaid expenses to a direct deduction from the related bond liability in the financial statements and disclosures for both periods presented. Adoption of ASU 2015-03 has no effect on the University's income or net assets.

(r) Reclassifications

Certain reclassifications have been made to the 2015 financial statements in order to conform to the 2016 presentation.

(2) Net Assets

Unrestricted net assets consist of the following:

		2016	2015
Available for current operations	$	51,136	45,518
Endowment funds (note 5)		181,332	176,946
Invested in land, buildings, and equipment		128,642	152,850
Total unrestricted net assets	$	361,110	375,314

Temporarily restricted net assets consist of the following:

		2016	2015
Contributions for buildings, amortized over the life of the corresponding facility	$	130,160	129,308
Contributions receivable		10,277	10,267
Annuity and life income funds		4,159	4,577
Unexpended income and contributions for restricted purposes		10,154	8,590
Endowment funds (note 5):			
Unappropriated income with specific purpose on permanently restricted endowments		55,180	70,439
Unappropriated income without specific purpose		267	406
Total temporarily restricted net assets	$	210,197	223,587

(All amounts in thousands)

Permanently restricted net assets consist of the following:

		2016	2015
Endowment funds (note 5)	$	186,177	176,357
Endowment funds held in trust by others (note 5)		25,501	25,295
Contributions receivable		—	8,954
Student loan funds		411	425
Annuity and life income funds		3,714	4,145
Total permanently restricted net assets	$	215,803	215,176

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

		2016	2015
Departmental and other operational expenses, net	$	1,385	1,385
Additions to or renovations of plant facilities, net		4,914	4,694
Scholarships		45	—
Total net assets released from restrictions	$	6,344	6,079

Net assets released from restrictions included in nonoperating changes in unrestricted and temporarily restricted net assets consist primarily of endowment assets appropriated for spending as discussed in note 5.

(3) Accounts Receivable, Net

Accounts receivable consist of the following:

		2016	2015
Student accounts receivable, net	$	5,790	5,735
Grant funds receivable		3,753	2,684
Medical affiliate receivables		4,071	4,412
Miscellaneous receivables		4,388	4,879
Total accounts receivable, net	$	18,002	17,710

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 $859 and $1,164 at June 30, 2016 and 2015, respectively. Estimated reserves for uncollectible amounts on student accounts receivable were $2,598 at June 30, 2016 and $1,798 at June 30, 2015. It is at least reasonably possible that the reserve estimates will be revised in the near term.

(Continued)

(All amounts in thousands)

(4) Investments

University investments as of June 30, 2016 and 2015 comprise the following:

		2016	2015
Pooled investments:			
Short-term investments	$	6,915	6,862
Long-term investments		577,859	582,976
Investment in minority-owned subsidiaries and affiliates		3,703	3,808
Funds held in trust by others		26,268	26,298
Total University investments	$	614,745	619,944

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

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

Level 1 – Observable inputs such as quoted prices in active markets that the University has the ability to access at the measurement date.

Level 2 – Inputs other than quoted prices in active markets such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs where there is little or no market data and which require the University to develop its own assumptions about the inputs that market participants would use to price an instrument based on the best available information.

(All amounts in thousands)

The table below summarizes the University's classification of fair value measurements utilized for assets recorded at fair value on a recurring basis, and provides a reconciliation to the total investments on the consolidated statements of financial position as of June 30, 2016:

	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ —	—	—	—
Investments:				
Investment money markets	777	777	—	—
Domestic equities	149,771	149,771	—	—
Domestic funds	672	672	—	—
International equities	3,097	3,097	—	—
International funds	85,737	85,737	—	—
Real asset funds	24,611	24,611	—	—
Corporate bonds	35,366	32,866	2,500	—
Fixed-income funds	104,162	104,162	—	—
Notes and mortgages	991	—	—	991
Real estate	4,636	—	—	4,636
Commercial paper	3,174	—	3,174	—
Funds held in trust by others	26,268	—	—	26,268
Hedge funds	27,439	27,439	—	—
Other	459	459	—	—
Subtotal	467,160	$ 429,591	5,674	31,895
Alternative investments recorded at NAV (*)	143,882			
Investments in minority owned affiliates recorded using equity method	3,703			
Total University investments	$ 614,745			

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

(All amounts in thousands)

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

	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 16	16	—	—
Investments:				
Investment money markets	3,670	3,670	—	—
Domestic equities	167,578	167,578	—	—
Domestic funds	446	446	—	—
International equities	2,656	2,656	—	—
International funds	87,018	87,018	—	—
Real asset funds	26,013	26,013	—	—
Corporate bonds	42,143	39,550	2,593	—
Fixed-income funds	99,703	99,703	—	—
Notes and mortgages	1,112	—	—	1,112
Real estate	4,803	—	—	4,803
Commercial paper	2,595	—	2,595	—
Funds held in trust by others	26,298	—	—	26,298
Hedge funds	18,278	18,278	—	—
Commodity funds	6,967	6,967		
Other	805	805	—	—
Subtotal	490,085	$ 452,684	5,188	32,213
Alternative investments recorded at NAV (*)	126,051			
Investments in minority owned affiliates recorded using equity method	3,808			
Total University investments	$ 619,944			

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

The above 2015 table was restated to add back certain Level 1 investments with readily determinable fair value for comparative purposes. These investments are included within international funds, fixed income funds, real estate, hedge funds, and commodity funds.

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

(Continued)

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 2015 to 2016.

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.

Hedge funds – Investments that use proprietary strategies to attempt to earn a return that is better than the market. These investments have a readily determinable market values and are valued using net asset value per share. These investments are generally classified as Level 1.

(All amounts in thousands)

Real asset funds – Investments in funds that attempt to achieve a return through purchasing shares of publicly traded Master Limited Partnerships. These funds have a readily determinable fair value and are valued using net asset value per share. These investments are generally classified as Level 1.

Other – Items included in this category include primarily accrued interest that is reported at fair value at the reporting date and futures contracts, which are recorded at fair value based on quoted market prices.

Investment in minority-owned affiliates – The University holds minority interests is certain affiliates, which are recorded using the equity method and are carried at the value of the original investment and adjusted for entity earnings and losses.

The University's policy is to reflect transfers between levels at the beginning of the year in which a change in circumstances resulted in the transfer. There were no transfers between Level 1, 2, or 3 investments for the years ended June 30, 2016 and 2015.

The following tables summarize the changes in fair value of Level 3 investments for the years ended June 30, 2016 and 2015:

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

(All amounts in thousands)

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

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

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

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

(All amounts in thousands)

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

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

The 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, 2016 and 2015:

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

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

(All amounts in thousands)

Fiscal year ended June 30, 2015		Fair value	Unfunded commitment	Redemption frequency (if currently eligible)	Redemption notice period	Investment strategy
Private equity funds (a)	$	51,057	25,922	Illiquid	—	Venture capital, distressed
Real assets (b)		41,938	20,223	Illiquid	—	Multiple strategies
Hedge fund		33,056	—	1–180 days	1–95 days	Multiple strategies
Total	$	126,051	46,145			

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

Due to the nature of the investments held by the funds, changes in market conditions and the economic environment may significantly impact the net asset value of the funds and, consequently, the fair value of the University's interests in the funds. Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported net asset value. It is, therefore, reasonably possible that if the University were to sell these investments in the secondary market, a buyer may require a discount to the reported net asset value, and the discount could be significant.

(5) Endowment Fund

The University's endowment consists primarily of funds invested in an externally managed pooled endowment fund. The composition of the total endowment fund as of June 30, 2016 and 2015 is as follows:

		2016	2015
University share of pooled endowment fund	$	525,810	520,141
Short-term pooled investments		6,915	6,862
Operational and other funds invested in the pooled fund		(112,127)	(106,897)
Endowment funds held in trust by others		25,565	25,313
Nonpooled assets, including cash and cash equivalents, notes receivable, real estate, and other		2,294	4,024
Total endowment	$	448,457	449,443

(All amounts in thousands)

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, 2016 and 2015 by security type, based upon the function that the investment serves in the portfolio:

	2016	2015
Equities – domestic	23%	24%
Equities – international	20	22
Fixed-income securities	22	21
Commodities	—	1
Hedge funds	12	10
Private capital funds	23	21
Cash and cash equivalents	—	1
	100%	100%

The total rate of return (loss) on the pooled endowment fund was (3.2)% for the year ended June 30, 2016 and 1.6% for the year ended June 30, 2015.

(a) UPMIFA

The University applies the provisions of the Nebraska Uniform Prudent Management of Institutional Funds Act (the Act) and the related provisions of Accounting Standards Codification (ASC) 958-205-05, *Reporting Endowment Funds*, in managing its endowment. ASC 958-205-05 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Act and also requires certain disclosures about both donor-restricted and board-designated endowment funds.

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

(b) Interpretation of Relevant Law

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

(Continued)

(All amounts in thousands)

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

(c) Endowment Net Asset Composition by Fund Type

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

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

		Unrestricted	Temporarily restricted	Permanently restricted	Total
June 30, 2015:					
Donor-restricted endowments	$	(762)	70,845	201,652	271,735
Board-designated endowments		177,708	—	—	177,708
Endowment totals	$	176,946	70,845	201,652	449,443

(d) Endowment Net Asset Reconciliation

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

(All amounts in thousands)

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

(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 $(2,168) and $(762) as of June 30, 2016 and 2015, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions and continued appropriation for certain programs as deemed prudent. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

In accordance with the Act, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds in cases where the endowment funds are under water: 1) the duration and preservation of the fund; 2) the purposes of the University and the donor-restricted endowment fund; 3) general economic conditions; 4) the possible effect of inflation and deflation; 5) the expected total return from income and appreciation of the investments; 6) other resources of the University; and 7) the investment policies of the University.

(f) Return Objectives and Risk Parameters

The University has adopted investment and spending policies that attempt to provide a predictable stream of funding to programs supported by the endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the spending rate and long-term inflation rate while assuming a prudent level of investment risk. The University expects its endowment funds, over three to five years, to provide an average nominal rate of return, net of investment fees, of approximately 7.50% annually. Actual returns in any given year may vary from this amount.

(Continued)

(g) Strategies Employed For Achieving Objectives

To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that places emphasis on investments in equities, fixed income, hedge funds, commodities, and other strategies to achieve its long-term return objectives within prudent risk constraints.

(h) Endowment Spending Policy

The University endowment spending formula represents a 50/50 weighting between market value and prior year's spending. It is designed to provide a measure of stability for budgeting purposes and help preserve the purchasing power of the endowment over the long term. There is also a spending cap of 5% and a floor of 2% to further ensure that significant fluctuations and "overspending" are avoided.

Specifically, the calculated distribution is the sum of:

- Prior year distribution multiplied by inflation multiplied by 50%
- Market value (one year prior to start of year being budgeted) multiplied by 4.90% multiplied by 50%

The amounts calculated for distribution are further reviewed for any funds that are under water. Based on the review and assessment of the specific factors described above, the distribution may be reduced or suspended for the applicable year.

Endowment distributions net of investment management fees of $3,241 and $3,179 totaled $15,160 and $13,106 in the fiscal years ended June 30, 2016 and 2015, respectively. In establishing the spending policy, the University considered the expected return on its endowment and, accordingly, expects the current spending policy to allow the endowment to maintain its purchasing power by growing at a rate equal to planned distributions over the long term. Additional real growth will be provided through new gifts and any excess investment return.

(Continued)

(All amounts in thousands)

(6) Land, Buildings, and Equipment, Net

Land, buildings, and equipment consist of the following:

	2016	2015
Land	$ 43,832	55,185
Land improvements	35,834	36,510
Buildings	476,551	472,756
Equipment	93,191	99,501
Library collection	69,107	80,451
Construction in progress	12,696	4,307
	731,211	748,710
Accumulated depreciation	(344,179)	(348,652)
	$ 387,032	400,058

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 2016 and 2015 activity of the ARO liability:

	2016	2015
Beginning balance	$ 8,437	8,396
Current year accretion of liability	63	108
Current year abatement costs	(71)	(67)
Ending balance	$ 8,429	8,437

(All amounts in thousands)

(7) Contributions Receivable, Net

Unconditional promises to give are included in the consolidated financial statements as contributions receivable and revenue of the appropriate net asset category. Values expected to be received are discounted to net present value using risk-adjusted discount rates, ranging from 3.00% to 6.08%. Unconditional promises to give are expected to be realized in the following periods:

		2016	2015
One year or less	$	—	—
Between one and five years		—	12,000
More than five years		16,260	16,211
Less discount		(5,983)	(8,990)
	$	10,277	19,221

In addition, donors to the University have indicated intentions to contribute in future periods approximately $35,831 and $32,708 at June 30, 2016 and 2015, respectively. These amounts are not included in contributions receivable because they do not constitute unconditional promises to give. It is not practicable to estimate the net realizable value of these intentions to contribute or the period over which they will be collected.

(All amounts in thousands)

(8) Bonds and Notes Payable

Bonds and notes payable, net of premium, discount and issuance costs at June 30, 2016 and 2015 consist of the following:

		2016	2015
$20,000 issuance of bonds (Douglas County Educational Facilities Revenue Bonds, 2005A); annual principal payments through 2026; interest rates 4.00% to 5.00% (collateralized by unrestricted receipts, revenue, and income of the University)	$	—	12,977
$99,675 issuance of bonds (Douglas County Educational Facilities Revenue Refunding Bonds 2014); annual principal and interest payments through 2036; interest rates variable, 0.39% to 0.79% for 2015 (collateralized by unrestricted receipts, revenue, and income of the University)		97,745	98,352
$33,435 issuance of loan notes (Douglas County Educational Facilities Loan Notes 2010A); annual principal and interest payments 2011 through 2041; interest rates 5.00% to 5.88%; (collateralized by unrestricted receipts, revenue, and income of the University)		30,120	30,667
$13,180 issuance of loan notes (Douglas County Educational Facilities Loan Notes 2010B); annual principal and interest payments 2011 through 2029; interest rates 4.04% to 7.34%; (collateralized by unrestricted receipts, revenues, and income of the University)		10,750	11,275
Total bonds and notes payable		138,615	153,271
Less current portion of bonds and notes payable		(1,803)	(2,681)
Noncurrent portion of bonds and notes payable	$	136,812	150,590

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.

(All amounts in thousands)

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

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

Repayments of bond and note principal, including amortization of premium, discount, and debt issuance costs in each of the five fiscal years subsequent to June 30, 2016 are scheduled as follows:

	Bond and note principal
Year ending June 30:	
2017	$ 1,803
2018	1,858
2019	2,024
2020	2,093
2021	2,173
Thereafter	128,664
Total payments	$ 138,615

Interest expense on long-term debt was $6,489 in 2016 and $7,121 in 2015. 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, 2016, the University's maximum annual amount payable for funded debt service is 5.6% of total revenue and the ratio of "ready current assets" to "pro forma funded debt service" is 7.5 to 1. The University is subject to an additional covenant under the Series 2014 Bond Documents. This covenant specifies that the ratio of the University's maximum annual debt service to income available for debt service cannot be less than 1 to 1. As of

(All amounts in thousands)

June 30, 2016, this ratio was 1.5 to 1. The University was in compliance with applicable debt covenants as of June 30, 2016 and 2015.

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, 2016 and 2015. 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, 2016 and 2015.

The swap agreements involve the exchange of floating and fixed-rate interest payments over the life of the agreements without an exchange of the underlying principal amount. The differential to be paid or received is recognized as an adjustment to interest expense related to the debt.

The University had the following interest rate swaps outstanding at June 30, 2016:

Purchase date	Creighton pays	Creighton receives	2016 Change in fair value	2015 Change in fair value
August 2001	4.455%	68% of 1-month LIBOR	$ (2,439)	(567)
March 2003	3.520	70% of 1-month LIBOR	(1,920)	(403)
August 2004	3.600	68% of 1-month LIBOR	(1,559)	(394)
February 2005	3.642	Greater of 67% of 1-month LIBOR or 63% of 1-month LIBOR plus 0.20%	(207)	(163)
February 2005	3.642	Greater of 67% of 1-month LIBOR or 63% of 1-month LIBOR plus 0.20%	(687)	(187)
April 2005	3.769	67% of 1-month LIBOR	(1,642)	(496)
Total change in fair value for the years ended June 30, 2016 and 2015			$ (8,454)	(2,210)

(All amounts in thousands)

The following schedule presents the notional principal amounts and estimated fair values of the University's interest rate swaps at June 30, 2016 and 2015:

Notional amounts 2016	Notional amounts 2015	Expiration dates	Estimated fair value of swaps at June 30 2016	Estimated fair value of swaps at June 30 2015
$ 25,000	25,000	August 1, 2030	$ (11,190)	(8,749)
25,350	26,000	March 1, 2033	(6,923)	(5,003)
17,575	17,575	August 1, 2031	(5,986)	(4,427)
8,500	8,500	September 18, 2031	(2,069)	(1,863)
8,500	8,500	September 18, 2031	(2,555)	(1,869)
13,000	13,000	August 23, 2035	(5,496)	(3,854)
$ 97,925	98,575		$ (34,219)	(25,765)

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, 2016. One operating line of credit has a maximum borrowing capacity of $25,000 and expires March 31, 2017. The interest rate payable on this line of credit is established at 1.00% over the one-month LIBOR, or 1.46% at June 30, 2016. The outstanding balances on this line of credit were $0 at June 30, 2016 and 2015.

The second operating line of credit has a maximum borrowing capacity of $25,000 and expires February 1, 2018. The interest rate payable on this line of credit is established at 1.00% over the one-month LIBOR. The interest rate was 1.46% at June 30, 2016. The outstanding balances on this line of credit were $0 at June 30, 2016 and 2015.

Due to the short-term maturity of these items, the carrying amount approximates fair value.

(Continued)

(All amounts in thousands)

(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	
		2016	**2015**
Instructional	$	125,847	119,875
Healthcare services		39,689	25,948
Student aid		1,186	1,398
Sponsored research		19,187	18,886
Academic support		57,386	57,426
Libraries		11,208	10,614
Student services		21,624	21,118
Institutional support		41,391	39,719
Auxiliary enterprises		61,511	53,503
Total	$	379,029	348,487

Included under Institutional support in the above table are University fund-raising expenses of $3,734 and $3,290 for the fiscal years ended June 30, 2016 and 2015, respectively.

(11) Impairment Loss on Assets Held for Sale

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

(12) Investment in Minority-Owned Subsidiaries and Affiliates

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

Children's Physicians is an integrated pediatric health delivery system that is linked to comprehensive pediatric medical education and research programs. The system owns and operates certain primary care pediatric clinics in Omaha and the surrounding communities. Net operating results of Children's Physicians of $(105) in 2016 and $400 in 2015 are included in nonoperating equity earnings (losses) in the consolidated statements of activities. This investment is accounted for using the equity method.

(13) Retirement Plan

A defined-contribution retirement plan is available to employees who have met certain employment requirements. Contributions by employees and the University are used to purchase individual annuities or interests in mutual funds. University contributions during the years ended June 30, 2016 and 2015 were $8,054 and $7,679, respectively.

(14) Self-Insured Benefit Plans

The University has a self-insured health benefit plan covering active employees and their dependents. The plan also covers medical house staff whose cost of participation is paid by the affiliated organizations for whom they provide services. Total claims paid under the plan for the fiscal years 2016 and 2015 were $16,559 and $16,605, respectively. The University carries stop-loss insurance coverage that limits the University's claim liability to $200 per individual. The University has also contracted with an insurance carrier to provide administrative services for the plan. The liability estimated by the University for claims incurred but not reported was $2,012 at June 30, 2016 and 2015. The University is also partially self-insured for workers' compensation and medical malpractice insurance and accrues an estimated liability for claims incurred but not paid, based on studies performed by an outside actuarial firm. The liability amounts are included in accounts payable and accrued expenses.

(15) Commitments and Contingencies

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

The University has entered into a series of fixed price forward purchase agreements with various counterparties to purchase volumes of natural gas on a forward basis. These agreements range from 2,500 to 10,000 dekatherms (Dth) per month at fixed prices ranging from $3.00/Dth to $4.59/Dth. The period covered by the various forward purchase agreements is through June 2020. No amounts were paid on these agreements up front and there is no provision for a net settlement of the agreements. Payments on these contracts are made based upon the volume purchased at the contract price in the applicable periods. Net settlement amounts for natural gas purchased under these agreements are recorded in the period that the gas is delivered.

As of June 30, 2016, the University has contractual obligations of approximately $13,181 for completion of certain construction projects in process at that date.

Research grants and contracts normally provide for the recovery of direct and indirect costs. Recovery of indirect costs on U.S. government grants is recorded at fixed or predetermined rates negotiated with the government. Indirect cost recovery rates have been established with the U.S. government through fiscal year 2017.

(16) Subsequent Events

The University has evaluated subsequent events through October 17, 2016, the date the consolidated financial statements were issued, and noted no additional items to disclose.

CREIGHTON UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2016

Federal grantor/program or cluster title	CFDA No.	Federal expenditures	Pass-through funds: Awarding organization	Pass-through funds: Program number	Expenditures to subrecipients
Student Financial Aid Cluster:					
Department of Education:					
Federal Supplemental Educational Opportunity Grant	84.007	$ 792,000			$ —
Federal Work-Study Program	84.033	903,400			—
Federal Perkins Loan	84.038	26,135,905			—
Federal Pell Grant Program	84.063	2,566,629			—
Federal Direct Loan Program	84.268	133,219,085			—
Health Professions Student Loans, Including Primary Care Loans and Loans for Disadvantaged Students	93.342	9,263,190			—
Nursing Student Loans	93.364	2,413,585			—
Total Student Financial Aid Cluster		175,293,794			—
Research and Development Cluster:					
Department of Health and Human Services:					
Food & Drug Administration Research	93.103	68,354	Columbia University	R01 FD003902	—
Oral Diseases and Disorders Research	93.121	27,661	University of Florida	R01 DE023783	—
Oral Diseases and Disorders Research	93.121	2,756	University of Minnesota	1R03 DE023372	—
Oral Diseases and Disorders Research	93.121	123,888	Firefly Health Innovations, Inc.	5R42 DE023003	—
Oral Diseases and Disorders Research	93.121	4,268	Virginia Commonwealth University	7R03 DE023372	—
Research Related to Deafness and Communication Disorders	93.173	574,853			10,264
Mental Health Research Grants	93.242	107,771			—
Mental Health Research Grants	93.242	24,359	University of Nebraska Medical Center	5R01 MH060252	—
Mental Health Research Grants	93.242	56,366	University of Nebraska Medical Center		—
Alcohol Research Programs	93.273	199,665			—
Alcohol Research Programs	93.273	7,026	University of Nebraska Medical Center	5R21 AA022556	—
Drug Abuse and Addiction Research Programs	93.279	(8,323)	University of Kansas Center for Research	2R01 DA023924	—
Drug Abuse and Addiction Research Programs	93.279	97,963	University of Florida	R01 DA023924	—
Drug Abuse and Addiction Research Programs	93.279	(5,556)	University of Kansas Center for Research	5R01 DA018832	—
Drug Abuse and Addiction Research Programs	93.279	59,519	University of Florida	R01 DA018832	—
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	3,979	Association for Prevention Teaching and Research	5U36 OE000005	—
Minority Health and Health Disparities Research	93.307	104,329			—
Research Infrastructure Programs	93.351	207,550			54,977
Nursing Research	93.361	125,434	University of Nebraska Medical Center	1R01 NR015029	—
Cancer Cause and Prevention Research	93.393	1,725			—
Cancer Cause and Prevention Research	93.393	52,671	Cornell University	1R01 CA167824	—
Cancer Cause and Prevention Research	93.393	1,989	University of Nebraska Medical Center	5R21 CA180008	—
Cancer Treatment Research	93.395	6,614			—
Cardiovascular Diseases Research	93.837	2,694,999			—
Lung Diseases Research	93.838	386,675			16,340
Blood Diseases and Resources Research	93.839	893,224			—
Arthritis, Musculoskeletal, and Skin Diseases Research	93.846	1,597	Columbia University	1R03 AR064016	—
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	946,834			—

(Continued)

CREIGHTON UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2016

Federal grantor/program or cluster title	CFDA No.	Federal expenditures	Pass-through funds: Awarding organization	Pass-through funds: Program number	Expenditures to subrecipients
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	$ 254,030	University of California, San Diego	5R01 NS053398	$ —
Allergy, Immunology, and Transplantation Research	93.855	1,360,263			14,867
Allergy, Immunology, and Transplantation Research	93.855	81,061	Colorado State University	1R01 AI116525	—
Allergy, Immunology, and Transplantation Research	93.855	49,345	Oregon Health and Science University	U01A 1095776	—
Biomedical Research and Research Training	93.859	347,211			—
Biomedical Research and Research Training	93.859	614,047	University of Nebraska Medical Center	3P20 GM103427	—
Biomedical Research and Research Training	93.859	7,420	University of Nebraska, Lincoln	5P30 GM103509	—
Biomedical Research and Research Training	93.859	238,259	University of Nebraska Medical Center	1P30 GM110768	—
Aging Research	93.866	6,919			—
National Aeronautics and Space Administration:					
National Aeronautics and Space Administration	43.001	3,000	University of Nebraska, Omaha	NNX10AN62H	—
	43.008	9,591	University of Nebraska, Omaha	NNX13AB17A	—
National Science Foundation:					
Mathematical and Physical Sciences	47.049	46,210			—
Geosciences	47.050	6,899	University of Georgia	OCE1237140	—
Biological Sciences	47.074	19,775			—
Office of Experimental Program to Stimulate Competitive Research	47.081	27,682	University of Nebraska, Lincoln	EPS 1004094	—
Office of Integrative Activities	47.083	22,115	University of Nebraska, Lincoln	EPS 1004094	—
Department of Energy:					
Office of Science Financial Assistance Program	81.049	201,052			—
Department of Commerce:					
Educational Partnership Program	11.481	44,819	Florida Agricultural & Mechanical University	NA11SEC4810001	—
Department of Defense:					
Military Medical Research and Development	12.420	137,811			48,065
Military Medical Research and Development	12.420	67,191	University of Florida	W81XWH 1510464	—
Department of Veteran Affairs:					
IPA Agreement – Research Scholar	27.011	7,707			—
Department of Transportation:					
University Transportation Centers	20.701	109,728	Iowa State University	DTRT13-G-UTC37	—
Center for Disease Control:					
Birth Defects and Developmental Disabilities – Prevention and Surveillance	93.073	827	University of Missouri	5U84 DD000884	—
Birth Defects and Developmental Disabilities – Prevention and Surveillance	93.073	1,434	University of Missouri	1U01 DD001145	—
State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease, and Stroke	93.757	87,782	Nebraska Department of Health & Human Services	6NU58DP 004819	—
State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease, and Stroke	93.945	55,852	Nebraska Department of Health & Human Services	U58DP004819	—
Total research and development cluster		10,576,220			144,513
Trio Cluster:					
Department of Education:					
Student Support Services	84.042	292,515			—
Talent Search	84.044	345,317			—
Upward Bound	84.047	835,502			—
Educational Opportunity Centers	84.066	280,185			—
Total Trio Cluster		1,753,519			—

(Continued)

CREIGHTON UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2016

Federal grantor/program or cluster title	CFDA No.	Federal expenditures	Pass-through funds: Awarding organization	Pass-through funds: Program number	Expenditures to subrecipients
Other Federal Assistance:					
Department of Health and Human Services:					
Hospital Prep Program & Public Health Emergency Prep Aligned Coop Agreements	93.074	$ 11,444	University of Nebraska Medical Center	TP12 1201HPP	$ —
Cancer Detection and Diagnosis Research	93.394	11,453	University of Massachusetts Worchester	1R01 CA194787	—
Affordable Care Act Initiative to Reduce Avoidable Hospitalizations among Nursing	93.621	490	Alegent Creighton Health	1E1 CMS331085	—
Facility Residents	93.879	81,855	University of Utah	N01-LM-10-055	—
National Network of Libraries of Medicine	93.879	17,351	University of Utah	1UG4LM01234	—
National Network of Libraries of Medicine	93.884	40,533	University of Nebraska Medical Center	2D88HP20110600/6D88HP201110602	—
Grants for Primary Care Training and Enhancement					
National Aeronautics and Space Administration:					
Education	43.008	25,996	University of Nebraska at Omaha	NNX15A109H	—
Department of Agriculture:					
Child and Adult Care Food Program	10.588	17,488			—
Center for Disease Control					
Birth Defects and Developmental Disabilities – Prevention and Surveillance	93.073	14,406	University of Missouri	NU01DD001145	—
Racial and Ethnic Approaches to Community Health	93.304	554,094			150,641
Department of Justice:					
Crime victim Assistance	16.575	23,359	Nebraska Crime Commission	2015 VFGX0041	—
Total Expenditures of Federal Awards		$ 188,422,002			$ 295,154

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

(1) Summary of Significant Accounting Policies

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

Expenditures for direct costs are recognized as incurred using the accrual method of accounting and the cost accounting principles contained in 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 statements of activities, which is included as part of the University's basic financial statements.

Total expenditures per the supplementary schedule of expenditures of federal awards	$	188,422,002
Student assistance not considered revenue per consolidated financial statements		(173,398,394)
Grants and contracts revenue related to private and nonfederal government grants		7,897,388
Grants and contracts per the consolidated statement of activities	$	22,920,996

(3) Loans Outstanding

Outstanding balances of student loans held by the University at June 30, 2016 and student loans advanced during the year ended June 30, 2016 were as follows:

Federal program	CFDA No.		Amount outstanding	Loans advanced
Federal Perkins Loan Program	84.038	$	22,031,967	2,481,107
Health Professions Student Loans	93.342		8,045,014	1,353,895
Nursing Student Loans	93.364		2,016,581	505,150
		$	32,093,562	4,340,152

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, 2016, the University's students received $133,219,085 in new loans under this program.

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

The Board of Trustees
Creighton University:

We have audited, 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, 2016, 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 17, 2016.

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 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 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*.

KPMG

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 17, 2016

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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 the 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 each of the University's major federal programs for the year ended June 30, 2016. 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, the 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, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as findings *2016-001* and *2016-002*. Our opinion on each major federal program is not modified with respect to these matters.

The University's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as finding *2016-002* to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as finding *2016-001* to be a significant deficiency.

The University's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 the University as of and for the year ended June 30, 2016, and have issued our report thereon dated October 17, 2016, which contained an unmodified opinion on those 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 expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Omaha, Nebraska
November 10, 2016

CREIGHTON UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

(1) Summary of Auditors' Results

(a) Type of report issued on whether the financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**

(b) Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:

- Material weaknesses: **No**
- Significant deficiencies: **None reported**

(c) Noncompliance material to the financial statements: **No**

(d) Internal control deficiencies over major programs disclosed by the audit:

- Material weaknesses: **Yes**
- Significant deficiencies: **Yes**

(e) Type of report issued on compliance for major programs: **Unmodified**

(f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **Yes**

(g) Major programs:

- Research and Development Cluster – various CFDA numbers
- Student Financial Assistance Cluster – various CFDA numbers

(h) Dollar threshold used to distinguish between Type A and Type B programs: **$750,000**

(i) Auditee qualified as a low-risk auditee: **No**

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

None

(3) Findings and Questioned Costs Relating to Federal Awards

Finding: 2016 – 001

Program Information:

Federal Awarding Agency: U.S. Department of Education

Federal Program Title: Student Financial Assistance Cluster (various CFDA numbers)

Grant Identification: N/A

Compliance Requirement: Special Tests and Provision – Enrollment Reporting

Criteria: 34 CFR Section 685.309(b)(2) requires participating schools in the Direct Loan Program to notify the Secretary if a Direct Loan had been made to or on behalf of a student who enrolled at the school but ceased to be enrolled on at least half-time basis or has been accepted for enrollment at the school but failed to enroll on at least a half-time basis for the period which the loan was intended. Further, unless it expects to submit its next student status confirmation report to the Secretary with the next 60 days, the school must notify the Secretary within 30 days.

Context: 3 out of 29 students sampled

Condition Found: During testwork, 29 students were selected who either withdrew or graduated from the University. Three students out of 29 students sampled whose student status changed were not reported to the National Student Loan Data System within the 30 day transmittal period. This is outside the required timelines of 34 CFR Section 685.309(b)(2).

Sampling: Not statistical

Questioned Costs: None

Repeat Finding: No

Cause and Effect: Internal controls regarding student status were not in place and/or operating effectively, which resulted in late enrollment reporting.

Recommendation: The University needs to implement controls to ensure students status changes are reported within the required timeframe. In addition, we suggest internal audit do additional testing of internal controls over student financial assistance enrollment reporting.

View of Responsible Officials: The University concurs with the finding and is in the process of developing procedures to ensure the student status changes are filed timely in accordance with federal regulations.

Finding: 2016 – 002

Program Information:

> **Federal Awarding Agency:** U.S. Department of Education
>
> **Federal Program Title:** Student Financial Assistance Cluster (various CFDA numbers)
>
> **Grant Identification:** N/A

Compliance Requirement: Special Tests and Provision – Return of Title IV Funds

Criteria: According to CFR Section 668.22(e)(4), the unearned amount of title IV assistance to be returned is calculated by subtracting the amount of title IV assistance earned by the student as calculated under paragraph (e)(1) of this section from the amount of title IV aid that was disbursed to the student as of the date of the institution's determination that the student withdrew. CFR Section 668.22(b)(2) requires that an institution must document a student's withdrawal date determined in accordance with paragraph (b)(1) and maintain the documentation as of the date of the institution's determination that the student withdrew. In addition, CFR Section 668.22(f)(2)(i), the total number of calendar days in a payment period or period of enrollment includes all days within the period the student was scheduled to complete, except scheduled breaks of at least five consecutive days are excluded from the total number of calendar days in a payment period or period of enrollment and the number of calendar days completed in period.

Context: 10 out of 25 students sampled

Condition Found: During testwork, 25 students were selected who withdrew from the University. Three instances occurred where the Return of Title IV funds calculation was not accurately calculated. In calculating the Return to Title IV funds for one student, the total Title IV aid disbursed for the period was not accurately input into the calculation. For another student, the withdraw date was incorrectly used in the calculation. Lastly, per the University registrar's office, the required scheduled break in the spring semester was eight days, however, the University used nine days in the calculation for nine students that withdrew in the spring.

Sampling: Not statistical

Known Questioned Costs: $556

Likely Questioned Costs: $5,084

Repeat Finding: No

Cause and Effect: Internal controls over the Return of Title IV funds calculation were not in place and/or operating effectively resulting in errors in the calculations.

Recommendation: The University needs to implement controls to ensure the Return to Title IV funds calculation is complete and accurate. In addition, we suggest internal audit do additional testing of internal controls over student financial assistance, Return of Title IV funds.

View of Responsible Officials: The University concurs with the finding and is in the process of developing procedures to ensure the Return to Title IV calculation is complete and accurate.