

**FINANCIAL
STATEMENTS**

May 31, 2021



VILLANOVA UNIVERSITY

**FINANCIAL STATEMENTS
May 31, 2021**

Table of Contents

Report of Independent Auditors	1 - 2
Financial Statements:	
Consolidated Statements of Financial Position	3
Consolidated Statement of Activities and Change in Net Assets for the year ended May 31, 2021	4
Consolidated Statement of Activities and Change in Net Assets for the year ended May 31, 2020	5
Consolidated Statements of Cash Flows	6
Notes to Financial Statements	7 - 29



Report of Independent Auditors

To the Board of Trustees of Villanova University:

We have audited the accompanying consolidated financial statements of Villanova University, which comprise the consolidated statements of financial position as of May 31, 2021 and 2020, and the related consolidated statements of activities, changes in net assets and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; 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 the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our 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, we consider internal control relevant to the Company'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 Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Villanova University and its subsidiaries as of May 31, 2021 and 2020, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, the University changed the manner in which it accounts for leases in the year ended May 31, 2021. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
October 13, 2021

VILLANOVA UNIVERSITY AND SUBSIDIARIES**Consolidated Statements of Financial Position at May 31, 2021 and 2020**

(in thousands)

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	\$ 98,461	\$ 133,194
Short-term investments	27,860	42,050
Accounts receivable, less allowances of \$5,167 in 2021 and \$1,431 in 2020	6,498	11,680
Other assets	6,396	6,210
Assets whose use is limited	2,067	2,111
Prepaid pension asset	1,189	-
Pledges receivable, net	61,163	68,637
Student loans receivable, net	6,154	7,262
Investments	1,234,909	867,732
Right-of-use assets, operating leases, net	15,973	-
Land, buildings and equipment, net	717,114	741,930
Total assets	<u>\$ 2,177,784</u>	<u>\$ 1,880,806</u>
LIABILITIES		
Accounts payable	\$ 16,957	\$ 14,553
Accrued expenses	52,697	38,978
Operating leases - current	1,033	-
Deposits	4,891	17,754
Deferred revenues	29,815	22,941
Short-term lines of credit	-	60,000
Accrued postretirement benefits	8,967	9,891
Refundable government loan funds	7,668	8,582
Operating leases - non-current	15,043	-
Long-term debt	236,822	254,044
Accrued pension cost	-	5,361
Total liabilities	<u>373,893</u>	<u>432,104</u>
NET ASSETS		
Without donor restrictions	998,791	859,597
With donor restrictions	805,100	589,105
Total net assets	<u>1,803,891</u>	<u>1,448,702</u>
Total liabilities and net assets	<u>\$ 2,177,784</u>	<u>\$ 1,880,806</u>

The accompanying notes are an integral part of the consolidated financial statements.

VILLANOVA UNIVERSITY AND SUBSIDIARIES

Consolidated Statement of Activities and Change in Net Assets for the Year Ended May 31, 2021 and Summary of Year Ended May 31, 2020 (in thousands)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>2020 Total</u>
OPERATING REVENUES				
Student related revenue:				
Student tuition and fees, net of \$148,697 in student financial aid	\$ 332,039		\$ 332,039	\$ 323,626
Sales and services of auxiliary enterprises, net of \$5,264 in student financial aid	70,128		70,128	66,797
Total student related revenue	<u>402,167</u>		<u>402,167</u>	<u>390,423</u>
Gifts	15,694	\$ 28,659	44,353	34,496
Government grants	9,826		9,826	8,827
Private grants	2,076		2,076	2,032
Endowment resources	17,011	18,516	35,527	32,171
Investment income	2,234		2,234	4,006
Other sources	19,455	640	20,095	29,315
Net assets released from restrictions	<u>22,773</u>	<u>(22,773)</u>	<u>-</u>	<u>-</u>
Total operating revenues	<u>491,236</u>	<u>25,042</u>	<u>516,278</u>	<u>501,270</u>
OPERATING EXPENSES				
Salaries and fringe benefits	307,660		307,660	297,543
Supplies and services	36,077		36,077	47,236
Depreciation	37,361		37,361	33,070
Cost of goods sold	7,367		7,367	8,724
Interest on indebtedness	8,319		8,319	8,849
Travel and special events	5,166		5,166	14,355
Utilities	6,300		6,300	6,659
Other	53,301		53,301	41,743
Total operating expenses	<u>461,551</u>	<u>-</u>	<u>461,551</u>	<u>458,179</u>
Change in net assets from operating activities	<u>29,685</u>	<u>25,042</u>	<u>54,727</u>	<u>43,091</u>
NON-OPERATING				
Investment return, net of management fees	113,255	189,401	302,656	49,863
Endowment resources	(17,011)	(18,516)	(35,527)	(32,171)
Rental property return, net	1,658		1,658	1,537
Other components of postretirement benefit cost	630		630	358
Grant for capital expenditures	-		-	1,782
Endowment and other gifts		24,739	24,739	16,113
Capital gifts released from restriction	<u>4,671</u>	<u>(4,671)</u>	<u>-</u>	<u>-</u>
Total non-operating activities	<u>103,203</u>	<u>190,953</u>	<u>294,156</u>	<u>37,482</u>
Change in net assets before other adjustments	132,888	215,995	348,883	80,573
Adjustment for retirement plan obligations	<u>6,306</u>	<u>-</u>	<u>6,306</u>	<u>(1,633)</u>
Change in net assets	139,194	215,995	355,189	78,940
Net assets, beginning of year	<u>859,597</u>	<u>589,105</u>	<u>1,448,702</u>	<u>1,369,762</u>
Net assets, end of year	<u>\$ 998,791</u>	<u>\$ 805,100</u>	<u>\$ 1,803,891</u>	<u>\$ 1,448,702</u>

The accompanying notes are an integral part of the consolidated financial statements.

VILLANOVA UNIVERSITY AND SUBSIDIARIES

Consolidated Statement of Activities and Change in Net Assets for the Year Ended May 31, 2020 and Summary of Year Ended May 31, 2019 (in thousands)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>2019 Total</u>
OPERATING REVENUES				
Student related revenue:				
Student tuition and fees, net of \$138,241 in student financial aid	\$ 323,626		\$ 323,626	\$ 317,111
Sales and services of auxiliary enterprises, net of \$4,282 in student financial aid	66,797		66,797	72,886
Total student related revenue	<u>390,423</u>		<u>390,423</u>	<u>389,997</u>
Gifts	14,371	\$ 20,125	34,496	30,199
Government grants	8,827		8,827	7,303
Private grants	2,032		2,032	1,961
Endowment resources	14,733	17,438	32,171	29,230
Investment income	4,004	2	4,006	5,031
Other sources	28,727	588	29,315	32,240
Net assets released from restrictions	<u>24,023</u>	<u>(24,023)</u>	<u>-</u>	<u>-</u>
Total operating revenues	<u>487,140</u>	<u>14,130</u>	<u>501,270</u>	<u>495,961</u>
OPERATING EXPENSES				
Salaries and fringe benefits	297,543		297,543	285,608
Supplies and services	47,236		47,236	49,485
Depreciation	33,070		33,070	26,847
Cost of goods sold	8,724		8,724	10,922
Interest on indebtedness	8,849		8,849	4,221
Travel and special events	14,355		14,355	16,927
Utilities	6,659		6,659	8,265
Other	41,743		41,743	40,191
Total operating expenses	<u>458,179</u>	<u>-</u>	<u>458,179</u>	<u>442,466</u>
Change in net assets from operating activities	<u>28,961</u>	<u>14,130</u>	<u>43,091</u>	<u>53,495</u>
NON-OPERATING				
Investment return, net of management fees	6,185	43,678	49,863	22,684
Endowment resources	(14,733)	(17,438)	(32,171)	(29,230)
Rental property return, net	1,537		1,537	1,429
Other components of postretirement benefit cost	358		358	608
Grant for capital expenditures	1,782		1,782	114
Endowment and other gifts		16,113	16,113	18,870
Capital gifts released from restriction	<u>53,147</u>	<u>(53,147)</u>	<u>-</u>	<u>-</u>
Total non-operating activities	<u>48,276</u>	<u>(10,794)</u>	<u>37,482</u>	<u>14,475</u>
Change in net assets before other adjustments	77,237	3,336	80,573	67,970
Adjustment for retirement plan obligations	<u>(1,633)</u>	<u>-</u>	<u>(1,633)</u>	<u>(2,479)</u>
Change in net assets	75,604	3,336	78,940	65,491
Net assets, beginning of year	<u>783,993</u>	<u>585,769</u>	<u>1,369,762</u>	<u>1,304,271</u>
Net assets, end of year	<u>\$ 859,597</u>	<u>\$ 589,105</u>	<u>\$ 1,448,702</u>	<u>\$ 1,369,762</u>

The accompanying notes are an integral part of the consolidated financial statements.

VILLANOVA UNIVERSITY AND SUBSIDIARIES

Consolidated Statements of Cash Flows For the years ended May 31, 2021 and 2020 (in thousands)

	<u>2021</u>	<u>2020</u>
CASH FLOW FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 355,189	\$ 78,940
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	37,361	33,070
Contributions restricted for long-term investment	(28,506)	(29,032)
Realized gains on sales of investments	(65,792)	(18,323)
Change in market value of investments	(241,008)	(36,175)
Pension and other postretirement benefit plan adjustments	(6,936)	1,275
Receipt of contributed securities	(12,084)	(18,017)
Amortization of operating lease assets	1,141	-
Amortization of debt (premium)/discount	(2,160)	(2,313)
Changes in operating assets and liabilities:		
Receivables, net	12,656	23,479
Accounts payable and accrued expenses	17,767	(6,065)
Other changes	<u>(7,603)</u>	<u>9,048</u>
Net cash provided by operating activities	<u>60,025</u>	<u>35,887</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from sales of long-term investments	392,502	361,682
Purchases of long-term investments	(456,950)	(335,673)
Proceeds from sales of short-term investments	43,624	51,850
Purchases of short-term investments	(13,279)	(41,069)
Student loans receivable	1,108	1,839
Purchase of land, buildings and equipment	(14,189)	(85,827)
Decrease/(Increase) in assets whose use is limited	<u>44</u>	<u>(26)</u>
Net cash used by investing activities	<u>(47,140)</u>	<u>(47,224)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Contributions restricted for long-term investment	28,506	29,032
Repayment of debt principal	(15,210)	(11,948)
Government loan funds	(914)	(997)
(Repayment)/drawdown of lines of credit	<u>(60,000)</u>	<u>60,000</u>
Net cash (used)/provided by financing activities	<u>(47,618)</u>	<u>76,087</u>
Net (decrease)/increase in cash and cash equivalents	(34,733)	64,750
Cash and cash equivalents at beginning of year	<u>133,194</u>	<u>68,444</u>
Cash and cash equivalents at end of year	<u>\$ 98,461</u>	<u>\$ 133,194</u>
SUPPLEMENTAL DISCLOSURES		
Purchases of property, plant, and equipment in accounts payable	\$ 4,582	\$ 6,226
Cash paid for interest	10,606	11,304
Tax payments	2,397	2,765

The accompanying notes are an integral part of the consolidated financial statements.

VILLANOVA UNIVERSITY AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2021 AND MAY 31, 2020

NOTE 1 - SUMMARY OF NATURE OF OPERATIONS, SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES:

Nature of Operations

Villanova University and Subsidiaries (the “University”) is an independent, coeducational institution offering undergraduate and graduate instruction, located in Radnor Township, Delaware County, Pennsylvania. The campus presently covers approximately 281 acres and comprises 90 buildings. The University also has a Conference Center (The Inn at Villanova University) approximately one-half mile from the campus which encompasses 33 acres. The University has approximately 10,900 students, of whom approximately 6,800 are full-time undergraduates. Refer to Note 16 for a description of the University’s subsidiaries.

Significant Accounting Policies and Reporting Practices

Principles of Consolidation

The consolidated financial statements include the accounts of the University and its subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Financial Statement Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting.

Resources are categorized for accounting purposes into separate classes 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 similar categories.

- **Without Donor Restrictions** - Net assets without donor restrictions generally result from revenues derived from providing services, receiving contributions without donor restrictions, receiving dividends and interest from investing in income-producing assets, and gains and losses from investments without donor restrictions, less expenses incurred in providing services, raising contributions, and performing administrative functions. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Trustees.
- **With Donor Restrictions** – Net assets with donor restrictions generally result from contributions and other inflows of assets whose use by the University is limited by donor-imposed stipulations that either expire by passage of time, can be fulfilled and removed by actions of the University pursuant to those stipulations or by law, or represent corpus of contributions and other inflows of assets whose use by the University is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by the University. Gifts of cash and other non-capital assets are reported as net assets with donor restrictions if the gifts are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose for restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Consolidated Statement of Activities and Change in Net Assets as net assets released from restrictions. Contributions related to the construction or acquisition of fixed assets are also classified as net assets with donor restrictions. When the associated assets are placed in service, net assets with donor restriction are reclassified to net assets without donor restrictions and reported in the Consolidated Statement of Activities and Change in Net Assets as capital gifts released from restriction within non-operating activity.

NOTE 1 - SUMMARY OF NATURE OF OPERATIONS, SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES: (Continued)

New Accounting Pronouncements Adopted In Current Year

In February 2016, the Financial Accounting Standards Board (“FASB”) issued ASU 2016-02, Leases (Topic 842), a new standard that changed the requirements for accounting for leases. Under the new standard, lessees (including lessees under both leases classified as finance leases, which are to be classified based on criteria similar to that applicable to capital leases under previous standards, and leases classified as operating leases) will recognize a right-of-use asset and a lease liability on the balance sheet, initially measured as the present value of lease payments under the lease. Under previous standards, operating leases were not recognized on the balance sheet. In addition, the new standard requires disclosures regarding the amount, timing and uncertainty of cash flows arising from leases. The new standard applied to lessor accounting remains largely unchanged from legacy U.S. GAAP; however, the new standard does contain some targeted improvements to align with the new revenue recognition guidance, Revenue from Contracts with Customers (Topic 606), issued pursuant to ASU No. 2014-09 (as amended).

Subsequent to ASU No. 2016-02, the FASB issued related ASUs, including ASU No. 2018-11, Leases (Topic 842): Targeted Improvements, which provides for another transition method in addition to the modified retrospective approach required by ASU No. 2016-02. This option allows entities to initially apply the new standard at the adoption date and recognize a cumulative adjustment, as applicable, to the opening balance of net assets in the period of adoption.

In June 2020, the FASB issued ASU No. 2020-05, Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities, which provides an optional one-year deferral of the effective date of ASU No. 2016-02 for all private companies and certain not-for-profit entities. For public not-for-profit entities that have not yet issued their financial statements or made financial statements available for issuance as of June 3, 2020, ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2019. The University has elected the optional one-year deferral of the effective date of ASU No. 2016-02.

The University adopted the new standard with an effective date of June 1, 2020 which is the beginning of its reporting fiscal year ending May 31, 2021. An entity may choose to use either (1) its effective date or (2) the beginning of the earliest comparative period presented in the financial statements as its date of initial application. The University elected to apply the transition requirements at June 1, 2020. This approach resulted in any leases existing at, or entered into after, the beginning of June 1, 2020 being reported in accordance with Topic 842. The impact of adoption is noted in the accompanying Leases footnote (Note 9).

The new standard provides for a number of optional practical expedients. The University elected the package of practical expedients permitted under the transition guidance within the new standard which does not require the University to reassess prior conclusions regarding whether contracts are or contain a lease, lease classification and initial direct lease costs. Additionally, the University has elected the practical expedient to use hindsight in determining the lease term (that is, when considering lessee options to extend or terminate the lease or to purchase the underlying asset) and in assessing impairment of the University’s right-of-use assets.

The new standard provides several optional policy elections for an entity’s ongoing accounting. Generally, the University has elected the policy to not separate lease and non-lease components in arrangements whereby the University is the lessee. The University has elected to exclude short-term leases (with original lease terms of twelve months or less) from the balance sheet.

The University has elected, under its classification of not being considered a public business entity, to use a risk-free discount rate for the leases which was determined using a period comparable with that of the applicable lease terms.

The most significant judgments and impacts related to the application adoption of the new standard include the following:

- In evaluating contracts to determine if they qualify as a lease, the University considered factors such as if the University has obtained or transferred substantially all of the rights to the underlying asset through exclusivity, if the University can transfer or has transferred the ability to direct the use of the asset by making decisions about how and for what purpose the asset will be used and if the lessor has substantive substitution rights.
- The University has recognized right-of-use assets and operating lease liabilities for operating leases that have not previously been recorded. The lease liability for operating leases is based on the net present value of future minimum lease payments.

NOTE 1 - SUMMARY OF NATURE OF OPERATIONS, SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES: (Continued)

New Accounting Pronouncements Adopted In Current Year (Continued)

- As discussed above, the University uses the risk-free rate (based on U.S. Treasury note or bond rates) in determining the discount rate used to measure the right-of-use assets and lease liabilities.
- The University's real property leases vary in terms of up to 20 years, including renewal periods that are considered reasonably certain. The University's leases other than real property vary in terms of up to 25 years, including renewal periods that are considered reasonably certain.
- Upon adoption of the standard at June 1, 2020, the University established a right-of-use asset and a lease liability of \$11,807,426 related to its real property operating leases. Upon adoption of the standard at June 1, 2020, the University established a right-of-use asset and a lease liability of \$526,307 related to its leases other than real property.
- Right-of-use assets are assessed for impairment in accordance with the University's long-lived asset policy. The University reassesses lease classification and remeasures right-of-use assets and lease liabilities when a lease is modified and that modification is not accounted for as a separate new lease or upon certain other events that require reassessment in accordance with Topic 842.

The University does not have any material leasing transactions with related parties.

New Accounting Pronouncements Not Yet Adopted

In September 2020, the FASB issued ASU 2020-07, Not-for-Profit Entities: Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958). This standard increases the transparency of contributed nonfinancial assets for not-for-profit (NFP) entities through enhancements to presentation and disclosure. The amendments in this update address certain stakeholders' concerns about the lack of transparency about the measurement of contributed nonfinancial assets recognized by NFPs, as well as the amount of those contributions used in an NFP's programs and other activities. The amendments in this update require that an NFP (1) present contributed nonfinancial assets as a separate line items in the statement of activities, apart from contributions of cash and other financial assets, and (2) disclose a disaggregation of the amount of contributed nonfinancial assets recognized within the statements of activities by category that depicts the type of contributed nonfinancial assets, along with other qualitative information for those categories recognized. The ASU is effective for fiscal years beginning after June 15, 2021 and early adoption is permitted. The University will adopt this accounting standard for the fiscal year ending May 31, 2022 and does not anticipate any material impact to the consolidated financial statements.

Fair Value

The University utilizes the fair value standard, which defines the term "fair value," establishes a measurement framework for generally accepted accounting principles in the United States (US GAAP), and expands disclosures regarding fair value measurements.

The standard established a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- *Level 1* – Observable inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets;
- *Level 2* – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial instrument; and
- *Level 3* – Unobservable inputs to the valuation methodology in which there is little or no market data and which are significant to the fair value measurement

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

NOTE 1 - SUMMARY OF NATURE OF OPERATIONS, SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES: (Continued)

Fair Value (Continued)

The University utilizes the practical expedient to estimate the fair value of investments at the measurement date using the net asset value (NAV) reported by the managers of such investments in accordance with their respective operating agreements, which generally requires fair valuation in accordance with US GAAP. Adjustment is required if the University expects to sell the investment at a value other than NAV or if the NAV is not calculated in accordance with US GAAP. The University holds investments in its portfolio which are generally valued based on the most current NAV. These amounts represent fair value of these investments at May 31, 2021 and 2020.

The University performs additional procedures including due diligence reviews on its investments and other procedures with respect to the capital account balance or NAV provided to ensure conformity with US GAAP. The University has assessed factors including, but not limited to, managers' compliance with the Fair Value Measurement standard, price transparency, and valuation procedures in place.

Investments in public equity consist of commingled funds, daily traded mutual funds, and limited partnership investments. Securities held in daily traded mutual funds are generally valued based on quoted market prices in active markets obtained from exchange or dealer markets for identical assets and are accordingly categorized as Level 1 in the fair value hierarchy, with no valuation adjustments applied. Commingled funds and limited partnership interests are valued at NAV and are categorized as Investments at NAV in the fair value hierarchy.

Investments in hedge funds are valued at NAV and are categorized in accordance with the fair value standard. The liquidity terms for the hedge funds vary by individual investment, from monthly liquidity to illiquid. All of these investments are classified as Investments at NAV in the fair value hierarchy.

Private investments consist of limited partnership interests. Limited partnership interests are valued at NAV and are categorized in accordance with the fair value standard. Since the University does not have the ability to redeem from the limited partnerships at the measurement date or is restricted from redeeming for an uncertain or extended period of time from the measurement date, the investments are classified as Investments at NAV in the fair value hierarchy using the practical expedient.

Investments in split-interest agreements consist of irrevocable charitable remainder trusts, charitable gift annuities, and pooled income funds where the University serves as trustee. The assets, invested in equity or debt securities, are measured at fair value on a recurring basis at quoted market prices and are thus categorized as Level 1. Liabilities represent the present value of the estimated future distributions to beneficiaries over the terms of the agreements and are included in accrued expenses on the Statements of Financial Position. Investment gains and losses, and gains and losses associated with changes in the estimates of future distributions to beneficiaries, are included in net realized and unrealized gains and losses.

Investments of operating funds include fixed-income securities with original maturities of greater than one year. The assets are valued using observable market data to the degree that they can be valued based on quoted market prices; however, some of these investments are traded infrequently. They are categorized as Level 2 in the fair value hierarchy.

Operating funds are classified as follows as of May 31, 2021, based on the maturity of the underlying investments:

	<u>(in thousands)</u>
Cash and cash equivalents	\$ 98,461
Short-term investments	26,916
Long-term investments	<u>106,788</u>
Total	<u><u>\$ 232,165</u></u>

NOTE 1 - SUMMARY OF NATURE OF OPERATIONS, SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES: (Continued)

Fair Value (Continued)

The University's pension assets consist of common collective trusts and cash. Investments in common collective trusts consist of equity securities and fixed income options traded in an active exchange market, as well as investments in mutual funds. The assets are valued at the net asset value of units held at year-end. When available, quoted market prices are used to value the underlying investments held by the collective trusts. For underlying investments consisting of fixed maturities, valuations are generally obtained from third-party pricing services for identical or comparable assets or liabilities, non-binding broker quotes (when pricing service information is not available) or through the use of valuation methodologies using observable inputs. For underlying investments where vendor pricing is not available, internally developed valuations using one or more unobservable inputs or non-binding quotes are used to determine fair value. These investments in common collective trusts are categorized as Investments at NAV in the fair value hierarchy, while cash is categorized as Level 1 in the hierarchy.

Cash and Cash Equivalents

Cash and cash equivalents represent demand deposits and other investments with an original maturity date not exceeding 90 days, while short-term investments reflect liquid investments with a maturity date in excess of 90 days, but less than one year. Endowment cash and cash equivalents are liquid investments with a maturity date of less than one year, though certain investments may be in securities with maturities out to 13 months. The intent of the endowment cash and cash equivalents is to fund future investments in other asset categories. The University has elected to treat all cash equivalents within the endowment as investments.

Short-Term Investments

Short-term investments include fixed-income securities with original maturities less than one year. Short-term investments are valued using observable market data to the degree that they can be valued based on quoted market prices. These are categorized as Level 2 in the fair value hierarchy.

Investments

The University records investments at fair value. Gains or losses on investments are recognized as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law.

Accounts Receivable

Accounts Receivable are primarily amounts related to student receivable balances, grant receivable balances, and other miscellaneous receivables.

Investment Income

Investment income related to long-term investments is recorded as non-operating income, and the portion of investment income that is utilized for operations under the University's endowment spending formula (see description in Note 4) is shown as a reduction in non-operating income ("Endowment resources"). Investment income related to the endowment is classified as net assets without donor restrictions or net assets with donor restrictions, depending on donor specifications and applicable law. Investment income related to operating funds is recorded as operating revenue.

Student Loans Receivable

Student loans receivable are stated net of allowances for doubtful accounts. Student loans receivable are principally amounts due from students under U.S. Government-sponsored loan programs, which are subject to significant restrictions.

Land, Building, and Equipment

Land, buildings and equipment are carried at cost on date of acquisition or fair value on the date of donation. Depreciation is computed on a straight-line basis over the estimated useful lives of land improvements (10-25 years), buildings (10-55 years) and equipment (4-10 years).

NOTE 1 - SUMMARY OF NATURE OF OPERATIONS, SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES: (Continued)

Capitalized Software Costs

Capitalized software costs included in property, plant and equipment relate to purchased software, which is capitalized and depreciated on a straight-line basis over a five-year period.

Early Retirement Benefits

The University offers an early retirement program to full-time faculty members who meet certain eligibility criteria. The University accrues a liability for the present value of all future benefit payments for individuals who accept the University's early retirement offer at the time of acceptance.

Deferred Revenue and Prepaid Expenses

All revenues received and expenses paid prior to the end of the fiscal year which relate to the following fiscal year are recorded as deferred revenues or other assets, respectively.

Certain deferred revenue represents payments received prior to the start of the academic term or the following fiscal year. The following table depicts significant components of deferred revenue:

	Balance at May 31, 2020	Refunds Issued	Revenue recognized in FY2021	Cash received in advance of performance	Balance at May 31, 2021
Tuition and Fees, net	\$ 16,179,992	\$ -	\$ 16,179,992	\$ 16,849,148	\$ 16,849,148
Room and Board	-	-	-	529,953	529,953
Athletic Revenue	6,407,199	-	159,026	5,320,652	11,568,825
Summer Events	55,991	-	55,991	12,820	12,820
Miscellaneous Revenue	297,524	-	297,524	854,029	854,029
	<u>\$ 22,940,706</u>	<u>\$ -</u>	<u>\$ 16,692,533</u>	<u>\$ 23,566,602</u>	<u>\$ 29,814,775</u>

The balance of deferred revenue at May 31, 2021, less any refunds issued, will be recognized as revenue over the applicable academic term, as services are rendered.

The University has not disclosed information about remaining performance obligations that have original durations of one year or less.

Noncash Gifts

Noncash gifts are recorded at fair value on the date of donation.

Employee Health Insurance

The University is self-insured for employee health expenses and pays the actual cost of claims, and bears risk related to these claims. There are risk-mitigation strategies in place such as stop loss insurance to reduce the impact of catastrophic claims.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date(s) of the financial statements and the reported amounts of revenues and expenses during the reporting period(s). Actual results could differ from those estimates.

NOTE 1 - SUMMARY OF NATURE OF OPERATIONS, SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES: (Continued)

Revenue recognition and disaggregation of revenue

Tuition revenue is recognized in the fiscal year in which the academic programs are delivered. Institutional scholarships awarded to students reduce the amount of revenue recognized. In addition, students who adjust their course load or withdraw completely within the first week of the academic term may receive a partial refund in accordance with the University's refund policy. Historically, refunds have been approximately less than 1% of the total amount billed. Refunds issued reduce the amount of revenue recognized. Payments for tuition are due approximately 3 weeks prior to the start of the academic term.

The following table shows the components of student tuition and fees, net of student financial aid by reportable segment for the year ended May 31, 2021:

	<u>(in thousands)</u>
Undergraduate	\$ 395,339
Graduate and other special programs	49,583
Law school	28,044
College of Professional Studies	7,770
Financial Aid	<u>(148,697)</u>
Tuition and fees, net of financial aid	<u>\$ 332,039</u>

Performance Obligations

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of accounting in ASC Topic 606. A contract's transaction price is allocated to each performance obligation identified in the arrangement based on the relative standalone selling price of each distinct good or service in the contract and recognized as revenue when, or as, the performance obligation is satisfied. The primary method used to estimate standalone selling price is the adjusted market assessment approach, under which the market is evaluated and the price that a customer would be willing to pay for the goods and services the University provides is estimated.

The University's performance obligations are primarily satisfied over time during the course of an academic semester or academic year. Villanova's transaction price is determined based on gross price, net of scholarships and other discounts. The majority of the University's revenue is derived from tuition and educational services agreements with students, and thus, is recognized over time during each academic session. The University views the knowledge gained by the student as the benefit which the student receives during the academic sessions. Residence hall revenues are recognized over time throughout the occupancy period, which is most commonly during each academic session.

Contract Balances

The timing of billings, cash collections and revenue recognition results in accounts receivable (contract assets) and deferred revenue and student deposits (contract liabilities) on the Consolidated Statements of Financial Position. Receivables are recognized only to the extent that it is probable that the University will collect substantially all of the consideration to which it is entitled in exchange for the goods and services that will be transferred to the student.

Measure of Operations

The Statement of Activities and Change in Net Assets reports all changes in net assets, including changes in net assets from operating and non-operating activities. Operating revenues in excess of operating expenses reflect all transactions that are an integral part of the University's programs and supporting activities, net assets released from donor restrictions to support operating expenditures, and transfers from board-designated and other non-operating funds to support current operating activities. The measure of operations includes support for operating activities from both donor-restricted net assets and net assets without donor restrictions except those of a capital or long-term nature, such as gifts for long-term investments and endowments. Operating revenues include realized gains appropriated in accordance with the University's endowment spending policy (see description in Note 4). The measure of operations excludes grants for capital expenditures, endowment support for non-operating activities, investment return in excess of (or less than) amounts made available for current support, gains and losses on extinguishment of debt (when applicable), and rental property revenue and expenses.

NOTE 1 - SUMMARY OF NATURE OF OPERATIONS, SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES: (Continued)

Measure of Operations (Continued)

Student tuition and fees as well as sales and services of auxiliary enterprises are shown net of student financial aid.

In addition, expenses associated with the operation and maintenance of plant, depreciation and interest expenses have been allocated to the functional operating expense categories in Note 12.

Total Revenue and Gains Without Donor Restrictions equaled \$600,745,000 and \$533,783,000 as of May 31, 2021 and 2020, respectively.

Reclassification

Certain amounts from prior years have been reclassified to conform to the current year's presentation.

NOTE 2 – LIQUIDITY AND AVAILABILITY

The following table reflects the University's financial assets as of May 31, 2021 and May 31, 2020, reduced by amounts not available for general expenditures within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year of the balance sheet date. Other financial assets that are excluded from this measure of liquidity include endowments and accumulated earnings restricted by donors or the University's Board of Trustees, bond reserves that can only be used for specific capital projects, assets held for or by others, and annuity reserves.

	(in thousands)	
	2021	2020
Financial assets		
Cash and cash equivalents	\$ 98,461	\$ 133,194
Short-term investments	27,860	42,050
Accounts receivable, less allowances	6,498	11,680
Other assets	6,396	6,210
Assets whose use is limited	2,067	2,111
Prepaid pension asset	1,189	-
Pledges receivable, net	61,163	68,637
Student loans receivable, net	6,154	7,262
Investments	1,234,909	867,732
Financial assets at May 31	<u>1,444,697</u>	<u>1,138,876</u>
Less those unavailable for general expenditure within one year:		
Pledges receivable, net	61,163	68,637
Short-term investments	944	981
Accounts receivable beyond one year	446	3,266
Other assets	6,396	6,210
Prepaid pension asset	1,189	-
Student loans receivable	6,154	7,262
Endowment assets restricted by donors	679,573	479,362
Unrestricted endowment	442,987	317,653
Bond proceeds and reserves restricted by use	2,067	2,111
Investments held for other purposes	5,561	4,713
Financial assets not available for expenditure within one year	<u>1,206,480</u>	<u>890,195</u>
Financial assets available to meet cash needs for general purposes within one year	<u>\$ 238,217</u>	<u>\$ 248,681</u>

NOTE 2 – LIQUIDITY AND AVAILABILITY: (Continued)

As of May 31, 2021, the University has liquid assets on hand equal to 185 days of operating expenses. The University’s practice is to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

The University is substantially supported by student tuition and fees, sales and services of auxiliary enterprises and gifts with and without donor restrictions. Because donor restrictions require resources to be used in a particular manner or in a future period, the University must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year.

The University also has two unsecured lines of credit totaling \$60,000,000, representing 47 days of operating expenses. The full \$60,000,000 of funds were drawn from these lines during the 2020 fiscal year, to provide additional liquidity during the COVID-19 pandemic. As of May 31, 2021, these lines were fully repaid.

NOTE 3 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS:

At May 31, 2021 and 2020, the fair value of cash and cash equivalents and deposits with bond trustees approximate their respective carrying amounts. The fair value of deposits with bond trustees are based on the quoted market price of the underlying securities (and would be considered Level 1).

Determination of the fair value of student loans receivable, which are primarily federally sponsored student loans with U.S. government mandated interest rates and repayment terms and subject to significant restrictions as to their transfer or disposition, is not practicable.

The following tables present the financial instruments carried at fair value on a recurring basis as of May 31, 2021 and May 31, 2020, respectively, and indicate the fair value hierarchy of the valuation techniques that were utilized to determine such fair value. The tables reflect investments classified as short-term investments and long-term investments in the Statements of Financial Position.

	As of May 31, 2021 (in thousands)				Investments at NAV
	Total	Level 1	Level 2	Level 3	
Cash equivalents - endowment	\$ 53,639	\$ 53,639	\$ -	\$ -	\$ -
Public equities	453,492	-	-	-	453,492
Hedge funds	368,298	-	-	-	368,298
Private Investments	245,884	-	-	-	245,884
Split-interest agreements	4,447	4,447	-	-	-
Investments of operating funds	133,704	-	133,704	-	-
Other investments	3,305	3,305	-	-	-
Total	<u>\$ 1,262,769</u>	<u>\$ 61,391</u>	<u>\$ 133,704</u>	<u>\$ -</u>	<u>\$ 1,067,674</u>

	As of May 31, 2020 (in thousands)				Investments at NAV
	Total	Level 1	Level 2	Level 3	
Cash equivalents - endowment	\$ 16,873	\$ 16,873	\$ -	\$ -	\$ -
Public equities	333,753	48,087	-	-	285,666
Hedge funds	277,766	-	-	-	277,766
Private Investments	167,615	-	-	-	167,615
Split-interest agreements	3,631	3,631	-	-	-
Investments of operating funds	107,072	-	107,072	-	-
Other investments	3,072	3,072	-	-	-
Total	<u>\$ 909,782</u>	<u>\$ 71,663</u>	<u>\$ 107,072</u>	<u>\$ -</u>	<u>\$ 731,047</u>

NOTE 3 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS: (Continued)

The methods described in Note 1 may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Liquidity risk is the risk that the University will not be able to meet its obligations associated with financial liabilities due to restrictions on ability to redeem investments. The University has made investments in various long-lived partnerships and, in other cases, has entered into contractual agreements that may limit its ability to initiate redemptions due to notice periods, lock-ups and gates. Details on the estimated remaining life and current redemption terms by asset class and type of investment are provided below:

	<u>Liquidity</u>
Cash & cash equivalents-endowment	Daily
Public equities	Varies
Bonds	Monthly
Hedge funds	Varies
Private Investments	Illiquid
Split-interest agreements	Daily
Investments of operating funds	Daily
Other investments	Daily

Required notice prior to redemption varies, generally between no required advance notice to 30 days' notice. The remaining life of private investment partnerships varies by individual investment, with the longest anticipated remaining life being 14.6 years.

NOTE 4 - NET ASSETS:

	<u>(in thousands)</u>	
	<u>2021</u>	<u>2020</u>
Without Donor Restrictions		
Undesignated	\$ 75,512	\$ 54,058
Invested in property, plant and equipment, net	480,292	487,886
Unrestricted endowment	442,987	317,653
	<u>\$ 998,791</u>	<u>\$ 859,597</u>
With Donor Restrictions		
Purpose restricted:		
Unexpended contributions for instruction and scholarships	\$ 62,682	\$ 52,766
Unexpended contributions for capital expenditures	34,586	24,296
Time restricted for future periods:		
Annuity and life income funds	3,940	2,981
Endowment – accumulated change in market value of investments and realized gains	296,681	127,259
Restricted for time or purpose	397,889	207,302
Restricted in perpetuity:		
Student loans	1,893	1,893
Endowment principal, primarily for scholarships and instruction	405,318	379,910
	<u>\$ 805,100</u>	<u>\$ 589,105</u>

NOTE 4 - NET ASSETS: (Continued)

The University's endowment consists of over 1,000 individual funds established for a variety of purposes. The endowment includes donor-restricted endowment funds, funds designated by the Board of Trustees to function as endowments, and other funds set aside internally by the University. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Commonwealth of Pennsylvania has not enacted a version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), or a version of the Uniform Management of Institutional Funds Act (UMIFA). Governing law resides in 15 Pa. C.S. § 5548, *Investment of Trust Funds*. The University has interpreted relevant Pennsylvania law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as net assets with donor restrictions (a) the original value of gifts donated to net assets with donor restrictions, (b) the original value of subsequent gifts to the net assets with donor restrictions, and (c) enhancements or diminishments of the fund from investment income, loss and spending allowance.

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for a donor-specific period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce a real return, net of inflation and investment management costs, of at least 5% over the long term. Actual returns in any given year may vary from this amount.

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 a greater emphasis on equity-based and alternative investments to achieve its long-term objective within prudent risk constraints.

Under the University's spending policy, the University utilizes endowment and quasi-endowment resources to support operations at a level of 5% of the 12 calendar quarter moving average of the fair value of endowment and quasi-endowment investment assets calculated as of December 31st of the year immediately preceding the beginning of the University's fiscal year. Any difference between actual investment income and the amounts distributed is retained to support operations of future years. These retained balances are used in any year that the actual total investment return is below the spending rate. The remaining realized and unrealized gains/losses are reported as non-operating revenues. In establishing this policy, the University considered the long-term expected return on its endowment. Accordingly, over the long term, the University expects the current spending policy to allow its endowment to maintain spending at an amount equal to or less than total return less inflation.

NOTE 4 - NET ASSETS: (Continued)

At May 31, 2021, the endowment net asset composition by type of fund consisted of the following:

	(in thousands)		
	Without Donor Restrictions	With Donor Restrictions	Total
Amounts required to be maintained in perpetuity	\$ -	\$ 382,892	\$ 382,892
Other invested principal	260,627	-	260,627
Accumulated investment gains	182,360	296,681	479,041
Total Funds	<u>\$ 442,987</u>	<u>\$ 679,573</u>	<u>\$ 1,122,560</u>

Changes in endowment net assets for the fiscal year ended May 31, 2021 consisted of the following:

	(in thousands)		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 317,653	\$ 479,362	\$ 797,015
Investment return:			
Investment Income	1,252	1,018	2,270
Management and Admin Fees	(3,019)	(4,480)	(7,499)
Net appreciation (realized and unrealized)	115,179	191,056	306,235
Total investment return, net	<u>113,412</u>	<u>187,594</u>	<u>301,006</u>
Contributions	-	31,133	31,133
Distribution for Spending	(17,011)	(18,516)	(35,527)
Investment in Unrestricted Endowment	28,933	-	28,933
Endowment net assets, end of year	<u>\$ 442,987</u>	<u>\$ 679,573</u>	<u>\$ 1,122,560</u>

At May 31, 2020, the endowment net asset composition by type of fund consisted of the following:

	(in thousands)		
	Without Donor Restrictions	With Donor Restrictions	Total
Amounts required to be maintained in perpetuity	\$ -	\$ 352,102	\$ 352,102
Other invested principal	231,351	-	231,351
Accumulated investment gains	86,302	127,260	213,562
Total Funds	<u>\$ 317,653</u>	<u>\$ 479,362</u>	<u>\$ 797,015</u>

NOTE 4 - NET ASSETS: (Continued)

Changes in endowment net assets for the fiscal year ended May 31, 2020 consisted of the following:

	(in thousands)		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 316,869	\$ 426,192	\$ 743,061
Investment return:			
Investment Income	1,073	1,509	2,582
Management and Admin Fees	(2,970)	(4,175)	(7,145)
Net appreciation (realized and unrealized)	8,718	46,226	54,944
Total investment return, net	6,821	43,560	50,381
Contributions	-	27,048	27,048
Distribution for Spending	(14,733)	(17,438)	(32,171)
Investment in Unrestricted Endowment	8,696	-	8,696
Endowment net assets, end of year	<u>\$ 317,653</u>	<u>\$ 479,362</u>	<u>\$ 797,015</u>

From time to time, certain donor restricted endowment funds may have fair value below the amount required to be maintained by donors or law. There were no such deficiencies reported at May 31, 2021 and 2020. Management has interpreted state law to permit prudent spending from underwater endowments.

The University recorded a reclassification entry during the year ended May 31, 2020 to correct prior year net asset balances, which affected Net Change in Unrealized Gains and Losses, and Investment Return, Net of Management Fees on the Consolidated Statement of Activities and Change in Net Assets. The aggregate total in these categories did not change. The reclassification resulted in changes in the allocation between Net Assets Without Donor Restrictions and Net Assets With Donor Restrictions in these categories.

NOTE 5 - ASSETS WHOSE USE IS LIMITED:

Assets whose use is limited were comprised of unspent proceeds from the issuance of long-term debt related to construction projects, amounts required to be held by bond trustees for debt service payments and amounts required to be held in escrow related to the University's self-insured health insurance program.

NOTE 6 - INVESTMENTS:

Investment gains reported in the consolidated statements of activities for the year ended May 31 consisted of the following:

	(in thousands)		
	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Interest, dividends, and other income	\$ 910	\$ 1,467	\$ 2,377
Net realized gains	26,270	39,522	65,792
Net change in unrealized gains and losses	89,335	152,918	242,253
Management fees and expenses	(3,260)	(4,506)	(7,766)
	<u>\$ 113,255</u>	<u>\$ 189,401</u>	<u>\$ 302,656</u>

	(in thousands)		
	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Interest, dividends, and other income	\$ 1,073	\$ 1,650	\$ 2,723
Net realized gains	7,639	10,684	18,323
Net change in unrealized gains and losses	630	35,545	36,175
Management fees and expenses	(3,157)	(4,201)	(7,358)
	<u>\$ 6,185</u>	<u>\$ 43,678</u>	<u>\$ 49,863</u>

The University uses various external investment managers to diversify its investments. The largest allocations to any individual investment manager as of May 31, 2021 and 2020 were 9.7% and 10.9%, respectively.

At May 31, 2021, based on partnership agreements, the University was committed to invest an additional \$145,510,000 in alternative investments, which is expected to occur over the next five to ten years. Alternative investments have liquidity restrictions. Amounts can be divested only at specified times based on terms in the partnership agreements. Refer to Note 3 for additional information regarding redemption terms by asset class and type of investment. The financial statements of the limited partnerships are audited annually, generally as of December 31.

The University recorded a reclassification entry during the year ended May 31, 2020 to correct prior year net asset balances, which affected Net change in unrealized gains and losses, and Investment Return, Net of Management Fees on the Consolidated Statement of Activities and Change in Net Assets. The aggregate totals in these categories did not change. The reclassification resulted in changes in the allocation between Net Assets Without Donor Restrictions and Net Assets With Donor Restrictions in these categories.

NOTE 7 - LAND, BUILDINGS, AND EQUIPMENT:

Land, buildings, and equipment at May 31, 2021 and 2020 consisted of the following:

	(in thousands)	
	2021	2020
Land and improvements	\$ 67,177	\$ 66,835
Buildings and improvements	992,887	980,716
Equipment	79,344	77,650
Construction in progress	12,582	17,263
Unamortized asset retirement costs	459	548
Aldwyn Lane Rental Properties – Land and Buildings	18,385	18,385
	<u>1,170,834</u>	<u>1,161,397</u>
Less accumulated depreciation	(453,720)	(419,467)
	<u>\$ 717,114</u>	<u>\$ 741,930</u>

NOTE 8 - ACCRUED EXPENSES:

Accrued expenses at May 31, 2021 and 2020 consisted of the following:

	(in thousands)	
	2021	2020
Faculty and Staff Salaries	\$ 17,788	\$ 17,724
Payroll Taxes	9,579	2,828
Interest on Long-Term Debt	2,727	2,905
Asset Retirement Obligations	2,375	2,368
Workers Compensation Claims	1,515	1,676
Vacation Accrual	1,916	1,745
Other	16,797	9,732
	<u>\$ 52,697</u>	<u>\$ 38,978</u>

NOTE 9 – LEASES:

The University has operating leases for administrative offices, remote classrooms, off-site data storage and optical fiber strands. The University recognizes a right-of-use asset and a lease liability for operating leases based on the net present value of future minimum lease payments. Lease expense is recognized on a straight-line basis over the non-cancelable lease term, including renewal periods that are considered reasonably certain.

The University has elected to use hindsight in determining the lease term and in assessing impairment of the entity's right-of-use assets. Accordingly, the University's decisions regarding lease renewal options that are reasonably certain to be exercised have been incorporated as part of the lease term in right-of-use asset and lease liability calculations. To support these determinations, the University evaluated each active lease at transition that included a renewal option (or options) to assess whether or not the future renewal options were reasonably certain to be exercised. The periods related to any renewal options deemed not reasonably certain to be exercised were excluded from the lease term with respect to the right-of-use asset and lease liability calculations.

Amounts recognized in the Consolidated Financial Statements and other lease metrics for the fiscal year ending May 31, 2021:

	(in thousands)
Lease Expense	
Operating Leases	\$ 1,276
Short-Term Leases	68
Total	<u>\$ 1,344</u>

NOTE 9 – LEASES: (Continued)

	<u>(in thousands)</u>
Other information related to Operating Leases:	
Operating cash flows	\$ 1,173
Right-of-use assets obtained in exchange for lease obligations	\$ 4,780
Weighted-average remaining lease term (in years)	16.16
Weighted average discount rate	0.91%

At May 31, 2021, maturities of lease liabilities were as follows:

	<u>(in thousands)</u>
2022	\$ 1,173
2023	1,139
2024	1,122
2025	920
2026	933
Thereafter	12,068
Total	<u>\$ 17,355</u>
Less: Present value discount	<u>(1,279)</u>
Total lease liabilities	<u><u>\$ 16,076</u></u>

NOTE 10 - LONG-TERM DEBT:

Long-term debt payable at May 31, 2021 consisted of the following:

Bond Issuance	Year of Maturity	Interest Rate	<u>(in thousands)</u>				
			Original Face Amount	Outstanding Principal	Unamortized Premium	Unamortized Issuance Costs	
Delaware County Authority Bonds (a):							
2016	2031	4% - 5%	\$ 45,480	\$ 42,440	\$ 7,436	\$ (344)	
2015	2045	3% - 5%	141,270	138,380	7,965	(837)	
2014	2024	5%	52,205	31,650	3,293	(203)	
2012	2022	5%	21,285	5,555	685	(66)	
Mortgage Note – Aldwyn Lane Rental Properties	2022	7.35%		868	-	-	
				<u>\$ 218,893</u>	<u>\$ 19,379</u>	<u>(1,450)</u>	
Total						<u><u>\$ 236,822</u></u>	

NOTE 10 - LONG-TERM DEBT: (Continued)

Long-term debt payable at May 31, 2020 consisted of the following:

Bond Issuance	Year of Maturity	Interest Rate	(in thousands)				
			Original Face Amount	Outstanding Principal	Unamortized Premium	Unamortized Issuance Costs	
Delaware County Authority Bonds (a):							
2016	2031	4% - 5%	\$ 45,480	\$ 45,480	\$ 8,112	\$ (375)	
2015	2045	3% - 5%	141,270	141,270	8,284	(871)	
2014	2024	4% - 5%	52,205	37,125	4,116	(254)	
2012	2022	5%	21,285	8,130	1,027	(98)	
Mortgage Note – Aldwyn Lane Rental Properties	2022	7.35%		2,098	-	-	
			\$ 234,103		\$ 21,539		(1,598)
Total						\$ 254,044	

All proceeds from the noted bond issuances were spent on capitalized assets. In addition, total Plant Related Debt amounted to \$255,936,000 and \$257,012,000 for the years ended May 31, 2021 and 2020, respectively.

- (a) The University has pledged and granted to the Delaware County Authority a lien on and security interest in the University's unrestricted revenues and certain property and equipment to collateralize the annual principal maturities and interest payments which average approximately \$22,655,000 through 2026, and \$10,694,000 from 2027 to 2046. The University is required to maintain unrestricted net revenues equal to 100% of the annual debt service requirement.

Aggregate maturities of long-term debt including call provisions at 100% for each of the next five fiscal years are as follows:

	(in thousands)
2022	\$ 15,548
2023	15,430
2024	16,520
2025	17,340
2026	7,530
Thereafter	146,525

Interest paid on long-term debt amounted to \$10,606,000 and \$11,304,000 for the years ended May 31, 2021 and 2020, respectively. Interest expense allocated to the functional expense categories in Note 12 amounted to \$8,319,000 and \$8,849,000 for the years ended May 31, 2021 and 2020, respectively.

The Delaware County Authority bond agreements contain certain covenants, including financial covenants that require the University to generate net revenues at least equal to 100% of actual debt service requirements, and to certify that maximum annual debt service does not exceed 12% of unrestricted revenues. The University was in compliance with these requirements at May 31, 2021 and 2020.

NOTE 11 - PENSION AND OTHER POSTRETIREMENT BENEFIT COSTS:

The University sponsors a defined contribution retirement plan under which the University makes annual contributions for the benefit of the participants to the Teachers Insurance Annuity Association of America-College Retirement Equities Fund (TIAA-CREF), and the University has no further liability. The University's contributions to the defined contribution plan amounted to \$15,465,000 and \$15,492,000 for the years ended May 31, 2021 and 2020, respectively.

The University has a non-contributory defined benefit pension plan for certain full-time non-academic employees employed prior to May 31, 1999. Effective May 31, 2016, the defined benefit pension plan was frozen and there will be no future benefit accruals, as the result of the declining number of active employees participating in the plan, who were transitioned into the defined contribution pension plan effective June 1, 2016. The University will continue to fund the liabilities related to the benefits earned under the defined benefit pension plan prior to June 1, 2016.

The University provides postretirement medical benefits to retirees who met certain eligibility requirements and retired prior to May 31, 2018. The University accrued for expected medical postretirement benefits over the years that the employees rendered the necessary service.

The University recognizes the funded status (the difference between the fair value of plan assets and the benefit obligation) of its pension and other postretirement plans in the Consolidated Statement of Financial Position, with a corresponding adjustment to net assets without donor restrictions.

The following is a reconciliation of the beginning and ending balances of the University's projected pension benefit obligation:

	(in thousands)	
	2021	2020
Change in Benefit Obligation		
Benefit obligation at the beginning of the year	\$ 64,298	\$ 60,620
Interest cost on projected benefit obligations	1,180	1,835
Actuarial (gain)/loss	(430)	5,525
Benefits and administrative expenses paid	(3,752)	(3,682)
Benefit obligation at the end of the year	<u>\$ 61,296</u>	<u>\$ 64,298</u>

The following table includes the significant assumptions upon which the calculation of the projected benefit obligation was based:

	2021	2020
Weighted average discount rate	2.70%	2.63%
Expected long-term rate of return on assets	3.75%	4.50%

The following table sets forth the funded status and amount recognized in the University's Consolidated Statements of Financial Position for the defined benefit plan:

	(in thousands)	
	2021	2020
Change in Plan Assets		
Fair value of plan assets at beginning of year	\$ 58,937	\$ 54,758
Actual return on plan assets	7,239	7,111
Employer contributions	61	750
Benefits and administrative expenses paid	(3,752)	(3,682)
Fair value of plan assets at end of year	<u>\$ 62,485</u>	<u>\$ 58,937</u>

Funded Status

Actuarial present value of benefit obligations:

Projected benefit obligation	\$ (61,296)	\$ (64,298)
Plan assets at fair value	<u>62,485</u>	<u>58,937</u>
Funded Status	<u>\$ 1,189</u>	<u>\$ (5,361)</u>

NOTE 11 - PENSION AND OTHER POSTRETIREMENT BENEFIT COSTS: (Continued)

The University develops a target asset allocation for the pension assets, with the assistance of an independent investment consultant. The asset values at May 31, 2021 and May 31, 2020 are shared with the University's actuarial consultant, who utilizes a model to determine a range of reasonable expected rates of return based on the asset allocation and current capital market assumptions. The results are shared with the University and further discussed with the independent investment consultant and pension plan administrator. The expected rate of return is selected and is used in developing the net periodic benefit cost for the following fiscal year.

Components of Net Periodic (Benefit) Cost	(in thousands)	
	2021	2020
Interest cost on projected benefit obligation	\$ 1,180	\$ 1,835
Expected return on plan assets	(2,562)	(2,930)
Amortization of unrecognized net loss	1,016	988
Total net periodic (benefit) cost	<u>\$ (366)</u>	<u>\$ (107)</u>

The following table includes the significant assumptions upon which the calculation of the net periodic expense was recorded:

	2021	2020
Weighted average discount rate	2.63%	3.59%
Expected long-term rate of return on assets	4.50%	5.50%

The expected benefit payments from the Plan in subsequent years are as follows:

Year ending	(in thousands)
May 31, 2022	\$ 4,277
May 31, 2023	4,423
May 31, 2024	4,393
May 31, 2025	4,329
May 31, 2026	4,261
May 31, 2027 through May 31, 2031	19,044

Based on the current funded status of the plan, the University does not anticipate making an employer contribution during the fiscal year ending May 31, 2022

Plan assets are allocated at May 31, 2021 and May 31, 2020 as follows:

	2021	2020
Equity Securities	18%	28%
Debt Securities	80%	68%
Alternative Investments	2%	3%
Cash & cash equivalents	0%	1%
Total	<u>100%</u>	<u>100%</u>

The plan assets are diversified among a mix of assets including large, mid, and small cap, domestic and international equities, fixed income, managed funds, and cash. Asset mix is targeted to a specific allocation that is established by evaluating expected return, standard deviation, and correlation of various assets against the plan's long-term objectives. Asset performance is monitored monthly and rebalanced if asset classes exceed explicit ranges. The investment policy governs permitted types of investments. The Retirement Plans Investment Committee oversees the pension investment program and monitors investment performance, utilizing specific benchmarks and performance percentiles. Risk is closely monitored through the evaluation of portfolio holdings and tracking the portfolio performance.

NOTE 11 - PENSION AND OTHER POSTRETIREMENT BENEFIT COSTS: (Continued)

The following tables present the Plan's financial instruments carried at fair value on a recurring basis as of May 31, 2021 and May 31, 2020, respectively, and indicate the fair value hierarchy of the valuation techniques that were utilized to determine such fair value, as discussed in Note 1.

	(in thousands)				Total
	Level 1	Level 2	Level 3	Investments at NAV	
Pension investment program:					
Equity securities	\$ -	\$ -	\$ -	\$ 11,388	\$ 11,388
Debt securities	-	-	-	49,692	49,692
Alternative investments				1,283	1,283
Cash & cash equivalents	122	-	-	-	122
Total at May 31, 2021	<u>\$ 122</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 62,363</u>	<u>\$ 62,485</u>

	(in thousands)				Total
	Level 1	Level 2	Level 3	Investments at NAV	
Pension investment program:					
Equity securities	\$ -	\$ -	\$ -	\$ 16,564	\$ 16,564
Debt securities	-	-	-	40,260	40,260
Alternative investments				1,761	1,761
Cash & cash equivalents	352	-	-	-	352
Total at May 31, 2020	<u>\$ 352</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58,585</u>	<u>\$ 58,937</u>

The components of medical postretirement benefits as of May 31, 2021 and 2020 are as follows:

	(in thousands)	
	2021	2020
Projected benefit obligation	\$ 8,967	\$ 9,891
Fair value of plan assets	-	-
Unfunded status	<u>\$ (8,967)</u>	<u>\$ (9,891)</u>
Accrued post-retirement benefits	<u>\$ (8,967)</u>	<u>\$ (9,891)</u>
Weighted-average assumptions:		
Discount rate	2.42%	2.36%

There is no healthcare cost trend rate associated with the liabilities, because the University provides a fixed subsidy for postretirement medical benefits. Benefit expense totaled \$155,000 and \$280,000 for the years ended May 31, 2021 and 2020, respectively. Benefits payments totaled \$896,000 and \$1,019,000 for the years ended May 31, 2021 and 2020, respectively.

The University allows faculty members that meet specific criteria for eligibility to elect to participate in an early retirement program. The accrued liability for future payments under this program amounted to \$647,000 and \$882,000 as of May 31, 2021 and 2020, respectively.

NOTE 12 – EXPENSES BY BOTH NATURE AND FUNCTION

The financial statements report certain categories of expenses that are attributable to one or more programs or supporting functions of the University. These expenses include depreciation, interest on indebtedness, and facilities operations and maintenance. Depreciation is allocated based on square footage and interest is allocated based on original purpose of the borrowed funds. Costs of other categories were allocated on estimates of time and effort.

		(in thousands)						
		2021						
	Instruction	Research	Academic Support	Student Services	Institutional Support	Auxiliary Enterprises	Operations and Maintenance	Total Expenses
Salaries and fringe benefits	\$ 134,288	\$ 6,510	\$ 40,725	\$ 41,140	\$ 46,127	\$ 21,219	\$ 17,651	\$ 307,660
Supplies and services	4,079	2,119	2,782	5,452	8,959	4,865	7,821	36,077
Depreciation	8,597	17	1,413	6,588	2,478	14,480	3,788	37,361
Cost of goods sold	-	-	-	736	(16)	6,647	-	7,367
Interest on indebtedness	1,450	61	29	32	34	4,924	1,789	8,319
Travel and special events	195	110	235	4,017	558	22	29	5,166
Utilities	-	-	-	10	62	187	6,041	6,300
Other	3,829	869	13,145	4,956	21,565	6,287	2,650	53,301
	<u>152,438</u>	<u>9,686</u>	<u>58,329</u>	<u>62,931</u>	<u>79,767</u>	<u>58,631</u>	<u>39,769</u>	<u>461,551</u>
Operations and maintenance	<u>10,839</u>	<u>26</u>	<u>3,063</u>	<u>7,492</u>	<u>2,546</u>	<u>15,803</u>	<u>(39,769)</u>	<u>-</u>
	<u>\$ 163,277</u>	<u>\$ 9,712</u>	<u>\$ 61,392</u>	<u>\$ 70,423</u>	<u>\$ 82,313</u>	<u>\$ 74,434</u>	<u>\$ -</u>	<u>\$ 461,551</u>

		(in thousands)						
		2020						
	Instruction	Research	Academic Support	Student Services	Institutional Support	Auxiliary Enterprises	Operations and Maintenance	Total Expenses
Salaries and fringe benefits	\$ 128,347	\$ 5,524	\$ 44,083	\$ 38,625	\$ 42,171	\$ 22,002	\$ 16,791	\$ 297,543
Supplies and services	10,370	2,772	2,901	8,074	10,454	5,718	6,947	47,236
Depreciation	8,075	-	1,670	6,992	2,827	11,386	2,120	33,070
Cost of goods sold	7	(2)	20	683	42	7,974	-	8,724
Interest on indebtedness	1,699	71	46	38	44	5,126	1,825	8,849
Travel and special events	2,279	585	1,717	7,951	1,745	56	22	14,355
Utilities	-	-	-	10	35	219	6,395	6,659
Other	4,399	21	12,039	5,621	13,599	3,666	2,398	41,743
	<u>155,176</u>	<u>8,971</u>	<u>62,476</u>	<u>67,994</u>	<u>70,917</u>	<u>56,147</u>	<u>36,498</u>	<u>458,179</u>
Operations and maintenance	<u>10,413</u>	<u>-</u>	<u>1,484</u>	<u>7,722</u>	<u>2,224</u>	<u>14,655</u>	<u>(36,498)</u>	<u>-</u>
	<u>\$ 165,589</u>	<u>\$ 8,971</u>	<u>\$ 63,960</u>	<u>\$ 75,716</u>	<u>\$ 73,141</u>	<u>\$ 70,802</u>	<u>\$ -</u>	<u>\$ 458,179</u>

Included in the above operating expenses are expenditures related to fund-raising activities for the year ended May 31, 2021 and 2020 of \$13,264,000 and \$14,634,000, respectively.

NOTE 13 - INCOME TAX:

The University is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The University files IRS Form 990-T (Exempt Organization Business Income Tax Return) annually, and is anticipating a net operating gain for the year ended May 31, 2021, with regards to unrelated business income reported on IRS Form 990-T.

NOTE 14 - COMMITMENTS AND CONTINGENCIES:

Under the terms of certain investment partnership agreements, the University and other investors are committed to fund additional investments as capital calls are exercised. Capital calls are generally exercised over a period of years and are subject to fixed expiration dates or other means of termination. The University's remaining commitments to all partnerships totaled \$145,510,000 and \$132,380,000 as of May 31, 2021 and 2020, respectively.

Outstanding commitments related to construction contracts totaled \$13,864,000 as of May 31, 2021.

The University has two unsecured lines of credit in the amounts of \$40,000,000 and \$20,000,000. \$60,000,000 of funds were drawn from these lines during the 2020 fiscal year, to provide additional liquidity during the COVID-19 pandemic. As of May 31, 2021, these lines were fully repaid.

NOTE 15 - UNCONDITIONAL PROMISES AND PLEDGES:

Contributions received, including unconditional promises, are recognized as revenue when the donor's commitment is received. Unconditional promises are recognized at the estimated present value of the future cash flows, net of allowances (fair value). Promises made that are designated for future periods or restricted by the donor for specific purposes are reported as net assets with donor restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the University reports the support as net assets without donor restrictions. Conditional promises are recorded when donor stipulations are substantially met.

Unconditional promises at May 31, 2021 and 2020 and the time periods in which they are expected to be realized are as follows:

	(in thousands)	
	2021	2020
In one year or less	\$ 25,217	\$ 11,629
Between one year and five years	52,482	71,827
In more than five years	2,331	5,566
Less: Discount	(4,225)	(8,622)
Allowance for doubtful accounts	(14,642)	(11,763)
	<u>\$ 61,163</u>	<u>\$ 68,637</u>

Estimated cash flows from pledges receivable due after one year are discounted using a base rate of the Federal Reserve Treasury constant maturities 5-year rate of return, adjusted for a risk factor related to potential write-offs of uncollectible pledges.

NOTE 16 - SUBSIDIARIES:

The Aldwyn Lane LLC (LLC) and the Aldwyn Lane Limited Partnership (Partnership) were formed by the University for the purpose of acquiring property and office space adjacent to the campus. The LLC is 100% owned by the University, and it is the general partner in the Partnership, in which the University is the limited partner. The Partnership purchased property and office space adjacent to the campus in December 2001 and entered into an agreement to lease back the property to the previous owner for a period of twenty years. The Partnership also obtained a mortgage on the property at the time of purchase.

Rental income related to the property is collected by the Partnership, and the mortgage payments are made by the Partnership. The title to the property and the related mortgage are both held by the Partnership. The assets and liabilities of both the Partnership and the LLC are consolidated into the University financial statements, and the net income from the rental of the property is shown as non-operating income on the consolidated statement of activities and change in net assets.

NOTE 17 – SUBSEQUENT EVENTS:

In connection with the preparation of the consolidated financial statements, the University evaluated subsequent events after the balance sheet date of May 31, 2021 through its distribution date of October 13, 2021.

In September 2021, the University notified participants in the defined benefit pension plan of its intention to fully terminate the plan effective October 31, 2021. The plan was fully funded as of May 31, 2021, and benefit accruals were frozen on May 31, 2016. It is anticipated that the termination process and the transfer of plan liabilities will be completed approximately 18 months after the plan termination date.



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