VILLANOVA UNIVERSITY
and Subsidiaries

FINANCIAL STATEMENTS
May 31, 2022

VILLANOVA UNIVERSITY

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Report of Independent Auditors

To the Board of Trustees of Villanova University:

Opinion

We have audited the accompanying consolidated financial statements of Villanova University (the "University"), which comprise the consolidated statements of financial position as of May 31, 2022 and 2021, and the related consolidated statements of activities, changes in net assets and cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the University as of May 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for one year after the date the financial statements are issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material

PricewaterhouseCoopers LLP, Two Commerce Square, Suite 1700, 2001 Market Street, Philadelphia, PA 19103-7042
T: (267) 330 3000, F: (267) 330 3300, www.pwc.com/us

if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
October 11, 2022

VILLANOVA UNIVERSITY AND SUBSIDIARIES

Consolidated Statements of Financial Position at May 31, 2022 and 2021

(in thousands)

	2022	2021
ASSETS		
Cash and cash equivalents	$ 83,020	$ 98,461
Accounts receivable	10,233	6,498
Other assets	8,483	6,396
Assets whose use is limited	11	2,067
Prepaid pension asset	771	1,189
Pledges receivable, net	78,371	61,163
Student loans receivable, net	5,397	6,154
Investments	1,359,040	1,262,769
Right of use assets under operating leases	15,732	15,973
Land, buildings and equipment, net	726,397	717,114
Total assets	$ 2,287,455	$ 2,177,784
LIABILITIES		
Accounts payable	$ 28,724	$ 16,957
Accrued expenses	49,043	52,697
Operating lease liabilities - current	1,184	1,033
Deposits	6,307	4,891
Deferred revenues	24,753	29,815
Accrued postretirement benefits	7,436	8,967
Refundable government loan funds	7,083	7,668
Operating lease liabilites - non-current	14,852	15,043
Long-term debt	219,262	236,822
Total liabilities	358,644	373,893
NET ASSETS		
Without donor restrictions	1,027,838	998,791
With donor restrictions	900,973	805,100
Total net assets	1,928,811	1,803,891
Total liabilities and net assets	$ 2,287,455	$ 2,177,784

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, 2022 and Summary of Year Ended May 31, 2021
(in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total	2021 Total
OPERATING REVENUES				
Student related revenue:				
Student tuition and fees, net	$ 336,480		$ 336,480	$ 332,039
Sales and services of auxiliary enterprises, net	86,675		86,675	70,128
	423,155		423,155	402,167
Gifts	16,048	$ 61,671	77,719	44,353
Government grants	10,342		10,342	9,827
Private grants	3,180		3,180	2,076
Endowment resources	16,722	21,428	38,150	35,527
Investment income	3,400	-	3,400	2,234
Other sources	38,887	994	39,881	20,095
Net assets released from restrictions	27,856	(27,856)	-	-
Total operating revenues	539,590	56,237	595,827	516,279
OPERATING EXPENSES				
Salaries and benefits	326,259		326,259	307,660
Other operating expenses	134,914		134,914	108,211
Depreciation	38,299		38,299	37,361
Interest	7,598		7,598	8,319
Total operating expenses	507,070	-	507,070	461,551
Change in net assets from operating activities	32,520	56,237	88,757	54,728
NON-OPERATING				
Investment return, net of management fees	12,156	27,888	40,044	302,656
Endowment resources	(16,722)	(21,428)	(38,150)	(35,527)
Rental property return, net	(1,759)		(1,759)	1,658
Other components of net periodic pension cost	776		776	630
Endowment and other gifts	8	35,330	35,338	24,739
Capital gifts released from restriction	2,154	(2,154)	-	-
Adjustment for retirement plan obligations	(86)		(86)	6,305
Total nonoperating activities	(3,473)	39,636	36,163	300,461
Total change in net assets	29,047	95,873	124,920	355,189
Net assets				
Beginning of year	998,791	805,100	1,803,891	1,448,702
End of year	$ 1,027,838	$ 900,973	$ 1,928,811	$ 1,803,891

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)

	Without Donor Restrictions	With Donor Restrictions	Total	2020 Total
OPERATING REVENUES				
Student related revenue:				
Student tuition and fees, net	$ 332,039		$ 332,039	$ 323,626
Sales and services of auxiliary enterprises, net	70,128		70,128	66,797
	402,167		402,167	390,423
Gifts	15,694	$ 28,659	44,353	34,496
Government grants	9,827		9,827	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	22,773	(22,773)	-	-
Total operating revenues	491,237	25,042	516,279	501,270
OPERATING EXPENSES				
Salaries and benefits	307,660		307,660	297,543
Other operating expenses	108,211		108,211	118,717
Depreciation	37,361		37,361	33,071
Interest	8,319		8,319	8,849
Total operating expenses	461,551	-	461,551	458,180
Change in net assets from operating activities	29,686	25,042	54,728	43,090
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 net periodic pension 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	4,671	(4,671)	-	-
Adjustment for retirement plan obligations	6,305	-	6,305	(1,632)
Total nonoperating activities	109,508	190,953	300,461	35,850
Total change in net assets	139,194	215,995	355,189	78,940
Net assets				
Beginning of year	859,597	589,105	1,448,702	1,369,762
End of year	$ 998,791	$ 805,100	$ 1,803,891	$ 1,448,702

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, 2022 and 2021
(in thousands)

	2022	2021
CASH FLOW FROM OPERATING ACTIVITIES		
Increase in net assets	$ 124,920	$ 355,189
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	38,299	37,361
Contributions restricted for long-term investment	(23,976)	(28,506)
Realized gains on sales of investments	(124,843)	(65,792)
Change in market value of investments	78,623	(241,008)
Pension and other postretirement benefit plan adjustments	(690)	(6,936)
Receipt of contributed securities	(10,856)	(12,084)
Amortization of operating lease assets	87	1,141
Amortization of debt (premium)/discount	(2,160)	(2,160)
Changes in operating assets and liabilities:		
Receivables, net	(20,943)	12,656
Accounts payable and accrued expenses	4,034	17,767
Other changes	(5,894)	(7,603)
Net cash provided by operating activities	56,601	60,025
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	789,394	436,126
Purchases of investments	(828,589)	(470,229)
Student loans receivable	757	1,108
Purchase of land, buildings and equipment	(43,503)	(14,189)
Decrease/(Increase) in assets whose use is limited	2,056	44
Net cash used by investing activities	(79,885)	(47,140)
CASH FLOW FROM FINANCING ACTIVITIES		
Contributions restricted for long-term investment	23,976	28,506
Repayment of debt principal	(15,548)	(15,210)
Government loan funds	(585)	(914)
(Repayment)/Issuance of lines of credit	-	(60,000)
Net cash provided/(used) by financing activities	7,843	(47,618)
Net (decrease) in cash and cash equivalents	(15,441)	(34,733)
Cash and cash equivalents at beginning of year	98,461	133,194
Cash and cash equivalents at end of year	$ 83,020	$ 98,461
SUPPLEMENTAL DISCLOSURES		
Purchases of property, plant, and equipment in accounts payable	$ 8,661	$ 4,582
Cash paid for interest	9,822	10,606
Tax payments	2,068	2,397

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

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 285 acres and comprises 92 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 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 University adopted this accounting standard for the fiscal year ending May 31, 2022. Upon review of the requirements of this standard, there are no material contributed nonfinancial assets to recognize separately in the statement of activities or that requires further disclosure in the footnotes.

New Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326). This standard represents a significant change in the allowance for credit losses accounting model by requiring immediate recognition of management's estimates of current expected credit losses. Under the current model, losses are recognized only as they are incurred, which the FASB has noted delayed recognition of expected losses that might not yet have met the threshold of being probable. The ASU is effective for fiscal years beginning after December 15, 2022 and early adoption is permitted. The University will adopt this accounting standard for the fiscal year ending May 31, 2024 and does not anticipate any impact to the consolidated financial statements as management believes there are no assets of the University that will be impacted.

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.

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, 2022 and 2021.

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.

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

Fair Value (Continued)

Investments in public equity consist of separate accounts, commingled funds, daily traded mutual funds, and limited partnership investments. Securities held in separate accounts are traded daily and are valued based on quoted market prices and categorized as Level 1. 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, 2022, based on the maturity of the underlying investments:

	(in thousands)
Cash and cash equivalents	$ 83,020
Short-term investments	36,994
Long-term investments	151,221
Total	$ 271,235

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.

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

Cash and Cash Equivalents

Cash and cash equivalents represent demand deposits and other investments with an original maturity date not exceeding 90 days.

Investments

The Investments balance represents investments of operating funds, the endowment investments, and other investments of the University. The investments of operating funds reflect liquid investments with varying maturity dates. These 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.

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 of up 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.

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. The receivables are shown net of allowances for doubtful accounts, which totaled $2,294,000 and $5,174,000 as of May 31, 2022 and 2021, respectively.

Investment Income

Investment income related to 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).

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.

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

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, 2021	Refunds Issued	Revenue recognized in FY2022	Cash received in advance of performance	Balance at May 31, 2022
Tuition and Fees, net	$16,849,148	$ -	$16,849,148	$16,426,134	$16,426,134
Room and Board	529,953	-	529,953	460,341	460,341
Athletic Revenue	11,568,825	-	5,594,645	1,585,949	7,560,129
Summer Events	12,820	550	12,820	305,408	304,858
Miscellaneous Revenue	854,029	-	852,232	-	1,797
	$29,814,775	$ 550	$23,838,798	$18,777,832	$24,753,259

The balance of deferred revenue at May 31, 2022, 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.

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 totaled 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.

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

Revenue recognition and disaggregation of revenue (Continued)

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, 2022:

	(in thousands)
Undergraduate	$ 406,924
Graduate and other special programs	45,757
Law school	30,445
College of Professional Studies	7,336
Financial Aid	(153,982)
Tuition and fees, net of financial aid	$ 336,480

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 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.

Student tuition and fees as well as sales and services of auxiliary enterprises are shown net of student financial aid. As of May 31, 2022 and 2021, student financial aid for tuition and fees totaled $153,982,000 and $148,697,000, respectively. Student financial aid related to auxiliary revenues totaled $5,900,000 and $5,264,000 as of May 31, 2022 and 2021, respectively.

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

Measure of Operations (Continued)

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 $536,117,000 and $600,745,000 as of May 31, 2022 and 2021, respectively.

NOTE 2 – LIQUIDITY AND AVAILABILITY

The following table reflects the University's financial assets as of May 31, 2022 and May 31, 2021, 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)	
	2022	2021
Financial assets		
Cash and cash equivalents	$ 83,020	$ 98,461
Accounts receivable, less allowances	10,233	6,498
Other assets	8,483	6,396
Assets whose use is limited	11	2,067
Prepaid pension asset	771	1,189
Pledges receivable, net	78,371	61,163
Student loans receivable, net	5,397	6,154
Investments	1,359,040	1,262,769
Financial assets at May 31	1,545,326	1,444,697
Less those unavailable for general expenditure within one year:		
Pledges receivable, net	78,371	61,163
Short-term investments	41	944
Accounts receivable beyond one year	1,322	446
Other assets	8,483	6,396
Prepaid pension asset	771	1,189
Student loans receivable	5,397	6,154
Endowment assets restricted by donors	712,166	679,573
Unrestricted endowment	453,360	442,987
Bond proceeds and reserves restricted by use	11	2,067
Investments held for other purposes	5,258	5,561
Financial assets not available for expenditure within one year	1,265,180	1,206,480
Financial assets available to meet cash needs for general purposes within one year	$ 280,146	$ 238,217

As of May 31, 2022, the University has liquid assets on hand equal to 204 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.

NOTE 2 – LIQUIDITY AND AVAILABILITY: (Continued)

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 maintains two unsecured lines of credit totaling $60,000,000, representing 44 days of operating expenses. No funds were drawn from these lines during the year ended May 31, 2022.

NOTE 3 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS:

At May 31, 2022 and 2021, 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, 2022 and May 31, 2021, respectively, and indicate the fair value hierarchy of the valuation techniques that were utilized to determine such fair value. The tables reflect Investments in the Statements of Financial Position.

	As of May 31, 2022 (in thousands)				
	Total	Level 1	Level 2	Level 3	Investments at NAV
Cash equivalents - endowment	$ 59,535	$ 59,535	$ -	$ -	$ -
Public equities	373,238	-	-	-	373,238
Hedge funds	391,685	-	-	-	391,685
Private Investments	339,306	-	-	-	339,306
Split-interest agreements	4,445	4,445	-	-	-
Investments of operating funds	188,215	-	188,215	-	-
Other investments	2,616	2,616	-	-	-
Total	$1,359,040	$ 66,596	$ 188,215	$ -	$1,104,229

	As of May 31, 2021 (in thousands)				
	Total	Level 1	Level 2	Level 3	Investments at NAV
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	$1,262,769	$ 61,391	$ 133,704	$ -	$1,067,674

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.

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

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:

	Liquidity
Cash & cash equivalents-endowment	Daily
Public equities	Varies
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 13.6 years.

NOTE 4 - NET ASSETS:

	(in thousands)	
	2022	2021
Without Donor Restrictions		
Undesignated	$ 67,343	$ 75,512
Invested in property, plant and equipment, net	507,135	480,292
Unrestricted endowment	453,360	442,987
	$ 1,027,838	$ 998,791
With Donor Restrictions		
Purpose restricted:		
Unexpended contributions for instruction and scholarships	$ 73,561	$ 62,682
Unexpended contributions for capital expenditures	77,022	34,586
Time restricted for future periods:		
Annuity and life income funds	3,952	3,940
Endowment – accumulated change in market value of investments and realized gains	303,412	296,681
Restricted for time or purpose	457,947	397,889
Restricted in perpetuity:		
Student loans	1,893	1,893
Endowment principal, primarily for scholarships and instruction	441,133	405,318
	$ 900,973	$ 805,100

NOTE 4 - NET ASSETS: (Continued)

The University's endowment consists of nearly 1,100 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, 2022, 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	$ -	$ 408,754	$ 408,754
Other invested principal	270,831	-	270,831
Accumulated investment gains	182,529	303,412	485,941
Total Funds	$ 453,360	$ 712,166	$ 1,165,526

Changes in endowment net assets for the fiscal year ended May 31, 2022 consisted of the following:

	(in thousands)		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 442,987	$ 679,573	$ 1,122,560
Investment return:			
Investment Income	1,847	2,929	4,776
Management and Admin Fees	(3,327)	(5,298)	(8,625)
Net appreciation (realized and unrealized)	18,375	30,526	48,901
Total investment return, net	16,895	28,157	45,052
Contributions	-	25,864	25,864
Investment in Unrestricted Endowment	10,200	-	10,200
Distribution for Spending	(16,722)	(21,428)	(38,150)
Endowment net assets, end of year	$ 453,360	$ 712,166	$ 1,165,526

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	$ 442,987	$ 679,573	$ 1,122,560

NOTE 4 - NET ASSETS: (Continued)

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	113,412	187,594	301,006
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	$ 442,987	$ 679,573	$ 1,122,560

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, 2022 and 2021. Management has interpreted state law to permit prudent spending from underwater endowments.

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)		
	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Interest, dividends, and other income	$ 1,843	$ 3,297	$ 5,140
Net realized gains	47,677	77,167	124,844
Net change in unrealized gains and losses	(33,698)	(47,248)	(80,946)
Management fees and expenses	(3,666)	(5,328)	(8,994)
	$ 12,156	$ 27,888	$ 40,044

	(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)
	$ 113,255	$ 189,401	$ 302,656

NOTE 6 – INVESTMENTS: (Continued)

The University uses various external investment managers to diversify its investments. The largest allocations to any individual investment manager as of May 31, 2022 and 2021 were 9.9% and 9.7%, respectively.

At May 31, 2022, based on partnership agreements, the University was committed to invest an additional $201,634,000 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.

NOTE 7 - LAND, BUILDINGS, AND EQUIPMENT:

Land, buildings, and equipment at May 31, 2022 and 2021 consisted of the following:

	(in thousands) 2022	2021
Land and improvements	$ 70,186	$ 67,177
Buildings and improvements	1,015,388	992,887
Equipment	82,868	79,344
Construction in progress	42,888	12,582
Unamortized asset retirement costs	370	459
Aldwyn Lane Rental Properties – Land and Buildings	-	18,385
	1,211,700	1,170,834
Less accumulated depreciation	(485,303)	(453,720)
	$ 726,397	$ 717,114

NOTE 8 - ACCRUED EXPENSES:

Accrued expenses at May 31, 2022 and 2021 consisted of the following:

	(in thousands) 2022	2021
Faculty and Staff Salaries	$ 18,629	$ 17,788
Payroll Taxes	5,372	9,579
Interest on Long-Term Debt	2,532	2,727
Asset Retirement Obligations	2,359	2,375
Workers Compensation Claims	1,467	1,515
Vacation Accrual	1,967	1,916
Other	16,717	16,797
	$ 49,043	$ 52,697

NOTE 9 – LEASES:

The University has operating leases for administrative offices, remote classrooms, off-site data storage and optical fiber strands. The University's leases vary in terms of up to 25 years, including renewal periods that are considered reasonably certain. 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 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.

NOTE 9 – LEASES: (Continued)

Amounts recognized in the Consolidated Financial Statements and other lease metrics for the fiscal year ending May 31, 2022 and 2021:

	(in thousands) 2022	2021
Lease Expense		
Operating Leases	$ 1,378	$ 1,276
Short-Term Leases	265	68
Variable Leases	37	
Total	$ 1,680	$ 1,344

	2022	2021
Other information related to Operating Leases:		
Operating cash flows	$ 1,178,000	$ 1,173,000
Right-of-use assets obtained in exchange for lease obligations	$ 988,000	$ 4,780,000
Weighted-average remaining lease term (in years)	14.75	16.16
Weighted average discount rate	0.94%	0.91%

At May 31, 2022, maturities of lease liabilities were as follows:

	(in thousands)
2023	$ 1,329
2024	1,315
2025	1,146
2026	1,159
2027	1,134
Thereafter	11,123
Total	$ 17,206
Less: Present value discount	(1,170)
Total lease liabilities	$ 16,036

NOTE 10 - LONG-TERM DEBT:

Long-term debt payable at May 31, 2022 consisted of the following:

Bond Issuance	Year of Maturity	Interest Rate	Original Face Amount (in thousands)	Outstanding Principal (in thousands)	Unamortized Premium (in thousands)	Unamortized Issuance Costs (in thousands)
Delaware County Authority Bonds (a):						
2016	2031	4% - 5%	$ 45,480	$ 39,255	$ 6,760	$ (313)
2015	2045	3% - 5%	141,270	135,355	7,647	(804)
2014	2024	5%	52,205	25,885	2,470	(152)
2012	2022	5%	21,285	2,850	342	(33)
				$ 203,345	$ 17,219	(1,302)
Total						$ 219,262

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

Bond Issuance	Year of Maturity	Interest Rate	Original Face Amount (in thousands)	Outstanding Principal (in thousands)	Unamortized Premium (in thousands)	Unamortized Issuance Costs (in thousands)
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	-	-
				$ 218,893	$ 19,379	(1,450)
Total						$ 236,822

All proceeds from the noted bond issuances were spent on capitalized assets. In addition, total plant-related debt amounted to $238,304,000 and $255,936,000 for the years ended May 31, 2022 and 2021, 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 $20,629,000 through 2027, and $10,497,000 from 2028 to 2046. The University is required to maintain unrestricted net revenues equal to 100% of the annual debt service requirement.

NOTE 10 - LONG-TERM DEBT: (Continued)

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

	(in thousands)
2023	$ 15,430
2024	16,520
2025	17,340
2026	7,530
2027	7,860
Thereafter	138,665

Interest paid on long-term debt amounted to $9,822,000 and $10,606,000 for the years ended May 31, 2022 and 2021, respectively. Interest expense allocated to the functional expense categories in Note 12 amounted to $7,598,000 and $8,319,000 for the years ended May 31, 2022 and 2021, 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, 2022 and 2021.

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 $17,268,000 and $15,465,000 for the years ended May 31, 2022 and 2021, 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.

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.

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)	
Change in Benefit Obligation	2022	2021
Benefit obligation at the beginning of the year	$ 61,296	$ 64,298
Interest cost on projected benefit obligations	1,109	1,180
Actuarial (gain)/loss	(6,517)	(430)
Benefits and administrative expenses paid	(3,930)	(3,752)
Benefit obligation at the end of the year	$ 51,958	$ 61,296

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

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

	2022	2021
Weighted average discount rate	4.13%	2.70%
Expected long-term rate of return on assets	3.20%	3.75%

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) 2022	2021
Change in Plan Assets		
Fair value of plan assets at beginning of year	$ 62,485	$ 58,937
Actual return on plan assets	(5,826)	7,239
Employer contributions	-	61
Benefits and administrative expenses paid	(3,930)	(3,752)
Fair value of plan assets at end of year	$ 52,729	$ 62,485
Funded Status		
Actuarial present value of benefit obligations:		
Projected benefit obligation	$ (51,958)	$ (61,296)
Plan assets at fair value	52,729	62,485
Funded Status	$ 771	$ 1,189

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, 2022 and May 31, 2021 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) 2022	2021
Interest cost on projected benefit obligation	$ 1,109	$ 1,180
Expected return on plan assets	(2,263)	(2,562)
Amortization of unrecognized net loss	674	1,016
Total net periodic (benefit) cost	$ (480)	$ (366)

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

	2022	2021
Weighted average discount rate	2.69%	2.63%
Expected long-term rate of return on assets	3.75%	4.50%

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

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

Year ending	(in thousands)
May 31, 2023[1]	$ 3,708
May 31, 2024	-
May 31, 2025	-
May 31, 2026	-
May 31, 2027	-
May 31, 2028 through May 31, 2032	-

[1]Based on ten months of expense assuming all liabilities are settled by March 31, 2023.

The University will not be making an employer contribution during the fiscal year ending May 31, 2023.

Plan assets are allocated at May 31, 2022 and May 31, 2021 as follows:

	2022	2021
Equity Securities	0%	18%
Debt Securities	80%	80%
Alternative Investments	0%	2%
Cash & cash equivalents	20%	0%
Total	100%	100%

The plan assets are diversified among a mix of assets including international equities, fixed income, 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, along with the planned plan termination. 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.

The following tables present the Plan's financial instruments carried at fair value on a recurring basis as of May 31, 2022 and May 31, 2021, 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)				
	Level 1	Level 2	Level 3	Investments at NAV	Total
Pension investment program:					
Equity securities	$ -	$ -	$ -	$ 55	$ 55
Debt securities	-	-	-	41,945	41,945
Alternative investments				-	-
Cash & cash equivalents	10,729	-	-	-	10,729
Total at May 31, 2022	$ 10,729	$ -	$ -	$ 42,000	$ 52,729

	(in thousands)				
	Level 1	Level 2	Level 3	Investments at NAV	Total
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	$ 122	$ -	$ -	$ 62,363	$ 62,485

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

The components of medical postretirement benefits as of May 31, 2022 and 2021 are as follows:

	(in thousands)	
	2022	2021
Projected benefit obligation	$ 7,436	$ 8,967
Fair value of plan assets	-	-
Unfunded status	$ (7,436)	$ (8,967)
Accrued post-retirement benefits	$ (7,436)	$ (8,967)
Weighted-average assumptions:		
Discount rate	3.93%	2.42%

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 $137,000 and $155,000 for the years ended May 31, 2022 and 2021, respectively. Benefits payments totaled $856,000 and $896,000 for the years ended May 31, 2022 and 2021, 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 $296,000 and $647,000 as of May 31, 2022 and 2021, 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)

2022

	Salaries and benefits	Other Operating	Depreciation	Interest	Operations and Maintence	Total Expenses
Instruction	$ 139,315	$ 13,031	$ 8,796	$ 1,126	$ 11,551	$ 173,819
Research	7,753	4,099	24	47	28	11,951
Academic Support	43,373	20,528	1,593	10	1,457	66,961
Student Services	44,415	31,019	6,626	24	8,088	90,172
Institutional Support	50,855	26,739	2,963	731	2,305	83,593
Auxiliary Enterprises	22,720	22,340	14,495	4,348	16,671	80,574
Operations and Maintenance	17,828	17,158	3,802	1,312	(40,100)	-
	$ 326,259	$ 134,914	$ 38,299	$ 7,598	$ -	$ 507,070

(in thousands)

2021

	Salaries and benefits	Other Operating	Depreciation	Interest	Operations and Maintence	Total Expenses
Instruction	$ 134,288	$ 8,103	$ 8,597	$ 1,450	$ 10,839	$ 163,277
Research	6,510	3,098	17	61	26	9,712
Academic Support	40,725	16,162	1,413	29	3,063	61,392
Student Services	41,140	15,171	6,588	32	7,492	70,423
Institutional Support	46,127	31,128	2,478	34	2,546	82,313
Auxiliary Enterprises	21,219	18,008	14,480	4,924	15,803	74,434
Operations and Maintenance	17,651	16,541	3,788	1,789	(39,769)	-
	$ 307,660	$ 108,211	$ 37,361	$ 8,319	$ -	$ 461,551

NOTE 12 – EXPENSES BY BOTH NATURE AND FUNCTION: (Continued)

Included in the above operating expenses are expenditures related to fund-raising activities for the year ended May 31, 2022 and 2021 of $16,298,000 and $13,264,000, 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 income for the year ended May 31, 2022, 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 $201,634,000 and $145,510,000 as of May 31, 2022 and 2021, respectively.

Outstanding commitments related to construction contracts totaled $105,878,000 as of May 31, 2022.

The University has two unsecured lines of credit in the amounts of $40,000,000 and $20,000,000. No funds were drawn from these lines during the fiscal year.

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, 2022 and 2021 and the time periods in which they are expected to be realized are as follows:

	(in thousands)	
	2022	2021
In one year or less	$ 50,148	$ 25,217
Between one year and five years	53,955	52,482
In more than five years	1	2,331
Less: Discount	(6,203)	(4,225)
Allowance for doubtful accounts	(19,530)	(14,642)
	$ 78,371	$ 61,163

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 – RELATED PARTIES:

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.

NOTE 16 – RELATED PARTIES: (Continued)

As of January 2022, the lease agreement terminated, and the mortgage on the property was fully satisfied. The University took ownership of the assets from the Partnership and will utilize them in furtherance of its tax-exempt purpose going forward.

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

Going forward, since the property will be held by the University, there will be no transactions to eliminate during consolidation.

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, 2022 through its distribution date of October 11, 2022.

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