

Villanova University and Subsidiaries

**Reports on Federal Awards in
Accordance with OMB Uniform Guidance
For the Year Ended May 31, 2020
EIN Number 23-1352688**

Villanova University and Subsidiaries
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May 31, 2020

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Report of Independent Auditors

To the Board of Trustees of Villanova University:

We have audited the accompanying consolidated financial statements of Villanova University and its subsidiaries (the "University"), which comprise the consolidated statements of financial position as of May 31, 2020 and 2019, and the related consolidated statements of activities, changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on 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 University'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 University'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, 2020 and 2019, 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.



Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards as of and for the year ended May 31, 2020 are presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and the Department of Education, respectively, and are not a required part of the consolidated financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 13, 2020, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended May 31, 2020. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the University's internal control over financial reporting and compliance.

PricewaterhouseCoopers LLP

Philadelphia, PA
October 13, 2020

VILLANOVA UNIVERSITY AND SUBSIDIARIES**Consolidated Statements of Financial Position at May 31, 2020 and 2019**

(in thousands)

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and cash equivalents	\$ 133,194	\$ 68,444
Short-term investments	42,050	52,831
Accounts receivable, less allowances of \$1,431 in 2020 and \$1,574 in 2019	11,680	10,131
Other assets	6,210	6,736
Assets whose use is limited	2,111	2,085
Pledges receivable, net	68,637	93,665
Student loans receivable, net	7,262	9,101
Investments	867,732	821,226
Land, buildings and equipment, net	<u>741,930</u>	<u>711,241</u>
Total assets	<u>\$ 1,880,806</u>	<u>\$ 1,775,460</u>
LIABILITIES		
Accounts payable	\$ 14,553	\$ 42,046
Accrued expenses	38,978	39,618
Deposits	17,754	3,755
Deferred revenues	22,941	27,361
Short-term lines of credit	60,000	-
Accrued postretirement benefits	9,891	9,353
Refundable government loan funds	8,582	9,579
Long-term debt	254,044	268,124
Accrued pension cost	<u>5,361</u>	<u>5,862</u>
Total liabilities	<u>432,104</u>	<u>405,698</u>
NET ASSETS		
Without donor restrictions	859,597	783,993
With donor restrictions	<u>589,105</u>	<u>585,769</u>
Total net assets	<u>1,448,702</u>	<u>1,369,762</u>
Total liabilities and net assets	<u>\$ 1,880,806</u>	<u>\$ 1,775,460</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	390,423		390,423	389,997
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	24,023	(24,023)	-	-
Total operating revenues	487,140	14,130	501,270	495,961
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	458,179	-	458,179	442,466
Change in net assets from operating activities	28,961	14,130	43,091	53,495
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	53,147	(53,147)	-	-
Total non-operating activities	48,276	(10,794)	37,482	14,475
Change in net assets before other adjustments	77,237	3,336	80,573	67,970
Adjustment for retirement plan obligations	(1,633)	-	(1,633)	(2,479)
Change in net assets	75,604	3,336	78,940	65,491
Net assets, beginning of year	783,993	585,769	1,369,762	1,304,271
Net assets, end of year	\$ 859,597	\$ 589,105	\$ 1,448,702	\$ 1,369,762

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, 2019 and Summary of Year Ended May 31, 2018

(in thousands)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>2018 Total</u>
OPERATING REVENUES				
Student related revenue:				
Student tuition and fees, net of \$135,043 in student financial aid	\$ 317,111		\$ 317,111	\$ 304,660
Sales and services of auxiliary enterprises, net of \$4,665 in student financial aid	72,886		72,886	68,887
Total student related revenue	389,997		389,997	373,547
Gifts	14,641	\$ 15,558	30,199	63,767
Government grants	7,303		7,303	6,444
Private grants	1,961		1,961	2,053
Endowment resources	12,829	16,401	29,230	26,766
Investment income	5,026	5	5,031	3,875
Other sources	31,114	1,126	32,240	25,865
Net assets released from restrictions	21,764	(21,764)	-	-
Total operating revenues	484,635	11,326	495,961	502,317
OPERATING EXPENSES				
Salaries and fringe benefits	285,608		285,608	271,239
Supplies and services	49,485		49,485	49,013
Depreciation	26,847		26,847	23,004
Cost of goods sold	10,922		10,922	9,966
Interest on indebtedness	4,221		4,221	6,205
Travel and special events	16,927		16,927	16,221
Utilities	8,265		8,265	7,099
Other	40,191		40,191	40,878
Total operating expenses	442,466	-	442,466	423,625
Change in net assets from operating activities	42,169	11,326	53,495	78,692
NON-OPERATING				
Investment return, net of management fees	8,930	13,754	22,684	65,106
Endowment resources	(12,829)	(16,401)	(29,230)	(26,766)
Rental property return, net	1,429		1,429	1,332
Other components of postretirement benefit cost	608		608	2,811
Grant for capital expenditures	114		114	3,563
Endowment and other gifts		18,870	18,870	25,462
Capital gifts released from restriction	55,646	(55,646)	-	-
Total non-operating activities	53,898	(39,423)	14,475	71,508
Change in net assets before other adjustments	96,067	(28,097)	67,970	150,200
Adjustment for retirement plan obligations	(2,479)	-	(2,479)	4,313
Change in net assets	93,588	(28,097)	65,491	154,513
Net assets, beginning of year	690,405	613,866	1,304,271	1,149,758
Net assets, end of year	\$ 783,993	\$ 585,769	\$ 1,369,762	\$ 1,304,271

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, 2020 and 2019

(in thousands)

	<u>2020</u>	<u>2019</u>
CASH FLOW FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 78,940	\$ 65,491
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	33,070	26,847
Contributions restricted for long-term investment	(29,032)	(13,844)
Realized gains on sales of investments	(18,323)	(60,810)
Change in market value of investments	(36,175)	31,722
Pension and other postretirement benefit plan adjustments	1,275	1,871
Receipt of contributed securities	(18,017)	(2,541)
Amortization of debt (premium)/discount	(2,313)	(2,313)
Changes in operating assets and liabilities:		
Receivables, net	23,479	23,191
Accounts payable and accrued expenses	(6,065)	1,746
Other changes	<u>9,048</u>	<u>(3,282)</u>
Net cash provided by operating activities	<u>35,887</u>	<u>68,078</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from sales of long-term investments	361,682	456,321
Purchases of long-term investments	(335,673)	(482,155)
Proceeds from sales of short-term investments	51,850	41,237
Purchases of short-term investments	(41,069)	(51,076)
Student loans receivable	1,839	1,227
Purchase of land, buildings and equipment	(85,827)	(152,117)
(Increase)/Decrease in assets whose use is limited	<u>(26)</u>	<u>29,906</u>
Net cash used by investing activities	<u>(47,224)</u>	<u>(156,657)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Contributions restricted for long-term investment	29,032	13,843
Repayment of debt principal	(11,948)	(11,358)
Government loan funds	(997)	574
Issuance of lines of credit	<u>60,000</u>	<u>-</u>
Net cash provided by financing activities	<u>76,087</u>	<u>3,059</u>
Net increase/(decrease) in cash and cash equivalents	64,750	(85,520)
Cash and cash equivalents at beginning of year	<u>68,444</u>	<u>153,964</u>
Cash and cash equivalents at end of year	<u>\$ 133,194</u>	<u>\$ 68,444</u>
SUPPLEMENTAL DISCLOSURES		
Purchases of property, plant, and equipment in accounts payable	\$ 6,226	\$ 28,294
Cash paid for interest	11,304	11,874
Tax payments	2,765	1,148

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, 2020 AND MAY 31, 2019

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 10,800 students, of whom approximately 6,500 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 November 2016, the FASB issued ASU 2016-18 in order to address the diversity that exists in the classification and presentation of changes in restricted cash on the statement of cash flows under Topic 230, Statement of Cash Flows. The amendments in this ASU require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this ASU apply to all entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows under Topic 230. The ASU is effective for fiscal years beginning after December 15, 2018. The University adopted the new standard effective for the fiscal year ending May 31, 2020. The adoption did not have an effect on the University's financial statements, specifically the statement of cash flows, as the University does not have restricted cash or restricted cash equivalents. Therefore, the presentation of the University's statement of cash flows does not need to be amended.

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities: Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made. This standard provides specific guidance on accounting for contributions in order to evaluate whether transactions should be accounted for as contributions (nonreciprocal) or as exchange (reciprocal) transactions and whether a contribution is conditional. The ASU is effective for fiscal years beginning after June 15, 2018 for contributions received and for fiscal years beginning after December 15, 2018 for contributions made (fiscal year 2020 for the University in both instances) and early adoption is permitted. The University has adopted the new standard effective for the fiscal year ending May 31, 2020 by applying the modified prospective transition method in its consolidated financial statements and the relevant footnotes (Note 14). The adoption did not have a material impact on the consolidated financial statements.

New Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), guidance that will change the requirements for accounting for leases, which is now required to be adopted by the University for fiscal year ended May 31, 2022. Under the new guidance, 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 guidance, and leases classified as operating leases) will recognize a right-to-use asset and a lease liability on the balance sheet, initially measured as the present value of lease payments under the lease. Under previous guidance, operating leases are not recognized on the balance sheet. The new guidance must be adopted using a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, subject to certain practical expedients that an entity may elect to apply to the transition. The University has not early adopted and is currently evaluating the potential impact of this guidance on the consolidated financial statements and is considering the appropriate implementation strategy.

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.*

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

Fair Value (Continued)

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, 2020 and 2019.

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 separate accounts, commingled funds, daily traded mutual funds, and limited partnership investments. Securities in the 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 bonds were exited in March of 2020. Previously, the lone commingled bond fund was valued at NAV and was 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, but some of these investments are traded infrequently. They are categorized as Level 2 in the fair value hierarchy.

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

Fair Value (Continued)

Operating funds are classified as follows as of May 31, 2020, based on the maturity of the underlying investments:

	<u>(in thousands)</u>
Cash and cash equivalents	\$ 133,194
Short-term investments	41,069
Long-term investments	66,004
Total	<u>\$ 240,267</u>

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 made a policy election 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.

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

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.

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, 2019	Refunds Issued	Revenue recognized in FY2020	Cash received in advance of performance	Balance at May 31, 2020
Tuition and Fees, net	\$ 17,954,449	\$ -	\$ 17,954,449	\$ 16,179,992	\$ 16,179,992
Room and Board	725,058	-	725,058	-	-
Athletic Revenue	7,542,705	-	1,725,866	590,360	6,407,199
Summer Events	908,797	-	908,797	55,991	55,991
Miscellaneous Revenue	230,033	-	230,033	297,524	297,524
	<u>\$ 27,361,042</u>	<u>\$ -</u>	<u>\$ 21,544,203</u>	<u>\$ 17,123,867</u>	<u>\$ 22,940,706</u>

The balance of deferred revenue at May 31, 2020, 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.

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

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 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, 2020:

	(in thousands)
Undergraduate	\$ 379,017
Graduate and other special programs	47,375
Law school	27,338
College of Professional Studies	8,137
Financial Aid	(138,241)
Tuition and fees, net of financial aid	<u>\$ 323,626</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. Dormitory/residency 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.

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

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.

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 \$533,782,000 and \$536,054,000 as of May 31, 2020 and 2019, 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, 2020 and May 31, 2019, 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)	
	2020	2019
Financial assets		
Cash and cash equivalents	\$ 133,194	\$ 68,444
Short-term investments	42,050	52,831
Accounts receivable, less allowances	11,680	10,131
Other assets	6,210	6,736
Assets whose use is limited	2,111	2,085
Pledges receivable, net	68,637	93,665
Student loans receivable, net	7,262	9,101
Investments	<u>867,732</u>	<u>821,226</u>
Financial assets at May 31	<u>1,138,876</u>	<u>1,064,219</u>
Less those unavailable for general expenditure within one year:		
Pledges receivable, net	68,637	93,665
Short-term investments	981	1,755
Accounts receivable beyond one year	3,266	2,557
Other assets	6,210	6,736
Student loans receivable	7,262	9,101
Endowment assets restricted by donors	479,362	426,192
Unrestricted endowment	317,653	316,869
Bond proceeds and reserves restricted by use	2,111	2,085
Investments held for other purposes	4,713	5,150
Financial assets not available for expenditure within one year	<u>890,195</u>	<u>864,110</u>
Financial assets available to meet cash needs for general purposes within one year	<u>\$ 248,681</u>	<u>\$ 200,109</u>

As of May 31, 2020, the University has liquid assets on hand equal to 206 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 a donor's restriction requires 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 50 days of operating expenses. The full \$60,000,000 of funds were drawn from these lines as of May 31, 2020 to provide additional liquidity during the COVID-19 pandemic.

NOTE 3 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS:

At May 31, 2020 and 2019, 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, 2020 and May 31, 2019, respectively, and indicates 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, 2020 (in thousands)					
	Total	Level 1	Level 2	Level 3	Investments at NAV
Cash equivalents investments- 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>

As of May 31, 2019 (in thousands)					
	Total	Level 1	Level 2	Level 3	Investments at NAV
Cash equivalents investments- endowment	\$ 64,489	\$ 64,489	\$ -	\$ -	\$ -
Public equities	298,082	58,526	-	-	239,556
Bonds	37,696	-	-	-	37,696
Hedge funds	213,488	-	-	-	213,488
Opportunistic strategies	-	-	-	-	-
Private Investments	128,687	-	-	-	128,687
Split-interest agreements	3,862	3,862	-	-	-
Investments of operating funds	124,091	-	124,091	-	-
Other investments	3,662	3,662	-	-	-
Total	<u>\$ 874,057</u>	<u>\$ 130,539</u>	<u>\$ 124,091</u>	<u>\$ -</u>	<u>\$ 619,427</u>

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:

	<u>Redemption Frequency</u>
Cash & cash equivalents-endowment	Daily
Public equities	Daily to Quarterly
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 13.8 years.

NOTE 4 - NET ASSETS:

	(in thousands)	
	2020	2019
<i>Without Donor Restrictions</i>		
Undesignated	\$ 54,058	\$ 24,007
Invested in property, plant and equipment, net	487,886	443,117
Unrestricted endowment	<u>317,653</u>	<u>316,869</u>
	<u>\$ 859,597</u>	<u>\$ 783,993</u>
<i>With Donor Restrictions</i>		
Purpose restricted:		
Unexpended contributions for instruction and scholarships	\$ 52,766	\$ 41,761
Unexpended contributions for capital expenditures	24,296	74,163
Time restricted for future periods:		
Annuity and life income funds	2,981	3,099
Endowment – accumulated change in market value of investments and realized gains	<u>127,259</u>	<u>101,113</u>
Restricted for time or purpose	<u>207,302</u>	<u>220,136</u>
Restricted in perpetuity:		
Student loans	1,893	1,883
Endowment principal, primarily for scholarships and instruction	<u>379,910</u>	<u>363,750</u>
	<u>\$ 589,105</u>	<u>\$ 585,769</u>

NOTE 4 - NET ASSETS: (Continued)

The University's endowment consists of over 900 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, 2020, the endowment net asset composition by type of fund consisted of the following:

	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>

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

	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	<u>6,821</u>	<u>43,560</u>	<u>50,381</u>
Contributions	-	27,048	27,048
Planned Savings	8,333	-	8,333
Distribution for Spending	(14,733)	(17,438)	(32,171)
Other additions to Unrestricted Endowment	363	-	363
Endowment net assets, end of year	<u>\$ 317,653</u>	<u>\$ 479,362</u>	<u>\$ 797,015</u>

At May 31, 2019, the endowment net asset composition by type of fund consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Amounts required to be maintained in perpetuity	\$ -	\$ 325,079	\$ 325,079
Other invested principal	222,631	-	222,631
Accumulated investment gains	94,238	101,113	195,351
Total Funds	<u>\$ 316,869</u>	<u>\$ 426,192</u>	<u>\$ 743,061</u>

NOTE 4 - NET ASSETS: (Continued)

Changes in endowment net assets for the fiscal year ended May 31, 2019 consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 303,371	\$ 407,221	\$ 710,592
Investment return:			
Investment Income	26	2,787	2,813
Management and Admin Fees	(3,860)	(5,352)	(9,212)
Net appreciation (realized and unrealized)	11,510	16,659	28,169
Total investment return, net	7,676	14,094	21,770
Contributions	-	21,278	21,278
Planned Savings	15,500	-	15,500
Distribution for Spending	(12,829)	(16,401)	(29,230)
Other additions to Unrestricted Endowment	3,151	-	3,151
Endowment net assets, end of year	<u>\$ 316,869</u>	<u>\$ 426,192</u>	<u>\$ 743,061</u>

From time to time, certain donor restricted endowment funds may have fair value less than the amount required to be maintained by donors or law. There were no such deficiencies reported at May 31, 2020 and 2019. 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 the 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)		
	2020		
	<u>Without Donor</u>	<u>With Donor</u>	<u>Total</u>
	<u>Restrictions</u>	<u>Restrictions</u>	
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>
	2019		
	<u>Without Donor</u>	<u>With Donor</u>	<u>Total</u>
	<u>Restrictions</u>	<u>Restrictions</u>	
Interest, dividends, and other income	\$ 1,180	\$ 1,801	\$ 2,981
Net realized gains	24,853	35,957	60,810
Net change in unrealized gains and losses	(13,102)	(18,620)	(31,722)
Management fees and expenses	(4,001)	(5,384)	(9,385)
	<u>\$ 8,930</u>	<u>\$ 13,754</u>	<u>\$ 22,684</u>

The University uses various external investment managers to diversify its investments. The largest allocations to any investment manager as of May 31, 2020 and 2019 were 10.9% and 10.4%, respectively.

At May 31, 2020, based on partnership agreements, the University was committed to invest an additional \$132,380,000 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, 2020 and 2019 consisted of the following:

	(in thousands)	
	2020	2019
Land and improvements	\$ 36,758	\$ 27,170
Buildings and improvements	992,041	750,218
Equipment	96,402	84,018
Construction in progress	17,263	202,271
Capitalized interest	-	16,274
Unamortized asset retirement costs	548	676
Aldwyn Lane Rental Properties – Land and Buildings	18,385	18,385
	1,161,397	1,099,012
Less accumulated depreciation	(419,467)	(387,771)
	<u>\$ 741,930</u>	<u>\$ 711,241</u>

NOTE 8 - ACCRUED EXPENSES:

Accrued expenses at May 31, 2020 and 2019 consisted of the following:

	(in thousands)	
	2020	2019
Faculty and Staff Salaries	\$ 17,724	\$ 17,291
Payroll Tax Withholdings	2,828	3,886
Interest on Long-Term Debt	2,905	3,037
Asset Retirement Obligations	2,368	2,391
Workers Compensation Claims	1,676	1,696
Vacation Accrual	1,745	1,654
Other	9,732	9,663
	<u>\$ 38,978</u>	<u>\$ 39,618</u>

NOTE 9 – LEASES:

The University leases equipment, vehicles, and office space under operating leases expiring through May 2026. Operating rental expense for the years ended May 31, 2020 and 2019, totaling \$856,000 and \$865,000, respectively, is included in the accompanying Consolidated Statements of Activities and Change in Net Assets.

At May 31, 2020, future minimum lease payments under operating leases with remaining terms greater than one year were as follows (in thousands):

2021	\$ 823
2022	807
2023	722
2024	672
2025	674
Thereafter	684
Total minimum lease payments	<u>\$ 4,382</u>

NOTE 9 – LEASES: (Continued)

The University also leases equipment under capital lease agreements expiring through May 2024. Land, buildings and equipment, net includes \$276,000 and \$488,000 of equipment associated with capital leases as of May 31, 2020 and May 31, 2019, respectively.

At May 31, 2020, future minimum lease payments under capital leases with remaining terms greater than one year were as follows (in thousands):

2021	\$	134
2022		82
2023		47
2024		12
Total minimum lease payments	\$	<u>275</u>

NOTE 10 - LONG-TERM DEBT:

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

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

NOTE 10 - LONG-TERM DEBT: (Continued)

Long-term debt payable at May 31, 2019 consisted of the following:

Bond Issuance	Year of Maturity	Interest Rate	(in thousands)			
			Original Face Amount	Principal	Unamortized Premium	Unamortized Issuance Costs
Delaware County Authority Bonds (a):						
2016 Issue	2031	4% - 5%	\$ 45,480	\$ 45,480	\$ 8,789	\$ (407)
2015 Issue	2045	3% - 5%	141,270	141,270	8,602	(904)
2014 Issue	2024	4% - 5%	52,205	42,340	4,940	(305)
2012 Issue	2022	5%	21,285	10,580	1,369	(131)
2010 Issue	2019	5%	79,805	3,145	153	(33)
Mortgage Note – Aldwyn Lane Rental Properties	2022	7.35%		3,236	-	-
				<u>\$ 246,051</u>	<u>\$ 23,853</u>	<u>(1,780)</u>
Total			<u>\$ 268,124</u>			

All proceeds from the noted Bond Issuances were spent on capitalized assets. In addition, total Plant Related Debt amounted to \$257,012,000 and \$271,003,000 for the years ended May 31, 2020 and 2019, 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 \$24,680,000 through 2025, and \$10,870,000 from 2026 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):

2021	\$ 15,205
2022	15,548
2023	15,430
2024	16,520
2025	17,340
Thereafter	154,055

Interest paid on long-term debt amounted to \$11,304,000 and \$11,874,000 for the years ended May 31, 2020 and 2019, respectively. Interest expense allocated to the functional expense categories in Note 12 amounted to \$8,816,000 and \$4,221,000 for the years ended May 31, 2020 and 2019, 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, 2020 and 2019.

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 \$15,492,000 and \$14,526,000 for the years ended May 31, 2020 and 2019, 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):

Change in Benefit Obligation	2020	2019
Benefit obligation at the beginning of the year	\$ 60,620	\$ 59,690
Interest cost on projected benefit obligations	1,835	2,102
Actuarial (gain)/loss	5,525	2,532
Benefits and administrative expenses paid	(3,682)	(3,704)
Benefit obligation at the end of the year	<u>\$ 64,298</u>	<u>\$ 60,620</u>

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

	2020	2019
Weighted average discount rate	2.63%	3.59%
Expected long-term rate of return on assets	4.50%	5.50%

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):

Change in Plan Assets	2020	2019
Fair value of plan assets at beginning of year	\$ 54,758	\$ 54,745
Actual return on plan assets	7,111	2,966
Employer contributions	750	750
Benefits and administrative expenses paid	(3,682)	(3,703)
Fair value of plan assets at end of year	<u>\$ 58,937</u>	<u>\$ 54,758</u>

Funded Status

Actuarial present value of benefit obligations:

Projected benefit obligation	\$ (64,298)	\$ (60,620)
Plan assets at fair value*	58,937	54,758
Funded Status	<u>\$ (5,361)</u>	<u>\$ (5,862)</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, 2020 and May 31, 2019 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)	
	2020	2019
Interest cost on projected benefit obligation	\$ 1,835	\$ 2,102
Expected return on plan assets	(2,930)	(2,930)
Amortization of unrecognized net loss	988	868
Total net periodic benefit cost	<u>\$ (107)</u>	<u>\$ 40</u>

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

	2020	2019
Weighted average discount rate	3.59%	4.00%
Expected long-term rate of return on assets	5.50%	5.50%

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

Year ending	(in thousands)
May 31, 2021	\$ 4,240
May 31, 2022	4,350
May 31, 2023	4,399
May 31, 2024	4,359
May 31, 2025	4,274
May 31, 2026 through May 31, 2030	19,420

The University plans to make an employer contribution during the fiscal year ending May 31, 2021, based on the minimum required contribution that results from the June 1, 2020 valuation.

Plan assets are allocated at May 31, 2020 and May 31, 2019 as follows:

	2020	2019
Equity Securities	28%	34%
Debt Securities	68%	61%
Cash & cash equivalents	4%	5%
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, 2020 and May 31, 2019, 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
Pension investment program:				Total
Equity securities	\$ -	\$ -	\$ -	\$ 16,564
Debt securities	-	-	-	40,260
Cash & cash equivalents	352	-	-	1,761
Total at May 31, 2020	<u>\$ 352</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58,585</u>

(in thousands)				
	Level 1	Level 2	Level 3	Investments at NAV
Pension investment program:				Total
Equity securities	\$ -	\$ -	\$ -	\$ 18,670
Debt securities	-	-	-	33,555
Cash & cash equivalents	340	-	-	2,193
Total at May 31, 2019	<u>\$ 340</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54,418</u>

The components of medical postretirement benefits as of May 31, 2020 and 2019 are as follows:

(in thousands)		
	2020	2019
Projected benefit obligation	\$ 9,891	\$ 9,353
Fair value of plan assets	-	-
Unfunded status	<u>\$ (9,891)</u>	<u>\$ (9,353)</u>
Accrued post-retirement benefits	<u>\$ (9,891)</u>	<u>\$ (9,353)</u>
Weighted-average assumptions:		
Discount rate	2.36%	3.40%

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 \$280,000 and \$321,000 for the years ended May 31, 2020 and 2019, respectively. Benefits paid totaled \$1,019,000 and \$969,000 for the years ended May 31, 2020 and 2019, 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 \$882,000 and \$992,000 as of May 31, 2020 and 2019, 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/cost of the borrowed funds. Costs of other categories were allocated on estimates of time and effort.

(in thousands)

2020

	Instruction	Research	Academic Support	Student Services	Institutional Support	Auxiliary Enterprises	Operations and Maintenance	Total Expense
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	<u>4,396</u>	<u>21</u>	<u>12,039</u>	<u>5,621</u>	<u>13,596</u>	<u>3,666</u>	<u>2,398</u>	<u>41,745</u>
	155,176	8,971	62,476	67,994	70,917	56,147	36,498	458,179
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>

(in thousands)

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	Instruction	Research	Academic Support	Student Services	Institutional Support	Auxiliary Enterprises	Operations and Maintenance	Total Expenses
Salaries and fringe benefits	\$ 128,191	\$ 4,348	\$ 38,562	\$ 37,397	\$ 40,200	\$ 21,215	\$ 15,695	\$ 285,608
Supplies and services	12,822	1,968	2,707	10,734	8,999	6,499	5,756	49,485
Depreciation	8,207	-	1,474	5,572	1,661	6,278	3,655	26,847
Cost of goods sold	37	13	27	973	44	9,828	-	10,922
Interest on indebtedness	2,008	66	63	46	54	1,608	376	4,221
Travel and special events	2,269	672	2,080	9,852	1,936	86	32	16,927
Utilities	6	-	1	16	36	248	7,958	8,265
Other	<u>5,751</u>	<u>1</u>	<u>13,360</u>	<u>5,738</u>	<u>10,382</u>	<u>3,500</u>	<u>1,459</u>	<u>40,191</u>
	159,291	7,068	58,274	70,328	63,312	49,262	34,931	442,466
Operations and maintenance	<u>10,163</u>	<u>-</u>	<u>1,449</u>	<u>7,537</u>	<u>2,071</u>	<u>13,711</u>	<u>(34,931)</u>	<u>-</u>
	<u>\$ 169,454</u>	<u>\$ 7,068</u>	<u>\$ 59,723</u>	<u>\$ 77,865</u>	<u>\$ 65,383</u>	<u>\$ 62,973</u>	<u>\$ -</u>	<u>\$ 442,466</u>

Included in the above operating expenses are expenditures related to fund-raising activities for the year ended May 31, 2020 and 2019 of \$14,634,000 and \$15,003,000, 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 loss for the year ended May 31, 2020, 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 \$132,380,000 and \$116,600,000 as of May 31, 2020 and 2019, respectively.

Outstanding commitments related to construction contracts totaled \$12,455,000 as of May 31, 2020.

The University has a \$20,000,000 unsecured line of credit and a \$40,000,000 unsecured line of credit. The full \$60,000,000 of funds were drawn from these lines as of May 31, 2020 to provide additional liquidity during the COVID-19 pandemic. The \$20 million line of credit is payable December 29, 2020 and carries interest due on drawn capital of 1-month LIBOR plus 80 basis points. The \$40 million line of credit is payable April 23, 2022 and carries interest due on drawn capital of 1-month LIBOR plus 70 basis points with a LIBOR floor of 1%.

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, 2020 and 2019 and the time periods in which they are expected to be realized are as follows:

	(in thousands)	
	2020	2019
In one year or less	\$ 11,629	\$ 23,764
Between one year and five years	71,827	89,485
In more than five years	5,566	1,559
Less: Discount	(8,622)	(9,129)
Allowance for doubtful accounts	(11,763)	(12,014)
	<u>\$ 68,637</u>	<u>\$ 93,665</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, 2020 through its distribution date of October 12, 2020.

Villanova University and Subsidiaries
Schedule of Expenditures of Federal Awards
Year Ended May 31, 2020

Federal Program	CFDA	Direct	Pass-Through	Pass-Through Entity	Pass-Through Entity Sponsor Number	Total Expenditures	Passed to Sub-Recipients
Research and Development Cluster							
DEPARTMENT OF COMMERCE							
National Oceanic and Atmospheric Administration							
Weather and Air Quality Research	11.459	\$ 64,227	\$ -			\$ 64,227	\$ 29,887
National Institute of Standards and Technology							
Arrangementsfor Interdisciplinary Research Infrastructure	11.619	-	68,402	University of Delaware	PC2.1-046	68,402	-
Total Department of Commerce		64,227	68,402			132,629	29,887
DEPARTMENT OF DEFENSE							
Office of Naval Research							
Basic and Applied Scientific Research	12.300	352,123	-			352,123	-
Department of the Air Force							
Air Force Defense Research Sciences Program	12.800	10,190	-			10,190	-
Air Force Research Laboratory	12.RD	-	641	Advanced Ceramics Manufacturing, LLC	FA865118P0055	641	-
Air Force Research Laboratory	12.RD	-	14,478	Advanced Ceramics Manufacturing, LLC	FA865119C0062	14,478	-
National Security Agency							
Mathematical Sciences Grants Program	12.901	1,414	-			1,414	-
Defense Advanced Research Projects Agency	12.RD	-	73,075	Vencore, Inc.	PO-0016880	73,075	-
United States Army							
USACE Humphreys Engineering Center	12.RD	106,715	-			106,715	31,040
Total Department of Defense		470,442	88,194			558,635	31,040
DEPARTMENT OF THE INTERIOR							
U.S. Fish and Wildlife Service							
NFWF-USFWS Conservation Partnership	15.663	46,540	-			46,540	2,271
U.S. Geological Survey							
National Land Remote Sensing Education Outreach and Research	15.815	1,231	-			1,231	-
National Land Remote Sensing Education Outreach and Research	15.815	-	1,209	California University of Pennsylvania	1819ES010-S4	1,209	-
Total Department of the Interior		47,771	1,209			48,980	2,271
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION							
National Aeronautics and Space Administration							
Science	43.001	531,183				531,183	9,253
Science	43.001	-	11,567	Smithsonian Astrophysical Observatory	DD7-18089X	11,567	-
Science	43.001	-	30,146	Smithsonian Astrophysical Observatory	G08-19032X	30,146	-
Science	43.001	-	3,392	Smithsonian Astrophysical Observatory	AR8-19005X	3,392	-
Science	43.001	-	46,810	Smithsonian Astrophysical Observatory	GO8-19014X	46,810	-
Science	43.001	-	21,756	Smithsonian Astrophysical Observatory	GO8-19067X	21,756	-
Science	43.001	-	16,375	Smithsonian Astrophysical Observatory	GO8-19009X	16,375	-
Science	43.001	-	30,533	Smithsonian Astrophysical Observatory	GO6-17037A	30,533	-
Science	43.001	-	28,592	Universities Space Research Association	SOF 05-0018 CHUSS	28,592	-
Science	43.001	-	5,404	Universities Space Research Association	SOF 07-0237	5,404	-
Science	43.001	-	4,120	University of Delaware	NNX15AI9H	4,120	-
Science	43.001	-	(4,972)	Space Telescope Science Institute	HST-GO-14641.001-A	(4,972)	-
Sion/STSCI/ShortOrbitalPeriod	43.RD	-	54,533	Space Telescope Science Institute	HST-GO-15184.001-A	54,533	-
Sion/STSCI/ShortOrbitalPeriod	43.RD	-	21,024	Space Telescope Science Institute	HST-GO-15305.001-A	21,024	-
Engle/STSCI/The Secret Lives of Cep	43.RD	-	12,925	Space Telescope Science Institute	HST-GO-15703.002	12,925	-
Sion/STSCI/Determining the Cooling	43.RD	-					
Total National Aeronautics and Space Administration		531,183	282,206			813,389	9,253
NATIONAL SCIENCE FOUNDATION							
National Science Foundation							
Engineering Grants	47.041	392,902				392,902	42,193
Mathematical and Physical Sciences	47.049	-	2,491	University of Arizona	P.O. 256782	2,491	-
Mathematical and Physical Sciences	47.049	696,609				696,609	46,368
Geosciences	47.050	-	93,318	Marine Biological Laboratory	OCE-1637630	93,318	-
Geosciences	47.050	33,399	-			33,399	-
Computer and Information Science and Engineering	47.070	29,289	-			29,289	-
Biological Sciences	47.074	732,692	-			732,692	36,935
Social, Behavioral, and Economic Sciences	47.075	174,786	-			174,786	6,442
Education and Human Resources	47.076	737,341	-			737,341	57,646
Office of International and Integrative Activities	47.079	60,836	-			60,836	-
Total National Science Foundation		2,857,854	95,809			2,953,663	189,585
DEPARTMENT OF HEALTH AND HUMAN SERVICES							
National Institutes of Health		126,859	-			126,859	-
Drug Abuse and Addiction Research Programs	93.279	-	62,412	The Children's Hospital of Philadelphia	PO # 200086508-RSUB	62,412	-
Cardiovascular Diseases Research	93.837	95,688	-			95,688	33,532
Blood Diseases and Resources Research	93.839	-	25,250	Denver Health and Hospital Authority	A-19-0041-0001-S002	25,250	-
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	-	38,864	Albert Einstein College of Medicine of Yeshiva	R01NS109023	38,864	-
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	-					

Villanova University and Subsidiaries
Schedule of Expenditures of FederalAwards
Year Ended May 31, 2020

Federal Program	CFDA	Direct	Pass-Through	Pass-Through Entity	Pass-Through Entity Sponsor Number	Total Expenditures	Passed to Sub-Recipients
Biomedical Research and Research Training	93.859	-	54,529	Redbud Labs, Inc.	LETTER SIGNED 07/16/2019	54,529	-
Total Department of Health and Human Services		222,547	181,055			403,601	33,532
Total Research and Development Cluster		4,194,023	716,874			4,910,898	295,569
Student Financial Assistance Cluster							
DEPARTMENT OF EDUCATION							
Federal Supplemental Educational Opportunity Grants	84.007	677,485	-			677,485	-
Federal Work-Study Program	84.033	1,094,778	-			1,094,778	-
Federal Pell Grant Program	84.063	3,278,708	-			3,278,708	-
Federal Direct Student Loan Program	84.268	60,537,173	-			60,537,173	-
Federal Perkins Loans							-
Outstanding Loans as of July 1, 2019	84.038	2,628,063	-			2,628,063	-
Administrative cost allowance	84.038	729	-			729	-
Total Department of Education		68,216,936	-			68,216,936	-
DEPARTMENT OF HEALTH AND HUMAN SERVICES							
Health and Services Administration							
Nursing Student Loans							
Outstanding Loans as of July 1, 2019	93.364	603,553	-			603,553	-
New loans issued during 2020	93.364	127,000	-			127,000	-
Administrative cost allowance	93.364	550	-			550	-
Nurse Faculty Loan Program			-				-
Outstanding Loans as of July 1, 2019	93.264	3,105,769	-			3,105,769	-
New loans issued during 2020	93.264	315,064	-			315,064	-
Total Department of Health and Human Services		4,151,936	-			4,151,936	-
Total Student Financial Assistance Cluster		72,368,872	-			72,368,872	-
Other Programs							
DEPARTMENT OF THE TREASURY							
Internal Revenue Service							
Department of Treasury	21.008	134,592	-			134,592	-
Total Department of the Treasury		134,592	-			134,592	-
DEPARTMENT OF EDUCATION							
COVID-19 - Higher Education Emergency Relief Fund - Student Aid Portion	84.425E	1,617,905				1,617,905	
COVID-19 - Higher Education Emergency Relief Fund - Institutional Portion	84.425F	2,149,709	-			2,149,709	-
Total Department of Education		3,767,614	-			3,767,614	-
DEPARTMENT OF HEALTH AND HUMAN SERVICES							
Health Resources and Services Administration							
Nurse Anesthetist Traineeships	93.124	30,451	-			30,451	-
ARRA - Faculty Loan Repayment Programs							
Outstanding Loans as of July 1, 2019	93.409	50,486	-			50,486	-
Total Department of Health and Human Services		80,937	-			80,937	-
Total Other Programs Cluster		3,983,143	-			3,983,143	-
Total Federal Award Expenditures		\$ 80,546,038	\$ 716,874			\$ 81,262,913	\$ 295,569

Villanova University and Subsidiaries

Notes to Schedule of Expenditures of Federal Awards

May 31, 2020

1. Basis of Presentation and Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") summarizes the expenditures of Villanova University and Subsidiaries (the "University") under programs of the federal government for the year ended May 31, 2020. The information presented in the Schedule is presented on the accrual basis of accounting, which is in accordance with the Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only the federal award activity of the University, it is not intended to and does not present the financial position, changes in net assets and cash flows of the University. The University applies its predetermined approved facilities and administrative rate when charging indirect costs to federal awards rather than the 10% de minimis cost rate as described in Section 200.414 of the Uniform Guidance.

For purposes of the Schedule, federal awards include all grants, contracts and similar agreements entered into directly between the University and agencies and departments of the federal government and all sub-awards to the University by non-federal organizations pursuant to federal grants, contracts and similar agreements.

Negative numbers in the Schedule represent adjustments to amounts reported in prior years in the normal course of business. CFDA numbers and pass-through numbers are provided when available.

2. Student Loan Programs

The Federal Perkins Loan Program (CFDA #84.038) is administered directly by the University and balances and transactions relating to this program are included in the University's consolidated financial statements. The amount of Federal Perkins loans outstanding at May 31, 2020 totaled \$2,371,087. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. Also included is the amount recovered, for the year ended May 31, 2020, for administrative cost allowance from the Perkins Loan Program of \$729.

The Nursing Student Loan Program (CFDA #93.364) is administered directly by the University and balances and transactions relating to this program are included in the University's consolidated financial statements. The amount of Nursing Student loans outstanding at May 31, 2020 totaled \$602,209. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. Also included is the amount recovered, for the year ended May 31, 2020, for administrative cost allowance from the Nursing Student Loan of \$550.



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

To the Board of Trustees of Villanova University:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Villanova University and Subsidiaries (the “University”), which comprise the consolidated statements of financial position as of May 31, 2020, and the related consolidated statements of activities, changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 13, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University’s internal control over financial reporting (“internal control”) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University’s internal control. Accordingly, we do not express an opinion on the effectiveness of the University’s internal control.

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

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



Compliance and Other Matters

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

Purpose of this Report

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

PricewaterhouseCoopers LLP

Philadelphia, PA
October 13, 2020



**Report of Independent Auditors on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major Program and on Internal
Control Over Compliance in Accordance with the Uniform Guidance**

To the Board of Trustees of Villanova University:

Report on Compliance for Each Major Federal Program

We have audited Villanova University and Subsidiaries (the “University”)’s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the University’s major federal programs for the year ended May 31, 2020. The University’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

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

Auditors’ Responsibility

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

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



Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended May 31, 2020.

Other Matters

As indicated in Part I to the accompanying Schedule of Findings and Questioned Costs, we have audited the Student Financial Assistance cluster as a major program. Also, as indicated in the first paragraph of this report, we performed our audit of compliance using the compliance requirements contained in the OMB Compliance Supplement, including those contained in Part V 5.3, Compliance Requirement N, Special Tests and Provisions, Section 10 “Gramm-Leach-Bliley Act-Student Information Security.” This section includes three suggested audit procedures with respect to verification that the institution (1) designated an individual to coordinate the information security program, (2) performed a risk assessment that addresses the three required areas in 16 CFR 314.4(b), and (3) documented a safeguard for each risk identified. Our procedures in relation to these three items were limited to inquiry of and obtaining written representation from management and obtaining and reading management’s documentation related to these three items. Our procedures did not include an analysis of the adequacy or completeness of the risk assessment performed or the safeguards for each risk identified by management.

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2020-001 and 2020-002. Our opinion on each major federal program is not modified with respect to these matters.

The University’s response to the noncompliance findings identified in our audit is described in the accompanying Management’s View and Corrective Action Plan. The University’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University’s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on



the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

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

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

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

PricewaterhouseCoopers LLP

Philadelphia, PA
June 29, 2021

Villanova University and Subsidiaries
Schedule of Findings and Questioned Costs
Year Ended May 31, 2020

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

• Material weakness(es) identified?	_____ yes	<u> X </u> no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	_____ yes	<u> X </u> none reported
• Non-compliance material to financial statements noted?	_____ yes	<u> X </u> no

Federal Awards

Internal control over major programs:

• Material weakness(es) identified?	_____ yes	<u> X </u> no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	_____ yes	<u> X </u> none reported

Type of auditor’s report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	<u> X </u> yes	_____ no
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Identification of major programs CFDA Number(s):	Name of Federal Program or Cluster	
Various	Student Financial Aid Cluster	
84.425E	Higher Education Emergency Relief Fund – Student Aid Portion	
84.425F	Higher Education Emergency Relief Fund – Institutional Portion	
Dollar threshold used to distinguish between type A and type B programs:	\$750,000	
Auditee qualified as low-risk auditee?	<u> X </u> yes	_____ no

Section II – Financial Statement Findings

No matters were noted.

Villanova University and Subsidiaries

Schedule of Findings and Questioned Costs

Year Ended May 31, 2020

Section III – Federal Award Findings and Questioned Costs

Finding 2020-001 Reporting

Grantor: Department of Education
Program: Student Financial Assistance Cluster
CFDA: 84.268, 84.063
Title: Federal Direct Student Loan Program, Federal Pell Grant Program
Award Year: 6/1/2019 – 5/31/2020

Criteria

34 CFR section 685.102, 685.301, 685.303 and 690.83 – “Institutions submit Pell origination records and disbursement records to the COD. Origination records can be sent well in advance of any disbursements, as early as the institution chooses to submit them for any student the institution reasonably believes will be eligible for a payment. An institution follows up with a disbursement record for that student no earlier than (1) seven calendar days prior to the disbursement date under the Advance or Heightened Cash Monitoring 1 payment methods, or (2) the date of the disbursement under the Reimbursement or Heightened Cash Monitoring 2 payment methods (see Federal Register Volume 84, Number 212, November 1, 2019). The disbursement record reports the actual disbursement date and the amount of the disbursement. ... Institutions must report student disbursement data within 15 calendar days after the institution makes a disbursement or becomes aware of the need to make an adjustment to previously reported student disbursement data or expected student disbursement data.

2019-2020 COD Technical Reference, Volume II – “Schools must report disbursements within 15 days according to the regulations.”

Condition

Of 25 students selected for testing the reported date, amount of disbursement and timeliness of reporting to COD for Pell awards, 5 of the 25 students selected for testing were reported subsequent to the 15-day reporting regulation noted above.

Cause

The University did not implement reconciliation and review policies and procedures to ensure compliance with the criteria mentioned above.

Effect

The student’s COD records were not reported timely.

Questioned Costs

None.

Recommendation

We recommend management implement reconciliation and review policies and procedures to ensure compliance with the criteria mentioned above.

Management's View and Corrective Action Plan

Following these findings are management’s view and corrective action plan.

Villanova University and Subsidiaries

Schedule of Findings and Questioned Costs

Year Ended May 31, 2020

Finding 2020-002 Enrollment Reporting

Grantor: Department of Education
Program: Student Financial Assistance Cluster
CFDA: 84.268
Title: Federal Direct Student Loan Program
Award Year: 6/1/2019 – 5/31/2020

Criteria

NSLDS Enrollment Reporting Guide 1.5 – At a minimum, schools are required to certify enrollment for all those who are included on your roster file (and) Title IV aid recipients at least every two months and within 15 days of the date that NSLDS sends a roster file to the school or its third-party service provider.

34 CFR 685.309(b) - Unless it expects to submit its next updated enrollment report to the Secretary within the next 60 days, a school must notify the Secretary within 30 days after the date the school discovers that a loan under Title IV of the Act was made to or on behalf of a student who was enrolled or accepted for enrollment at the school, and the student has ceased to be enrolled on at least a half-time basis or failed to enroll on at least a half-time basis for the period for which the loan was intended.

Condition

Unless expected to submit its next updated enrollment report to the Secretary within the next 60 days, the University is required to notify National Student Loan Data System (NSLDS) within 30 days of discovering that a student left the University. Of the 25 students selected for testing, two were reported to NSLDS more than 60 days after the student had left the University, ranging between 66 and 80 days with an average of 73 days.

Cause

The University did not implement reconciliation and review policies and procedures to ensure compliance with the criteria mentioned above.

Effect

For the two students, the change in status was not reported timely, as defined in the criteria above.

Questioned Costs

There are no questioned costs associated with this finding.

Recommendation

We recommend that the University implement a formalized review process with the Clearinghouse and National Student Loan Data System (NSLDS) to ensure timely reporting of student status changes.

Management's Views and Corrective Action Plan

Following these findings are management's views and corrective action plan.

Villanova University and Subsidiaries

Summary Schedule of Prior Audit Finding

Year Ended May 31, 2020

Section IV – Summary Schedule of Prior Audit Finding

Finding 2019-001: Verification

Grantor: Department of Education
Program: Student Financial Assistance Cluster
CFDA #: 84.268, 84.063
Title: Federal Direct Student Loan Program, Federal Pell Grant Program
Award Year: 6/2018 - 5/2019

Condition

Of 25 selections tested for verification procedures, two instances were noted in which the number of family household members enrolled in postsecondary institutions per the ISIR did not agree to the amount included on the subsequently obtained verification form. In these instances, management did not update the information prior to awarding and disbursing Federal Aid to the students.

Status

The University has implemented their corrective action plan during 2020. The verification committee is made up of the Senior Associate and the Associate Directors of Financial Assistance. The committee meets monthly and is responsible for the second look of verification files in an effort to improve monitoring controls and help ensure that the correct data is used when determining federal aid eligibility.

Villanova University and Subsidiaries

Summary Schedule of Prior Audit Finding

Year Ended May 31, 2020

Section IV – Summary Schedule of Prior Audit Finding

Finding 2019-002: Student Loan Repayments

Grantor: Department of Education
Program: Student Financial Assistance
CFDA #: Cluster 84.038, 93.264
Title: Federal Perkins Loan Program, Nurse Faculty Loan Program
Award Year: 6/2018 - 5/2019

Condition

Of 77 selections tested for repayment procedures:

- Thirteen instances were noted in which the initial grace period exceeded 9 months, ranging from 15 months to 152 months, with an average of 33 months.
- Four instances were noted in which supporting documentation did not include documentation of student eligibility for loan deferment.
- Five instances were noted in which required interviews, contacts, billing procedures and collection procedures were not carried out by the entity in a timely manner. The first overdue notice was sent 48 days following the missed payment.

Status

The 2019-002 finding was a result of the difficulty the University had producing supporting documentation for selected accounts due to the change in loan servicer. In May 2018, the University changed its loan servicer as a result of the previous loan servicer no longer providing the services needed by the University. The new loan servicer did not meet the needs or expectations of Management or the University, and as a result, the University changed its loan servicer again in March 2019. The University has now been with this federal loan servicer for the full scope of this audit year with no problems. In the University's dealings with this servicer, it appears that all compliance procedures are being followed, and we do not expect to have these same issues going forward. The corrective action plan has been implemented.



VILLANOVA UNIVERSITY

Villanova University Management's Views and Corrective Action Plan

Management's Response

Finding 2020-001: Reporting

The University agrees with this finding. As a result, the University has taken the following action during the 2021 fiscal year:

The Office of Financial Assistance has implemented a monthly Pell reconciliation process, along with reviewed and updated policies and procedures. Previously, only one person was assigned with the responsibility of Pell and became ill during the time of the above findings. The Office of Financial Assistance has since set up two back-ups in the event of illness, change of employment, etc.

Weekly files will be sent to COD to report new disbursements. The following day, the response file from COD will be reviewed and checked for possible rejects. In the event of a reject, the student information will be updated and resent to COD to be accepted. This process will allow the University to meet the 15-day reporting requirement.

In addition, monthly reconciliation will be completed by the Pell team and reported to the Controller's Office for necessary G5 draws.

Amanda Constable
Director of Financial Assistance

Sarah Caffrey
Controller



VILLANOVA UNIVERSITY

Villanova University Management's Views and Corrective Action Plan

Management's Response

Finding 2020-002: Enrollment Reporting

The University agrees with this finding. As a result, the University has taken the following action during the 2021 fiscal year:

The Office of the Registrar has created queries to audit all status changes as a result of a leave of absence or withdrawal so that these changes are captured appropriately in the University's database to ensure accurate reporting to the National Student Clearinghouse. This monthly reconciliation procedure will alert staff to these students so that the department can check that the inactivation/withdrawal process has been handled correctly and the withdrawal status is reported within the mandatory timeframe.

Pamela Braxton

Pamela Braxton
Registrar

Sarah Caffrey

Sarah Caffrey
Controller