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Institution: Trinity Washington University

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Finance / Resource Recommendations at last Site Visit: No recommendations were noted in the 2006 visiting team report for Standard 3: Institutional Resources that required follow-up reporting.

Financial Assessment

Trinity Washington University continues its positive financial performance. Based on a review of financial ratios provided by the University, improvement has occurred in certain key ratios due to improved operating performance over the five year period ended June 30, 2010. The University received unqualified audit opinions for the audits provided that covered fiscal years 2007 through 2010. Reviewing the audited Statements of Activities, gross tuition and fees revenue increased from $21 million in 2007 to $28.9 million in 2010, or by 37.6%, with scholarships and grants increasing from $4 million in 2007 to $6.2 million in 2010, or by 55%. As a percentage of gross tuition and fees revenue, scholarships and grants increased from 19% in 2007 to 21.2% in 2010. The total tuition discount was 28.8% in 2010 and 29.6% in 2009, which compares favorably in fiscal 2010 to S&P "BBB" rated institutions at 30.5%, and Moody's "Baa" rated institutions at 36.1%, respectively. Operating revenue increased from $23.5 million in 2007 to $29 million in 2010 for an increase of 23.4%, while operating expenses increased from $23.3 million in 2007 to $26.3 million in 2010 for an increase of 12.9%. Therefore, the University managed its financial operating plan to control costs and grow operating revenues at a greater rate than operating expenses during these difficult economic times, which is significant and management should be commended for this achievement. Net operating revenue increased from $182,267 in 2007 to $2.8 million in 2010. As a percentage of gross tuition and fees revenue, net operating revenue increased from .9% in 2007 to 9.6% in 2010. Reviewing the audited Statements of Financial Position, it was noted that the University has a strong cash position, relative to its budget, of $9.2 million as of June 30, 2010 compared to $6.2 million as of June 30, 2007. Receivables appear to be well managed by the University decreasing from $2.5 million in 2007 to $1.7 million in 2010, while growing tuition and fees revenue by 37.6% during the same period during these difficult economic times. Investments and Funds Held in Trust by Others totaled $25.9 million at June 30, 2010, decreasing from $29.2 million at June 30, 2007, due in large part to depressed financial markets. Accounts Payable and Accrued Wages and Benefits appear to be well managed, growing slightly from $1.3 million in 2007 to $1.6 million in 2010, considering the large amount of growth the University realized during the same period. Debt decreased by approx. $1.5 million from 2007 to 2010, amounting to $17,468,439 at June 30, 2010. The University is meeting all debt covenants. No other significant or unexpected fluctuations were noted on the Statements of Financial Position from 2007 to 2010.

Overall, total assets were $58.6 million at June 30, 2010 compared to $60.7 million at June 30, 2007 resulting in less than a 1% decrease, and total liabilities were $24.4 million at June 30, 2010 compared to $23.9 million at June 30, 2007 resulting in a 2% increase. Unrestricted net assets increased by 5.7% from $12.2 million in 2006 to $12.9 million in 2010, while total net assets remained essentially flat from $34.2 million in 2006 to $34.1 million in 2010.

Ratio Analysis

The composite financial index, considering the primary reserve ratio, viability ratio, return on net assets ratio and net operating revenue ratio, increased significantly from 1.86 in 2006 to 4.23 in 2010, compared to a benchmark of 3 to 4. As of June 30, 2010: the University's primary reserve ratio, which measures financial strength by comparing expendable net assets to total expenses is at .50 compared to a benchmark of .40; the University's viability ratio, which measures the ability of the institution to meet its total debt obligation with liquid assets is at .80 compared to a benchmark of 1.25; the University's return on net assets ratio, which is a directional indicator for financial performance, increasing or decreasing, is at 12.94% compared to a benchmark of 3.0 to 4.0%; and the University's net operating revenues ratio, which indicates the institution's operating strength and whether the operations resulted in a surplus or deficit for the year, is very strong at 8.04% compared to a benchmark of 2.0 to 4.0%. The viability ratio is challenged by the University's relatively low expendable, or liquid, net asset position (unrestricted net assets plus temporarily restricted net assets less net investment in plant) compared to the amount of its outstanding long-term debt. This is an indicator that the capacity to borrow additional debt is somewhat limited, even though the University's debt service to operations ratio is actually lower at 4.37% than Moody's Baa benchmarking of 5.3%. Based on a rough calculation of the University's liquidity at June 30, 2010 of approximately $14 million, borrowing an additional $20 to $25 million to construct the proposed Trinity Academic Center will result in liquidity coverage ratios of approximately .37 to .33, respectively, which is low against Moody's benchmark for Baa rated institutions of .60 as of June 30, 2010. In addition, in reviewing various scenarios for securing additional debt prepared by management, it is estimated that the debt service to operations ratio could increase to approximately 9% to 15%, depending on scenario, which is very high compared to Moody's Baa benchmarking of 5.3%. It is understood that the Trinity Academic Center is an important project considering the capacity of existing academic facilities and the significant growth achieved and anticipated by the University; however, this project currently appears to be a stretch for the University considering prospective ratios determined with financial data as of June 30, 2010. The University has performed significant work analyzing various financial scenarios that will be considered before moving forward with the Trinity Academic Center project. The President and Board of Trustees have noted that the project will not move forward until the capital campaign reaches its goal of $30 million, with at least $15million of cash-in-hand, and the balance of pledges outstanding no more than five years.

Financial Flexibility

The University appears to have flexibility to weather changing conditions or continued depressed economic conditions. Strong financial management that includes disciplined budgeting, financial ratio analysis, a commitment to financial equilibrium, honest assessment of challenges and opportunities for 2011 – 2015, as well as sophisticated forecast modeling are key factors to successfully guide the University through changing and challenging conditions. Continued assessment of enrollment projections and market opportunities will be critical to ensure adequate operating margins, since the University is highly tuition dependent in a market that appears to be very price sensitive.

Enrollment Assumptions

Enrollment assumptions for the University are aggressive, anticipating growth of approximately 30% to achieve its strategic plan goal in 2015 of 3,000 students. The University achieved 42% enrollment growth from 1,618 to 2,305 from Fall 2005 through Fall 2010. The University's new School of Professional Studies opened in Fall 2010 and holds great promise for enrollment growth. Net student tuition and fees revenue is projected to increase by approximately 43% over the five year period ending June 30, 2015, with surpluses projected to be achieved during the same period. The assumptions for enrollment and finance projections, while aggressive, appear achievable based on growth realized, apparent continued market demand, and new programs introduced to meet such market demand. Managing the required space to achieve this significant enrollment growth will be a challenge for the University, which supports the University's need to construct the Trinity Academic Center pending funding considerations.

Independent Auditors' Reports and Management Letters

Nothing unusual noted in the notes to the audited financial statements. Commitments are not significant and appear to be of a normal operating nature.

The independent auditors have provided certain comments and suggestions for the management of the University to consider. None of the comments and suggestions appear significant or unusual from an operating perspective. The independent auditors note "we did not identify any deficiencies in internal control that we consider to be material weaknesses."

Conclusion: Based on reading Trinity Washington University's periodic review report, independent auditors' reports, financial ratio analysis and other supplemental information, the University appears to be in very good overall financial condition. The University has a solid financial planning and assessment process which is extremely important in guiding the institution through changing and challenging economic conditions.