

Chapter 6: Financial Resources

Criterion 2

*The institution has effectively organized the **financial** resources necessary to accomplish its purposes.*

Management of Fiscal Components

Introduction

Careful fiscal planning and organization continue to be very positive factors at Cedarville College. The President provides direct leadership and support of the budget process. Further, the President provides leadership in establishing the institution's long-term financial goals. His support of the budget preparation and monitoring process and his candid manner of sharing financial information with the faculty and staff continues to inspire commitment to the process.

Budget Development Process

The budget development process begins in September with Administrative Council approval of guidelines for tuition, room and board rates, and estimated hours to be sold for the next fiscal year. The Budget Office then estimates total current fund revenues for the new year.

During November, the Budget Office sends each department head a computer-generated budget request worksheet showing, by line item, the actual expenditures for the two previous years and the current year budgeted amount. The worksheet also provides a column for the next fiscal year.

After each department head has conferred with other members of the department, the budget worksheets are prepared and returned to the respective vice president, along with justification for any requested increase. After the vice president has met with the department heads, either individually or collectively, the final budget worksheets are sent to the Budget Office.

The Budget Office prepares a summary of each department's budget requests for Administrative Council review. Increases are categorized as to whether they are "required" or "not required." The total of the required items is deducted from the total available funds to arrive at the net available funds. Total available funds consist of the increase in estimated revenues plus the capital equipment budget for the current fiscal year.

During December, the Administrative Council reviews the budget requests in light of net available funds to arrive at a balanced budget. The Council may also challenge an item categorized as "required," and/or increase available funds by reducing a currently budgeted item. When reviewing requests, the Council

considers the various elements of the strategic plan developed through the strategic planning process.

In January, the balanced budget is submitted to the Board of Trustees for preliminary approval. The budget remains open for change until it is submitted to the Trustees for final approval in April. Approved budget changes are then communicated to the department heads so they can begin planning for the next fiscal year.

Budgets for the last five academic years are available in the Consultant-Evaluator Resource Room.

Budget Control Process

The Budget Director is responsible for monitoring the status of the overall budget and for reporting any major departures from budget allocations. Each department head is primarily responsible for the control of expenditures within the department and to insure that expenditures do not exceed budget allocations.

Over the last several years greater emphasis has been placed on the responsibility of each vice president to assure his division does not exceed budget. Greater flexibility has been developed to permit the transfer of funds from one account to another and from one department to another, either temporarily or permanently.

During the year, any requisition that will cause actual expenditures to exceed available budget for a particular line item by \$500 requires that funds be transferred from another line with available funds before the requisition is approved for payment or a purchase order prepared.

Once a requisition is approved, it is sent to the Business Office and a purchase order is prepared. The amount of the purchase order is charged to the department and funds encumbered. Once an invoice is matched with the purchase order and receiving information, it is sent to Accounts Payable for payment. After reviewing all appropriate documentation, the Budget Director approves the invoice for payment and signs the check.

Budget Reallocations

There is a considerable time span from the date budget requests are submitted to the date funds are to be expended. During this time many changes in conditions can take place. In some cases the department head might prefer to use funds for something other than that for which approval was originally obtained.

Accordingly, the Administration encourages an entrepreneurial management style, whereby a department head may present a request to reallocate approved funds.

Assessing Financial Condition

Budget Monitoring

The primary basis for assessing the financial condition of the institution is the status of the annual budget. Various reports are provided at different managerial levels to assure that the institution operates within budgetary guidelines. The President takes several opportunities throughout the year to remind department heads of the necessity to produce a current fund surplus of revenues over expenditures.

Each month the Budget Office prepares reports for the Administrative Council showing the actual versus budgeted amounts for all revenue categories and expenditures by department and summarized by vice president.

The reports also show projected variances for all revenue categories, whether positive or negative, and any projected negative expenditure variances. The respective vice president then works with the Budget Director to eliminate any negative expenditure variances. In some cases, the Administrative Council may decide to allocate a portion of a projected surplus for the year to offset a particular negative expenditure variance.

In order for the department head to monitor the department's budget, two computer-generated reports are provided on a monthly basis. The first report is the Department Summary which shows, by individual line item, actual amounts expended, budgeted amounts, percent spent, and the amount unexpended. The second report lists each individual posting to each line item.

The Budget Office presents a report through the Vice President for Business to the Board of Trustees at each quarterly meeting similar to the monthly reports prepared for the Administrative Council. In addition to these reports, a detailed analysis of any budget variances is presented. The Vice President for Business also prepares, on a monthly basis, a report for the Administrative Council indicating significant budget variances and a projection of the year-end results of operations. Certain expenditures may or may not be delayed as a result of this projection.

Annual Audit

Since its early years as a Baptist institution, the College has chosen to have its financial statements audited by independent certified public accountants. Ernst & Young, a nationally recognized CPA firm, has been providing auditing services to the College since 1985.

The audit is performed in accordance with the standards of the AICPA (American Institute of Certified Public Accountants), Audit of Colleges and Universities. The chart of accounts, accounting procedures, and financial statements follow NACUBO standards. A considerable amount of effort has been made to prepare for the adoption of SFAS 117 issued by the Financial Accounting Standards Board (FASB) which requires a new format for the financial statements of not-for-profit organizations. The College officially adopted the new reporting standards June 30, 1996. The College has continued to improve the reliability of

its financial reporting process over the years. This improvement is evidenced by the lack of significant audit entries required by the auditors. Audit results for the last five years are available in the Consultant-Evaluator Resource Room.

Auditor’s Management Letter

In addition to preparing the report of audited financial statements each year, Ernst & Young also prepares a management letter. The purpose of this letter is to point out weaknesses in the overall financial reporting system, along with recommendations for improvement. Testimony to the quality of the College financial reporting system is the number of extremely minor points presented in Ernst & Young’s management letters since 1985. Copies of the most recent audit management letters are available in the Consultant-Evaluator Resource Room.

Uses of Financial Assessment

The above mentioned reports are used by various levels of management primarily to control expenditures and properly allocate future resources. The departmental reports may indicate to the department head that spending should be delayed in order for the department to complete the year within budget. The analysis of budget variances may indicate that resources will have to be directed toward a particular area. After reviewing either quarterly or annual financial statements, the Trustees may approve or disapprove a particular project.

The above examples demonstrate how the various reports that are being generated can be used. Results of trustee, administrative and departmental decisions indicate that the various levels of management are in fact using the information contained in these reports to operate the College in a prudent manner.

Financial Condition Summaries

Although the usual mechanisms used to assess financial condition work reasonably well, it is believed that greater detail is needed to more adequately evaluate the financial condition of the College.

Prior to the previous accreditation review the College completed the Financial Self-Assessment Workbook published by NACUBO. This process included gathering information on 57 institutional data categories for the six-year period from 1979-80 to 1984-85. The gathered data were then used to calculate various statistics, with a specific interpretation being prepared for each statistic. Finally, a 33 page report was prepared and included an overall assessment of the financial condition of the College.

In the handbook, Strategic Decision Making published by the Association of Governing Boards of Universities and Colleges, the authors state that the handbook was produced with three premises in mind:

First, that the primary activity of trustees is making, or approving, major policy decisions for their institutions. Second, that a useful way for board

members to obtain the information they need is to ask carefully considered questions. And third, that such information is most useful when it is viewed in a comparative context—in relation to the institution’s peers or to its goals and/or performance in previous years.

Therefore, in order to aid the Board of Trustees in their evaluation of various strategic areas of the College, the Vice President for Business prepares an annual financial summary that presents key indicators which describe the condition of some aspect of the institution which can be used to compare the College to its competitors or to monitor changes in its condition over time. In addition to presenting information relating to the most recently completed fiscal year, this report uses historical data relating to the last ten years.

The current financial summary is a blend of the new approach recommended by the AGB and certain of the key indicators included in the self-assessment workbook. The key indicators selected are those relating directly to financial matters of the College and not included in any other reports generated by other departments within the institution.

Although this summary is prepared primarily for the Board of Trustees, the College’s lead banking institution has found it extremely useful in developing “the story” of Cedarville College for presentation to various loan committees both in Dayton and Cleveland.

The format of the summary is such that it attempts to answer a series of questions deemed to be of strategic importance to the Board of Trustees. Therefore, certain items are included when they are of particular interest to the Board, even though they may not be carried forward in future financial summaries. In addition, trustees are encouraged to develop questions which would provide key relevant data that would enhance the entire Board’s understanding of a strategic area. The format of the financial summary is used to assess the financial condition of the College. Copies of the most recent financial summaries are available in the Consultant-Evaluator Resource Room.

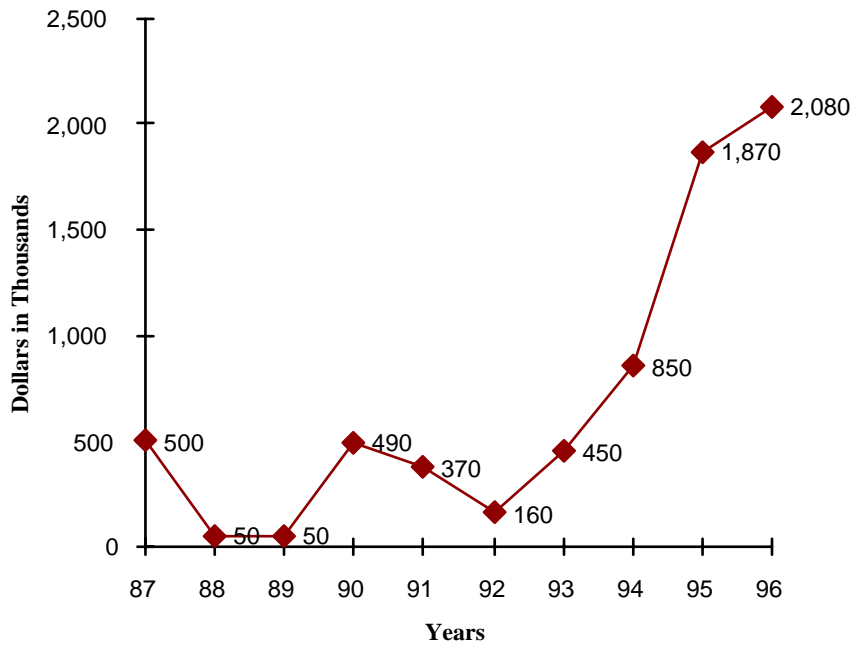
Financial Performance

The Administration is committed to “living within its means,” with the number one priority of the administrative team being to produce an annual operating surplus. This has been accomplished each of the last fifteen years. The College has been involved in extensive building and renovation programs for several years. Portions or all of many of these capital projects have been financed from cash flow, so-called “unfunded projects.” Accordingly, the majority of any annual surplus has been transferred to the Plant Fund to reduce the liability for these internally financed capital projects. Therefore, only a small annual surplus has been actually reported in our audited financial statements.

A major commitment was made to transfer at least two million dollars from general operations to the Ministry Center project; hence, the very large surpluses the last few years. In addition, the College went a number of years without a full-time budget director. This position was reinstated in 1992 and has resulted in increased efficiency and accuracy in the budget preparation process and far better monitoring and controlling of

expenditures. Also effecting surpluses is the Administration’s policy of not budgeting growth. Tuition revenues are based on a projection of the hours sold in the current year. Usually, since enrollments have continued to increase each year, this has resulted in additional unbudgeted revenues. This policy in essence establishes a contingency within the general operating budget and adds to the College’s overall financial flexibility. A summary of each annual surplus, before non-mandatory transfers, for the last ten years is presented in Figure 6.1.

**Figure 6.1
Annual Budget Surplus Summary**



Sources of Revenue

General operating revenues of Cedarville College continue to be, as they have for many years, derived primarily from student charges. Over the last ten years, students have contributed from 91.1% to 94.7% of total general operating revenues (Table 6.1).

**Table 6.1
Percentage of General Operating Revenues from Student Charges**

Source	Years									
	87	88	89	90	91	92	93	94	95	96
Tuition/Fees	55.8	57.2	57.6	56.3	55.7	57.9	61.1	62.0	61.3	61.3

Auxiliary Services	34.5	34.5	34.1	34.8	35.5	34.0	32.3	31.7	32.8	33.4
Total Percentage	91.3	91.7	91.7	91.1	91.2	91.9	93.4	93.7	94.1	94.7

The percent of revenues derived from student charges has gradually increased over the years due to the Administration's policy of conservatively budgeting gift revenue for general operations. Gift revenue has been budgeted at a relatively constant amount over the years, while revenue from tuition, room, and board has been increasing. While total annual gifts continue to increase, the Administration continues to follow a policy of allocating the majority of gift revenues to advancing institutional attractiveness through the construction of new buildings and through starting or enhancing programs.

While the College still does not place a great deal of emphasis on building the endowment, nevertheless it continues to grow gradually. One donor has committed and set aside about two million dollars which will be received by the College in the next few years.

Expenditure Allocation

The Administration attempts, through the budget process, to maintain a consistent pattern of expenditures for instruction, academic support, student services, and physical plant since all these relate directly to program quality as viewed by current and prospective students. Table 6.2 indicates that this consistency has generally been achieved over the last ten-year period. It also shows that the percent expended for instruction has increased over the period, primarily due to the addition of the campus computer network, new faculty positions, and new programs such as engineering. In addition, the percent expended for auxiliary services has declined due to unusually small increases in the daily food service contract rate. Pioneer College Caterers has passed on only small increases since they make additional profit on additional boarders added as the result of new dormitory construction.

Table 6.2
Percentage of Total Expenditures by Area

Budget Area	Years									
	87	88	89	90	91	92	93	94	95	96
Instruction	29.9	34.8	34.8	34.6	35.2	36.4	36.8	36.5	36.9	35.8
Student Services	12.1	8.5	9.1	9.2	9.3	10.1	9.4	9.0	9.8	9.8
Physical Plant	7.7	8.4	8.9	8.3	7.1	6.0	6.2	6.5	6.7	6.8
Institutional Supt.	21.7	20.6	22.1	21.4	21.2	22.7	22.4	22.5	22.2	21.6
Debt Service	9.0	8.6	8.0	8.6	7.7	7.1	8.5	9.5	9.8	11.1
Auxiliary Services	19.6	19.1	17.2	18	19.5	17.7	16.7	16	14.6	14.9

While it is difficult to evaluate the level of academic quality from one year to another, it is possible to analyze expenditures per full-time equivalent students over the ten-year period in constant 1986 dollars. Figures 6.2 and 6.3 indicate that total unrestricted expenditures per FTE and instruction expenditures per FTE increased over the ten-year period. These trends indicate a continued commitment to the academic program. While spending has increased per FTE, the trend in net tuition and fees, in constant dollars, has also increased, indicating no loss of net resources is evident.

Figure 6.2
Unrestricted Expenditures Per FTE Student

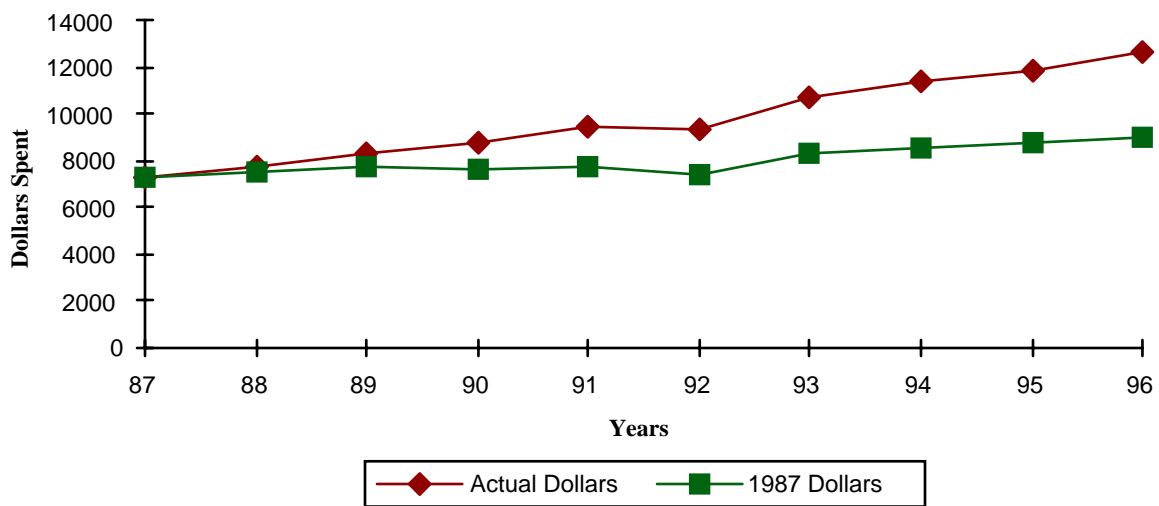
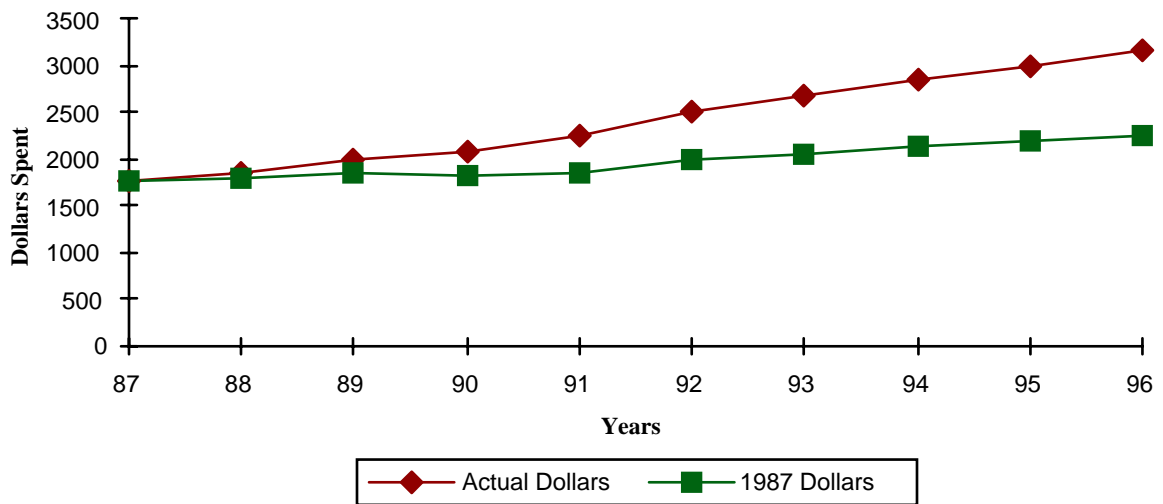


Figure 6.3
Instructional Expenditures Per FTE Student

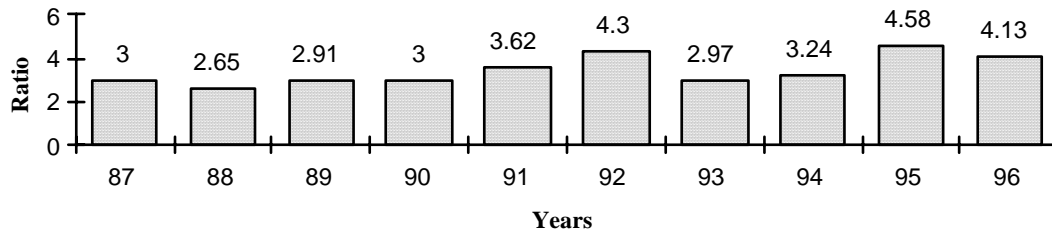


Effective Use of Debt

The Administration has maintained a policy of paying long-term debt off as quickly as possible. Payments toward the Series F bonds terminated in May, 1996. The College's remaining debt, totaling about seven million dollars, will consist of mortgages on dormitories and capital leases, primarily for network hardware. The elimination of the Series F debt means that annual debt service payments will decrease by \$900,000. For 1996-97, this amount has been designated to be transferred to the Ministry Center project. For future years, the College intends to maintain these funds for one-time capital expenditures. Establishing the process of committing these funds on an annual basis will add to the College's overall financial flexibility.

Since non-dormitory buildings are to be built with donated funds, the College has been adding to plant equity faster than long-term debt has been added. This is again the case with the new Ministry Center. Figure 6.4 indicates that the ratio of debt to plant equity has remained in a fairly consistent range of 2.65:1 to 4.6:1. This ratio is adversely affected in the years that building programs are underway, but is positively affected in the following years when pledges have been received and debt reduced.

Figure 6.4
Ratio of Plant Equity to Plant Debt



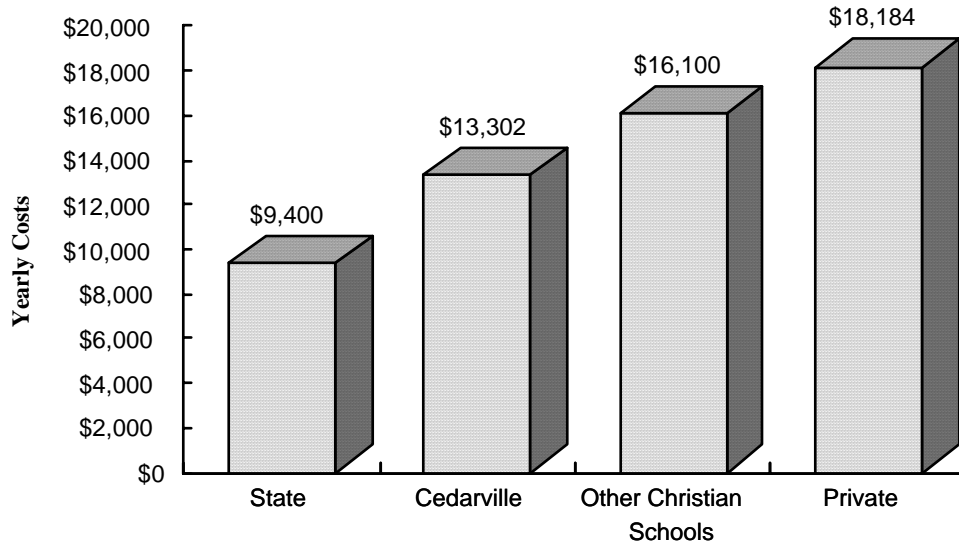
The College has maintained a long-standing relationship with its lead bank, Key Corp. The College’s history of paying off construction loans on non-dormitory buildings in two or three years and dormitory loans over a shorter-than-normal period has established the College as one of the bank’s premier customers. The College’s reputation as a fiscally sound institution has not only spread throughout Key Corp., but also throughout the Greater Miami Valley, resulting in representatives of numerous other lending institutions regularly expressing a desire to do business with the College. Key donors in the area are also aware of and express appreciation for the College’s sound financial management practices.

Setting the Right Price/Financial Aid

The trustees of Cedarville College have for many years challenged the Administration to keep student costs as low as possible. This philosophy has resulted in the College becoming a “value added” institution. Each year the President presents to the student body the approved increases in student costs for the following year. Along with these increases he presents the major items that will be funded with the additional revenue dollars.

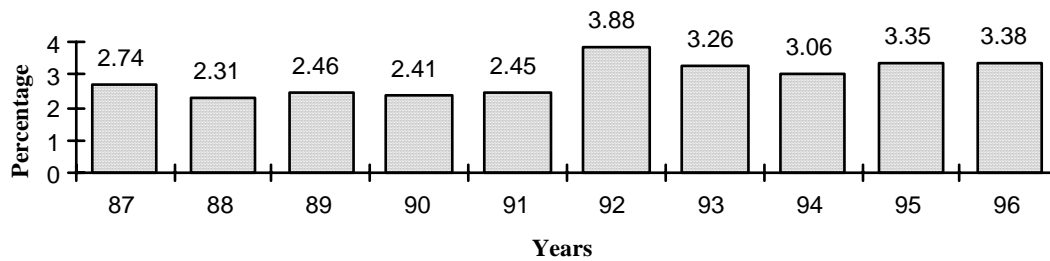
Students generally respond positively to increases since they have seen several academic programs started, several new buildings brought on line, the computer network started, etc. In addition, significant dollars have been allocated to “student priorities” such as remodeling and upgrading dormitories and dorm furniture, etc. The College attempts to maintain a consistent competitive position in relation to state, private, and other Christian institutions. The goal has been to remain highly competitive with other Christian colleges and to be priced about in the middle of Ohio state-funded institutions and Ohio independent institutions. Figure 6.5 reflects this position.

Figure 6.5
Cost Comparison with Other Institutions



In addition, the trustees have followed an atypical policy of not charging higher student costs and then offering some students considerable institutional aid. The advantage of this policy was made evident when the College was able to fund the campus network through increased student costs. Many institutions have commented that they could not do this since student costs were already high and a large portion of any increase would be allocated to financial aid. The College does recognize that in order to attract certain strategic student groups it is necessary to maintain an appropriate level of institutional financial aid. Accordingly, as Figure 6.6 indicates, over the last ten-year period the College has increased institutional aid by 220%, most of that increase coming since 1991. This continued commitment is reflected in the 1997-98 budget, in which institutional aid is budgeted to increase 20% (\$166,000) over the total for 1996-97.

Figure 6.6
Institutional Aid as a Percent of Unrestricted Expenditures



Physical Plant

The condition of the physical plant at Cedarville College has been for many years a significant component of so-called “institutional attractiveness.” Over the last ten years a major financial commitment has been made to both provide new facilities and to upgrade or retrofit existing facilities (Table 6.3). Particularly significant is that this commitment has reduced deferred maintenance to a level that poses little “hidden risk” to the institution.

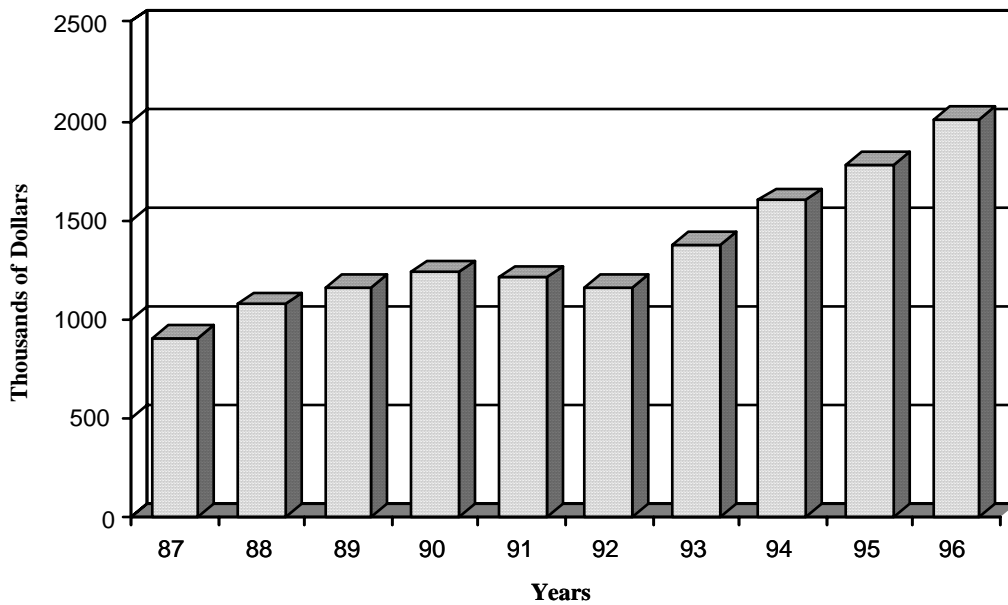
Funding for new facilities and upgrade projects has come from various sources. Dormitories have been primarily funded by new debt, except for Brock Hall which was funded one-half by debt and one-half by gifts. New non-dormitory buildings have been funded totally by gifts. Major maintenance items have been funded by general fund operations and by including them in new building projects. This means that some were funded by gifts and some by debt. In all cases of new dormitory debt the increased revenue from additional students has been sufficient to meet the additional debt service requirements in spite of the added cost of the maintenance items.

The percent of annual unrestricted expenditures allocated to maintain and operate the physical plant has been maintained within a range of 6-8 percent over the ten-year period and has steadily increased over the last several years. In addition, Figure 6.7 shows that the number of dollars allocated for physical plant expenditures has steadily increased over the last four years.

Table 6.3
Summary of Major Capital Additions and Improvements
1987 to 1996

Description	Fiscal Year Completed	Approx. Cost
Construct Centennial Library	1987	4,755,460
Retrofit Previous Library to Business Admin. Building	1988	1,013,296
Remodel College Center for Admissions Offices	1988	142,243
Construct Brock Hall - 170 Bed Men's Dormitory	1990	3,170,151
Construct Willetts South - 98 Bed Women's Dormitory	1993	1,590,012
Construct Alford Annex - Music Rehearsal Rooms/Offices	1991	550,912
Construct Engineering/Nursing/Science Center & Equip.	1993	8,614,349
Construct Willetts North - 98 Bed Women's Dormitory	1994	1,500,000
Construct M.M.M. Complex - 124 Bed Men's Dormitory - 127 Bed Women's Dorm - Miter Conference Center	1995	4,200,000
Retrofit Track & Field Complex	1992	275,203
Purchase Evans Property - Buildings and Five Acres	1994	121,084
Purchase Rife Property - 94 Acres - Will Swap for 28 Acres	1995	243,000
Construct New Tennis Complex - 9 Courts/3 Lighted	1995	235,000
Construct New Soccer and Intramural Fields	Var.	125,000
Retrofit Old Faith - First Phase - 144 Bed Women's Dorm	1995	112,000
Capital Lease for CedarNet - Campus Computer Network	Var.	3,122,000
Capital Lease for Library Automation System	1993	230,210
Capital Lease for Administrative Computer System	1995	177,188
Capital Lease for Telephone Switch	1992	275,013
Ministry Center - Chapel, Music, Christian Ministries	1996	15,200,000

Figure 6.7
Trend in Physical Plant Expenditures



Salaries and Benefits

The Administration has for several years considered addressing the compensation needs of the faculty and staff as the number one priority of the College’s strategic plan. As a result, many improvements have been made to both the salaries and benefits of the faculty and staff since the last self-study.

Extensive annual studies have been prepared comparing both faculty and staff salaries to those of similar institutions. Tables 6.4 and 6.5 show the most recent data from these studies. These studies have indicated that all faculty ranks and many staff positions are below these “market” salaries. In an attempt to increase the competitiveness of salaries, annual increases have generally exceeded those of competitors. In addition, \$50,000 has been budgeted annually for several years to adjust specific positions. While these steps have been helpful, it was felt that a major commitment needed to be made to move Cedarville College’s salaries to a higher competitive level. Therefore, the 1996-97 budget included \$270,000 for faculty/staff salary adjustments (\$170,000 for faculty and \$100,000 for staff). It is hoped that an amount similar to this can be budgeted over a three-year period in order to reach this new level of competitiveness.

Table 6.4
Faculty Salary Comparisons for 1995-96

Comparison Group	Prof.	Assoc.	Asst.	Inst.
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Coalition of Christian Colleges and Universities (All)	\$42,400	\$35,900	\$31,800	\$26,900
Competitive and Comparable CCCU Institutions	46,100	39,300	33,900	28,600
AAUP IIB General Baccalaureate Church Related	48,200	39,700	33,700	28,000
AAUP IIB General Baccalaureate	53,400	42,500	36,800	32,500
12 Top Cedarville Christian College Competitors	45,900	39,100	33,600	30,000
8 State of Ohio Comparable Institutions	44,200	36,600	32,400	27,400
Average of Above Comparisons	46,700	38,900	33,700	27,900
Cedarville College	45,100	39,300	33,300	27,900
Cedarville as a Percent of Average	96.6%	101.0%	98.8%	96.5%

Table 6.5
Faculty Salary Comparisons for 1995-96

	Totals	Supvrs & Managers	Prof. & Technical	Office Technical Support	Labor & Trade
Cedarville College Calculated Market Salaries	5,752,482	1,341,849	1,719,924	1,660,481	1,030,228
Actual 1995-96 Salaries (plus \$149,286 adjustment)	5,476,337	1,307,442	1,632,263	1,576,096	960,536
Actual Salaries as a Percent of CC Market Salaries	95.2%	97.4%	94.9%	94.9%	93.2%
Needed to Reach CC Market Salaries (for those under 100%)	276,145	34,407	87,661	84,385	69,692

In addition to increases in salaries, significant improvements have been made to various benefits since the last self-study. These improvements have also enhanced the competitiveness of total compensation for the College's faculty and staff. The following are some of those improvements.

1. A long-term disability insurance plan was started in 1991. Premiums for this plan are paid by the College.
2. The medical plan was converted from a self-funded plan to a fully-indemnified plan through Anthem. Coverage was increased and all claims are filed by the providers. In addition, the College operating budget has assumed a greater percent of premiums. Savings from the above conversion were also passed on to the faculty and staff. This has resulted in a significant reduction in faculty/staff premiums, increased coverages, and better service during a time of rising medical costs.
3. The College's contribution to the defined contribution pension plan has been increased from five percent to eight percent for all faculty and staff. In addition, effective July 1, 1996, a matching program began whereby the College matches a two percent faculty/staff contribution with a one percent contribution. The goal is to increase this to a 4-for-2 match the following year. At that point the College and faculty/staff contributions will total 14 percent.
4. Effective January 1, 1996, the College changed from using money managers to invest pension funds to TIAA-CREF, whereby the faculty and staff will self-direct the investment of their funds. The vesting schedule was also eliminated. Faculty and staff will now be 100% vested immediately upon participation. In addition, the two entry dates of January

1 and July 1 were changed to the first of the month following one-year's service.

5. An awards program was started in order to recognize the longevity of service by the faculty and staff. Gifts range from five-year pins to grandfather clocks and several thousand dollars in cash.

Overall Financial Condition

In the previous self-study, the following quote by Harold T. Shapiro was presented regarding financial flexibility:

In simplest terms, financial flexibility is no more than the conventional and prudent practice of maintaining sufficient financial liquidity so that if revenues fall or expenditures increase unexpectedly, monies can be found to fill the gap. That gives the organization time to adjust; it avoids crisis management and sudden disruptions in operations which might cause permanent and irreparable damage.

The Administration of Cedarville College continues to manage according to the principles stated in the above quote. Evidence to this is the size of surpluses generated over the years, especially the last half-dozen years. Additional evidence is the fact that, after the 1995-96 fiscal year, \$2 million was transferred from general operations to the Ministry Center project. These items speak to the budget discipline exercised by the Administration. Another example of budget discipline is revealed in the 1996-97 budget, whereby the \$900,000 of Series F bond debt service funds were not committed to general operations but were also set aside for the Ministry Center project.

The fact that the Administration exercises budget discipline does not mean that risks have not been taken or that the College has not been progressive. On the contrary. One just has to look at the ever increasing size of capital campaigns, with the latest being \$15.2 million, to understand how progressive the College has been. The installation of CedarNet, a \$3.1 million project financed by increased student costs, is another example of a prudent but progressive decision. The decision to move ahead with CedarNet also included a great deal of risk due to the extremely high student expectations as a result of the significant increase in cost. The network has not only met student expectations, but has moved Cedarville College to new level of recognition nationally.

Another evidence of the College's financial condition is that its cash flow has been excellent for many years. The construction of Willetts North and South additions and the McChesney-McKinney-Miter dormitory complex were all initially financed within the College's cash flow, delaying bank financing as late as possible. This resulted in saving many thousands of dollars in interest expense.

As stated earlier, the reduction of deferred maintenance items to a manageable level has eliminated one of the major hidden risks facing institutions of higher

education. An annual detailed Plant Assessment has become a major document used by the Administrative Council to monitor the condition of the physical plant. Copies of this document are available in the Consultant-Evaluator Resource Room.

Strengths and Challenges

Stewardship of financial resources is a primary concern for Cedarville College administrators, faculty, and staff. As the College seeks to position itself for the next century, its financial resources will provide both strengths and challenges.

Strengths

Strong Commitment to a Balanced Budget

As the foregoing discussions have shown, the College is dedicated to maintaining a balanced budget. Debt is not undertaken without a clear means of payment and managers at all levels are expected to keep their budgets balanced.

Budget Surpluses

One great benefit of a “no growth” strategy to budgeting and balanced budgets is the generation of budget surpluses. These surpluses have enabled the institution to address numerous deferred maintenance and other one-time project costs without sacrificing funds in other areas.

Continuation of Previously Committed Debt Funds

The funds previously used to pay debt on the Series F bond issue (\$900,000) have not been committed to general operations. Instead, these funds will provide annual resources for one-time expenditures.

Consecutive Successful Capital Campaigns

With the completion of the new Ministry Center, Cedarville College has demonstrated the ability to complete major capital campaigns in a timely manner. The College’s donor base continues to expand at a very steady pace.

Development of Consistent Spending Patterns

The previous sections have demonstrated that the College has established clear and consistent patterns of spending. The patterns are carefully monitored through constant data collection and evaluation by the Business Division.

Challenges

Risk from Changing Enrollment Numbers

Cedarville College is highly dependent on revenues from student costs. Should student enrollment level or decline, the College is subject to some measure of financial risk. As outlined above, several “hedgies” have been established to minimize this risk.

Need for Increased Financial Aid

The College never wants to become an elitist institution where only the wealthy can afford to come for an education. By the same token, the institution wants to avoid the detrimental budget effects that result from heavily financing the education of some with tuition dollars of those who can afford more expense. The challenge is to achieve a balance; one where the institution helps students as much as possible without damaging the budgetary balances that have been established.

Risk of Added Debt

If past growth patterns continue and another dormitory is required in the near future, its construction will potentially add to the institutional long-term debt since it will be funded by student revenues and not as a capital campaign. Long-term debt currently stands at about \$7 million.

High Cost of Technology

A drawback to the high technological level established at the College is the high cost of equipment replacement and upgrade. This challenge affects academic equipment, lab equipment, and faculty/staff computer equipment. However, a built-in replacement schedule to upgrade and replace one-fourth of the networked computers each year has been included in the ongoing College budget.

Responding to Market Differentials in Professional Disciplines

It is a real struggle to match the external market salary levels of some professional disciplines such as engineering and business. Negating this differential may not be possible, but the differential may have a negative effect on future prospective faculty members and may require attention. Although this is a challenge, the quality of the personnel in all academic areas of the institution is indicative of the broad-based commitment and agreement with the mission of the institution.

Increasing the Level of Institutional Endowments

At this point in time, the College does not have a large endowment. The size of the endowment, however, has grown dramatically in the last couple years. Increasing the size of the endowment is going to be a part of the next capitol campaign.

Summary

The above, along with the analysis of the annual financial summary indicates that the financial condition of Cedarville College is strong, based on the Administration’s history of prudent budget management , including consistently allocating resources to maintain excellence of programs, facilities, and a commitment to properly compensate the College’s faculty and staff. These patterns of evidence and those submitted in the previous two chapters support the claim that Cedarville College meets the requirements of the NCA’s Criterion Two.