# FINANCIAL STANDING REPORT
## Orange City School District
## June 2016

**I. Financial Position**

From a financial point of view, 2016 was a good year. Revenues were greater than forecast while expenditures were less than forecast. While these trends emerged during the winter months, the positive momentum gained steam as fiscal year-end neared. The major factors in the positive trend for revenue were greater than expected property tax receipts and the return of funds in June advanced in prior years for the operation of the former Gund School. Led by lower-than-forecast personnel spending, expenditures were less than forecast almost across the board. With the closing of the fiscal year 2015-2016 ledger, the ending operating (General Fund) cash balance totaled $27,760,922, which is $2,359,873 (8.5%) greater than the forecast ending cash balance of $25,401,049. Current operating cash reserves are about 51% of actual fiscal-year expenditures, a reserve coverage ratio of more than six months. Thus, the Orange City School District ended the fiscal year in a stronger financial position than anticipated. This will have a positive near-term effect on the Five Year Forecast.

**II. Economic Environment**

"Northeast Ohio's economy is at cruising speed," according to the 2nd Quarter 2016 regional outlook from the PNC Financial Services Group. Indeed, the most recent Metro Mix publication from the Federal Reserve Bank of Cleveland cited population loss as a factor impeding regional economic growth. According to the Cleveland Fed publication, "the unemployment rate is lower than it has been in a decade, GDP per capita and income per capita continue to outpace the nation." Both the Cleveland Fed and PNC reports suggest regional population losses are slowing substantially. "For now, out-migration has likely moderated, given the ongoing jobs recovery and we assume that the population will stabilize in the near future," according to the PNC report. Meanwhile, international events in late June have had the effect of depressing interest rates even further. While markets appear to have stabilized from the British vote in late June to withdraw from the European economic union, the effect on interest rates remained significant. Thus, any attempt to raise borrowing costs is highly unlikely in the near term.

## III. Revenue

The triennial update of real estate values was better-than-expected news for the school district. The total updated assessed property valuation of $1,054,272,420 is less than $5 million off of the 2006 record valuation of $1,058,472,643—an assessed valuation figure recorded when tangible personal property was a part of the property tax base. The result is that real estate revenue of $38,950,936 was $601,210 (1.6%) more than forecast. Meanwhile, the return of funds advanced for the operation of the Gund School added $700,000 to the cash balance of the General Fund. While other revenue sources were modestly less than forecast, none were disturbingly so. For example, unrestricted grants-in-aid from the State of Ohio totaled $174,252 (6.7%) less than forecast. However, $173,905 (99.8%) of the shortfall is attributable to the delayed payment of 20% of the tangible property tax reimbursement appropriated by the General Assembly. Total fiscal year General Fund revenue of $49,193,372 is $1,110,480 (2.3%) more than forecast revenue of $48,082,892.

## IV. Expenditures

At fiscal year end, actual expenditures were modestly less than forecast. The only exception is the miscellaneous (other) category that includes property tax collection fees. (Property tax collection fees are assessed proportionately to property tax revenues.) The retirement of personnel prior to the start of the 2015-2016 school year helped keep spending in check. Spending for employee salaries was $572,677 (2.0%) below the forecast estimate of $27,881,073; meanwhile, spending for employee benefits was $136,652 (1.3%) below the forecast estimate of $10,258,987. Spending for purchased services, supplies and materials, and capital items was less than what was planned as well. Total fiscal year spending of $45,303,320 is $1,249,398 (2.7%) less than forecast.

## V. Investments

The unexpected drop in interest rates resulting from the turmoil associated with the Brexit vote in late June prompted issuers of federal agency securities that were callable to act during the last week of the month. With limited attractive reinvestment opportunities available, a larger-than-usual amount of the portfolio is being maintained in the money market (cash) account. I expect reinvestment at attractive rates will be difficult. Nevertheless, I will be working with RedTree Investment Group to determine appropriate ways to put available funds to work. We have three more securities in the portfolio with July call dates, and I would not be surprised to see all of the call options exercised. The fiscal year-end market value of the portfolio of $25,472,338 is little changed in recent months. It is important to reiterate that the Orange City Schools does not actively trade securities in its investment portfolio, consistent with the general rule of Board investment policy to hold securities to maturity. The current weighted maturity of the portfolio is two years.

## VI. Other Noteworthy Matters

At the November special Board meeting with local mayors and other public officials, I said that I believed I had presented a conservative Five Year Forecast to the Board in October with a fair amount of upside potential. However, I did not anticipate the extent of upside potential for the fiscal year just past. Property tax base growth recorded through the triennial valuation update was stronger than anticipated. Also, expenditures were kept in check in comparison to forecast expectations. While this is good news, the temptation to become euphoric must be avoided. The closing of Gund School, effective at the end of the past school year, will pressure salary and benefits costs for the new fiscal year because more senior (and expensive) personnel have displaced less senior personnel in several teaching and paraprofessional roles. Furthermore, the trend of recent years toward declining student enrollment shows no signs of abating soon. That factor by itself will tend to drive costs per pupil even higher. Thus, the pressure to deploy school financial resources efficiently will remain intense. Furthermore, while the positive numbers for the current fiscal year will carry forward in the Five Year Forecast, the long term trend of expenditures exceeding revenues in two fiscal years remains in place. Indeed, these are among the fiscal challenges to be addressed as Fiscal Year 2016-2017 begins.

Respectfully submitted,

Todd Puster
July 7, 2016