Memorandum

To: Board of Directors, Estacada School District
From: Scott B. Pillar, Director of Finance
Date: August 5, 2026
Subject: Monthly Financial Report

Enclosed in your board packet are the preliminary financial reports for the fiscal year ended June 30, 2026, along with the July 31, 2026 financial report. Both reports remain preliminary as we continue the year-end close process. Because summer receipts and expenditures continue into August, we anticipate closing the books by the end of this month which is standard.

Financial Update

The June 25.26 financial report (aka last year's report) reflects several higher-than-anticipated expenditures during May and June, particularly in purchased services which includes chart school tuition payments. In addition, we made the decision to clean some long-time negative fund balances (which past auditors commented on). We also chose to postpone some budgeted transfers for lack of appropriated resource choosing instead to protect the end fund balance level higher than the contingency.

To cover these costs last year while keeping a needed beginning fund balance of $5.5m, we transferred resources from the PERS reserve, a fund designed for excess charter school payments, and a PERS debt service fund with some excess resources. With the judicious use of these funds, our 26.27 beginning fund balance right in the ballpark of the $5.5m we needed for this year's operating budget.

The broader issue is that district expenditure exceeded revenues not only in the General Fund but also in several other funds that have operated with structural deficits for multiple years last year and this year included. Although we intentionally used only a portion of our reserve balances to preserve cash flow and long-term financial stability, those resources are finite. Moving forward, breaking this cycle will require either increased revenue, most likely through enrollment growth—or reductions in expenditures through efficiencies and careful spending decisions or a combination.

Accordingly, tighter budget controls have been implemented for the current fiscal year. These measures may be noticeable and, at times, challenging, but they are necessary to restore long-term financial stability. Depending on enrollment, we may be forced to make mid-year adjustments to meet our targeted end fund balance of $5.5m

Pension Obligation Bonds

In 2005, the Estacada School District issued approximately $12.7 million in State Secured Municipal Pension Obligation Bonds (POBs) to address a significant portion of its PERS Unfunded Actuarial Liability (UAL). At the time, rapidly increasing and highly volatile PERS costs created considerable financial pressure for Oregon school districts.

Bond proceeds were deposited with PERS as a side account. Investment earnings, together with portions of the principal, have been applied to reduce the district's annual employer contribution rates. In effect, the district borrowed at one interest rate with the expectation that investment returns and rate credits would exceed the cost of the debt.

Through December 2024, this strategy has generated an estimated $6.1 million in savings for Estacada, consistent with the experience of most (but not all) districts that participated in the program.

The program, however, included an important structural limitation. Annual rate credits were calculated as a percentage of payroll rather than as a fixed dollar amount. As district payroll grew faster than the original 3.4% assumption—particularly during and following the pandemic—the side account was drawn down more quickly than anticipated.

PERS estimates that our side account will likely be exhausted this spring. Once depleted, the district will no longer receive the monthly rate credit, which reduced our PERS costs by approximately $65,000 per month during the past year. Many participating districts now face the same situation adding even more financial challenges to schools.

Over the past year, district staff have worked with Piper Sandler and bond counsel to evaluate the potential issuance of new POBs in early 2027. Whether the district moves forward will depend entirely on market conditions. If interest rates fall within an acceptable range, a new side account could be established and begin providing rate relief as early as June 2027.

Preparing for a potential issuance is a lengthy process but does **not** commit the district to issuing bonds. Rather, it positions the Board to act quickly if favorable market conditions arise. Over the coming months, Piper Sandler will present the program's risks and benefits, bond counsel will review the required legal documents, and the Board will be asked to consider a resolution authorizing issuance only if conditions support moving forward. I expect this topic to return to future board meetings as this process evolves.

2026–27 Audit Services

As you know, the district issued an RFP for audit services last spring. Two qualified municipal audit firms submitted proposals, which were evaluated by a committee consisting of a Board member, the Superintendent, myself, the Senior Accountant, and the Accounts Payable Clerk.

Based solely on the evaluation criteria, one firm received the higher overall score. During the process, however, the Board representative became aware that the Oregon Board of Accountancy had previously disciplined that firm for documentation deficiencies related to two municipal audits issued in 2019. Since that time, the firm has changed ownership and is now led by two different people. The Board member appropriately considered this information in the evaluation process.

We have discussed this matter since June, and I have been deliberate in refraining from making a recommendation. I was aware of the disciplinary action when I completed my evaluation and scored the proposals as objectively as possible. I also worked with the firm in question for one year while serving in my previous district.

Ultimately, the Board appoints the district's independent auditors to evaluate the financial statements and, by extension, much of the work performed by the Business Office. As the timeline for engagement approaches, I stand ready to provide any additional information or analysis the Board needs to make an informed decision, but that decision should be made as soon as possible. The firm in question is filled as your auditor (for one year) in your annual board business resolutions you are considering today but it is not a contract. A separate contract will need to be executed at a future meeting.

Thank you for taking the time to review this rather lengthy board report. As always, please do not hesitate to contact me with any questions or concerns.