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Washington Office of Superintendent of
PUBLIC INSTRUCTION
Chris Reykdal, Superintendent

January 12, 2024

Will Nelson, Superintendent
305 N. 6th Street
La Conner, Washington 98257

Re: Update to Approval of Request to Budget Future Receivables with Binding Conditions

Dear Superintendent Nelson:

In accordance with Chapter 392-123 of the Washington Administrative Code (WAC), Northwest Educational Service District (NWESD) 189 and the Office of Superintendent of Public Instruction (OSPI) have completed the review of La Conner School District's budget extension for the 2022–23 school year, and proposed budget for the 2023–24 school year. The school board has acknowledged that the district will end the current fiscal period (2022–23) and thereby begin the next fiscal period (2023–24) with a negative ending general fund balance of (\$300,000).

To approve the request submitted to OSPI through Board Resolution #23-13, OSPI must require the district be placed on Binding Conditions. These Binding Conditions, as updated in January 2024, outlined below are intended to give OSPI and NWESD an opportunity to more closely review and potentially recommend school district decisions related to their current financial condition. The goal is to ensure the district restores a healthy financial position and exits Binding Conditions by end of the 2024–25 school year. If necessary, the district may continue binding conditions for an additional year, pending approval from OSPI. Without satisfactory progress and/or approval from OSPI to continue in Binding Conditions, the district may be referred to the Enhanced Financial Oversight Committee (EFOC). If Enhanced Financial Oversight is required, the EFOC can exercise more aggressive financial remedies up to and including school district dissolution.

For approval of La Conner's 2022–23 school year budget extension, and 2023–24 school year budget, each of the conditions outlined below must be met. These conditions include benchmarks for the 2023–24 and 2024–25 school years, with the expectation that the district will be in a positive fund balance position at the end of each of those school years.

1. The ending general fund balance reported in the F-196 in November 2024 must not be less than the current amount budgeted of \$600,333 which represents approximately 5% of budgeted general fund expenditures.
2. Monthly budget status reports presented to the school board must be shared with NWESD 189 and OSPI within one week of the board meeting.
3. A quarterly meeting to review current financial status will be held with NWESD 189 and OSPI to include review of the following: budgeted to actual expenditures and revenues, enrollment trends, current staffing levels, and current multi-year cash flow projection. These meetings will be scheduled by OSPI after considering the required individuals' calendar availability no later than September 30, 2023. These meetings must include, at a minimum, the Superintendent and Business Official of the school district. The President of the School Board is recommended but not required to attend these meetings.
4. The district will repay the \$352,000 in unspent funds intended to help cover costs related to school mascot changes in April and May 2024. Funds must be sent via warrant to OSPI's fiscal office, and the amount per month can be determined by the district as long as the full amount is repaid as of May 31, 2024.
5. The budgeted general fund balance in the F-195, adopted by August 1, 2024, for the 2024–25 school year, is no less than 4% of total general fund expenditures. As of August 1, 2023, based on the F-195F currently presented that balance calculates as \$511,000.
6. The actual general fund balance in the F-196, submitted in November 2025, is not less than 4% of actual general fund expenditures for the 2024–25 school year. As of August 1, 2023, the F-195F currently presented that balance calculates as \$511,000.

If any of the above conditions are not met, the district will continue to operate under Binding Conditions. OSPI and NWESD 189 will continuously review the district's fiscal projections and adherence to the stated conditions above. We, collectively, reserve the right to update any of the conditions stated above, if the financial situation of the district changes significantly from what is currently projected.

Background

The school district's 2023–24 school year budget, adopted by the board on July 31, 2023, reflects a \$300,000 negative beginning fund balance. Within the budget, the district has accounted for repayment of unspent mascot dollars to OSPI using a mutually agreeable repayment schedule. While the 2023–24 budget reflects a positive ending general fund balance, it does not meet the minimum fund balance policy of 10% currently adopted by the school board.

Specific issues not referenced in the paragraph above that are contributing to the school district's current financial situations are listed below:

- Declines in student enrollment.
- Overestimating beginning fund balance.
- Overstaffing in both certificated and classified positions.

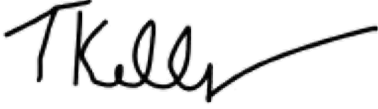
Superintendent Will Nelson

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- Repayment of Impact Aid dollars due to audit findings.
- Accounting challenges related to Mascot dollars.

Sincerely,



T.J. Kelly
Chief Financial Officer
Office of Superintendent of Public Instruction



Larry Francois
Superintendent
Educational Service District 189

*As this is an update to the original binding conditions letter provided in July 2023, no signatures are required. OSPI will accept email confirmation of receipt of this letter as a means of formally accepting the updated conditions.