



MEMORANDUM

TO: Chris Reykdal, Superintendent of Public Instruction
FROM: T.J. Kelly, Chief Financial Officer *TJK*
DATE: June 17, 2025
RE: Recommendations of Prescott Financial Oversight Committee (FOC)

Based on the review of the Prescott School District (PSD) Financial Oversight Committee and following a public hearing, the FOC recommends the Superintendent of Public Instruction place PSD in Enhanced Financial Oversight immediately.

Background

Prescott School District (PSD) entered binding conditions in March 2024. Factors leading to the binding conditions included:

- The district ended the 2022–23 school year with a general fund balance of (\$6,739.58).
- The district's former business manager resigned, and the district did not have internal controls in place to ensure critical financial and operation systems could continue to operate accurately.
- The district was unable to claim grants for three months because there was no access to the OSPI grant claiming system.
- Accounts Payable was not adequately supervised and invoices were not processed in a timely manner.
- Expenses were incurred without a funding source.

The initial binding conditions for PSD would have required the district to have an actual general fund balance at the end of the 2024–25 school year equal to 5% of actual expenditures.

A revised binding conditions letter was issued to PSD in September 2024. That letter required PSD to have an actual general fund balance in the F-196 to be not less than the actual general fund balance in the 2023–24 school year. That negative balance was (\$189,371.45). The letter further indicates that if a healthy financial position is not restored within two school years, the district may be referred to the Enhanced Financial Oversight Committee.

Fiscal Challenges

The district has created a draft budget for 2025–26 that estimates a negative beginning fund balance of (\$1,400,000), expenditures exceeding revenues by \$200,000, and an ending negative fund balance of (\$1,600,000).

The district has over \$650,000 of overdue and outstanding accounts payable as of June 16, 2025. These include invoices for utilities, insurance, ESD services, Running Start, supplies, curriculum contracts, extracurricular contracts, and other normal costs.

The district has an overdue interfund loan of \$200,000 to its Debt Service Fund which must be repaid prior to bond repayment.

The district has an overdue unsecured bank loan of \$500,000 to Baker Boyer Bank.

The district has not reduced staffing for the 2025–26 school year sufficient to make any significant progress on reducing its financial debts, increasing cash flow, or increasing fund balance.

The district will not meet the binding conditions placed on it in September 2024 and will not be financially solvent by the end of the 2025–26 school year. Based on the latest budget developed, without additional measures PSD would still be nearly \$1.6 million in the red by the end of the 2026 school year.

Community Feedback

Community feedback suggested that the community was unaware of the size of the financial problem facing PSD. While it is clear the community knew about the district suffering from a financial issue, the significance of that issue was not clear to the community, staff, or the School Board. Most still wonder how the district's financial status has plummeted so far, so fast.

Several community members suggested that the State has taken too long to intervene more directly with PSD.

The community in attendance stated clearly that their interest was for the school district to regain its financial footing, and to ensure the school and school district were a continuing presence of the Prescott community.

Largely absent from community feedback were families from the Vista Hermosa community. That community is home to roughly 80% of PSD's enrollment and is the area where a vacant school director district exists. The Vista Hermosa community was established in 1990 and is home to about 800 employees of the First Fruits Farms – a company town.

Prescott School District Financial Oversight Committee Recommendation

After meeting with the outgoing Superintendent, the incoming Superintendent, the School Board Chair, thoroughly reviewing the district's current financials, and conducting a public hearing and receiving public comment on the district's financial plan, the FOC makes the following recommendations:

- As soon as possible and no later than July 1, 2025, PSD should be placed on enhanced financial oversight to reduce the risk of dissolution due to insolvency, pursuant to RCW 28A.315.221.

- The Superintendent of Public Instruction should appoint a special administrator to oversee and carry out financial conditions imposed on the district.
- The special administrator should be charged with facilitating a district process to develop a four-year financial plan by October 15, 2025 including:
 - A draft staffing plan for each of the 2025–26, 2026–27, 2027–28, and 2028–29 school years.
 - A debt elimination plan that would resolve all outstanding debt and eliminate all unpaid or delinquent vendor payments by the end of the 2026–27 school year, including interfund loans.
 - A cash flow projection that incorporates the staffing plan and debt elimination plan, which allows the district to meet ongoing obligations.
 - A fund balance projection that incorporates the elements above and demonstrates the district’s ability to meet fund balance targets:
 - 2025–26 ending fund balance greater than negative \$1.2 million
 - 2026–27 ending fund balance greater than negative \$500,000
 - 2027–28 school year must be greater than positive \$300,000
 - 2028–29 school year must be greater than positive \$600,000
- The PSD School Board must hold a public hearing on its revised financial plan by October 31, 2025 and adopt a financial plan that meets the criteria above by November 15, 2025.
- The district must report on a modified basis of accounting effective immediately.
- The special administrator may establish preapproval requirements for expenditures, contracts, and all other district obligations. The special administrator must approve all contracts for staff or any changes or additions to debt obligations prior to board approval.
- The FOC will meet monthly with district leadership and the Board Chair of PSD to ensure the district is progressing towards financial solvency.

Additional Measures

The FOC also recommends the Superintendent of Public Instruction authorize the FOC to take additional, more aggressive financial remedies, up to and including beginning the process for school district dissolution if the PSD is unable to meet the conditions above or fail to follow the requirements put in place by the special administrator. Should the FOC determine that consolidation or dissolution is necessary, the FOC will follow the statutory requirements for such action.

Should you have any further questions, please do not hesitate to contact me.