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Washington Office of Superintendent of
**PUBLIC INSTRUCTION**
Chris Reykdal, Superintendent

September 2, 2026

Kim Casey, Superintendent
Prosser School District
1203 Prosser Ave.
Prosser, WA 99350

Re: Budget Extension Approval and Interim Binding Conditions

Dear Superintendent Casey:

In accordance with Chapter 392-123 of the Washington Administrative Code (WAC), Educational Service District 123 (ESD 123) and the Office of Superintendent of Public Instruction (OSPI) have completed the review of the Prosser School District's budget extension for the 2025–26 school year, in which the school board adopted a budget revision with a negative ending general fund balance of ($1,400,000).

To approve the request submitted to OSPI through Board Resolution 13-26, OSPI requires the district be placed on binding conditions. The binding conditions outlined below are intended to give OSPI and ESD 123 an opportunity to more closely review and recommend school district decisions related to their current financial condition.

Our goal is to ensure the district restores a healthy financial position and exits binding conditions within three school fiscal years. If progress towards a healthy financial position is not clearly evidenced, the district may be referred to a Financial Oversight Committee (FOC) at any time. If Enhanced Financial Oversight is required, the FOC can exercise more aggressive financial remedies up to and including school district dissolution.

The binding conditions below will be in place until updated binding conditions are placed upon the district following a thorough review of the district's financial position, staffing and financial plans, and enrollment data/projections. We expect updated binding conditions or an FOC to be formed after the district's 2025–26 financial statements have been submitted to ESD 123 and OSPI for review.

Prosser School District's 2025–26 school year budget extension is approved, subject to the following binding conditions, which are in effect immediately and until updated binding conditions are communicated to the district.

1. Monthly budget status reports presented to the school board must be shared electronically with ESD 123 and OSPI within one week of the board meeting and no later than the end of the subsequent calendar month.
2. Monthly meetings from October 2026 through January 2027, to review current financial status will be held with ESD 123 and OSPI to include review of the following:
    a. Budgeted to actual expenditures and revenues
    b. Enrollment trends and projections
    c. Current and planned staffing levels and costs
    d. Cash flow projections through August 2027 (current fiscal year and next fiscal year).
    e. Financial plans including specific expenditure reductions identified to restore fund balances within the next three school years (by August 2028).

These meetings will be scheduled by OSPI after considering the required individuals' calendar availability no later than September 15, 2026. 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.

3. The ending general fund balance in the F-196 submitted to OSPI in November 2026 must not be greater than negative ($1,400,000) as communicated by the district in the F-200 for the school year 2025–26.
4. The actual expenditures for the 2025–26 school year must not exceed the approved budget extension amounts included in district resolution 13-26.
5. The District Board of Directors formally adopt a strategic financial plan by January 1, 2027 to:
    a. Meet the fund balance policy of 5 percent of the current year's expenditures as documented in School Board Policy 6022.
    b. Allow the district to meet cash flow needs without relying on interfund loans, debt, or apportionment advances.

This plan must be pre-approved by OSPI and ESD 123 prior to adoption.

6. All financial reports and documents submitted to OSPI and ESD 123 will be on the modified basis of accounting and include all debt incurred by the district including interfund loans, non-voted debt, and voted debt.

OSPI and ESD 123 will determine if monthly or quarterly meetings are more appropriate after January 2027 and will communicate such in the binding conditions letter update.

If any of the above conditions are not met, OSPI and ESD 123 will either refer the district to an FOC or place more directive binding conditions on the district. In addition, OSPI reserves the right to update any of the conditions stated above, if the financial situation of the district changes significantly from what is currently projected. OSPI and ESD 123 will continuously review the district's fiscal projections and adherence to the stated conditions above.

Background

The school district's 2025–26 budget extension adopted by the school board on August 18, 2026 was not balanced, and contained a negative ending fund balance of ($1,400,000).

The district recognizes that its present financial condition developed over multiple years and resulted from the cumulative effect of declining revenue, rising costs, insufficiently rapid expenditure adjustments, and the erosion of available fund balance and cash reserves. The following reflects the district's understanding of the principal contributing factors:

1. **Declining enrollment and reduced revenue.** Prosser School District has experienced declining enrollment, which reduced state apportionment and other enrollment-driven revenues. Staffing and operating commitments could not be reduced at the same pace as the revenue decline because of obligations in contracts that were far above any apportionment allocations, student needs, program requirements, and the time required to make responsible organizational changes. The cumulative mismatch contributed to an ongoing structural imbalance.
2. **Compensation and operating costs increased faster than available funding.** Total compensation and essential operating costs increased at rates greater than the revenue provided to the district. Inflationary pressure affected transportation, food service, insurance, utilities, materials, supplies, and other operational expenses. Although the district reduced expenditures, those reductions were not sufficient or timely enough to fully offset the combined effect of revenue loss and cost escalation.
3. **Not properly planning for four new buildings.** Since 2021 the Prosser School District has one brand new high school that is approximately four times the size of the old high school and is three stories tall. In addition, all three elementaries were remodeled and they are approximately 25–33% larger than their prior footprint. These amazing new facilities came with added costs such as operating contracts for the various new systems, maintenance of modern technology, need for more custodial staff, and increased costs of utilities. These increased MSOC costs were not taken into consideration when the buildings were planned and built.
4. **Budget assumptions, financial controls, and timing of corrective action.** Prior budgets and financial projections did not fully anticipate the pace and cumulative effect

of enrollment decline, cost growth, and reduced revenues. The district did not adjust staffing and other recurring expenditures quickly enough to maintain the ending fund balance required by Board Policy 6022. Earlier and more frequent forecasting, expenditure controls, and corrective action would have reduced the severity of the present condition.

5. **Erosion of fund balance and resulting cash-flow constraints.** As recurring expenditures exceeded recurring revenues, the district's available ending fund balance and cash position weakened. Once reserves were substantially depleted, the timing difference between incoming revenues and ongoing payroll and operating obligations became increasingly difficult to manage.

Sincerely,

T.J. Kelly

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

Steve McCullough
Superintendent
Educational Service District 123

**Acknowledgement of Acceptance of Conditions**

**X** Kim Casey

School District Superintendent

**X**

School Board President