

Winston Salem Forsyth County Schools (WSFCS) Appeal to the State Board of Education (SBE) in accordance with Policy ALOT-002
North Carolina Department of Public Instruction Statement of Fact
September 2, 2025

1. The North Carolina Constitution, Article IX, establishes the SBE to supervise and administer the public school system, make rules and regulations, and manage educational funds, subject to laws passed by the General Assembly.
2. General Statute 115C-441 prohibits a local school administrative unit (LSAU) from incurring an expense that is not included in the budget resolution. The LSAU is prohibited from over expending a State allotment.

G.S. 115C-441 (a) Incurring Obligations. - Except as set forth below, no obligation may be incurred by a local school administrative unit unless the budget resolution includes an appropriation authorizing the obligation and an unencumbered balance remains in the appropriation sufficient to pay in the current fiscal year the sums obligated by the transaction for the current fiscal year.

3. WSFCS incurred the following total overdrafts by month for the fiscal year 2024-25:

Monthly Financial Report	Total Overspent (\$)	Cash Over draft (\$)
July 31,2024	(68,274)	(68,274)
August 31, 2024	(1,697,097)	(1,697,097)
September 30, 2024	(3,659,182)	(3,659,182)
October 31, 2024	(5,598,450)	(5,598,450)
November 30, 2024	(7,426,337)	(7,426,337)
December 31, 2024	(8,973,967)	(8,973,967)
January 31, 2025	(9,982,100)	(9,982,100)
February 28, 2025	(11,494,949)	(11,494,949)
March 31, 2025	(10,355,942)	(10,355,942)
April 30, 2025	(11,334,545)	(11,334,545)
May 30, 2025	(15,021,427)	(11,334,545)
June 30, 2025	(13,432,924)	(11,334,545)

See Appendix 1 for a breakdown of over expenditures by Program.

4. LSAUs are responsible for the cash management of their state funds, and request cash in advance to meet their requirements. WSFCS expenditures exceeded the authority to

expend in the State programs listed in Appendix. Due to the materiality of WSFCS overdraft, DPI removed WSFCS staff's access to the Cash Request Application after the receipt of the May Monthly Financial Report.

5. WSFCS annual financial audit for the fiscal year ended June 30, 2024 was due to be submitted to the Local Government Commission by October 31, 2024; a grace period was provided to November 30, 2024. After repeated inquiries into the status of the audit by DPI staff to WSFCS, the audit was submitted on or about March 27, 2025. The audit revealed significant financial concerns and findings, both material weaknesses and a significant deficiency. The auditor cited the following material weaknesses in the audit:
 - a. A deficit fund balance of nearly \$2 million in the Special Revenue Fund.
 - b. Receiving and expending funds in the General Fund, Special Revenue Fund, Federal Grants Fund that had not been budgeted for in the budget ordinance and a budget amendment was not adopted.
 - c. Expending over \$5 million for operating expenditures than appropriated in the Child Nutrition Fund.
 - d. Not reconciling certain balance sheet accounts accurately or timely resulting in a misstatement of beginning balances.

In addition, the audit showed that the General Fund unassigned fund balance decreased from approximately \$23 million to \$5.4 million from June 30, 2023 to June 30, 2024. The audit supported DPI staff's decision to move WSFCS to a cash reimbursement status for the rest of the 2024-25 fiscal year, ending on June 30, 2025.

6. DPI provided cash to WSFCS on a reimbursement basis for June expenditures, with the exception of the remaining balance restricted for summer educational programs.
7. The SBE policy requires a LSAU to repay an overdraft by the 5th day of the month following the month in which the funds were over expended.

ALOT-002 (3) Overdrafts of dollars allotted are due and payable to the State Board of Education on or prior to the fifth working day of the month following the month in which the State Public School Fund monies were expended in violation of this policy.

8. *ALOT 002 (6) To control the use of state funds, the SBE policy authorizes the Deputy State Superintendent [of DPI] to impose a penalty calculated as one percent per month of the dollar allotment overdraft*
9. SBE policy prohibits an LSAU from continuing to use state funds from an exhausted allotment category. Failure to do so shall make the LSAU subject to penalties. WSFCS over drafted the State Noninstructional Support allocation (Program Report Code (PRC) 003) in July 2024 and continued to expend in the program every month through June 2025. WSFCS over drafted the State Disadvantaged Student Supplemental

Funding (PRC024) in July 2024 and continued to expend in the State program through March 2025. In May 2025, DPI denied cash for additional overdrafts beyond the \$11,334,545.

ALOT-002(5) When an LEA overdrafts a particular allotment the LEA shall not continue further use of state funds in the exhausted allotment category. The LEA must immediately begin charging other appropriate available funds for any further expenditures. Failure to do so results in violation of this policy and subjects the LEA to the penalties described herein.

10. *ALOT 002(6) [The penalty shall be imposed] by the 20th of the second calendar month after the month in which the overdraft occurs. This penalty shall be accumulated on a monthly basis. (9) Any penalty imposed shall be paid immediately upon notification of the unit.*

Due to the implementation of new financial systems, DPI had a one-year hiatus on the assessment of overdraft penalties for all public school units. WSFCS was not assessed penalties from July 2024 to June 30, 2025 on its overdrafts. The penalties, if they had been assessed, to WSFCS would have totaled over \$900,000 for the fiscal year 2024-25.

11. As of June 30, 2025, WSFCS owed the State Public School Fund \$11,334,545.33 in State funds from PRC 003.
12. On July 16, 2025 WSFCS preemptively requested to the SBE a waiver of the penalty to the overdraft of state funds.
13. On August 5, 2025 the North Carolina Superintendent of Public Instruction Maurice (Mo) Green and Deputy State Superintendent Dr. Maria Pitre-Martin communicated to WSFCS providing an additional grace period on the imposition of the 1% monthly penalty until September 20, 2025. A copy of this communication is attached as an Exhibit A.
14. On August 18, 2025 WSFCS appealed the imposition of the penalty.
15. On August 27, 2025 WSFCS paid \$7,925,000 towards the fiscal year 2025 overdraft. The remaining overdraft as of this date is \$3,409,545.33.

