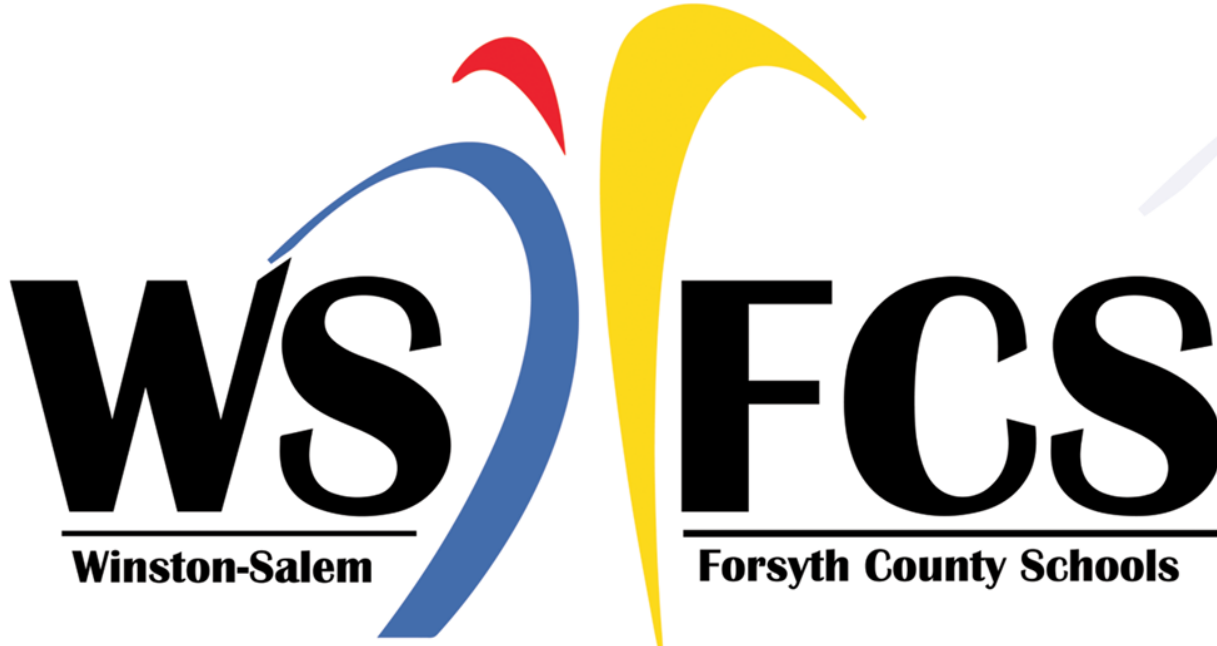


Budget Update

October 28, 2025



OUR MISSION

Winston-Salem/Forsyth County Schools will engage all students in high-quality, relevant learning experiences so they will graduate with interpersonal, academic, and workforce skills to compete globally and contribute to society.

OUR VISION

Winston-Salem/Forsyth County Schools will be the best place to learn and work through excellence, collaboration, and inclusiveness.

Fiscal Year 2024-25 Budget Debt & Repayment Options

Fiscal Year 2024-25 Deficit

- NC DPI total due was \$11,334,546.33. After payment of \$7,925,000, debt is now \$3,409,546.33.
- The three “big” vendor payments currently due:

ESS	\$6,100,852.90
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Forsyth County	\$5,026,336.90
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SSC	<u>\$4,250,303.36</u>
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Vendor Total	\$15,377,546.33
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Fiscal Year 2024-25 Deficit - DPI Payment

- NC DPI \$3,409,546.33 was paid in full on October 28.
- The Winston-Salem Foundation established the **WS/FCS Futures Fund** to support private fundraising efforts to reduce the district's debt. The Foundation contributed \$500,000 to seed the fund. The **WS/FCS Futures Fund** also received the \$400,000 committed by the Twin City Development Foundation on October 14 during the WS/FCS Board of Education meeting.
- Full and final payment of the DPI debt came from community donations made to the **WS/FCS Futures Fund**.

Fiscal Year 2024-25 Debt – County Resolution Match

- In accordance with the Forsyth County Commission resolution, the Commission will match a reduction of our WS/FCS debt to the Commissioners equal to the funds raised by the Futures Fund:
 - ESS \$6,100,852.90
 - Forsyth County **\$1,616,790.57** new amount
 - SSC \$4,250,303.36*

Vendor Total \$11,967,946.83

*Potential approval of SSC contract with full debt amortized during the contract term would eliminate debt repayment to SSC (which could reduce total debt to \$7,717,643.47).

2024-25 Debt Repayment Overview

GOAL: Target of \$2.4-\$3.5 million for debt repayment for 2025-26.

- The WS/FCS is scheduled to present a debt repayment plan to the State Board of Education Business Operations Committee on November 4.
- For debt repayment, WS/FCS has two options:
 - Receive increased revenue
 - Decrease expenses/repurpose existing funds
- Increased revenue could be:
 - A direct appropriation from the Legislature or the County. No repayment required.
 - A loan from the Legislature or an advance from the County. Repayment required.

Debt Repayment Options

For the 2025-26 school year only, funds for debt repayment could come from:

- Better aligning existing budget expenditures to maximize state and federal allocations – using existing budget funds.
- Repurposing non-personnel expenses to free up local funds.
- Reducing other local expenses such as salary supplements and classified local longevity, or expanding furloughs.
- Taking an additional loan from Child Nutrition Fund Balance.

Superintendent's Recommendation

- Establish a \$3.5 million budget for debt repayment for the remainder of the year:
 - Available within existing budgeted and available funds in 2025-26 budget.
 - Provides \$425-500K per month beginning November/December 2025 to June 2026.
- Set aside a budgeted reserve of \$2.1 million, largely representing unreleased funds to schools, in anticipation of a successful AllInForOurSchools.org campaign.
- The budgeted reserve could support:
 - Potential need for EC contract/supply expenditures
 - Funds for summer employment for select school staff (Athletic Directors, Assistant Principals, Counselors)
 - Cost of SBE/LGC directed engagement to review WS/FCS Internal Controls
- Repayment and reserve budgets are included in the 2025-26 Final Budget Resolution on the agenda for approval this evening.
- As a reminder, the \$2 million loan from CN is due to be paid by June 30, 2026, and is accruing interest (approximately \$7k per month).

Forvis Mazars Financial Statement Audit Preliminary Numbers

Forvis Mazars Negative Fund Balances

Slide 9 - "Revenues Over (Under) Expenditures

- General Local (\$43,427,852)
- Capital Outlay (\$3,384,970)
- Special Revenue \$1,860,451

Slide 9 - "End of Year"

- General Local (\$30,878,124) reduced by application of \$12,727,553 fund balance
- Capital Outlay (\$2,570,104) reduced by application of \$814,866 fund balance
- Special Revenue (\$120,797) negative fund balance from prior year applied
- Negative Fund Balance (33,569,025)

Forvis Mazars (cont.)

- Reflects June 30, 2025, data.
- Does not reflect payment of \$7,925,000 to DPI, made in August.
- Does not reflect payment of \$3,409,546.33 to DPI, made October 28.
- Reflects vendor debt still owed to ESS, SSC, and the County.
- Payments made in 2025-26 for debt in 2024-25 are termed a “Subsequent Event” and will reflect in the Financial Statements Audit for 2025-26, reducing our negative fund balance.

Budget Development 2026-27

Debt Repayment Scenarios for 2026-27 and Beyond

- Development of the 2026-27 Budget must include a budget for continued debt repayment.
- Recurring funds from 2025-26 could continue to fund debt repayment (\$3.5 million)
- Additional staffing reductions may be considered for the 2026-27 school year, if needed for debt repayment or a balanced budget.
- Additional non-personnel reductions should be reviewed.
- Anticipate that through the budget development process, any additional allocation from the County, for the 2026-27 school year, could be the source of funding for future debt repayment.

Feedback on 2026-27 Budget Priorities

During the month of November, we will begin sessions to discuss and collect feedback on budget priorities.

- November – WS/FCS Principals
- December – WS/FCS Assistant Principals
- December – Teacher Advisory Council
- January – Classified Advisory Council
- January – Parent Advisory Council
- February – Student Advisory Council
- Additional groups will likely be added.

IRS Withholding Update

IRS Withholding Review and Engagement

- Became aware in June 2025 that there were concerns about withholding payments being made on time and possible penalties/interest/fees due to the IRS.
- Over the next two months, we determined that funds were sent to the IRS, as required. A number was posted incorrectly on the quarterly form, which has resulted in the IRS thinking we have not paid correctly. Payments were correct.
- Payments for the months of July 2024 and August 2024 were late, incurring fees and penalties sent in separate notices.
- We also determined that, in some cases, a required report that accompanies the quarterly filing, Schedule B, was not logged as received by the IRS.
- WS/FCS staff has been in contact with the IRS since June 2025 to reconcile the timing of payments, submitting corrected forms and the receipt of the required Schedule B documents.
- At this time, at least \$400k of the previous penalties has been reduced. We expect continued interaction and collaboration.
- Efforts have been hampered by transitions of staff and leadership in Payroll.

IRS (Cont.)

- We have received a recent notice from the IRS concerning a late WS/FCS payment for federal withholding in 2025.
- We discovered amounts due when reconciling NC for 1st and 2nd Quarter of 2025. These amounts have been paid. We will probably receive a penalty letter from NC.
- For 1st Quarter 2025
 - Quarterly report showed an underpayment of \$27,801.24, however we had overpaid \$27,213.51 in the fourth quarter of 2024. Normally they use the overpayment to offset the underpayment and all is good. However, we just discovered that the IRS used the overpayment to cover the underpayment they think occurred in 2021. Since they used the overpayment that went with this underpayment, they now show the underpayment and have assessed a penalty.
 - Late payment of \$2,657 NC withholding due to reconciling amount paid versus amount due. Amount has been paid.
- For 2nd Quarter 2025
 - Late payment of \$1,080 NC withholding due to reconciling amount paid versus amount due. Amount has been paid.

IRS (Cont.)

- We are up to date on payments to the IRS.
- We are still responding to requests to resubmit forms so we can finalize which penalties/fines are due, and what can be appealed or reduced.

Accountability

Mauldin & Jenkins LLC

- On October 27, the State Board of Education (SBE) voted to engage Mauldin & Jenkins LLC as the firm to review WS/FCS internal controls.
- This engagement is complementary to the work of our independent auditor, Forvis Mazars, and does not duplicate the work of OSA or the independent auditor.
- It evaluates the adequacy and effectiveness of current controls, including any new controls, policies, and procedures implemented since the deficit was uncovered.
- This engagement is authorized under N.C. Gen. Stat. § 115C-447 (b). The North Carolina Department of Public Instruction (NCDPI) issues the request for quote and does so on behalf of the SBE and Local Government Commission (LGC).

Mauldin & Jenkins LLC (Cont.)

- NCDPI, acting on behalf of the SBE, will serve as the lead oversight body, providing guidance and direction throughout the review process.
- WS/FCS is the primary beneficiary of this review, and the review findings will be used to inform future financial management and governance practices.
- The cost of the engagement is \$97,770, and WS/FCS is responsible for this cost as indicated in N.C. Gen. Stat. § 115C-447 (b).
- The engagement contract indicates a completion date of December 31, 2025. A public report is due by February 15, 2026.

Budget – Next Steps

- This evening:
 - Board will consider approval of a new contract with SSC.
 - Board will consider approval of the 2025-26 Budget Resolution.
 - Board will consider approval of the 2025-26 Salary Schedules.

Questions