Training 3-5:
Surety Bond and New School Budget & Cash Flow Report

WISCONSIN DEPARTMENT OF
Public Instruction
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Welcome to the Wisconsin Department of Public Instruction's training module on the Private School Choice Programs. We will refer to the Private School Choice Programs as "Choice" or "Choice program" throughout this training. The Choice program is governed by Wis. Stat. § 119.23 and 118.60, as well as Wis. Admin. Codes PI 35 and 48. Provisions of this training module are subject to statutory and rule changes.

This training module will describe the surety bond and new school budget & cash flow report.

New School Financial Requirements

- Schools new to the Choice programs must submit either the (1) DPI Budget & Cash Flow Report, including all related attachments; or (2) Surety Bond.
- Schools may not change which option they will use after May 1.

	Surety Bond	DPI Budget & Cash Flow Report
Due Date	May 1	May 1, DPI determines whether the school meets the requirements by August 1.
Frequency of Requirement	Annual until the requirements to remove the bond are met. A revised bond may be required for a new amount each year if the expected payment increases based on actual pupil counts.	First year of participation.

Wisconsin Statute 118.60 (7m) and 119.23 (7m) require that schools new to the Choice programs submit one of two items by May 1 in advance of the first school year a school participates in the Choice programs. The options are to submit the DPI Budget & Cash Flow Report, including all related attachments, or to provide a surety bond. If the school chooses the surety bond option, it will be required to annually provide a surety bond by May 1 in advance of the school year until the requirements to remove the bond are met. Schools may not change which option they will use after May 1.

Schools that are currently participating in one of the Choice programs that decide to participate in any additional programs do not need to meet these requirements unless the school selected the surety bond option in a previous year and the bond requirement has not been removed.

The required DPI Budget & Cash Flow Report is posted on the School Submitted Reports webpage at https://dpi.wi.gov/parental-education-options/choice-programs/school-reports. Schools should ensure that they use the DPI Budget & Cash Flow Report for the upcoming school year. For example, if you are completing the budget for the 2025-26 school year, the school must ensure they are using the 2025-26 DPI Budget & Cash Flow Report.

DPI Budget & Cash Flow Report Option

- The budget must show the school meets the following requirements:
  - The school is financially viable.
  - The school has sufficient contingency funding.
- Schools must use the DPI Budget & Cash Flow Report, including providing required supplemental information to support the budget.
- DPI determines if the school meets the requirements by August 1.

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First we will discuss the DPI Budget & Cash Flow Report option. Schools that choose the budget option must provide a budget that shows the school is financially viable and that the school has sufficient contingency funding. Financially viable means the school must be able to pay for goods and services, make debt service payments, and pay other obligations as they become due. The school must also have sufficient contingency funding. Contingency funding is funding that will be used if the school's actual enrollment is less than expected. These must be funding sources that are not already being used in the budget.

The budget must be completed on the DPI Budget & Cash Flow Report. The completed report and all required attachments must be provided by May 1. The DPI will review any budgets provided by May 1 and determine if the school meets the requirements no later than August 1. Between these two dates, the DPI will ask questions and request additional documentation, as needed, to ensure the school meets the requirements.

DPI Budget & Cash Flow Report Option (cont)

- All activity and balances for the legal entity of the school MUST be included.
- Organizations are considered the same legal entity if:
  - The organizations have the same federal tax id number and use it for all activities including payroll; and
  - The organizations are NOT separately set up with the Department of Financial Institutions.

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The DPI Budget & Cash Flow Report must include the activity and balances for the legal entity of the school. Organizations are considered the same legal entity if they have the same federal tax id number and the organizations are not separately set up with the Department of Financial Institutions.

The most common example of this is a church and school who have the same federal tax id number. In this case, the budget must be prepared with all activity for the school AND the church.

Annual School Budget Requirements

- Schools that participated in one of the Choice programs in the previous year **and new schools that choose the surety bond option** must complete a budget for the period from July 1 to June 30, no later than June 30 for the upcoming year.
- The school may use their own budget report or DPI's budget report.
- If the school uses their own budget, it must include certain components.

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Schools that participated in one of the Choice programs in the previous year and new schools that choose the surety bond option must complete a budget for the period from July 1 to June 30. The budget must be completed no later than June 30 for the upcoming school year. These school budgets should not be sent to the DPI unless specifically requested. The auditor will determine if the budget was completed on a timely basis as part of the Fiscal & Internal Control Practices Report. The school must either use DPI's Budget and Cash Flow Report or have an internal budget that includes certain required components. See Training 6-3 for additional information on the required components for the budget.

Surety Bond Required Amount

- Must be equal to 25% of the total amount of expected Choice payments to be received by the school in the upcoming school year.
- The expected payments are based on the number of available seats in the Intent to Participate (ITP).
- Schools that have a 3rd Friday in September Choice pupil count that is higher than the expected payment amount based on the number of available seats in the ITP may be required to provide a revised bond.

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The surety bond must be equal to 25% of the expected Choice payments. The expected Choice payments for the surety bond due by May 1 are determined based on the number of available seats the school identifies in the Intent to Participate (ITP). The ITP will identify the required surety bond amount based on the number of available seats in the ITP. The amount of the May 1 surety bond will not change for subsequent changes to the number of available seats. Schools that have a 3rd Friday in September Choice pupil count that is higher than the expected payment amount based on the number of available seats in the ITP may be required to provide a revised bond later in the school year. We will discuss when a revised bond is required and when it is due later in this training.

Surety Bond

- Any school that identifies they will use the surety bond option in the ITP will receive a surety bond form via email that must be used.
- If a school later decides to change from a budget to a bond, they must notify the DPI as soon as possible. The school cannot change which option they use after May 1.
- Bonds can take one or two months to obtain, so the school should begin this process as soon as possible.
- Any company that issues bonds may provide the bond. Schools can start by contacting their insurance agent to obtain the bond.

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The ITP will require the school to identify whether it intends to use the surety bond or budget and cash flow report option. The DPI will send a surety bond form to the Choice administrator for any school that identifies they will use the surety bond option. The surety bond form will be partially filled in based on the information in the School's ITP, including information such as the school name and the amount of the bond. **The school must use the bond form emailed by the department for that school year. The insurance company cannot use their own form or update a prior year form themselves.**

If a school that initially identifies it will use the budget and cash flow report option later decides to use the surety bond option, the school must notify the DPI as soon as possible. The DPI will then email the school the surety bond form that must be used. Since the process to obtain a surety bond can take one to two months, the DPI strongly recommends that the school does not change which option it will use after the middle of March. After May 1, the school cannot change which option it will use.

The surety bond may be provided by any company that issues bonds. A good place to start is to contact the school's insurance agent. Many insurance agents provide bonds. If your insurance agent does not provide bonds, they could refer the school to someone who does provide bonds.

Surety Bond Form (cont)

STATE OF WISCONSIN
DEPARTMENT OF PUBLIC INSTRUCTION
PRIVATE SCHOOL CHOICE PROGRAMS BOND

Whereas, «Legal_Entity_Name» *(name of legal entity of school),*

doing business as «School_Name» *(name of school, hereinafter the Principal)*,

- ☐ a nonprofit corporation
- ☐ affiliated with a religious organization with non-profit status
- ☐ a for-profit corporation
- ☐ a for-profit limited partnership
- ☐ a for-profit partnership

(*place an X next to the school's organization type above*)

at «PRIMARY_ADDRESS», «PRIMARY_CITY», «PRIMARY_STATE», «PRIMARY_ZIP» *(address of school),*

as PRINCIPAL, and ____*(name of company providing bond)* of ____*(address of company providing bond)* as SURETY, an insurer authorized to transact surety business in Wisconsin, are held and firmly bound to the Wisconsin Department of Public Instruction in the sum of $«Bond_Amount» *(amount of bond)* for the payment of which we bind ourselves, and our heirs, executors, administrators, successors, and assignees, jointly and severally. This bond is payable to the Wisconsin Department of Public Instruction in the event of injury or loss caused by a failure of the Principal to fulfill the conditions of this bond, but in no event shall the Surety's aggregate obligation exceed $«Bond_Amount» *(amount of bond).*

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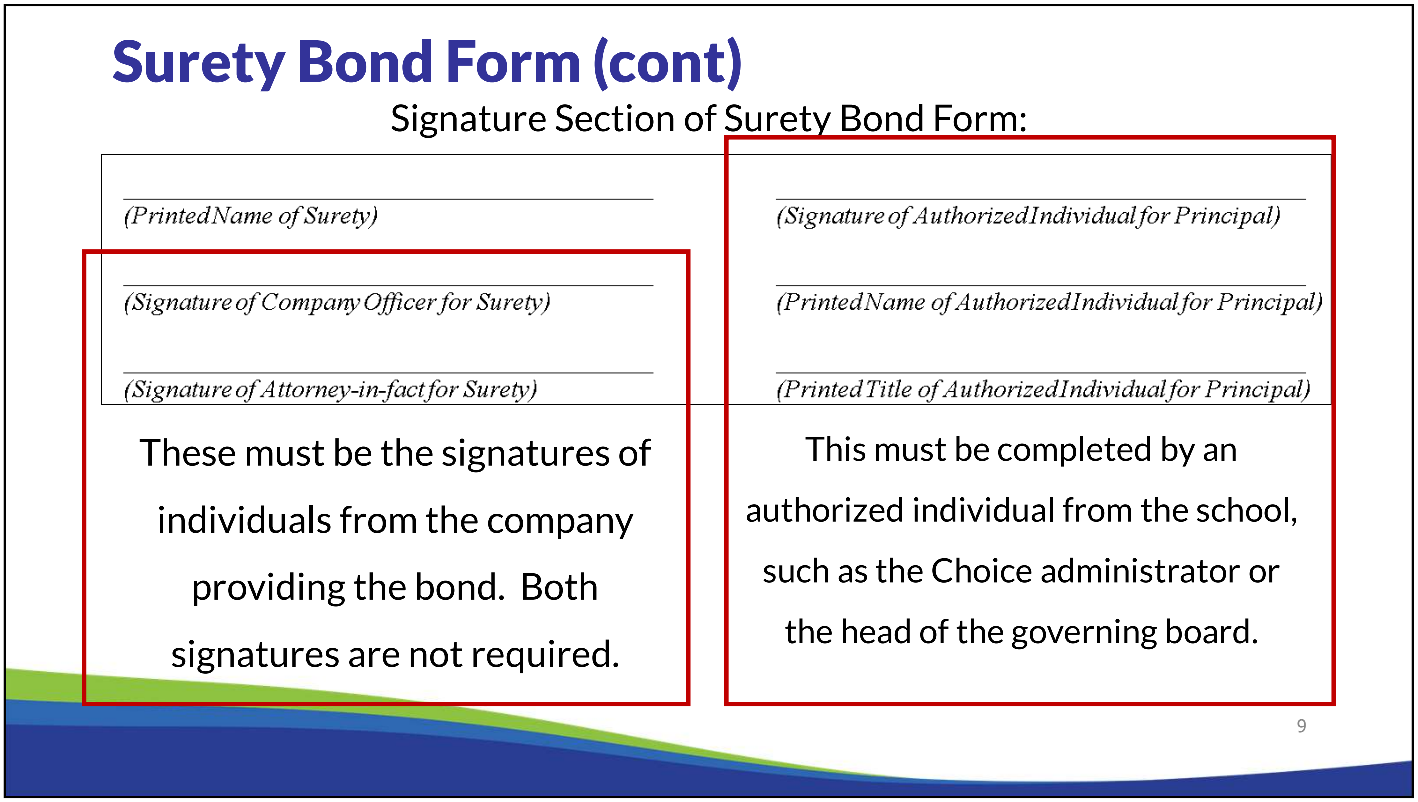
This screen shows the top section of the surety bond form. The information highlighted in blue will be prefilled in the bond form emailed to the Choice administrator. The school should not revise any of the prefilled information. If you believe any of it is incorrect, email dpichoiceauditreports@dpi.wi.gov indicating what you believe to be incorrect and what you think the correct information is. DPI will review this information and provide a revised bond form if needed.

The legal entity name on the surety bond will be prefilled with the name on the school's Employer Identification Number letter, which needs to be provided to DPI by January 10th.

The "doing business as" name and address will be prefilled with the school name and primary address that was identified on the school's ITP.



This screen shows the signature section of the bond form. The surety name and signature is for the provider of the bond. For example, this may be your insurance agent. Some organizations will have both a company officer and an attorney-in-fact sign the form. Other organizations will have one or the other. At least one of these individuals must have signed the form for it to be valid.

The surety bond will refer to the school as the "principal." The authorized individual for the principal must be an individual from the school who is authorized to sign the bond. This is typically the school's Choice administrator or the school's head of the governing board. This individual must complete all three lines in the second column of the bond form signature section.

When Could the Surety Bond Be Called?

- The DPI may call upon a bond for a number of reasons including:
  - The school failed to timely file the financial audit or enrollment reports; or
  - The school failed to timely pay the DPI for any amount due.

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The DPI may call a bond if a school fails to file the financial audit or enrollment report on a timely basis or if the school fails to pay the DPI any amount due on a timely basis. There are several reasons that a school may owe the DPI. Since schools participating in the Choice programs are paid based on unaudited pupil counts, a school may owe the DPI for students that were originally counted by the school that were later determined not eligible. Another example of a reason that a school may owe the DPI is if the school is required to repay its reserve balance.

Generally, the DPI will send a certification letter indicating if any amount is owed to the DPI. The letter will indicate if the amount will be netted from a future Choice payment or if the amount is owed within a certain time period. If a school is receiving Choice payments and is in compliance with program requirements, the DPI will use this process for any amounts that are owed to the DPI. If a school is not in compliance with program requirements, including failing to pay amounts owed on a timely basis, the DPI may call the surety bond to collect an amount that is owed.

Surety Bond Continued Annual Requirement

- If a school chooses the surety bond option, it must annually provide a surety bond by May 1 until it provides all of the following:
  - A financial audit prepared in accordance with generally accepted accounting principles (GAAP) that does not contain any indicators that the school is not financially viable.
  - Evidence of sound fiscal and internal control practices for the school year in the financial audit and for the subsequent school year.
- DPI will notify schools when they have met the requirements to no longer provide a bond.

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A school that chooses the surety bond option must annually provide a bond to the DPI by May 1 prior to each school year until certain requirements are met.

First, the school must provide a financial audit prepared in accordance with Generally Accepted Accounting Principles, or GAAP, that does not contain any indicators that the private school is not financially viable. This financial audit must be at the legal entity level.

Second, the school must provide evidence of sound fiscal and internal control practices for the school year in the financial audit and the subsequent school year. As a result, schools choosing the surety bond option will be required to provide a surety bond for a minimum of two school years.

For example, a school that is a first time participant in the Choice programs chooses the surety bond option. The financial audit for year 1 will be due by October 15th of the second school year. If that financial audit did not include any indicators of non financial viability, the DPI would then review the fiscal and internal control practices of the school to ensure it also did not include any indicators of non financial viability for the first or second school year. If the school did not have any indicators of non-financial viability, the school would not be required to provide a bond beginning with the third school year.

Financial Audit

- The financial audit to remove the bond must meet the following requirements:
  - Be at the legal entity level.
  - Include two-year comparative financial statements that include the audit of the full-year financial information for both school years.
- The modified financial audit will not be sufficient to remove the surety bond requirement.

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The financial audit that is required to remove the bond must be prepared at the legal entity level. Organizations are considered the same legal entity if they have the same federal tax id number and the organizations are not separately set up with the Department of Financial Institutions.

The financial audit must also include two-year comparative financial statements that include the audit of the full-year financial information for both school years. This means all of the financial statements, including the Statement of Financial Position, Statement of Activities, and Statement of Cash Flows, must include the audited financial information for both years.

Schools that are participating in the Choice Programs have the option to provide a modified financial audit in certain circumstances. The modified financial audit is a limited financial audit. As a result, the financial audit for removing the bond option cannot be a modified financial audit. Additional information on the financial audit, including the modified financial audit option, is available in the Training 5 series. The DPI also has two bulletins available at https://dpi.wi.gov/parental-education-options/choice-programs/bulletins that explain the financial audit. They are the Financial Audit and PSCP/SNSP Reserve Balance Bulletin and the PSCP Eligible Education Expenses Bulletin.

Examples of Non Financially Viable Indicators

- The financial audit opinion contains an emphasis of matter or an expression of the auditor's doubt as to the school's ability to continue.
- Either year in the financial audit has any of the following:
  - Total assets are less than total liabilities.
  - Current assets are less than current liabilities.
  - The change in net assets are negative unless the alternative option is used.

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This slide includes some examples of non-financial viability indicators. If the school had any of these indicators, the school would be required to continue to provide a surety bond. The first indicator is that the financial audit contained an emphasis of matter or an expression of the auditor's doubt as to the school's ability to continue. This would mean that the auditor has determined the school may not continue to be in operation for the next year.

Another indicator is the school's total assets are less than the school's total liabilities for either year in the financial audit.

The next indicator is that the school's current assets are less than the school's current liabilities for either year in the financial audit. Current assets include cash, short term investments, and receivables expected to be received in the next year. Current liabilities include payables and debt that the school must pay in the next year.

Finally, the change in net assets being negative in either year would also be an indicator. This would mean that the Statement of Activities reflects the school's expenses exceed the amount of revenue the school received for the year. There is an alternative option for this factor. If the change in net assets is negative $25,000 or greater, the school can still meet the requirement if both the net asset balance and net current obligation are greater than $50,000 in both years.

Examples of Non Financially Viable Indicators (cont)

- The school failed to make payments to vendors as required per written agreement or, if there is no agreement, within 90 days of invoice or payment request.
- The school has past due amounts with government agencies, including payment of employee withholdings, even if the school has entered into a payment plan with the government agency.
- The school failed to pay employees as required.

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In order to be financially viable, the school must pay all amounts as they come due. As a result, the following are also indicators that a school is not financially viable:

- The school failed to make payments to vendors as required per written agreement or, if there is no agreement, within 90 days of invoice or payment request. This is an indicator even if there is a payment plan in place.
- The school has past due amounts with government agencies, including payment of employee withholdings, even if the school has entered into a payment plan with the government agency.
- The school failed to pay employees as required. Schools participating in the Choice programs are required to have written agreements with all employees and pay employees based on those agreements. Additionally, the school must provide employees with the dates the employees will be paid. There must not be more than 31 days between pay dates. If the school fails to pay employees the full amount owed on each pay date or there are more than 31 days between pay dates, these would also be indicators of non financial viability.

Surety Bond Changes

- If the school's actual 3rd Friday in September pupil count is higher than the number of seats available in the ITP, the following will occur:
  - The total expected Choice payments based on the 3rd Friday in September Pupil Count Reports will be compared to the total expected Choice payments based on the available seats in the ITP.
  - If the difference between the total expected payment amounts is $50,000 or more, a revised bond is required.

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The DPI will review the school's 3rd Friday in September Pupil Count Reports. If the school's actual pupil count is higher than the number of seats available in the ITP, a revised surety bond may be required. In order to determine if a revised surety bond is required, calculate the total expected Choice payments based on the 3rd Friday in September Pupil Count Reports. If the school's expected Choice payments based on the 3rd Friday in September Pupil Count Report are $50,000 or more than the expected Choice payments based on the ITP available seats, a revised bond is required.

Surety Bond Changes (cont)

- If a revised bond is required, it must meet the following:
  - The revised bond is due by the first weekday in November.
  - The revised bond amount will be 25% of the total expected payment based on the 3rd Friday in September pupil count and the submitted Summer School Count Report, if applicable.

If a revised bond is required, it must be provided to the DPI by the first weekday in November. The amount of the revised bond must be 25% of the total expected payment based on the 3rd Friday in September pupil count and the submitted Summer School Count Report, if the school provided Choice summer school. Typically, the bond provider will issue a bond rider rather than a new bond. The bond rider adjusts the surety bond amount.

Surety Bond Changes (cont)

- The surety bond amount may not be reduced if the total expected payment based on the 3rd Friday in September Pupil Count Reports is less than the total expected payment based on the ITP.
- The surety bond is not modified for any changes in the 2nd Friday in January pupil counts.

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The bond amount cannot be revised if the school's actual pupil count is lower than the number of available seats in the ITP. This would include a decrease in the number of pupils that were counted on the 3rd Friday in September Pupil Count Report or the 2nd Friday in January Pupil Count Report.

Surety Bond Submission

- The completed bond form should be emailed to dpichoiceauditreports@dpi.wi.gov. It does not also need to be mailed to the department. The school should retain the original in its files.
- The bond submission must include the Power of Attorney form indicating the individual from the Surety who signed the bond has the authority to sign the bond on behalf of the Surety.
- If DocuSign is used to sign the bond, the DocuSign Certificate of Completion must be provided with the bond.

Before sending the surety bond form to the department, the school should do a final check to verify the following:

- The surety bond form matches the form originally provided by the department, including all prefilled information.
- All parts of the form that must be completed by the bond provider or the school have been fully completed. The school should make sure that a representative for the school has completed all three lines for the "Principal" at the bottom right of the surety bond form.

The surety bond form should be emailed to dpichoiceauditreports@dpi.wi.gov. The email box has a size limit of 15 mb. Schools sometimes have technical difficulties with emailing so the DPI strongly recommends not waiting until the last day to send the required information. The school should retain the original surety bond form for its records. The school should not also mail the surety bond form so that if any corrections are required the school is able to make the updates and send the updated copy to the department.

Schools must provide the power of attorney form for the individual from the bond provider who signed the bond showing the individual has the authority to do so. Additionally, the school should provide the DocuSign certificate of completion if the surety bond form was completed using DocuSign.

Submission of the Budget

- Instructions for submission of the budget are included on the "Instructions" tab of the Budget and Cash Flow Report.
- The budget must be submitted through Kiteworks.

Schools must submit the budget information using Kiteworks. Kiteworks is a secure content communication platform.

The DPI will create a folder in Kiteworks for each Choice administrator where the school can upload its budget and related attachments. The Choice administrator will receive an email from sft@dpi.wi.gov that will indicate that DPI has given the administrator secure access to files in the folder. The Choice administrator may want to add the sft@dpi.wi.gov email address to their safe sender and/or contact list, depending on the email product, to ensure emails from this address are not routed to the spam, junk, or promotions email folders.

Schools sometimes have technical difficulties with submitting these documents, so the DPI strongly recommends not waiting until the last day to upload the required information.

Knowledge Check 1

The expected payment based on the ITP was $100,000, so the originally required bond was $25,000. Based on the actual 3rd Friday in September pupil count, the expected Choice payment is $150,000, which would result in a required bond amount of $37,500. Which of the following is true?

a. The school is required to obtain a revised bond because the expected Choice payment amount increased by $50,000.

b. The school is not required to obtain a revised bond because the required bond only increased by $12,500, which is less than $50,000.

The correct answer is a. The originally expected payment amount based on the ITP of $100,000 is compared to the expected payment amount based on the actual 3rd Friday in September pupil count, which was $150,000. Since the difference between these two amounts is $50,000, a revised bond is required. The two amounts that are compared are not the bond amounts.

Knowledge Check 2

True or False-If the school's actual 3rd Friday in September pupil count is less than the expected number of pupils in the ITP, the school can update the bond for the lower bond amount.

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The answer is False. The school cannot provide a bond for a lower amount than what was originally in the ITP, even if the school's actual 3rd Friday in September pupil count is less than the expected payment amount in the ITP.

Knowledge Check 3

A school new to the Choice programs chooses to meet the budget and cash flow requirement. The school and the church have the same federal tax id number. What financial information (balances, revenues, expenses, etc) needs to be included in the budget?

a. The school's financial information only.
b. The church's financial information only.
c. The school's and the church's financial information.

The correct answer is c. If the school chooses the budget and cash flow report option, it must include the financial information for the entire legal entity of the school. In this case, that would include the school's and church's financial information.

Questions

Website: https://dpi.wi.gov/parental-education-options/choice-programs

Email: dpichoiceauditreports@dpi.wi.gov

Phone: 1-888-245-2732 ext. 3

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If you have any questions about the information discussed in this training, please see the Private School Choice Programs homepage. The left menu bar of the Private School Choice Programs homepage has resources for both schools and auditors.

Choice schools may also contact the Choice team at the email on the screen, or call the toll-free number at 1-888-245-2732, extension 3.