

Training 6-11: Financial Viability & Going Concern Determinations



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 ch. PI 35 and 48. Provisions of this training module are subject to statutory and rule changes.

In this section of the Fiscal and Internal Control practices requirements we will go through financial viability and going concern determinations.

Lack of Financial Viability and Going Concern Determinations

- **Financially Viability Determination:** The department must determine if the school is able to pay for goods and services, make debt service payments, and pay other obligations as they become due.
- **Going Concern Determination:** In an audit, the auditor must evaluate and conclude, based on the audit evidence obtained, whether there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time.

Financially viable means that the school must be able to pay for goods and services, make debt service payments, and pay other obligations as they become due. Additionally, Wisconsin Statute and Administrative Code require that schools participating in the Choice program are financially viable.

The American Institute of Certified Public Accountants requires that the auditor evaluates and concludes whether there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time. The auditor completes this evaluation as part of the financial audit procedures. If the auditor determines that the school does not have the ability to continue as a going concern for a reasonable period of time, they will include a paragraph in the opinion for the financial audit indicating this.

Lack of Financial Viability & Going Concern Indicators

Indicators of a Lack of Financial Viability or Going Concern:

- The budget and statement of cash flows show the school has:
 - inadequate revenues and other financial resources to fund current operations,
 - negative cash flows,
 - a negative net asset balance, or
 - a net operating loss.
- The school failed to make payments to employees or vendors as required.
- The school failed to be current with filings, payments, or withholdings payments to government agencies as required.

Wisconsin Administrative Code identifies indicators that the school is not financially viable or that the school does not have the ability to continue as a going concern.

These indicators include:

- The budget and cash flow has inadequate revenues and other financial resources to fund current operations, negative cash flows, a negative net asset balance, or a net loss.
- The school failed to make payments to employees or vendors as required. As discussed in an earlier training, the school must pay vendors as required by the written agreement or, if there is no written agreement, within 90 days of invoice receipt or payment request. Employees must be paid as required by the written agreement. Employees must be paid at least once every 31 days.
- The school failed to be current with filings, payments, or withholding payments to government agencies.

Lack of Financial Viability & Going Concern Indicators (Cont)

Indicators of a Lack of Financial Viability or Going Concern (cont):

- The audit reports required by federal, state, or local government entities contain questioned costs or compliance findings that may affect the school's ability to continue.
- The school has the following in the financial audit:
 - A negative net asset balance.
 - A negative net current obligation. The net current obligation shall be calculated as the current assets less the current liabilities.
 - A net loss in its financial audit.

Another indicator is the audit reports required by federal, state, or local government entities contain questioned costs or compliance findings that may affect the school's ability to continue.

The department and the auditor will also consider the information in the financial audit. Indicators from the financial audit include the school having a negative net asset balance, a negative net current obligation, or a net loss. The net current obligation is calculated as the current assets less the current liabilities.

Lack of Financial Viability Indicator

Indicators of a Lack of Financial Viability:

- The audit opinion statement included in the financial audit contains a qualification as to the school's ability to continue as a going concern.



Finally, an indicator that a school is not financially viable is if the audit opinion in the financial audit indicates that there is doubt about the school's ability to continue as a going concern.

Non Financially Viable -- Surety Bond

- A school that is determined to not be financially viable by the department shall be required to immediately obtain a surety bond.
- The bond shall be equal to 25% of the total current school year payment amount.

If the department determines that a school is not financially viable, it will require that the school immediately obtain a surety bond if the school doesn't already have a surety bond. The required bond amount is 25% of the total current year payment amount.

Non Financial Viability Surety Bond Duration

The bond shall remain in force until all of the following occur:

- The financial audit does not contain a qualified audit opinion or an expression of the auditor's doubt as to the school's ability to continue for two consecutive years.
- The financial audit shows the following for the same two consecutive years:
 - Positive net asset balance
 - Positive net current obligation (current assets less current liabilities)
 - Net income

Pledge receivables or other receivables may only be included if the school received cash payments within one year of the date pledged or within one year of the date the amount was included as a receivable.

The bond must remain in force until the school meets the requirements to remove the bond. In order to remove the bond requirement, the school meet certain requirements for two consecutive years. The requirements are that:

- The financial audit does not have a qualified audit opinion or an expression of the auditor's doubt as to the school's ability to continue.
- The financial audit has a positive net asset balance, positive net current obligation, and net income. In order to determine if the school meets these requirements, any pledge receivables or other receivables that the school has not received cash payments for within a year must be removed. For example, if the school receives a pledge for \$10,000 but only receives \$2,000 within a year, \$8,000 must be removed from the pledge receivables and revenue amount to determine if the school meets the criteria.

Non Financial Viability Surety Bond Duration (Cont)

The bond shall remain in force until all of the following occur (cont):

- The school does the following for the same two consecutive years:
 - Pays all amounts owed to the IRS, DOR, and DWD, including full payment of any wage claims and past due amounts, interest and penalties.
 - Paid all vendors and employees as required by the Choice requirements.

Additionally, the school must pay all amounts owed to the IRS, DOR, and DWD. This includes full payment of any wage claims and past due amounts, interest, and penalties. A payment plan with one of these organizations is not sufficient to meet this requirement. Any amounts owed must be paid off to meet the requirement. The school must submit a letter from the IRS, DOR, and DWD indicating that the school meets the requirement and provide the department with the authority to speak directly with the agencies to confirm it meets the requirements.

The school must also have paid all vendors and employees as required by Wisconsin Administrative Rule. In order to determine this, the department will review the results of the Fiscal & Internal Control Practices Report and any other information available to the department.

Non Financial Viability Surety Bond Duration (Cont)

The bond shall remain in force until all of the following occur (cont):

- If the school's financial audit does not contain all revenues, expenditures, assets, and liabilities of the legal operating organization of the school, the school must submit financial statements for the school's legal operating organization prepared in accordance with GAAP that:
 - Contain two year comparative financial statements for the two school years in which the previous requirements were met.
 - Do not contain a qualified audit opinion or expression of doubt as to the organization's ability to continue as a going concern.
 - Show that the legal operating organization of the school also meets the requirements previously described.

Schools have the option of providing the annual financial audit required for the Choice program at either the school only level or at a consolidated level, if permitted by Generally Accepted Accounting Standards or GAAP. If a school with a surety bond requirement provided a financial audit at the school only level, it must provide a GAAP audit at the school's legal operating organization level in order to remove the requirement. The school must provide this audit and meet the other requirements for 2 consecutive years. The audit may not include a qualified audit opinion or expression of doubt as to the organization's ability to continue as a going concern. The audit must show that the legal operating organization of the school also meets each of the requirements previously described.

Non Financial Viability Duration

- If the school is not able to remove the bond within 5 years from when the bond is initially required or if the school's financial position worsens, the department may terminate the school from the program.

If the school is not able to meet all of the requirements within 5 years of the bond being required or if the financial position worsens, the department may terminate the school from the Choice program.

Questions

Website: <http://dpi.wi.gov/sms/choice-programs>

Email: DPIChoiceAuditReports@dpi.wi.gov

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



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 auditors at the email on the slide, or call the toll-free number at 1-888-245-2732, extension 3.