



PRIVATE SCHOOL CHOICE PROGRAMS INFORMATIONAL BULLETIN

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PSCP Eligible Education Expenses

This bulletin provides information on the requirements related to eligible education expenses for the Private School Choice Programs (PSCP) as required under §§118.60 (7) (am) and 119.23 (7) (am), Wis. Stats., and Wisconsin Administrative Code PI 35 and PI 48. Eligible education expenses are determined based on the school’s written policy and included as part of a supplemental schedule submitted with the school’s required annual financial audit. The independent auditor hired by the school will determine, after testing, if expenses are eligible education expenses based on the school’s written policy. For more information on the financial audit requirements, the supplemental schedule, offsetting revenue, and fixed assets, see the Financial Audit and PSCP/SNSP Reserve Balance Bulletin available at: <https://dpi.wi.gov/parental-education-options/special-needs-scholarship/bulletins>. Training 5 on the [Choice On Demand Training webpage](#) explains the financial audit requirements and Training 6-5 explains the required written policy requirements.

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Required Written Policies

Eligible Education Expenses Policy

The governing body of each private school participating in the PSCP must develop a written eligible education expenses policy. The eligible education expenses policy must meet the following requirements.

1. Be a written policy that is approved by the school’s governing board.
2. Describe the school’s educational purpose.
3. Describe the services related to educational programming that the school provides to pupils enrolled in four-year-old kindergarten (K4) to 12th grade that are reasonable for the private school to achieve its educational purpose. Some examples of related services that the school may provide to support its educational purpose include: (a) management or administration services, (b) extracurricular activities, (c) development expenses, (d) before and/or after school care to pupils in grades kindergarten (K) through 12, (e) transportation services, and (f) food service. Development expenses are expenses the school incurs to raise funds for the school. Before and after school care costs may only be included as an expense for care during the school year or during summer school for pupils that are enrolled in K-12 educational programming. Costs for before and after care for daycare would not be a related service. The school may also identify other related services it has that support its educational purpose. As a result, the school should consider what related services it provides to meet the educational purpose of the school and ensure those activities are included in the written policy.
4. If the school has expenses or offsetting revenues that are partially related to educational programming and partially related to non-educational programming, describe the allocation method(s) that will be used. See the Allocation Requirements section below for additional information.

Capitalization Policy

Depreciation expense for fixed assets that are used for educational programming can be included as an eligible education expense if they meet the requirements in the Financial Audit and PSCP/SNSP Reserve Balance Bulletin. In order to determine what assets are fixed assets and how they will be depreciated, each school is required to have a written capitalization policy. The capitalization policy must describe what asset categories will be used, the useful life that will be applied to assets within each category, and the monetary threshold that will be used to determine if an asset is capitalized. The policy should also include information on what asset groups, if any, will be used for capitalization purposes. Appendix 1 includes an optional template for creating a capitalization policy. Each school must develop their own written capitalization policy categories, descriptions, asset groups (if applicable), useful lives, and monetary thresholds. If the school owns land and chooses to include it in the financial audit, land is a required fixed asset category.

Eligible Education Expenses Requirements

Overview

Eligible education expenses are used to calculate the school's PSCP reserve balance. The reserve balance is the difference between the PSCP revenue received and the amount spent on PSCP eligible education expenses. For additional information on the calculation of the reserve balance, see the Financial Audit and PSCP/SNSP Reserve Balance Bulletin.

Eligible education expenses are determined based on the school's written eligible education expenses policy. Eligible education expenses include all expenses associated with a school's educational programming for all pupils enrolled in grades K4 to 12 that are reasonable for the school to achieve its educational purpose. These expenses are eligible education expenses whether or not they are specifically for the choice pupils at the school.

Additional eligible education expense requirements

1. The expenses must have been incurred and have already been paid or will be paid in a future school year.
2. The expenses must be supported by evidence of the good or service purchased and the amount expended.
3. Eligible education expenses may only be included one time.
4. Eligible education expenses may only include those expenses that may be included in the Statement of Activities based on generally accepted accounting principles (GAAP) for that school year except for the following:
 - The amount that the school paid for land is included as an eligible education expense in the first year the land is used for educational programming.
 - Modified Financial Audit Only: Post retirement benefits may be included based on the actual cost of the benefits in that year.
5. Fixed assets must meet the requirements in the Financial Audit and PSCP/SNSP Reserve Balance Bulletin. The determination of which assets are capitalized must be based on the school's capitalization policy that states what assets are fixed assets and how they will be depreciated. If the school is participating in the Choice program and the Special Needs Scholarship Program (SNSP), the same capitalization policy must be used. Appendix 1 includes an optional template for creating a capitalization policy. If the school owns land and chooses to include it in the financial audit, land is a required fixed asset category.

Eligible education expenses may not include

1. Expenses that the independent auditor determines were not associated with the school's educational purpose or programming, as determined by the school's written eligible education expenses policy.
2. Services, fixed assets, or goods that are donated to the school.
3. Scholarship awards and financial support for pupils to attend the school, including payments to parents or others on behalf of pupils.
4. If the school contracts with a public school district to provide educational programming, such as K4 programming, the expenses for this program and any related services should not be included as an eligible education expense. These pupils are not included in the all pupil count. The revenue from the school district is also not included as offsetting revenue on the financial audit supplemental schedule.
5. Daycare/preschool expenses, except expenses for before or after school care for K4 through 12th grade pupils that are enrolled in educational programming at the school. If the school has a program for four-year-old or five-year-old children and the grades are not available for SNSP or Choice program pupils, it may determine if the program is daycare/preschool or educational programming.
 - If it is daycare/preschool, the students are excluded from the all pupil count and the costs are excluded from eligible education expenses.
 - If it is educational programming, the students are included in the all pupil count and the costs are included in eligible education expenses.

If K4 and/or five-year-old kindergarten (K5) are grades that SNSP or Choice program pupils are able to apply to, the grade or grades are considered educational programming.
6. Expenses that are included as primarily SNSP eligible education expenses or as eligible in a SNSP Statement of Actual Cost. See the SNSP Eligible Education Expense Bulletin at <https://dpi.wi.gov/parental-education-options/special-needs-scholarship/bulletins> for additional information on how the amount that is excluded from the Choice eligible education expenses is determined.
7. Uncollectable amounts owed to the school (bad debt expenses). An example of this would be tuition that a school is not able to collect from a student.

Allocation Requirements

If the school has expenses or offsetting revenues that are partially related to educational programming and partially related to non-educational programming, the written eligible education expenses policy must describe the allocation method(s) that will be used. This may include the following situations:

1. The school is part of a church.
2. The school has non-educational programming operations. This would include three-year-old kindergarten or daycare operations.
3. The school includes central administration for multiple schools. An example of this would be a management organization providing central administration for several schools. A school that has several different locations (including grandfathered Wisconsin Parental Choice Program systems) does not need to separately identify the amount of eligible education expenses for each individual school for Choice purposes. However, if the system is participating in the SNSP, the system will need to identify the amount of eligible education expenses for each school participating in the SNSP.

The school should determine what allocation methods will be used for asset categories, expenses, or offsetting revenues. If allocations will be used, they must be documented in the written eligible education expenses policy. Some example allocation methods include:

1. Pupil full-time equivalency or headcount
2. Employee full-time equivalency or headcount
3. Time spent
4. Number of transactions for allocating items such as accounting expenses
5. Square footage or square footage used over time for items such as rent
6. Miles driven or driver hours for items such as transportation expenses

Frequently Asked Questions

Changes to Prior Year Eligible Education Expenses

1. ***What if a previously included eligible education expense is forgiven, will not be paid, or is determined to not be appropriate?***

The eligible education expenses will be reduced by the amount that is forgiven, will not be paid, or is determined to not be appropriate if the school was participating in the Choice program in the year the expense was included as eligible. This is completed by including it on the "Adjustments to Prior Year Net Eligible Education Expenses" line of the Reserve Balance Schedule in the year the adjustment is identified. The full amount, prior to applying the percent of the school participating in the Choice program, must be included on this line. Decreases to the net eligible education expenses should be included as a negative amount on this line. If there are any amounts on this line in the Reserve Balance Schedule or any changes in the prior year balances on any of the financial statements, the financial audit should include a note explaining the change and why it did or did not impact the prior year net eligible education expenses.

2. ***If an eligible education expense was missed in a previous school year, can it be included in the current school year?***

Yes, eligible education expenses that were missed in a previous year may be added in the current school year on the "Adjustments to Prior Year Net Eligible Education Expenses" line of the Reserve Balance Schedule if the school was participating in the Choice program in the year the expense was incurred. The full eligible education expense that was missed, prior to applying the percent of the school participating in the Choice program, must be included on this line. Increases to the net eligible education expenses should be included as a positive amount on this line. If there are any amounts in this line on the Reserve Balance Schedule or any changes in the prior year balances on any of the financial statements, the financial audit should include a note explaining the change and why it did or did not impact the prior year net eligible education expenses. However, if land was not properly included as eligible in the first year the school participated in the Choice program or used the land for educational programming purposes, the land should not be included on the "Adjustments to Prior Year Net Eligible Education Expenses" line of the Reserve Balance Schedule. Instead, the school and/or auditor should contact the DPI.

Determining What Expenses Are Eligible

- 3. *Does before and after school care need to be provided by a teacher in order for it to be included as an eligible education expense?***

No, before and after school care does not need to be provided by a teacher to be included as an eligible education expense.

- 4. *If repairs or maintenance are made to a school building, can the school include these expenses as an eligible education expense?***

Yes, repair and maintenance expenses related to buildings may be included if they correspond with a building that is used for educational programming purposes, as defined by the school's written eligible education expenses policy, and the school expended cash for the expense or will in the future. The amount included as an annual eligible education expense depends on whether the expenses were capitalizable based on the school's written capitalization policy. If the expenses were capitalizable, they would be depreciated annually based on the capitalization policy. If the expenses were not capitalizable, they are included fully in the year incurred. The expenses may also need to be allocated if they are for both educational and non-educational purposes.

- 5. *Our school has owned land for multiple years. Can the school include land expense as an eligible education expense in the first PSCP financial audit?***

If the land is included in the GAAP audit and the school can provide the auditor with evidence of the transaction and that the school paid for the land, the school can include the cost of land as an eligible education expense in the school's first PSCP financial audit. An allocation of the expense may be required based on the portion that is used for educational programming.

- 6. *Can a loss on the disposal of fixed assets be included as an eligible education expense if the fixed asset was used for educational programming purposes?***

Yes, a loss on the disposal of fixed assets may be included as an eligible education expense if the fixed asset was used for educational programming purposes. If the fixed asset was partially used for educational programming, an allocation method must be used to determine the eligible portion.

- 7. *The church and the school are the same legal entity. The church charges rent to the school. Can the school include the rent as an eligible education expense?***

No. The rent must be paid to a separate legal entity to include it as an eligible education expense. Recording rent in the internal financial statements represents internal bookkeeping for expenses and does not represent cash disbursements by the legal entity of the school. The school can include the building in its financial statements and depreciate it if it meets the fixed asset requirements. The portion of the depreciation that is an eligible education expense must be determined using an allocation method.

- 8. *The church and the school are the same legal entity. The church pays for general expenses such as utilities and charges the school. Can the school include the expenses as an eligible education expense?***

If the legal entity of the school has paid or will pay for the expenses, they may be included. The portion of the expense that is an eligible education expense must be determined using an allocation method.

9. Are tuition discounts given to employees an eligible education expense?

No, these amounts are not eligible education expenses. They are not eligible because administrative rule indicates that scholarship awards and financial support, which tuition discounts are a form of, are not eligible. Additionally, eligible education expenses may only include those expenses that already have or will result in a cash disbursement. A tuition discount would not meet this requirement. If the tuition discounts are included in total expenses in the Statement of Activities, the school must include the discounts in the scholarship awards and financial support ineligible expense line in the standard reserve balance schedule.

Other Questions

10. Will the DPI provide a sample eligible education expenses policy? Will the DPI approve the school's written policy?

No. The DPI will not provide a sample policy or approve policies. Each participating school is required to write a policy that is applicable to the school's unique educational programming and organizational structure.

11. What is the Statement of Activities?

A complete set of not-for-profit financial statements includes a statement of activities. This statement is similar to the income statement required in for-profit financial statements. The statement of activities includes the revenues and expenses of the school for a particular time period.

12. What is offsetting revenue?

See the Financial Audit and PSCP/SNSP Reserve Balance Bulletin at <https://dpi.wi.gov/parental-education-options/choice-programs/bulletins> for an explanation of what is included in offsetting revenue.

Appendix 1: Template Capitalization Policy

The capitalization policy should describe what asset categories will be used, the useful life that will be applied to assets within each category, and the monetary threshold that will be used to determine if an asset is capitalized. The policy should also include information on what asset groups, if any, will be used for capitalization purposes.

Category Name	Category Description	Useful Life	Monetary Threshold
Educational Media	Instructional and administrative items that are expected to serve their principal purposes for more than a year. Media includes items such as text and reference books, audio-visual materials, and computer software.	[School should specify the number of years that will be used for this category]	[School should specify the dollar threshold that will be used for this category]
Equipment	Classroom, office, and other equipment that is expected to serve its principal purposes for more than a year. This includes items such as desks, furniture, freestanding lockers, computers, copiers, and vehicles.	[School should specify the number of years that will be used for this category]	[School should specify the dollar threshold that will be used for this category]
Buildings	Building and building components such as lighting fixtures, built-in lockers, heating, ventilating and wiring systems.	[School should specify the number of years that will be used for this category]	[School should specify the dollar threshold that will be used for this category]
Land	Land and land preparation expenses for its intended purpose. This includes demolition of an existing building and other site preparation and site improvements (other than buildings) that ready the land for its intended use.	None	N/A
Land Improvements	Improvements that add functionality to the land. Examples include sidewalks, fencing, installed playground equipment, and landscaping.	[School should specify the number of years that will be used for this category]	[School should specify the dollar threshold that will be used for this category]
Leasehold Improvements	Improvements to a leased facility that will stay with the facility even if the school no longer leases the facility.	The current lease term	[School should specify the dollar threshold that will be used for this category]