

Training 5-3: Program Reserve Balance

1. 5-3 Program Reserve Balance

1.1 Training 5-3:

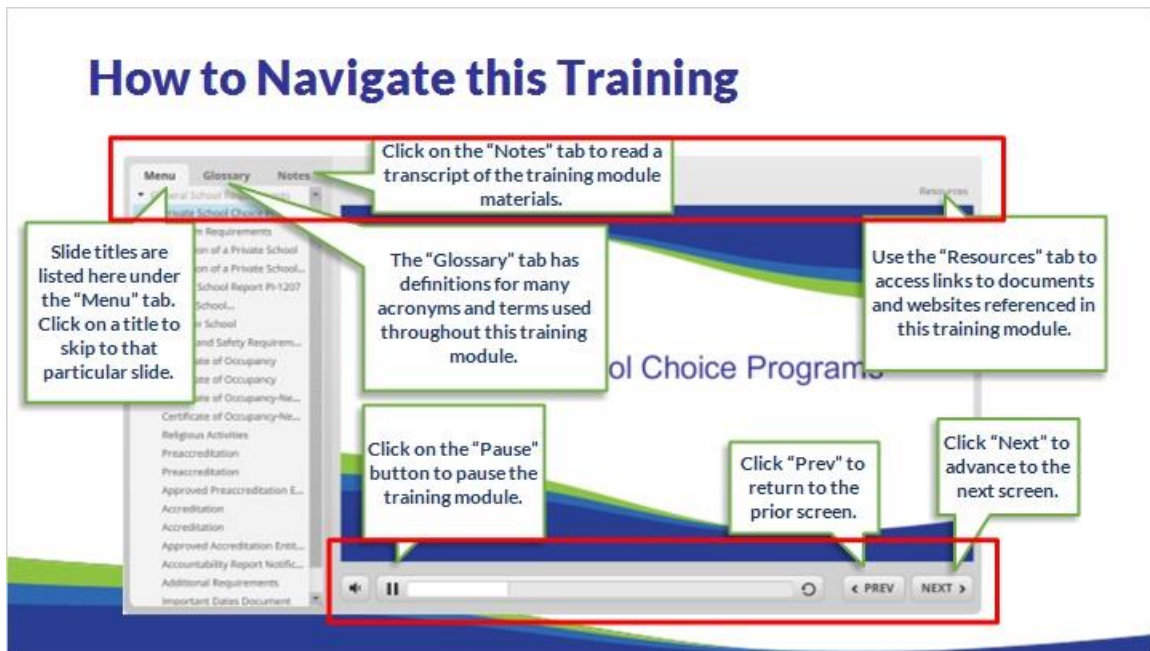


Notes:

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 "PSCP", "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.

This training module will discuss the PSCP and Special Needs Scholarship Program, or SNSP, Reserve Balance Schedules, including explaining the reserve balance requirements. The training will use the term "Program" as a general reference to the Choice programs and SNSP. The SNSP is a separate program from the Choice Program. In order to participate in the SNSP, schools must complete a separate Intent to Participate. See the SNSP Homepage for additional information on the SNSP. A link to the website is available in the Resources in the top right corner of the screen.

1.2 How to Navigate this Training Module



Notes:

Before we start, here are some tips and tools you may wish to use when viewing this training.

When listening to this training please note the buttons at the top of the training screen. Titles to all of the slides in this training are listed under the "Menu" tab on the top left of the training screen. You may watch the training in its entirety, or you may skip to a specific slide by clicking on the title of a particular slide.

Acronyms and terms that are used throughout this training are defined under the "Glossary" tab on the upper left side of the training screen. If you have any questions about a particular acronym or term that is used in this training, click on the "Glossary" tab to read the definition of that acronym or term.

The "Notes" tab has a transcript of the training materials as they are presented. If you wish to read along with the training, please click the "Notes" tab on the upper left side of the training screen.

We have also posted resources related to this training which can be found under the "Resources" link on the upper right hand side of the training screen.


Next please note the buttons at the bottom of the training screen. If you want to pause on or during a specific slide, please hit the "Pause" button. Clicking the "Prev" button will allow you to return to the previous slide and clicking the "Next" button will allow you to advance to the next

slide, if you wish to advance sooner than the auto-timing.

1.3 Reserve Balance Schedule

Reserve Balance Schedule

- The financial audit for the Private School Choice Programs (PSCP) / and Special Needs Scholarship Program (SNSP) is the same.
- Schools participating in the PSCP must submit a PSCP Reserve Balance Schedule.
- Schools participating in the SNSP must submit a SNSP Reserve Balance Schedule.
- The amounts used in the reserve balance schedules must be determined using the accrual basis of accounting.



Notes:

As discussed in the first training in this module, an annual financial audit is due to the DPI by October 15th. A school participating in the PSCP and the Special Needs Scholarship Program, or SNSP, submits the same financial audit. Additionally, schools participating in the Private School Choice Programs are required to submit a PSCP Reserve Balance Schedule and schools participating in the SNSP are required to submit a SNSP Reserve Balance Schedule. These schedules are an additional required component of the financial audit.

The Reserve Balance Schedules may also be referred to as supplemental schedules, as they are additional schedules to the standard financial audit statements. The Reserve Balance Schedules are used to determine the school's PSCP and SNSP reserve balances. As we discussed in the first section of the Financial Audit trainings, the financial audit must be prepared using the accrual basis of accounting. The amounts used to calculate the reserve balance must also be calculated using the accrual basis of accounting.


A Financial Audit and Reserve Balance Bulletin and an Eligible Education Expense

Bulletin are available on the Bulletin webpage. A link to the Bulletin webpage is available in the Resources on the top right corner of the training screen.

1.4 Reserve Balance Overview

Reserve Balance Overview

- The reserve balance is calculated as the Choice Program or SNSP revenue received by the school less the school's net eligible education expenses for Choice Program or SNSP pupils.
- Choice Program or SNSP revenue includes the following:
 - Regular school year revenue
 - Summer school revenue



Notes:

The reserve balance for the Choice programs or the SNSP is calculated as the Choice program or SNSP revenue less the net eligible education expenses for Choice program or SNSP pupils.

The Program revenue included in the reserve balance calculation is the Choice program or SNSP revenue related to the school year and the revenue received from the Choice program or SNSP for summer school. If the school offers summer school, it is considered to be revenue for the following fiscal school year. For example, revenue from the summer school held in 2019, would be considered revenue for the 2019-20 fiscal school year.

1.5 Reserve Balance Overview (cont)

Reserve Balance Overview (cont)

- Net eligible education expenses are calculated as follows:
 - Eligible Education Expenses are the expenses on the Statement of Activities, less any ineligible expenses, plus any land that is first being used for educational programming for the Choice program or SNSP.
 - The eligible education expenses are then reduced by any offsetting revenue.
- Net eligible education expenses for Program pupils are calculated as the total net eligible education expenses times the percent of the school participating in the respective Program.

Notes:

The eligible education expenses of the school are calculated as the total expenses on the Statement of Activities less the non-eligible education expenses in the Statement of Activities. As discussed in the fixed assets training module, land is included as an eligible education expense fully in the first year the land is used for educational programming. The first year the school participates in the Choice Program or SNSP any land already being used for educational programming is included in educational programming expenses.

The net eligible education expenses are determined by taking the eligible education expenses less any offsetting revenue. We will discuss the types of revenue that are offsetting and what is an eligible education expense in the Net Eligible Education Expense Training.

Finally, the net eligible education expenses for Choice or SNSP pupils are calculated as the net eligible education expenses for all pupils at the school times the percent of the school participating in the respective program.

1.6 Reserve Balance Overview (cont)

Reserve Balance Overview (cont)

- Percent of pupils in the program is calculated using the pupil Full Time Equivalent (FTE).
- The average pupil FTE is calculated for the Program pupils and all pupils at the school by averaging the 3rd Friday in September and 2nd Friday in January pupil FTEs.

	3 rd Friday in Sept FTE	2 nd Friday in Jan FTE	Average FTE
Program Pupil	60	58	59
All Pupil	100	110	105

Percentage of Pupils in Program: $59 / 105 = 56.19\%$

Notes:

The percentage of the school participating in the respective program is calculated using the average full-time equivalent of pupils that meet the attendance requirements for the count dates, the 3rd Friday in September and the 2nd Friday in January. Full-time equivalent is abbreviated as FTE. Please note that the FTE is different than the headcount. For example, half time 5-year old kindergarten pupils are 1 headcount but are 0.5 FTE. Additional information on how the FTE is determined and reported to DPI is available in the Payment Process Overview training module.

An average pupil FTE will be calculated for both eligible Program Pupils attending the school as well as All Pupils attending the school. The All Pupil count includes both Program and non-Program pupils. Information on the requirements to count a student is in the 3rd Friday in September and 2nd Friday in January Pupil Count Reports training.

The screen includes an example of how this percentage is calculated. This school has Program pupils of 60 FTE on the 3rd Friday in September and 58 FTE on the 2nd Friday in January. The Program Pupil average FTE of these two numbers is 59.


On the 3rd Friday in September, the school has an All Pupil FTE of 100. On the 2nd Friday

in January, the school has an all pupil FTE of 110. This results in an All Pupil average FTE of 105.

The Program Pupil average FTE of 59 is then divided by the All Pupil average FTE of 105 to calculate the percentage of pupils that are in the Program, which is 56.19%.

1.7 Reserve Balance Calculation-Example 1

Net Eligible Education Expenses	\$100,000
Percent of School Participating in the Program	80%
Net Eligible Education Expenses for Program Pupils	\$80,000
Program Revenue Received	\$90,000
Reserve Balance	\$10,000



Notes:


This screen shows a high level example of how the reserve balance would be calculated. In this school’s example, the school has net eligible education expenses of \$100,000. This amount includes all of the eligible education expenses for all of the students at the school, not just the students participating in the Program. Therefore, we multiply the \$100,000 by the percentage of the school participating in the Program to get to the net eligible education expenses just for the students participating in the Program.

The \$80,000 is then compared to the Program revenue received of \$90,000. In this case, the school received \$10,000 more of Program revenue than it spent on eligible education expenses for students participating in the Program. The \$10,000 is the “reserve balance”. This is the amount that the school must maintain for future eligible education expenses for students participating in the Program. This balance is carried

forward to future years.

1.8 Reserve Balance Calculation-Example 2

Net Eligible Education Expenses	\$100,000
Percent of School Participating in the Program	80%
Net Eligible Education Expenses for Program Pupils	\$80,000
Program Revenue Received	\$60,000
Reserve Balance	(\$20,000)



Notes:

In this example, the school has the same amount of net eligible education expenses and percent of the school participating in the Program. However, the school only received \$60,000 of Program revenue. In this case, the school has a reserve balance of a negative \$20,000. The school will be able to carry this balance forward to future years.

1.9 Reserve Requirements

Reserve Requirements

- The school must maintain the reserve balance, if positive, for future eligible education expenses. In order to meet this requirement, it must have a minimum cash and investment balance.
- The calculation of whether the school has a sufficient cash and investment balance is completed annually using the June 30th balances in the financial audit
- Schools are strongly encouraged to track the expected June 30th reserve balance and cash and investment balance.

Notes:

The school is required to spend Choice and SNSP payments on eligible education expenses for Choice or SNSP pupils, as applicable. Therefore, if the school has a positive reserve balance, the school is required to maintain the reserve balance for future eligible education expenses for Choice and/or SNSP pupils. Schools in this position are required to maintain a minimum cash and investment balance. We will go through how this balance is calculated in the next slide.

The determination of whether the school has maintained the reserve balance for future eligible education expenses for Choice and/or SNSP pupils is completed annually. The amounts that are used to make this determination are the balances as of June 30th in the financial audit. As a result, it is extremely important that schools track their expected net eligible education expenses for Choice and/or SNSP pupils compared to their Choice and/or SNSP payments. The school must also determine its expected cash and investment balance at the end of the year. Schools cannot spend Choice or SNSP payments on students not participating in the Choice or SNSP at the school.

1.10 Required Minimum Cash and Investment Balance

Required Minimum Cash and Investment Balance

- If the school is participating in the Choice programs and the SNSP, determine if the total of the Choice program and SNSP reserve balances are positive. If so, the school may be required to have a minimum cash and investment balance.
- The following adjustments are made to the total of the reserve balances to determine the required cash and investment balance:
 - The cost of any remaining depreciation on fixed assets
 - The cost of any land purchases that are not yet being used for educational programming

Notes:


The Reserve Balance Schedule includes a calculation of the required cash and investment balance. If a school is participating in the Choice Programs and the SNSP, the school must first calculate the total of the two reserve balances to determine if the total is positive or negative. If the school is participating in the Choice programs or the SNSP, but not both, the respective reserve balance is used to determine the required minimum cash and investment balance.

If the reserve balance for the Choice programs and/or the SNSP is positive, the school may be required to have a minimum cash and investment balance. This determination is made by taking the total of any reserve balances and making two adjustments. The first adjustment is the remaining depreciation for any fixed assets. The second adjustment is the purchase price for any land that hasn't yet been used for educational programming. Both of these amounts must be included in the financial audit and only the actual cost to the school is included in the adjustment. So, if the school had fixed assets that were donated to the school, the remaining depreciation on those fixed assets would not be included in this adjustment.

1.11 Required Minimum Cash and Investment Balance Calculation

Examples

	Example 1	Example 2
PSCP Reserve Balance	(25,000)	70,000
SNSP Reserve Balance	5,000	(10,000)
Total of the Reserve Balances	(20,000)	60,000
Less: Remaining Depreciation on Fixed Assets	N/A	(4,000)
Less: Land that Has Not Been Used for Educational Programming	N/A	(50,000)
Required Cash and Investment Balance	0	6,000



Notes:

This slide shows two different examples of how to determine if the school is required to maintain a cash and investment balance and, if so, how to calculate the required cash and investment balance.

In Example 1, the total of the PSCP reserve balance and the SNSP reserve balance is a negative \$20,000. Since the school does not have a positive net reserve balance, the school does not have a required cash and investment balance for PSCP or SNSP purposes.

In Example 2, the school has a PSCP reserve balance of \$70,000 and an SNSP reserve balance of negative \$10,000. Since the total of the two reserve balances is still a positive \$60,000, the school could still be required to have a cash and investment balance. As we discussed previously, the two adjustments that are made to the reserve balance to determine the required cash and investment balance are: (1) the remaining depreciation on fixed assets and (2) the cost for any land that has not been used for educational programming.

In our example, we have \$4,000 of remaining depreciation on fixed assets. This was based on a fixed asset that was purchased for \$5,000 with a useful life of 5 years. Based on this, annual depreciation of \$1,000 would be recorded. The asset has been in use for one year, so the school

has \$4,000 of remaining depreciation, which is calculated as the total cost of \$5,000 less the \$1,000 of depreciation that has been taken for the asset so far.

Additionally, the school has purchased land where they plan on building a school in a future year. The cost of this land was \$50,000. Since the land has not yet been used for educational programming, this amount is also an adjustment to the reserve balance amount.

The required cash and investment balance, with the adjustments, is \$6,000. This means that the school must have \$6,000 of cash or investments in a bank account based on the financial audit at the end of the fiscal year.

1.12 Reserve Balance Repayments

Reserve Balance Repayments

- If a Choice school that is continuing in the program does not maintain the required cash and investment balance, it must repay the Choice reserve balance to the department.
 - The financial audit certification will indicate the amount owed and the due date for the amount owed.
- If a school ceases to participate or is barred from all Choice Programs or the SNSP, the school will be required to repay the reserve balance to the DPI.

Notes:

If a school that is continuing in the Choice program does not maintain a sufficient cash and investment balance based on the June 30th balances in the financial audit, the school will be required to repay the Choice reserve balance to the DPI. The DPI sends out certification letters for the financial audits after they are reviewed by the DPI. If the school is required to repay the reserve balance, the letter will indicate the amount that must be repaid and the date it must be repaid.

If the school ceases to participate or is barred from all Choice Programs or the SNSP, the school will be required to repay the reserve balance to the DPI.

1.13 Reserve Spending Plan Requirement

Reserve Spending Plan Requirement

- Choice Only: If the reserve balance is greater than 50% of the total Choice revenue received by the school in the prior year, the governing body of the private school must approve a plan for how it will use the amount of the reserve balance that exceeds the 50% threshold.

Notes:

For schools in the Choice Program, if the PSCP Reserve Balance is greater than 50% of the total Choice revenue received by the school in the prior year, the governing body of the private school must approve a plan for how it will use the amount of the reserve balance that exceeds the 50% threshold. If this is required, it will be indicated on the Reserve Balance Schedule. The school's auditor will then ensure the school has a plan, if required, as part of the Fiscal & Internal Control Practice Report.

1.14 Questions

Questions

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

Email: DPIChoiceAuditReports@dpi.wi.gov

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



Notes:

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 parents.

Choice schools may also contact the Choice audit team at DPIChoiceAuditReports@dpi.wi.gov with questions.