

LIMITED ACCOUNTABILITY: FINANCIAL REPORTING AT WHITE HAT CHARTER SCHOOLS

EXECUTIVE SUMMARY

Ohio charter schools operated by White Hat Management received \$100 million in state funding last fiscal year. Although more information is becoming available on the use of these funds, the full picture remains opaque a year after the Ohio General Assembly required companies that operate charter schools to provide a detailed accounting including the nature and costs of the services they provide at each school. Specifically:

White Hat has not reported how much it spends instructing its 14,729 students, compared to administration, building operations or other kinds of expenses. This information is easily available for other public schools.

The company does not disclose how much it spends buying textbooks.

A substantial share of White Hat's expenses at the schools it operates – nearly half at its Life Skills schools – goes toward overhead or purchased services. Thus, we still don't know clearly how this money is being spent, and it is impossible to get an exact reading of how much the company is making in profits.

Today's rules, as currently enforced, do not require the full breakout of expenses that the public has a right to demand, and other public schools already provide. They should be tightened (see recommendations below).

White Hat manages Hope Academies, which include one Cleveland high school but largely instruct K-8 students; Life Skills Centers, which are aimed at high school-age students who are at risk for dropping out or have done so; and Alternative Education Academy (AEA), a distance-learning K-12 school operating across Ohio.

Following state law and rules laid out by the Auditor of State, White Hat for the first time reported its expenses at each of the schools it operates for the fiscal year 2004-2005. Based on those audit reports, White Hat produced apparent profits from its Ohio schools of \$4.16 million on revenues of \$116.95 million. Every Life Skills school was profitable, and three produced more in earnings than was paid in salaries. Each of the Hope Academies reported that White Hat spent more than the revenue it took in, while the company was modestly profitable at AEA.

However, this account is incomplete, because a large fraction of White Hat's spending goes to overhead expenses. This is particularly true at the Life Skills schools, where overhead accounted for fully a quarter of White Hat's expenditures in 2004-2005. White Hat could be using its own subsidiaries to perform some of the services that show up as overhead in the audit reports. That could mean additional profits beyond the difference between revenues and expenses shown in the schools' financial statements. Regardless of whether White Hat is ringing up more profits this way, its actual spending remains beyond analysis when such a large share goes toward the general category of "overhead."

*Read the full report and learn more about an economy that works for all:
www.policymattersohio.org*

3631 PERKINS AVENUE SUITE 4C-EAST, CLEVELAND, OH 44114 • 216/361-9801 • FAX: 216/361-9810
1372 GRANDVIEW AVENUE SUITE 242, COLUMBUS, OH 43212 • 614/486-4601 • FAX: 614/486-4603

POLICY MATTERS OHIO

POLICY MATTERS OHIO

3631 PERKINS AVENUE SUITE 4C-EAST, CLEVELAND, OH 44114 • 216/361-9801 • FAX: 216/361-9810
 1372 GRANDVIEW AVENUE SUITE 242, COLUMBUS, OH 43212 • 614/486-4601 • FAX: 614/486-4603

Beyond substantial spending on overhead, the White Hat schools also spend significantly on contract services, including both professional and technical services and property services. A total of 48.3 percent of all Life Skills spending of \$51.4 million – nearly half – is on either overhead or contracted services. Unlike a public entity that reports details on all of its spending, no further breakout of this spending is available. By comparison, traditional public schools spend a much larger share of their budgets on salaries and employee benefits.

Enrollment at all White Hat schools declined 5 percent to 14,729 last school year from the year before. Gains in student population at Hope Academies and AEA were more than offset by an 18 percent drop at Life Skills schools. Five-year forecasts submitted by the schools to the Ohio Department of Education last fall show that Life Skills enrollment fell short of projections by 40 percent for those 14 schools where numbers were available, vs. modest shortfalls of 3 to 4 percent for White Hat's other schools. Less-than expected enrollment last school year brought about cuts at White Hat schools.

Public schools across Ohio report how much they spend on instruction, building operations, administration and other categories of expense; that information is easily accessible on the Ohio Department of Education web site. However, under an accounting standard of the state auditor, charter schools are not required to report such information. Many do, but others don't. For their part, White Hat schools collectively reported to ODE that all but \$169,745 of their \$122.6 million in 2004-2005 expenditures went into administrative spending. Whether or not these numbers are included in statewide totals, this means that figures indicating how much of overall Ohio public school spending goes to instruction, administration, or other purposes are not truly accurate.

Traditional public schools also break down these broad spending categories publicly in an annual financial statement sent to the state education department. They report on expenses ranging from handicapped students, guidance, health and instructional staff improvement, to fiscal services, data processing and debt repayment. In three comparable financial reports filed by White Hat-operated schools examined for this report, long strings of zeroes describe how much was spent for any of those purposes. While this complies with existing standards, it falls short in providing fiscal accountability.

In addition, public schools break out their spending in another way: How much is spent on salaries, utilities, supplies and purchased services, among other things. While information now is available on how much White Hat spends on many of these items at the schools it runs, its reporting still falls short of what traditional public schools tell the public, and what the Ohio Department of Education requires in annual financial statements from school districts. Current rules, set by the state auditor, do not require schools run by management companies to report this way in detail. For example, we don't know how much White Hat schools spend on textbooks.

Management companies running charter schools should be required to break out their spending in the same fashion as traditional public schools. The auditor should regularly audit operators of charter schools, and be able to compel production of records from a school or its operator. School operators should also be subject to the public records law, as charter schools are now. The state should conduct a top-to-bottom review of compliance and reporting requirements to strengthen them and ensure that operators of charter schools are reporting basic financial data.

Policy Matters Ohio is a nonprofit, nonpartisan research institute dedicated to researching an economy that will work better for all in Ohio. Learn more about Policy Matters Ohio at www.policymattersohio.org.