

A REPORT FROM

POLICY MATTERS OHIO

LIMITED ACCOUNTABILITY: FINANCIAL REPORTING AT WHITE HAT CHARTER SCHOOLS

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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."

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.

Introduction

Ohio's charter schools, and the leading charter school operator, White Hat Management, have become major factors in the state's K-12 education system. Altogether, charter schools – officially known as community schools – received close to half a billion dollars in state support last school year for more than 70,000 students. Schools operated by White Hat received \$100 million.¹ How is this money being spent? The purpose of this report is to shed light on that question, and learn what financial information is routinely provided to the public by White Hat and the schools it operates.

Charter schools are exempt from many of the rules covering traditional public schools. Other rules, such as those relating to the use of local property taxes, don't apply to them because they do not receive such revenue. However, they are required to provide the same information as other public schools to the Ohio Department of Education for its Educational Management Information System (EMIS).² They are required to adhere to standards and definitions as laid out by the Uniform School Accounting System used by all of Ohio's public schools.³ And a 2000 bulletin from the Auditor of State “**requires** all community schools to maintain financial records in the same manner as all public school districts in the State of Ohio.”(emphasis in the original)⁴

This report analyzes five-year forecasts that each school is required to provide to the Ohio Department of Education, and information provided by the White Hat schools as part of the Auditor of State's annual audits for the 2004-2005 school year.⁵ Charter schools also must report on their finances bimonthly to their sponsors, which since July 2005 have replaced ODE as the immediate overseers of the state's charter schools. Policy Matters Ohio has obtained such reports from four White Hat schools, and includes those in the analysis.

White Hat manages Hope Academies, which largely instruct K-8 students (there is one high school in Cleveland); 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.

¹ See Fiscal Year 2006 Community School Payment Reports, <http://www.ode.state.oh.us/GD/Templates/Pages/ODE/ODEDetail.aspx?page=3&TopicRelationID=998&Content=12925>

² Ohio Revised Code, Section 3314.17

³ Ohio Administrative Code, Section 3301-102-04(A)8; Ohio Department of Education, Office of Community Schools, Response to questions from Policy Matters Ohio on community school financial reports, received July 27, 2006

⁴ Auditor of State Bulletin 2000-05, March 8, 2000
<http://www.auditor.state.oh.us/LocalGovernment/Bulletins/2000/2000-005.pdf>, accessed Aug. 11, 2006

⁵ White Hat Management has noted that 26 Ohio charter schools it manages received a Certificate of Achievement for Excellence in Financial Reporting for the 2003-2004 fiscal year from the Government Finance Officers Association of the United States and Canada (See <http://www.whitehatmgmt.com/news/press-release/recent-news/0029.asp>, accessed Sept. 26, 2006). In contrast, this study examines what the financial reports of White Hat schools show and how reporting requirements can be improved.

White Hat revenues and profits

According to audits released in the first half of 2006 by the Auditor of State of the 2004-2005 school year, White Hat produced a profit of at least \$4,161,893 on revenue of \$116,949,954 from its 18 Life Skills centers, 12 Hope Academies and Alternative Education Academy.⁶ The total included \$10,262,902 in profit on \$61,674,685 in Life Skills revenue, compared to a loss of \$6,249,536 on Hope Academy revenue of \$38,120,644. In addition, AEA, also known as the Ohio Distance & Electronic Learning Academy, produced profits of \$148,527 revenue of \$17,154,625. Overall, this is a profit margin of 3.56 percent before taxes. Figures for profits reflect White Hat revenues minus its expenses.⁷ However, they could significantly understate the amount of profit that White Hat is making. As described below, school audits also show substantial spending on overhead, which are services White Hat provides. This could provide White Hat with additional opportunities for profit, increasing its earnings beyond the numbers cited above.

White Hat produced profits at every one of the 18 Life Skills schools that were audited for the school year except Canton, where it had a small loss of \$7,842. It generated gains of more than \$1 million at two schools, Life Skills of Cincinnati and Northeast Ohio. The average Life Skills made \$570,161 on revenue of \$3.4 million.

By contrast, Hope Academy was unprofitable for White Hat at all of its 12 schools, usually by several hundred thousand dollars or more. The company lost an average \$520,795 on \$3.2 million in revenue at its Hope Academies. It had one million-dollar money-loser, Hope Academy East Campus.

Based on the student counts provided in the audits, White Hat averaged a profit of \$1,287.69 per Life Skills student and \$51.48 per AEA student, while it lost \$1,462.91 on the average Hope Academy student.⁸ Altogether, the company made an average of \$275.13 per student for its combined 15,127 students. Cincinnati Life Skills was most profitable per student, at \$2,088.70, while Hope Academy University Campus in Akron had the biggest loss per student at \$2,714.27.

⁶ These figures and those in the section below on expenditures do not include three schools that White Hat operates now but that were not both open and audited for the 2005 fiscal year: Life Skills of Dayton and North Akron, and Hope Academy High School in Cleveland. Riverside Academy is included with the Hope Academies.

⁷ White Hat may show that its expenses at a school are higher than its revenues at the same time that the school itself reports a surplus. Thus, the Hope Academies together reported a surplus for 2004-2005 even while White Hat appeared to lose money. Conversely, White Hat can make money at a school whose expenses outrun its revenues.

⁸ Student enrollment in the audit reports is similar, but not identical, to enrollment data used elsewhere in this report regarding five-year financial forecasts. Since the profit figures are calculated from the audit reports, it is necessary to use the same data source for enrollment to be consistent. No attempt has been made here to investigate enrollment figures. The Ohio Department of Education recently said it would examine 20 Internet charter schools – not including the one operated by White Hat – for attendance numbers that appeared too good to be true. See “State Probing Absence Rates,” by Bill Bush, *The Columbus Dispatch*, Sept. 23, 2006

At three Life Skills schools, White Hat made more in profit than it paid in salaries: Cincinnati (\$298,053), Northeast Ohio (\$293,281) and Elyria (\$163,267). Profitability at Hope Academies had little to do with how old the school was – one of the oldest schools, University Campus, which started enrolling students in FY99, was the biggest money-loser per student and as a share of revenue. Yet the newest schools weren't necessarily in much better shape – two of the others with the worst losses as a share of revenue were the newest ones among those audited – East Campus started enrolling students in FY2004 and Northwest in FY2005. There appears to be no great connection between age and profitability at Life Skills, either.⁹

Expenditures

Audits for the 2004-2005 fiscal year for the first time provided a glimpse into how money is being spent at White Hat-operated charter schools. Under a state law passed in 2003, a management company providing services to a charter school that amount to more than 20 percent of annual gross revenues of the school “shall provide a detailed accounting including the nature and costs of the services it provides to the community school.”¹⁰ In an October 2004 bulletin, Auditor of State Betty Montgomery laid out the requirements, which include a footnote that breaks out expenses into broad categories, according to the Uniform School Accounting System.¹¹ Since White Hat generally received 97 percent of the revenue from the schools it operated in 2004-2005, it fell under this rule.¹² Only a tiny amount of school spending thus is not included in this tally, and had previously been described in school financial statements.

As one might expect given their programs, the make-up of White Hat expenditures at the Life Skills schools and Hope Academies are different. In each case, however, spending on the largest expense – personnel pay and benefits – is substantially smaller than that of traditional public schools.

Figure 1, based on audit information, shows the breakdown of White Hat expenditures at Life Skills schools by major categories. Overhead of \$13.25 million, representing more than a quarter of spending (25.8 percent), is only slightly smaller than salaries and wages (27.9 percent). Another 7.7 percent of expenditures goes toward employee benefits. In the audit reports, White Hat says that “overhead charges are assigned to the School based on a percentage of revenue. These charges represent the indirect cost of services provided in the operation of the school.” These White Hat expenses that benefit more than one school include a broad array of services, from facilities management and human resources

⁹ The 2004-2005 school year was the last one before new sponsors took over at most White Hat schools, as a result of a new state law. Thus, the audits still reflect the schools under their previous sponsor, generally, the Ohio Department of Education.

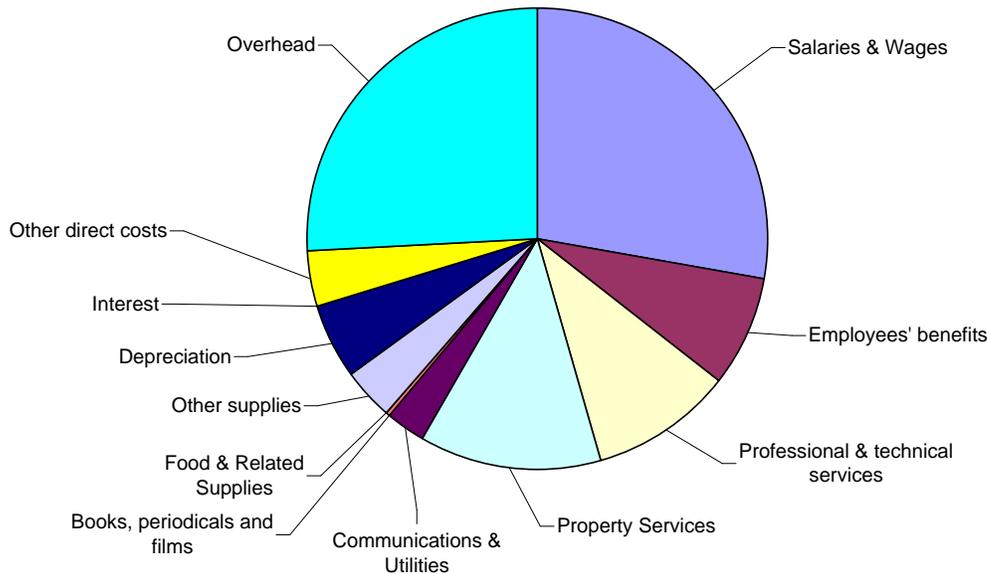
¹⁰ Ohio Revised Code, Section 3314.02.4

¹¹ Auditor of State, Bulletin 2004-09, Mandatory New Community School Footnote Disclosures for Management Companies, Oct. 27, 2004

¹² Subsequently, most new contracts have called for White Hat to receive 95 percent or 96 percent of school revenue.

management to financial reporting, purchasing, education services and technology support.¹³

FY2005 White Hat Expenses, Life Skills Centers



Source: Auditor of State, FY2005 audit reports for individual schools

Another 22.8 percent of White Hat’s spending at Life Skills schools goes toward contracted services, including both professional and technical services and property services. Thus, a total of 48.3 percent of total spending of \$51.4 million – nearly half – is on either overhead or contracted services. No further breakout of this spending is available. While there could be some efficiency in this method of operation, we have no way of knowing. Unlike a public entity that reports details on all of its spending, we can’t be sure how much of this represents more profit for White Hat, smart contracting, or bungled purchasing.¹⁴

¹³ The full list includes facilities management, equipment, operational support services, management and management consulting, board relations, human resources management, training and orientation, financial reporting and compliance, purchasing and procurement, education services, technology support and marketing and communications. Audits are available at <http://www.auditor.state.oh.us/AuditSearch/Search.aspx>

¹⁴ Some of the schools argue in their statements that, “By managing multiple schools, the Company (White Hat Management LLC) is able to gain operational efficiencies that are more difficult to achieve in a stand-alone school.” See for instance Life Skills Center of Northeast Ohio, Comprehensive Annual Financial Report for the Year Ended June 30, 2005, contained in the regular audit for that year by the Auditor of State, p. ii. http://www.auditor.state.oh.us/AuditSearch/Reports/2006/Life_Skills_Center_of_Northeast_Ohio_05-Cuyahoga.pdf, accessed Sept. 17, 2006

These categories take in a broad assortment of services. For instance, according to the state accounting system, “professional and technical services” includes instruction services, instructional improvement services, health services, staff services, management services, data processing services, statistical services, professional/legal services and other professional and technical services. Property services includes garbage removal and cleaning services, repairs and maintenance services, property insurance, rentals, lease purchase agreements and other property services (For that matter, property services could overlap with facilities management; it is unclear which services are being provided by White Hat and which are being purchased elsewhere). Since these services are not itemized, we don’t know what the money is being spent on.

As others have noted,¹⁵ 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 additional profits this way, its actual spending remains opaque and beyond analysis when more than a quarter of it is devoted to the general category of “overhead.”

Most of the remaining costs consist of communications and utilities, depreciation, and other direct costs and supplies. Another \$125,386, or 0.2 percent of expenses, consisted of books, periodicals and films.

Figure 2 shows the breakdown of White Hat expenses for the 12 Hope Academies. At these schools, a considerably greater proportion of White Hat’s costs come from employee salaries and benefits. Altogether, these account for just 35.6 percent of its Life Skills costs, compared to 50.2 percent at the Hope Academies. This is because these schools have fewer students per teacher. Salaries at the two types of schools are similar, and far below those at traditional public schools.

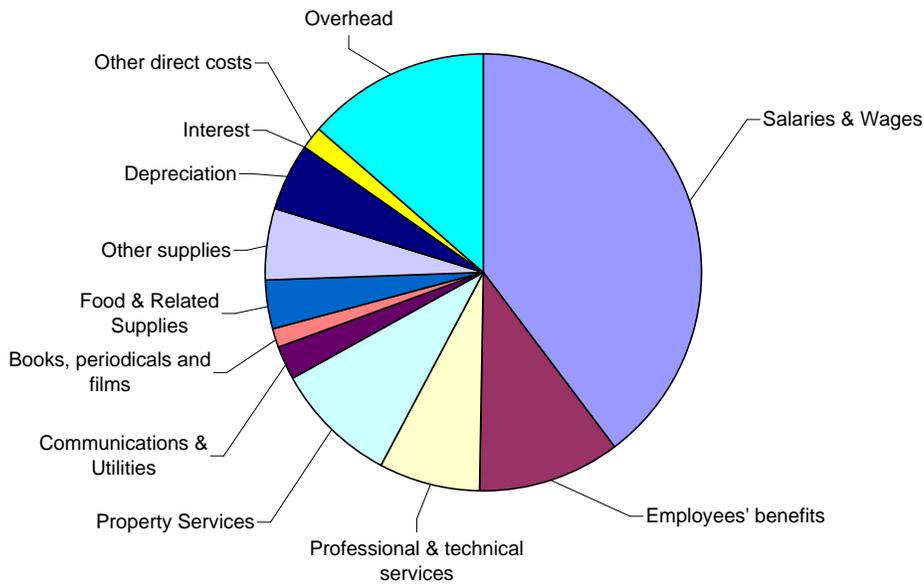
Ohio charter schools in general pay teachers less than traditional public schools do. According to the Ohio Department of Education, for 2004-2005, the average salary for regular teachers at the state’s charter schools was \$32,851, compared to \$52,463 in city school districts.¹⁶ While an exact comparison with other charter schools is beyond the scope of this study, White Hat’s teacher pay probably does not exceed that in other Ohio charter schools. According to data submitted by the schools which may not be directly

¹⁵ “Charter Audits Leave Questions Open, Records Closed,” by Bob Paynter and Sandra Livingston, *The Plain Dealer*, April 4, 2006 The newspaper reported that “the audits don’t show how much went to White Hat’s other educational enterprises, a blind spot that could conceal even greater profits. Records show, for example, that White Hat officials last year tried to get the boards of several of its underperforming Hope Academies in Cleveland to hire company subsidiaries to help boost test scores. In a response to written questions from *The Plain Dealer*, White Hat officials declined to say how much – if any – those subsidiaries had received from White Hat schools. Although such information appears to be covered by Ohio’s open-records law, the company also declined to answer how much of its schools’ reported expenditures – all of which came from tax coffers – had gone to White Hat affiliates.”

¹⁶ 2004-2005 Average Salary of All School Personnel, Ohio Department of Education, based on data submitted by school districts, http://www.ode.state.oh.us/data/staff_salary/CSTBLA_REV_K_2005.XLS, accessed Aug. 11, 2006. Average pay for all regular teachers state-wide was \$49,333.

comparable, classroom teacher salaries at the White Hat schools averaged between \$27,000 and \$31,000 in 2004-2005, except at one, Life Skills of Hamilton County, where the average was \$31,426.¹⁷

FY2005 White Hat Expenses, Hope Academies



Source: Auditor of State, FY2005 audit reports for individual schools

Besides its greater relative spending on salaries and benefits at the Hope Academies, White Hat also is spending relatively more than at Life Skills on books, food (only one Life Skills center had food service expenses, and they were nominal) and “other supplies.” The company spent \$526,499 on books, periodicals and films at the Hope Academies, or 1.19 percent of total spending.

Life Skills spends relatively more than Hope Academies do on “other direct costs.” According to the Auditor’s bulletin, “other direct costs” covers all other spending categories,¹⁸ and a management company can omit a spending category comprising less than 3 percent of total expenses and classify these with “other direct costs.” These costs amount to \$2 million, or about 4.0 percent of the total, at Life Skills, and \$806,000, or 1.8 percent, at Hope Academies. While these costs aren’t huge, they represent another case in which we don’t know where the money is being spent, compared to public schools.

¹⁷ 2004-2005 Classroom Teacher Salaries, Ohio Department of Education, Office of Data Services, April 21, 2005.
<http://www.ode.state.oh.us/GD/DocumentManagement/DocumentDownload.aspx?DocumentID=12374>, accessed Sept. 8, 2006

¹⁸ These are called “object codes.” See description on page 15.

On the other hand, White Hat is spending relatively less at its Hope Academies on both overhead (13.5 percent) and contracted services (16.9 percent).

By comparison, traditional public schools spend far more of their budgets on salaries and benefits than do either the Life Skills or Hope Academy schools. Usually, such spending is in the 75 percent to 85 percent range.¹⁹ At the Cleveland Municipal School District, more than 80 percent of General Fund spending in 2004-2005 went towards employee pay and benefits.²⁰

The Columbus Public Schools spent 61 percent of its General Fund budget the same year on salaries and wages and another 18 percent on employee benefits.²¹ The other largest expenses at the district included tuition paid to other districts and “other direct costs,” which were made up largely of advances, transfers, and dues and fees. The Columbus district spent \$7.5 million, or 1.2 percent, of its General Fund on professional and technical services, and \$11.3 million, or 1.8 percent, on property services. In both cases, those are much smaller shares than at either the Life Skills schools or the Hope Academies. While such comparisons are not exact, since a different method of accounting is used in the state audit reports than in the annual financial statements local districts send to the ODE, a general comparison is reasonable.²²

Figure 3 on the next page shows how the Columbus district made its General Fund expenditures in fiscal 2005:

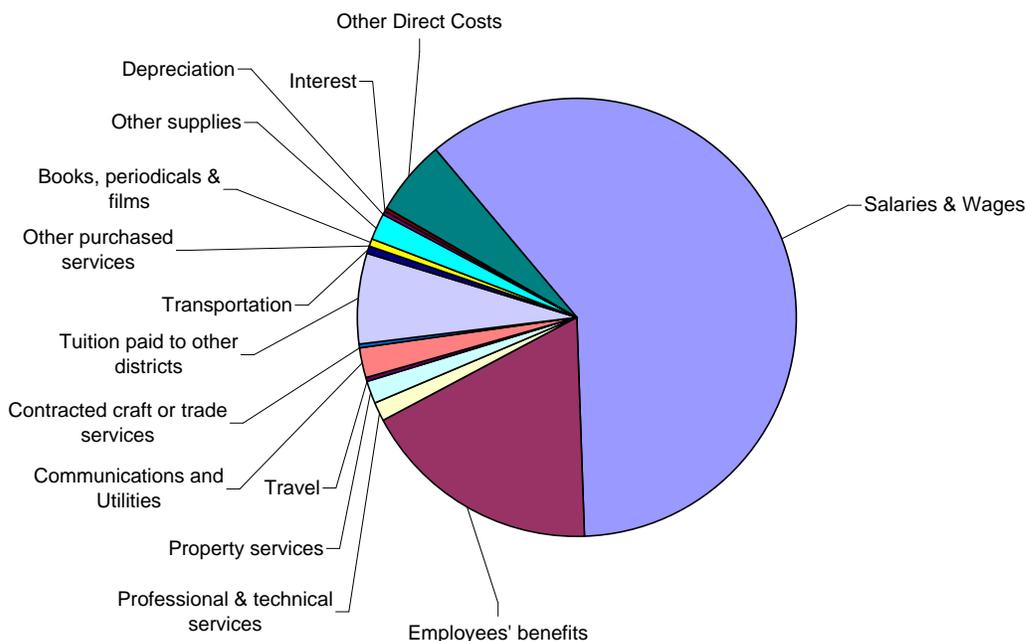
¹⁹ Discussion with David Varda, executive director, Ohio Association of School Business Officials, Aug. 24, 2006

²⁰ Statement P, Schedule of Expenditures by Object for All Funds, Fiscal Year 2005, Cleveland Municipal School District

²¹ Statement P, Schedule of Expenditures by Object for All Funds, Columbus Public Schools, Fiscal Year 2005

²² Reports issued by the Auditor of State use the accrual method of accounting, which differs from the cash basis used in annual school financial reports to the state education department.

FY2005 Columbus Public Schools - General Fund Expenses



Source: Columbus Public Schools, Statement P, 4502 statement, FY2005

Five-year forecasts and what they show

Ohio public schools, including charter schools, are required to submit a five-year financial forecast each year.²³ Forecasts must include enrollment.

Enrollment at all White Hat schools declined 5 percent to 14,729 last school year from the year before.²⁴ The Life Skills schools enrolled 18 percent fewer students, while enrollment at the Hope Academies and the Alternative Education Academy grew by 10.4 percent and 6.2 percent, respectively. Table 1 on the next page shows how enrollment changed over the last two school years at the different White Hat-operated schools (Yearly enrollment totals may not work out to round numbers, in part because enrollment varies from month to month):

²³ Ohio Revised Code, Section 5705.391. Charters schools submit these forecasts using a suggested format provided by ODE's Office of Community Schools. Forecasts are due by the end of October.

²⁴ Enrollment data is based on the June 2006 report available on the Ohio Department of Education web site, <http://www.ode.state.oh.us/GD/Templates/Pages/ODE/ODEDetail.aspx?page=3&TopicRelationID=998&Content=12925> These enrollment figures correspond to state aid payments made based on enrollment, though they may differ somewhat from other available enrollment statistics.

Enrollment			
	Actual FY2005	Actual FY2006	Percentage Change
Life Skills	7,891.44	6,451.53	-18.2%
Hope Academies	4,720.02	5,211.82	10.4%
Alternative Education Academy	2,886.54	3,065.81	6.2%
Total	15,498.00	14,729.16	-5.0%

Source: Ohio Department of Education

The overall drop in total enrollment was far more severe in comparison with what the schools projected in their five-year forecasts just last fall.²⁵ Enrollment at Life Skills schools, excluding the three in Columbus and one in Cincinnati for which data were not provided, fell more than 2,000 students or 40 percent short of what was estimated last fall. Instead of an increase of 1,100 students, or 19 percent, the schools saw a drop of more than 800 students, or 15 percent. Though the Hope Academies and the Alternative Education Academy saw increases in enrollment in FY2006, at each it fell slightly short of projections. Hope Academies grew the most, largely because of the addition of Hope Academy High School. Altogether, FY06 enrollment at the White Hat schools for which forecast data are available fell short of what was projected less than a year earlier by more than 2,300 students, or 17.7 percent. Table 2 shows enrollment figures compared to projections in the schools' five-year forecasts, excluding the four Life Skills schools for which forecast data was not available:

Enrollment vs. Predictions					
	Actual FY2005	Actual FY2006	Predicted FY2006	Predicted vs. FY06 Actual, % Change	Predicted vs. FY05 Actual, % Change
Life Skills	5,837.43	4,962.56	6,973.00	-40.5%	19.5%
Hope Academies	4,720.02	5,211.82	5,438.00	-4.3%	15.2%
Alternative Education Academy	2,886.54	3,065.81	3,175.00	-3.6%	10.0%
Total	13,443.99	13,240.19	15,586.00	-17.7%	15.9%
Data exclude Life Skills Center of Cincinnati and three Columbus Life Skills schools, for which forecasts were not available					

Source: Ohio Department of Education

Projections beyond the first year are less significant, and ODE does not closely review them for charter schools. Thus, the schools may not put a great deal of store in them. However, as of last fall, only modest enrollment increases were expected at Life Skills centers and Hope Academies between FY06 and FY10. The fastest growth was expected

²⁵ Forecast data was not available for Life Skills Center of Cincinnati and the three Life Skills schools in Columbus, so those schools are not included in the numbers in this paragraph. White Hat no longer operates the three Columbus schools.

at Alternative Education Academy, with a projected increase over the four years of 32.3 percent, to 4,200 in FY10 (although it showed no growth between FY09 and FY10).

The drop in enrollment last school year almost certainly led to a decline in the financial performance of the White Hat-operated schools, taken together, unless it managed to cut expenses faster than revenue declined.²⁶ Revenue for these schools is tied directly to enrollment. When the general-fund forecasts of these schools is reviewed collectively, even early in the 2005-2006 school year they were projecting that their surplus of revenues over expenditures would decline from the previous year. Taken in total, the 31 Life Skills, Hope Academy and Alternative Education Academy schools for which data were available projected last fall that their combined surplus of revenues over expenditures would decline by 32 percent to \$1,493,275 in fiscal 2006 from the year before (this includes FY2006 surpluses at three schools, Hope Academy High School and Life Skills of North Akron and Dayton, that were not operating in FY2005).²⁷ Expenditures were projected to rise at a faster rate than revenues in 21 of the 28 of those schools that were operating in both years. The Life Skills schools, the Hope Academies, and the Alternative Education Academy each were expected to see shrinking surpluses.²⁸

All four of the Life Skills schools that were projected to show deficits in FY06 – Life Skills Metro Cleveland and the three Columbus schools – are no longer operating under White Hat management now. Among Hope Academies, five were shown projecting FY06 deficits, though they were mostly small (only North Coast among them was projected to be a loss of more than \$12,088). Most of the Life Skills schools did not project much change in surplus between FY06 and FY10, excluding Metro Cleveland and the three Columbus schools, which were shown eliminating their deficits beginning in FY07. The Hope Academies shown with deficits in FY2006 are among those that projected the biggest gains between then and FY2010. AEA projected a 30 percent increase of its surplus between FY2006 and FY2010, to \$556,660. All schools were projected to have surpluses in FY10, with a total surplus of \$1.6 million at the Life Skills schools and Hope Academies, more than double that of FY06. Thus, the projections suggested there would be a turnaround at schools with lagging financial performance.

These numbers, of course, reflect all general fund revenues and expenses for the schools, not just White Hat's; they do not say how White Hat, as the operator, fared. In fact, some of these numbers don't correspond with those in the audits of these schools, presumably for reasons related to accounting.

²⁶ The numbers here do not include the three Columbus Life Skills schools that are no longer operated by White Hat. These schools did not include details in their five-year forecasts to allow these comparisons. For a description of the end of the White Hat relationship with these schools, see "Charter Ousts its Operator," by Jennifer Smith Richards, *The Columbus Dispatch*, July 14, 2006

²⁷ Altogether, the 33 Life Skills schools and Hope Academies projected a surplus of \$658,240 in FY2006. However, this includes the three Columbus Life Skills schools, which did not include data for FY2005 in their FY2006 forecasts. All three of these schools projected that they would have greater expenditures than receipts in FY06. Separately, the Alternative Education Academy projected a surplus for FY06 of \$428,559, down \$108,059 from the year before.

²⁸ In the case of the Life Skills schools, most of the reduction was expected to result from one school, Metro Cleveland, which was consolidated in August 2006.

However, it's clear that less-than-expected enrollment last school year brought about cuts at White Hat schools. As reported in the *Akron Beacon Journal* and the *Columbus Dispatch*, White Hat laid off almost 10 percent of its staff last November.²⁹ White Hat has opened more new Life Skills schools in recent years than Hope Academies. However, its recent consolidation of its Life Skills Metro Cleveland campus with another one nearby in Cleveland and the end of its relationship with the three Columbus Life Skills schools mean that the number of Life Skills schools in Ohio is shrinking.³⁰ The company's new CEO, Ed Harrison, agreed in a recent interview with the *Beacon Journal* that the company was facing competition from public school districts creating similar schools. But asked if more layoffs were on the way, he said, "Nothing significant in the near future."³¹

A lack of reporting

Public schools must report in detail how they spend their money. They tell the Ohio Department of Education how much they spend, breaking down the spending by function according to the Uniform School Accounting System.³² This covers everything from elementary school instruction to food service to girls' bowling. These many subcategories are then aggregated into five broad categories: Administrative, building operations, staff support, pupil support and instructional expenditures.³³

While these are broad categories – pupil support, for instance, includes guidance counseling and library spending, while instructional support includes such things as staff development and training – they give some clue to how the educational dollar is divided up. The Ohio Department of Education lists on its web site spending by every district in the state, in total and per pupil, for each of the last ten years on each of these five categories of expense.³⁴ A separate set of data also allows anyone to compare each district's spending in the five categories to similar districts and to such spending

²⁹ "Brennan Charters Lose Aid, Students," by Doug Oplinger and Dennis J. Willard, *Akron Beacon Journal*, Dec. 4, 2005, and "Charter-school Operator Cuts Jobs as Growth Slows," by Bill Bush, *The Columbus Dispatch*, December 1, 2005.

³⁰ However, according to the *Beacon Journal*, the company plans to open more Life Skills centers in Michigan and Florida. "Charter-school aid flows in," by Katie Byard and Stephanie Warsmith, *Akron Beacon Journal*, Sept. 2, 2006.

³¹ "Charter Official Embraces Challenge," by Katie Byard, *Akron Beacon Journal*, Sept. 2, 2006. The company has recently closed down its tutoring and video production unit, however.

³² See

http://www.auditor.state.oh.us/LocalGovernment/ManualsHandbooks/uniform_school_accounting_system_user_manual.pdf

³³ The Ohio Department of Education's *Reporting School District Revenue and Spending Per Pupil* (formerly the Expenditure Flow Model Handbook), revised in September 2005, describes how expenditures are allocated in these categories. See

<http://www.ode.state.oh.us/GD/Templates/Pages/ODE/ODEDetail.aspx?page=3&TopicRelationID=1215&Content=14743>

³⁴ See

<http://www.ode.state.oh.us/GD/Templates/Pages/ODE/ODEDetail.aspx?page=3&TopicRelationID=1215&Content=14743>, accessed Sept. 23, 2006

statewide.³⁵ If a Toledo resident should want to know, for instance, the Toledo Public Schools spent \$1,319.36 per pupil for administration in fiscal year 2005 and \$5,849.31 in instructional expenditures out of a total of \$10,603.93. Administrative spending amounted to \$41,262,090 out of total spending of \$331,631,336.

Look up the White Hat-operated schools, and one finds that all expenditures reported to the education department are lumped into one category: Administrative Expenditures.³⁶ Life Skills Center of Toledo, for instance, reported administrative expenditures \$4,821,765 for fiscal 2005, the same as its total spending.

Thus, the White Hat schools in total show almost all of their spending going for administrative purposes. Except for \$169,745 for building operations, all of the \$122.6 million in fiscal 2005 expenditures reported by 31 schools went for administration. Of course, the reality is that much of it is going for other purposes. If these figures are included in the statewide totals, it means that figures indicating how much of overall Ohio public school spending goes to instruction, administration, or other purposes are not truly accurate.³⁷ This underscores a risk of proposing that a specific percentage of K-12 spending go toward instruction – and suggests that advocates of such proposals should insist that charter schools report the actual breakdown of their spending.

Though the information is not as immediately accessible, traditional public schools also report publicly in an annual financial statement sent to the state education department on much more detailed categories of expenses.³⁸ As detailed in the Uniform School Accounting System, these subcategories include everything from spending for 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. Instead, virtually all spending is shown under a single category: Other Administrative Services, defined in the school accounting system as “Other administrative services not previously defined.”³⁹

³⁵ See http://webapp2.ode.state.oh.us/school_finance/data/policy_research/district_profile_report_2005.asp, accessed Sept. 23, 2006.

³⁶ See [http://ilrc.ode.state.oh.us/PublicDW/asp/Main.aspx?server=ap12&project=ILRC&evt=3002&uid=guest&wd=&persist-mode="8"](http://ilrc.ode.state.oh.us/PublicDW/asp/Main.aspx?server=ap12&project=ILRC&evt=3002&uid=guest&wd=&persist-mode=) There are two exceptions: Life Skills of Hamilton County and Life Skills of Cincinnati list a modest portion of their expenditures as going toward building operations. At Hamilton County, this represents \$65,006 out of more than \$3.3 million, while at Cincinnati it amounts to \$104,739 out of \$5 million.

³⁷ Conversely, if total statewide spending is calculated excluding charter-school spending, it does not accurately capture how nearly half a billion dollars in public school spending is being spent.

³⁸ These reports, known as 4502 statements, are available public documents, though they are not generally accessible on the Internet.

³⁹ See 4502 statements, Statement Q, for Riverside Academy, Life Skills Center of Akron and Hope Academy Broadway Campus. A very small amount at Hope Academy Broadway -- \$9,676.10 out of the \$5 million total – was spent on fiscal services. Like “other administrative services,” this still falls under the broader grouping of Support Services – Administration. See p. 48A, Hope Academy Broadway 4502 Statement Q.

Spending, at least for basic operations, is not broken out because of a decision under then-Auditor of State Jim Petro on how charter schools should do their accounting. The auditor's office, figuring that the legislature intended charter schools to run more like businesses than governmental entities, directed that they account for their operations accordingly.⁴⁰ Under "enterprise fund" accounting, already often used by traditional school systems for their food service operations, spending by function is not required. Instead, it captures spending by object, such as salaries or equipment. By contrast, governmental entities, which are more concerned about spending by program – say, city spending on safety – require accounting according to function.⁴¹

This directive could be changed so that charter schools also must report their spending as traditional public schools do.⁴² This would require restatement of at least one prior year's books, according to David A. Varda, executive director of the Ohio Association of School Business Officials. However, the auditor could require it. The Ohio Department of Education could request the auditor to make this rule change.

Public schools also break out their spending in another way: How much is spent on salaries, utilities, supplies, purchased services, interest and depreciation on facilities and equipment, among other things. These are called "objects" in the system of accounts mandated for all Ohio public schools. Reports by object provide a different picture, but one that also can be useful as a point of comparison. Is a district spending more or less on salaries or benefits than other comparable ones? How about pay and benefits for certificated compared to noncertificated personnel? How much is utility expense changing? What is spent on travel and meetings?

As described above, the White Hat-operated schools for the first time in 2004-2005 broke out such expenses in a broad way, following the mandate of the Auditor of State. However, this reporting still falls short of what traditional public schools tell the public, and what ODE requires in the annual financial statements from school districts known as 4502 reports. Every year, traditional and charter schools alike provide an accounting in this report of how much they spent by object.⁴³

Traditional public districts report publicly, for instance, on how much they spend on textbooks every year. For example, the Cleveland Municipal School District spent \$1.1

⁴⁰ See Auditor of State Bulletin 2000-005, March 8, 2000.

<http://www.auditor.state.oh.us/LocalGovernment/Bulletins/2000/2000-005.pdf> accessed Aug. 25, 2006

⁴¹ Conversations with David A. Varda, former associate superintendent of school finance, Ohio Department of Education, and Ohio chief deputy auditor, and now executive director, Ohio Association of School Business Officials, June 14, 2006, and Aug. 24, 2006.

⁴² In fact, according to data available on the ODE web site, many charter schools report this information, but in an inconsistent fashion. Some large charters such as those run by White Hat report very substantial administrative spending, while others report none at all. Taken together, the 186 charter schools that did report for the 2004-2005 year showed 44.8 percent going to administration, 39.1 percent for instruction and 11.7 percent for building operations. See <http://www.ode.state.oh.us/GD/Templates/Pages/ODE/ODEDetail.aspx?page=3&TopicRelationID=367&Content=16476>, accessed Sept. 23, 2006

⁴³ The specific accounting is provided in Statement P of the 4502 report.

million from its General Fund on textbooks in 2004-05.⁴⁴ Whether or not that amount is adequate, one can see how much is being spent.

By contrast, the comparable financial statements provided to the Ohio Department of Education by White Hat-operated schools report spending nothing for textbooks.⁴⁵ All but a fraction of total spending is for “Professional and Technical Services.” For example, the Life Skills Center of Akron reported for 2004-05 that it spent \$4,461,601.17 from its General Fund on such services; total General Fund spending was \$4,491,359.84, so less than \$30,000 was spent on anything else – dues and fees, insurance, and miscellaneous items or services.⁴⁶ Presumably, this is all going to White Hat. While this figure may be technically accurate in that nearly all of the school’s spending is for such services, it of course leaves the public in the dark over how the money is being spent. Information included in audits under the rules required by the Auditor of State provides spending only for “Books, periodicals and films,” a broader category that takes in library books, textbooks, and newspapers, periodicals and films.⁴⁷ Life Skills of Akron, for instance, spent \$3,709 for such items.

While the financial statements on spending by object have their limitations – general fund spending may mask the real totals, for instance, if there have been transfers into other funds – they provide a basis for understanding how public school funds are being spent.

Key charter school financial data aren’t always as easily available as those of traditional public schools, even if they are reported publicly. Though for financial purposes charter schools are the same as school districts, you won’t find them included in the ODE web site that provides school-district profiles.⁴⁸ These profiles for each district provide demographic information on students, spending data by function, teacher salaries, experience of teachers, property taxes, revenue by source and student performance in one location. While some of these data are available elsewhere and some, such as property taxes, don’t apply to charter schools, there is no such convenient source of information on them.⁴⁹ This web site also allows the reader to compare a public district with other,

⁴⁴ Cleveland Municipal School District, Statement P, Schedule of Expenditures by Object for All Funds, 2005 Fiscal Year. The district also spent an additional \$3 million on textbooks from other funds besides its general fund, covering parochial schools, special education, Title 1 and other purposes.

⁴⁵ See for instance Statement P, Schedule of Expenditures by Object for All Funds, Hope Academy Broadway, and comparable statements from Life Skills Center of Akron and Riverside Academy.

⁴⁶ Statement P, Schedule of Expenditures by Object for all Funds, Life Skills Center of Akron. This Statement P, like other such statements referenced in this report, was a part of the school’s 4502 report. See Appendix for a copy of this statement

⁴⁷ Bulletin 2004-009, Oct. 27, 2004, Auditor of State, Mandatory New Community School Footnote Disclosures for Management Companies, Appendix A

⁴⁸ State law stipulates that they are to be considered school districts in applying for state or federal grants and for state appropriations. See Ohio Revised Code, Section 3314.08(F). For district profiles, see http://webapp2.ode.state.oh.us/school_finance/data/policy_research/district_profile_report_2005.asp, accessed Sept. 7, 2006

⁴⁹ The Ohio Department of Education’s Annual Report on Ohio Community Schools provides enrollment, demographic, testing and other data, but lacks much of the financial information in the district profiles. See <http://www.ode.state.oh.us/GD/Templates/Pages/ODE/ODEDetail.aspx?page=3&TopicRelationID=737&Content=16992>, accessed Oct. 4, 2006

similar districts, a tool unavailable for use with charter schools. Nor will you find charter schools in a basic list of per pupil revenue and expenditures by school district.⁵⁰ This shows the last 10 years of revenue and spending, both total and per pupil, broken out by functions such as instructional or building support, and by local, state and federal revenue sources. Five-year forecasts, including actual spending from previous years, are available on the ODE web site for public schools, but not for charters.⁵¹

This is not to say that ODE does not provide financial information on charter schools on its web site. The agency reports on what their enrollment is monthly and how much they have received in state funds, provides an annual report on all charter schools, and provides other information. But the scope of that financial information and the ease of its use is poor compared to that of traditional public schools. There is no real basis for such a distinction.

Reports to sponsors

Starting in July, 2005, direct responsibility for oversight of most of Ohio's charter schools was shifted from the Ohio Department of Education to school sponsors. The Ohio Council of Community Schools in Toledo or St. Aloysius Orphanage in Pickerington sponsor the schools that are operated by White Hat.⁵² Until last year, ODE had acted as sponsor for most of these schools.

Under the 2003 legislation, "a representative of the sponsor shall meet with the governing authority of the school and shall review the financial records of the school at least once every two months."⁵³ This representative of the sponsor is supposed to be knowledgeable in school finance, and prepare written reports available to ODE on request.

Policy Matters Ohio obtained through records requests the most recent financial reports to sponsors from four schools White Hat operates: Life Skills of Hamilton County and Springfield, and Hope Academy East and University. No additional information about White Hat, its profits or the breakdown of its expenditures is included in these reports, except for overall amounts paid for purchased services management fees (three of the schools separately break out purchased services for grant programs).⁵⁴ During the previous year, all of these payments for purchased services went to White Hat. If the same was true in FY06 and all such payments went to the company, it continued to account for the overwhelming share of all of these schools' expenses. However, the share

⁵⁰ See

<http://www.ode.state.oh.us/GD/Templates/Pages/ODE/ODEDetail.aspx?Page=3&TopicRelationID=990&Content=14743>, accessed Sept. 7, 2006

⁵¹ See <http://fyf.oecn.k12.oh.us/fyforecast/>, accessed Sept. 7, 2006

⁵² The three Columbus Life Skills schools, which were run by White Hat through the 2005-2006 school year, were sponsored by the Buckeye Community Hope Foundation.

⁵³ Ohio Revised Code Section 3314.023

⁵⁴ As with information reported by the schools in the audits of FY2005, the reports detail legal, accounting, insurance, board of education, depreciation and other expenses. These add up to less than 4 percent of the FY2006 total. This includes sponsorship fees among the four schools of \$48,664, or about half of 1 percent of total expenses.

did erode slightly at three of the schools. At the four schools taken as a group, White Hat's share of total expenses declined from 98.5 percent in FY05 to 97.5 percent in FY06. This decline reflected a 3 percent decline in the amount these schools were paying White Hat, together with an increase in other expenses, particularly sponsorship fees. Last fiscal year was the first year each of these schools had a private sponsor, which under the law can receive up to 3 percent of state payments the school receives for operating expenses.⁵⁵ Three of these four schools also negotiated new contracts with White Hat effective Nov. 1, 2005, under which they pay a slightly lower share of their revenues to the operator.⁵⁶

These four schools are only a sample of those that White Hat manages, and are not necessarily representative of all the other schools. However, as one might expect, revenues of these schools in Fiscal Year 2006 closely tracked enrollment. At the two Life Skills schools, enrollment plunged about a quarter from the year before. However, expenses were reduced by nearly as much as revenues. As a result, both schools still reported a positive change in net assets for FY2006, though the surplus fell substantially at Hamilton County from the year before.

At the two Hope Academies, it was a different picture. Hope Academy University Campus showed major growth in revenues; growth in expenses was also substantial, but not quite as great, leading to a small surplus compared to the small loss sustained a year earlier. At Hope Academy East, there was only modest revenue growth of 2.6 percent. But expenses rose less than 1 percent, causing the surplus for the year to double to \$116,969.

ODE, in keeping with state rules, also requires sponsors to evaluate their schools on legal compliance of their finance plans. All of the White Hat schools were graded as in overall compliance, according to the 2004-05 report to the governor.⁵⁷ These were all sponsored by ODE that year, with the exception of two Hope schools and one Life Skills school, which got the same grade.

Though this report does not attempt to grade the financial oversight job done by sponsors, their role is now a critical one.⁵⁸ The role played by the Ohio Department of Education in

⁵⁵ Ohio Revised Code Section 3314.03(C)

⁵⁶ Life Skills of Springfield started paying 95 percent, while the two Hope Academies began paying 96 percent. See their regular audits for the year ended June 30, 2005, <http://www.auditor.state.oh.us/AuditSearch/Search.aspx>, accessed Sept. 23, 2006. A majority of the schools operated by White Hat have started paying a reduced rate of 95 percent or 96 percent of revenues.

⁵⁷ "2004-2005 Annual Report on Ohio Community Schools," Submitted to the Governor and Select Members of the Ohio Legislature, Ohio Department of Education, The Office of Community Schools, December 31, 2005, Vol. 1. See <http://www.ode.state.oh.us/GD/Templates/Pages/ODE/ODEDetail.aspx?page=3&TopicRelationID=737&Content=16992>, accessed Sept. 23, 2006.

⁵⁸ The Ohio Department of Education said in response to a question: "If the school's five-year forecast projects a deficit, the sponsor would be expected to take action to assure the school could operate. Several safety gates are in place. Sponsors, by rule and law, are required to meet with community schools to review their financial records every two months. In addition, the sponsors are expected to evaluate fiscal performance at least annually and to intervene if financial difficulties occur. Subsequent actions by the

evaluating and overseeing sponsors, as well as setting standards for the financial records they obtain from schools, also needs to be closely watched.⁵⁹

Recommendations

Charter schools operate under fewer rules than traditional public schools under the theory that this allows them to more flexibly offer innovative programs. If they succeed, attracting and keeping students and effectively educating them, the argument goes, who cares how the money is spent? However, that money is the public's money. Whether or not the parents or students at charter schools think they're doing a good job, the larger public is paying the taxes that support these schools, and the larger public is entitled to know what's happening to their money. How do they compare to other public schools? Are management companies making or losing money on their operations – and what does that mean for their future? Could they be operated more efficiently? Those are just some of the questions the public has an interest in answering.

This analysis has not reviewed every aspect of Ohio charter schools' financial reporting. Charter schools also are required to report certain financial information on their special education and vocational education programs, as well as on their administration of state grants and federal funds. Auditor Betty Montgomery found in June that more than \$20 million in federal grants forwarded to Ohio charter schools couldn't be properly accounted for.⁶⁰ The auditor's Single Audit Report noted that ODE had a corrective action plan, and the agency said it has increased its oversight to make sure such money was spent properly.⁶¹

Ohioans may be able to obtain certain financial information from charter schools under the state public records law, which applies to them. For instance, the *Canton Repository* was able to obtain most of the records it sought from the Hope Academy in Canton in a March 2006 request, though it took five weeks to receive them compared to just a week for Timken High School.⁶² However, every Ohioan should not have to make a records

sponsors could include placing a school on probation or suspending or terminating the school's operation." Ohio Department of Education, Office of Community Schools, Response to questions from Policy Matters Ohio on community school financial reports, received July 27, 2006

⁵⁹ A recent report issued by the Thomas Fordham Institute and others on Ohio charter schools would ratify the role of private sponsors as the overseers of charter schools, implement a new evaluation system of them and provide state backing to cover their costs. While greater accountability from sponsors clearly is needed, a review of their role should begin with whether the use of private sponsors allows for sufficient public oversight. (See *Turning the Corner to Quality*, from the Thomas B. Fordham Institute, the National Alliance for Public Charter Schools and the National Association of Charter School Authorizers, by Louann Bierlein Palmer, Michelle Godard Terrell, Bryan C. Hassel and C. Peter Svahn, October 2006 <http://www.edexcellence.net/doc/TurningtheCornertoQualityOH2006.pdf>, accessed Oct. 11, 2006)

⁶⁰ "Department of Education Lacks Sufficient Controls Over \$20 Million in Federal Charter School Money, Auditor Says," *Gongwer News Service*, Ohio Report, Vol. 75, Rept. 19, June 22, 2006.

⁶¹ See also State of Ohio, Single Audit Report for the Year Ended June 30, 2005, http://www.auditor.state.oh.us/AuditSearch/Reports/2006/State_of_Ohio_Single_Audit_05_Franklin.pdf, accessed Sept. 23, 2006, and "State audit for 2005 questions \$100 million," by Catherine Candisky, *The Columbus Dispatch*, August 25, 2006.

⁶² "Waiting on Records of Schools," by Melissa Griffy Seeton and Karl Idsvoog, *The Repository*, June 4, 2006. The Hope Academy school did not make available specific details on advertising contracts and

request to obtain financial information, particularly when it is easily available on other public schools over the Internet. Moreover, management companies are not now subject to the public-records law.

On the face of it, it would seem that the provision in House Bill 364, the 2003 state law that calls for a “detailed accounting” of management company costs,⁶³ should be enough. Clearly, however, it isn’t. Even after an Ohio Supreme Court ruling earlier this year upholding Montgomery’s authority to conduct a special audit of Oriana House, a private nonprofit that receives state money to provide corrections services in Summit County, Montgomery argued that she lacked the authority to audit private management companies running charter schools.⁶⁴

“While we do follow the statute created by House Bill 364 in completing our audits of community schools, it does leave unresolved questions about the extent to which the legislature intended our office to follow the public money given to fund community schools,” Montgomery wrote in a letter to House Speaker Jon Husted last spring.⁶⁵ She believes that because the bill did not include specific references to giving her office comprehensive audit authority, as the legislature did in the bill covering community corrections agencies that the Supreme Court cited and the General Assembly passed within days of HB 364, she lacks authority to do more to review expenditures of management companies. After the *Beacon Journal* reported that Husted, the author of HB 364, disagreed with her interpretation, Montgomery wrote the letter asking him to consider clarifying the statute. “I do not object to auditing any management company if the law permits it,” said Montgomery, who previously had proposed a number of other steps to improve the fiscal accountability of charter schools, particularly those with serious financial problems.⁶⁶ Montgomery’s office has had conversations with the House and Senate about her authority to audit management companies, according to her legislative affairs director.⁶⁷ However, there has been no legislative action, so things stand as they did last spring.

More recently, the Ohio Supreme Court decided that records Montgomery had sought from Oriana House in connection with her special audit were not public records.⁶⁸ It concluded that the private nonprofit corporation did not meet a four-part test as the

invoices or payments made to outside legal counsel, and did not provide its payroll roster in an electronic format as Timken did. The newspaper noted that state law requires data to be released in an electronic format if it is kept that way.

⁶³ Ohio Revised Code, Section 3314.024

⁶⁴ “Ruling Renews Charter Debate,” by Dennis J. Willard and Doug Oplinger, *Akron Beacon Journal*, April 9, 2006, p. B1. and *Oriana House, Inc. v. Montgomery*, 108 Ohio St.3d 419, 2006-Ohio-1325. See <http://www.sconet.state.oh.us/rod/newpdf/0/2006/2006-Ohio-1325.pdf>, accessed Oct. 7, 2006.

⁶⁵ Letter from Auditor of State Betty Montgomery to Jon Husted, Speaker, Ohio House of Representatives, April 19, 2006. She sent a similar letter to Senate President Bill Harris.

⁶⁶ See letters from Auditor of State Betty Montgomery to Senate President Bill Harris and House Speaker Jon Husted, Dec. 1, 2005.

⁶⁷ E-mail from Mark Hamlin, director of legislative affairs, Auditor of State Betty Montgomery, Oct. 2, 2006

⁶⁸ *State ex rel. Oriana House, Inc. v. Montgomery*, 110 Ohio St.3d 456, 2006-Ohio-4854. See <http://www.sconet.state.oh.us/rod/newpdf/0/2006/2006-Ohio-4854.pdf>, accessed Oct. 7, 2006

“functional equivalent” of a public office. It is unknown whether or not White Hat would meet this test so that its records relating to the operation of public charter schools would be open to public scrutiny. The legislature should make clear that they are.

Senate Bill 344, introduced last June by Sen. Teresa Fedor, D-Toledo, also would be a major step toward allowing public scrutiny of charter schools that are run by private operators.⁶⁹ The bill requires regular audits of management companies and sponsors, and would give the auditor the right to compel production of records from a school or its operator. The General Assembly should approve the bill and thus open the way for more transparent operation of White Hat schools and others.

Regardless of any legislation, the auditor can act now and change requirements so that charters report as governmental structures. That way, they would have to break out their spending by function, as other public schools do.

Last year’s state budget bill required one class of charter schools, Internet- or computer-based schools, to report instructional spending to the state education department.⁷⁰ The first such reports will cover the current fiscal year ending next June. Presumably, this will include White Hat’s Alternative Education Academy. There is no reason that this requirement should be limited only to e-schools.

The recent report issued by the Fordham Institute and others calls for a reduction in the reporting and compliance burden on charter schools. Among its recommendations is one for “a top-to-bottom review of all compliance and reporting requirements currently imposed on charter schools.”⁷¹ However, the report says nothing about the gaps in reporting that currently make it impossible to know at schools run by management companies like White Hat how public money is being spent. What is really needed is a top-to-bottom review of state compliance and reporting requirements to strengthen them and ensure that operators of charter schools are reporting basic financial data, as is not required now. While there is nothing wrong with making sure that duplicative reports are not required when they are unnecessary, requiring basic financial information to be reported is essential. Proposals to significantly expand charter-school funding without such accountability should be rejected.⁷²

Management companies running charter schools should be required to break out their spending by object and function in the same fashion as traditional public schools. The

⁶⁹ http://www.legislature.state.oh.us/bills.cfm?ID=126_SB_344, accessed Sept. 15, 2006

⁷⁰ “Beginning in fiscal year 2007, each internet- or computer-based community school annually shall report data to the department of education concerning its expenditures for pupil instruction.” Ohio Revised Code, Section 3314.085 (B)

⁷¹ *Turning the Corner to Quality*, p. 19

⁷² For instance, the Fordham report also recommends the creation of an Ohio Charter School Facilities Foundation that would receive a proportionate share of bonds provided by the Ohio School Facilities Commission for distribution to charter schools (p. 26). As described in the report, this foundation would be a “special-purpose nonprofit entity.” Given the most recent Ohio Supreme Court decision in the Oriana House case, this raises the prospect of substantial state funds going to an entity that might not be subject to the public records act and the transparency that requires.

Ohio Department of Education also should make available on its web site data from charter schools in the same fashion as it does with that of other public schools. With these changes, Ohioans could gain a more complete picture of how their money is being spent.

Appendix

The following appendix, as described on page 16, is Statement P, Schedule of Expenditures by Object for All Funds, of the FY2005 financial statement filed by Life Skills Center of Akron with the Ohio Department of Education.

STATEMENT P
SCHEDULE OF EXPENDITURES BY OBJECT FOR ALL FUNDS

OBJ CODE	DESCRIPTION	TOTAL GENERAL FUND	TOTAL ALL FUNDS
100	Personal Services - Salaries		
110	Certificated Salaries & Wages	0.00	0.00
120	Certificated Leave Benefits	0.00	0.00
130	Certificated Other Compensation	0.00	0.00
140	Noncertificated Salaries & Wages	0.00	0.00
150	Noncertificated Leave Benefits	0.00	0.00
160	Noncert. Other Compensation	0.00	0.00
170	Other Wages and Salaries	0.00	0.00
190	Other Personal Services	0.00	0.00
	Total Personal Services - Salaries	0.00	0.00
200	Employees Ret. & Ins. Benefits		
210	Retirement - Certificated	0.00	0.00
220	Retirement - Noncertificated	0.00	0.00
230	Employee Reimb. & Other Fringe	0.00	0.00
240	Insurance Benefits - Cert.	0.00	0.00
250	Insurance Benefits - Noncert.	0.00	0.00
260	Workers Comp. & Disabled Workers	0.00	0.00
270	Deferred Compensation	0.00	0.00
280	Unemployment Compensation	0.00	0.00
290	Other Emp. Ret. & Ins. Benefits	0.00	0.00
	Total Employees Ret. & Ins. Benefits	0.00	0.00
400	Purchased Services		
410	Prof. & Technical Services	4,461,601.17	4,870,712.62
420	Property Services	0.00	0.00
430	Travel Mileage/Meeting Expense	0.00	0.00
440	Communications	0.00	0.00
450	Utilities		
451	Electricity	0.00	0.00
452	Water & Sewerage	0.00	0.00
453	Gas	0.00	0.00
454	Coal	0.00	0.00
455	Oil	0.00	0.00
459	Other	0.00	0.00
460	Contracted Craft or Trade Serv.	0.00	0.00
470	Tuition	0.00	0.00
480	Pupil Transportation Services	0.00	0.00
490	Other Purchased Services	0.00	0.00
	Total Purchased Services	4,461,601.17	4,870,712.62

STATEMENT P
SCHEDULE OF EXPENDITURES BY OBJECT FOR ALL FUNDS

OBJ CODE	DESCRIPTION	TOTAL GENERAL FUND	TOTAL ALL FUNDS
500	Supplies & Materials		
510	General Supplies	0.00	
520	Textbooks	0.00	0.00
530	Library Books	0.00	0.00
540	Newspapers, Periodicals & Films	0.00	0.00
550	Supplies & Materials for Resale	0.00	0.00
560	Food & Related Supplies & Mat.	0.00	0.00
570	Oper., Maint. & Repair to Plant	0.00	0.00
580	Oper., Maint. & Repair to Motor	0.00	0.00
590	Other Supplies & Materials	0.00	0.00
	Total Supplies & Materials	0.00	0.00
600	Capital Outlay		
610	Land	0.00	
620	Buildings	0.00	0.00
630	Improvements Other than Bldgs.	0.00	0.00
640	Equipment	0.00	0.00
650	Vehicles	0.00	0.00
660	School Buses	0.00	0.00
670	Library Books	0.00	0.00
680	Livestock	0.00	0.00
690	Other Capital Outlay	0.00	0.00
	Total Capital Outlay	0.00	0.00
700	Capital Outlay - Replacement		
710	Land	0.00	
720	Buildings	0.00	0.00
730	Improvements Other than Bldgs.	0.00	0.00
740	Equipment	0.00	0.00
750	Vehicles	0.00	0.00
760	School Buses	0.00	0.00
770	Library Books	0.00	0.00
780	Livestock	0.00	0.00
790	Other Replacement-Capital Outlay	0.00	0.00
	Total Capital Outlay - Replacement	0.00	0.00

STATEMENT P
SCHEDULE OF EXPENDITURES BY OBJECT FOR ALL FUNDS

OBJ CODE	DESCRIPTION	TOTAL GENERAL FUND	TOTAL ALL FUNDS
810	Redemption		
811	Serial Bonds	0.00	0.00
812	Short-Term Notes	0.00	0.00
813	Other Tax Anticipation Notes	0.00	0.00
814	HB264 Loans for Energy Conserv	0.00	0.00
815	Emergency School Loans	0.00	0.00
816	Adv from State Solvency Assist	0.00	0.00
819	Other Debt	0.00	0.00
820	Interest		
821	Serial Bonds	0.00	0.00
822	Short-Term Notes	0.00	0.00
823	Other Tax Anticipation Notes	0.00	0.00
824	HB264 Loans for Energy Conserv	0.00	0.00
825	Emergency School Loans	0.00	0.00
829	Other Interest	0.00	0.00
830	Other Debt Service Payment	0.00	0.00
840	Dues & Fees	5,272.74	5,272.74
850	Insurance	626.00	626.00
860	Judgements	0.00	0.00
870	Taxes & Assessments	0.00	0.00
880	Awards & Prizes	0.00	0.00
890	Miscellaneous Objects	23,859.93	23,859.93
	Total Miscellaneous Objects	29,758.67	29,758.67
900	Other Uses of Funds		
910	Transfers	0.00	0.00
920	Advances	0.00	0.00
930	Refund of Prior Yrs. Receipt	0.00	0.00
940	Pass-Through	0.00	0.00
	Total Other Uses of Funds	0.00	0.00
	Total Object of Expenditure	4,491,359.84	4,900,471.29

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