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Read the report at http://www.policymattersohio.org/limited_accountability_2006.htm

Report finds state rules lead to inadequate financial reporting at White Hat charter schools

Current state rules keep Ohioans ill-informed about how public money is being spent at Ohio charter schools operated by White Hat Management, according to a report released today by Policy Matters Ohio. The report called for a tightening of the rules.

The study, *Limited Accountability: Financial Reporting at White Hat Charter Schools*, found that:

- 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 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.

The report examined information provided by the White Hat schools as part of the Auditor of State's annual audits for the 2004-2005 school year as well as five-year financial forecasts made last fall to the Ohio Department of Education (ODE). Altogether, according to the audit reports, White Hat made at least \$4.16 million on revenues of \$116.95 million in fiscal 2005 at 31 charter schools. However, White Hat could be using its own subsidiaries to perform some of the services that show up as overhead in the audit reports. A complete breakdown of this spending is not required, nor does the state audit management companies.

Enrollment at all White Hat schools declined 5 percent to 14,729 last school year from the year before, with gains in student population at its Hope Academies and its e-school more than offset by an 18 percent drop at its Life Skills schools. Five-year forecasts submitted by the schools to the state education department 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.

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 do not. 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.

The study recommends that:

- 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 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 with offices in Cleveland and Columbus.