

Arizonans for Charter School Accountability Research Summary 2016

The Consequences of Unmonitored Charter Schools:

A first time look at Arizona charter school spending reveals massive waste, fraud and corruption.

By Jim Hall, April 20, 2017

Secretary Devos stated in her Senate conformation hearings that she supports equal transparency for all organizations receiving public education funds. The most basic transparency is a simple accounting of where educational organizations spend public dollars. This transparency is sorely lacking in many states, especially in Arizona.

Arizona has the fourth largest number of charter schools in the nation and is the only state in the U.S. that does not allow the Auditor General to monitor charter school spending. Charter schools in Arizona are chartered at the state level through the Arizona State Board for Charter Schools. The Charter Board is the only agency authorized to regulate charter schools in Arizona. The Charter Board requires charter holders to submit an annual audit to determine if the school is financially solvent – if it has adequate cash flow and cash reserves. No agency in Arizona monitors *how* charters spend tax funds.

Arizona charter schools and public districts submit an annual financial report detailing spending. The Auditor General uses this information to help create a report card for all public districts that focuses on classroom spending. There was a headline on AZ Central on March 2nd lamenting that public district classroom spending had gone down in 2016.

But the spending for charter schools isn't compiled. Arizonans for Charter School Accountability recorded the revenue, M&O expenditures, teacher salaries, benefits, instructional purchase services, and instructional supplies for all charter holders that submitted an Annual Financial Report in 2016. The data was then used to calculate how much each charter holder spent on classroom instruction, administration, and facilities

This is what the Auditor General's Office would have found if they were allowed to monitor charter spending in 2016:

Arizona Charter School Classroom Spending Report 2016

Part 1 - Less than half of all Arizona charters (191 out of 411) spend more in the classroom than on administration and facilities combined. These 'efficient' charters were both large and small and represented the broad range of charter models – college prep, alternative, arts focus, etc. Many had substantial mortgages and have new, modern facilities. It is possible for charter schools to focus their budget on classroom instruction. Some of these charters, however, spend less overall because they are for-profit and the savings go to company profits.

Part 2 – The majority of Arizona Charter schools (220 out of 411) spend more money on management and facilities combined than on classroom instruction. Fifty charter schools spent more on just administration than in the classroom. Sixty-two charters spent more on their facilities than on classroom instruction. Shockingly, 29 charter schools spend more for both management and facilities individually than in the classroom. The Leona Group LLC ran nine of these schools and three were run by *Imagine Inc.*, both large national management companies.

Part 3 – The Leona Group LLC operates in five states. Leona managed schools spend the least on classroom instruction in Arizona. We found that the owner of the for-profit Leona Group LLC., Bill Coats, sold 10 schools he owned in 2007 to his non-profit foundation, The American Charter Schools Foundation (ACSF), for double their market value. Coats also created management contracts that have a set fee that increases annually, regardless of the school's revenue. Today, the 10 ACSF schools have excessive management costs and extremely large mortgages, but have declined in enrollment by 25% since 2007. The result is schools that spend less than 20% of their budget on all classroom instruction, but provided Bill Coats with a \$25 million payday in 2007.

Part 4 – Imagine Inc. operates in 11 states and D.C. For-profit Imagine Inc. manages 19 schools in Arizona for their non-profit Imagine Schools Non-Profit Inc. The Arizona Imagine schools spend \$12 million more on management and facilities than in the classroom in 2016 as the result of “self-dealing”, a practice that caused a Federal judge in Missouri to fine Imagine Inc. \$1 million in 2015. Imagine uses a myriad of accounting schemes to bolster profits including charging schools “loss mitigation” fees of 2% of gross revenues to cover financial losses caused by their mismanagement. 12 of the 19 Arizona Imagine schools are in financial difficulty, yet have some of the highest administration and facilities costs in the state.

Online Charter Schools Making Millions in Profits

When looking at total per pupil expenditures, we found that there were schools that spent far less per pupil total than most charter schools. These schools are operating their schools for millions less than they receive in state funds, and taking the rest as profit. The first two we looked at were Primavera Online and Pinnacle Schools MGRM:

American Virtual Academy Inc. – Primavera Online High School was the most successful non-profit in Arizona with assets of over \$44 million. In 2015, non-profit Primavera Technical Learning Center suddenly decided to go out of the charter business and gave the school to its software vendor, the for-profit American Virtual Academy (AVA), free of charge. In 2016, AVA hired FlipSwitch Inc. to provide the licenses for the courseware used by the school for \$13 million. AVA made a clear profit of \$10 million in 2016. Damian Creamer owns all of these companies. Between 2009 and 2015 Creamer took over \$1 million in salary as the director of the non-profit and paid his company AVA \$84 million in licensing fees. As sole owner of for-profit AVA, Creamer reaped a \$10 million profit plus \$13 million in licensing fees from his company FlipSwitch Inc. in 2016. Creamer's new company, SoundMinds, is now selling the software created for Primavera to online schools around the nation.

Pinnacle Education MGRM – is owned by a multi-national software company based in India, MGRM. In 2016 the 4 Pinnacle charter schools (enrollment 620), using online software created by MGRM, spent \$3.4 million to run the schools and sent \$3.4 million back to corporate headquarters as profit. Arizona online charter schools are funded at 95% of what a regular charter schools receives per pupil plus an additional \$1700-\$2000/pupil all charter schools get to pay for equipment and facilities; funds public districts do not receive. Online schools have little facilities costs and offer few of the programs all public schools must provide – transportation, food service, libraries, band, P.E., etc. As a result, online charters are extremely over funded and are able to take tens of millions of dollars of tax funds as corporate profits. American Virtual Academy and Pinnacle Education MGRM are perfect examples.

Charters Spending More on Real Estate than in the Classroom

Benjamin Franklin Charter School – is owned as a for-profit charter school by Arizona State Representative Eddie Farnsworth (R). His charter has \$3 million in stockholder assets. Benjamin Franklin Charter School is one of only 63 charter schools in Arizona that spends more on real

estate than in the classroom. Benjamin Franklin Charter School spent \$155,106 more on just their facilities than on all classroom instruction in 2016. In 2014 Representative Farnsworth made a major real estate investment that has created huge lease payments to his for-profit subsidiary, LBE Investments. Between 2013 and 2016 enrollment increased by 24% but lease payments went up 298% and overall facilities costs increased 88%. Classroom expenditures rose just 39% in comparison.

By law, all charter schools must follow Arizona open meeting laws. There is nothing on the Benjamin Franklin website, or any of the schools sites, that gives any information about the board, where and when meetings are held, or any future meeting notices. The district and school calendar do not list any board meetings for the year. Complaints were filed with the Arizona Attorney's Office.

American Leadership Academy – The non-profit American Leadership Academy (ALA) was founded by former Utah state legislator Glenn Way in 2009. Since that time, ALA has expanded exponentially with 12 schools and over 5000 students this year and several new schools scheduled for opening in 2017-18. Glenn Way owns a company in Salt Lake City, Schoolhouse Development LLC, with two partners, Scott and Corey Brand. Schoolhouse Development LLC provides all aspects of charter school facilities development including data analysis, financing, architectural design, and construction.

Instead of hiring Schoolhouse Development to assist in building their facilities, ALA turns over the entire ownership of the facilities to Schoolhouse Development and then leases the facilities back from Schoolhouse. As a result, Glenn Way and his partners become the owners of all of the property and buildings while collecting untold fees for building the schools. ALA signs its life away with each lease, pledging that all revenue coming to the school will go first to pay the mortgage on the property – Glenn Way's mortgage.

More alarming, ALA has submitted deceptive and inaccurate information hiding the fact that Way profits tremendously on ALA real estate transactions. ALA has not reported their relationship with Glenn Way's real estate development firm, Schoolhouse Development LLC, on reports required by the State - the annual financial report and their annual audit and has filed incomplete and inaccurate I.R.S. 990 returns in 2014 and 2015.

Our Mission:

Charter schools across the nation do not have the same level of transparency as required of public districts. Without transparency, there is no way of knowing how public funds are being expended. If we can't monitor the spending of "public" charter schools, how will we ever account for voucher funds given to private organizations?

The Arizona Auditor general needs to monitor and report charter school spending so the excesses Arizonans for Charter School Accountability has reported will finally be open to public scrutiny.

Complete reports are available at azcsa.org in the Past Research section. Follow us on Face Book - Arizonans for Charter School Accountability