GRAND CANYON INSTITUTE

Policy Report #1 in the Series

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Following the Money: Twenty Years of Charter School Finances in Arizona

(A Meta-Analysis of Charter School Financials and what they tell us)

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The Essential Questions Explored in these Policy Reports

"What have the promoters of charter schools done with the freedom over their budgets, staffing, curricula and other operations?"

"What is the result of eliminating the substantial conformity of governance and finance rules for operating schools (financed from taxpayers' dollars) on the governance and finances of these entities?"

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Executive Summary

While school choice and free market economic theory have driven the Arizona charter school movement, many in the drivers' seat have found opportunities to benefit themselves through financial transactions that are specifically forbidden in public district schools. Charter schools were promoted as competition to the public school system. The "rule books" regarding financial controls and governance were replaced by laws that eliminated most oversight. Fundamentally, charter schools do not offer parents and their children true school choice when they operate without the financial accountability and transparency demanded of 'competing' public district schools.

Charter holders receive almost all their funding directly from the State's General Fund on a per student basis. In FY2016 charter schools received $6,669 per student from the State's General Fund, representing about 85% of their funding. Almost all of the rest comes from the Prop. 301 education six-tenths of a cent sales tax and the Federal Government (Joint Legislative Budget Committee 2017, Arizona Department of Education 2016).

This extensively researched policy report, the first in a series of three reports, highlights some of the differences in the rules that govern public district schools and charter schools. Charter schools were given greater freedom over their budgets, staffing, curricula and other operations to foster quality improvements in the education they provide and to encourage competition.

This policy report, and the others in this series, look at the actual business practices that emerged from that greater freedom from regulations, focusing on the following areas: related-party transactions, high executive compensation compared to comparable public sector salaries, questionable distributions of profits/owner's equity, lower classroom spending, academic underperformance, and inconsistent financials. Related parties[1], while usually actual relatives of the charter holder, also includes related businesses (businesses with the same board and owners), and former charter holders that still engage in business with the charter group.

Current financial practices by most charters fall short of sound business practices and the public's expectations as to how their educational dollars should be spent (Bennis, Parikh, and Lessem 1994, Dewey 1891, Knight and Friedman 1935, Pojman, Vaughn, and Vaughn 2014).

[1] Family members such as brothers, sisters, spouses, ancestors and lineal descendants. The charter holder names listed were researched to discern whether the listed charter holders were related. I.e. cases where the husband and wife had different last names. (Step-parents, uncles, in-laws, cousins, nephews and ex-spouses are not considered related in these reports.) A related party corporation or partnership is one where more than 50% of the stock or more than 50% of the capital interest is owned by the taxpayer who owns the corporation or partnership. In all of the charters reviewed the charter holder held 100% of the stock. Most cases noted in this study were 100% held by a related party.

Recently, KAET Horizon host Ted Simons asked Governor Doug Ducey if there was enough oversight with regards to where Empowerment Savings Account money directed to private schools. The question related to SB1431 that he had signed expanding state-funded Empowerment Savings Accounts for private schools. The Governor responded, "We want to have transparency and accountability. We can do that." (2017)

Transparency and accountability should also apply to the state's hundreds of privately owned charter schools. This policy report's findings articulate the need for greater transparency and accountability in the charter school sector. In the absence of a definitive legal standard for accountability, charter holders and their corporate boards have created financial arrangements that benefit ownership at the expense of students and teachers.

Related Parties Transactions: Three-fourths of Arizona's charter school holders engage in related-party transactions that did not fit the definition of "saving money" or "efficiency," an oft-cited reason given for allowing charters to engage in this practice. Gaming the system is often done through contractual transactions with subsidiary for profit companies owned by the charter school holder and overseen by the same corporate board as the nonprofit charter school.

In 2013-14, 48% of Arizona's charter school expenditures for contracts, leases and rents were owed (committed) to for profit companies that employed or were owned by the charter holder or a related party. These commitments amounted to $497.5 million annually. That figure would be higher if administrative and teacher salaries and benefits to related parties were included.

> ***Key Recommendation:*** *Require publicly funded charter schools to be subject to the same public competitive bid procurement process as district schools. All related party contracts need to be public information and need to meet the standard of saving money for educating students.*

Excessive Executive Salaries: Numerous cases were found where charter administrators' salaries are shockingly high for the number of students they oversee. In one case, the executive director of a youth center that also includes a 90-student, single-location charter is paid as much per year as a public school superintendent who oversees 23,000 students. Adding insult to injury, the school in question received failing academic marks from the Arizona State Board for Charters Schools.

> ***Key Recommendation:*** *Require charter school audits to justify executive and administrative salaries benchmarked to comparably sized district schools.*

Questionable Distributions*[2] *of Profits: One-third of for-profit charter schools were found to have made questionably large distributions to their shareholders. Six for-profit charter schools made distributions valued at 12% to 45% of their 2014-2015 state taxpayer revenue. Four for-profit charter schools took more than their net profit as distributions, turning a net profit for the year into a net loss as a consequence. While large distributions might come from accumulated retained earnings, they can also undermine the financial viability of the operation.

The data on distributions from subsidiary for profits, operated by the same owners and board as many nonprofit charters, *is unavailable to the public* as the firms are considered separate businesses from the charter. Where that information is discernable through forensic accounting, it is provided.

> ***Key Recommendation:*** *Charter school audits need to identify the source of any profit distribution and the ASBCS would need to approve any distribution that exceeded net profits for the year.*

Reduced Classroom Spending: The losers in this mix appear to be taxpayers, teachers and students in a majority of cases. Charter school teachers on average earn 20% less than their public district school colleagues while 43% of charters do not offer a retirement or savings plan to their employees. This issue is explored in depth in the third policy report of the series.

The 2013-2014 Annual Report of the Superintendent for Public Instruction showed that charter schools spend 45% of revenues on classroom instruction compared to public district school spending at 52% of revenue. At the end of Fiscal Year 2015 the numbers were 51.5% for District Classroom Spending and 47.5% for Charter Classroom Spending. Student Support Levels at Charters was 4.9% to Districts at 7.9%. This information is not widely known because these figures are buried in the Annual Report. The data on which they are based, AFRs, are not scrutinized for accuracy for charter schools and is sometimes inaccurately entered. Another issue that is explored in this report is inconsistent financial accounting to the state, IRS and on the audits.

From related party transactions to excessive executive compensation to questionable distributions to shareholders, revenue from the state's General Fund designated for educational purposes instead disproportionately benefits the charter school holders and corporate board members of charter schools.

[2] Distributions are amounts paid to stockholders in a "for profit" charter company. The distributions reported here come from companies that are registered as for profit charters. This is not to be confused with "for profit subsidiaries of nonprofit charters". Distributions at those for profit subsidiaries are not visible to the public. Their audits are not public. It is assumed that the money for distributions in excess of the company's NET are being taken from Owner's Equity.

> ***Key Recommendation:*** Charter school financial data needs to be shared and monitored by the Auditor General just as is done with district schools.

Academic Underperformance: This financial behavior may have academic consequences (although academic performance is NOT the focus of these papers). Despite the highly esteemed academic profile of a few charters, the charter sector overall underperforms academically relative to district schools for students of similar demographic backgrounds in the same area. Two independent studies found demographically similar students did just as well or better on average in public district schools.

Reconciling Inconsistent Financials: Frequently numbers in charter school annual financial reports (AFRs), audits, and IRS filings do not reconcile even though they cover the same period. Some audits are inadequately detailed and done by out-of-state firms that may not be familiar with Arizona law. For instance, in 2014-2015, one charter holder that currently runs two schools reported a net gain in revenues less expenses of $369,000 to the Arizona Department of Education (ADE) and yet their audit noted a net loss of $134,000 to the Arizona State Board for Charter Schools (ASBCS) for the same year. The difference in total net assets reported in their audit and to the IRS were also dramatically different in fiscal 2013-2014. The IRS 990 reported $2.5 million in net assets, while the audit indicated negative net assets of $2.6 million, a $5.1 million difference!

> ***Key Recommendation:*** *Require a standard format for audits and ensure that audits, AFRs and IRS 990 filings numerically align with one another.*

Notably, one-fourth of charters are providing the opportunities promised by their founding legislation. In the absence of sufficient financial oversight, they do the right thing. A large charter that is an exemplar of this type of organization is the Arizona Agribusiness and Equine Centers. These charters should be emulated and replicated. Their business models are financially sound and ethical. They also treat their teachers fairly and as professionals.

This policy report and the policy reports that will follow are designed to give information to the public and policymakers. The information should serve as a timely financial warning. These policy reports are informed by three years of exhaustive research and a forensic accounting of the data including a meta-analysis of the most comprehensive financial data on Arizona’s charter school sector. Sources include AFRs, audits, Federal IRS 990s for nonprofits. The ASBCS and the ADE were consulted and were helpful during the information gathering phases of this effort. Their assistance was greatly appreciated. Preliminary findings were shared with these agencies.

Each section of this report offers specific recommendations designed to improve information for parents, achievement for students, and accountability to taxpayers.

The next in this series of policy reports, due to be released in the fall, will look more carefully at red flags regarding issues with financial management, growing debt with many charters, and whether current business practices are appropriate and sustainable. A failure rate of 42% since 1994 is one symptom that charter finances and governance need attention.

In the fiscal year ending June 30, 2015, a total of 138 out of 407 charters[3] DID NOT MEET the ASBCS Financial Performance Recommendations. An additional 90 DID NOT MEET the Cash Flow standard. Cash Flow, as any business owner can assert, is a canary in the coal mine. It is a red flag indicative of financial issues.

The third report to be released by the end of the year will be an in depth look at teacher compensation, benefits and issues related to travel costs for school personnel which, in many cases, exceed what much larger public districts expends for the same item.

The findings in this series of policy reports exposes that, in fact, school choice is an illusion in Arizona in the absence of access to transparent and consistent information regarding charter school finances, executive compensation, contractual obligations and academic performance. In the current state of play, charter schools are not required to operate at a level of financial accountability and transparency that is as comparably stringent as is demanded of public district schools.

While information in these policy reports may be alarming, none of it, under Arizona state law, is presently illegal. It is not the intent of these reports to suggest any charter operator is currently violating state law. The identified practices are all legal under the current rules.

The law's silence on these issues is deafening.

[3] The number 407 includes all non-district, municipality, and university charters. Charter school organizations can use consolidated audits which means organizations with multiple charters can submit one audited report. This practice is detailed in these reports.

Findings and Recommendations

Topics in the First Policy Report

1. Related Party Transactions and their Effect on the Marketplace
   - Percentage of Related Party Expenditures to Overall Expenditures
   - Checking on the validity of claims that Related Party Expenditures are Cost Effective and Efficient Transactions
   - Relationships between the Corporate Boards and Charter Holders
     i. Related Parties Defined and Listed
   - Amounts involved in Related Party "for Profits" associated with nonprofit charters: An analysis of the financial transactions involved in these subsidiaries.
2. Executive and Administrative Compensation
   - Analysis of the decision making systems regarding compensation
     - Comparing the declared method[4] used to determine compensation alignment with similar sized organizations.
   - Comparisons to the competition's (districts) compensation of superintendents in similar sized districts.
3. For Profit Distributions and Owners' Equity
   - Analysis of the equitable distribution of profits as they relate to:
     - Net for the Year
     - The Expenditures for the year
     - Underfunding and depleting of the stock holder's owners' equity[5].
4. Classroom Expenditures in Charters and Districts
   - Following the money used to educate our children
   - Comparing and contrasting district and charter expenses in the Classroom
5. Academic Performance
   - Grading Schools for Traditional and Alternative Charters
   - Studies comparing similar students in Charters and Districts
6. Reconciling Inconsistent Financials
   - Examples of inconsistent reporting on state financial reports compared to audits
   - The reporting of Administrative costs on the AFRs, audits, IRS 990s with an eye towards disparities in those reports.

[4] The declared method is the stated (on the audit and to IRS) method used to determine these compensation levels. By comparing schools of 350 to compensation at districts exceeding 20,000 the charter holder "justifies" their claim to a salary that is inconsistent with the business' size.

[5] Owners' Equity is an auditing term used in the balance sheets of for profit companies.

Finding: **Related-party dealings are the modus operandi of three-fourths of the charters evaluated. While these transactions can offer cost savings to charter schools they are often used for self-enrichment. Ninety-five percent of charters have sought and received permission to bypass regulations public district schools must follow regarding related-party transactions and open bidding processes.**

More than 77% of charter schools conduct business with related parties--companies that employ a family member of the charter holder, or the charter holder him or herself. In addition, the boards at these subsidiary for-profit companies are often the same individuals that are on the charter's corporate board. The corporate boards are appointed. This is the polar opposite of a public school board where the open seats are filled with elected members from the community.

Arizona law allows the following configuration of charter holders and corporate boards (ARS §15-181 to §15-189):

- Corporate Boards that are composed of one person, the charter holder.
- Corporate Boards that are composed of two people, husband and wife who also hold the charter.
- Corporate Boards that are composed of two charter holder couples.
- Corporate Boards filled with relatives and owners of related party businesses.
- Corporate Boards where the charter holder is the board chair / president.
- Corporate Boards and charter holders that do not reside in Arizona.
- Corporate Boards that are the same for related-party subsidiaries dealing with the non-profit charter. Salaries, bonuses and distributions from these subsidiaries are not reported on the Audits. Money moving to the subsidiaries is noted in the Related-Party section of the Audit.
    - Related-Party Transactions that were present on the Audit were not always included in IRS Form 990 for the same firm.

This financial and governance issue manifests as:

- Leases with a related for-profit subsidiary or individual
- Renting from a for-profit subsidiary or individual
- Purchasing goods and services from a related for-profit subsidiary or individual

- Leasing employees from a related party for-profit subsidiary orindividual
- Loans and notes to a related-party for-profit subsidiary or individual
- Paying a related party for “board” services on the corporate board
- Consulting contracts to a related party, and a host of other dealings with parties related to the owners of the charter.
- Multiple related-parties on the payroll.

Most cases indicate excessive compensation in transactions with related-parties. When the owner configurations combine with a lack of independent oversight, most charters analyzed are making decisions that are not necessarily in the educational interests of children, but are to the owner’s self-benefit.

Related Parties Defined: Family members such as brothers, sisters, spouses, ancestors and lineal descendants. The charter holder names listed were researched to discern whether the listed charter holders were related. I.e. cases where the husband and wife had different last names. (Step-parents, uncles, in-laws, cousins, nephews and ex-spouses are not considered related in these reports.) A corporation or partnership in which more than 50% of the stock or more than 50% of the capital interest is owned by the taxpayer. Most cases noted in this study were 100% held by a related party.

Recommendations: 1. Charters need to be held to the same public bidding procurement process as public district schools. This adaptation will make any related-party contracts public information. If compliance creates an administrative burden on the charter, then the ASBCS should facilitate and oversee the bidding process and create the opportunity for charter schools with similar needs to benefit from a combined bid process.

2. Related-party employment compensation needs to be disclosed in audits and the charter must provide a market-based analysis to the ASBCS that demonstrates no more than fair-market value is paid for any compensation to related-parties. The amount of related-party employment compensation for each charter will be available to the public at the ASBCS' website, including any documentation.

Finding: **Administrative Compensation is often excessive—and given other organizational ways of funneling money, these figures may understate the full compensation package owners provide for themselves. For-profit charters and for-profit related organizations do not disclose compensation, i.e. the data is not provided in the audits.**

Charter school operations frequently have only a few hundred students. Among public school districts with 600-1,200 students, the average superintendent compensation is $105,000. Focusing on the top half of these districts in terms of compensation per pupil, the compensation comes out to $150 per pupil. Superintendent salaries for the top paying public school districts with 600-1,200 students ranged from $101,000 to $125,000 with one outlier at $235,000.

Examining charters that disclose administrative and executive salaries on their IRS Form 990 one finds a key reason why charters have more than twice the administrative expenses per student as public district schools (many charters do not disclose this information on their IRS 990, an issue[6]). Many charters pay administrators and charter holders far more than what equivalent personnel would receive in public district schools. There are charters (23% of the total) that have reasonable compensation packages based on the charter's size. There are members of this group that take LESS compensation than they are due because of the financial position of the company.

One particularly high compensation example is at Crown Charter School, Inc., where the top two executives paid themselves a total of half a million dollars in FY 2014. This compensation occurred even though the school had just over 250 students. Nearly $2,000 from taxpayers' per student from the Arizona State General Fund *went to these two individuals*. By contrast, the superintendent of Scottsdale Unified made $203,000 in 2014-2015. This compensation package was in a district that is nearly 100 times larger (almost 25,000 students). Additional irregularities regarding how Crown organizes itself financially is found in the Reconciling Inconsistent Financial portion of the report. The organization has significant discrepancies between their audit and their AFRs filed with the state.

[6] In addition none of the compensation that a charter holder is receiving from a subsidiary "for profit" is available. I.e. the information is not part of the audits or IRS 990, only the payments TO these organizations are visible on the audits.

The George Gervin charter with 90 students currently receives failing academic marks from the Arizona State Board of Charter Schools, yet its top paid executive, Barbara Hawkins, who also oversees a Youth Center, received $192,000 in 2013-2014. The principal of the school appears as a related-party, Nathan Hawkins, though his salary is not disclosed in the charter's IRS 990 report.

More typical examples of high compensation include Cynthia and Keith Johnson who collectively earned $317,000 for 374 students at Acorn Montessori charter school in 2013-2014 and Brad and Deanne Tobin who collectively earned $239,000 for 126 students at Challenger Basic School. These compensation levels far surpass public district schools. For instance, the superintendent of Williams Unified School District (618 students) earned $101,000 in 2014-2015. Consequently, the top two administrators in Williams Unified earned less than $200,000.

While charters may argue that despite their small size, administrators have broad and important responsibilities, the best way to address that would be to benchmark salaries to slightly larger public district schools.

Recommendations: 1. Audits of charter schools need to include review of compensation to non-instructional personnel in an administrative, governance or ownership capacity. Compensation should be benchmarked by similar personnel in public school districts with less than 1,000 students for small charters with less than 600 students. For charters with more students, the benchmark threshold should be set no higher than 50% above the total number of students enrolled in the charter. The audit should provide sufficient documentation to justify the total compensation received. This analysis needs to consider ALL methods that ownership and administrators use to compensate themselves including any for-profit subsidiaries.

2. Likewise, any non-instructional personnel employed by the for-profit arm of a charter operation and paid for with public funds needs to have costs fully broken down in the audit, including all salary, benefit, and consulting services with a market-based justification for the costs.

3. Charter school financial data needs to be shared with and monitored by the Auditor General's Office just as they are for public district schools.

Questionable Profit Distributions

Finding: **Questionable (Excessive) distributions to shareholders occurred in 2014-2015 with one-third of for-profit charters.**

Most charter holders are nonprofits. They may have a "for profit" related organization that they contract with, but the charter itself is a nonprofit.

Twenty-five charter holders in Arizona are for profit corporations. As a "for profit", they can make distributions to their shareholders. This section focuses on these 25 charter holders.

In normal business practice in a free market, shareholder or partner-owned businesses do not distribute dividends (distributions in charter parlance) on shares in losing years. The money goes into retained earnings instead (or comes out of retained earnings in a bad year).

Eight of the 25 for profit charter schools, including three separately incorporated parts of Pinnacle Education, engage in questionable distributions to shareholders. Six for-profit entities take out more than 10% of state revenue as profit, ranging from 12% to 45% in 2014-2015. Four of the eight take out so much for distributions that it exceeds their net profit and makes the entire entity run at a net loss, including American Basic Schools, LLC, which despite net revenues of only $66,000 in 2014-2015, distributed $422,000 to shareholders. It is assumed the money beyond the net on the year is coming from owners' equity.

Excessive distributions undermine the financial stability of a charter school, which is not in the interest of taxpayers or students. Over the past 25 years, the Standard and Poor 500 reported average net profit margin after all expenses never exceeded 10%. Net profits can be retained as a source of future investment or redistributed to owners. For profit charters distributing more than 10% of revenues to owners or pushing an operating surplus into a loss are not acting as good stewards of taxpayer funds.

Recommendations: **The ASBCS should be monitoring and approving any distributions in excess of the charter's net for the year. Documentation on where the funding for the distribution came from needs to be include in the audit information. Draws on Owner's Equity for distributions need to evaluated and checked against the company's fiscal position on the ASBCS' Financial Performance Recommendations.**

Finding: **While public district schools in 2014-2015 put 51.5% of resources directly into the classroom, charters only average 47.5%.**

While most executives and top administrators in the charter sector receive excessive compensation compared to their public district school counterparts, teachers in charters on average are paid more than 20% less than district teachers often without any retirement benefit (to be detailed in the third policy report). Consequently, charters put less resources into the classroom, and more into compensating those who own or operate the charter.

In 2013-2014, the Auditor General reported public district schools as devoting 52% of all spending in the classroom. In contrast, charters only put 45% as found in the Annual Report of the Arizona Superintendent of Public Instruction. At the end of Fiscal Year 2015 the numbers were 51.5% for District Classroom Spending[7] and 47.5% for Charter Classroom Spending. Student Support Levels at Charters was 4.9% to Districts at 7.9%. Ten years of data show that this disparity in classroom spending is a trend. However, because the Auditor General only does an annual report on public district schools—they are the only ones publicly made accountable for the distribution of their spending in the areas monitored[8]. (Davenport, 2016 #1179)

Recommendation: Charter school financial data needs to be shared with and monitored by the Auditor General's Office just as it is for public district schools.

[7] This change in classroom spending triggered a call for a report on District Spending on Classrooms Expenses, charter spending on classrooms or classroom support accounts was NOT part of the report.

[8] The report provides data on Classroom Spending (instruction), Classroom Supplies, Administration, Student Support, and Other Support. The report is only as accurate as the data provided by the charters on their Annual Financial Reviews (pgs. 2, 7 and 10).

Finding: **The charter sector as a whole underperforms academically relative to similar demographic students in public district schools. On line charters show particularly poor academic performance.**

While some of Arizona's college-prep charters focusing on attracting high-achieving students with a rigorous curriculum have gotten significant attention in the media, two independent studies using student-level data have found the charter sector as a whole for similar demographic students underperforms relative to the public district schools. The studies were by the Center for Research on Education Outcomes (CREDO) out of Stanford University and by the Brookings Institution at the behest of the Goldwater Institute. While as with public district schools, some charters certainly perform better, the overall results suggest school choice, as presently designed, is not functioning as well as it could or, based on CREDO's results, as well as in other states.

This means presently for academic-achievement for most students, school choice is leading to sub-optimal outcomes. In addition, within the charter sector, the most abysmal performance for demographically equivalent students is found with the online charters, a pattern which holds nationwide.

Recommendations: **Improved financial oversight as outlined in this report and improved financial transparency for the public, including parents, would enable parents to make more informed choices regarding their child's education and make charters more accountable to taxpayers.**

In addition, all online charters should be reviewed immediately to evaluate the quality of their academic offerings and student achievement to determine whether their charter should continue.

Reconciling Inconsistent Financials

Finding: **Frequently numbers in AFRs, Audits, and IRS filings are inconsistent even though they cover the same period. Some audits are inadequately detailed and done by out-of-state firms that may not be familiar with Arizona law.**

Charter schools submit AFRs to the Arizona Dept. of Education, audits to the ASBCS for the state of Arizona, and if a nonprofit, as most are, a Form 990 to the IRS. Currently while financial reports and audits are submitted annually, they are not scrutinized for consistency even though they cover the same reporting period. Audits don't always follow a standardized format. Some auditors are in state and do good detailed work, and other audits are completed by out of state entities and may lack detail. The level of detail varies by auditor.

Identifying what's going on at particular charter sites can be challenging due to consolidated audits or, if the charter is operating in the context of a much larger nonprofit, the consolidated audit inhibits the ability to examine the charter performance more carefully.

As these funds are from state taxpayer dollars, the public accounting should be consistent across all reporting forms—and when it's not, clear steps advanced to remedy deficiencies. The excuse that no one checks the accuracy of AFRs to the state and compares that data to the audits submitted to the ASBCS is an indictment of oversight.

As will be detailed in subsequent reports and listed in this report's Appendix "A", large numbers of charter operations are running deficits and many have negative net assets. The state needs to be ahead of potential financial problems, so they can appropriately intercede for the best interest of students and taxpayers.

Recommendations: **1. Audits need to follow a standard format that requires detail and supporting information on assets and liabilities, revenues and expenditures, and related-party expenses.**

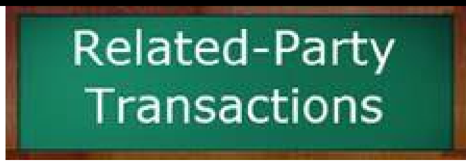
- **a. Audits need to be done by auditors with offices located in Arizona with a demonstrated expertise in Arizona law.**
- **b. The ASBCS needs to provide a list of acceptable auditors using data gleaned from the audits to**

Determine which auditors are currently providing acceptable levels of information.

c. **Audits need to be done for each charter entity or for the charter separate from any larger entity it might be part of THEN a Consolidated Audit can be prepared collating that data.**

2. Audit reports need to be numerically identical to what is provided in Federal 990s and AFRs. Any inconsistencies would need to be explained in the audit with specific plans on how to remedy the deficiency in the future.

Summary of Findings and Recommendations

Finding	Recommendation
 For three-fourths of charters, related-party transactions appear to be more for self-enrichment than saving money or benefitting students.	1. Charters need to be held to the same public bidding procurement process as public district schools. That will make any related-party contracts public information. If compliance creates an administrative burden on the charter, then the ASBCS should facilitate the bidding for them as schools have similar needs for which they would need to procure bids. 2. Any and all Related-party employment compensation needs to be disclosed in audits and the charter must provide a market-based analysis to the ASBCS that demonstrates no more than fair-market value is paid for any compensation to related-parties. The amount of related-party employment compensation for each charter will be available to the public at the ASBCS' website, including any documentation
 Administrative Compensation is excessive—and given other organizational ways of funneling money, these figures may understate full compensation. For-profit charters do not disclose compensation and for-profit related organizations do not disclose compensation.	**1.** Audits need to include compensation to non-instructional personnel in an administrative or ownership capacity. Compensation should be bench-marked by similar personnel in public school districts with less than 1,000 students for small charters with less than 600 students. For charters with more students, the benchmark threshold should be set no higher than 50% above the total number of students enrolled in the charter. The audit should provide sufficient documentation to justify the total compensation received. This analysis needs to consider ALL methods that ownership and administrators use to compensate themselves including in for- profit subsidiaries. **2.** Likewise, any non-instructional personnel that are technically employed by the for-profit arm of a charter operation needs to

Finding	Recommendation
High Executive Salaries Continued…	have costs fully broken down in the audit, including all salary, benefit, and consulting services with a market-based justification for the costs. 3. Charter school financial data needs to be shared with and monitored by the Auditor General's Office just as they are for public district schools.
 Questionable (excessive) distributions to shareholders occurred in 2014-2015 with by one-third of for-profit charters.	The ASBCS should be monitoring and approving any distributions in excess of the charter's net for the year. Documentation on where the funding for the distribution came from needs to be include in the audit information. Draws on Owner's Equity for distributions need to be evaluated against the company's fiscal position on the ASBCS' Financial Performance Recommendations. .
 While public district schools in 2014-2015 put 51.5% of resources directly into the classroom, charters only average 47.5%. The prior year 2013-2014 districts spent 52% of resources directly into the classroom, charters only average 45%.	Charter school financial data needs to be shared with and monitored by the Auditor General's Office just as they are for public district schools.

Finding	Recommendation
 The charter sector as a whole underperforms academically relative to similar demographic students in public district schools. Online charters show particularly poor academic performance.	Improved financial oversight as outlined in this report and improved financial transparency for the public, including parents, would enable parents to make more informed choices regarding their child's education and make charters more accountable to taxpayers. In addition, all online charters should be reviewed immediately to evaluate the quality of their academic offerings and student achievement to determine whether their charter should continue.
 Frequently numbers in AFRs, Audits, and IRS filings are inconsistent even though they cover the same period. Some Audits are inadequately detailed and done by out-of-state firms that may not be familiar with Arizona law.	1. Audits need to follow a standard format that requires detail and supporting information on assets and liabilities, revenues and expenditures, and related-party expenses. a. Audits need to be done by auditors with offices located in Arizona with a demonstrated expertise in Arizona law. b. The ASBCS needs to provide a list of acceptable auditors using data gleaned from the audits to determine which auditors are currently providing acceptable levels of information. c. Audits need to be done for each charter entity or for the charter separate from any larger entity it might be part of THEN a Consolidated Audit can be prepared collating that data. 2. Audit reports need to be numerically identical to what is provided in Federal 990s and AFRs. Any inconsistencies would need to be explained in the audit with specific plans on how to remedy the deficiency in the future.

Introduction and Scope

This analysis provides the first installment of an in-depth meta-analysis of Arizona's charter school finances as measured using a forensic accounting methodology. Consequences of the financial and governance laxity in charter schools are manifested in the data in several key areas. This report focuses on related-party transactions, high executive compensation, and questionable for-profit distributions to shareholders. This first of three policy reports also looks at reduced classroom spending, academic underperformance, and reconciling inconsistent financials. Everything described in these policy reports is legal under Arizona state law due to the lax financial oversight provided in those laws through "deregulation" of public charter schools.

This report begins with a diagram featuring the "rule" differences between how District Finances and Governance differs from Charter School Finance and Governance on the following pages. I.e. the policy differences between these "competing entities". The diagram is written in non-technical language.

In public school districts the rule making for finances and governance is codified in policy and state law. The law establishing charter schools intentionally exempted charters from these rules.

What has *resulted* from this great freedom without the accompanying great responsibility is the subject of these policy reports. Charters (and de facto private schools) have been granted "freedom over their budgets, staffing, curricula and other operations." We have trusted without verifying the financial and governance results.

These policy reports are the result of three years of gathering data and organizing that data into a format that addresses the essential questions asked. It represents the most comprehensive financial data on Arizona's charter sector, including AFRs, audits, federal 990s for nonprofits, and the ASBCS assessment of each charter holder's finances.

School choice, which undergirds the development of both private school vouchers and public school charters, is based on the application of free market economic theories to the public sector (2017, Friedman 1984, 1993, Friedman and Friedman 2002, Friedman and Selden 1975, Friedman and Randolph 2004, Friedman and Smith 2005, Hayek 1939, 1976, 1979, 2013, Hayek and Bartley 1988). A thorough re-reading of the economics theories driving the charter and privatization movement has been a part of the process leading to this study. Proponents argue that competition leads to an improvement in outcomes and critics have concerns that public district schools will be financially compromised, hurting their students.

School choice has become the dominant educational paradigm in Arizona. Normally choice proponents argue that choice must by necessity lead to students moving to better academic environments. Likewise, school choice is supposed to lead to a more efficient use of resources in the attainment of those better outcomes.

These reports look at how that theory of action has played out in reality during 20 plus years of charter schools in Arizona. While some charters perform well in Arizona and fit

This study finds that with lax financial regulation, resources are often used for self-enrichment of charter holders and executives instead of educating children. A lack of transparency makes this information inaccessible to parents and the taxpaying public.

that academic model, as a whole, students who attend charter schools do no better and often do worse than equivalent students in public district schools. Likewise, this first policy report finds that with lax financial regulation, resources are often used for self- enrichment of charter holders and executives instead of educating children, but a lack of transparency makes this information inaccessible to parents and taxpayers.

The research practitioner, an early supporter of charter schools, used lived experience along with educational experience in the business, public district school and charter school finances and governance. An expertise in organizational management, school law, finance, and leadership and change informed the study. A period of three years went into the gathering of data for this effort.

This policy report and upcoming subsequent follow up policy reports were not written to call for an end to charter schools. The opposite is true. The writer founded public charters in New Hampshire. Those schools are still in operation and thriving. They cost less to run and are locally controlled. Charters can be a viable and vibrant part of their communities. The reports will include exemplars in the Arizona marketplace.

There have been charters in Arizona since 1994. All of the charters from 1994 to 2015 were financially evaluated using forensic accounting. The detailed look focuses on specific fiscal years (2013-2014 and 2014-2015). The data for most of the charters looked at goes much deeper. This was a deliberate researching technique to probe the data vertically and horizontally. Causes of financial disparities often resulted in a full probe of all of the available data prior to drawing conclusions based on two years.

The ASBCS and the ADE's databases were the source of most of the materials used in the report.

The ASBCS has been responding to some of the calls for transparency and financial oversight. Their analysis of financial performance is included in the data. Their assistance in the data gathering for this report is greatly appreciated as was the assistance garnered from the ADE.

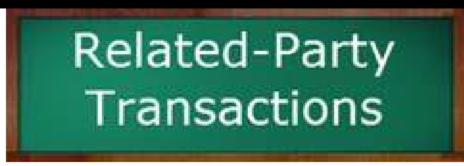
Numerous research papers were also used with an eye towards reading papers and books from both “sides of the aisle.” This is a term used with caution as the author’s own experience came from work with Senator Judd Gregg, Republican, and Senator Ted Kennedy, Democrat, whose advice and counsel was sought while they were the Senate Education Committee chairs.

Federal form 990s (a requirement for federal non-profits) were also a part of the research. Thanks are extended to Guide Star and Charity Finder for their meticulous gathering of these federally required publicly available reports. These policy reports are a truncated version of the larger analysis. Hyperlinks to the source data are embedded in the data set developed for this report. This allows sceptics and interested parties to validate the research.

Lax financial oversight enables ethically challenged practices to occur systematically without the kind of public disclosure that the same behavior would receive in a district. If similar business practices were initiated in a public school district the front page of the *Arizona Republic* or the local television news would sound an alarm. Another group that would publically shame a district for the type of behavior identified in this report would be charter school advocacy groups.

Researchers have noted cronyism, oligarchical management structures, monopolistic practices and worse in their findings. Those researchers sometimes used the term misappropriation of funds to describe the behavior manifest in their data. Academic researchers Bruce Baker and Gary Miron note, “A substantial share of public expenditure intended for the delivery of direct educational services to children is being extracted inadvertently or intentionally for personal or business financial gain, creating substantial inefficiencies” (2015).

Deregulating the financial and governance structures normally associated with public school enterprises has created an opportunity for opportunism. These policy reports are designed to present evidence of what has evolved in this deregulated “free market” environment and recommend changes based on that data analysis.

Finding	Recommendation
 For three-fourths of charters, related-party transactions appear to be more for self-enrichment than saving money or benefitting students.	1. Charters need to be held to the same public bidding procurement process as public district schools. That will make any related-party contracts public information. If compliance creates an administrative burden on the charter, then the ASBCS should facilitate the bidding for them as schools have similar needs for which they would need to procure bids. 2. Any and all Related-party employment compensation needs to be disclosed in audits and the charter must provide a market-based analysis to the ASBCS that demonstrates no more than fair-market value is paid for any compensation to related-parties. The amount of related-party employment compensation for each charter will be available to the public at the ASBCS' website, including any documentation

Behavior can be moderated through regulation

Barry Goldwater famously stated that we cannot legislate morality. To counter that notion Martin Luther King said, "It may be true that morality cannot be legislated, but behavior can be regulated" (King 1962). The regulating of unethical financial and governance behavior should be the role of the ASBCS *and the ADE.*

Allowing all of the requests to bypass the normal process of bidding services, which has led to a propensity of related-party transactions, is not the way to moderate behavior.

The behavior of the bad actors needs to be regulated, not tacitly and implicitly condoned.

This does NOT require massive regulation.

It does require a reframing of the issues rather than a misreading and explaining away of the data that is presenting itself. The charters that do not conduct related-party dealings deserve a level playing field as do the "competing" public school districts.

Statistics on Related Party Transactions

# Dealing with Related Party	Small or No Dealings with a Related Party
309	**91**

Percentage Dealing with Related Parties	Percentage with Small or No Dealing with Related Parties
77%	**23%**

Charters were counted as a charter entity if they had an independent charter. This way of counting negated the consolidation effect of consolidated audits. See Addendum B for detail on the criteria used to evaluate related party transactions.

The Rules for Public School Administration and Governance

Public district schools and charter schools play by different rules as illustrated in Table 1. Expenditures and oversight in public district schools face a far higher bar than for public charter schools. Conflicts of interest that would not be allowed in a public district school setting, where the folks who receive financial benefits also make decisions that provide them financial benefits, whether by salary or contracts, are a fairly normal occurrence in Arizona's charter schools. Most notably any property purchase arrangements become the personal property of the charter operators—not the public— as with a public district school.

Table 1: Rules for District v. Charter Schools

	Public District Schools	Public Charter Schools
Governance	**School Board (Size of Board Set by District), Conflict of Interest Not Allowed. The AZ School Boards Association reports that Public School Board members are not compensated.** **Superintendent of Schools is Agent of the Board.**	**CEO, Corporate Board (May be one and the Same), Number of Members is NOT SET (i.e. One Member Board is Allowed), For Profit or Non Profit Allowed, Payment of Board Members Allowed (Compensation for Board Members is not limited).** **A Religiously Affiliated Group May Operate the Charter**
Ownership of School Buildings and Assets of the District	**Community and State of Arizona**	**Property of the Charter Holder, May be One Person even in For Profits. Sale of Assets Goes to Charter Holder(s). Sale of Property is not in Open Market (Exception, Non Profit Must Sell to a Non Profit) This does not stop Related Party Sales.**
Financial Controls	**ADE, Board and Budget Committee Oversight and Community Input at Public Meetings, Audits Submitted to AZ Auditor General, Salary of Superintendent is Negotiated in Public and Published**	**ASBCS Accepts Audits, ADE Accepts AFRs with Limited Power to Question Contents, (ADE Refers Issues to ASBCS for Oversight), Corporate Board Votes on Budgets, (Dealings with Related Parties are <u>supposed</u> to be included in Audit and IRS Form 990).** **Compensation of Charter Holder and Executives is unchecked.** **Charters Can Use any Auditing firm** **(38 different audit firms currently used, including 6 out of state firms)**

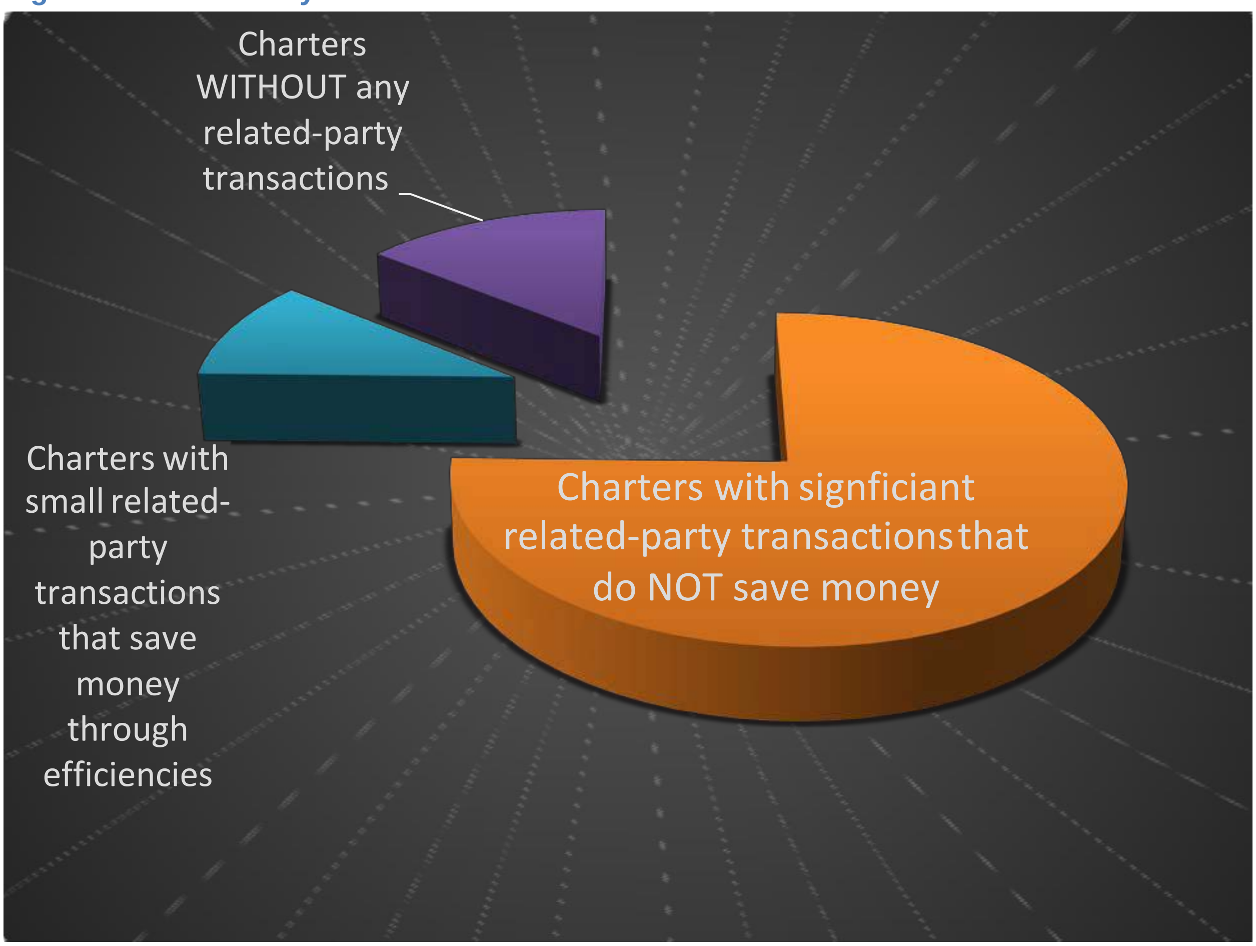
	Public District Schools	Public Charter Schools
Limitation on Financial Expenditures	**Books MUST be Deficit Free, (Although there is at Least ONE District that is Negative). This negative balance forced cuts at the district (Roosevelt Elementary School District)**	**Allowed to Run Deficits and Pay Out Distributions at For Profits. (Distributions can occur even when the entity is in the red. This is true for several "For Profits" studied.)**
Transportation	**Must be Provided (Student)** **Limits to Car Provided for District Employees and its use.** **Travel Expenses monitored by Board**	**(Bus Transportation) is Optional** **Charter Holder and Executives May Buy Cars and Vehicles for Their Company Vehicle (No Limits on Cost or Type of Vehicle)** **Travel Accounts appear to be UNREGULATED. Owner may travel to expand his business using company travel funds.**
Special Education	**Mandated, Title One Required in Schools with Title One Populations Identified**	**Outsourcing May be Used, Parents can be Counselled to Pick Another School, Expenditures Listed do NOT meet Average Costs Normally Associated with a Robust SPED Program**
Profit (Surplus)	**Goes to either designated Reserve Funds or Back to Funding Source to reduce property taxes.**	**May go to either Shareholders in For Profit (Distributions) or to Asset Balance (Equity).**
Debt	**May Not Exceed Capacity of the District to Support the Resulting Bonds Issued**	**Allowed to Exist with Excessive Debt to Income Ratios, Limited Power to Close Charter is Given to ASBCS.**
Hiring of Relatives	**Not Allowed (Nepotism Policy)**	**Allowed (and Prevalent) Especially at Management Level. Majority of charters have related parties working for, managing and / or on the board of their charter.**

Student Choice	**Must Accept ALL Students**	**May Use Lottery if OVER SUBSCRIBED. All students are supposed to be allowed to enroll. Testing out is allowed.**

Widespread Practice

More than 77% of charter schools conduct business with related parties - companies that employ a family member of the charter holder, or the charter holder him or herself. In addition the boards at these subsidiary companies are the almost always the same individuals that are on the charter's corporate board. The corporate board is appointed. This is the polar opposite of a public school board where the open seats are filled with elected members from the community.

Figure 1 Related-Party Transactions at Arizona Charter Schools



Corporate board structure and makeup is unregulated. There are NO requirements regarding the number of board members or their relationships with ownership.

Arizona law allows the following configuration of owners and corporate boards (ARS §15-181 to §15-189) to exist:

- Corporate Boards that are composed of one person, the charter holder.
- Corporate Boards that are composed of two people, husband and wife who are also the charter holders.
- Corporate Boards that are composed of two couples.
- Corporate Boards filled with relatives of the charter holder.
- Corporate Boards where the charter holder is the board chair / president.
- Corporate Boards and charter holders that do not reside in Arizona.
- Corporate Boards that are the same for related-party subsidiaries dealing with the non-profit charter. Salaries and distributions from these subsidiaries are not reported on the Audits. Money moving to the subsidiaries is noted in the Related-Party section of the Audit.
  - Related-Party Transactions that were present on the Audit were not always included in IRS Form 990 for the same firm.

In normal school business operations this would be considered improper or irregular but the practice is legal for charter schools. The stated aim of the rules is to provide greater flexibility and budgetary savings. However, without oversight it can also lead to self-serving financial ends that reduce resources going to students.

Using a formula that analyzed the related-party expenditures reported the research found that only 23%[9] of charter schools do not conduct related-party business *or do so* for efficiency and cost-savings. Additionally schools so identified were also rated by the ASBCS on their Financial Performance and whether they had earned a “C” or greater on the Academic Standards[10]. A total of 91 charters met this criteria.

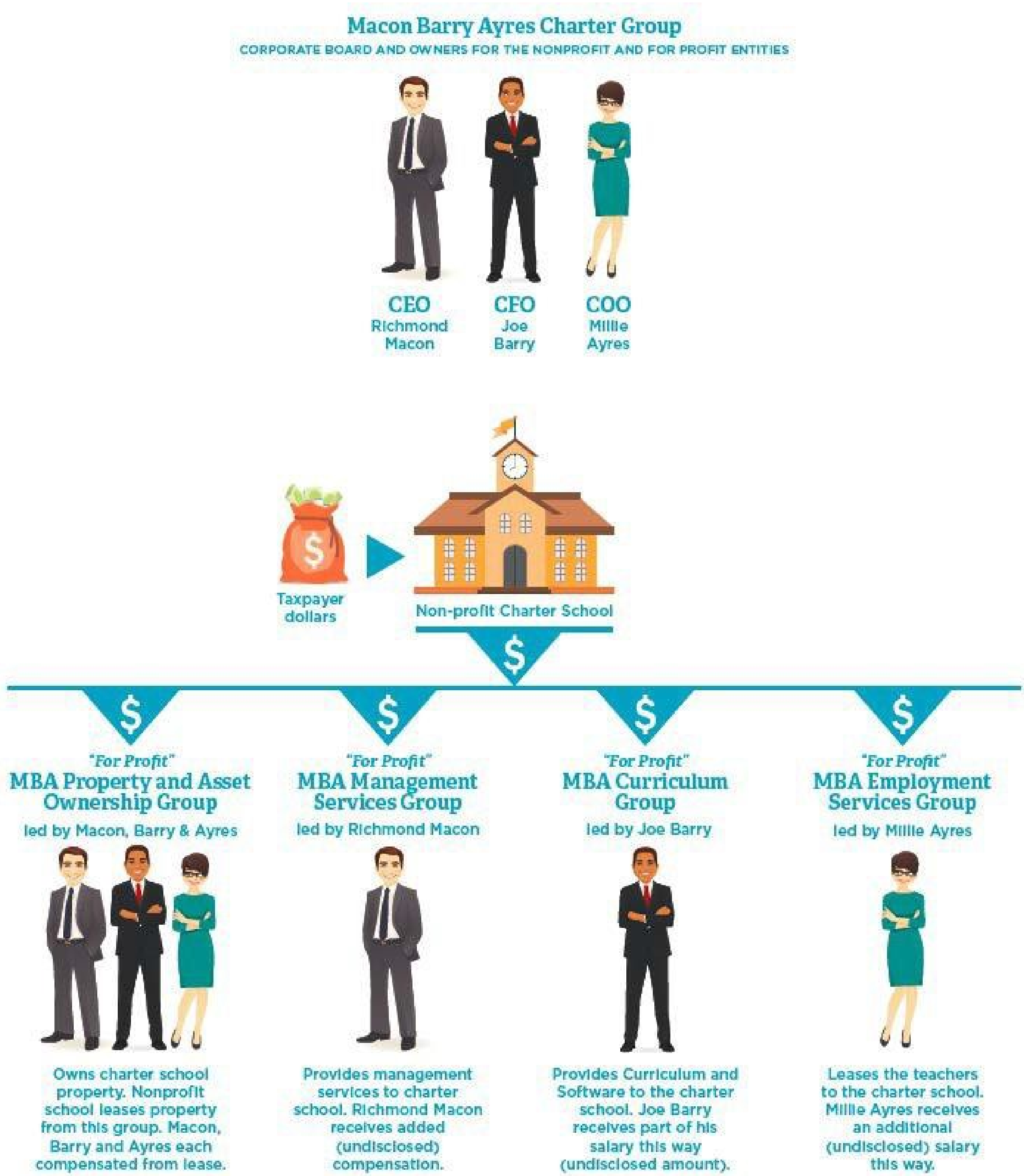
95% of all charters have applied for and received permission to sidestep the normal district property acquisition and bidding process. De facto 100% can do so. Yet the analysis here indicates that this has not resulted in a more efficient use of resources.

When someone says it’s not about the money, it’s about the money. – H.L. Menken

[9] For a discussion regarding how this percentage was reached see Addendum. Briefly an evaluation was done regarding several factors. No Related Party transactions, Limited Related Party Transactions justified by the fact they met the criteria “the transaction saved money” and there was no evidence of profiteering.

[10] Prior to the year (2013) when the Academic Standards were enforced 32% of all of the existing charters changed their status. They switched from “Traditional” to Alternate Status. The Alternate Status allowed those charters to be academically rated by a different criteria than the standards used for Traditional status, i.e., a lower standard was applied.

Figure 2: Nonprofit and For Profit Coordination in Charters



*The "owners" listed are also the charter holders of the Non-Profit Charter School. They are owners of the for profit subsidiaries.

An analysis of conflicts of interest that are allowed (sanctioned) under the current statutes and rules guided the analysis and sorting of the meta-data. The purpose was to determine the extent of the issues involving related-party transactions.

The issue of Related-Party Transactions manifests itself as:

- Leases with a related-party subsidiary "for-profit" company (same corporate board and charter holder - owner)
- Renting from a related-party subsidiary "for-profit" company (same corporate board and charter holder - owner)
- Purchasing goods and services from a related party, most often curriculum and software (same corporate board and charter holder -owner)
- Corporate Boards that include related contractors, real estate professionals, and finance company representatives
- Loans and notes to a related party ranging from 0 to 12% interest. Most often 6%.
- Paying a related party for "board" services
- Consulting contracts to a related party, and a host of other dealings with parties related to the owners of the charter. Usually done via a Memorandum of Understanding (MOU).

The graphic (Figure 2) for the Macon Barry Ayres (Making Barriers) Charter group illustrates the organizational structure in which related-parties can control all aspects of a charter school operation with the for profit entities being free from any transparency except to the degree transactions are detailed in the nonprofit charter school's audit. Aspects of this structure will be apparent in the illustrations of actual charter holders in this section.

This data search only pulled IDENTIFIED related-party transactions (those noted in the audit.) There was ample evidence that not all of the related-party transactions were recorded in the audit. The auditors can only see what the company allows them to see. Masking of the real recipients was often done by transactions with company names versus the actual individual. Example: Earl Smith being paid by a payment to ES Consulting group in Utah. Differences between IRS 990 reporting of related-party transactions and audit reports from the same year were found in the data.

In fiscal 2013-14 the related-party contracts, leases, and rents were:

2013-14 Related-Party Contracts
$377,769,233
Related-Party Leases – Rents
$478,717,233

Total of Related-Party Commitments 2013-14
$856,486,793

Leases are reported at the value that the commitment[11] to pay the lease is for.

(Example: A four-year guaranteed lease at $50,000 a year is recorded as a $200,000 Commitment.) This practice in Accounting captures the full cost of the commitment (i.e. it is money that has to be paid.)

The entire outgoing debt obligation for charters in FY 13-14 was:

Total Outstanding (Required Present and Future Payments)
$2,395,858,611

At a price tag of $856,486,793, fully 36% of all the outstanding payments for debt, leases, loans, and substantial related-party service payments are going to RELATED PARTIES. This does not include related-party salaries and benefits paid as administrators or teachers!

Non-Competitive Related-Party Transactions Add up

Related-party transactions without any oversight have developed into an epidemic.

A full **36%** of expenditures at charters are for contracts awarded to related parties.

When related-party leases and rents for one year are included the amount increases to **48%.**

Total Charter Expenditures from AFRs for 2013-14

$1,040,107,761

Total Contractual Expenses owed to Related Parties, excluding Leases, Rents, etc.

2013-14 Related-Party Contracts
$377,769,560

[11] In Accounting **a Commitment** is recorded in the audit when the business has committed to future payments on loans, leases, etc. (Example: A five-year lease for $100,000 is a $500,000 commitment.)

2013-14 Related-Party Contract as a% of Expenditures
36%

The True Cost of Related-Party Transactions

Even without the substantive leases, rents, etc. that are accounted for in the figure of **$374,181,560,** contractual expenses to related parties represent 36% of outgoing expenses for the year. This creates a financial drag on the organization as will be highlighted in the second policy report of this series.

Adjusting for the Related-Party Leases – Rents to Related Parties exacerbate the Issue

Related-Party Leases – Rents (Commitments for Leases)
$478,717,233

Logic Behind the Numbers Used: A fair way to determine the leases and rents costs would be to divide the leases and rents listed on the audit as "Commitments"[12] by the number 4 as most of the leases and rents were taken out for 1, 3, or 5 years as a commitment (i.e. contractual period of the leases). Even though the leases are de facto, forever. I.e. how does one get out of a lease with oneself? This conservative approach would add another **$119,679,308** to the outgoing funds (expenditures) for one year. Consequently, **about half of all expenditures are with related parties**—and this figure does not include any direct salaries paid to related parties. A common occurrence in family run charter groups.

2013-14 Related-Party Contracts PLUS Leases and Rents for One Year
$497,448,868
2013-14 Related-Party Contracts Plus Leases and Rents for One Year as a % of Total Expenditures
48%

[12] Commitments are items that MUST be paid in the future. A five year lease is an example. Built in increases in the lease are also included in the auditor's statements. When the lease or rent is with a related party, i.e. the same owner and board, there is NO incentive to void the lease. The subsidiary "for profit" company that owns the property needs this payment to pay the loans on the property. The Guarantor of the loan is usually listed as the Equalized Valuation Payments from the State for the charter's ADM (stated on the Audit). Often the bond holder "Intercepts" their payment by causing the charter group to direct that payment from AZDOE to the lender. Thus intercepting the money meant to pay for the students. The expected Equalized Payments are used to guarantee the loans.

Many companies (proxy companies set up for real estate, teachers and school level administrators leased as a purchased commodity, rental, etc.) are owned by the same group of related parties that run the school. *In fact, there is no logical reason for setting up these "subsidiaries" except to capture fees for the "services" the subsidiaries provide.* These figures DO NOT include some of the consulting payments made as they were often on the IRS 990 but not present in the charter's audited materials. One such charge was for $217,000 a year.[13]

Good News in the Data: Twenty-three percent, about one in four, of Arizona's charters ARE providing an educational opportunity while maintaining high ethical and financial standards. The figure should not be a shock. It is close to the figures obtained in psychological research that look at factors that influence our decision making process. The percentage of people that do the right thing in spite of the situation is statistically in the range of 20 – 31% (Blass 2000, Pojman, Vaughn, and Vaughn 2014, Society for Economic Anthropology (U.S.). Meeting (2006: Ventura Calif.), Browne, and Milgram 2009, Werhane 2013)

An Exemplar: Arizona Large Charter in the 23 Percent

A large charter group does it all in an ethical manner without any of the irregular transactions and self-dealing noted in the overall data is discussed here. Linda Proctor-Downing's Arizona Agribusiness and Equine Centers provide a unique charter choice with a true alternative to public district offerings. This charter fairly compensates their staff, provides Arizona state retirement benefits and does not over-compensate management. All this while providing a program with academic and financial results ASBCS can be proud of.

There is *no* evidence that this stellar charter selectively picks their students. They put money into their programs and the classroom. With six sites, the average Classroom Spending is above 51%, well above the 45% for charters as a whole (see Classroom Spending section to follow). This large charter is an exemplar for the charter movement. The espoused theories of action at this charter match their theory in use. The case in 23% of all charters. See: Addendum B for a listing of these type of charter groups.

Charter Sales of Property and Assets follow this Pattern of Insider Dealing

The problem of related-party transactions is exasperated when the charter sells the rights to the school's charter and property to an insider (i.e. a related party). One charter sales witnessed by the author was a closed sales to insiders. A second insider sale,

[13] Edkey Inc.'s former owner, received the $217,000 consulting payment in 2014-2015. See Section B Subcontractor in Part VII on form 990: http://www.guidestar.org/FinDocuments/2015/743/033/2015-743033931-0cbb4212-9.pdf

involved paying $1.5 million for this related party's online charter company (a company that was financially in the red with "assets" that were, at best, worth a fraction of this price).

Insider deals avoid public scrutiny and may interfere with academic improvements. I.e. the money is used to pay the ever increasing debt. A perfect storm of economic distress occurs when the property and assets are sold above market value. Those type of sales should raise a red flag for the governing body. These type of sales are reported on in depth in the second policy report in this series, Red Flags.

American Leadership Academy is a charter group that provides excellent salaries and benefits to its employees, transportation for its students, and boasts impressive financials. However, there is evidence that the schools are a subset of a real estate development company operating out of Utah. A recent report from Arizonan's for Charter School Accountability discusses this relationship.

> Glenn Way is a businessman and his business is charter school development. He 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.[14] They have completed over 20 charter construction projects, including five ALA schools.[15]
>
> 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. (Hall 2015)

Related-Party Transactions at Primavera Technical Learning Center

The following is an example of what would normally be considered an irregular business practice. I.e. it would not be tolerated in the "competition" public districts.

In 2014, Primavera Technical Learning Center paid a flat fee of $12.2 million for software and curriculum services to The American Virtual Academy, a company owned

[14] Schoolhouse Development, LLC, Services, http://www.schooldev.net/services
[15] Schoolhouse Development, LLC, Portfolio, http://www.schooldev.net/projects

by the charter holder. The school had 5,172 students during the 2013-14 school year amounting to a per student expense of $2,364.

If a school superintendent engaged in the same behavior with a for-profit company that they (the superintendent) owned, the transaction would be in violation of all bidding and purchasing protocols applicable to the public district school system. Arizona chooses to allow charters to engage in this practice. They are not held to the bidding and purchasing rules districts must follow.

An example how this type of irregular business practice is treated in the public schools was the recent conviction of a school CEO in Chicago *caught rigging bids.*

Crime and Punishment

One may legitimately ask, "What about district malaise?" When queried by the author regarding charter issues several Arizona legislators noted that there are financial issues in districts also. This of course, is true. However, when that type of malaise is discovered, as it can be by searching public information, the perpetrators are identified and punished.

Barbara Byrd-Bennett, former top administrator (CEO) in the nation's third-largest public school district, Chicago, was sentenced to 4 ½ years in jail for rigging bids for services to her schools. The amount involved was $2.3 million. She was also sued by the district. This is how accountability should work (Smith 2015).

The same type of transactional irregularity resulted in district administrators being fined and convicted in Detroit. The crime, contracts on maintenance supplies controlled by people who should have been looking out for their students. In that case schools were not receiving the needed maintenance supplies because of malfeasance on the part of the administrators. Again, the travesty was caught and the perpetrators punished (Balas 2016). There were policies and laws forbidding these type of dealings.

No Harm, No Foul

Related-party sales, which are legal in the charter sector go uninvestigated. Why? In Arizona it's not a violation of charter laws to do what Ms. Byrd-Bennett did. The difference, she did it in a district where it is illegal and not in a charter, where it is legal.

The reason the Chicago School Chief and the Detroit administrators were caught was because the public can see what is going on in the financials at a public district school. You can't see the spending in for-profit subsidiaries of charter schools in Arizona. For-profit subsidiaries are established to hide the transactions. The books of these subsidiaries are not audited by the ASBCS.

As one legislator / charter owner explained to the author, "We designed it to work that way." The financial theory at work is that the marketplace will deal with these types of issues, but as stated previously without full disclosure, this financial theory is discredited. The emperor of free market economics as it is being applied to charters has no clothes. The regulators continue to admire the suit the emperor is "wearing" by pointing out outlier academic successes and ignoring the warning signs in the financial statements. Politically fixing the field in one's favor also runs counter to some of the economic theories driving the charter movement (Friedman 1999).

Is the $12 million annually to a charter holder for software a fair market price?

Damien Creamer is the founder of Primavera Technical Learning Center which operated Primavera Online. In 2016 its corporate board gave the charter to American Virtual Academy, a for profit company whose charter t is held by Damien Creamer. Mr. Creamer is also the only board member listed by the ASBCS (Hall 2017).

While receiving a salary of about $100,000 annually for Primavera Online, Damien Creamer's company American Virtual Academy was receiving software service fees that amounted in fiscal 2014-2015 to $12.2 million. The contract payments were independent of the number of students enrolled and used to pay back owed money. Actual payments in 2014-2015 were $18.6 million. Because American Virtual Academy is a for profit organization that is privately owned, how that money is dispersed is not revealed. From 2009-2010 through 2015-2016, $84 million was paid to American Virtual Academy by Primavera.[16]

On a per student basis, the $12.2 million amounted to a software service fee for the 5,172 students of $2,364 apiece. The school employed 136 teachers for student-faculty ratio of 38 to 1 (Source: AZ Annual Report). That is twice the student/teacher ratio for public district schools. The pay to employed teachers (excluding benefits) was $707 per student or less than one-third of what was paid for the software service fee to a company owned by the founder of the school.[17]

The school received middling academic ratings from the ASBCS. Primavera earned an "Alternative C" on the academic rating system in 2012, 2013 and 2014. Their graduation rate is 75 out of 100. Independent researchers have found online charter programs overall seriously deficient nationwide and in Arizona (see academic performance section), though because school names are not revealed in those studies, no clear assessment can be made of this particular operation's academic performance. However, given its size in the online charter environment, it bears scrutiny.

[16] Data comes from annual audits and IRS 990 forms. Also summarized by Hall (2017).

[17] Additional data on students and faculty comes from AFRs filed with ADE.

Were these large sums for software services appropriate? How strong is the curriculum? Is the expense justified relative to alternative options? We do know the amount is fifteen times what Mesa public school officials estimate it costs to maintain their on line curriculum and software. Mesa Distance Learning (MDL), an online school in the public Mesa Unified School District's TAPBI report was queried about these costs. MDL paid $581,000 to develop software for their online program in 1998.[18] Mesa pays for maintenance, improvements and additions to their online courseware.

An additional inquiry was made by Jim Hall of Arizonans for Charter School Accountability. He found out from officials at Mesa Unified School District that it costs about $760,000 a year to maintain their online program and software. The estimate is based on the salaries for content specialists (developers), administrator, and programmer, and additional stipends paid to online teachers for curriculum development. Mesa Distance Learning offers a complete K-12 curriculum, though primarily serves high school students (Hall 2017).

Exploring Issues Raised by the Arizona Republic five years ago

The sub-heading for the article read: "Board members, school officials did more than $70 million in business" (Ryman 2012):

> *"Board members and administrators from more than a dozen state-funded charter schools are profiting from their affiliations by doing business with schools they oversee". Arizona Republic Report on Charter School Finances in Arizona*

The Republic report was thoroughly researched noting that, "*The Arizona Republic* reviewed thousands of pages of federal tax returns, audits, corporate filings, and records filed with the ASBCS. The analysis looked at the 50 largest non-profit charter schools in the state as well as schools with assets of more than $10 million. For-profit schools were not analyzed because their tax records are not public". One School that stood out in the report was used as an example for the segment titled "Family ties." The report is reprinted here with permission.

Family Ties

> "The Gaddie family reflects how family ties can run deep at charter schools.
>
> Happy Valley School in Peoria has a three-member non-profit board made up entirely of Gaddie family members, according to the most recent federal

[18] TAPBI Auditor general Report 2007 p. 23 at: https://www.azauditor.gov/sites/default/files/TAPBI.pdf

(Form 990) tax return. Ernest Gaddie is president. His wife, Delite Gaddie, is secretary, and their son, Glen Gaddie, is a board member. Glen also serves on the school's governing board along with three other people.

For several years, the school has contracted with Gaddie Curriculum & Education Consulting, a business owned by Ernest and Delite Gaddie. The company provides business consulting, maintenance and operations services and licenses curriculum to the school, according to tax returns and audits. Ernest and Delite created the curriculum while at a private, back-to- basics school they ran in Mesa in the 1970s. They own the copyrights and update the materials from time to time, according to an audit.

From fiscal 2007 through 2011, Gaddie Curriculum was paid $475,433 for various services, tax returns say. In 2011, the non-profit also began contracting with a landscaping service owned by the son and grandson of the board members, paying $21,600 that year.

The school has been exempt from purchasing laws since 2004, according to the ASBCS, but the school has its own procurement policy. Three oral bids are required for purchases of more than $5,000 and three written bids for purchases of more than $15,000. Purchases of more than $50,000 require three sealed bids.

In 2010, the school's auditor in the annual audit began questioning the contracted services with the Gaddies' company, and said the value of the agreements "were not supported by documentation that provides the method and/or rationale for how such fees for services were determined to be at fair value." The auditor recommended that the school document that the amounts paid were at fair value. School officials said they would try to find out the current costs of curriculum sold to similar schools.

The 2011 audit expressed the same concerns. Glen Gaddie told auditors he would provide documentation. The school declined to provide documentation about the fair value of the agreements to *The Arizona Republic,* and the Gaddies declined comment.

The audit findings in fiscal 2011 did not rise to the level of requiring a corrective-action plan by the state Board for Charter Schools, said Rowe, the board's executive director. A corrective-action plan would have required the school to make changes to correct the issue by a specified date."

What has changed since 2012?

This school's transactional behavior regarding related-parties has continued and *is not dissimilar* from many other charters. The school was selected because it was highlighted in the *Republic's* Report. The Gaddie family had nearly half a million dollars in related-party transactions for their For-Profit American Basic School and their nonprofit Happy Valley School as detailed for fiscal 2013-2014. (See next page.)

This was in addition to the nonprofit salaries received of $130,345 to Glen Gaddie—the only administrative salary disclosed for their nonprofit charter. In addition, the for-profit distributed to its shareholders, Glen and Janiece Gaddie, $300,258 in 2013-2014 and $421,654 in 2014-2015. The 2014-2015 distribution drove net revenue into a loss-which is a focus of the next section.

Positive things in the data about the Gaddie run organizations include:

The for-profit and nonprofit schools employ pre-dominantly certified teachers and the organization pays them about $40,000 a year. A figure that is higher than most charter schools, though lower than most public district schools. The nonprofit and for profit are both part of the *minority* of charters that participate in the Arizona State Retirement System (ASRS) for their employees. The data collected for this project, which entailed ALL charters based in Arizona indicates that the practices identified in the Arizona Republic Report continued after its publication.

For Profit Related Party Transactions for American Basic Schools LLC

(Burke Basic School - ADM 804 students)

Total Leases and Fees Payable to Related Parties	$339,864	
Related Party Transactions	**2014**	**Paid in 2014**
School has Entered Into a Lease with the Owners (Members)		
Termination of the Prior Lease Agreement Resulted in a Gain of	$214,236	
A Loan was Given to the Same Members During 2014 at 5%	$275,000	*From Cash Flow*
Paid on Loan	$(42,109)	
Rental on Van Owned by A Member of the LLC	$6,000	$5,500
Parents of Board Members Rented Land and Building Space to Company	$9,000	$9,000
Governing Board Member Provided Accounting Services (Compliance Services, Inc.)	$55,292	$57,377
Happy Valley School Inc. (Common Board and Members) Leases Buses and Computers	$78,760	$44,684
Happy Valley School Inc. (Common Board and Members) Services and on Behalf of HV	$835	
Represents Over $500 K in Related Party Transactions		
Glen and Janiece Gaddie are Sole Owners Listed by ASBCS		

The Non Profit Related Party Transaction for Happy Valley School Inc.

(Happy Valley School Inc. - ADM 642 at this site: students)

Yearly Lease Entered Into with Two Board Members (Subsequent Event	$102,000	
Related Party Transactions	**2014**	**Paid in 2014**
School has Entered Into a Lease with the Owners (Members)	$9,000	$8,020
Landscaping Services by a Business Owned by Two Family Members	$5,400	$5,400
Consulting Agreement with Board Members	$90,000	$56,500
Loan to Company Owned by Board Members at 5.5%	$40,000	$16,667
Lease Agreement with American Basic School LLC SAME BOARD	$78,760	$44,684
Company Owned by Two of the Board Members	$4,483	
Services Provided by BB and Purchases	$835	$20,240
Services Provided by BB and Purchases	$6,630	

Finding	Recommendations
Administrative Compensation is excessive—and given other organizational ways of funneling money, these figures may understate full compensation. For- profit charters do not disclose compensation and for-profit related organizations do not disclose compensation.	**1.** Audits need to include compensation to non-instructional personnel in an administrative or ownership capacity. Compensation should be benchmarked by similar personnel in public school districts with less than 1,000 students for small charters with less than 600 students. For charters with more students, the benchmark threshold should be set no higher than 50% above the total number of students enrolled in the charter. The audit should provide sufficient documentation to justify the total compensation received. This analysis needs to consider ALL methods that ownership and administrators use to compensate themselves including in for-profit subsidiaries. **2.** Likewise, any non-instructional personnel that are technically employed by the for-profit arm of a charter operation needs to have costs fully broken down in the audit, including all salary, benefit, and consulting services with a market-based justification for the costs. **3.** Charter school financial data needs to be shared with and monitored by the Auditor General's Office just as they are for public district schools.

The Good: Charter management teams that pay themselves comparable salaries to districts of the same size represent good practice in the charter sector..

Salary(s) for CEO at Charter	Comparable District (ADM 810) Superintendent Salary	Student Body Size of Charter
$109,062	**$91,253**	**619 at two charters**

The Bad: Charter management uses inappropriate metrics to determine executive compensation or uses districts that have 20-100 times more students as a benchmark.

Salary(s) for CEO at Charter	Comparable District (ADM 290) Superintendent Salary	Student Body Size
$225,000 **Owner $276,350**	**$75,000**	296 Students Charter 290 Students at the District

The Ugly: Salaries at large corporate charters with a minimal footprint in Arizona.

The charter here cited offers no benefits and low wages for teachers and administrators running the school in Arizona.

Officers and Directors (Corporate Board Members)	Compensation From 990
John A. **President**	**$759,722**
Jeff G. **CIO**	**$265,840**
Bill T. **CFO**	**$562,676**
Eric S. **COO**	**$238,737**

Sources: Published Superintendent's Salaries and IRS Form 990 for the nonprofits in this example.

Several multi- state, multi-national companies run their management groups as FOR-PROFITS. This corporate status, (FOR-PROFIT) shields the group from publishing their salaries, even though the local charters are nonprofits (see Figure 2 previously). Salaries can also be hidden from public sight in “for-profit” subsidiaries with the same owner and board. Distributions paid out of these companies is not visible in the public reports.

$105,000 was the average salary for a superintendent with a district between 600 and 1,200 students. The outlier in yellow in the data below is the Technology Center for the East Valley. *The outlier was included in the averaging skewing the average higher*. If instead salaries are measured on a per pupil basis and we focus only on the top half of paying districts, the average is $153 per student including EVIT and $136 per pupil excluding it.

Salaries can also be hidden from public sight in “for-profit” subsidiaries with the same owner and board. Distributions paid out of these companies is not visible in the public reports.

Table 2: Superintendent Salaries for Districts with 600-1,200 Students

District	Superintendent Salary 2015	Number of Students in District
Mayer Unified School District	$106,500	602
Williams Unified School District	$100,889	618
Red Mesa Unified District	$105,000	726
East Valley Institute of Technology (Outlier)	$234,839	727
Altar Valley Elementary District	$94,000	738
Sanders Unified District	$115,000	755
Bisbee Unified School District	$87,567	795
Pima Unified District	$91,253	810
St. Johns Unified School District	$77,367	816
Nadaburg Unified School District	$95,000	842
Mammoth-San Manuel Unified District	$102,500	888

District	Superintendent Salary 2015	Number of Students in District
Tombstone Unified District	$80,750	924
Riverside Elementary District	$125,000	924
Eloy Elementary District	$86,214	972
Baboquivari Unified School District	$125,000	1009
Fort Huachuca Accommodation District	$95,200	1010
Palominas Elementary District	$65,661	1058
Willcox Unified District	$112,488	1148
Miami Unified School District	$110,000	1153
Toltec School District	$90,000	1189
Mingus Union High School	$103,500	1204
Average for Districts with 600-1200 Students	**$104,939**	
Average for top 50% of districts per pupil with outlier removed	**$136/pupil**	
Average for top 50% of districts per pupil with outlier included	**$153/pupil**	

A sample set of large districts' superintendent compensation is included below.

Table 3: Sample Salaries of Superintendents in Large Districts

Sample Set of District Superintendent Salaries (LARGE DISTRICTS)	Salary	Number of Students
Higley Unified School District	$160,100	11,460
Washington Elementary School District	$195,300	23,278
Scottsdale Unified District	$202,980	24,445
Roosevelt Elementary District	$158,250	9,913
Pendergast Elementary District	$157,500	10,022
Yuma Union High School District	$143,868	10,682

The data for the charters listed on a form 990 (Federal non-profit) is given on the next pages. The list is NOT exhaustive as most charters failed to report the salaries of their highest compensated individuals. The salaries DO NOT include profits the owners earned from related-party sales, from leases with their own company, sales of goods to their own schools, or any other related-party transaction that they benefitted from (see Figure 2 previously).

In the table below, excessive salaries are flagged if they meet any of the following conditions.

For charters with less than 1,500 students:

Coded as GREEN if less than $136 per pupil or less than $105,000 with less than $153/pupil and administrative sums less than $250 per pupil for under 600 students and under $220 per pupil for more than 600 students.

Coded as YELLOW if it exceeded any of the following criteria:

1) Higher than $105,000 and less than 600 students($175/pupil)
2) Higher than $175/pupil if more than 600 students
3) Administrative sums that exceed $350/student if less than 600 students
4) Administrative sum that exceeds $310/student if more than 600 students.

Coded as RED if it exceeded YELLOW criteria by more than 50%.

A few of the charters listed have much higher numbers of students, 5,000 or more. If a 10,000-student district paid its superintendent $200,000, it would be expending $20 per student. All large districts in the sample paid below this per student level. So for charters compensation should not exceed $200,000, which is the highest salary in the sample.

To receive a GREEN rating in these districts, the top salary should be less than $25/student and no higher than $200,000. The administrative sum should not exceed $80/student (IRS 990s can list up to five highest paid employees). YELLOW ratings would exceed $30/student and $100/student, respectively, and RED ratings would be more than 50% above this.

Table entries that appear as WHITE fall above the GREEN criteria, but below the YELLOW criteria. Or they are multi-state charter operations, so the Arizona ADM is insufficient to calculate the cost per pupil, in which case it's noted as "not calculated."

As one peruses the table that follows, the dominant shading is RED, indicating the excessive compensation for those charters reporting salary information on their 990s is the norm. RP indicates "Related Party."

Table 4: Owner and Administrator Salary in Nonprofit Charters that Reported on IRS 990s

Name and Title	Salary 990 2013-2014	# ADM RP	Cost per Pupil	# Sites
Academy of Mathematics and Science, Inc.		966		3
Tatyana Chayka, Executive Director	$121,359		$126	
Academy of Tucson		666		3
Howard C Stewart. Superintendent and Board Member	$124,359		$187	
Sharon K Stewart, Asst. Superintendent	$124,346	RP	$187	
Administration Sum	$248,705		$373	
Acorn Montessori Charter School, Inc.		374		1
Cynthia Johnson, Vice President	$216,661	RP	$579	
Keith Johnson, Member	$100,225	RP	$268	
Administrative Sum	$316,886		$847	
Benchmark School, Inc.		383		1
Carole Challoner, Secretary	$116,614	RP	$304	
Whitney Challoner, Director	$78,500	RP	$205	
Barbara J Darroch, President	$96,807	RP	$253	
Bruce Darroch, Treasurer	$72,614	RP	$190	
Administrative Sum	$364,535		$952	
Blueprint Education, Inc.		352		3
Doug Covey, Chief Operating Officer	$116,862		$332	
Mark French, President	$102,694		$292	
Administrative Sum	$219,556		$624	
Candeo Schools, Inc.		531		1
Stephanie Musser, Executive Director	$109,062		$205	
Carpe Diem Collegiate High School		645		2
Rick Ogston, President	$155,811		$242	
Challenge School, Inc.		526		1
Wendy Miller, Secretary/Principal	$95,833	RP	$182	Multiple
Gregory Miller, Chair/CEO/Superintendent	$84,802	RP	$161	Related
Pamela A Miller, Executive Director	$59,802	RP	$114	Parties
Administrative Sum	$240,437		$457	
Challenger Basic School, Inc.		126		1

Name and Title	Salary 990 2013-2014	# ADM RP	Cost per Pupil	# Sites
Brad Tobin, President	$120,756	RP	$370	
Deanne Tobin, Vice President	$118,000	RP	$362	
Administrative Sum	$238,756		$732	
Choice Academies, Inc.		837		1
Sharon Malone, Director - Principal	$112,427		$134	
Crown Charter School, Inc.		266		1
Tedde Crownover, Parliamentarian	$276,350		$1,039	
James Shade. President	$225,000		$846	
Administrative Sum	$501,350		$1,885	
Desert Heights Charter Schools		752		2
Mark Jiles, Superintendent	$115,093		$153	
EAGLE Arizona		1058		4
Andrew Neumann, President	$159,173		$150	
Duncan McCrann, CAO	$152,357		$144	
Jamie Luehring, Regional Executive Director	$121,059		$114	
Glenn Kieckhaefer, CFO	$137,570		$130	
Jeffrey Craig Meyer, VP of Development	$113,789		$108	
Administrative Sum	$683,948		$646	
Precision Academy System, Inc.		90		1
Danielle Martinez, Executive Director	$207,728		$2,308	
Employ-Ability Unlimited, Inc.	Corporate Level Salaries, Company is in Multiple States	240		2
Patrick Kelly, Director and President	$914,161		Not calculated	
Dennis Roberts, Director	$200,849		Not calculated	
Steven Reed, Secretary 4/16/13 forward	$148,139		Not calculated	
Kevin Fisher, Treasurer	$646,035		Not calculated	
Robert Bond, Director and Vice President	$167,566		Not calculated	
Secretary till 4/15/13	$118,433		Not calculated	
Fit Kids, Inc.		573		3
Carolyn Sawyer, President	$167,880		$293	

Name and Title	Salary 990 2013-2014	# ADM RP	Cost per Pupil	# Sites
Foothills Academy		314		2
Donald Senneville, Director	$124,892		$398	
Genesis Program, Inc		143		1
Karen Callahan, President and CEO	$133,331		$932	
George Gervin Prep Academy Also operates Youth Center		90		1
Barbara Hawkins, Executive Director	$192,308	RP	$2,137	1
Frances Boyne, Principal Officer	$105,769		$1,175	
Does not include principal's salaries Barbara, Robert (CFO), Nathan (Principal) Hawkins all employed		RP		
Administrative Sum	$298,077		$3,312	
Graysmark Schools Corporation		43		1
Tanya Graysmark, Board Member/Director	$118,313		$2,751	1
Great Expectations Academy, Inc.		286		1
Mark Phillips, Director	$108,251		$379	
Griffin Foundation, Inc.		295		2
Lee Griffin, Executive Director	$126,984		$430	
LEAD Schools		1126		5
Delmer Geesey, President	$178,500		$159	
Johnathon Johnson, Principal	$100,325		$89	
Ron Body, CFO	$146,000		$130	
Administrative Sum	$424,825		$377	
Metropolitan Arts Institute		251		1
Matthew Baker, President - Executive Director	$115,281		$459	
Betsy Rosenmiller, Finance Director	$74,104		$295	
Administrative Sum	$189,385		$755	
New Horizon School for the Performing Arts		167		1
James Wyler, Vice President	$115,000	RP	$689	
Jann Wyler, President / Superintendent	$79,480	RP	$476	
Administrative Sum	$194,480		$1,165	
New School for the Arts		265		2

Name and Title	Salary 990 2013-2014	# ADM RP	Cost per Pupil	# Sites
Katy Ferrell Cardenas, Vice President - Executive Dean	$179,872		$679	
Noah Webster Schools - Pima		1249		2
Total for Kelly Wade	$134,306		$108	
Total for Vicki Dry	$126,170		$101	
Administrative Sum	$260,476		$209	
Northland Preparatory Academy		628		1
Robert Lombardi, Superintendent	$110,919		$177	
Educational Service of America Inc.	Corporate Level Salaries, Company is in Multiple States	802		7
John Arnold, President	$759,722		Not calculated	7
Jeff Gibbs, CIO	$265,840		Not calculated	
Bill Thompson, CFO	$562,676		Not calculated	
Eric Stewart, COO	$238,737		Not calculated	
Pace Education	Corporate Level Salaries, Company is in Multiple States	1294		4
Fred Assaf, Head of School	$748,598		Not calculated	
Kristen Palmerton, Athletic Director	$183,127		Not calculated	
Jean Held , CFO	$155,110		Not calculated	
Anna Valerius, Head of Lower School	$137,092		Not calculated	
Kimberly Steele-Haynes, CEO	$89,840		Not calculated	
Pan-American Elementary Charter School		641		1
Marta Pasos, President	$168,780	RP	$263	
Todd Wade, Assistant Principal /Member	$101,868	RP	$159	
Lois Pasos, Vice President	$136,379	RP	$213	
Administrative Sum	$407,027		$635	
Paragon Management, Inc.		1891		2
Patrick Schrader, Executive Director	$77,831		$41	
Timothy Gonzales, Asst. Executive Director	$116,374		$62	

Name and Title	Salary 990 2013-2014	# ADM RP	Cost per Pupil	# Sites
Dan Bigler, Finance Director	$86,849		$46	
Administrative Sum	$281,054		$149	
Patriot Academy, Inc.		85		1
Jay Brown, President	$114,400		$1,346	
Pima Prevention Partnership	Larger Agency than School	530		3
Henry Kressler, Exec. Director	$203,114		Not Calculated	
Thomas Miller Assoc. Superintendent	$146,808		Not Calculated	
Claire Sceuren Deputy Director	$163,614		Not Calculated	
Carol Carpenter Chief Program Designer	$136,382		Not Calculated	
Pointe Educational Services		1514		3
Jody L Johnson, President and Superintendent	$178,695		$118	3
Portable Practical Educational Preparation, Inc. (PPEP, Inc.)		10,806		10
John Arnold, CEO	$259,623	4580	$24	
Presidio School		393		1
Thomas Drexel, Vice President/Co-Director	$128,440		$327	
Terry Garza, Secretary / Co-Director	$122,822		$313	
Administrative Sum	$251,262		$639	
Primavera Technical Learning Center	Listed as Salaries: FIGURES DO NOT cover all compensation of the owners.	5172		Online
Debra Bender, Principal	$131,876		$25	Online
Brian Madison, Business Manager	$106,524		$21	
Maveromien Creamer, COO	$110,037	RP	$21	
Damien Creamer, CEO	$90,025	RP	$17	
Administrative Sum	$438,462		$85	
Reid Traditional Schools' Painted Rock Academy, Inc. Reid Traditional Schools' Valley Academy, Inc.		1259		2
Heidi Mitchell, CEO	$131,773		$105	
Salt River Pima-Maricopa Community Schools		232		2

Name and Title	Salary 990 2013-2014	# ADM RP	Cost per Pupil	# Sites
Superintendent Salary	$178,000		$767	
Principal HS	$104,000		$448	
Administrative Sum	$282,000		$1,216	
San Tan Montessori School, Inc.		438		
Kristofer Sippel, President / Superintendent	$181,666		$415	1
Rita Sippel, Vice President / Education Director	$111,172		$254	
Administrative Sum	$292,838		$669	
Shonto Governing Board Of Education, Inc.		65		1
Lemual Adson, Superintendent				1
Skyline Schools, Inc. Skyline Gila River Schools, LLC South Phoenix Academy, Inc. South Valley Academy, Inc. AZ Compass Schools, Inc. Vector School District, Inc. Success School		1043		7
Ronda Owens, Superintendent	$169,998		$163	
Heather Henderson, Board Member and Chief Academy Officer	$130,145		$187	
Melissa Hodaway, Board Member and COO	$124,655		$179	
Administrative Sum	$254,800		$366	
The Charter Foundation, Inc.		729		5
Reginald Barr, CEO	$113,928		$156	

As noted **there is a lack of compliance on many of the form 990s** sent into the IRS regarding salaries paid to the highest paid members of the organization. This listing is a sample from the available data.

Notes:

- Issue: Administrative salary totals on Page 2 and 10 of the AFR that DO NOT correlate with the listed salary amounts on the IRS 990. This discrepancy is discussed under the Discrepancies in Reports Section.
- Issue: Profits from related-party transactions with for profit subsidiaries are not included in administrative salaries. This constitutes another source of income for ownership that is NOT in public data set.
- Data Used: The salaries listed are from 2013-2014 using the IRS Form 990Data,

- A disturbing number of highly compensated individuals were also deriving full time salaries at other non-profit and for profit businesses. This included fully compensated ministers, charter holders with other employment and salary sources (source: IRS 990s from those organizations), and other combinations of multi-sources of income. As noted the audits DO NOT include compensation from related for profits.
- The sample used for the superintendent's salaries was from 2014-2015. (Source: Superintendent Salaries Report from Arizona Administrators' Association and others)
- Travel Expenditures will be part of the focus in the third report. Twenty charters spent more than $100,000 on travel in 2013-2014. There are no restrictions on how this money is spent. Cars and other travel expenses are often in the benefit packages of charter CEOs. These can also be part of a superintendent's package in a district. However high end luxury cars and travel to other countries are not district paid for expenses. These type of administrative perks were noted in the audits. At least two had travel in excess of $1 million dollars.

Finding	Recommendation
Questionable (excessive) distributions to shareholders occurred in 2014-2015 at one-third of for-profit charters.	The ASBCS should be monitoring and approving any distributions in excess of the charter's net for the year. Documentation on where the funding for the distribution came from needs to be include in the audit information. Draws on Owner's Equity for distributions need to be evaluated against the company's fiscal position on the ASBCS Financial Performance Recommendations.

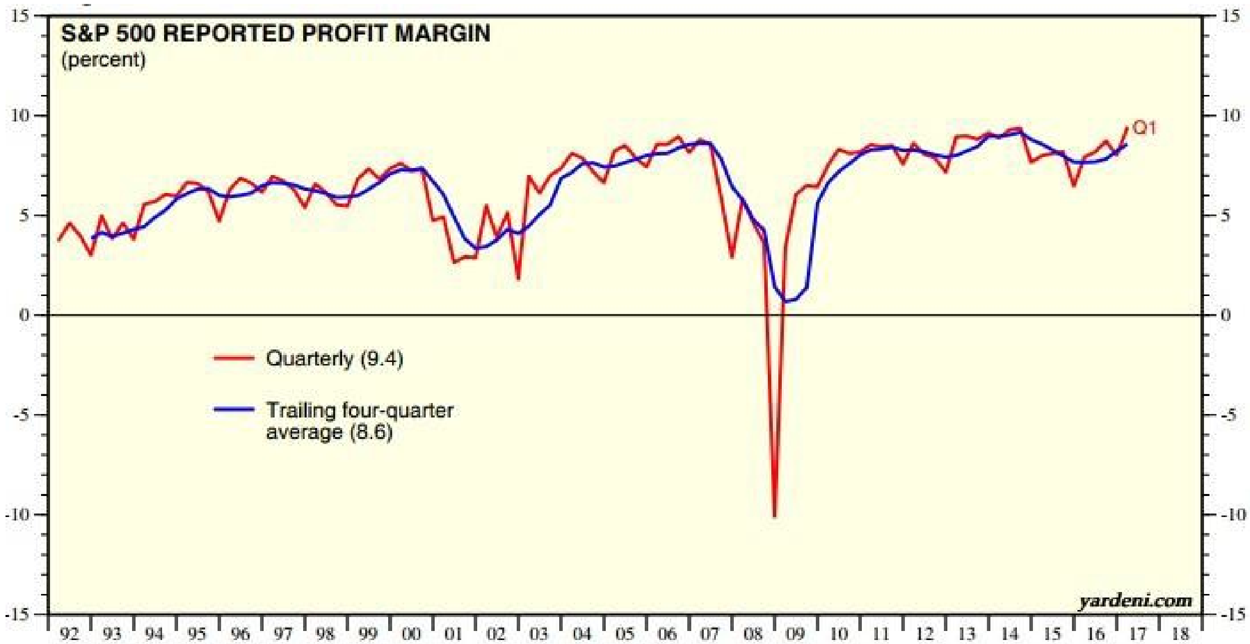
Most charter organizations are nonprofits. They may have a “for-profit” related organization that they contract with, but the charter itself is a nonprofit.

Twenty-five charter holders in Arizona are for-profit corporations. As a “for-profit”, they can make distributions to their shareholders. The data set created includes a full subset of data on for profit companies with distributions to shareholders revealed through audits that are posted at the ASBCS web site. There are currently no caps on these distributions. There are no rules limiting distributions in for profit charters. The amounts are left to the “owners” of the company's stock. Most charters listed 100 in their audit as the number of shares outstanding.

In normal business practice in a free market, shareholder or partner-owned businesses do not distribute dividends (distributions in charter parlance) on shares in losing years. The money then goes into retained earnings instead (or comes out of retained earnings in a bad year). An example of this prudent practice is the Benjamin Franklin Schools a charter with substantive stockholder equity.

The recommendation to set the bar at distributing more than 10% of revenues to shareholders or if the distribution turns a net profit into a net loss is in line with the past 25 years of the Standard & Poor 500, whose average net profit has never exceeded 10%, much less the portion distributed to shareholders which should be even less.

Figure 3: S&P Net Profits 1992-2017



Source: Standard & Poor's Corporation and Thomson Reuters I/B/E/S and Bureau of Economic Analysis.

Table 5 illustrates distributions taken by eight for-profit charters in 2014-2015. Pinnacle Education, an online charter, distributed nearly half of its incoming revenue in the form of distributions in 2014-2015. This was at its Tempe location. Pinnacle received $5,158 per ADM that year; taking 45% as a distribution to shareholders means that $2,148.50 per ADM was taken in distributions.

Prudent business practices include maintaining some level of retained earnings to cover fluctuations in future income or expenditures and for future investment, including items that will need to be replaced.

None of the charter operators in Table 5 appear to have engaged in such practices in 2014-2015. Collectively at the three Pinnacle locations, Pinnacle (AKA Pinnacle WMAA Inc.) paid out more than the difference between their revenues and expenses.

Pinnacle is held by multiple owners (shareholders). The Charter Group *listed 10 companies*[19] as related-parties in their audit statements.

American Basic Schools, LLC and the Consolidated Report for Rose Academies pulled out three to six times as much in distributions to shareholder(s) as their actual net gain, meaning they pulled out far more in distributions than they actually had in net profit. The columns are color coded, yellow represents what appears to be excessive distributions

[19] MBRM Pinnacle Inc., (MGRM) Pinnacle Education Tempe Inc., (PBTP) Pinnacle Education Mesa Inc., (PNMS) Pinnacle Education WMCG Inc., Pinnacle Education Kino Inc. (PNKA), Matwick Family Holdings LLC, MRM Global Education MGRM Holdings Inc., MGRM Technologies, LLC MBRM Net Limited MGRM Medicare Limited.

based on earnings and orange represents distributions in excess of 100% of the charters net.

The presentation of these charters as examples is based on their distribution practices for fiscal 2014-2015. Practices that exceed the recommendations are highlighted in yellow in Table 5.

Table 5: Excessive Distributions of 8 for-profit charters in Arizona in 2014-2015

Charter Holder Corporate Name Column A	Revenue Column B	Expenses Column C	Distribution (Paid Out Dividends) Column D	% of Revenue for the Year Column E	% of Expenses for the Year Column F	% of the NET for the Year Column G
Pinnacle Education - Tempe, Inc.	$3,896,15 3	$2,393,19 0	-$1,744,085	44.76%	72.88%	116.04%
GAR, LLC	$2,641,94 2	$1,455,86 0	-$1,034,734	39.17%	71.07%	87.24%
Accelerated Learning Center	$1,542,02 6	$1,124,86 2	-$382,400	24.80%	34.00%	91.67%
Pinnacle Education - WMCB, Inc.	$383,617	$348,745	-$58,871	15.35%	16.88%	168.82%
Pinnacle Education - Kino, Inc.	$434,077	$373,813	-$53,393	12.30%	14.28%	88.60%
SELF DEVELOPMEN T ACADEMY	$3,012,37 9	$2,468,02 6	-447,000	14.84%	18.11%	82.12%
American Basic Schools LLC	$5,687,45 7	$5,621,22 5	-$421,654	7.41%	7.50%	636.63%
Consolidated Report for Rose Academies	$8,105,34 0	$8,194,50 3	-$256,941	3.17%	3.14%	288.17%

(Note: Payouts (distributions) are always negative on financial sheets. The color black is used.)

Column A: Corporation

Column B: Revenue for the Year

Column C: Expenses for the Year

Column D: Shows the distributions paid out at 8 for-profit charters

Column E: Shows the percentage of the charters' revenue the distribution represents (I.e. Example one paid themselves 44.76% of their revenue as distributions)

Column F: Shows the percent of expenses represented by the distribution payout

Column G: Shows the percentage of the NET for the year represented by the payout

Table 6 illustrates that not all for-profits are engaging in similar distributions to shareholders. Accelerated Learning Center from Table 5 is shown below, but both Alan Cochran Enterprises and Bright Beginnings School, Inc. illustrate acceptable stakeholder distributions. Ben Franklin Charter School shows what you should see when the school runs a loss, no distribution to shareholders.

Table 6: Sample of For-Profit Charter Distributions

Charter Holder	Net Revenue	Distribution	Retained Earnings	Distribution as a % of Revenue	Distribution as a % of Expenses	Distribution as a % of Net
Accelerated Learning Center	**$417,164**	**-$382,400**	**$288,592**	**24.80%**	**34.00%**	**91.67%**
Alan Cochran Enterprises	**$332,668**	**-$194,485**	**$537,073**	**7.53%**	**8.64%**	**58.30%**
Ben Franklin Charter School*	**($88,304)**	**$0**	**$4,451,920**	**0%**	**0%**	**0%**
Bright Beginnings School, Inc.		**-$31,000**	**$654,668**	**1.09%**	**1.13%**	**28.90%**

Benjamin Franklin School Net is from the AFR and audit for FY 2014-2015.

Note on Benjamin Franklin figures: The Net from the Audit for the same year showed (-$2,123,796) which included a provision for taxes ($1,325,796) and a loss that was attributed to a non-controlling interest of (-$709,804). Net Income Attributable to the charter was listed as (-$88,304). The figure seen above. Ben Franklin Schools have substantial owner's equity because of prudent reinvesting in the company rather than distributing net gains as distributions to stockholders.

If you pay teachers less and administrators more, it shouldn't be surprising that charters as a whole consistently spend a lower percentage of their budget than districts on instruction and support for the classroom. Teachers' salaries and benefits are part of the costs tracked in the Classroom Instruction figures on the Superintendent's Report.

The figures below are derived from the Superintendent of Public Instruction's Annual Report for 2013-2014 and uses the same spending categories for both charters and districts and excludes areas like transportation that districts provide that most charters do not.

Figure 4: District Spending for 2013-2014

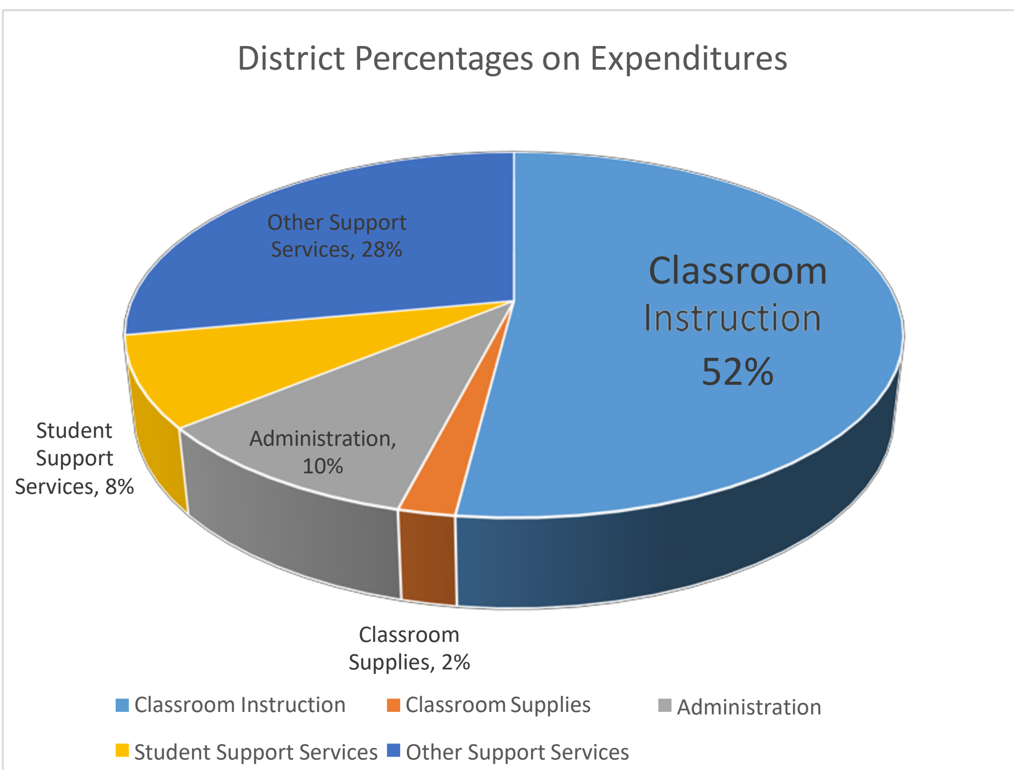
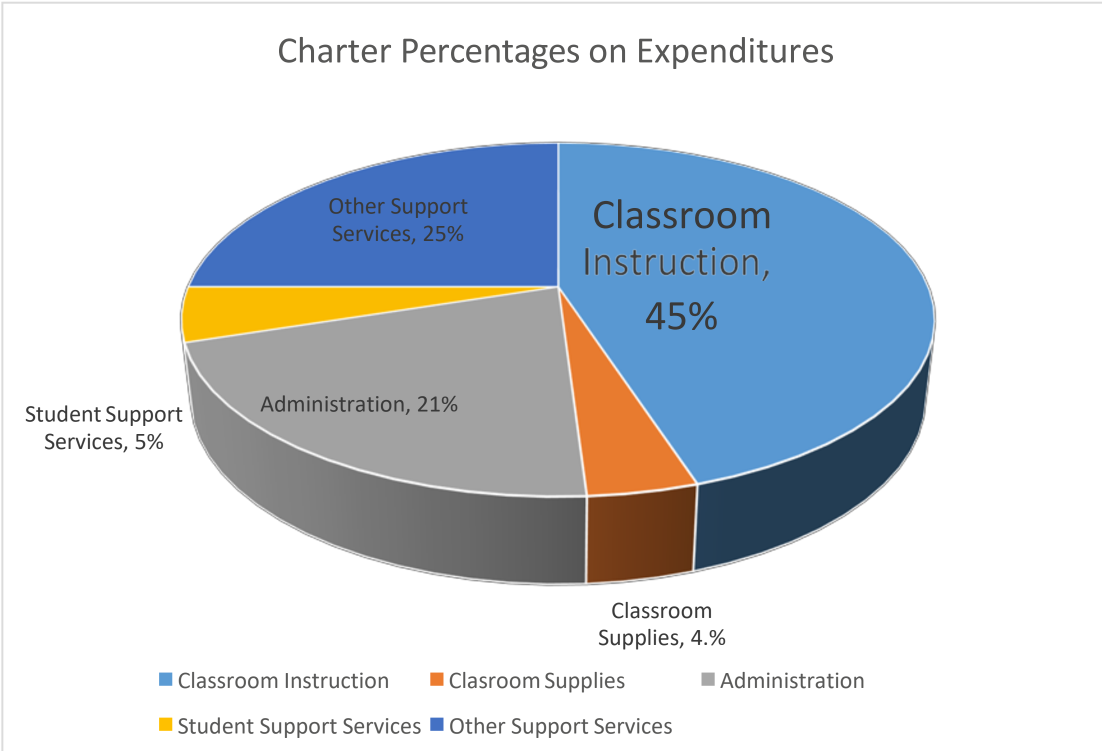


Figure 5: Charter Spending for 2013-2014



Charter Spending for 2013-2014

Source: Arizona Education Services, Arizona School Boards Association January 29, 2015 based on data from Superintendent of Public Instruction's Annual Report, 2013-2014

Issues like high executive compensation and related-party transactions within charter management contribute to administrative expenses running at 20.5% of total charter costs (the average is actually higher 22.3%[20]) versus 10.35% at districts. It is apparent in classroom instruction of 45.3% versus district classroom spending 51.88% (Staff 2015). The lack of spending on retirement benefits noted earlier is reflected in the low classroom spending numbers of charters. This type of spending (pensions) counts toward classroom spending.

[20] The data set used for the Annual Superintendent's Report comes from the AFR figures on P 7. This figures should be coming from the information on Expenditures on P 2 of the same document. Calculating cells on page 7 on many of the documents had been turned off. The figures going to page 7 often excluded the 2500 account which is specifically called for in the directions. 2500 is normally where management center costs are calculated. The 22.3% figure above was generated by performing the calculations from P 10 of the AFR related to administrative costs. The calculations were performed on EVERY AFR for 2014-2015.

Charters may claim as noted in the report, Calculation and Issues Related to Percentage of Dollars in the Classroom, that spending is not accurately categorized for comparison. The report noted issues with using standard school coding systems for expenditures at charter schools and decried the flexibility charters have to re-classify some types of expenses in their books (Calles 2015).

Stated another way, *the problem is worse than it manifests itself in the data in the Superintendent's report*. As is shown in the data collected for the full report, the AFR numbers are often contradicted by **data within the same document**. This fact drove the forensic method used to get to the truth regarding how money is being spent in charter organizations.

The ASBCS' report's conclusion, that the data collected is not accurate, is confirmed in the full report's data, conclusions and recommendations.

As a point of comparison in 2014-2015 districts spent 51.49% on Classroom Instruction[21] compared to 47.46% at Charters. Data from 10 years of Classroom Instruction is included in the data set.

Administrative Accounting at Charters is Fatally Flawed

The documents used for collecting data on administrative costs and general financial practices in charters are fatally flawed. The current system is unable to capture the true cost of the ownership (management costs) of charter schools.

The tools used to monitor charter finances are not up to the issue of related-party transactions with for-profits that in turn pay out distributions to the owners of those for profits. The owners are the same owners that hold the charter for the non-profit school. Salaries paid in the "for-profits" are unavailable to the public. Transactions like these are deeply embedded in the finances and governance at our charter and private schools. These are transactions that often go to management's bottom line. The money does NOT go into the classroom.

Contrast this with districts' financial and governance practices. District administrators and boards do not own the assets or collect rent on the properties the school operates. They do not hold the contracts for maintenance and other necessities. They are restricted from conducting business with board members, their own families, or related parties.

[21] The Annual Superintendent's Report lists 5 expenditure areas: Classroom Instruction, Classroom Supplies, Administration, Student Support and Other Support. The numbers from Page 7 of the AFR are the numbers reported in the Superintendent's Report. The number are sometimes incorrect as will be discussed in the last segment of this report on Inconsistencies.

These “rules” for districts have evolved because such dealings WERE a problem in the past. Reports that view these rules as endangering autonomy and variety miss the point. The rules concerning finances are a check on human nature. That essentially is what financial regulations are designed to do. Free markets are not exempt from the same human frailties. *However, their financial oversight resembles a religion without some form of the Ten Commandments guiding their practices. This leads to situational ethics being the guiding force in this “free market”.*

So where is the classroom money going? *Administrative costs for Purchased Administrative Services are a canary in the coal mine indicator of fees going to management companies.* When purchased administrative services are 84.06% of what charters are spending on ALL administrative costs it represents a lopsided expenditure to management companies versus the administrators that actually run the charter schools. Overall statistics are provided here. The page numbers refer to the pages on the Annual Financial Reviews. A detailed analysis of all charter expenses in this and other areas is provided in the data set.

AFR 2014-2015 P 10 (Administrative Salaries and Benefits Total)	Percentage to Total Expenditures Reported on P 2 AZDOE AFR
$115,126,310	**10.66%**

AFR 2014-2015 P 10 (Admin Purchased Services Total)	Difference Administrative Purchased Services to Salaries and Benefits
$96,770,380	**$18,355,930**

Percentage of Administrative Purchased Services to Salaries and Benefits
84.06%

It is noteworthy that the 23% of charters doing the right thing in other areas of their finances also ensure that more money is going into the classroom. This is a plain indicator of their dedication to providing an educational opportunity for their students while maintaining ethical and financial integrity.

Recommendation: Charter school financial data regarding classroom expenditures needs to be shared and evaluated by the Auditor General’s Office just as they are for public district schools. The lack of classroom spending and decent wages and benefits for teachers is an issue in the charter sector. A good portion of the differences in classroom spending can be assigned to low benefits and non-participation in the AZ Retirement System. These areas are factors in generating the Classroom Spending segment of the Annual Superintendent’s Reports.

Finding	Recommendation
The charter sector as a whole underperforms academically relative to similar demographic students in public district schools. Online charters show particularly poor academic performance.	Improved financial oversight as outlined in this policy report and improved financial transparency for the public, including parents, would enable parents to make more informed choices regarding their child's education and make charters more accountable to taxpayers. In addition, all online charters should be reviewed immediately to evaluate the quality of their academic offerings and student achievement to determine whether their charter should continue.

The stated impetus behind expanded school choice in Arizona has been improving academic performance. It is based on the assumption that parents would choose the best school for their children (Fuller 1997, Hoxby 2003). Likewise the theory implies that public district schools are supposed to also improve since they must now compete for students in order to retain funding. Consequently one would expect that since charter enrollments have grown at a faster rate than public district schools that data for equivalent students would show charter students outperforming public district schools.

The main purpose of the policy reports in this series is to discuss the financial and governance practices of charters as they currently exist. However, in the past, the defenders of the status quo have suggested that academics remain the focus of ASBCS' efforts. "Are they educating kids? We're looking at that first". This quote from the head of the ASBCS was given in 2012 in response to a reporter's query regarding charter school financial issues (Ryman 2012). The reporter's question was sidestepped by the answer.

The charter laws, by relying on "good faith", empower and enable the charter holders, (and private schools by lack of over-sight) to use situational ethics when it comes to their application and interpretation of the limited laws that are in place. *The laws silence on what constitutes ethical business practices is deafening.*

Consider the law's wording: "A sponsor, including members, officers and employees of the sponsor, are immune from personal liability for all acts done and actions *taken in good faith* within the scope of its authority."

This is great freedom for actions taken by leadership and governing bodies at charter and private authorizers. It is granted without the great personal responsibility that should attend such freedom for that authorizing agency. Good faith should include making and enforcing recommendations to improve the fiscal accountability of charter holders and their boards.

There are no "clear cut" operational rules in place when you have given the type of "freedom" as described in the definition of charter schools written into the Arizona Charter School Laws. "They receive public funding similarly to traditional schools. However, they have more freedom over their budgets, staffing, curricula and other operations."

"In exchange for this freedom, they must deliver academic results and there must be enough community demand for them to remain open." Numerous reports cite this imperative (Consoletti 2011, Davenport 2013, Hassel 2004, West 2014). They conclude with veiled references to financial misdeeds yet essentially posit recommendations that continue to trust the "free market" to correct the financial markets. That trust is misplaced.

Deliver or What?

The action theory in play is that the financial and governance freedom will be checked by the "responsibility" to deliver academic results. The theory also implies that if charters don't deliver this result (academic results) then there will not be "community demand" for them to remain open. The exit theory verbalized by the charter industry is that parents who have a choice will leave poorly performing charters because of academics. Research reports regarding this "exiting" factor in choice do not bear this argument up (Fuller 1997, Hoxby 2003).

This thesis is not supported in the literature looking at why people exit from schools or other entities (Hirschman 1970). The theory of exiting consumers based on academic performance is implicit in the charter scope and purpose, "to provide a learning environment that will improve pupil achievement." It is also a commonly used response when one makes inquiries about accountability in charters to charter promoters. "We are focusing on academic results first."

If the theory held true wouldn't the 33% of charters that converted to *Alternative Academic Status*[22] in 2012 have experienced massive exiting in that fiscal year?

Parents can and will choose a *charter based on many factors*. They don't all choose because of academics.

The Issue: A financial and governance ethics void is created by the existing charter laws. When a void is created regarding what constitutes ethical practice, situational ethics are all that is left to "guide" the financial and governance practices that emerge.

The result is the financial and governance abuses that are in play at 77% of charter schools studied. The fact is that 90% of charters have applied for and been exempted from the bidding and purchasing requirements that school districts and school boards are subject to is not a surprise. They have asked for (an intentional act) and have been granted that exemption (Consoletti 2011).

These policy reports did not seek to replicate other reports concerning academic prowess at charters (Chingos 2014, Consoletti 2011, Hassel 2004, West 2014). However, the academic statistics of the ASBCS speak volumes about the current state of those performances.

Academic Score "Laundering"

In 2013, prior to the new academic rankings, there were 120 charter schools that converted to Alternative School status. This was in a group of 371 charter schools that went through a financial and academic rating in 2012*. In other words, one-third opted to lower their standards for grading by the ASBCS by switching to alternative status in 2013. The charters changed their status prior to the fiscal year when the scores counted towards sanctioned closures based on academic performance. Stated another way, hidden in the data on charter school academic success is the fact that when the academic standards were enforced in 2012 the category listings one-third of the state's charters were changed to lower tier rating category for 2013. They intentionally lowered their academic bar.*[23]

Isn't lowering the academic bar one of the complaints about districts cited by critics of those districts? There was no evidence that districts made these type of category changes during the time period reviewed.

[22] The year that academic scores started to count towards charter's academic rating 33% of charters asked and were granted permission to list themselves as alternative schools. I.e. they would be rated on lower academic standards.

[23] Source: data set generated from ASBCS reports on Academic Performance for 2013 through 2015.

Table 7: Academic Grades at Charters for 2013-2014

A	B	C	D	F
32.75%	**21.18%**	**15.07%**	**4.80%**	**1.53%**
Alternative A	**Alternative B**	**Alternative C**	**Alternative D**	**F**
1.97%	**8.08%**	**11.79%**	**2.84%**	**0.00%**

Grades for Charter Schools in Arizona for Year Ending 2014

The total number of grades assigned by the Arizona State Board for Charters in 2014 was 458.

The percentage of Alternative Schools in the chart mix was 26.2%. The Table above has only 24.7% as alternative because seven of the 120 identified as alternative schools were not given grades; *small schools were not rated*. Alternative schools were more likely to have no score (a blank) recorded in the graduation rate area of the academic ratings. *This lack of scoring on graduation rates was especially true for online charters*.

Several charters with physical sites only go up to grade 11. This move allows them to sidestep the graduation cohort counts. Graduation counts affect the scores in Table 6. That is, *if* you have 12th grade. *Are we really allowing this to count for "Charter Academic Performance?[24]"*

What do academic scores have to do with finances and governance? The set of charters that are underperforming academically and the set of charters that are not meeting financial performance standards are not congruent sets. The connection between the two is tentative at best. Parents are not necessarily "choosing" based on academic prowess (Fuller 1997, Witte 1999).

Impartial Academic Assessments

Two recent comprehensive studies have used student data to evaluate the performance of Arizona's charter schools. The Center for Research on Educational Outcomes (CREDO) at Stanford University has done nationwide analyses by state to evaluate charter performance relative to public district schools, overall, in urban areas and for online schools (Raymond 2013). At the behest of the Goldwater Institute, the leading advocate of school choice in Arizona, the Brookings Institution also evaluated Arizona's charter schools. Both studies found Arizona's charter schools underperforming relative to similar students in public district schools.

The CREDO study partnered with 27 state departments of education and uses both student and school level data. It captures student-level demographics and achievement test scores in reading and math—and due to the structure of No Child Left Behind's testing regime has most consistent data for grades 3-8; in Arizona this data is available

[24] To their credit the ASBCS has closed schools because of academic underperformance.

for grades 3-8 and grade 10. For each two-year combination, CREDO focuses on student growth in their test scores. For Arizona growth data was available from 2006- 2007 through 2010-2011.

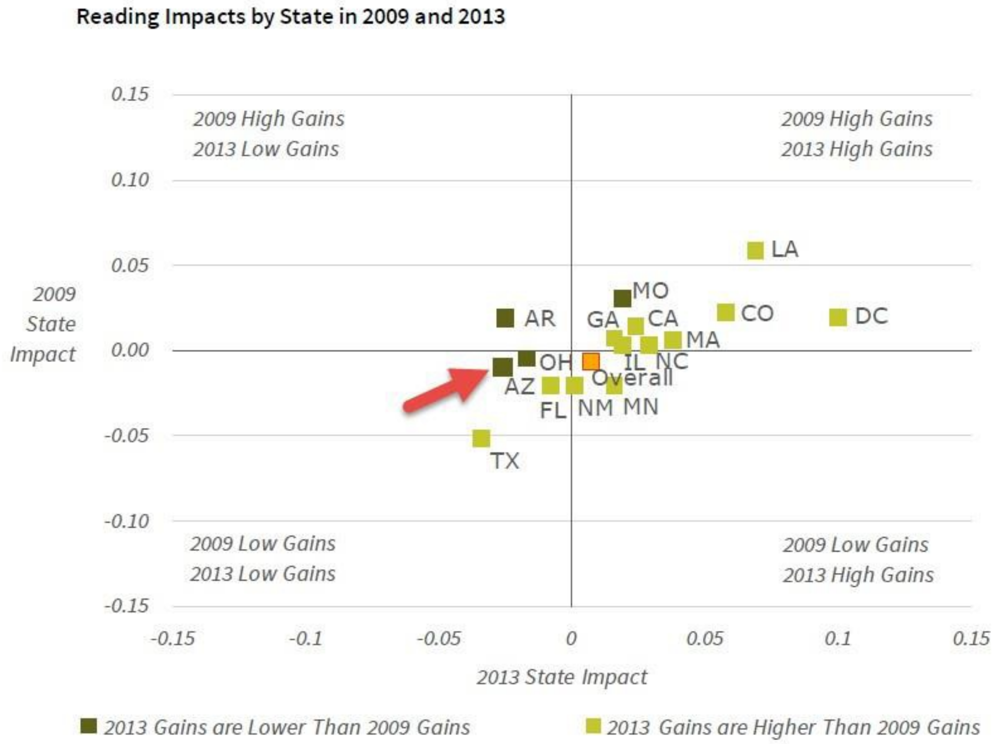
The primary challenge in evaluating educational outcomes is finding an appropriate comparison group. You can't compare how a student does in a charter school with how she would have performed if she stayed at her neighborhood public district school. CREDO's means of overcoming this challenge is to create a Virtual Control Record (VCR) that creates a "virtual twin" of each charter school student by identifying students with identical traits and very similar prior test scores in nearby public district schools. Traits included grade level, gender, race/ethnicity, free or reduced lunch eligibility, English Language Learner status, Special Education Status, and prior test scores on state achievement tests.

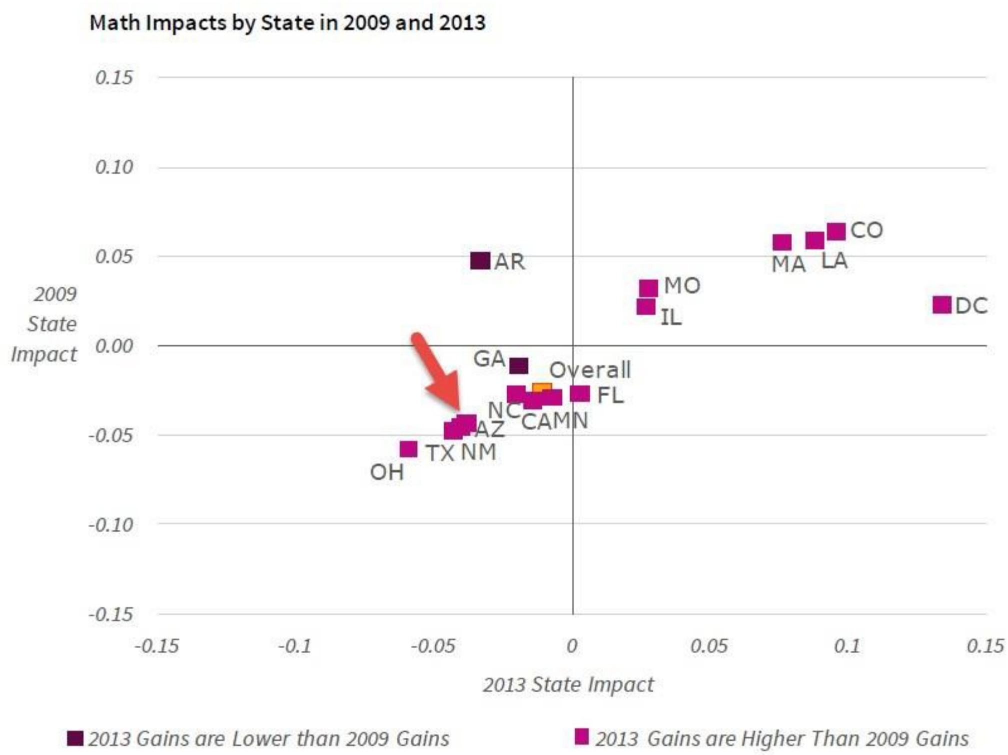
CREDO's results can be seen in Figure 5 for both 2009 and 2013. Arizona appears in the lower left quadrant for both reading and math (Raymond 2013). The lower left quadrant represents those states that in CREDO's 2009 study and 2013 study had charter results inferior to public district schools when comparing charter student performance with a virtual identical twin. In reading Arizona's performance relative to the earlier study deteriorated somewhat, while in math the results were about the same in 2009 and 2013. Collectively though, Arizona stands out as having one of the worst performing charter school sectors in the country when compared to equivalent students in public district schools.

The CREDO data does have limitations. Because the first test scores are in third grade, any charter school impact prior to third grade would not be captured. In addition, CREDO does not differentiate by grade level or the educational mission of the school: rigorous, general, arts, alternative, etc.

CREDO has also done studies that focused on metropolitan areas and with charters that do online instruction. For Arizona the metro areas covered were Phoenix, Mesa and Tucson. That 2015 study found students in Phoenix and Mesa who attended charter schools did significantly worse in reading and math than equivalent students in public district schools. In Tucson, the charter students did better in math and had no difference in reading. For Mesa and Phoenix, White students suffered the most by attending charter schools. For Tucson, Black students gained the most and White students gained modestly.

Figure 6: Comparing Charters to District Schools on Reading and Math





Source: Center for Research on Educational Outcomes. "National Charter School Study: 2013."

CREDO also evaluated online charter instruction in 2015. They found nationwide online charters were doing a deplorable job (Chingos 2014, James L. Woodworth 2015). In Arizona, attending an online charter meant losing more than 80 days of learning compared to a public district school for an equivalent student and for math the loss was 180 days—an entire year. These results alone suggest the state should be carefully scrutinizing and possibly terminating online charter operators.

The Goldwater Institute was concerned by the 2013 CREDO test results and contracted with the Brookings Institution to do a more careful evaluation of charter performance aimed at overcoming the limitations with the CREDO methodology (Chingos 2014, James L. Woodworth 2015) . The ADE provided student test scores, school enrollment, demographic, and program participation data for academic years 2005-2006 through 2011-2012. ADE did not fully cooperate with researchers so some student level data was incomplete forcing researchers to use methods of estimation to fill the gaps.

The Brookings study focused on middle schools, so they could have multiple years of test data from the state's AIMS test, so as to identify students with similar demographics and test scores prior to middle school. Students could then be tracked across their middle school years. The Brookings results also show marginally worse results overall for students in charter schools compared to public district schools with non-urban charters doing particularly poorly. The researchers also found stronger negative impacts in math for above-average students and negative impacts in reading and math for non- English language learner (ELL) students and Non-special education (SPED) students. ELL students gained the most from being in charters. Charters classified as rigorous, however, modestly improved math performance, while general, Art specialized, at risk and online ones retarded math performance. In reading at-risk and online charter schools had the worst performance. As with the CREDO study the online charter school performance was atrocious. Researchers suggested possible missing variables related to students attending them, but that may be charitable. The state needs to carefully scrutinize online charter operators.

Overall, the Brookings study found "charter schools at every grade level have been modestly less effective than public district schools in raising student achievement."

The CREDO study, despite any limitations with its data, shows that Arizona's charter sector is underperforming relative to other states—though some of those states restrict the student populations to inner cities. Though clearly some charter schools are succeeding, both CREDO and the Brookings study show lackluster performance overall among charters contradicting the notion that choice invariably improves outcomes.

Why would choice fall short? Neither of these studies publish school-specific results. Arizona's *state rating systems also has inherent biases toward schools with more* *favorable socio-economic demographics relative to student performance based on passing rates*.

The state of Arizona's own data shows that traditional public schools have an overwhelming proportion of the special needs population in the state. An ADE report entitled 10/1/2009 Federal Child Count by PEA (Public Education Agency) updated as of 2/1/2010 indicated that nearly 93% of all special needs students in the state are enrolled in traditional public schools. Charters represent 16% of the student population in Arizona and are educating only 7% of our special needs students. Districts educate 84% of the population and 93% of the state's special needs students.

The Alternative Rating Issue: As noted more than 100 charters are now classified as "Alternative" which excludes the category for lowest growth students as well as drop out and graduation rates. All of which is to suggest state classifications of A to F may not accurately reflect how that school performs compared to a public district schools.

Markets rely on complete information to function without distortions. Consequently, with incomplete information we shouldn't be surprised that "choice" leads in many instances to suboptimal outcomes for students when moved to charters. We know from psychology that once people make a choice, they tend to justify it and moving schools is a significant decision, so we should expect to see choice-supported bias in, for instance, parental satisfaction surveys of charter school (Bobocel 1994). However, besides limited academic information, parents are not provided with transparency on the financial aspects of charter schools.

Parents at charters are provided no financial disclosures on how much top administrators make, the extent of related-party transactions, whether the school is in the black or red, and how teacher salaries compare with public district schools. With that information, parents would be better informed when making their decisions and the schools would be more accountable.

As the failure of Hillcrest Academy[25] in October of 2016 illustrated school closures impact a child's education. This topic is covered more fully in the second policy report in this series, Red Flags. At this juncture we note a failure rate of 43% for charters since their inception in 1994. Of those closures the following graphic shows the total that closed during the school year. The displacement of students who must then seek open space in either another charter or a district school creates issues for the receiving school(s). The larger the school the greater the impact to other charters and districts.

[25] Hillcrest Academy failed in the beginning of 2015-2016. The group had running deficits for multiple years prior to its demise. The funding of their debt is currently being questioned in lawsuits against the financing company that sold the bonds.

Schools that CLOSED During the Academic Year as of October 15, 2016	67 Closures School Year Closings are Defined as between October and March of the School Year

A disturbing phrase heard numerous times while in the charter industry and speaking with former ASBCS members was, "starving the beast of public (i.e. district) education". The data in this report suggests that the beast that needs to be placed on a restricted diet is the charter sector.

Reconciling Inconsistent Financials

Finding	Recommendations
Frequently numbers in AFRs, Audits, and IRS filings are inconsistent even though they cover the same period. Some Audits are inadequately detailed and done by out-of-state firms that may not be familiar with Arizona law.	1. Audits need to follow a standard format that requires detail and supporting information on assets and liabilities, revenues and expenditures, and related-party expenses. a. Audits need to be done by auditors with offices located in Arizona with a demonstrated expertise in Arizona law. b. The ASBCS needs to provide a list of acceptable auditors using data gleaned from the audits to determine which auditors are currently providing acceptable levels of information. c. Audits need to be done for each charter entity or for the charter separate from any larger entity it might be part of THEN a Consolidated Audit can be prepared collating that data. 2. Audit reports need to be numerically identical to what is provided in Federal 990s and AFRs. Any inconsistencies would need to be explained in the audit with specific plans on how to remedy the deficiency in the future.

Frequently, even though AFRs, audits and IRS filings cover the same period, different amounts are reported to the reporting agency. All three financial reports, the AZ Department of Education AFR, the ASBCS audits, and IRS Form 990 have *required reporting regarding assets and liabilities and separate sections on revenue and expenses.*

In theory, all three should match as they apply to the same time period. In fact although most of the IRS reports matched the reporting to the ASBCS audit reports (under 10% did not match), the reporting to the ADE was often different than what was reported to the ASBCS on the audits.

Digging into the financial reports for charters can raise significant questions. Among the smaller charters, the one with the highest compensation to executives was Crown Charter School, a charter that exceeds on the academic metric, yet its administrative cost per student (just less than $1,000 per student) as reported in its AFR is less than the cost per student of its two highest paid officials who received a half million dollars collectively in 2013-2014 and by 2015-2016 were still receiving about $330,000 for a school with approximately 300 students.

How is this possible? It doesn't appear that the executive compensation is included in administrative costs for the AFR in 2015-2016. Their audit for 2015-2016 indicated they expended $3 million, including almost a million dollars as a "Loan guarantee fee" to the charter holder who was guaranteeing the loan. That's a related-party transaction which is unclearly documented in the audit. The question is, how can such a huge expense be justified?

The audit reveals they have $1.3 million in spending for "General and Management" which includes the "loan guarantee fee." They appear to keep it completely off the books in the AFR submitted to the state DOE which shows $1.8 million in spending— even though the revenue received is similar in the audit and AFR. So while the AFR suggests the operation had revenues that exceeded expenses by a few hundred thousand dollars, the audit indicates they ran an $800,000 deficit due to the added expenses not reported on the AFR that benefit the primary owners and operators of the charter school. When almost all of the revenue received by this charter comes from state taxpayers, this level of inconsistency between the audit and AFR should not be acceptable.[26]

The dataset provides charts comparing each report AFR 2014-2015 to ASBCS Audit 2014-2015 and IRS Form 990 2013-2014 to ASBCS Audit 2013-2014. Examples of these reports and how they are displayed in the dataset are included on the following page. *The analysis was done for EVERY charter. (Included in the data set which will be publically available.)*

Three additional examples follow.

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[26] The 2015-2016 audit for Crown Charter School is found on the ASBCS' website. Their 2015-2016 AFR is located at the ADE web site.

Good Reporting Consistency: Almost full congruence between reports (including perfect match between IRS 990 and ASBCS audit): New School for the Arts (matches with IRS (commonly seen in the data)), close to matching with ASBCS ad ADE (rarely seen in the data). This report shows excellent correlation.

ASBCS and ADE Reports are Close to a Match	ASBCS and ADE Reports are Close to a Match
Reported End of Year Assets to ADE 2014-15	Revenue Less Expenses for FY 14-15 ADE
$133,537.00	$12,760.00
Reported End of Year Assets to ASBCS 2014-15	Revenue Less Expenses ASBCS Audit 2014-15
$123,890.00	$13,703.00
Reported End of Year Assets to IRS Form 990 2013-14	Revenue Less Expenses from Form 990 FY 2013-14
$110,187.00	$55,902.00
Reported End of Year Assets to ASBCS 2013-14	Revenue Less Expenses ASBCS Audit 2013-14
$110,187.00	$55,902.00
ASBCS and IRS Reports Match	ASBCS and IRS Reports Match

Bad Reporting Consistency: Example of Modest Incongruence between Reports: Presidio School (This type of bad consistency is commonly seen in the data)

Disparity Between ADE and ASBCS report for FY 14-15	Disparity Between ADE and ASBCS reports for FY 14-15
Reported End-of-Year Assets to ADE 2014-15	Revenue Less Expenses for FY 14-15 ADE
$1,111,191.00	$151,548.00
Reported End-of-Year Assets to ASBCS 2014-15	Revenue Less Expenses ASBCS Audit 2014-15
$1,823,971.00	-$145,064.00
Reported End-of-Year Assets to IRS FORM 990 2013-14	Revenue Less Expenses from Form 990 2013-14
$1,958,877.00	-$41,177.00
Reported End-of-Year Assets to ASBCS 2013-14	Revenue Less Expenses ASBCS Audit 2013-14
$1,969,870.00	-$30,184.00
Close Fidelity in Report to ASBCS and IRS on Assets	Close Fidelity in Report to ASBCS and IRS on Assets

Ugly Reporting Consistency: Example of NO congruence between reports: Calibre Academy (Rarely seen in the data. Any occurrence should set off alarms at the monitoring agencies.)

Disparity Between Report to ADE and ASBCS	Disparity Between Report to ADE and ASBCS
Reported End of Year Assets to ADE 2014-15	Revenue Less Expenses for FY 14-15 ADE
-$444,414.00	$368,890.00
Reported End of Year Assets to ASBCS 2014-15	Revenue Less Expenses ASBCS Audit 2014-15
-$2,681,194.00	-$133,919.00
Reported End of Year Assets to IRS Form 990 2013-14	Revenue Less Expenses from Form 990 FY 2013-14
$2,534,618.00	$716,751.00
Reported End of Year Assets to ASBCS 2013-14	Revenue Less Expenses ASBCS Audit 2013-14
-$2,570,042.00	-$176,523.00
ASBCS and IRS reporting DO NOT AGREE	ASBCS and IRS reporting DO NOT AGREE

Note: The data set *provides this data for EVERY charter in Arizona*. Matches are color coded in green and mismatches are highlighted in yellow for easy comparison.

Conclusion and Forthcoming Reports

Arizona's charter sector shows ample evidence of taxpayer resources designated to benefit student achievement ending up in other places due to the opportunism possible because of lax regulatory rules and very little public accountability.

This first policy report has begun the process of shining a light on these practices, which if they were occurring in another sector would not be tolerated. Under state law if a nearly destitute mother misses a job interview appointment she can lose eligibility permanently for her meager $200 a month TANF benefits. Many top level charter administrators make more than that before lunch on any given day, yet there is little to no scrutiny of their use of taxpayer dollars.

The recommendations detailed in these policy reports should be common sense. Make sure the financial reports reconcile with each other. Justify expenses if you're dealing with related parties, and make that justification publicly accessible. If you pay non- instructional personnel more than 50% more than your typical teacher, explain and justify it, and make that information publicly available.

If there is a for-profit receiving taxpayer dollars, the amounts for related parties and anyone actually working at the school needs to be disclosed.

We gladly recognize charters that are already performing well with their financial decisions, and others need to reform practices, so it's less opportunism due to lax regulation and more about helping students succeed.

The second policy report in this series entitled *Red Flags* will be released in the fall of 2017. That policy report highlights the financial issues that are threatening the financial viability of the charter marketplace. Unlike public district schools, in the charter sector public money is used to buy what becomes private property and assets.

The factors identified as causes of financial risk include:

- Net Losses on Revenues minus Expenditures at 153 of 407 charters in fiscal year 2014-2015
- Long Term Losses represented by NET (Deficits) at 83 charter groups.
- Bankruptcies on over-leveraged properties
- Financial mismanagement
- Over-extended credit
- Exploitive leases held by the same owners (charter holders) and boards that hold the properties (using different corporate entities for each aspect of the subsidiary operations)
- Profiteering through management fees and occupancy costs
- And most seriously, by related-party transactions at **77%** of all the charters studied. (100% of ASBCS audits and financials from multiple years were reviewed for this study.)

These and other financial and governance issues will be explored and evaluated as factors in the second report in this series, *Red Flags*.

About the Author

Curtis Cardine is a fellow for the Grand Canyon Institute and can be reached at CCardine@azgci.org

Mr. Cardine was Superintendent of Schools for a large school multi-district supervisory union in Southwestern New Hampshire. The supervisory union was comprised of three districts with over 5,000 students. Mr. Cardine established public charter schools in New Hampshire in 1999 with local funding and then expanded the program using federal public charter school grant money.

Prior to becoming a superintendent in New Hampshire, Mr. Cardine served as an elementary school principal in Troy, New Hampshire (3 years) and as a principal (13 years) and teacher (11 years) in Winchester, New Hampshire two of the least affluent schools in that state. During that time he created public school options for highly involved multiple handicapped children and a highly recognized program for autistic children. He has taught in every grade from Kindergarten through the Graduate Level. His expertise is in mathematics, school finance, school law and leadership and change.

The New Hampshire charter schools noted have won recognition from ASCD and were featured in Sam Chaltain's, American Schools. They, and the Arizona charter schools are still operating as stand-alone charters.

Arizona Charter Experiences:

Mr. Cardine opened other public charters as lead principal and then as a superintendent in Arizona charter organizations.

He moved to Arizona in 2006. From 2008 until 2015 he worked in a leadership role in two of Arizona's larger charter companies. He has also run small and medium sized businesses. His experience in the business, charter and public school models informs this work and the philosophy that is evident in the writing.

Mr. Cardine left both charter companies for the same reason. Ownership's use of situational business ethics applied to the financial and governance practices of those charter groups that were not in the best interest of children. This mismatch created a moral quandary that could not be resolved by working with the charter holders.

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The Grand Canyon Institute, a 501(c) 3 nonprofit organization, is a centrist think tank led by a bipartisan group of former state lawmakers, economists, community leaders and academicians. The Grand Canyon Institute serves as an independent voice reflecting a pragmatic approach to addressing economic, fiscal, budgetary and taxation issues confronting Arizona.

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Access to Source Data

The following is full disclosure regarding the source data. Every effort has been made to make the original documents easily accessible from the data set to allow the reader to see where the information came from. The data set contains links to the original materials cited in the data. The link locations are noted below.

IRS Form 990 for 2013 and 2014

For this study the author looked at ALL of the Form 990s for each non-profit school. The link to each 990 is in the data set. Example: **Legacy Avondale Form 990 FY 2013-14** . **Special thanks to GuideStar and Charity Finder for providing access to this data.**

Links to the data are in column BA of the data set. For-profits DO NOT file a Form 990 and nonprofits that are only registered as such in Arizona are exempt from the filing rules for federal nonprofits.

AZ Department of Education Annual Financial Reviews (AFRs)

AZ School Finance Start Page takes the user to the **AZ School Finance Start Page. This is the jumping off point in the ADE data set. As of this writing this page will take you to the starting point for 2015-2016 Annual Financial Reviews. Moving through the dataset at ADE will allow the user to locate the AFRs used in this report. Over 1800 AFRs from three fiscal years were used in the creation of this data set. In particular fiscal year 2014-2015 is detailed in the data and reported on in this document.**

Thanks to the staff at the Department of Education for their patient assistance as I learned to navigate this information.

AZ Superintendent of Public Instruction Reports are easily located at the AZ Department of Education website. The information in this data set was gleaned from Volume One of the Annual Superintendent's Reports. The link is provided here.

http://www.azed.gov/superintendent/superintendents-annual-report/

ASBCS Audits

ASBCS audits: Each charter has the following link in column BK in the data set. Audits for all of the charters were researched with the 2013-2014 audit used in an analysis of all audit reporting done in that particular year. The years 2014-2015 data (an audit analysis) was performed on ALL of the charter audits for that year. In all approximately 1100 audits were studied for the information in this audit.

A complete listing of the Charter School Laws in Arizona is provided at the ASBCS' website here: https://asbcs.az.gov/board-staff-information/statutes-rules-policies.

Access Link for Audits Once there: **Pick Documentation** **Go to Document Management then Click Charter Holder** **Select Audit Documents and Pick Year then Download the FILE**
http://online.asbcs.az.gov/charterholders/view/592/legacy-traditional-school-avondale

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Phi Delta Kappan J1 - Phi Delta Kappan: Phi Delta Kappan.

Addendum A

Listing of Charters with Net Losses over $100,000 with Inconsistent Financials

Charter Name	Net Reported to ADE	Net Reported to ASBCS	ABSOLUTE Difference
Hillcrest Academy, Inc. (Closed October 2016 (Bankrupt))	$105,136	-$4,084,353	$4,189,489
BASIS - system-wide information	-$1,332,911	-$3,074,317	$1,741,406
Edkey Schools	-$658,531	-$1,265,948	$607,417
Imagine Prep Coolidge, Inc.	-$808,488	-$1,129,412	$320,924
Legacy Traditional School - Gilbert	-$543,745	-$1,117,552	$573,807
Bradley Academy of Excellence, Inc.	$211,521	-$1,011,727	$1,223,248
The Odyssey Preparatory Academy, Inc.	-$566,819	-$963,135	$396,316
Juniper Tree Academy	-$442,090	-$818,515	$376,425
StarShine Academy	-$378,015	-$803,397	$425,382
AZ Compass Schools, Inc.	-$199,808	-$779,454	$579,646
CAFA Inc. Consolidated Reporting	-$189,494	-$773,894	$584,400
Challenge School, Inc.	$398,604	-$668,379	$1,066,983
Salt River Pima-Maricopa Community Schools	$485,754	-$586,107	$1,071,861
Telesis Center for Learning, Inc.	$17,455	-$550,248	$567,703
Legacy Traditional School - Laveen	-$143,492	-$516,257	$372,765
Arizona Connections Academy Charter School	-$495,694	-$495,693	$1
EAGLE College Prep Maryvale, LLC.	-$30,351	-$457,501	$427,150
EAGLE College Prep Mesa, LLC	-$197,868	-$457,501	$259,633
EAGLE South Mountain Charter, Inc.	-$55,220	-$457,501	$402,281
Innovative Humanities Education Corporation	-$527,122	-$448,504	$78,618
South Phoenix Academy, Inc.	$31,502	-$422,070	$453,572

Tucson Youth Development, Inc.	**-$361,116**	**-$409,605**	**$48,489**
Ahwatukee Foothills Prep, Inc.	**-$707,167**	**-$387,734**	**$319,433**
San Tan Montessori School, Inc.	**$115,585**	**-$362,223**	**$477,808**
American Basic Schools LLC	**$160,687**	**-$355,422**	**$516,109**
The Paideia Academies, Inc.	**$832,410**	**-$352,568**	**$1,184,978**
Noah Webster Schools - Pima	**-$107,442**	**-$349,939**	**$242,497**
Noah Webster Schools- Mesa	**$391,393**	**-$349,939**	**$741,332**
Consolidated Report for Rose Academies	**$37,614**	**-$346,104**	**$383,718**
Institute for Transformative Education	**$4,526**	**-$310,354**	**$314,880**
LEAD Charter Schools	**-$252,701**	**-$299,735**	**$47,034**
Fit Kids, Inc.	**$55,862**	**-$291,575**	**$347,437**
Incito Schools	**-$7,655**	**-$289,787**	**$282,132**
STEP UP Schools, Inc.	**-$282,796**	**-$288,450**	**$5,654**
Park View School, Inc.	**-$263,471**	**-$288,156**	**$24,685**
Imagine Coolidge Elementary, Inc.	**-$208,923**	**-$275,153**	**$66,230**
Carpe Diem Collegiate High School	**-$95,036**	**-$265,251**	**$170,215**
Heritage Academy Queen Creek, Inc.	**-$190,627**	**-$258,443**	**$67,816**
Ball Charter Schools (Val Vista)	**$50,795**	**-$256,230**	**$307,025**
Arizona Montessori Charter School at Anthem	**-$132,783**	**-$254,447**	**$121,664**
Arizona Academy of Science & Technology	**-$284,717**	**-$251,867**	**$32,850**
Foothills Academy	**-$279,829**	**-$251,034**	**$28,795**
Desert Heights Charter Schools	**-$42,609**	**-$248,978**	**$206,369**
Friendly House, Inc.	**$1,271,791**	**-$244,126**	**$1,515,917**
Pinnacle Education - Tempe, Inc.	**$1,610,462**	**-$241,122**	**$1,851,584**
Madison Highland Prep.	**-$125,257**	**-$213,419**	**$88,162**
Vector School District, Inc.	**-$178,635**	**-$207,990**	**$29,355**

Premier Charter High School	**-$56,834**	**-$184,009**	**$127,175**
Desert Star Academy, Inc.	**-$111,670**	**-$174,795**	**$63,125**
Teleos Preparatory Academy	**-$157,619**	**-$169,359**	**$11,740**
Omega Alpha Academy	**-$97,183**	**-$163,004**	**$65,821**
PACE Preparatory Academy	**-$4,564**	**-$150,804**	**$146,240**
StrengthBuilding Partners	**-$100,306**	**-$149,244**	**$48,938**
Graysmark Schools Corporation	**-$69,108**	**-$147,767**	**$78,659**
Presidio School	**$151,548**	**-$145,064**	**$296,612**
Concordia Charter School	**-$112,766**	**-$141,037**	**$28,271**
Reid Traditional Schools' Painted Rock Academy, Inc.	**$399,358**	**-$139,804**	**$539,162**
Success School	**$690,960**	**-$138,789**	**$829,749**
Pima Prevention Partnership	**$295,865**	**-$134,608**	**$430,473**
Genesis Program, Inc.	**$98,565**	**-$125,094**	**$223,659**
Valley of the Sun Waldorf Education Association, Inc.	**$186,524**	**-$124,396**	**$310,920**
Flagstaff Montessori, L.L.C.	**-$68,270**	**-$121,187**	**$52,917**
Montessori Day Public Schools, Chartered	**-$248,589**	**-$113,877**	**$134,712**
Pointe Educational Services	**$709,790**	**-$105,717**	**$815,507**
Arizona School for the Arts	**$362,907**	**-$105,428**	**$468,335**
West Valley Arts and Technology Academy, Inc.	**$315,659**	**-$104,261**	**$419,920**
Academy with Community Partners, Inc.	**-$72,628**	**-$102,273**	**$29,645**
Espiritu Community Development Corp	**$40,138**	**-$101,725**	**$141,863**

Addendum B

Criteria on Dealings with Related Parties

# Dealing with Related Party	Small or No Dealings with a Related Party
309	**91**

Percentage Dealing with Related Parties	Percentage NOT Dealing with Related Parties
77.25%	**22.75%**

Charters were counted as a charter entity if they had an independent charter. This negated the consolidation effect of consolidated audits. The statistics revealed a total of 101 charters with either no related-party transactions OR related-party transactions that fit the criteria, “related-party expenditures can be a way to save money through efficiency”.

While 101 Charters met that criteria, charters that had not passed the ASBCS' audit or their Academics were D or less were taken out of the count. Thus the number 91 in the statistics.

43 of the 101 met the criteria, “Related-party expenditures can be a way to save money through efficiency”.

58 avoided any conflict of interest by heeding standard district protocols regarding related-party transactions.

74 of the 101 had diverse Corporate Boards with community representation on those boards.

The list provided here includes all of the charters that met the criteria of legitimate related-party expenditures that were efficient and cost saving.

List of charters that either had zero Related-Party Expenditures or Related-Party Expenditures that were Cost Efficient and Saved the Charter Money.

ACCLAIM Charter School

All Aboard Charter School

All Aboard Charter School

Allen-Cochran Enterprises,

Ambassador Academy

Aprender Tucson

Arizona Agribusiness & Equine Centers

Arizona Autism Charter Schools, Inc.

Arizona Call-a-Teen Youth Resources, Inc.

Arizona Language Preparatory

Arizona School for the Arts
Benchmark School, Inc.
Camino Montessori
Candeo Schools, Inc.
Carden of Tucson, Inc.
CASA Academy
Center for Academic Success, Inc.
Center for Creative Education, Inc.
Compass Points International, Inc.
Concordia Charter School
Country Gardens Charter Schools
Desert Heights Charter Schools
Desert Sky Community School, Inc.
Desert Springs Academy, Inc.
Desert Star Academy, Inc.
Desert Star Community School
Destiny School, Inc.
Discovery Plus Academy
East Valley Educational Services, L.P.
Ed Ahead
El Pueblo Integral - Teaching and Learning Collaborative
Empower College Prep
Fit Kids, Inc.
Flagstaff Arts and Leadership Academy, Inc.
Flagstaff Junior Academy
Florence Crittenton Services of Arizona, Inc.
Fountain Hills Charter School, Inc.
Franklin Phonetic Primary School, Inc.
Freedom Academy, Inc.
Gem Charter School, Inc.
Genesis Program, Inc.
Great Expectations Academy, Inc.
Ha:san Educational Services
Haven Montessori Children's House, Inc.
James Madison Preparatory
Kingman Academy of Learning
La Tierra Community School, Inc.
Liberty High School
Madison Highland Prep.
Mary Ellen Halvorson Educational Foundation
Masada Charter School, Inc.

Metropolitan Arts Institute

Midtown Primary School

Milestones Charter School

Mingus Springs Charter School, Inc.

Mohave Accelerated Elementary School, Inc.

Montessori House, Inc.

Montessori Schoolhouse of Tucson, Inc.

Morrison Education Group, Inc.

Mountain Oak School, Inc.

Mountain School, Inc.

New Horizon School for the Performing Arts

New School for the Arts

New World Educational Center

Noah Webster Schools - Pima

Northland Preparatory Academy

Nosotros

Omega Alpha Academy

Painted Pony Ranch Charter School

Paragon Management, Inc.

Patagonia Montessori Elementary School

Phoenix Collegiate Academy, Inc.

Pine Forest Education Association, Inc.

PS Charter Schools, Inc.

Salt River Pima-Maricopa Community Schools

Santa Cruz Valley Opportunities in Education, Inc.

Scottsdale Country Day School

Sedona Charter School

Shelby School, The

Skyview School, Inc.

Sonoran Desert School

StarShine Academy

Stepping Stones Academy

SySTEM Schools

Telesis Center for Learning, Inc.

The Edge School, Inc.

The Odyssey Preparatory Academy, Inc.

The Paideia Academies, Inc.

Triumphant Learning Center, Inc.

Tucson Collegiate Prep, Inc.

Tucson Preparatory School

Tucson Small School Project
Tucson Youth Development, Inc.
Valley of the Sun Waldorf Education Association, Inc.
Victory High School, Inc.
Villa Montessori, Inc.
Vision Charter School, Inc.
Vista College Preparatory
Young Scholar's Academy Charter School Corporation
Yuma Private Industry Council