**Arizona Charter School Classroom Spending 2016**

**Part 2:**

**The Consequences of Charter School Deregulation**

* ***Most Arizona Charter Schools Spend More on Administration and Facilities than Classroom Instruction***
* ***The Leona Group and Imagine Inc. Together Spend $28,000,000 More on Management Fees and Real Estate than in the Classroom***

**Jim Hall**

**Arizonans for Charter School Accountability**

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**Background**

Part 1 of *Arizona Charter School Classroom Spending 20*16 (available at azcsa.org) found that less than half of Arizona charter schools spend most of their resources where you would expect - in the classroom. Forty seven percent of all Arizona charters (191 schools) spent more money on regular and special education classroom instruction than on administration and facilities combined. These schools represent both large and small charters utilizing a variety of instructional models – college prep, alternative, special education, arts, etc. Many of the 191 schools have substantial mortgages and have new, modern facilities yet focus their spending on classroom instruction.

The remaining 221 charter holders, however, spend more on administration and facilities combined than on classroom instruction. These schools appear to have no structural differences that distinguish them from the schools that focus on classroom instruction.

Part 2 of this report will examine the charter schools that spend the least on classroom instruction – those that spend more on administration alone than in the classroom and those that spend more on just their facilities than in the classroom.

We will also look at the most alarming charter schools in Arizona – those that spend more on both administration and their facilities than on classroom instruction and will reveal a disturbing revelation about Arizona’s largely unregulated charter industry -the majority of schools that spend the least on classroom instruction are managed by the two largest for-profit nation charter chains in Arizona, Imagine Inc. and the Leona Group, spending $28,000,000 more on management costs and facilities than on children in the classroom.

The “whys” are complex and unclear. Each school discussed in Part 2 has a unique set of circumstances that, unfortunately, are shrouded in secrecy. The daily operations of the majority of these schools are turned over to related for-profit management companies that are not bound by open meeting laws or the freedom of information act. We don’t know how real estate deals are made, how much the executives make, or even what teacher salaries are.

What we do know is that dozens of Arizona charters spend vast amounts on management fees and real estate acquisition and very little on classroom instruction. We also know that the Arizona Auditor General and the Arizona Board for Charter Schools do not monitor how charter schools spend tax dollars.

**Key Findings:**

1. 50 charter schools spent more on administrative costs than on classroom instruction:
	1. School size seems to be a factor. Small schools predominate with only eleven schools having enrollments of over 400 students.
	2. Forty per cent of these schools are managed by two large national charter management companies
		1. 4 - Imagine Inc.
		2. 9- American Charter Schools Foundation (managed by the Leona Group)
		3. 8 – Kaizen Education Foundation (managed by the Leona Group).
2. 62 schools spent more on their facilities than on classroom instruction
	1. School size was not a factor – 15 schools were less than 100 students but 25 had 300 students or more.
	2. Imagine Inc ran five schools. Thirteen are managed by the Leona Group
3. 29 schools spent more money individually for both administration and facilities than in the classroom.
	1. Three schools are managed by Imagine.
	2. 11 schools are managed by the Leona Group
4. Two larger charter management companies – The Leona Group and Imagine Inc. spent a total of $28,747,795 more on administration and facilities combined than on classroom instruction.

**Methodology:**

Methodology is discussed in detail in Part 1. Arizonans for Charter School Accountability created a database of all charter expenditures for 2016 as reported on the Annual Financial Reports (AFR) submitted by each charter holder. Each charter school’s spending on regular and special education classroom instruction, administration, and facilities was calculated utilizing the guidelines described on the Auditor General’s Unified System of Financial Records for charter schools that is used to report spending on the AFR. See Part 1 for documentation.

**Arizona Charter School Classroom Spending**

***2015-16***

**Part 2**

***Many Arizona Charter Schools Focus on Management Fees and Real Estate over Classroom Instruction***

**Excessive Administrative Expenses:**

Administrative expenses are reported in three categories:

* Central Administration – In public districts these are the expenses for the Superintendent’s Office and the School Board.
* School Administration – Expenses for school clerks, secretaries, etc. associated with the functions of the principal’s office.
* General Administration – The expenses associated with the district office in a public district – book keeping, curriculum services, human resources, etc.[[1]](#footnote-1)

Most charter schools do not provide these services themselves. Instead they pay a private management company, usually owned by the charter holder or charter board members, to run all of the daily operations of the school. The management company “leases” teachers to the school and provides all administrative and curriculum services. These expenses are lumped together in a code called “purchased services”. Since the services are provided by a private company every aspect of how the money was spent is secret.

Management companies charge a management fee – sometimes a set dollar amount, sometimes a percentage of the school’s revenue. That fee is not reflected in the AFR, it is buried in the various administrative categories and can also be coded as a purchased service in the instruction or support lines.

Most management contracts also have the phrase “…and all reasonable costs related to carrying out management responsibilities.” Twenty dollars for the pencil the bookkeeper uses a might be a “reasonable” cost.

In short, we have no idea where administrative spending goes. If a charter spends $500,000 on central administration, the owner of the management company may be receiving the entire amount as salary, or the money could be spent as a down payment on a new school site. There is no way of knowing.

The research outlined in part one clearly shows that charter schools can operate in a very efficient manner. 191 efficient charter schools spend an average of 48% of their budget on instruction and just 17% on administration.

Unfortunately, fifty charter schools spend more money on administration than on all classroom instruction. Where do all the administrative funds go? It is impossible to tell – and it is by design.

There were 50 Arizona charter schools that spent more in 2016 for central, school, and general administration than on all regular and special education classroom instruction. These schools represent both very small and large charter schools. The Leona Group, a national charter management company, manages seventeen of the schools. Imagine Inc., another large national management firm, manages four of the schools. See Table 1.

**Table 1 – Charter schools spending more on total administration than classroom instruction. Yellow represents schools managed by the Leona Group. Blue represents schools managed by Imagine Inc. (Alphabetical)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Charter | Pupils | Total M&O | Total Instruction | Total Admin | Admin More Than Instruction |
| Academy of Mathematics and Science | 431 | $4,188,123 | $1,193,763 | $1,377,894 | $184,131 |
| AIBT Non-Profit Charter High School | 350 | $1,781,095 | $191,864 | $340,590 | $148,726 |
| Akimel O Otham Pee Posh Charter School | 140 | $1,767,654 | $302,279 | $338,207 | $35,928 |
| American Charter Schools Foundation Alta Vista | 461 | $3,329,676 | $607,569 | $940,179 | $332,610 |
| American Charter Schools Foundation Apache Trails | 140 | $1,173,784 | $248,868 | $348,737 | $99,869 |
| American Charter Schools Foundation Crestview | 251 | $2,098,316 | $413,728 | $463,634 | $49,906 |
| American Charter Schools Foundation Desert Hills | 199 | $1,974,009 | $239,741 | $443,988 | $204,247 |
| American Charter Schools Foundation Estrella | 258 | $2,313,072 | $371,943 | $560,496 | $188,553 |
| American Charter Schools Foundation Peoria | 531 | $3,683,123 | $807,868 | $941,676 | $133,808 |
| American Charter Schools Foundation South Pointe | 484 | $3,560,885 | $491,901 | $897,201 | $405,300 |
| American Charter Schools Foundation Sun Valley | 537 | $3,967,353 | $870,008 | $1,060,417 | $190,409 |
| American Charter Schools Foundation West Phoenix | 415 | $3,284,960 | $584,259 | $804,373 | $220,114 |
| Arizona Call A Teen Youth Resources, Inc | 99 | $1,021,032 | $224,314 | $300,960 | $76,646 |
| Bradley Academy of Excellence, Inc | 448 | $4,642,553 | $1,090,781 | $1,839,210 | $748,429 |
| CASA Academy | 178 | $1,323,752 | $220,743 | $273,573 | $52,830 |
| E-Institute Charter Schools, Inc | 856 | $5,351,565 | $905,355 | $2,518,170 | $1,612,815 |
| EAGLE College Prep Mesa | 161 | $1,372,047 | $355,573 | $396,834 | $41,261 |
| East Valley Academy | 13 | $98,745 | $0 | $15,236 | $15,236 |
| Edkey, Inc. | 459 | $5,501,495 | $1,033,757 | $1,107,878 | $74,121 |
| Educational Options Foundation | 273 | $1,990,360 | $280,925 | $772,006 | $491,081 |
| Espiritu Schools | 24 | $545,402 | $45,018 | $100,929 | $55,911 |
| Founding Fathers Academies | 109 | $962,819 | $197,878 | $419,092 | $221,214 |
| Imagine Avondale Elementary, Inc. | 553 | $6,637,836 | $1,442,034 | $1,625,493 | $183,459 |
| Imagine Avondale Middle, Inc. | 203 | $3,669,797 | $960,767 | $1,469,048 | $508,281 |
| Imagine Camelback Middle, Inc. | 173 | $1,394,952 | $320,555 | $356,471 | $35,916 |
| Imagine Prep Superstition, INC | 256 | $3,054,619 | $684,991 | $818,641 | $133,650 |
| Integrity Education Corporation | 52 | $476,504 | $103,109 | $103,881 | $772 |
| IntelliSchool Charter High School | 88 | $799,006 | $105,559 | $395,299 | $289,740 |
| James Sandoval Preparatory High School Crown Pointe | 85 | $576,558 | $92,599 | $186,474 | $93,875 |
| Kaizen Discover U | 226 | $495,893 | $114,355 | $165,034 | $50,679 |
| Kaizen El Dorado High school | 193 | $2,634,138 | $641,721 | $775,710 | $133,989 |
| Kaizen Maya High | 380 | $2,578,229 | $650,412 | $710,337 | $59,925 |
| Kaizen Skyview | 137 | $1,061,817 | $194,675 | $275,888 | $81,213 |
| Kaizen Summit | 358 | $2,488,090 | $587,075 | $691,580 | $104,505 |
| Kaizen Tempe Accelerated | 49 | $529,373 | $184,360 | $231,304 | $46,944 |
| Kaizen Vista Grove | 293 | $2,293,012 | $520,652 | $570,726 | $50,074 |
| Kaizen Vista Grove Middle | 61 | $434,043 | $14,772 | $106,403 | $91,631 |
| Kestrel Shools, Inc. | 30 | $190,969 | $24,516 | $59,969 | $35,453 |
| Lifelong Learning Research Institute, Inc. | 23 | $290,343 | $74,407 | $79,581 | $5,174 |
| NORTH STAR CHARTER SCHOOL, INC. | 189 | $1,639,402 | $510,614 | $624,198 | $113,584 |
| Paramount Education Studies Inc | 384 | $2,606,997 | $603,471 | $867,790 | $264,319 |
| Park View School, Inc. | 176 | $1,893,058 | $578,441 | $745,745 | $167,304 |
| PAS Charter Inc. | 214 | $1,723,988 | $203,330 | $902,753 | $699,423 |
| PS Charter Schools | 59 | $1,536,746 | $322,602 | $382,975 | $60,373 |
| SAGE ACADEMY CHARTER SCHOOL | 160 | $1,121,675 | $331,137 | $386,104 | $54,967 |
| SC Jensen Corporation | 82 | $725,977 | $90,248 | $374,773 | $284,525 |
| Southwest Leadership Academy | 361 | $2,512,223 | $489,616 | $820,969 | $331,353 |
| The Phoenix School of Academic Excellence | 130 | $1,064,687 | $236,770 | $279,207 | $42,437 |
| Victory High School, Inc. | 22 | $185,004 | $42,693 | $61,870 | $19,177 |
| Vista Charter | 26 | $140,236 | $9,490 | $40,279 | $30,789 |
| Percent of Total |   |   | 21% | 30% |   |

**Excessive Facilities Expenses:**

Charter schools in Arizona have ownership of all buildings, materials and supplies purchased by tax funds, even if the school is closed.[[2]](#footnote-2) There is a real incentive to invest tax dollars in real estate that automatically becomes the possession of the charter holder.

There is no place on the AFR for charters to report lease payments. They are rolled into the general category of “plant operations and maintenance” which also includes janitorial services and supplies, and maintenance and repairs on the buildings. Charter schools that are purchasing facilities with mortgages report payments on the principal and interest in a line called “debt service”. Facilities expenditures were calculated by combining spending on plant operations and debt service.

Many charters “lease” their schools from a related for-profit management company so it is possible that a charter has a mortgage but declares no expenses for debt service.

With all of this confusion, it should be noted that the 191 efficient schools identified in Part 1 spent just 14% of their total budget on facilities while spending 48% of their budget on classroom instruction. This includes 29 schools having over $400,000 in debt payments with 9 paying over $800,000 a year.

Sixty two charter schools expended more on their buildings than on classroom instruction, and averaged spending 31% of their budget on facilities while only spending 23% in the classroom. See Table 2.

**Table 2 – Charter schools spending more on facilities than in the classroom. Yellow indicates Leona Group schools. Blue indicates schools managed by Imagine Inc. (Alphabetical)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Charter | Pupils | Total M&O | Total Instruction | Total Facilities | Facilities more than Instruction |
| Academy Del Sol | 676 | $3,911,585 | $1,400,648 | $1,448,217 | $47,569 |
| Academy with Community Partners, Inc. | 57 | $1,142,786 | $324,160 | $395,257 | $71,097 |
| AIBT Non-Profit Charter High School | 350 | $1,781,095 | $191,864 | $556,966 | $365,102 |
| American Charter Schools Foundation Alta Vista | 461 | $3,329,676 | $607,569 | $897,358 | $289,789 |
| American Charter Schools Foundation Apache Trails | 140 | $1,173,784 | $248,868 | $302,487 | $53,619 |
| American Charter Schools Foundation Crestview | 251 | $2,098,316 | $413,728 | $640,106 | $226,378 |
| American Charter Schools Foundation Desert Hills | 199 | $1,974,009 | $239,741 | $818,266 | $578,525 |
| American Charter Schools Foundation Estrella | 258 | $2,313,072 | $371,943 | $816,390 | $444,447 |
| American Charter Schools Foundation Peoria | 531 | $3,683,123 | $807,868 | $955,875 | $148,007 |
| American Charter Schools Foundation South Pointe | 484 | $3,560,885 | $491,901 | $1,245,027 | $753,126 |
| American Charter Schools Foundation South Ridge | 445 | $3,313,361 | $707,253 | $874,531 | $167,278 |
| American Charter Schools Foundation Sun Valley | 537 | $3,967,353 | $870,008 | $1,057,328 | $187,320 |
| American Charter Schools Foundation West Phoenix | 415 | $3,284,960 | $584,259 | $1,056,658 | $472,399 |
| Arizona Academy of Science & Technology, Inc | 74 | $904,659 | $160,575 | $440,704 | $280,129 |
| AZ Compass Schools, Inc | 143 | $2,397,350 | $507,552 | $1,267,539 | $759,987 |
| CAFA, Inc., dba Learning Foundation Performing Arts Gilbert | 892 | $6,670,037 | $2,165,419 | $2,637,996 | $472,577 |
| Calibre Academy, Inc. | 708 | $4,973,016 | $1,554,037 | $1,624,618 | $70,581 |
| Career Success | 596 | $5,040,098 | $1,401,950 | $1,603,683 | $201,733 |
| E-Institute Charter Schools, Inc | 856 | $5,351,565 | $905,355 | $1,445,118 | $539,763 |
| East Valley Academy | 13 | $98,745 | $0 | $24,379 | $24,379 |
| Edkey, Inc. | 459 | $5,501,495 | $1,033,757 | $1,041,561 | $7,804 |
| Edkey, Inc. | 316 | $2,476,679 | $544,500 | $547,953 | $3,453 |
| Educational Options Foundation | 273 | $1,990,360 | $280,925 | $380,905 | $99,980 |
| Espiritu Community Development Corporation | 290 | $3,267,164 | $712,105 | $1,008,126 | $296,021 |
| Espiritu Schools | 24 | $545,402 | $45,018 | $282,887 | $237,869 |
| Fit Kids, Inc. | 1096 | $7,137,148 | $1,899,556 | $2,091,025 | $191,469 |
| Graysmark Schools Corporation | 49 | $327,340 | $77,919 | $128,877 | $50,958 |
| Heritage Elementary School | 838 | $5,766,884 | $1,390,305 | $1,509,925 | $119,620 |
| Imagine Avondale Elementary, Inc. | 553 | $6,637,836 | $1,442,034 | $2,407,225 | $965,191 |
| Imagine Avondale Middle, Inc. | 203 | $3,669,797 | $960,767 | $967,842 | $7,075 |
| Imagine Charter Elementary at Camelback, Inc. | 442 | $3,636,747 | $829,458 | $889,540 | $60,082 |
| Imagine Middle Surprise, Inc. | 364 | $3,427,053 | $908,835 | $1,444,106 | $535,271 |
| Imagine Prep Superstition, INC | 256 | $3,054,619 | $684,991 | $1,071,833 | $386,842 |
| Innovative Humanities Education Corp | 162 | $1,430,895 | $320,016 | $526,477 | $206,461 |
| Integrity Education Corporation | 52 | $476,504 | $103,109 | $116,509 | $13,400 |
| IntelliSchool Charter High School | 88 | $799,006 | $105,559 | $114,585 | $9,026 |
| James Sandoval Preparatory High School Crown Pointe | 85 | $576,558 | $92,599 | $97,872 | $5,273 |
| Kaizen Mission Heigths | 387 | $2,687,807 | $653,347 | $699,785 | $46,438 |
| Kaizen Skyview | 137 | $1,061,817 | $194,675 | $399,989 | $205,314 |
| Kaizen Vista Grove Middle | 61 | $434,043 | $14,772 | $79,367 | $64,595 |
| Kestrel Shools, Inc. | 30 | $190,969 | $24,516 | $41,162 | $16,646 |
| Legacy Education Group | 148 | $1,225,577 | $279,401 | $431,979 | $152,578 |
| Lifelong Learning Research Institute, Inc. | 23 | $290,343 | $74,407 | $74,782 | $375 |
| Milestones Charter School | 237 | $2,696,992 | $592,486 | $848,105 | $255,619 |
| Noah Webster Schools-Pima | 400 | $3,023,514 | $850,070 | $1,394,595 | $544,525 |
| Pace Preparatory Academy, Inc. | 93 | $826,989 | $217,734 | $240,985 | $23,251 |
| PAS Charter Inc. | 214 | $1,723,988 | $203,330 | $265,788 | $62,458 |
| Phoenix Advantage Charter School | 420 | $3,798,919 | $822,873 | $1,096,806 | $273,933 |
| Premier Charter High School | 247 | $2,023,476 | $473,858 | $587,909 | $114,051 |
| RSD Charter School | 132 | $1,034,040 | $259,863 | $328,357 | $68,494 |
| Sonoran Desert School | 37 | $335,145 | $94,355 | $145,320 | $50,965 |
| South Phoenix Academy, Inc. | 293 | $2,385,091 | $527,936 | $1,196,257 | $668,321 |
| South Valley Academy, Inc. | 208 | $1,741,988 | $440,332 | $654,901 | $214,569 |
| Starshine Academy | 300 | $2,935,287 | $635,040 | $1,078,964 | $443,924 |
| SySTEM Schools | 156 | $1,215,428 | $261,496 | $267,051 | $5,555 |
| The Griffin Foundation, The | 288 | $2,210,599 | $520,299 | $556,214 | $35,915 |
| The Paideia Academies, Inc. | 459 | $3,733,601 | $917,083 | $1,094,590 | $177,507 |
| The Phoenix School of Academic Excellence | 130 | $1,064,687 | $236,770 | $290,701 | $53,931 |
| Tucson International Academy, Inc. | 548 | $4,703,243 | $1,135,664 | $1,188,746 | $53,082 |
| Vector School District, Inc | 233 | $1,999,524 | $563,277 | $835,422 | $272,145 |
| Victory High School, Inc. | 22 | $185,004 | $42,693 | $53,424 | $10,731 |
| Vista Charter | 26 | $140,236 | $9,490 | $79,505 | $70,015 |
| Percent of Total Budget |   |   | 23% | 31% |   |

One possible explanation for such exorbitant real estate costs is the challenge in constructing facilities while attempting to anticipate future student enrollment. Charter schools may build a larger, more expensive facility than is currently needed in anticipation of increased enrollment in the future and are sometimes stuck with high mortgage payments and current low enrollment. The same is true as charters face declining enrollment – the mortgage remains the same but income decreases. In both cases, mortgages generally have stipulations that mortgage payments must be paid for before any other expenditure is made. Classroom spending is often cut to help make the mortgage payments.

All 10 schools owned by The American Charter Schools Foundation, managed by the Leona Group, spend more on facilities than in the classroom. Imagine Inc. has 4 schools and the Kaizen Education Foundation, also managed by Leona, has 3 schools that spend less in the classroom than on their buildings.

**Excessive Administrative *and* Facilities Expenses:**

Incredibly, there are 29 Arizona charter schools in 2016 that spent more money managing their schools than in the classroom *and* spent more money on their facilities than on classroom instruction. These schools spent an average of just 19% of their budget on classroom instruction. It appears that educating children is a sideline in these schools – especially at Imagine and Leona which account for half of the charter schools in Arizona that spend more money on profits and real estate than in the classroom. See Table 3.

**Table 3 – Charter schools spending more on facilities and administration than classroom instruction. Yellow indicates Leona Group schools. Blue indicates Imagine Inc. managed schools. (Alphabetical)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Charter | Pupils | Total Instruction | Total Admin | Total facilities | More Admin | More Facilities |
| AIBT Non-Profit Charter High School | 350 | $191,864 | $340,590 | $556,966 | $148,726 | $365,102 |
| American Charter Schools Foundation Alta Vista | 461 | $607,569 | $940,179 | $897,358 | $332,610 | $289,789 |
| American Charter Schools Foundation Apache Trails | 140 | $248,868 | $348,737 | $302,487 | $99,869 | $53,619 |
| American Charter Schools Foundation Crestview | 251 | $413,728 | $463,634 | $640,106 | $49,906 | $226,378 |
| American Charter Schools Foundation Desert Hills | 199 | $239,741 | $443,988 | $818,266 | $204,247 | $578,525 |
| American Charter Schools Foundation Estrella | 258 | $371,943 | $560,496 | $816,390 | $188,553 | $444,447 |
| American Charter Schools Foundation Peoria | 531 | $807,868 | $941,676 | $955,875 | $133,808 | $148,007 |
| American Charter Schools Foundation South Pointe | 484 | $491,901 | $897,201 | $1,245,027 | $405,300 | $753,126 |
| American Charter Schools Foundation Sun Valley | 537 | $870,008 | $1,060,417 | $1,057,328 | $190,409 | $187,320 |
| American Charter Schools Foundation West Phoenix | 415 | $584,259 | $804,373 | $1,056,658 | $220,114 | $472,399 |
| E-Institute Charter Schools, Inc | 856 | $905,355 | $2,518,170 | $1,445,118 | $1,612,815 | $539,763 |
| East Valley Academy | 13 | $0 | $15,236 | $24,379 | $15,236 | $24,379 |
| Edkey, Inc. | 459 | $1,033,757 | $1,107,878 | $1,041,561 | $74,121 | $7,804 |
| Educational Options Foundation | 273 | $280,925 | $772,006 | $380,905 | $491,081 | $99,980 |
| Espiritu Schools | 24 | $45,018 | $100,929 | $282,887 | $55,911 | $237,869 |
| Imagine Avondale Elementary, Inc. | 553 | $1,442,034 | $1,625,493 | $2,407,225 | $183,459 | $965,191 |
| Imagine Avondale Middle, Inc. | 203 | $960,767 | $1,469,048 | $967,842 | $508,281 | $7,075 |
| Imagine Prep Superstition, INC | 256 | $684,991 | $818,641 | $1,071,833 | $133,650 | $386,842 |
| Integrity Education Corporation | 52 | $103,109 | $103,881 | $116,509 | $772 | $13,400 |
| IntelliSchool Charter High School | 88 | $105,559 | $395,299 | $114,585 | $289,740 | $9,026 |
| James Sandoval Preparatory High School Crown Pointe | 85 | $92,599 | $186,474 | $97,872 | $93,875 | $5,273 |
| Kaizen Skyview | 137 | $194,675 | $275,888 | $399,989 | $81,213 | $205,314 |
| Kaizen Vista Grove Middle | 61 | $14,772 | $106,403 | $79,367 | $91,631 | $64,595 |
| Kestrel Shools, Inc. | 30 | $24,516 | $59,969 | $41,162 | $35,453 | $16,646 |
| Lifelong Learning Research Institute, Inc. | 23 | $74,407 | $79,581 | $74,782 | $5,174 | $375 |
| PAS Charter Inc. | 214 | $203,330 | $902,753 | $265,788 | $699,423 | $62,458 |
| The Phoenix School of Academic Excellence | 130 | $236,770 | $279,207 | $290,701 | $42,437 | $53,931 |
| Victory High School, Inc. | 22 | $42,693 | $61,870 | $53,424 | $19,177 | $10,731 |
| Vista Charter | 26 | $9,490 | $40,279 | $79,505 | $30,789 | $70,015 |
| Percent of Total M&O |   | 19% | 29% | 29% |   |   |

Nine of these schools are very small, single owner charters of less than 100 students. But there are 30 efficient schools with less than 100 students that spend more in the classroom than on administration and facilities.

All of the high spending schools should be thoroughly investigated. The obvious concern rests with two large charter management companies – the Leona Group and Imagine Inc. These companies have every advantage of economy of scale with large central offices that can serve multiple schools, yet spend very little on classroom instruction.

**Imagine Inc.:**

Imagine Inc. is one of the largest charter management companies in the U.S. with 63 schools in 11 states plus Washington D.C. serving over 33,000 students.[[3]](#footnote-3) All Imagine schools are non-profit but are managed by for-profit Imagine Inc. While Imagine Inc. only manages three schools in Arizona that spend more on both administration and facilities than in the classroom, all of their 19 Arizona schools have exceptionally high administrative and facilities expenditures. The nineteen schools controlled by Imagine Inc. spent a total of $13,149,585 more for management and facilities than on classroom instruction. See Table 4.

**Table 4 Imagine Inc. expenditures on classroom instruction, administration, and facilities 2016.**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Charter | Pupils | Total M&O | Total Instruction | Total Admin | Total Facilities | Admin+Facilities More Than Instruction |
| Bell Canyon Charter School, Inc. | 369 | $3,307,687 | $975,656 | $964,854 | $370,253 | $359,451 |
| Imagines Cortez Park Middle | 234 | $2,026,200 | $542,837 | $493,569 | $278,885 | $229,617 |
| Imagine Avondale Elementary, Inc. | 553 | $6,637,836 | $1,442,034 | $1,625,493 | $2,407,225 | $2,590,684 |
| Imagine Avondale Middle, Inc. | 203 | $3,669,797 | $960,767 | $1,469,048 | $967,842 | $1,476,123 |
| Imagine Camelback Middle, Inc. | 173 | $1,394,952 | $320,555 | $356,471 | $294,385 | $330,301 |
| Imagine Charter Elementary at Camelback, Inc. | 442 | $3,636,747 | $829,458 | $766,499 | $889,540 | $826,581 |
| Imagine Charter Elementary at Desert West, Inc. | 814 | $6,299,699 | $1,466,884 | $1,342,408 | $1,424,063 | $1,299,587 |
| Imagine Coolidge Elementary, Inc. | 735 | $5,762,325 | $1,645,854 | $1,304,478 | $1,328,708 | $987,332 |
| Imagine Desert West Middle, Inc.  | 343 | $2,469,647 | $792,690 | $606,391 | $381,471 | $195,172 |
| Imagine Elementary at Tempe | 246 | $3,405,501 | $870,024 | $784,351 | $825,136 | $739,463 |
| Imagine Middle at East Mesa, Inc. | 133 | $1,078,117 | $404,740 | $318,847 | $164,691 | $78,798 |
| Imagine Middle Surprise, Inc. | 364 | $3,427,053 | $908,835 | $660,872 | $1,444,106 | $1,196,143 |
| Imagine Prep Coolidge Inc. | 567 | $5,136,385 | $1,549,336 | $1,179,111 | $1,076,728 | $706,503 |
| Imagine Prep Superstition, INC | 256 | $3,054,619 | $684,991 | $818,641 | $1,071,833 | $1,205,483 |
| Imagine Preparatory Surprise, Inc. | 298 | $2,723,141 | $948,785 | $787,757 | $631,589 | $470,561 |
| Imagine Superstition Middle, INC | 164 | $1,225,182 | $448,269 | $402,534 | $87,704 | $41,969 |
| Imagine Rosefield | 791 | $5,537,055 | $2,091,927 | $1,292,286 | $1,162,894 | $363,253 |
| West Gilbert Charter Elementary School, Inc. Imagine | 316 | $3,015,856 | $989,451 | $806,130 | $295,376 | $112,055 |
| West Gilbert Charter Middle School, Inc. Imagine | 89 | $718,554 | $317,964 | $204,640 | $53,833 | -$59,491 |
| Totals |   | $64,526,353 | $18,191,057 | $16,184,380 | $15,156,262 | **$13,149,585** |
| Percentage of Budget |   |   | 28% | 25% | 23% |   |

**The Leona Group:**

The Leona Group is also one of the largest charter management companies in the country, controlling over 60 schools in five states – Arizona, Florida, Indiana, Michigan, and Ohio.[[4]](#footnote-4) The schools managed by Leona Group Arizona are by far the most inefficiently operated schools in Arizona.

The Leona Group manages schools for two companies – the American Charter Schools Foundation (ACSF) and the Kaizen Educational Foundation. Both are non-profit organizations founded by Bill Coats, the sole owner of the Leona Group, and both have the former CFO of the Leona Group, Ted Frederick, as their director.

Nine of the ten schools owned ACSF spend more on both administration and their buildings than on classroom instruction. The ACSF charter schools spend an average of just 19% of their budget on classroom instruction. All 25 schools managed by the Leona Group spent a total of $15,598,210 more on management and facilities than in the classroom. See Table 5.

**Table 5 Leona Group expenditures on classroom instruction, administration, and facilities**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Charter | Pupils | Total M&O | Total Instruction | Total Admin | Total Facilities | Admin+Facilities More than Instruction |
| American Charter Schools Foundation Alta Vista | 461 | $3,329,676 | $607,569 | $940,179 | $897,358 | $1,229,968 |
| American Charter Schools Foundation Apache Trails | 140 | $1,173,784 | $248,868 | $348,737 | $302,487 | $402,356 |
| American Charter Schools Foundation Crestview | 251 | $2,098,316 | $413,728 | $463,634 | $640,106 | $690,012 |
| American Charter Schools Foundation Desert Hills | 199 | $1,974,009 | $239,741 | $443,988 | $818,266 | $1,022,513 |
| American Charter Schools Foundation Estrella | 258 | $2,313,072 | $371,943 | $560,496 | $816,390 | $1,004,943 |
| American Charter Schools Foundation Peoria | 531 | $3,683,123 | $807,868 | $941,676 | $955,875 | $1,089,683 |
| American Charter Schools Foundation South Pointe | 484 | $3,560,885 | $491,901 | $897,201 | $1,245,027 | $1,650,327 |
| American Charter Schools Foundation South Ridge | 445 | $3,313,361 | $707,253 | $699,907 | $874,531 | $867,185 |
| American Charter Schools Foundation Sun Valley | 537 | $3,967,353 | $870,008 | $1,060,417 | $1,057,328 | $1,247,737 |
| American Charter Schools Foundation West Phoenix | 415 | $3,284,960 | $584,259 | $804,373 | $1,056,658 | $1,276,772 |
| Total |   | $28,698,539 | $5,343,138 | $7,160,608 | $8,664,026 | $10,481,496 |
| Percent of Budget |   |   | 19% | 25% | 30% |   |
|   |   |   |   |   |   |   |
| Kaizen Advanced U | 45 | $1,701,307 | $572,540 | $351,646 | $361,169 | $140,275 |
| Kaizen Discover U | 226 | $495,893 | $114,355 | $165,034 | $73,639 | $124,318 |
| Kaizen El Dorado High school | 193 | $2,634,138 | $641,721 | $775,710 | $567,117 | $701,106 |
| Kaizen Gilbert Arts | 149 | $1,281,678 | $373,357 | $287,315 | $276,591 | $190,549 |
| Kaizen Havasu | 279 | $1,944,206 | $552,531 | $453,280 | $402,742 | $303,491 |
| Kaizen Liberty Arts | 215 | $1,642,136 | $416,839 | $341,701 | $393,607 | $318,469 |
| Kaizen Maya High | 380 | $2,578,229 | $650,412 | $710,337 | $454,729 | $514,654 |
| Kaizen Mission Heigths | 387 | $2,687,807 | $653,347 | $598,461 | $699,785 | $644,899 |
| Kaizen Skyview | 137 | $1,061,817 | $194,675 | $275,888 | $399,989 | $481,202 |
| Kaizen South Pointe El | 297 | $2,156,448 | $542,483 | $448,915 | $389,112 | $295,544 |
| Kaizen South Pointe Jr Hi | 141 | $1,101,540 | $253,337 | $241,972 | $185,938 | $174,573 |
| Kaizen Summit | 358 | $2,488,090 | $587,075 | $691,580 | $460,872 | $565,377 |
| Kaizen Tempe Accelerated | 49 | $529,373 | $184,360 | $231,304 | $34,377 | $81,321 |
| Kaizen Vista Grove | 293 | $2,293,012 | $520,652 | $570,726 | $359,864 | $409,938 |
| Kaizen Vista Grove Middle | 61 | $434,043 | $14,772 | $106,403 | $79,367 | $170,998 |
| Total |   | $25,029,717 | $6,272,456 | $6,250,272 | $5,138,898 | $5,116,714 |
| Percent of Budget |   |   | 25% | 25% | 21% |   |
|   |   |   |   |   |   |   |
| Total Leona |   | $53,728,256 | $11,615,594 | $13,410,880 | $13,802,924 | **$15,598,210** |
| Percent Of Budget |   |   | 22% | 25% | 26% |   |

What does the Arizona Board for Charter Schools think about the financial responsibility of Imagine Inc. and the Leona Group? Both met all expectations on the Charter Board’s Financial Framework for 2015. See Tables 6 and 7. (Imagine Inc. submits audits for each school. ACSF submits a consolidated audit including all ten schools.)

 Table 6 Imagine Avondale Elementary 2015 financial performance review

**Table 5 Consolidated review of all ten American Charter Schools Foundation Schools managed by the Leona Group.**

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Part 3 of this report will be a case study of the Leona Group. . Future reports by Arizonans for Charter School, Accountability will investigate Imagine Inc. and other charter holders than fail to focus on classroom spending.

**Conclusions:**

Charter schools have no requirements or conditions that are drastically different from public schools that require them to spend exorbitant amounts on administration or facilities. In fact, charters have far fewer requirements by the state so they should be able to operate more efficiently than public districts.

There are 191 charter schools in Arizona (detailed in Part 1) that spend an average of 48% of their M&O budget on classroom instruction and only 17% on administration and 14% on facilities. Charter schools can be run with a focus on where it should be – in the classroom.

But over half of all charter schools do not focus on the classroom and two of the largest charter management companies, Imagine Inc. and the Leona Group Arizona diverted over 28 million dollars away from the classroom in 2016 to enrich their organizations.

The schools managed by Imagine Inc. and the Leona Group Arizona are non-profit organizations. The non-profit owners “hire” their for-profit management arm to run all aspects of the schools. The Internal Revenue Service guidelines for determining the non-profit status of charter holders states the following:

**4.76.8.8.1  (07-01-2003)
Charter Schools Exempt Status**

***“The primary concern regarding charter schools is whether they are operated for exclusively charitable purposes and do not operate for the benefit of private management companies and service providers.” [[5]](#footnote-5)***

We all need to ask ourselves whether the charter schools that spend most of their budgets on management and facilities are serving a public good or are they operating “…*for the benefit of private management companies and service providers ?”*

Better yet, the Governor, the State Legislature, and the Arizona Board for Charter Schools should ask this question. Finally.

**Recommendations:**

1. Legislation is necessary to require the Arizona Auditor Generals Office to monitor charter school classroom spending just as they do for public districts.
2. The Arizona Board for Charter Schools should consider all aspects of charter spending as part of their annual financial evaluation of charter holders.
3. Affiliated companies servicing charter schools need to provide financial records documenting profits and expenses.
4. Small, inefficient charter schools need monitoring and support to increase classroom spending, or be closed.
5. Charters need to report spending in more consistent formats. For example, many large charter chains have mortgages on their schools but they “lease” the buildings to their schools so mortgage payments are not listed under debt service on the AFR.
6. The practice of leasing facilities from an affiliated company needs to be investigated.
7. Charter schools should be required to follow state procurement laws so all transactions are made public, including all purchases from related parties.

Part 3 of this report will be released the week of January 28, 2016 and will provide a case study detailing the management agreements and real estate transactions made by the Leona Group that contribute to the lowest expenditures on classroom instruction in Arizona.

1. See: http://www.azed.gov/program-operations/files/2012/04/usfrcs.pdf [↑](#footnote-ref-1)
2. A.R.S. 15-183.T [↑](#footnote-ref-2)
3. See: http://www.imagineschools.org/2015/08/imagine-schools-completes-transition-to-non-profit-status/ [↑](#footnote-ref-3)
4. See: http://www.leonagroup.com/history.html [↑](#footnote-ref-4)
5. See: *Revised Charter School Reference Guide at http://mycharterlaw.com/pdf/IRS\_Update\_Revised\_Charter\_School\_Reference\_Guide\_102607.pdf* [↑](#footnote-ref-5)