Authorized Abuse: Sponsors, Management and Ohio Charter School Law

A Report From

Policy Matters Ohio

Piet van Lier

September 2010

Author

Piet van Lier is a senior researcher at Policy Matters Ohio. He has a master's degree in journalism from the University of Missouri at Columbia and a bachelor's in journalism and political science from Marquette University. Piet spent seven years covering education for *Catalyst* magazine before joining Policy Matters in 2007. He has done research on teacher training, school improvement, autism education, and job training for the green economy, among other issues.

Acknowledgements

We would like to thank Policy Matters interns Brandon Mordue, Lois Oviawe, Chris Axelrod and Sarah DeCarlo for their assistance on this report. Marc Dean Millot and Leigh Dingerson took time to review drafts and share their thoughts about content. Amy Hanauer, executive director of Policy Matters, provided guidance and feedback. Policy Matters, a non-profit, non-partisan 501(c)(3) organization receives funding from foundations, unions, individuals and organizations, including the Ford, Public Welfare, George Gund, Joyce, Kellogg, Sisters of Charity and Cleveland Foundations, and Greater Cleveland Community Shares. As always, any errors are the sole responsibility of the author.

Policy Matters Ohio, the publisher of this study, is a nonprofit, nonpartisan research institute dedicated to researching an economy that works for Ohio. Policy Matters seeks to broaden debate about policy by doing research on issues that matter to working people and their families. With better information, we can achieve more just and efficient policies. Areas of inquiry for Policy Matters include work, wages, education, housing, energy, tax and budget policy, and economic development. All reports are available at www.policymattersohio.org.

Table of Contents

Executive Summary

Ohio charter school law is seen nationally as having upended standard governance practices and allowed for the proliferation of ineffective, poorly run schools that don't serve Ohio's students, families and communities at all well.

Ohio law has allowed for the "most breathtaking abuse in the nation," according to Greg Richmond of the National Association of Charter School Authorizers.[1] Recent changes have made it easier to close charters for poor academic performance, but much remains to be done to ensure that charters provide an alternative for parents and children, and even a model for innovation. Too few Ohio charters can point to solid academic records, and current law allows the unchecked, largely unexamined, transfer of public funds to private hands, particularly in the case of the schools – roughly half of Ohio's 300-plus charters – that are run by management organizations, both for profit and nonprofit.

What can be done to improve charters in Ohio? In a July 2010 commentary published in Education Week, Richmond laid out six criteria that he said would help strengthen oversight and improve charter quality:

- Charter school board members should not be employed or selected by the school's management organization or compensated for their service;
- Charter boards should have independent attorneys, accountants and auditors;
- Management contracts should spell out rights, responsibilities, fees and services and should not include "poison pills" that bind schools to management companies;
- Charter boards should control all school revenues;
- All equipment and furnishings purchased with public funds must be the property of the school, not of the management organization;
- All loans from the management organization to the school must be appropriately documented and at market rates.

These standards are based on longstanding principles for the governance of nonprofit corporations and "agency law," which governs the relationship established when an entity (in this case, a charter school board) contracts with an "agent" (a management organization) to work on its behalf and under its control.

Findings

To see how Ohio measures up, Policy Matters reviewed management agreements, audits, websites, board lists and other charter school documents. We found that many management organizations and the schools they operate do not meet the standards set by NACSA. This reflects poorly on Ohio law, the state's charter schools and sponsors.

Our investigation finds clear evidence that management organizations are in control, not the boards that are legally responsible for the schools. Management undercuts school board independence in a number of ways, such as controlling school revenues, setting up schools and picking board members, limiting board decision-making power, and reducing board ability to contract for independent services; such practices can make it next to impossible for boards to break free from the managers they ostensibly hire. The lack of

[1] Authorizers, which approve and oversee charter schools, are known as sponsors in Ohio.

meaningful oversight provided through Ohio's system of sponsors magnifies the law's shortcomings.

This study, "Authorized Abuse: Sponsors, Management and Ohio Charter School Law," provides detail on many examples of Ohio charters and management organizations that fall short of the NACSA standards, and in some cases Ohio law. Highlighted in this summary are the most troubling cases:

- The **Richard Allen** system of charters in southwest Ohio has listed, on its website and federal tax forms, the same board members for all four of its schools, even though Ohio law prohibits individuals from serving on more than two charter boards. Also in apparent violation of the law, one board member has the same last name and home address as the schools' president, whose management company provides services to the schools. These practices reveal a management role in board selection, present a conflict of interest and undermine board independence;
- At least 27 teachers and other staff from individual charters run by **Constellation Schools**, based in Parma, serve on boards of other schools run by the company. The staff are employees of individual schools, not the management company, but Constellation's complete control of the schools suggests that the company is breaking the spirit, if not the letter, of the Ohio law that bars management company employees, consultants and their relatives from serving on charter school boards.
- One individual has played a lead role as incorporator, statutory agent, CEO, president or vice president – or some combination of those positions – in seven inter-connected charter-related organizations, including one sponsor (**Kids Count of Dayton, Inc.**), two management organizations, and four schools. This kind of "vertical integration" blurs lines of governance and autonomy and is not an isolated case among management organizations running Ohio schools.
- **Mosaica Education, Inc.**, requires charter schools to pay a "start-up fee" upon termination or nonrenewal of their contracts with the company. **Imagine Schools, Inc.**, requires a similar "termination fee." These practices subvert established governance norms, giving power to management organizations at the expense of charter school board independence.
- Management companies control the vast majority of school revenue. Some do it directly, with taxpayer money flowing straight into company bank accounts: **White Hat**, for example, gets 96 percent and Imagine pulls in up to 98 percent. Others exert power indirectly: **Constellation Schools**, LLC, is paid less than 20 percent in fees, but controls the hiring of staff; Ohio schools that have signed agreements with the **Leona Group**, on the other hand, lease staff from the Leona Ohio Employment Group, created by Leona's founder and CEO. Contracts signed with **National Heritage Academies** allow boards to set aside funds for board use, but do not allow boards to use reserves for special or independent audits.
- All the schools entering into contracts with a particular management organization sign agreements that are virtually identical to other schools working with that company. Our documentation of **one-size-fits-all contracts** shows that arms-length relationships are the exception among schools that sign with management companies in Ohio; it is highly unlikely that negotiations with a variety of autonomous boards seeking the best deal for their school would result in identical contracts.

Recommendations

Ohio policymakers, charter advocates and charter school sponsors should take notice of problems with the state's charter laws and practices. In his commentary, Richmond concludes that states concerned about charter governance and independence – key in his view to enhancing charter school quality – should put NACSA's criteria into law as a path to strengthening accountability and oversight. Sponsors should not approve charter proposals that don't meet these criteria, he asserted.

Based on our research for this study, following are Policy Matters Ohio's overall recommendations:

- **Revamp the law –** Legislators must overhaul Ohio charter school law based on accepted governance practices and standards, such as those outlined by Richmond. This revamping of the law should include a focus on creating a system of effective oversight to replace or revamp the current sponsor system;
- **Watch school-management relationships** – Sponsors must work to prevent abuses such as those outlined in this report. As Richmond suggested in his commentary, sponsors should not approve charter proposals that fall short. They also should police more actively the relationships between schools they oversee and the management organizations with which those schools sign contracts;
- **Boost transparency** – Increased financial transparency of the charter sector must be among the primary goals of reform efforts;
- **Investigate violations** – The Ohio Department of Education and other appropriate agencies should investigate the violations and efforts to sidestep the law that are documented in this report.

Specific recommendations regarding our individual findings are included throughout the report; both our findings and our recommendations can help guide reform efforts.

Without efforts to change Ohio law and charter practices, charter school boards will not be able to exercise their legal mandate to govern schools. Strong, careful oversight of the relationship between school board and management organization is essential.

Report overview – Policy Matters has reviewed documents and found concerns relating to the management companies shown in this grid; all provide comprehensive management services to one or more Ohio charter schools. The left-hand column lists the criteria used for each section of this report; along the top are sponsors of the schools operated by the management organizations listed.

NACSA criteria	Buckeye Community Hope Foundation	Educational Service Center of Central Ohio	Kids Count of Dayton	Lucas County Educational Service Center	Ohio Council of Community Schools	St. Aloysius Orphanage	Thomas B. Fordham Foundation
Members of a charter school governing board should not be employees of the management organization running their school, nor should they be compensated for their service or selected by the management organization. ***Who's running the show? -- Page 5***	Concept Schools; Constellation Schools; Leona Group; National Heritage	Leona Group	Institute of Charter School Management and Resources/ Institute of Management and Resources (Richard Allen schools); Mosaica Education; Summit Academies	Concept Schools; Constellation Schools; Imagine Schools; Summit Academies; National Heritage	EdVantages and Performance Academies; Imagine Schools; Leona Group; Mosaica Education; White Hat Management	Mosaica Education; Imagine Schools; Leona Group; White Hat Management	EdisonLearning
A charter school governing board should have an independent attorney, accountant, and audit firm working for it, not for the management organization. ***Lawyers and bean counters -- page 13***	Constellation Schools; Leona Group; National Heritage	Leona Group	Mosaica Education	Constellation Schools; National Heritage	EdVantages and Performance Academies; Global Educational Excellence; Leona Group; Mosaica Education; SABIS; White Hat Management	Mosaica Education; White Hat Management	EdisonLearning
The governing board and the management organization should enter into a contract that defines each party's rights and responsibilities.... All public funds paid to the charter school should be paid to and controlled by the governing board. All equipment and furnishings that are purchased with public funds must be the property of the school. ***Contracts, money and leases -- page 16***	Constellation Schools; Leona Group; National Heritage	Leona Group	Institute of Charter School Management and Resources/ Institute of Management and Resources (Richard Allen schools); Mosaica Education	Constellation Schools, Imagine Schools; National Heritage	EdVantages and Performance Academies; Imagine Schools; Leona Group; Mosaica Education; White Hat Management	Imagine Schools; Mosaica Education; White Hat Management	EdisonLearning
All loans from the management organization to the school, such as facility loans or those for cash flow, must be appropriately documented and at market rates. ***Loan documentation, rates -- page 22***			Institute of Charter School Management and Resources/ Institute of Management and Resources (Richard Allen schools; Mosaica Education	Imagine Schools	Imagine Schools; Mosaica Education; White Hat Management	Imagine Schools; Mosaica Education; White Hat Management	
Additional section -- Inter-connected entities that, to different degrees, "vertically integrate" charter operations. ***Vertical integration -- page 25***	Concept Schools		Institute of Charter School Management and Resources/ Institute of Management and Resources (Richard Allen schools)	Concept Schools; Imagine Schools	Imagine Schools	Imagine Schools	

Introduction

In July 2010, a national charter advocate singled out Ohio law for allowing "the most breathtaking abuse in the nation."

In a commentary published in Education Week, Greg Richmond, president and chief executive officer of the National Association of Charter School Authorizers, highlighted the Ohio law that "allows a management company to fire a charter school governing board to which it supposedly reports and to replace that board with individuals who are more to its liking."[1] It was passed by the state legislature and signed by then-Gov. Bob Taft in 2006, nearly a decade after Ohio passed its first law allowing charter schools to open.

"This law turns accountability on its head," asserted Richmond, a long-time advocate for effective regulation of management organizations that work with charter schools.

NACSA counts among its members charter school authorizers (known in Ohio as sponsors) around the country that oversee more than half of the nation's 5,000 charter schools. According to its website, "NACSA is building a community of charter school industry leaders dedicated to improving public education through the creation of high-quality charter schools."[2]

Richmond's commentary is just one example of the extent to which Ohio charter school law is seen nationally as having upended standard governance practices and allowed for the proliferation of ineffective, poorly run schools that don't serve Ohio's students, families and communities at all well. The Thomas B. Fordham Institute, a national education reform think tank whose Ohio branch (Fordham Foundation) sponsors seven charter schools, also has called attention to charter problems in the state. Fordham has noted the rapid growth of charters in Ohio and faulted the state's lack of attention to quality, with particular criticism leveled at the state's oversight system and sponsors.[3]

Ohio began its charter experiment in 1997 with a pilot program in Lucas County, but quickly expanded the program to Ohio's eight urban districts. Further expansions included other urban districts and those struggling academically, and allowed more entities to serve as authorizer/sponsors. Partly in response to this rapid expansion and the proliferation of low-quality charters, state law now caps the number of schools any sponsor can oversee, requires operators to show a level of academic success with existing schools if they want to open new schools and mandates the closing of schools that don't meet certain academic criteria over a period of years.

---

[1] Richmond, Greg, "Who's in Charge at Charter Schools: Six Criteria for Ensuring the Quality of Governing Boards," July 14, 2010. *Education Week.*

[2] From NACSA's website at http://www.qualitycharters.org/about/members. Ohio members are the Educational Service Center of Ohio, Lucas County Educational Service Center, Ohio Council of Community Schools, Richland Academy and the Thomas B. Fordham Foundation.

[3] Finn, Chester E. Jr., Terry Ryan and Michael B. Lafferty. *Ohio's Education Reform Challenges: Lessons from the Frontlines.* Palgrave MacMillan, 2010. Also see a September 15, 2010 blog post by Terry Ryan: http://www.edexcellence.net/flypaper/index.php/2010/09/quality-must-trump-quantity-when-it-comes-to-new-charter-schools/.

Ohio allows nonprofit organizations, public universities, school districts and educational service centers to serve as sponsors. Their duties include ensuring that schools comply with Ohio law, monitoring and evaluating academic and fiscal performance, and providing technical assistance to schools. (The Ohio Department of Education served as the largest sponsor for many years, but no longer provides direct oversight of charters.)

Recent changes have made it easier to close charters for poor academic performance, but much remains to be done to ensure that charters provide an alternative for parents and children, and even a model for innovation. While a relative handful of Ohio charters can point to solid academic records, current charter law allows the unchecked, largely unexamined, transfer of public funds to private hands, especially in the case of the Ohio schools – roughly half of the state's 300-plus charters – that are run by management organizations, both for profit and nonprofit.

In his Education Week commentary, Richmond outlined six criteria that can help ensure effective charter school governance and oversight. Strong, truly independent charter school governing boards and effective oversight are at the heart of Richmond's suggestions for reform. Each of Richmond's criteria is listed here, with the title of the corresponding section of our report in parentheses.

- Members of a charter school governing board should not be employees of the management organization running their school, nor should they be compensated for their service or selected by the management organization. ***(Who's running the show?)***
- A charter school governing board should have an independent attorney, accountant, and audit firm working for it, not for the management organization. ***(Lawyers and bean counters)***
- The governing board and the management organization should enter into a contract that defines each party's rights and responsibilities. That contract must lay out the specific services provided by the management organization and the fees for those services. It must also allow for the board to terminate the management organization under defined circumstances and without "poison pill" penalties. ***(Contracts, money and leases)***
- All public funds paid to the charter school should be paid to and controlled by the governing board, which in turn pays the management organization for successful provision of services. ***(Contracts, money and leases)***
- All equipment and furnishings that are purchased with public funds must be the property of the school, not the management organization. ***(Contracts, money and leases)***
- All loans from the management organization to the school, such as facility loans or those for cash flow, must be appropriately documented and at market rates. ***(Loan documentation, rates)***

These standards are based on longstanding principles for the governance of nonprofit corporations and "agency law," which governs the relationship established when an entity (in this case, a charter school board) contracts with an "agent" (management organization) to work on its behalf and under its control.[4]

[4] Marc Dean Millot provided relevant background on agency law and related issues.

Richmond ended his commentary by asserting that charter school boards and management organizations "will have no problem agreeing that these parameters provide a solid foundation for a successful working relationship. Further, the authorizing agencies that oversee charter schools should not approve any proposal that does not meet these criteria." He also recommended that states "would be well served to put these parameters into law, to enhance quality as the charter school sector continues to grow."[5]

This study

By now, it is clear that charters have become part of the education landscape in many Ohio communities. A handful of charters have solid academic records and are well run; far too many fall short in one or both areas. The goal of this report is to use the standards Richmond spells out in his commentary to look at where Ohio charter laws and practices are lacking and how Ohio policymakers and advocates can work to improve them. While legislators have a key role in crafting laws that regulate the charter industry, sponsors can and should build the parameters outlined by Richmond into their work.

To see how Ohio measures up, Policy Matters reviewed management agreements, state audits, websites, board lists and other documents from management organizations and charter schools. (For a list of the management organizations included in this study, see Appendix A.)

We have found that many management organizations and the Ohio charter schools they operate do not meet the standards set by NACSA. This reflects poorly on Ohio law, the state's charter schools and sponsors. We've also documented two instances where charter schools are in apparent violation of Ohio law.

Our study finds that, in essence, Ohio law has allowed management organizations to flip normal governance on its head, exercising a level of control that denies charter boards the ability to govern schools independently. Management organizations have done this in a number of ways, such as controlling school revenues, setting up schools and picking board members, limiting board decision-making power, and reducing board ability to contract for independent services; all of this can make it next to impossible for boards to break free from the managers they ostensibly hire. The lack of meaningful oversight provided through Ohio's system of sponsors magnifies the law's shortcomings.

Each section of this report begins with one of Richmond's criteria, provides a quick look at relevant state law, and gives examples of how different management organizations meet or don't meet the standards. We conclude each section with a list of "implicated sponsors" overseeing the schools in question, a summary of challenges and concerns; we also make recommendations to strengthen oversight and accountability in Ohio. Another section, "Vertical Integration," details how some charter-related entities have set up systems that have a hand in every aspect of overseeing and running a school. A final

[5] Richmond, Greg, "Who's in Charge at Charter Schools: Six Criteria for Ensuring the Quality of Governing Boards," July 14, 2010. *Education Week.*

section summarizes responses to a survey of Ohio sponsors. (For a list of sponsors that oversee charter schools included in this study, see Appendix B.)

In addition to documenting the weakness of Ohio charter law, with this study we seek to highlight the role of sponsors in ensuring charter accountability. In the words of NACSA: "Quality authorizing leads to quality charter schools."[6] The Fordham Institute also emphasizes the importance of good authorizer/sponsors: "The charter arrangement in particular is a compact between a school and its sponsor. Properly structured, it rewards everyone for doing the right thing. Bungled, it invites mediocrity, avarice, underperformance, irresponsibility, and political attacks."[7]

We agree that good authorizing and oversight are necessary, although probably not sufficient, to ensure quality – Ohio charter law must be overhauled as well. Nevertheless, it is clear that without good oversight by sponsors in Ohio, charters will continue to fall short in terms of transparency, fiscal performance and academics.

---

[6] http://www.qualitycharters.org/.
[7] Finn, Chester E. Jr., Terry Ryan and Michael B. Lafferty. Page 160.

Who's running the show?

Board composition

Ohio law prohibits the owners, employees or consultants of charter operators and their immediate relatives from serving on charter school boards.[8] A review of charter school board membership conducted for this study found one set of charter schools in apparent violation of this Ohio law. Another company seems to be skirting the spirit, if not the letter, of the NACSA standard. Both the law and the standard are intended to prevent conflicts of interest.

NACSA criteria: *Members of a charter school governing board* ***should not be employees*** *of the management organization running their school, nor should they be* ***compensated*** *for their service, or* ***selected by the management organization****.*

Internal Revenue Service filings for the four Richard Allen schools in Dayton and Hamilton, Ohio, list the Rev. Earl G. Harris as a board member for all the schools. In Ohio Secretary of State and IRS filings for the schools and two related management companies, as well as an online street address directory, Earl G. Harris and Jeanette C. Harris are listed as having the same Kettering, Ohio, address. Jeanette Harris is the CEO and owner of the Institute of Charter School Management and Resources, a for-profit management company through which she provides consulting services to the four Richard Allen schools as president and CEO. (ICSMR also works through the Institute of Management and Resources, a related nonprofit) The IRS 990 forms for the four schools list 2009 compensation for Jeanette Harris from the schools and related organizations at $199,500.[9] (For more information on the system of inter-connected entities that includes ICSMR, Richard Allen schools and Kids Count of Dayton, the schools' sponsor, see the section of this report entitled "Vertical Integration.")

In a related issue of state law, Ohio Revised Code prohibits an individual from serving on more than two charter school boards at the same time.[10] IRS 990 filings for each of the four Richard Allen schools list the same nine individuals as board members, including Rev. Earl G. Harris.[11] The use of identical governing boards for four schools is a clear violation of Ohio law; although part of the same system, the Richard Allen schools are four separate schools, according to Ohio Department of Education records.

The practices of a Cleveland-area charter school chain also merit scrutiny. Our review shows that as many as 20 teachers and seven other staff at schools run by Constellation Schools, LLC, serve on the boards of other schools the company operates. As an example, Figure 1 lists the 11 teachers and administrative staff who work at Old

---

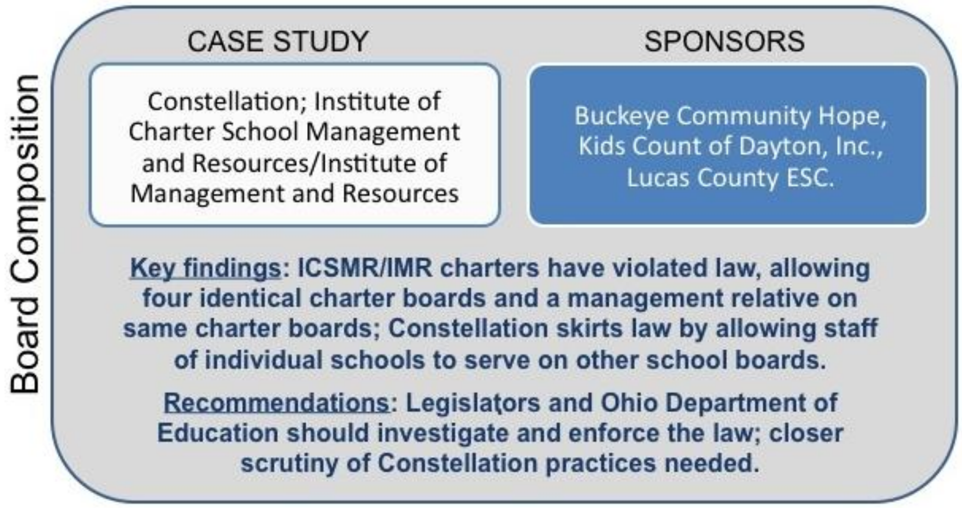
[8] Ohio Revised Code 3314.02, section E(3). http://codes.ohio.gov/orc/3314.02.

[9] Forms 990, Richard Allen Preparatory, Inc., and Richard Allen academies I, II and II, for tax year beginning July 1, 2008 and ending June 30, 2009. www.guidestar.org. A 2008-09 annual report for Richard Allen Schools lists Harris as "emeritus" board member, but no such distinction is made on the 990.

[10] Ohio Revised Code 3314.02 (E)2. http://codes.ohio.gov/orc/3314.

[11] IRS forms 990 for Richard Allen Preparatory, and Richard Allen Academies I, II and III. www.guidestar.org. The Richard Allen 2008-09 annual report lists Harris as an emeritus member.

Brooklyn Community Elementary in Cleveland and serve on other Constellation school boards, based on board and staff lists found on the company's website. This cross-pollination of staff and board members is evident at other schools as well.



Technically, Constellation can be said to meet the NACSA standard and state law, as school staff are employed by the non-profit schools that hold the charter and not by the management company. But a management agreement between Constellation and one of its schools shows that the company exercises complete control of its schools. The company provides education, business, financial and management services; it fills the role of superintendent and treasurer, manages facilities, and handles marketing and media relations. In the context of board selection and independence for Constellation-run schools, it is particularly important to note that the company recruits and interviews potential employees and prepares employment contracts.[12]

Furthermore, all Constellation school boards meet at the same place and time, according to the company's website. For example, the site's 2010-11 online calendar shows a finance meeting scheduled for 6 p.m. on September 15, 2010 and a board meeting scheduled for the next day at the same time, both at the company's central administration office in Parma. Both postings said that the notice applied to all of the chain's schools, listing them individually. Company-wide schedules for the 2010-11 school year list one monthly finance meeting and one monthly board meeting.[13]

Minutes from three 2008 board meetings were found on the Constellation website, and they showed members of nine school boards in attendance at the meetings, with staff from 16 schools present. Presiding over the meetings was Richard Lukich, listed on the company as "President/Legal Services" of the management company and chairman of its three-person corporate board.[14]

---

[12] Management agreement between Constellation Schools LLC and Constellation Schools: Westside Community School of the Arts, dated June 18, 2009. Obtained through records request to Constellation Schools LLC.
[13] Retrieved from Constellation Schools website, www.constellationschools.com.
[14] Ibid.

This arrangement clearly does not meet the NACSA standard, skirts state law and calls into question the independence of the Constellation governing boards. School employees cannot sit on boards of other schools controlled by the same company and meet simultaneously in sessions run by company management without surrendering the board's legal mandate to exercise meaningful governance. Even well-intentioned employees cannot be relied on to ask their corporate superiors hard questions essential to running an independent school, when those bosses control the purse strings and their employment contracts. The conflict of interest is clear.

Figure 1: Teachers and staff at Constellation's Old Brooklyn Community Elementary matched with the Constellation governing boards on which they serve. This is not a critique of the teachers, but rather of the practice of having boards heavily populated by board members who are employees, and may feel their jobs would be jeopardized were they to question company policy. State law prohibits management company employees, contractors or their relatives from serving on board of schools that contract with the company; Constellation is technically in compliance with the law, as staff at its schools are employees of the individual schools, not the management company.

Staff name	Position	Board 1	Board 2
Dumann, Racheal	2nd grade	Mansfield Elementary	Outreach Academy for Students with Disabilities
Gorblett, Bridgett	Kindergarten	Westpark Elementary	Westpark Middle
Harding, Jane	Title 1	Mansfield Elementary	Outreach Academy for Students with Disabilities
Hogan, Anna	Kindergarten	Lorain Elementary	Lorain Middle
Horvath, Theresa	Kindergarten	Elyria Elementary	Stockyard Elementary
Kearney, Sandra	2nd grade	Elyria Elementary	Stockyard Elementary
Kovach, Elaine	Admin. Ass't	Madison Elementary	Parma Elementary
Lewis, Joy	3rd grade	Puritas Elementary	Puritas Middle
Maggos, Christina	Title 1	Madison Elementary	Parma Elementary
Morley, Holly	2nd grade	Westpark Elementary	Westpark Middle
Race, Becky	3rd grade	Mansfield Middle	Westside Community School of the Arts

Source: Constellation Schools website: http://www.constellationschools.com/.

Sponsors implicated: Buckeye Community Hope Foundation, Kids Count of Dayton, Inc., and Lucas County Educational Service Center.
Challenges/concerns: Strong state law on this issue clearly spells out a standard similar to NACSA's; corrective action is needed in the cases of both the Richard Allen schools and their management company and Constellation Schools. Given these violations, this issue merits closer scrutiny across the board.
Recommendation: State law should be enforced in the case of Richard Allen schools, and legislators should amend current law to prohibit practices such as those used by Constellation Schools. In the meantime, sponsors should prohibit or, at the very least, actively discourage these kinds of practices.

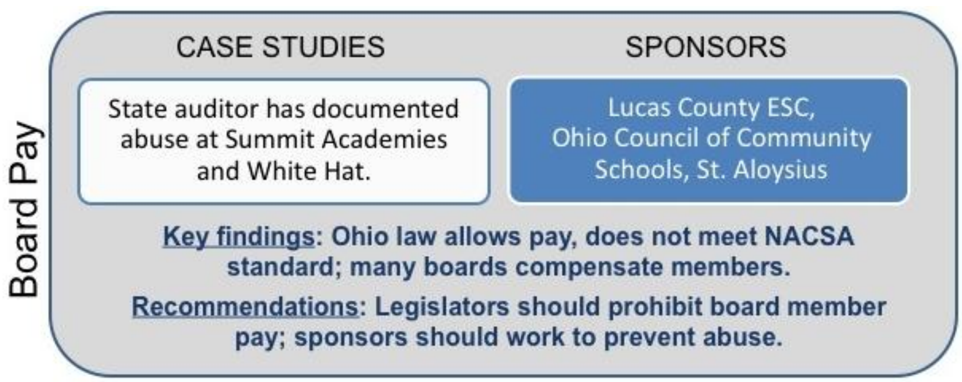
Board pay

Ohio law allows charter school boards to compensate members up to $125 per meeting. The law also allows board members to serve on two boards at the same time, but prohibits them from collecting more than $125 in any month from each governing authority on which they serve, even if they attend more than one meeting. If the governing boards of two schools meet simultaneously – a fairly common practice in Ohio – the schools split the cost of paying board members.[15] If a management company operates the school, the stipend is to be paid by the management company out of funds paid to the company by the school. Otherwise, the school's fiscal officer pays the stipend from the operating funds of the school's treasury.[16]

In most cases, the amounts of money paid board members over the course of a year tend to be relatively small; nevertheless, Richmond recommends against paying board members in the interest of good governance.

Our review found that governing boards of schools run by at least four management organizations in Ohio pay board members as allowed by Ohio law. Further scrutiny would likely show that other boards pay themselves as well. (Members of traditional school boards in Ohio are also eligible for compensation; the amount varies depending on the size of the school district.)

Governing boards of at least 17 schools run by White Hat Management had passed resolutions to pay board members, according to fiscal year 2006 state audits. Many White Hat board members regularly received more compensation than was legally allowed, according to the audits, available on the state auditor's website.[17]



More recently, fiscal year 2009 audits show that board members of schools in the Summit Academy chain of charters are paid for meeting attendance. In 2008, compensation was

---

[15] Ohio Revised Code 3314.025, *Compensation of governing authority members.* Boards must pass a resolution allowing for this compensation, according to Ohio law.

[16] From the summary of legislation for charter schools on the Ohio Department of Education website.

[17] http://www.auditor.state.oh.us/AuditSearch/default.aspx. School officials responded to auditor findings by describing downsizing and financial problems at White Hat, which resulted in some board members putting in as many as 50 hours per week.

increased from $75 to $125 per meeting, according to the audits.[18] The state auditor also found that Summit Academies was not in compliance with the law, as board members were paid from a pool of funds from 27 schools run by the company, rather than by each individual school's funds as mandated by Ohio law.

Constellation Schools board members, many of whom work at individual schools, are compensated for their service; National Heritage schools also provide a stipend for governing board members.

These four examples – not only of boards that have decided to compensate themselves, but overpayment and payment from improper funds – should be enough to raise a red flag on this issue.

Board members who are compensated for their service may be less likely to be critical in the interest of preserving income, however small it may be; as a result, board member compensation can undermine board independence, particularly when the operator, and not the individual board, controls the funds used for payment.

Sponsors implicated: Buckeye Community Hope Foundation, Kids Count of Dayton, Inc., Lucas County Educational Service Center, Ohio Council of Community Schools, St. Aloysius Orphanage.
Challenges/concerns: Ohio law does not meet the NACSA standard and many boards have voted to compensate themselves, state auditor has documented abuse.
Recommendation: Legislators should change Ohio law to prohibit compensation of charter school board members. Sponsors should exercise more effective oversight to prevent abuse of current law that allows board member compensation.

Board member selection

While state law prohibits management employees, contractors or family members from serving on school boards, it is mostly silent on how those members should be selected. The law does, however, allow a management organization to appoint a new board if it wins an appeal against a board that is seeking to terminate or not renew its management contract.

How board members are recruited and elected or appointed may present one of the thorniest issues for those seeking to ensure charter board independence. The ideal of a group of local educators, parents or community activists banding together to form a charter school – and forming an independent board in the process – rarely applies to schools that have contracted with management organizations.

Interviews and document reviews conducted for this research indicate that it is common practice for these management organizations to decide where to locate a school, and then to recruit and select board members; compliant boards then sign a contract with the

[18] Regular audits of Summit Academy Community School – Parma, in Cuyahoga County, and Summit Academy Secondary School – Middletown, in Butler County. http://www.auditor.state.oh.us/AuditSearch/default.aspx.

company that effectively turns the school over to the management organization, in most cases by agreeing to surrender control over most or all school revenue.

Lack of meaningful control aside, a primary indication that management organizations control board selection is the significant overlap of board membership at schools run by the same operators.

Ohio law allows an individual to serve on no more than two charter school boards, as noted above. Many pairs of schools end up with identical boards that often meet at the same time. Minutes from the identical boards of different schools are often the same, word for word, with the exception of reports from the principal. An argument can be made that some overlap strengthens governance, with more experienced board members sharing their expertise with newer members. But complete or near-complete overlap undercuts independence, especially when control of funds lies with the company, not the board.

Management organizations operating schools with significant or complete board overlap include: Concept Schools; Constellation Schools; EdisonLearning; EdVantages and Performance Academies; Imagine Schools; Institute of Management and Resources/Institute of Charter School Management and Resources; The Leona Group; Mosaica Education; and White Hat.

EdVantages and Performance Academies, two related companies that together run 11 Ohio charter schools, provide a clear example of board overlap. Figure 2 shows the complete overlap on eight boards that have signed contracts with these companies, with significant overlap on two other boards.

As of September 2010, at least five of six board members at the Mosaica-run Lorain Preparatory Academy were Colorado residents and four were current or former board members of Mosaica's STAR Academy in Colorado Springs. Three individuals were listed as board members on both schools' websites: J. Charles Chisholm, the Rev. Albert Loma, and Shirley Brown. All three are listed on the Colorado school's website as having phone numbers with local area codes.[19] Two other Lorain board members are Colorado residents: Nate Atkins had served on the STAR Academy board, while Jonathan Ogg was linked to the school as education director of the Space Foundation in Colorado Springs.[20]

In addition to issues of board independence from Mosaica, the physical distance separating these Colorado residents from the Ohio school they are supposed to govern makes it hard to imagine that the board is well suited to deal with local issues or attend meetings in person. According to the schools' websites, the Colorado meetings are held on the fourth Tuesday of the month, while the Ohio meetings are held the third Thursday.

[19] See school websites: http://staracademycolorado.org/about-mosaica/school-board/ and http://lorainprep.org/about-mosaica/school-board/. Chisholm was listed as treasurer of the Colorado Springs board and president of the Lorain board.

[20] Regarding Nate Atkins, see: http://www.allbusiness.com/education-training/education-systems-institutions-primary/12651903-1.html; regarding Jonathan Ogg, see http://findarticles.com/p/articles/mi_qn4191/is_20031114/ai_n10027723/.

Figure 2: The governing boards for these 11 schools have signed agreements for comprehensive management services with EdVantages and Performance Academies, two management companies that share a Columbus address, a CEO and most central office staff.[21] Not only does the overlap call into question board independence, but the geographic distances – for example, more than three hours travel time between Mt. Healthy and Toledo – separating schools run by the same boards show a lack of meaningful local oversight.

Charter school	Member	Member	Member	Member	Member
Cincinnati Performance Academy*	Abbie Jones	Patty Tumen	Kevin Kirby	Megan Valentine	Susanna Mayo
Columbus Performance Academy*	Abbie Jones	Patty Tumen	Kevin Kirby	Megan Valentine	Susanna Mayo
Eastland Performance Academy	Kevin Kirby	Lynn Hursey	Michelle Muterspaw	Mary Watson	Brooke Zellner
Mt. Healthy Preparatory and Fitness Academy	Brad Burton	Mike Hoffbauer	William Jones, Jr.	Shanese Thomas	Janice Hoffbauer
Toledo Preparatory and Fitness Academy	Brad Burton	Mike Hoffbauer	William Jones, Jr.	Shanese Thomas	Janice Hoffbauer
Middletown Prepatory and Fitness Academy	Donna Clark	DeAnne Colvard French	Mindy Hoffbauer	Brian Kraack	Calvin D. Robinson Jr.
Trotwood Preparatory and Fitness Academy	Donna Clark	DeAnne Colvard French	Mindy Hoffbauer	Brian Kraack	Calvin D. Robinson Jr.
Northland Preparatory and Fitness Academy	Maria Del Regno	Greg Hoffbauer	Lisa Talbart	Doris Alder	Jeremiah Arn
Whitehall Preparatory and Fitness Academy	Maria Del Regno	Greg Hoffbauer	Lisa Talbart	Doris Alder	Jeremiah Arn
Springfield Preparatory and Fitness Academy	Scott J. Cozzolino	Katherine Frey	Maurice A. Thompson	Lynn Walsh	Brooke Zellner
Columbus Preparatory and Fitness Academy	Scott J. Cozzolino	Katherine Frey	Maurice A. Thompson	Lynn Walsh	Tiffany M. Burt

Source: Public records request, filled July 12, 2010.
*Cincinnati Performance Academy and Columbus Performance Academy have signed agreements with Performance Academies, but had not opened as of June 2010.

Preliminary agreements between Buckeye Community Hope Foundation, a sponsor, and Concept schools provide another example. Three agreements, all signed in February 2010, call for Concept to "establish a governing authority for the school."[22] This language clearly does not meet the NACSA standard that management organizations should not select charter school governing authorities.

In another example, the same six people make up the governing boards of two Columbus charters run by Imagine Schools, Inc., – Sullivant Avenue Community School and Harrisburg Pike Community School. The two schools' boards consistently have met at the same time and location, and have produced meeting minutes that were identical save

[21] Central office staff lists retrieved at www.edvantages.com/EdV_staff.html and www.performanceacademies.com/Performance_staff.html.
[22] Preliminary agreements obtained from the Ohio Department of Education between Buckeye Community Hope Foundation, as sponsor, and Concept Schools, as developer, for Horizon Science Academies in Toledo, Columbus and Youngstown.

the principals' reports.[23] The four Richard Allen schools in Dayton and Hamilton also have identical boards; as noted above, this violates state law; it also suggests control by the schools' management companies. (For more on the Richard Allen schools, see the section below entitled "Vertical Integration.")

In his Education Week commentary, NACSA's Richmond highlighted the significant exception to the silence of Ohio Revised Code on whether or not management organizations can select board members. If a school's governing authority wants to terminate a contract with its operator or decides against renewing it, the operator may appeal the school's decision to the school's sponsor or the state board of education. The appeal is to be decided based on whether the operator has followed applicable laws and honored its contracts with the sponsor and school board. If the ruling goes in the operator's favor, it can select a new board.[24]

Even without this Ohio law, it is clear that many charter boards are creatures of the management organizations, recruited, appointed and largely controlled by them.

Sponsors implicated: Buckeye Community Hope Foundation, Educational Service Center of Central Ohio, Kids Count of Dayton, Inc., Lucas County Educational Service Center, St. Aloysius Orphanage, Ohio Council of Community Schools, Thomas B. Fordham Foundation.
Challenges/concerns: Evidence clearly shows that management organizations take part in board member selection; action is needed to remedy this flaw in Ohio charter school law and practice.
Recommendations: State legislators should begin by striking down the section of Ohio Revised Code (3314.026) that allows operators to appoint new school boards if they win an appeal against contract termination. Furthermore, allowing identical boards to govern

---

[23] Board meeting minutes obtained the public records requests, and available online at http://www.policymattersohio.org/Charters2010/.
[24] Ohio Revised Code 3314.026 *Termination of contract with operator:* http://codes.ohio.gov/orc/3314.026. Sponsors hear the appeal unless they have sponsored the school for less than 12 months, in which case the Ohio Board of Education hears the appeal.

two schools is an unacceptable shortcut that undermines board independence and local governance, and state law should reflect this reality. Sponsors should also take a role in ensuring management organizations do not undercut board independence through board selection.

Lawyers and bean counters

Ohio law does not address the independence of charter school attorneys, accountants or audit firms. It requires that each charter school have a designated fiscal officer, or school treasurer, but does not address the issue of independence.[25] Most management organizations provide treasurer services to the schools they operate. The ability to rely on lawyers, accountants and auditors responsive and accountable to the board, not to the management organization, is key to board independence and accountability. While this issue does not rise to the significance of paid employees serving as board members, Richmond, as a charter-supporting expert on governance, argues that each school should have these services independently and apart from the management organization.

> **NACSA criteria:** *A charter school governing board should have an independent* ***attorney, accountant,*** *and* ***audit firm*** *working for it, not for the management*

Agreements that Ohio charter school governing boards sign with management organizations often give control of the vast majority of the schools' money to the operator, either outright or through a combination of management fees, salaries and repayment of costs incurred. These contracts are explored in the section below and our analysis suggests that governing boards with little or no real control over revenue are unlikely to be able to hire truly independent attorneys, accountants and audit firms. Nevertheless, there are differences among management contracts reviewed for this study and some seem to allow for independence when it comes to contracting independent services, while others clearly do not.

Attorneys

Our review, as well as our interactions with management organizations and lawyers, shows that many governing boards rely on legal services provided by management organizations. An in-house attorney for the Leona Group, for example, responded to a public records request by Policy Matters Ohio for 12 Ohio schools operated by the company. Similarly, a Toledo-based law firm handled or coordinated requests for 11 schools that had signed management contracts with EdVantages and Performance Academies, for ten schools operated by National Heritage Academies and schools operated by Mosaica.[26]

---

[25] ORC 3314.011 http://codes.ohio.gov/orc/3314.011.

[26] Eastman & Smith Ltd. in Toledo.

White Hat Management's contracts stipulate that legal fees are the responsibility of the board, yet a charter school attorney based with a Cleveland law firm is listed on operating agreements as the representative of several White Hat schools. Furthermore, none of the White Hat schools audited by the state had independent legal services listed.

Additionally, our review shows that schools run by EdisonLearning, Imagine Schools, National Heritage Academies, SABIS, and Global Educational Excellence similarly rely on legal services provided by their respective management companies.

Accountants and audit firms

In this area, our review shows some independence. Management agreements for Mosaica Education, for example, call for "independent certified public accountants retained by the board to perform annual audits of the academy's financial statements."[27] Contracts for The Leona Group included a similar provision.[28] Contracts between White Hat Management and its schools stipulate that the school will be responsible for accounting and audit fees.[29] However, the almost complete financial control these management organizations hold over their schools weakens even these provisions.

National Heritage Academies agreements allow governing boards to reserve up to 2 percent of revenue for board use each year, up to $35,000. The agreements, however, specifically prohibit use of these funds for special or independent audits.[30] Available information showed that National Heritage schools used accounting services provided by the management company. All Richard Allen Schools, run by the Institute for Management and Resources/Institute of Charter School Management and Resources, had the same accounting firm listed as being in control of their books.

[27] For example, an agreement signed between Mosaica Education, Inc., and Mansfield Preparatory Academy (now Lorain Preparatory Academy) on February 16, 2005.
[28] For example, an agreement signed between Achieve Career Preparatory Academy and The Leona Group, L.L.C. dated May 8, 2009.
[29] White Hat management agreements found online for several White Hat schools involved in a lawsuit against the company.
[30] For example, an agreement signed between Apex Academy and National Heritage Academies, Inc., on June 30, 2004, and obtained from the Ohio Department of Education.

The Constellation Schools contract with Westside Community School of the Arts stipulates that the company is to provide "financial services including financial reporting and record-keeping, bookkeeping services, financial statements, monitoring banking relationships, annual tax return filings, obtaining annual audits, quarterly and annual budget preparation and ongoing budget monitoring, developing and maintaining fiscal models consistent with an internal audit function, maintaining financial accounting policies and procedures, and any statutory duties set forth in the Ohio Revised Code." On federal 990 forms, Constellation schools answer "yes" to the question of whether or not they have an independent accountant, but on the same form schools indicate that Constellation is responsible for providing financial and business management to the schools. Constellation should be required to provide more clarity about the independence of its auditors.

Other management organizations whose contracts don't explicitly provide for independent accounting and audit services include EdisonLearning, EdVantages and Performance Academies, Global Educational Excellence, and SABIS according to our document review.

Sponsors implicated: Buckeye Community Hope Foundation, Kids Count of Dayton, Lucas County Educational Service Center, Ohio Council of Community Schools, St. Aloysius Orphanage, Thomas B. Fordham Foundation.
Challenges/concerns: Ohio law does not address this issue. Some management company contracts call for funds to be set aside for boards to hire independent lawyers, accountants and audit firms, while others do not. The control by management organizations of virtually all school funds, however, clearly shows a lack of independence in this area.
Recommendations: The state legislature should require that agreements for comprehensive services between charter school boards and management organizations set aside funds allowing boards to hire independent legal, accounting and auditing services. Sponsors should keep close tabs on agreements to ensure governing boards are able to get the independent services they need.

Contracts, Money And Leases

These intertwined criteria call for management contracts to spell out key operational aspects that allow for transparency and independence.

State law is largely silent on these issues, although when a charter school closes, Ohio Revised Code requires that it offer real property it has acquired from a school district first to that school district.[31] Another section of ORC further specifies how the assets of a closing school are to be distributed.[32]

NACSA criteria:

- The governing board and the management organization should enter into a contract that defines each party's **rights and responsibilities**. That contract must lay out the specific **services** provided by the management organization and the **fees** for those services. It must also allow for the board to terminate the management organization under defined circumstances and without **"poison pill" penalties**.
- *All **public funds** paid to the charter school should be paid to and **controlled by the governing board**, which in turn pays the management organization for successful provision of services.*
- *All **equipment and furnishings** that are purchased with public funds must be the property of the school, not the management organization.*

Services, fees and public funds

Control of public funds is often surrendered by governing boards when they sign contracts with management organizations, as shown by the examples documented above. While Ohio law allows governing boards to sign such contracts, when taken in the context of other practices that undermine transparency and independence, this lack of effective control by charter school boards – which are charged with legal responsibility for the public funds they receive and the academic achievement of their students – is troubling.

Furthermore, while state law requires detailed accounting of management company expenses when more than 20 percent of charter school revenue is paid to them, state audits rarely itemize management organizations' fees or expenses in a meaningful way. This cap can be meaningless as well; even when nonprofit school boards are the official employer of staff (salaries being one of the largest expenses for many schools), the role of management organizations in hiring and firing means it is the company that exerts effective control over staff and funds, not the board. Whether or not the law is changed, sponsors can play a role in making sure full disclosure of management revenues and expenses is made, online and easily available to the public.

Contracts reviewed for this study listed comprehensive services provided by the management organizations that included essentially every aspect of the schools' operations, from academics and personnel to finance and facilities. In many cases, however, either fees were not clearly spelled out or the contract required that nearly all of a school's revenue pass directly to the management company or a subsidiary.

[31] ORC 3314.051 http://codes.ohio.gov/orc/3314.051.
[32] ORC 3314.074 http://codes.ohio.gov/orc/3314.074.

EdVantages and Performance Academies provided to Policy Matters Ohio virtually identical agreements with the schools they operate.[33] Eleven contracts reviewed, including agreements for two Performance Academy schools that had not opened as of June 2010, detailed services provided by these operators including personnel, education program, purchasing, financial planning, recruiting, public relations, compliance, budgets and contracts. In exchange, the schools agree to pay the companies all revenues except 2 percent of the "base state per pupil allocation." The contracts stipulate that this 2 percent of funds – up to $40,000 – constitute a "board reserve" to be used by the end of each fiscal year as decided by the board, including for board member compensation and grant writing.

Agreements between White Hat Management and several of its schools says the company will manage all aspects of each school's operation, and that the company is to get 96 percent of state per-pupil revenue and 100 percent of all other revenue, including federal and state funds but not miscellaneous revenue such as parent-teacher organization funds. Out of the money it keeps, the school's governing board pays for board officers' insurance, legal fees for representation of school board, accounting, audit, tax and consulting fees for school and other expenses approved by board.[34] The contract does not detail fees beyond the transfer of most money to the company.

Contracts reviewed for the 11 Ohio schools operated by Imagine Schools, Inc., require all revenue to be deposited into an Imagine-owned account and do not clearly describe fees for services provided by the company.[35] The company collects 12 to 13 percent of revenue to cover overhead (depending on the school), and $2,500 each month to cover development and start-up costs. The company uses school revenue to provide all services needed to run the school, including payroll processing, personnel salaries and benefits, cost of assessment materials, cost of furniture, fixtures, equipment, technology,

[33] Performance Academies is registered with the Ohio secretary of state as a limited liability corporation, EdVantages as a nonprofit. The two operators' websites – http://performanceacademies.com and http://www.edvantages.com/ – list the same Columbus address and the same superintendent. Documents obtained through records request to the schools.

[34] Management agreement between Hope Academy Broadway Campus and HA Broadway, LLC (subsidiary of White Hat Management) dated November 1, 2005. Found online at: http://www.scribd.com/doc/31486286/Hope-Academies-and-Life-Skills-Centers-v-White-Hat-Management-Part-1.

[35] Operating agreements available at http://www.policymattersohio.org/Charters2010/OperatingAgreements/.

textbooks, equipment leases, insurance premiums and deductible payments, public utilities, transportation, food and custodial services, repair and maintenance, marketing, and legal fees. State audits show that Imagine Schools ends up with as much as 98 percent of school revenues.

Constellation Schools' two-page agreement lays out comprehensive business, financial and management services it provides.[36] The contract for one school sets fees at 6 percent of the state foundation payment plus a fixed fee of $82,500 for the 2009-2010 school year. It further specifies that the fixed fee won't be less than 50 percent of the total fee and that the total is to be capped at 19.75 percent of school revenue. (This enables Constellation to avoid providing an accounting of company spending as required by Ohio Revised Code for management organizations that collect more than 20 percent of a school's annual gross revenue.[37]) In addition to the total fee, the school is to reimburse Constellation for all out-of-pocket expenses that it may incur in providing services. School staff are employees of individual Constellation schools, but the management company handles all aspects of recruiting, interviewing and preparing contracts for employees, effectively rendering meaningless the school boards' control over employees.

Contracts reviewed for schools operated by the Leona Group (TLG) detailed a comprehensive list of services for all aspects of school operation, and included a management fee of 12 percent of schools' per-pupil revenues as well as a "year-end fee" equal to 50 percent of audited excess of revenues over expenditures to be paid to the Leona Group.[38] By contract, Leona-run schools are also required to "reimburse TLG for all commercially reasonable costs incurred and paid by TLG in providing the Educational Services and Administrative Services." Leona Group founder and Chief Executive Officer William Coats also created the Leona Ohio Employment Group, from which all the company's Ohio schools lease their employees.[39] Documents reviewed did not list any fees for the leasing of employees, but simply provided that the school will pay "aggregate costs and expenses occurred by" Leona Ohio Employment Group for providing employees.[40]

[36] From management agreement between Constellation Schools LLC and Constellation Schools: Westside Community School of the Arts, dated June 18, 2009.
[37] Ohio Revised Code 3314.024 - *Detailed accounting by management company*. http://codes.ohio.gov/orc/3314.024. This requires management organizations to "provide a detailed accounting including the nature and costs of services it provides to the community school." This accounting generally appears on state audits of charter schools.
[38] Agreements provided to Policy Matters by the Leona Group in response to a public records request.
[39] Incorporation papers for the Leona Ohio Employment Group available on the website of the Ohio secretary of state.
[40] A contract with the Leona Ohio Employment Group and Achieve Career Preparatory Academy, dated May 8, 2009 was obtained through a public records request made to the Ohio Department of Education. Leona lawyer Michael R. Atkins responded to an email with questions about the Leona Ohio Employment Group as follows: "The arrangement is very much like a typical employee leasing, except that LOEG does not charge a separate fee for providing the full panoply [of] the employee, payroll and benefits administrative services. The result is that LOEG is reimbursed by the community schools only for the actual out of pocket costs associated with employees working at that school. This arrangement permits the employees working at the community schools to enjoy the economies of being part of a 2,200+ employment pool (all TLG affiliated charter schools throughout the country). The fees under the Management Agreement cover the fees and costs associated with this employee administration."

National Heritage schools pay all revenue directly to the management organization, while EdisonLearning schools pay 96 percent of revenue. In addition to the 12.5 percent management fee its schools pay to Mosaica Education, contracts require those schools to reimburse the company for all costs incurred and paid by Mosaica including rent or lease payments, salaries of Mosaica employees, and costs related to curriculum, instructional materials, books, computers, software and other services.

Finally, our review showed that in most if not all cases, within each chain of schools run by a single management organization, all the schools have signed virtually identical management contracts. This clearly shows the lack of arms-length negotiation that takes places when school boards sign with management organizations. In the process of a real negotiation, the contracts would show more variation from the template.

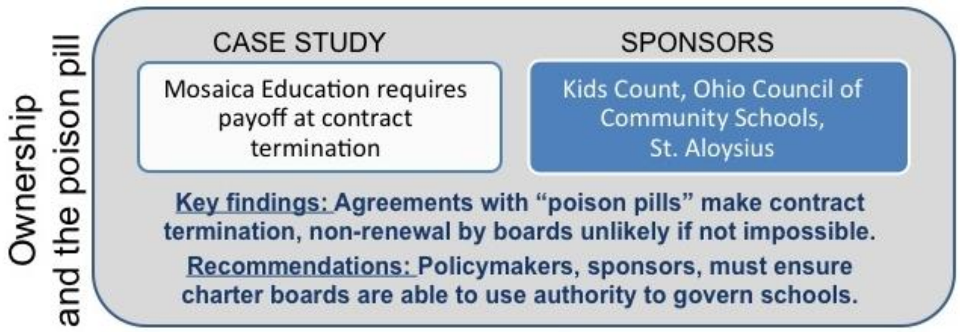
Sponsors implicated: Buckeye Community Hope Foundation, Educational Service Center of Central Ohio, Lucas County Educational Service Center, Ohio Council of Community Schools, St. Aloysius Orphanage.
Challenges/concerns: While state law gives charter school boards legal governing authority, it does not otherwise address the issues in these NACSA criteria. School-management contracts generally listed rights, responsibilities and services – the management organizations generally control every aspect of school operations – but rarely offered detail on fees charged to schools for services provided by managers. Companies also have been able to avoid providing a meaningful accounting of how they spend taxpayer money, even though state law requires a "detailed" report when more than 20 percent of a school's gross annual income flows to the operator.
Recommendation: Policymakers should require that management organizations give a detailed accounting of their revenues and expenses, even if on paper they don't directly receive more than 20 percent of a school's gross annual revenue. Such information should be made available to the public online, either on the website of the Ohio Department of Education or websites of sponsors. Sponsors should also review management contracts to ensure that all fees schools must pay management organizations are clearly spelled out; sponsors should not approve charters if contracts do not include clear language on fees and services.

Ownership of basic items, services; the poison pill

Many contracts stipulate that any and all items paid for by a company, including equipment, curricula and leases, belong to the company, while items paid for with school funds stay with the school. In general, however, the financial control exerted by management organizations in Ohio makes it difficult to determine the extent to which ownership of items and services needed to run a school constitutes a poison pill that effectively binds a school to its management company.

Schools seeking to terminate or not renew a contract will have to come up with funds to purchase, from the management company or elsewhere, items and services without which they cannot operate the school, including curricula, textbooks, and in many cases teachers. Schools in this situation would likely have to find new facilities as well.

While these practices may be legally defensible and rational in a business context, they almost always have serious consequences for schools, giving control to the management company at the expense of the school board's ability to make decisions autonomously. Because of the tight margins with which most schools operate, contracts that require schools to buy materials, equipment and other items they are already using when they end a relationship with a management organization – sometimes requiring outlays in the hundreds of thousands of dollars – constitute a "poison pill" that makes it difficult, if not impossible, for a school to break from a management organization, even when a contract expires. This calls into question the ability of the charter school board to exercise its legal authority over the school and undermines the push for greater accountability for Ohio charter schools.



A clear example can be found in agreements schools have signed with Mosaica Education, Inc. The contract defers "Organizational and Development Services" incurred at the start-up of the school until the contract is terminated. The contract requires Mosaica-run schools to pay the company $100,000 for organizational and development services five days after termination or expiration of the contract; on each of the first two anniversaries of contract termination or expiration, the school must again pay $100,000. The contracts also read: "Such payments are unconditional, and the Academy agrees that in any enforcement action it will not raise counterclaims, set-off or recoupment, or any defenses."[41]

The 2009 state audit for Columbus Preparatory Academy gives details from an amended agreement for repayment of this $300,000 "start-up fee" to Mosaica which stretches out repayment but requires full payment on termination of the contract:

> "The amended agreement states that the start-up fee is a promissory note to be repaid with no interest starting July 1, 2009 and amortized through June 30, 2018 with regular equal monthly payments to be made on the fifteenth day of each month, starting with the first month after the start date. Upon any termination or expiration of this agreement by either party for any reason, the entire unpaid principle balance together with all accrued interest of the start-up note shall

[41] Management agreement between Mosaica Education, Inc., and Mansfield Preparatory Academy (name later changed to Lorain Preparatory Academy) dated February 16, 2005, Section 4.05. The same provision is referenced in the fiscal year 2008 state audit of Columbus Preparatory Academy.

become due and payable by the Academy to Mosaica Education, Inc."[42]

Upon termination or nonrenewal of a management contract, a White Hat school can make a choice to buy all property (including computers and software, furniture, fixtures and textbooks, and buildings or leasehold improvements) for "an amount equal to the remaining cost basis of the personal property on the date of termination." If the school decides to purchase any of the equipment, furniture and other property, it must buy all of it; the school "must also exercise the school's option to lease the school facility."[43] Clearly, if the school does not choose to buy existing equipment and lease the current building, it must purchase new materials and lease new equipment and facilities to continue its operations. In the case of White Hat, which employs all school personnel, the board that terminates or doesn't renew its agreement with the management company must hire all new staff as well.

Such contract provisions are further complicated by lack of transparency in financial dealings by charter companies. A lawsuit brought against White Hat Management by ten White Hat schools in Cleveland and Akron in May 2010 alleged that the company would not provide financial information required by contract, including unaudited quarterly financial reports and details on grants received, and would not disclose which funds it used to buy school property and equipment.[44]

Similar issues have been raised regarding Imagine Schools, Inc. Potential poison pills in Imagine contracts with its 11 Ohio schools include a requirement that school boards pay a "termination fee" equal to any and all unreimbursed advances made by the company to the schools. The company can also offer to the board employment contracts, and allows the company to offer for purchase by the board items such as computers, software, office equipment and furniture at a price equal to the remaining cost basis. In other states, debt has served to tie Imagine schools to their manager, according to news reports.[45]

Facilities are often owned or leased by management organizations or by entities that share leadership and staff with charter schools or the management organizations; these entities then rent the facilities to charter schools they manage. State audits show that National Heritage Academies, for example, rents facilities to its schools. Several Imagine schools in Ohio rent from an Imagine subsidiary that owns the properties or leases them from the owners and subleases them to Imagine schools.[46] Richard Allen schools, in Dayton, lease properties from the Institute of Charter School Management and Resources, Inc., which is owned entirely by the schools' CEO, Jeannette Harris,

---

[42] Fiscal year 2009 audit, Columbus Preparatory, www.auditor.state.oh.us/AuditSearch/default.aspx.

[43] From an agreement between HA Broadway LLC, a White Hat subsidiary, and Hope Academy Broadway Campus, dated November 1, 2005.

[44] Marshall, Aaron, "10 Northeast Ohio charter school boards sue White Hat Management firm," *The Cleveland Plain Dealer*, May 18, 2010. www.cleveland.com/open/index.ssf/2010/05/for-profit_management_company.html.

[45] See, for example, Strom, Stephanie. "For Charter School Company, Issues of Spending and Control," The New York Times, April 24, 2010. Page A1.

[46] van Lier, Piet. *Public Good vs. Private Profit: Imagine Schools, Inc., in Ohio.* Policy Matters Ohio, May 2010. Page 23.

according to state audits.[47] Harris' name also appears as a founding director on the incorporation documents of another related entity, the Institute of Management and Resources, which manages the Richard Allen schools.[48]

Sponsors implicated: Kids Count of Dayton, Lucas County Educational Service Center, Ohio Council of Community Schools, St. Aloysius Orphanage.
Challenges/concerns: Financial control exercised by management organizations combined with lack of transparency, inter-related entities, specific contract provisions and Ohio law can make it difficult for governing boards to break free from management organizations they ostensibly hire to run their schools.
Recommendations: Policymakers and sponsors must take steps to ensure that charter school boards are in a position to exercise the legal authority they have been given over the taxpayer funds they receive to educate children who attend their schools.

Loan documentation, rates

State charter school law does not address this issue. State audits and other documents were reviewed to gather information about loans from management organizations to charter schools and promissory notes signed by school boards. In some cases, audits included information about interest rates, in others they did not. Many audits noted debt to management organizations and other related entities, suggesting that the companies use debt to bind schools to them and undercut board authority.

> **NACSA criteria:** *All loans from the management organization to the school, such as facility loans or those for cash flow, must be **appropriately documented** and **at market rates**.*

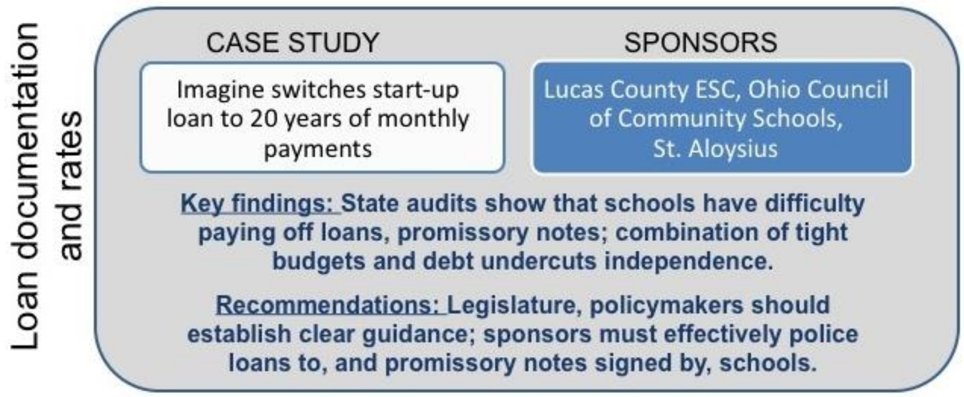
Mosaica has made loans to some of its schools, including Columbus Preparatory Academy. In December 2005, the school signed a promissory note with the management company for "bills paid by Mosaica Education Inc. on behalf of the Academy," according to state audits. "The promissory note has an interest rate of 9.0 percent and will mature in fiscal year 2010."[49] The 2006 audit details annual principal payments from $143,631 to $155,000, totaling $763,631 over five years, ending in 2011, and a total of $213,954 in interest over the same period.

More recent audits show that the school made some payments, but not on schedule. The 2008 audit stated that Mosaica had agreed not to demand payment and was working with the school to restructure the terms of the note. Further information was not available, as the 2010 audit had not been released as this report was being written. Other Mosaica

[47] See, for example, the fiscal year 2008 state audit of Richard Allen Preparatory Community School, available on the Ohio Auditor of State's website: http://www.auditor.state.oh.us/AuditSearch/search.aspx.
[48] Secretary of State's website: http://www.sos.state.oh.us/.
[49] Columbus Preparatory Academy state audits for fiscal years 2006 through 2009 retrieved at http://www.auditor.state.oh.us/AuditSearch/search.aspx.

schools that signed promissory notes with the company included Columbus Humanities, Arts and Technology ($921,255) and Columbus Arts and Technology ($446,104). As with Columbus Preparatory Academy, payments on these notes were not made on schedule.

During the fiscal year 2003 audit period, Lake Erie Academy loaned Paul Laurence Dunbar Academy $37,700 (both schools are managed by the Leona Group). This amount was repaid to the Academy on November 21, 2003. No information was given on the interest rate of the loan.[50]



Richard Allen Academy borrowed $9,108 for school operations from its management organization, the Institute of Management and Resources, according to the school's fiscal year 2007 audit. The loan was originally scheduled to be repaid from operating revenue by December 31, 2007, but repayment was "extended until payment is required by IMR or by December 31, 2009. There were no provisions in the loan for interest, which also appeared in the school's 2008 audit; more recent audits were not yet available on the state auditor's website.[51] The 2008 audit for Richard Allen Academy III showed a balance of $84,909 owed in a demand promissory note to the Institute of Charter School Management and Resources, with which it had signed a contract for comprehensive management services. "The note stipulates that no interest will accrue if it is paid in full by June 30, 2009. A portion of the note, or the entire note, may be called at any time, upon written notice to the school."[52]

Audits from fiscal years 2007 and 2008 show development fees charged by Imagine Schools to charters it operates as debt carried by schools from year to year, generally in the amount of $250,000. Management agreements signed more recently, however, showed that this debt was converted to monthly payments of $2,500 for 20 years, which would amount to payment of $600,000 for the original $250,000 allocation of services, staff time and cash outlays on the part of Imagine Schools.[53]

---

[50] Audits available at http://www.auditor.state.oh.us/AuditSearch/search.aspx.
[51] Fiscal year 2007 and 2008 audits for Richard Allen, www.auditor.state.oh.us/AuditSearch/search.aspx.
[52] Fiscal year 2008 audit for Richard Allen Academy III. www.auditor.state.oh.us/AuditSearch/search.aspx.
[53] van Lier, Piet. *Public Good vs. Private Profit: Imagine Schools, Inc., in Ohio.* Policy Matters Ohio, May 2010. See page 16.

At the same time, board members from an Imagine school in the Columbus suburb of Groveport said that four members resigned in 2009 because they were not allowed a meaningful say in governance and policy issues. They also said that they were kept in the dark about financial issues; one board member said part of his frustration was that Imagine would not respond to his questions about whether the rate of return Imagine's real estate subsidiary was getting by leasing a building to the school board was competitive with market rates.[54]

Similarly, representatives of ten school boards suing White Hat Management allege that the company "wields total, unchecked and unconstitutional control over its client charter schools and their funding." The schools, with White Hat contracts set to expire at the end of fiscal year 2010, claimed in the lawsuit that the company had refused to provide them with an accounting of how taxpayer money was spent. As a result, the boards were unable to understand their financial situation as they prepared to end their relationship with the management firm.[55]

Sponsors implicated: Kids Count of Dayton, Inc., Lucas County Educational Service Center, Ohio Council of Community Schools and St. Aloysius Orphanage.
Challenges/concerns: State charter law does not address this issue, and operators have clearly taken a variety of approaches. This is particularly important given the tight budgets under which most schools operate. The examples above highlight the difficulty schools have had paying off debts to their management organizations, and suggest that management organizations use debt to bind schools to them and undercut board authority.
Recommendations: The state legislature and the Ohio Department of Education should ensure that clear guidelines are established on this issue; sponsors must pay close attention to all loans and promissory notes issued by management organizations to schools they operate.

---

[54] Ibid. See pages 5 and 28.
[55] Candisky, Catherine. "Charter schools sue to break contracts with White Hat," *The Columbus Dispatch*, May 17, 2010. http://www.dispatch.com/live/content/local_news/stories/2010/05/17/white-hat-charter-school-lawsuit.html?sid=101

Vertical integration

This study has provided detailed examples of ways that Ohio charter school law and practices do not meet NACSA standards. In the course of our investigation, we found examples of inter-connected entities that, to different degrees, "vertically integrate" charter operations. Whatever the intentions of the people who have established these systems, they appear to circumvent Ohio law that prohibits private firms from running charter schools. Further, the lack of arms-length relationships we have documented suggests that these related-party dealings limit transparency and blur lines of governance, independence and accountability in Ohio; these issues are at the heart of the NACSA standards.

Kids Count and related entities

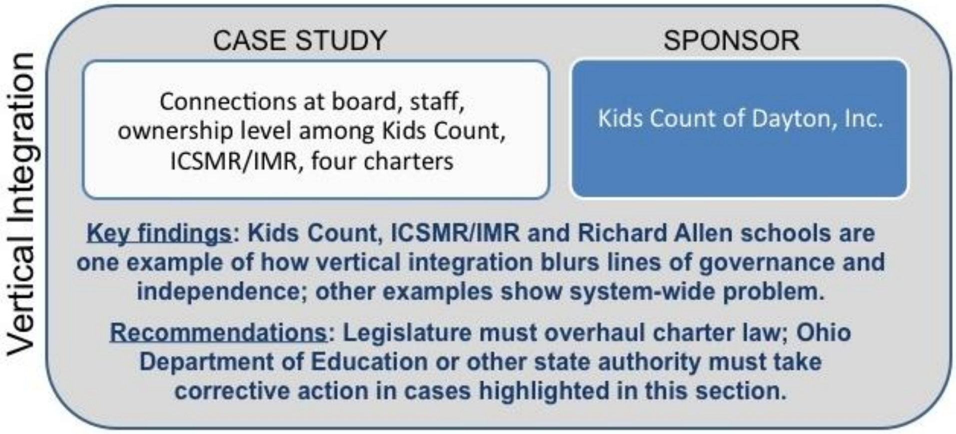
Documents dated from 1997 to 2010 available on the website of the Ohio Secretary of State, the Ohio Department of Education and Richard Allen Schools show that Jeanette C. Prear-Harris has played a lead role as incorporator, statutory agent, chief executive officer, president or vice president – or some combination of those positions – in seven charter-related entities, including one sponsor, two charter management organizations and four charter schools. Also tying these entities together are common street addresses and locations. Figure 3 summarizes the connections among these seven entities, which are listed below:

- Kids Count of Dayton, Inc., a state-approved sponsor of charter schools that contracts at least some charter-related duties to the Institute of Charter School Management and Resources;
- Institute of Charter School Management and Resources, a for-profit management company providing services to Kids Counts, Institute of Management and Resources and the Richard Allen schools;
- Institute of Management and Resources, a nonprofit charter manager that contracts with Institute of Charter School Management and Resources to provide services to Richard Allen Schools;
- Richard Allen Schools, four southwest Ohio charters sponsored by Kids Count.

Kids Count of Dayton, Inc. – Founded as a nonprofit in 1994 to operate a private preschool, West Park Academy in Dayton.[56] The Ohio Department of Education approved Kids Count to sponsor charters during the 2005-06 school year. Although the nonprofit's incorporation papers predate the 1997 start of charters in Ohio and do not list Harris, the role of statutory agent was transferred to her (as Jeanette C. Prear) on June 14, 1997. She subsequently appears in documents for Kids Count found on the Secretary of State's website as:

- A "corporate officer, general partner, association member or officer" in 2001;
- President and statutory agent in 2002;
- Statutory agent in 2006, and;
- Vice president in 2009.

[56] The only evidence of a West Park Academy in Dayton is on the Richard Allen website, where it lists such a school as sharing one of its campuses; Ohio Department of Education records do not show a private or charter school with this name in Dayton. http://www.richardallenschools.com/contact/index.htm.



Filings by Kids Count to the Internal Revenue Service show that in fiscal year 2005, Kids Count was doing business as West Park Academy, a small preschool in Dayton with gross receipts of $67,818. Jeanette Harris is the only person in a list of "officers, directors, trustees and key employees" who received compensation; her title was president and she received $4,000 in consulting fees.[57] More recent IRS filings were not available for Kids Count. As previously mentioned, fiscal year 2009 compensation reported for Harris as president and CEO of Richard Allen schools was $199,500. Furthermore, four board members listed in the 2005 Kids Count IRS form were listed as board members of the four Richard Allen schools on 2009 tax forms for the schools.

Institute of Charter School Management and Resources, Inc. – Incorporated as a for-profit in 1999 by Jeanette Prear Harris, ICSMR contracts with Kids Count to provide at least some of that nonprofit's charter school-related services. Harris served as statutory agent for ICSMR from its founding in 1999 until 2009, when Secretary of State filings show that Harris passed statutory agent duties to CH&K Agent Services and David Wickham, an attorney at the Dayton law firm of Dinsmore and Shohl, which acquired the law firm Chernesky, Heyman and Kress in 2008, where Wickham had worked.[58] Fiscal year 2009 IRS forms for all four Richard Allen schools state that Jeanette Harris, the schools' president and CEO, owns ICSMR (see section on Richard Allen schools below). The company contracts with the nonprofit Institute of Management and Resources to perform charter school management services for the Richard Allen schools. ICSMR had contracted directly with individual Richard Allen schools in the past, according to state audits.

Institute of Management and Resources, Inc. – Established in 2002 as a nonprofit to "operate for the benefit of" the Richard Allen schools, where Harris serves as president and CEO. She appears as president of IMR on a 2008 Secretary of State filing. IMR contracts with ICSMR to provide services to at least four charter schools sponsored by

---

[57] Form 990, Kids Count of Dayton DBA Westpark Academy, for tax year beginning July 1, 2004 and ending June 30, 2005. Retrieved from www.guidestar.org.

[58] "Dinsmore & Shohl acquires Chernesky, Heyman and Kress," *Dayton Business Journal*. April 30, 2008. http://www.bizjournals.com/dayton/stories/2008/04/28/daily21.html. The Dayton address for both firms and CH&K Agent Service is the same: 1100 Courthouse Plaza, SW, 10 Ludlow Street, Dayton 45402.

Kids Count – Richard Allen Academies I, II and III, and Richard Allen Preparatory. Harris served as incorporator for Richard Allen I.[59] Jeanette C. Harris, Rev. Earl G. Harris, and Michelle L. Prear Ferrell served as founding board of directors for IMR, as they did for all four Richard Allen schools.

Richard Allen Schools – The four charter schools – three in Dayton and one in Hamilton – were incorporated from 1999 to 2001. Harris is listed as president and CEO for all four on the Richard Allen website.[60] The schools contract with IMR for comprehensive management services, according to 2008 state audits.[61] They paid IMR a monthly management fee of 10 percent of the schools' total operating revenues as well as other charges, according to fiscal year 2008 audits. The schools also contract with the management organization to provide teachers and other staff and for "district-wide management services" such as instruction, transportation, financial and business management, and the purchase of textbooks and supplies. IRS filings by each of the Richard Allen schools for fiscal year 2009 list Jeanette Harris as CEO with compensation of $199,500 from the four schools, the Institute of Charter School Management and Resources and the Institute of Management and Resources. The filings also list Harris as the CEO of ICSMR and state that she "wholly owns" the company, which "provides and bills for consulting services" for the schools. The primary activity of ICSMR is listed as "consulting services of the CEO and rent of the facilities."[62]

Montgomery County property records available online show that Kids Count of Dayton owns the building where the main office of Richard Allen schools is located. This address – 368 South Patterson in Dayton – also came up in an online address search for the Institute of Charter School Management and Resources. Both the for-profit ICSMR and the nonprofit Richard Allen schools' main office share a phone number, according to these listings.

The Kids Count address listed in a file of sponsor contact information downloaded from the Ohio Department of Education website, and in recent Kids Count annual reports found online, is the same address as the one listed for one of the Richard Allen schools – 627 Salem Avenue, Dayton. The same ODE listing of sponsor contacts gave an email for Kids Count superintendent Ethel Washington-Harris with the domain name "icsmr.com," suggesting that she was employed by the for-profit ICSMR or somehow connected to that entity. When asked about these connected addresses, ODE provided new, separate street and email addresses for Kids Count.

---

[59] See Richard Allen website at http://www.richardallenschools.com/contact/index.htm.
[60] www.richardallenschools.com.
[61] Retrieved from www.auditor.state.oh.us/auditsearch/search.aspx.
[62] Forms 990, Richard Allen Preparatory, Inc., and Richard Allen academies I, II and II, for tax year beginning July 1, 2008 and ending June 30, 2009. www.guidestar.org.

Figure 3: Jeanette C. Prear Harris has played a leading role in each of these charter school entities, including Kids Count of Dayton, which sponsors the Richard Allen charters. Kids Count contracts with the Institute of Charter School Management and Resources for at least some of its charter-related work. The Institute of Management and Resources also contracts with ICSMR to provide services to the Richard Allen schools.

	Type	Date of incorporation	Incorporator	Statutory agent(s)	President	Founding directors
Kids Count of Dayton	Nonprofit	March 7, 1994	Warren Wise	Warren Wise, Jeanette C. Prear-Harris and David R, Wickham[1]	Jeanette Prear Harris (2002)[5]	Warren Wise, Irma Wise, Linda Hudson
Institute of Charter School Management and Resources	For-profit	May 21, 1999	Jeanette Prear Harris	Jeanette C. Prear Harris (2002) to David Wickham/ CH&K Agent Service[2] (2009)	Jeanette C. Harris (2009)	na
Richard Allen I	Nonprofit	May 21, 1999	Jeanette C. Harris	Jeanette C. Harris (1999) to David Wickham/CH&K Agent Service[2] (2009)	Jeanette Harris[3] (2010)	Jeanette C. Harris, Rev. Earl G. Harris, Michelle L. Prear
Richard Allen II	Nonprofit	May 18, 2000	Philip Zukowski[4]	Philip Zukowski[4]	Jeanette Harris[3] (2010)	Jeanette C. Harris, Rev. Earl G. Harris, Michelle L. Prear
Richard Allen Preparatory	Nonprofit	February 5, 2000	Philip Zukowski[4]	Philip Zukowski[4]	Jeanette Harris[3] (2010)	Jeanette C. Harris, Rev. Earl G. Harris, Michelle L. Prear
Richard Allen III	Nonprofit	February 2, 2001	David R. Wickham[4]	David R. Wickham[4]	Jeanette Harris[3] (2010)	Jeanette C. Harris, Rev. Earl G. Harris, Michelle L. Prear
Institute of Management and Resources	Nonprofit	June 21, 2002	David R. Wickham[4]	David Wickham[4] (2002)	Jeanette C. Harris (2008)	Jeanette C. Harris, Rev. Earl G. Harris, Michelle L. Prear Ferrell

Sources: Documents available on the Ohio Secretary of State website unless otherwise noted.
[1] David R. Wickham replaced Jeanette C. Prear as statutory agent in March 2009; Prear (Harris) replaced Warren Wise as of June 15, 1997.
[2] David Wickham/CH&K Agent Service replaced Jeanette Harris as statutory agent in March 2009.
[3] Jeanette Harris is listed as president, CEO of the Richard Allen schools, www.richardallenschools.com.
[4] David R. Wickham and Philip Zukowski are listed as attorneys for the legal firm Dinsmore and Shohl (www.dinslaw.com), which aquired the Dayton firm Chernesky, Heyman & Kress; both Wickham and Zukowski had worked for CH&K before the acquisition.
[5] Jeanette Harris is listed as vice president of Kids Count in a 2009 filing.

Concept Schools, St. Aloysius and Imagine

Two additional examples show that the Kids Count-IMR-ICSMR-Richard Allen system of inter-locking entities does not present an isolated case in Ohio.

The management organization Concept Schools also engages in related-party deals that raise questions about issues raised in this study. The fiscal year 2009 state audit for Horizon Science Academy – Cincinnati shows that former Concept CEO Vedat Akgun filed the articles of incorporation for the school with the Ohio Secretary of State. The audit states that Akgun signed the management company contract and the copier lease. Akgun also served as founding director of the Horizon Science Academy in Dayton and as president of Breeze, Inc., the property owner and manager of the school's building.[63]

St. Aloysius Orphanage, a Cincinnati-based sponsor, contracts its sponsor duties to the private firm Charter School Specialists, which also provides various management services to some of the charter schools it is contracted to oversee. And Imagine Schools, Inc., the nation's largest for-profit management company, handles real estate through a wholly-owned subsidiary.[64]

Sponsors implicated: Buckeye Community Hope Foundation, Kids Count of Dayton, Inc., Lucas County Educational Service Center, Ohio Council of Community Schools and St. Aloysius Orphanage.
Challenges/concerns: Ohio law prohibits private organizations, both for and nonprofit, from directly running charter schools; practices documented in this section seem to circumvent that law. Whatever the logic that led individuals and organizations to create systems documented here, taken to their extreme such practices blur lines of independence, governance and authority.
Recommendations: The state legislature must consider a thorough overhaul of charter law that provides better regulation of management organizations and charter schools. In the cases highlighted in this section, particularly that of Kids Count, the Ohio Department of Education or another state authority must take corrective action.

[63] Financial audit for Horizon Science Academy – Cincinnati, Hamilton County, for the year ended June 30, 2009. Office of the Auditor of the State of Ohio. Available online at www.auditor.state.oh.us/.
[64] van Lier, Piet. *Public Good vs. Private Profit: Imagine Schools, Inc., in Ohio.* Policy Matters Ohio, May 2010.

Sponsor survey

To gauge sponsor perspectives on the criteria outlined by NACSA in Richmond's commentary, Policy Matters sent a survey to the state's larger sponsors, including those overseeing schools mentioned in this report.

The survey, sent by email, asked the two following questions:

a) How important do you think each NACSA standard is for Ohio charter schools?

b) Based on your experience with the schools your organization sponsors, do management organizations working in Ohio generally meet these standards?

Those who responded were asked to provide more detail about why each standard was important.

Two of the sponsors with schools highlighted in this study responded to the survey – the Educational Service Center of Central Ohio, which sponsors one Leona Group school, and the Thomas B. Fordham Foundation, which sponsors two EdisonLearning schools. Educational Resource Consultants, Inc., also responded, but does not sponsor any schools covered in this report. Representatives of all three respondents agreed that the NACSA standards are important for Ohio.

Bart Anderson of Central Ohio ESC responded that all six criteria are "highly important." The need to avoid conflicts of interest and promote transparency were among the reasons Anderson cited in his agreement with NACSA. He noted some areas where Ohio charters fall short, such as the criterion that contracts clearly define rights and responsibilities, specify services and fees, and do not include poison pills. "This level of transparency seems a necessary and essential aspect of separating management from governance," Anderson responded. He noted that Ohio charters present a "mixed bag" in this area: "I believe all our school contracts have these recommendations. However, I am familiar with schools/management [organizations] that do not (e.g. White Hat or Imagine Schools or Summit Academies)."[65]

School boards should have their own attorneys, accountants and audit firms because "this level of independence is necessary so as to not have coerced or controlled accountability. The management firm would have an interest in controlling these entities," if the board couldn't count on independent services in these areas, he wrote.[66] On another issue, if a management organization retains school property "the school becomes financially dependent upon the management organization," noted Anderson. If this happens, "the school could never switch management firms or become independent." He noted that White Hat and Imagine Schools "retain much of the property" used at schools they manage.[67]

[65] Email received August 12, 2010.
[66] Email received August 31, 2010.
[67] Emails received August 12 and August 31, 2010.

Kathryn Mullen Upton of the Fordham Foundation agreed that the criteria were important for Ohio. Overall, "the criteria seek to make two things standard practice (1) an arm's length relationship between the governing authority and management company (i.e., operator), and (2) clear terms regarding the rights and duties of both parties, including clear expectations for management company performance," Upton wrote in her email response to the survey.[68] Aside from expressed agreement, Upton did not provide detailed responses to all individual criteria. She did point out two areas were NACSA criteria are covered by law – including board member composition and pay. (Laws relating to this standard are noted elsewhere in this paper.)

In relation to the NACSA standard on equipment and furnishings, Upton noted that existing regulations specify what happens to school assets when a school closes. She further wrote: "This bullet makes clear the need for straightforward and unambiguous contract terms, and the importance of good accounting. In the event a management company has made significant investments of its own monies (i.e., private dollars) in a school, and for whatever reason there's a parting of the ways between the management company and governing authority, straightforward contract terms regarding the ownership of assets purchased with private funds - and a clear accounting on the books (i.e., no commingling of private and public dollars) - would likely go a long way toward settling disputes of this nature."[69]

Aaron Kinebrew of Educational Resource Consultants, Inc., simply wrote that the standards are "very important for Ohio's charter schools." He noted that his organization had not worked with a management company until recently. "[The] 2010-2011 school year will be ERCO's first year authorizing schools with a management company," he wrote.[70]

Sponsors charged with oversight of schools in this study that did not respond to surveys were Buckeye Hope Community Foundation, Ohio Council of Community Schools, St. Aloysius, Kids Count of Dayton, Inc., and Lucas County Educational Service Center.

[68] Email received August 16, 2010.
[69] Ibid.
[70] Email received August 12, 2010. According to the Ohio Department of Education, ERCO began sponsoring several new EdisonLearning schools for the 2010-11 school year.

Conclusion

Our review of management agreements, audits and other documents clearly shows that Ohio charter school management practices fall well short of the standards outlined by NACSA's Greg Richmond in his Education Week commentary. Our investigation also found violations of state law.

In broad terms, the weakness of Ohio charter school law should be the primary concern of legislators, policy makers and charter advocates. Ohio law ignores established governance practices and upends the relationship between charter school boards and management organizations they ostensibly hire to run their schools. Current law allows management organizations to control school revenues, set up schools and pick board members, limit board decision-making power, and reduce board ability to contract for independent services; all of this can make it next to impossible for boards to break free from the managers they ostensibly hire. With management organizations dictating terms to charter boards, we are seeing the unchecked and largely unexamined transfer of taxpayer funds to private hands. Ohio's system of oversight, delegated by the state to sponsors, also falls short. Taken together, these practices limit transparency in Ohio's charter school sector.

Ohio policymakers, charter advocates and charter school sponsors should take notice of problems with the state's charter laws and practices. In his commentary, Richmond concludes that states concerned about charter governance and independence – key in his view to enhancing charter school quality – should put NACSA's criteria into law as a path to strengthening governance and oversight. Sponsors should not approve charter proposal that don't meet these criteria, he asserts.[71]

We agree with Richmond. The Ohio legislature must take steps to strengthen the law so that proper governance of charters, particularly those run by management organizations, can be established. If the law is not overhauled, Ohio will continue to cede control of many schools to private managers that are able to operate with little or no transparency. Private, for-profit firms are not allowed to operate schools directly in Ohio; current law and practice allows them to do so indirectly.

Until Ohio law is improved, sponsors must step in. It is clear that without good oversight by Ohio's sponsors, charters will continue to fall short in terms of transparency, finance and academics. Our review of charter policies and practices shows that many Ohio sponsors are not providing effective oversight of charter schools. With NACSA's criteria in hand, Ohio sponsors can do more to ensure that charter school boards are able to exercise their legal mandate to govern their schools. Strong, careful oversight of the relationship between school board and the management organizations they contract with is essential.

Sponsors are in the best position to immediately act to strengthen charter school quality. They must be held accountable by the state for this work.

---

[71] Richmond, Greg, "Who's in Charge at Charter Schools: Six Criteria for Ensuring the Quality of Governing Boards," July 14, 2010. *Education Week.*

Appendix A

List of management organizations covered in this study

Concept Schools is a nonprofit charter management organization based in Des Plaines, Illinois, with Ohio regional offices in Columbus and Cincinnati. Sixteen of the 19 schools listed on its website are in Ohio. www.conceptschools.org.

Constellation Schools, LLC., is a for-profit charter management organization based in Parma, Ohio. All 20 of the schools listed on its website are in northeastern Ohio. www.constellationschools.com.

EdisonLearning, Inc., is a for-profit education management organization based in New York. According to its website, two of its 63 charter schools are in Ohio; it runs schools in 15 other states. In addition to operating schools, EdisonLearning offers online education, school improvement services and "extended education" services. www.edisonlearning.com.

Global Educational Excellence is a for-profit charter management organization based in Ann Arbor, Michigan. The firm's website lists two schools in Ohio and eight in Michigan. http://gee-edu.com.

Imagine Schools, Inc., is the nation's largest for-profit charter management organization. Its website lists 73 schools in 13 states and Washington D.C., including 11 schools in Ohio. www.imagineschools.com.

Institute of Management and Resources, Inc., and **Institute of Charter School Management and Resources, Inc.,** are two related entities that provide comprehensive management services to a number of Ohio schools. IMR is a nonprofit charter management organization created to provide services to the Dayton-area Richard Allen Schools; it contracts directly with charter schools. ICSMR is a for-profit charter management organization that contracts with IMR to provide services to charter schools IMR serves, contracts directly with some charter schools, and contracts with Kids Count of Dayton, Inc., a charter school sponsor, to provide charter-related services. No websites found.

The Leona Group, LLC., is a for-profit charter management organization based in Phoenix, Arizona. The company lists 58 schools in five states on its website, including 12 in Ohio. www.leonagroup.com.

Mosaica Education, Inc. is a for-profit education management organization based in New York. Its website lists 33 schools in seven states and Washington, D.C., including 12 in Ohio. It also offers online education and other education services. http://mosaicaeducation.com.

National Heritage Academies is a for-profit charter management organization based in Grand Rapids, Michigan. Its website lists 67 schools in eight states, including 10 in Ohio. http://heritageacademies.com.

EdVantages and Performance Academies are two related entities. Performance Academies is a for-profit charter management organization while EdVantages is nonprofit. They share the same Columbus address and a majority of the organizations' senior staff, including the CEO and superintendent, chief operations officer and chief facilities officer. The Performance Academies website lists four schools, including two in Ohio; the EdVantages website lists eight schools, all in Ohio. http://performanceacademies.com and www.edvantages.com.

SABIS Educational Systems, Inc., is a for-profit education management organization based in Eden Prairie, Minnesota. Its website lists 10 schools in seven states, including one in Ohio. It also lists schools in other countries, for a total of 77 schools in 15 countries. www.sabis.net.

Summit Academy Schools is a nonprofit charter management organization based in Copley, Ohio. The chain specializes in schools for higher-functioning children with special needs and lists 26 schools on its website, all in Ohio. www.summitacademies.com.

White Hat Management is a for-profit charter management organization based in Akron, Ohio. Its website lists 40 schools in five states, including 27 in Ohio; it also lists an online school serving two states. www.whitehatmgmt.com.

Sources: Information was retrieved primarily from organization websites (September 2010), supplemented by other resources available online.

Appendix B
Charter school authorizer/sponsors covered in this report

Buckeye Community Hope Foundation is a nonprofit organization created in 1991 to develop low-income housing; it was approved as a charter school sponsor in 2004. It currently oversees 40 schools. www.buckeyehope.org/

Educational Service Center of Central Ohio oversees charter schools in addition to its work with traditional public schools as a regional service provider in the Columbus area. It oversees eight schools. www.escofcentralohio.org/Pages/CommunitySchools.aspx

Kids Count of Dayton, Inc., is a nonprofit originally established in 1994 to operate a private preschool. It provides oversight for 13 schools; it contracts with the Institute of Charter School Management and Resources to provide at least some charter-related services. (No website found.)

Lucas County Educational Service Center oversees charter schools in addition to its work with traditional public schools as a regional service provider in Northwest Ohio. It currently oversees 68 schools. www.lucas.k12.oh.us/index.php?section=30

Ohio Council of Community Schools is a Toledo-based nonprofit established in 1999 to sponsor charter schools. It currently oversees 39 schools in Ohio. www.ohioschools.org/

St. Aloysius Orphanage is a 175-year-old nonprofit social service agency in Cincinnati that contracts with the private, for-profit firm Charter School Specialists to provide sponsorship services to 42 schools. www.staloysiuscincinnati.org/charter_school.htm

Thomas B. Fordham Foundation is the Ohio branch of the Fordham Institute, a national think tank with a free market orientation toward education reform. Fordham sponsors seven Ohio schools. www.fordhamfoundation.org.

Sources: Information from organization websites as available; school numbers from the Ohio Department of Education and sometimes conflict with numbers provided on sponsor websites.

Policy Matters Ohio is a non-profit, non-partisan research institute dedicated to researching an economy that works for all in Ohio. Policy Matters seeks to broaden debate about economic policy by providing research on issues that matter to Ohio's working people and their families. Areas of inquiry for Policy Matters include work, wages, and benefits; education; economic development; energy policy; and tax policy. Generous funding comes from the Joyce, Gund, Cleveland, Public Welfare, KnowledgeWorks, New World, Annie E. Casey, Sisters of Charity and W.K. Kellogg Foundations, the Economic Policy Institute, and Greater Cleveland Community Shares. To those who want a more fair and prosperous economy... Policy Matters.

3631 Perkins Avenue, Suite 4C - East • Cleveland, Ohio 44114 • 216/361-9801
Columbus: 300 E. Broad Street, Suite 490 • Columbus, Ohio 43215 • 614/221-4505
http://www.policymattersohio.org/

COMMUNITY SHARES