

Arizona Charter School Classroom Spending 2016

Part 3

Case Study: The Leona Group LLC Reaped Millions in Real Estate Profits While Arizona Taxpayers (and Students) Foot the Bill

Jim Hall
Arizonans for Charter School Accountability
January 31, 2017

Background

Part 1 of *Arizona Charter School Classroom Spending 2016* (available at azcsa.org) found that less than half of Arizona charter schools spend most of their resources where you would expect - in the classroom. Forty seven percent of all Arizona charters (191 schools) spent more money on regular and special education classroom instruction than on administration and facilities combined. These schools represent both large and small charters utilizing a variety of instructional models – college prep, alternative, special education, arts, etc. Many of the 191 schools have substantial mortgages and have new, modern facilities yet focus their spending on classroom instruction.

Part 2 of this report examined the charter schools that spend the least on classroom instruction – those that spend more on administration alone than in the classroom and those that spend more on just their facilities than in the classroom. The most alarming charter schools in Arizona were also identified – those that spend more on both administration and their facilities than on classroom instruction. Part 2 revealed that the majority of schools that spend the least on classroom instruction are managed by the two largest for-profit nation charter chains in Arizona - Imagine Inc. and the Leona Group LLC. The two companies alone spent \$28,000,000 more on management costs and facilities than on children in the classroom.

Part 3 will look at the Leona Group LLC in detail – and explain why the schools they manage for the American Charter Schools Foundation spend less on classroom instruction than any other schools in Arizona.

Key Findings:

1. In 2007, Bill Coats, the sole owner of the Leona Group LLC, sold 10 schools owned by Leona to a non-profit he created in 1998, the American Charter Schools Foundation, (ACSF) for \$33,000,000 more than their market value.
2. ACSF “leased” their facilities for \$6,195,000 to the ten schools in 2016. When Bill Coats owned the schools in 2006, the total leases were less than half that amount - \$2,875,034.
3. Bill Coats maintains the same management control over the schools as he had when his company owned the schools but now has set management fees that are not based on student enrollment.
4. ACSF schools have declined in enrollment by 25% since their purchase in 2007.
5. Between 2007 and 2016 overall instruction spending in ACSF schools has declined from \$2090/pupil to \$1455/pupil while facilities costs increased from \$1455/pupil to \$2479/pupil.
6. The real estate windfall Bill Coats received in 2007 by selling his schools to his own foundation has caused ACSF to consistently cut classroom spending to the lowest rates of any school in Arizona - to fund the excessive mortgages.

Methodology:

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

Data were also collected regarding related party spending, leases, outstanding debt, and management contract payments using the annual financial audits each charter holder submits to the Arizona Board for Charter Schools that can be found at ASBCS online at <http://online.asbcs.az.gov/>

Case Study:

Why does the American Charter Schools Foundation schools managed by the Leona Group LLC spend so little on classroom instruction?

In the recently released 2016 Annual Financial report for 2015-16 all ten American Charter Schools Foundation (ACSF) schools, managed by the Leona Group, spent more per pupil on their facilities than in the classroom and nine out of ten ACSF schools spent more per pupil on total administrative costs than in the classroom. See Table 1.

Table 1 - American Charter Schools Foundation schools spending per pupil on Instruction, Administration, and Facilities Source – Annual Financial Report 2016

Red indicates spending greater than per pupil instruction expenditures

American Charter Schools Foundation School	Total Instruction 2016/Pupil	Total Administration 2016 /Pupil	Total Plant 2016/Pupil
Alta Vista High School	\$1,318	\$2,039	\$1,936
Apache Trail High School	\$1,843	\$2,583	\$2,201
Crestview College Preparatory	\$1,682	\$1,885	\$2,593
Desert Hills High School	\$1,262	\$2,337	\$4,264
Estrella High School	\$1,524	\$2,297	\$3,299
Peoria Accelerated High School	\$1,629	\$1,899	\$1,897
South Pointe High School	\$1,076	\$1,963	\$2,714
South Ridge High School	\$1,618	\$1,602	\$1,986
Sun Valley High School	\$1,776	\$2,164	\$2,148
West Phoenix High School	\$1,498	\$2,062	\$2,689

The Leona Group also manages the 15 charter schools operated by the Kaizen Education Foundation. In 2016 seven of the Kaizen schools spent more on administration than in the classroom but only three of the fifteen schools had higher costs for facilities than the classroom. See Table 2

Table 2 Kaizen Education Foundation schools spending per pupil on Instruction, Administration, and Facilities Source – Annual Financial Report 2016

Red indicates spending greater than per pupil instruction expenditures

	Total Instruction 2016/Pupil	Total Administration 2016 /Pupil	Total Plant 2016/Pupil
Kaizen Discover U	\$3,812	\$5,501	\$2,455
Kaizen Advanced U	\$2,877	\$1,767	\$1,815
Kaizen El Dorado High school	\$1,916	\$2,316	\$1,687

Kaizen Gilbert Arts	\$2,648	\$2,038	\$1,962
Kaizen Havasu	\$2,210	\$1,813	\$1,611
Kaizen Liberty Arts	\$2,127	\$1,743	\$1,980
Kaizen Maya High	\$1,707	\$1,864	\$1,194
Kaizen Mission Heights	\$1,820	\$1,667	\$1,949
Kaizen Skyview	\$1,464	\$2,074	\$3,007
Kaizen South Pointe Jr Hi	\$993	\$949	\$729
Kaizen South Pointe El	\$3,903	\$3,230	\$2,799
Kaizen Summit	\$1,779	\$2,096	\$1,397
Kaizen Tempe Accelerated	\$3,125	\$3,920	\$583
Kaizen Vista Grove	\$1,840	\$2,017	\$1,268
Kaizen Vista Grove Middle	\$238	\$1,716	\$1,276
Total	\$1,990	\$1,983	\$1,628

Why do the 15 schools chartered by Kaizen could have decidedly lower facilities costs than the ten ACSF schools – both of which are managed by the Leona Group LLC? That is the question this study tries to answer.

An extensive examination of public records was undertaken to determine why administrative and facilities expenditures are so high in the ACSF schools. We found that in 2007 the Leona Group LLC, a for-profit Arizona company owned solely by Bill Coats, sold their ten schools to ACSF, a non-profit foundation that Coats created in 1998 in Michigan, for \$72,482,485 - \$33,890,485 more than the market value of the schools. ACSF financed the purchase with a bond granted by the Pima County Industrial Authority, even though the Foundation had never previously owned charter schools or had an annual budget of over \$65,000. Bill Coats continued to run all aspects of the schools through the for-profit Leona Group LLC and crafted management contracts requiring a fixed annual dollar amount from seven schools, regardless of enrollment or income. He also built in a 3% annual management fee increase and an automatic bonus if pre-selected target enrollments were reached.

The Kaizen schools are a different story. The Kaizen Foundation was incorporated in 2008 by former Leona CFO Theodore Frederick, who is now the director of both ACSF and the Kaizen Education Foundation. Coats transferred the charters of twelve Leona schools he owned to the Kaizen Educational Foundation in 2012, but did not sell any of the property to Kaizen as he did with ACSF. The Kaizen schools are leased from both third party companies and properties owned by Coats. All of the Kaizen schools are managed by Leona for 15% of gross revenues with no built in inflation factor or bonus for increased revenue.

The reason that the ACSF schools spend so much for their facilities compared to the Kaizen schools is the ten Leona schools were “bought” by ACSF using appraisals valuing them as

investment properties, paying Coats up to twice the market value of the schools, providing him a windfall in 2007 of 20-30 million dollars. ACSF was left with huge mortgage payments from the purchase of the over-priced facilities.

Unfortunately, ACSF enrollment has declined by 25% between 2007 and 2016. See Table 3.

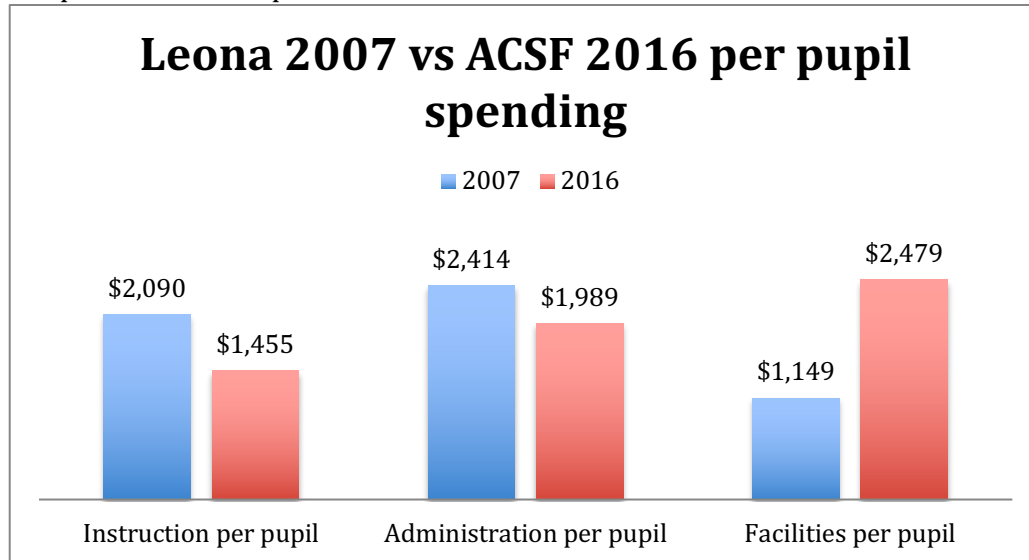
Table 3 ACSF 100th Day Average Daily Membership (ADM) 2007 and 2016

	ADM 2006-07	ADM 2015-16
American Charter Schools Foundation d.b.a. Alta Vista High School	468	460
American Charter Schools Foundation d.b.a. Apache Trail High School	169	135
American Charter Schools Foundation d.b.a. Crestview High School	269	245
American Charter Schools Foundation d.b.a. Desert Hills High School	508	190
American Charter Schools Foundation d.b.a. Estrella High School	475	244
American Charter Schools Foundation d.b.a. Peoria Accelerated High School	517	496
American Charter Schools Foundation d.b.a. South Pointe High School	634	457
American Charter Schools Foundation d.b.a. South Ridge High School	317	437
American Charter Schools Foundation d.b.a. Sun Valley High School	690	490
American Charter Schools Foundation d.b.a. West Phoenix High School	686	390
Totals	4733	3544

As every homeowner knows, mortgage payments stay the same, regardless of your income. ACSF still collects over six million dollars every year leasing the schools (to themselves) to cover the mortgages and to provide profits on their buildings. And since seven of the schools operate with fixed rate management fees, management spending does not automatically decrease as income (enrollment) falls.

As a result, facilities expenditures have increased by 116% from \$1,149 per pupil in 2007 before Coats sold the schools to \$2,279 per pupil in 2016. Spending on classroom instruction, including teacher salaries and classroom supplies, has plummeted to an average of \$1455 per pupil, the lowest per pupil expenditures in the state. See Table 4.

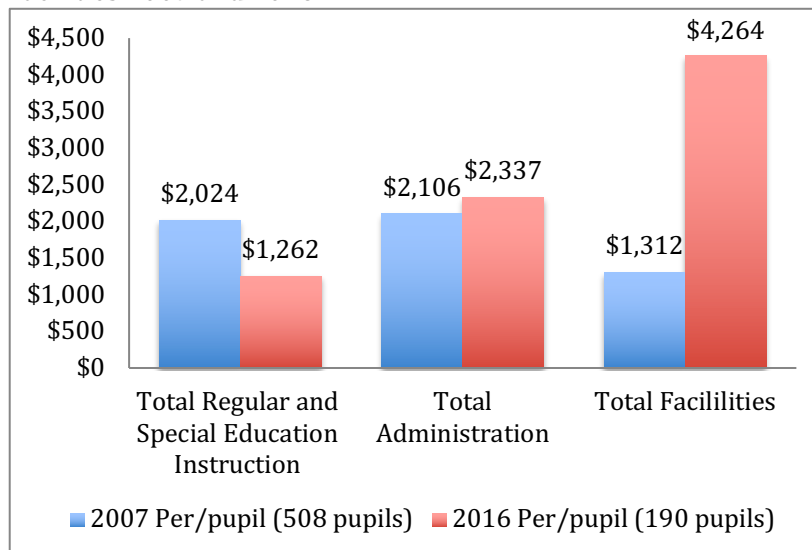
Table 4 Spending on instruction, administration, and facilities before schools were sold in 2007 compared to 2016 expenditures.



ACSF Desert Hills High School

The most glaring example of the devastation caused by high mortgage payments and declining enrollment is ACSF Desert Hills High School in Gilbert, Arizona. Desert Hills' enrollment fell from 508 students in 2007 to just 190 students in 2016. Last year Desert Hills High schools spent \$762 less per pupil on classroom instruction than in 2007, but spent \$171 more per pupil on administration and an incredible \$2952 more per pupil more on the facilities. The following table is a comparison of Desert Hills's spending in 2007, the year before Coats sold the school, with spending indicated in their Annual Financial Report (AFR) filed October 15, 2016. See Table 5.

Table 5 – Desert Hills High school expenditures per pupil for Instruction, Administration, and Facilities 2007 and 2016



The other ACSF schools have similar higher facilities costs and lower expenditures on classroom instruction in 2016 than in 2007. See Table 6.

Table 6 - Comparison of ACSF Schools Per Pupil Expenditures on Instruction and facilities 2007 vs. 2016.

	2007	Instruction Per Pupil 2007	Instruction Per Pupil 2016	Facilities Per Pupil 2007	Facilities Per Pupil 2016
Alta Vista	468	\$1,352	\$1,318	\$1,527	\$1,947
Apache	169	\$2,206	\$1,778	\$1,072	\$2,161
Crestview	269	\$2,549	\$1,648	\$807	\$2,550
Desert Hills	508	\$2,024	\$1,205	\$1,312	\$4,112
Estrella	475	\$1,864	\$1,442	\$969	\$3,164
Peoria	517	\$1,685	\$1,521	\$1,295	\$1,800
South Pointe	634	\$1,675	\$1,016	\$1,291	\$2,572
Southridge	317	\$3,353	\$1,589	\$707	\$1,965
Sun Valley	690	\$2,005	\$1,620	\$616	\$1,969
West Phoenix	517	\$2,183	\$1,408	\$1,896	\$2,546
Average		\$2,090	\$1,455	\$1,149	\$2,479

Arizona's Auditor General would publicly criticize any public district spending so little of their budget on classroom instruction. For example, the Auditor General investigated and sanctioned Window Rock School District in 2014 for allowing classroom spending to fall from 57% of the total budget to 46.5% over an eight-year period. ¹

Desert Hills spent just 12% of their total maintenance and operations budget in 2016 on regular and special education classroom instruction without a word from the Auditor General's Office.

That is because the Arizona Auditor General monitors the spending of all state agencies except charter schools. Charter legislation only allows the Arizona State Boards for Charter Schools to monitor and regulate charter schools. The financial report ACSF Desert Hills High School received in its latest evaluation in 2015 from the Charter Board is in Table 7.²

¹ https://www.azauditor.gov/sites/default/files/Window_Rock_USD_Report.pdf

² See - ASBCS online at <http://online.asbcs.az.gov/>

Table 7 - Arizona Charter School Board Financial Performance Review of Desert Hills High School 2016

Financial Performance

American Charter Schools Foundation d.b.a. Desert Hills High School

Near-Term Measures

	Fiscal Year 2015		Fiscal Year 2016	
Going Concern	No	Meets	No	Meets
Unrestricted Days Liquidity	42.63	Meets	44.04	Meets
Default	No	Meets	No	Meets

Sustainability Measures (Negative numbers indicated by parentheses)

Net Income	\$723,712	Meets	\$754,889	Meets
Fixed Charge Coverage Ratio	1.27	Meets	1.26	Meets
Cash Flow (3-Year Cumulative)	\$1,196,272	Meets	\$2,511,237	Meets

Cash Flow Detail by Fiscal Year

FY 2015	FY 2014	FY 2013	FY 2016	FY 2015	FY 2014
\$1,105,034	\$655,576	(\$564,338)	\$750,627	\$1,105,034	\$655,576

Meets Board's Financial Performance Expectations

ACSF Desert Hills High School meets all of the Charter Board's expectations on their Financial Performance Review because the Board only looks at the viability of the charter school as a business – such things as cash flow, liquidity, and net income. The Charter Board does not examine how charter schools expend tax money and have no idea how much money actually reaches children in the classroom. In fact, on March 14, 2016 The Charter Board granted Desert Hills a 20-year extension on their charter stating:

“Viability of the Organization

The Charter Holder meets the Board's Financial Performance Expectations set forth in the Performance Framework adopted by the Board. Therefore, the Charter Holder was not required to submit a Financial Performance Response.

Recommendation

Based upon the Charter Holder meeting the Academic Performance Expectations complying with applicable statutory requirements, and the information in the renewal application package, I move to approve the request for charter renewal and grant a renewal contract to American Charter Schools Foundation d.b.a. Desert Hills High School.”³

ACSF Desert Hills High School is a viable business so the Charter Board rewarded Desert Hills with a 20-year extension of their charter, despite the fact that they spend very little on classroom instruction but spend excessive amounts on administration and facilities – perhaps the least spent on classroom instruction in Arizona.

³ See - <https://asbcs.az.gov/sites/default/files/ACSF%20-%20Desert%20Hills%20High%20School%20Renewal.pdf>

The Internal Revenue Service guidelines for determining the non-profit status of charter holders, like ACSF, states the following:

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

- 1. The primary concern regarding charter schools is whether they are operated for exclusively charitable purposes and do not operate for the benefit of private management companies and service providers.⁴*

It appears that the ACSF is operating its schools for the benefit of Leona Group LLC that is owned solely by Bill Coats. Coats has profited by tens of millions of dollars selling his schools, in essence, to himself and creating lucrative set fee management contracts with automatic increases each year. Classroom spending has been systematically reduced to among the lowest percentages of any schools in Arizona – yet it is never reported in the media and the government agency responsible for its oversight determined that ACSF schools meet all the required financial requirements.

There is a problem here.

The ACSF, The Leona Group LLC and Bill Coats are an example of the waste, fraud, and abuse that plagues Arizona charter schools run by large, for-profit management companies. The purpose of this report is to examine, in detail, the sequence of events, and the lack of oversight along the way, which led to ACSF charter schools spending significantly more money on administration and real estate than on children in the classroom. We will look at Bill Coats and The Leona Group and follow the money trail and loan process that led to a 20-30 million dollar payday for Coats in October 2007, saddling ACSF schools with massive mortgage payments that can only be paid by systematically cutting classroom spending. We will also examine the relationship of ACSF to The Leona Group LLC through management contracts between the two related organizations and will make recommendations to prevent such abuses from continuing in Arizona, the home of the most unregulated charter schools in the United States.

⁴ See: *Revised Charter School Reference Guide* at http://mycharterlaw.com/pdf/IRS_Update_Revised_Charter_School_Reference_Guide_102607.pdf

The Sale of Leona Group LLC Schools to ACSF

Bill Coats and the Leona Group

Dr. William (Bill) Coats was public schools superintendent in Fort Wayne, Indiana; Anchorage, Alaska; Grosse Pointe, Michigan; and Kalamazoo, Michigan and was a full professor in the College of Education at the University of Michigan.

Bill Coats first became involved in the charter school movement in Michigan by serving as Director of The Michigan Partnership for New Education which was a part of the Michigan New Education led by billionaire mall developer Alfred Taubman.⁵ The Partnership for New Education helped win passage of Michigan legislation in 1995 that sanctioned the formation of up to 150 charter schools.⁶ In 1997 Coats and Taubman went into business together and the Partnership for New Education became the for-profit Leona Group of Michigan. (see Appendix 1) Tuabman and Coats and opened their first school, the Cesar Chavez Academy, in an inner city neighborhood of Detroit.

Bill Coats came to Arizona in 1997 and, with the financial backing of Taubman, opened five schools in the Phoenix area. Between 1998 and 2002 Coats bought real estate and built or remodeled ten sites to become charter schools. (See table 3 school info). Each school was a separate business LLC under Coat's name and was financed by loans from Bank of America. (See table 4 Loans). Coats took out additional loans between 2002 and 2006 using eight of the schools as collateral. Each loan listed the Leona Group Michigan as a trustor. The Alfred Taubman Trust is the co-owner of Leona Group Michigan, so Alfred Taubman's billions stood behind the loans. See Table 8 and Appendix 2

Table 8 - Leona Group Michigan loans from B of A using Leona schools as collateral.

Title	Loan	Date	Amount
Peoria	B	2/8/00	\$1,493,125
Ocotillo	C	3/15/00	\$1,612,500
Desert Hills	D	7/30/00	\$1,700,000
Estrella	E	11/28/00	\$1,575,000
West Phoenix	F	7/3/01	\$3,000,000
Sun Valley	G	7/3/01	\$3,000,000
Apache Trails (Pinal)		7/3/01	\$3,000,000
LEONA GROUP AZ	H	11/30/01	\$4,000,000
Peoria	I	11/30/01	\$4,000,000
Estrella	J	11/30/01	\$4,000,000
Sun Valley	K	11/30/01	\$4,000,000
Ocotillo	L	11/30/01	\$4,000,000

⁵ Alfred Taubman was estimated by Forbes to be worth 3.1 billion dollars and was on the Forbes Richest 400 Americans list for over two decades.

⁶ <http://www.edweek.org/ew/articles/1995/12/06/14mich2.h15.html>

West Phoenix	M	11/30/01	\$4,000,000
Desert Hills	N	11/30/01	\$4,000,000
Alta Vista (Pima)		11/30/01	\$4,000,000
Apache Trails (Pinal)		11/30/01	\$4,000,000
Total			\$51,380,625
Revolving Loan		12/19/02	\$3,700,000
Loan A (Revised from 7.5 to 15.0 M 6/30/03)		12/19/02	\$15,000,000
Loan B		12/19/02	\$3,000,000
Loan A New		1/17/07	\$20,000,000
Loan B New		1/17/07	\$4,000,000

Decca Builders, the general contractor Coats has hired to build several schools, reported that Estrella High School and Desert Hills High School cost about 2.5 million to develop. Crestview High School was converted from a roller rink to classroom space for \$950,000, according to Decca.⁷ There are no sales records or construction contracts available for the ten schools, but based on statements from Decca Builders and on loan amounts, it appears the schools cost Coats between 2.5 and 4 million dollar each to purchase or build.

By November 2001, Coats had borrowed over 51 million dollars using the schools as collateral. He borrowed an additional 21.7 million dollars in 2002-03 and in January 2006, just ten months before he sold the schools to his foundation, he borrowed another 24 million dollars. See Table 8 above.

American Charter Schools Foundation

In 1998 Bill Coats formed the non-profit American Charter Schools Foundation (ACSF) in Michigan with Michael Malone the Regional Vice President for Development for Leona. Coats turned over the Foundation on June 29, 2007 to Theodore Frederick, former Chief Financial Officer at Leona, Linda Comer, a former Leona employee, and Matt Proctor, an associate from New Orleans who was instrumental in securing Leona control of several charter schools in post-Katrina New Orleans.⁸ See Appendix 3

The Foundation received donations of educational materials and parceled them out to various schools, most of which were Leona managed schools in Michigan. The Foundation

⁷ See <http://www.bizjournals.com/phoenix/stories/2002/01/21/story8.html>

⁸ See <http://www.frilot.com/articledetail.asp?tid=30>

never had an annual income of over \$65,000 and had never owned or run a charter school.⁹ Theodore Fredericks, Director of the Foundation, is the only paid Foundation employee (\$124,000/year). His office is at Leona headquarters in North Phoenix. ACSF has six board members:

Matthew Proctor, Director (New Orleans, Louisiana)
Theodore C. Frederick, Director, President and CEO (Phoenix, Arizona)
John Matthews, Vice Chair (Grand Rapids, Michigan)
Linda Comer, Chair (Charlotte, North Carolina)
Gina Conflitti, Treasurer (Scottsdale, Arizona)
Scott McPhail, Secretary (Honolulu, Hawaii)

Meetings are held via teleconference since four of the six board members live outside of Arizona.¹⁰

Pima Industrial Authority

In 2007, Coats began the process to fund the sale of the Leona schools to ACSF through the Pima Industrial Authority. Industrial Authorities are government agencies that provide a funding mechanism for non-profits to finance public works projects such as charter schools and prisons. The Pima County Industrial Authority is one of the largest providers of bond funds for charter schools, not just in Pima County, but also around the country.¹¹ The bonds are sold on the open market as tax-free investments by private financial institutions providing funding at a lower interest rate than conventional financing. The 82 million dollar bond awarded to ACSF was the third largest bond issued to a charter school owner in the U.S. up to that time.¹²

Application for Bond Funding

Finding information about the ACSF bond application was challenging. It took 6 months of public records requests to the Pima Industrial Authority's attorney Michael Slania of Russo, Russo & Slania, including the assistance of Tim Hogan from the Center for Law in the Public Interest, to receive the application and supporting documentation. From ACSF. The application documents were finally received as a portion of a 1771 page packet.¹³

⁹ See page 11 of ACSF 2006 IRS 990 form at :
<https://www.guidestar.org/FinDocuments/2006/383/463/2006-383463353-0360651c-9.pdf>

¹⁰ See ACSF website at <http://www.acsfoundation.org/our-board.html>

¹¹ See <https://arizonadailyindependent.com/2016/04/04/industrial-development-authority-industrious-everywhere-but-pima-county/>

¹² See *The Complete History of Charter Bond Issuance* at <http://www.highmarkschools.com/wp-content/uploads/2016/05/LISC-1998-2010-Charter-School-Bond-History-Vol-I.pdf>

¹³ The entire application document is available at azcsa.org

ACSF incorporated in Arizona June 25, 2007 and submitted the bond application on August 9, 2007. See Appendix 4

The ACSF had never owned or managed a school before, yet Slania was unable to produce a financial statement from the Foundation to qualify for the bond. The \$82,000,000 loan was the largest bond issue ever authorized by the PIA and it was done without the required financial statement from the Foundation.¹⁴ The PIA claims the financial statement does not exist. (See Appendix 5). There was a statement, however, at the hearing before the Pima County Board of Supervisors when they approved the loan that the Leona Group LLC was actually guaranteeing the loan. See Appendix 6

Appraisals

Coats was able to sell the schools to ACSF for an average price of 7.2 million dollars per school, far more than the real estate was worth. The schools were appraised using a value formula appraising them as businesses, not real estate. This was deemed appropriate by the appraiser because the purchase was to be made by secured, low interest bonds. (The complete appraisals are available at azcsa.org)

The appraisals totaled \$63,015,000 as reported in the loan application. Buried in the 1771 page loan document, some of the properties were re-appraised, at Coats request, using the actual profit from the schools in the formula. The profit amounts used for the calculations were redacted from the documents sent to ACSA by the Industrial Authority. See below:

Estimation of Stabilized Net Operating Income

Therefore, having estimated the subject's effective gross income and appropriate levels of operating expenses, the stabilized net operating income of the subject property, as of the date of valuation, can now be estimated as shown in the following exhibit:



The revision of the property appraisals doubled the investment value of three of the schools and created a total appraisal of \$82,656,000. The PIA awarded \$82,185,000 to ACSF, including the sales price of the properties. \$72,492,485 was used to pay off all of the loans on the properties at B of A, including the 24 million dollar loan Coats acquired that January. See Table 9.

¹⁴ See <http://www.pimaida.com/bond-issues/>

Table 9 – Appraisals for 10 Leona Group LLC schools from the 2007 bond application submitted by ACSF to the Pima Industrial Authority

School	Market Value	Investment Value	Revised Value*	Sales Price
ACSF Alta Vista HS	\$3,045,000.00	\$5,331,000.00	\$11,500,000	\$8,000,000
ACSF Apache Trails HS	\$3,535,000.00	\$4,602,000.00	\$4,602,000	\$4,602,000
ACSF Desert Hills	\$3,690,000.00	\$5,596,000.00	\$10,925,000	\$7,761,485
ACSF Crestview (Ocotliio)	\$4,533,000.00	\$7,178,000.00	\$7,178,000	\$7,178,000
ACSF Estrella HS	\$3,440,000.00	\$5,855,000.00	\$5,855,000	\$5,855,000
ACSF Peoria Accelerated HS	\$3,920,000.00	\$5,232,000.00	\$10,930,000	\$7,430,000
ACSF South Pointe HS	\$4,882,000.00	\$6,825,000.00	\$9,270,000	\$9,270,000
ACSF South Ridge HS	\$3,620,000.00	\$6,606,000.00	\$6,606,000	\$6,606,000
ACSF Sun Valley HS	\$3,840,000.00	\$6,977,000.00	\$6,977,000	\$6,977,000
ACSF West Phoenix HS	\$4,097,000.00	\$8,813,000.00	\$8,813,000	\$8,813,000
TOTAL	\$38,602,000	\$63,015,000	\$82,656,000	\$72,492,485

Inaccurate Appraisal- Sun Valley High School

The most questionable appraisal involved Leona’s Sun Valley High School located at 1043 S. Lindsay in Mesa, Arizona. The school is situated on 3.2 acres and has 12,000 square feet under roof. The school consists of 11 wooden modular classroom buildings built in 1995. The appraiser from KS Appraisals, stated:

“The subject units which have a “modular” design are considered permanent fixtures equal to a stick built facility. It is assumed these structures are permanent fixtures with the Maricopa County Assessor’s office.”

A cursory examination of the Maricopa County Assessor’s records for Sun Valley High School reveal that all of the buildings at Sun Valley are considered “Mobile Homes” and

are assessed at significantly lower rates than “stick built” facilities. As a result, the property taxes for Sun Valley in 2006 were about a third of the amount the other Leona schools paid.

Inappropriately classifying the buildings as mobile homes led to a 7 million dollar appraisal for Sun Valley. Coats received \$6,977,000 for 11 “mobile homes” on 3.2 acres in the sale to ACSF. See the list below of buildings at Sun Valley listed by the Maricopa County Assessor: ¹⁵

Mobile Home Search Results

Showing 11 results	
Acct	Name
8138378	AMERICAN CHARTER SCHOOL FOUNDATION SUN VALLEY HIGH SCHOOL
7363072	AMERICAN CHARTER SCHOOLS FOUNDATION SUN VALLEY HIGH SCHOOL
7450187	AMERICAN CHARTER SCHOOLS FOUNDATION SUN VALLEY HIGH SCHOOL
7450196	AMERICAN CHARTER SCHOOLS FOUNDATION SUN VALLEY HIGH SCHOOL
7450202	AMERICAN CHARTER SCHOOLS FOUNDATION SUN VALLEY HIGH SCHOOL
7450211	AMERICAN CHARTER SCHOOLS FOUNDATION SUN VALLEY HIGH SCHOOL
7450221	AMERICAN CHARTER SCHOOLS FOUNDATION SUN VALLEY HIGH SCHOOL
7450230	AMERICAN CHARTER SCHOOLS FOUNDATION SUN VALLEY HIGH SCHOOL
8006271	AMERICAN CHARTER SCHOOLS FOUNDATION SUN VALLEY HIGH SCHOOL
8006299	AMERICAN CHARTER SCHOOLS FOUNDATION SUN VALLEY HIGH SCHOOL
8138387	AMERICAN CHARTER SCHOOLS FOUNDATION SUN VALLEY HIGH SCHOOL

¹⁵ See <http://mcassessor.maricopa.gov/mcs.php?q=sun%20valley%20high%20school>

Two of the eleven buildings at Sun Valley High School, a school Bill Coats sold to his foundation for nearly \$7,000,000 are shown below:



Sun Valley High School

Purchase of the schools

The Board of the Pima Industrial Authority granted the bond loan on August 17, 2007 and it was approved by the Pima County Board of Supervisors on September 18, 2007. The total Bond was \$82,000,000 with \$72,492,000 earmarked for purchase of the ten schools from Bill Coats. The remainder of the loan went to set up a reserve account for the loan and pay the attorneys and consultants that put the loan package together.

There are no actual purchase documents available for the sale. Instead, the 82 million dollars was deposited at Wells Fargo Bank on October 1, 2007 and \$72,492,000 was transferred to BofA on October 5, 2007 to pay off all of the loans Bill Coats had taken out on the properties – including the \$24,000,000 loan made just 10 months earlier. The remainder of the bond money was used to pay the cost associated with the loan and set up required funding accounts. On October 13, 2007 ACSF signed a ten-year management agreement with the Leona Group LLC and Coats transferred the deeds to the schools on October 25th to ACSF.

Elimination of property taxes

When Coats transferred the ten properties to ACSF they were able to forgo paying property taxes on the real estate since the new owners were a non-profit foundation. Leona paid over \$324,494 in property taxes in Maricopa County in 2007. Coats avoided paying property taxes in the future by transferring the schools to his foundation.

School leases double

Bill Coats charged each of the Leona schools an annual lease payment when they were owned by Leona. Those leases totaled \$2,875,034 in 2006, the year before he sold the properties. In 2016 the lease payments charged by ACSF to the schools are more than double that amount – even though enrollment has decreased by 25% since 2006. See Table 10.

Table 10 – ACSF School Leases before sale in 2006 and current lease amounts

	Lease 2006	Lease 2016
Alta Vista	\$415,869	\$670,000
Apache Trail	\$31,816	\$185,000
Crestview	\$260,298	\$495,000
Desert Hills	\$418,080	\$625,000
Estrella	\$220,443	\$625,000
Peoria Accelerated	\$423,397	\$700,000
South Pointe	\$417,610	\$675,000
South Ridge (2007)	\$20,617	\$650,000
Sun Valley	\$228,286	\$785,000
West	\$438,618	\$785,000
Total	\$2,875,034	\$6,195,000

Lucrative management contracts

Leona charged 15% of gross revenues to manage all aspects of operations for the 15 Kaizen Foundation schools. Bill Coats set up a completely different fee structure for the ten schools he sold to ACSF. Seven of the schools had a set fee to be paid, with an automatic 3% increase each year built in. A bonus system was also included where Leona would get an additional fee if the school revenue exceeded a prescribed amount.

The management contracts also stated “In addition to the management fee, the borrower (ACSF) will reimburse the manager for all commercially reasonable costs incurred and paid by the manager in providing Educational Services and Administration Services to the Borrower for the Charter School facility.”¹⁶

See table for contract details for each school. See Table 11.

Table 11 – Leona Group LLC management contract details

School	Base Fee	Annual Increase	Target Revenue	Additional Bonus	Term of Contract
Alta Vista	\$525,000	3%	\$4,200,000	\$505,000	10 years
Apache Trail	\$150,000	3%	\$1,400,000	\$179,000	10 years
Desert Hills	\$450,000	3%	\$4,400,000	\$536,000	10 years

¹⁶ Copies of Leona Group LLC management contracts with ACSF are available at azcsa.org

Peopia Accelerated	\$440,000	3%	\$4,300,000	\$523,000	10 years
South Pointe	\$525,000	3%	\$5,200,000	\$624,000	10 years
Sun Valley	\$535,000	3%	\$5,300,000	\$636,000	10 years
West Phoenix	\$550,000	3%	\$5,400,000	\$654,000	10 years
Estrella	\$900/pupil				5 years
Ocotillo	\$900/pupil				5 years
Southridge	\$900/pupil				5 years

With set management fees that do not decrease as enrollment decreases, Leona is able to keep the schools financially solvent by adjusting the amount they charge in for management. See Table 12.

Table 12 – ACSF management expenses 2007 - 2016

Year	Management Fee	Amount Forgiven
Aug-Oct7 2007	\$1,220,563	\$479,415
2007-08	\$1,746,563	0
2008-9	\$4,186,949	\$1,313,244
2009-10	\$4,260,563	0
2010-11	\$4,375,197	\$681,700
2011-12	\$4,560,465	\$2,955,613
2012-13	\$4,720,930	\$752,494
2013-14	\$3,912,801	\$1,240,614
2014-15	\$3,721,341	0
2015-16	\$3,549,007	0

Bond Pressures

In March 2013 Fitch Bond rating Service downgraded the ACSF bonds from BBB to BB because of the weak financial profile of the ten ACSF schools caused by declining enrollment. A BB rating made the bonds speculative, or “junk” bonds.

“WEAK FINANCIAL PROFILE: The downgrade to 'BB' primarily reflects a history of break-even to slightly negative operations and a very limited financial cushion. The downgrade also reflects a high debt burden and adequate, albeit limited, coverage of transaction maximum annual debt service (TMADS). Under Fitch's updated charter school rating criteria, ACSF's financial profile demonstrates characteristics consistent with a speculative grade rating.

ENROLLMENT ISSUES PERSIST: Aggregate enrollment at the schools rebounded in fall 2012 following three consecutive years of declines. However, enrollment declines persisted at several schools. The inability to correct these issues over a total of four enrollment cycles is an additional credit concern.”¹⁷

Leona implemented cost controls to strengthen the schools financial profile by slashing instructional expenses but Leona still collected “bonuses” prescribed in their management agreements for increased enrollments at certain schools, even though the actual enrollment declined during the course of the year. The bonuses contributed to ACSF poor financial performance in 2013:

“The CMO has been able to implement cost controls, especially in salaries which are its largest expense item. Instructional expense dropped 10.5% in fiscal 2009 and then increased just 1.1% in 2010. Budgetary data provided by the CMO indicates a 15% reduction in total salaries in the current year, with additional cuts planned for fiscal 2012 to absorb state funding reductions. Leona Group also deferred approximately one-fifth of its total management fee for the ACSF schools this fiscal year, and is contractually obligated to continue deferrals as long as they are needed to ensure all cash flow obligations of the schools, including debt service, are fully met. The fiscal 2012 ACSF school budgets include a similar deferral. Management fees have historically accounted for 10 -15% of overall operating expenses. Bonus payments at certain schools based on enrollment improvements in fall 2012 despite the fact that the enrollment levels eroded during the course of the year. This resulted in weaker than anticipated financial performance.”¹⁸

The Leona niche:

Coats chartered nine of the ten schools as alternative schools that were designed to serve at-risk students and students who had fallen behind in credits to graduate from high school. Alternative schools have far fewer expectations for academic success; in fact only 11 of 140 alternative schools in Arizona were failing in 2014. Schools operated on a shorten day and 144 day calendar rather than the 180 days required by traditional schools. Public high schools, eager to improve test scores and graduation rates, welcomed charter alternative schools like Leona’s to take poor performing students off their rosters. Seven years after the Leona schools opened total enrollment was over 4000 students.

Alternative charter schools are much less expensive to run than comprehensive public schools

The nine alternative schools owned by ACSF are significantly less expensive to operate than traditional comprehensive public high schools. The ACSF schools offer a bare-bones credit recovery program that relies heavily on computer instruction and offers few of the services a traditional high school would offer.

¹⁷ <http://www.businesswire.com/news/home/20130308005957/en/Fitch-Downgrades-American-Charter-Schools-Foundation-MI>

¹⁸ <http://www.businesswire.com/news/home/20130308005957/en/Fitch-Downgrades-American-Charter-Schools-Foundation-MI>

A good way to demonstrate this is to examine two Arizona high schools that have similar enrollments – ACSF Sun Valley High School (537 students) and Santa Rita High School (526 students) in the Tucson Unified School District.

Sun Valley has fifteen teachers listed on their staff roster posted on their website at: <http://www.sunvalleymesa.com/school-leader--staff.html>

Sun Valley High School

Joe Procopio Principal

[Garth Engle](#), Assistant Principal [email](#)
[Sarah Coleman](#), Assistant Principal, Curriculum Coach [email](#)
[Shawn Coats](#), Assistant Principal of Vocational Education [email](#)

Office Staff

[Stephanie Hernandez](#), Office Manager [email](#)
[Roxanne Brooks](#), Administrative Assistant [email](#)
[DeeLynn Southwick](#), Administrative Assistant [email](#)
[Silvia Navarro](#), Student Services [email](#)

Specialist Support

[Marilyn Brimacombe](#), Special Education Coordinator [email](#)
[Tracy Inorio](#), College and Career Advisor

Teaching Staff

[Mandi Bolinger](#), Economics, History [email](#)
Collin Burrell, Mathematics [email](#)
[Claire Candler](#), Government [email](#)
[Stephen Curran](#), Mathematics [email](#)
[Stephanie Darley](#), Mathematics [email](#)
[Michelle Ebersole](#), English [email](#)
Brittnee Felix, Mathematics [email](#)
[Telleny Gilliam](#), U.S. History [email](#)
[Dannielle Jensen](#), Biology [email](#)
[Heather LaCourt](#), English [email](#)
[Kathy Mead](#), Nursing [email](#)
[Matthew O'Brien](#), Science, fitness training [email](#)
Crista Procopio, English [email](#)
Sarah Hoyt, English [email](#)
[Jonathan Zinger](#), Computer Based Education [email](#)

Santa Rita High School in Tucson, Arizona has 36 teachers. Santa Rita offers foreign languages, drama, art, music, psychology, culinary arts. and special education programs. They have a nurse, a librarian, and a social worker. Sun Valley offers none of these programs. See the 2016 staff roster from Santa Rita High School's website at: <http://edweb.tusd1.org/SantaRita/Documents/Teachers%20Phones%20Emails%202015-16.pdf> below:

SANTA RITA HIGH SCHOOL

3951 S. Pantano Rd 85730

Office Hours: 7:30-4:00

Main Number: 731-7500

Web Site: <http://edweb.tusd1.org/SantaRita/>

James Palacios, Principal..... (james.palacios@tusd1.org).....	731-7504
Zulema Stanbrook, Asst. Principal....(zulema.stanbrook@tusd1.org).....	731-7507
Sam Luna, Asst. Principal.....(samuel.luna@tusd1.org).....	731-7541

Office ManagerTammy Tullous.....(tammy.tullous@tusd1.org).....	731-7504
Counselor: 8:00a.m. – 3:30p.m.Christina Stephens(A-L)....(christina.stephens@tusd1.org).....	731-7505
Rachel Pupiales(M-Z).....(rachel.pupiales@tusd1.org).....	731-7506
College/ Career CoordinatorAmanda Cook.....(amanda.cook@tusd1.org).....	731-7568
Learning Support CoordinatorLuis Blanco...(luis.blanco@tusd1.org).....	731-7718
Social WorkerSharon Thwing.....(sharon.thwing@tusd1.org).....	731-7518
Psychologist Lori McCorkle-Benz.....(lori.mccorkle-benz@tusd1.org).....	731-7722
Admin SecretaryTalitha Byarse...(talitha.byarse@tusd1.org).....	731-7541
Registrar Diane Zawacki.....(diane.zawacki@tusd1.org).....	731-7515
AttendanceShannon Muscarella.....(shannon.muscarella@tusd1.org).....	731-7602
Office AssistantMarilyn Hooper....(marilyn.hooper@tusd1.org).....	731-7502

Transcripts Request Fax#731-7604

Requesting homework for unplanned absences-illness, emergencies, etc.: Absences of 3 days or less: student collects work directly from teachers upon return, for more than 3 days, email teachers. Homework will be ready the next day & can be picked up between 2:00 p.m. & 3:00 p.m. in the Attendance/Registration office.

1. Absences~ Hours: 7:30 a.m. – 4:00 p.m. You may leave a message: 4:00 p.m. – 7:00 a.m.
2. Student's checking out early for appointments, etc.
3. Address and phone number changes.
4. Petition of Absence (planned absence): Student takes form to teachers for signatures & homework. Completed form must be turned into the Attendance Office at least 48 hours in advance.
5. Messages for students must be an emergency & must be from a parent or legal guardian only.

Other Important Numbers

Library ...Kim Armenta.....(kimberly.armenta@tusd1.org).....	731-7524
Finance Manager/Eagle Exchange ...Constance Lindholm.....(connie.lindholm@tusd1.org).....	731-7545
NurseSusan Keenan.....(susan.keenan@tusd1.org).....	731-7516
Drop Out Prevention Art Ross.....(arthur.ross@tusd1.org).....	731-7664
Exceptional Ed Department Chair ...Gary Passantino.....(gpassant@tusd1.org).....	731-7511

The Leona Group LLC has turned these classroom savings into high management fees and massive mortgages for ACSF.

Conclusions:

It is not a coincidence that Bill Coats came to Arizona in partnership with A. Alfred Taubman, a real estate billionaire. Through Tuabman, Coats was able to secure stable financing to create a charter school empire of 14 schools by 2002 and then leveraged them to eventually control 25 schools by 2016. At the height of the real estate bubble in 2007, he concocted the scheme to sell ten of his schools to his own foundation for double their actual market value. Financial institutions eagerly provided 82 million dollars in funding, even though the foundation receiving the funds provided no financial statements. Coats then established lucrative management contracts with the schools so he could retain complete control over school operations.

The ACSF schools have lost a significant number of students, since 2007, severely decreasing revenue. But the schools must come up with \$6,000,000 every year just to pay the mortgages created by the school purchases from Coats in 2007. ACSF has been forced to cut classroom spending to the lowest levels in Arizona...to fund Bill Coats' real estate windfall.

The Arizona Board for Charter Schools sees nothing wrong with this. In fact they find ACSF to have an exemplary financial track record. The Auditor General and the Arizona Department of Education have no comment – because they do not track charter school expenditures.

The lack of transparency for all aspects of charter school operations, the ability to skirt procurement laws, and the autonomy with which private for-profit charter management companies like Leona Grpoup LLC are allowed to operate, contributes to a culture where profits take precedence over quality education and sound ficical responsibility for the use of public funds.

We pay a huge price for the deregulation of public education, whether through charter schools or vouchers, without complete transparency for how precious tax dollars are being expended.

The Arizona Auditor General must begin to monitor charter spending and the Charter Board needs to make charter schools just as accountable for the use of tax funds as public districts are.

Recommendations:

1. Legislation is necessary to require the Arizona Auditor Generals Office to monitor charter school classroom spending just as they do for public districts.
2. The Arizona Board for Charter Schools should consider all aspects of charter spending as part of their annual financial evaluation of charter holders.
3. Affiliated companies servicing charter schools need to provide financial records documenting profits and expenses.
4. The practice of leasing facilities from an affiliated company needs to be investigated.
5. Charter schools should be required to follow state procurement laws so all transactions are made public, including all purchases from related parties.
6. The loan process for the Pima Industrial Authority needs to be more transparent and more accessible to public records need to be properly maintained.

Appendix 1 –Articles of Organization for the Leona Group Michigan 1996

CAS 700 (5/95)

MICHIGAN DEPARTMENT OF CONSUMER AND INDUSTRY SERVICES - CORPORATION, SECURITIES & LAND DEVELOPMENT BUREAU		
Date Received SEP 1 3 1996	(FOR BUREAU USE ONLY)	
		FILED
		SEP 13 1996
Name PH. 517-663-2525 REF # 64647 Ms. Cheryl Bixby, Michigan Runner Service		Administrator MI DEPT. OF CONSUMER & INDUSTRY SERVICES CORPORATION, SECURITIES & LAND DEVELOPMENT BUREAU
Address P.O. Box 266		EFFECTIVE DATE:
City	State	Zip
Eaton Rapids, MI		48827

Document will be returned to the name and address you enter above.

ARTICLES OF ORGANIZATION For use by Domestic Limited Liability Companies (Please read information and instructions on last page)

B06-969

Pursuant to the provisions of Act 23, Public Acts of 1993, the undersigned execute the following Articles:

ARTICLE I

The name of the limited liability company is: The Leona Group, L.L.C.

ARTICLE II

The purpose or purposes for which the limited liability company is formed is to engage in any activity within the purposes for which a limited liability company may be formed under the Limited Liability Company Act of Michigan.

ARTICLE III

The duration of the limited liability company is: December 31, 2026

ARTICLE IV

- The address of the registered office is:
500 North Woodward Ave., Suite 100, Bloomfield Hills, Michigan 48304
- The mailing address of the registered office if different than above:

- The name of the resident agent at the registered office is: Jeffrey H. Miro

Signed this 6th day of September, 1996.

The A. Alfred Taubman Restated Revocable Trust,
as amended and restated in its entirety by Instrument
dated January 10, 1989 (as the same has been and may
hereafter be amended from time to time), Member

William D. Coats, Member

By: A. Alfred Taubman, Trustee of The A. Alfred Taubman Restated Revocable Trust

By: Jeffrey H. Miro, as Attorney-in-Fact
for A. Alfred Taubman, Trustee

By: David A. Handelsman, as Attorney-in-Fact
for William D. Coats


62.58 MWK 8H/140250.1
34469d

Appendix 2 LLC documentation for Estrella High School LLC listing Bill Coats as sole owner.

ARIZONA CORPORATION COMMISSION CORPORATIONS DIVISION
WEBSITE ENTITY DETAIL • <http://ecorp.azcc.gov/>

Corporate Inquiry				
File Number L08803337		Corporation Name ESTRELLA HIGH SCHOOL, L.L.C.		
Domestic Address				
7878 N 16TH ST STE 150 PHOENIX, AZ 85020				
Statutory Agent Information				
Agent Name: WILLIAM D COATS Agent Mailing/Physical Address: 7878 N 16TH ST STE 150 PHOENIX, AZ 85020 Agent Status: APPOINTED 08/31/2007 Agent Last Updated: 03/06/2008				
Additional Entity Information				
Entity Type: DOMESTIC L.L.C.		Business Type:		
Incorporation Date: 6/30/1999		Corporation Life Period: PERPETUAL		
Domicile: ARIZONA		County: MARICOPA		
Approval Date: 6/30/1999		Original Publish Date: 8/9/1999		
Manager/Member Information				
Name	Title	Address	Date Taking Office	Last Updated
THE LEONA GROUP ARIZONA LLC	MEMBER	7878 N 16TH ST STE 150 PHOENIX, AZ 85020	06/30/1999	03/06/2008
Scanned Documents				
Document Number	Description	Date Received		
02304969	CHANGE(S)	02/11/2008		
02190480	PUB OF AMENDED ARTICLES OF ORGANIZATION	10/15/2007		
02137074	AMENDMENT	08/31/2007		

Appendix 3 ACSF Michigan LLC listing William Coats and Michael Malone as sole members



Michigan Department of Labor & Economic Growth
Lansing, Michigan

This is to Certify That

AMERICAN CHARTER SCHOOLS FOUNDATION


A Michigan nonprofit corporation was validly incorporated on April 21, 1989, and said corporation is validly in existence under the laws of this state.

This certificate is being prepared in compliance with the provisions of PA 152, as amended, to certify to the fact that the corporation is in good standing in Michigan as of this date and is duly authorized to conduct affairs in Michigan and for no other purpose.

This certificate is in due form, made by me as the proper officer, and is entitled to have full faith and credit given it in every court and office within the United States.

In testimony whereof, I have hereunto set my hand in the City of Lansing, this 7th day of May, 2007.

[Signature]
Director
Bureau of Commercial Services



Michigan Department of Labor & Economic Growth
Lansing, Michigan

This is to Certify That

A Michigan nonprofit corporation was validly incorporated by me with this record on file in this Department and that the same is in due form.

This certificate is in due form, made by me as the proper officer, and is entitled to have full faith and credit given it in every court and office within the United States.

In testimony whereof, I have hereunto set my hand in the City of Lansing, this 18th day of May, 2007.

[Signature]
Director
Bureau of Commercial Services

APR 23 2008

FILED

APR 21 2008

Michigan Department of Commerce, Corporation and Securities Bureau

ARTICLES OF INCORPORATION
For use by Domestic Nonprofit Corporations
(Please read instructions and instructions on the last page)

Partners in the preparation of PA 152, Public Act of 1989, the undersigned responsible officer the following:

ARTICLE I
The name of this corporation is:
American Charter Schools Foundation

ARTICLE II
The purpose for which this corporation is organized are:
The corporation is organized exclusively for educational, charitable, literary and scientific purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986 (or the corresponding provisions of any future United States Internal Revenue law). The corporation shall neither conduct nor attempt to conduct any commercial or business enterprise for the purpose of generating funds for the corporation, nor shall it engage in any other activity not permitted to be carried on by a corporation exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code of 1986 (or the corresponding provisions of any future United States Internal Revenue law).

ARTICLE III
The corporation is organized under the laws of the State of Michigan.

ARTICLE IV
If, in the exercise of its powers, the corporation is authorized to have the right to acquire, hold, lease, or otherwise dispose of real and personal property, the corporation shall have the right to acquire, hold, lease, or otherwise dispose of real and personal property in such cases, and the officers and directors of this corporation shall have the right to acquire, hold, lease, or otherwise dispose of real and personal property in such cases, and the officers and directors of this corporation shall have the right to acquire, hold, lease, or otherwise dispose of real and personal property in such cases.

ARTICLE VI (OPTIONAL)

A. If organized as a nonprofit body, the description and value of its real property assets are: (If none, check "none")

B. The description and value of the general property assets are: (If none, check "none")

C. The corporation is to be chartered under the following general plan:

D. The corporation is organized under the following general plan:

ARTICLE VII

1. The address of the registered office is:
4000 N. Hagadone, Suite 1000, Lansing, MI 48906

2. The mailing address of the registered office, if different than above:

3. The name of the person named as the registered office is:
Michael Malone

ARTICLE VIII

The names and addresses of the incorporators to sign in full:

Name	Address and Business Address
Michael Malone	4000 N. Hagadone, Suite 1000, Lansing, MI 48906
William Coats	4000 N. Hagadone, Suite 1000, Lansing, MI 48906

ARTICLE IX (OPTIONAL)

Without limiting the general powers granted to the corporation by Michigan law, the corporation shall have the following specific powers:

A. To act in the furtherance of educational purposes of education in general and charter schools in particular by providing funds to appropriate tax exempt programs, institutions and organizations.

B. To make grants and loans of any corporate property for the purpose of furthering the purposes of this corporation.

C. To acquire, lease, purchase and dispose of, grant and acquire property of every kind or to hold real property in trust in order to receive or for the corporation, direct or indirect, for the furthering of the purposes of the corporation; or to receive grants from government or other sources and to distribute such grants for the support of charter schools and other educational projects.

(See additional pages attached)

I, (NAME), the incorporator, do hereby certify that this is a true and correct copy of the articles of incorporation of this corporation.

[Signature]
[Signature]

ARTICLE X (OPTIONAL)

No part of the net earnings of the corporation shall inure to the benefit of or be distributed to any individual, officer, or other private person, except that the corporation shall be authorized and empowered to pay reasonable compensation for services rendered. No substantial part of the activities of the corporation shall be the carrying on of propaganda or otherwise attempting to influence legislation, and the corporation shall not participate in or intervene in (including the solicitation or distribution of statements) any political campaign on behalf of any candidate for public office. Notwithstanding any other provision of these articles, the corporation shall not carry on any other activity not permitted to be carried on by a corporation exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code of 1986 (or the corresponding provisions of any future United States Internal Revenue law).

ARTICLE XI (OPTIONAL)

The corporation shall have no members.

ARTICLE XII (OPTIONAL)

In the event of the dissolution of the corporation, the assets of the corporation shall be distributed as follows:

A. All liabilities of the corporation shall be paid or adequate provision shall be made for payment.

B. All remaining assets of the corporation shall be conveyed to one or more of the following organizations, if said corporation shall qualify as an exempt organization under Section 501(c)(3) of the Internal Revenue Code of 1986 (or the corresponding provisions of any future United States Internal Revenue law) for the carrying on of the purposes of the corporation.

C. If no such organization is found, the assets shall be distributed to one or more of the following organizations, if said corporation shall qualify as an exempt organization under Section 501(c)(3) of the Internal Revenue Code of 1986 (or the corresponding provisions of any future United States Internal Revenue law). Any such assets and disposition of shall be distributed to the nearest government, or to make or loan government, for a public purpose or be placed at the disposal of the Court of Common Pleas of the county in which the principal office of the corporation is then located, exclusively for such purposes as the Court of Common Pleas may determine, and said Court shall have the right to acquire, hold, lease, or otherwise dispose of real and personal property in such cases.

5 Slania statement that financial doesn't exist

6. statement Leona guarentees