

Charter School Operator in Chicago Charged With Defrauding Investors

By **Michele Molnar** on June 2, 2014 5:43 PM

A Chicago charter school operator was charged Monday in federal court with defrauding investors in a \$37.5 million bond offering for school construction, according to a statement from the Securities and Exchange Commission, which filed the complaint.

The UNO Charter School Network, Inc. and United Neighborhood Organization of Chicago made "materially misleading statements about transactions that presented a conflict of interest," according to the **commission's release based on its charging documents**.

The issue came to light after the *Chicago Sun-Times* produced a **series of articles** about the neighborhood organization receiving a \$98 million grant for charter school construction, and how much of that went to well-connected allies of the organization.

The SEC alleges that UNO Charter School Network Inc. and United Neighborhood Organization of Chicago, which now operate a **network of 16 charter schools** serving more than 7,500 students and families each year, "not only failed to disclose a multimillion-dollar contract with a windows company owned by the brother of one of its senior officers, but investors also weren't informed about the potential financial impact the conflicted transaction had on its ability to repay the bonds."

The SEC said that UNO is settling the SEC's charges by agreeing "to undertakings to improve its internal procedures and training, including the appointment of an independent monitor." *Education Week* reached out to the charter school network for a response, but had not heard back as of 5 p.m. ET.

UNO opened its first charter school in 1998, and now has 13 K-8 schools and three high schools. On its website, the organization says that it provides a full English-immersion curriculum "grounded in the Common Core [State] Standards with a commitment to civic engagement and the American experience."

"UNO misled its bond investors by assuring them it had reported conflicts of interest in connection with state grants when in fact it had not," said Andrew J. Ceresney, the director of the SEC's Division of Enforcement. "Investors had a right to know that UNO's transactions with related persons jeopardized its ability to pay its bonds because they placed the grant money that was primarily funding the projects at risk."

Specifically, the SEC indicated in its release that UNO entered into two grant agreements with the Illinois Department of Commerce and Economic Opportunity in 2010 and 2011 to build three schools. "Each grant agreement contained a provision requiring UNO to certify that no conflict of interest existed when it signed the agreements," according to the SEC.

According to the SEC's complaint, UNO breached the conflict of interest provision as it entered the construction phases of the project in 2011 and 2012. "UNO contracted two companies owned by brothers of its chief operating officer. UNO agreed to pay one company approximately \$11 million to supply and install windows and the other company approximately \$1.9 million to serve as an owner's representative during construction," the SEC said.

UNO did not advise the Illinois department in writing about either of those conflicted transactions.

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