

A tangled web of a Colorado/Texas charter school operation fraud.

Charter schools throughout the nation operate without the benefit of many of the laws and regulations that help school districts avoid the fraud, corruption, and shameless profits that pervade the charter industry. The charter sector seems to attract those whose priority is personal gain over the desire to provide appropriate educational opportunities for school-age youth.

A not-so-isolated example of charter fraud is being investigated in Texas.

MIKE MILES MOVED TEXAS SCHOOL FUNDS TO COLORADO THROUGH A POSSIBLE SHELL CORPORATION WITHOUT A PAPER TRAIL

An Observer investigation has found irregularities in how the Houston ISD superintendent's Colorado charter school nonprofit did business in Texas.

by [JOSEPHINE LEE](#)

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Houston Independent School District (HISD) Superintendent Mike Miles claims to be a financial wizard. But controversy has followed the former military man-turned-school administrator to nearly every Texas school district he's served. In 2012, he was hired by the Dallas Independent School District (DISD), only to be ousted by a majority of the school board three years later after an investigation showed Miles [violated district policies](#).

In June 2023, the Texas Education Agency took over HISD and Commissioner Mike Morath, a former DISD board member who [had supported](#) Miles, tapped Miles to serve as superintendent. All year long, Miles' actions have drawn protests from Houston parents, teachers, and students.

But in between running two of Texas' largest school districts, from 2016 to 2023, Miles served as CEO of a charter school nonprofit called Third Future Schools in Colorado and accumulated debts while simultaneously expanding its operations into Texas, according to nonprofit tax documents. Under Morath's leadership, the Texas Education Agency greenlit Miles to take over three public schools under a related nonprofit entity registered to do business in Texas called Third Future Schools-Texas.

Miles' oversight of Third Future Schools' business operations has come under scrutiny after an investigative report by *Spectrum News* in May raised questions about the transfer of at least \$49 million in Texas public school funds to the Colorado nonprofit during his time as its CEO. Those transfers are being reviewed by the Texas Education Agency (TEA), led by Morath, the state official who approved Miles' charter school nonprofit to run Texas schools and later hired him to run HISD. But Morath, who did not directly respond to the *Texas Observer's* requests for comment, has already [come to Miles' defense](#), saying that *Spectrum's* report left out "significant context."

Now, the *Observer* has uncovered additional irregularities in how Miles' Colorado charter school nonprofit did business in Texas from 2020 to 2023, based on interviews with experts, reviews of contracts and related documents, and corresponding state laws and regulations. These findings raise more questions about whether Miles, as the nonprofit's CEO, followed laws that apply to nonprofit organizations and to charter schools when he transferred money from one legal entity to another without disclosing those arrangements to the TEA or in Form 990 reports to the IRS, according to records and experts.

Miles served as CEO of Third Future Schools for seven years and received \$243,000 in salary in his final year before resigning in June 2023 to accept the position with HISD; his sister, Shirley A. Miles, still works for the charter school nonprofit as deputy chief of schools and operations. In response to the *Spectrum News* investigation, he has stated that the Colorado charter school nonprofit's financial practices were "normal," asserting that the entity only took Texas taxpayer money for administrative services that the

Colorado entity provided to the Texas charter schools. Miles referred questions to the Colorado charter school spokesperson.

In a review of related tax documents and state contracts, the *Observer* found that Miles' charter school nonprofit did not disclose that its Texas entity would be transferring and paying the Colorado nonprofit for administrative services in applications that the nonprofit filed to the Texas Education Agency, though experts say disclosures of preexisting business deals for administrative expenses are generally required under state law and rules applied to Texas charter schools.

In addition, even though Texas school districts signed agreements with the entity called Third Future Schools-Texas, the *Observer* found that the Texas entity never established a real administrative office—instead it rented a mailbox in an Austin shared workspace, which it no longer uses.

Third Future Schools-Texas does not have its own website. Three board members are listed in its filing with the Texas Secretary of State: Conrad Coleman, a retired pharmaceutical company sales representative; Michael Williams, a former TEA commissioner under former Texas Governor Rick Perry; and Dorothy Reyes, a healthcare administrator, who are all residents of Midland. Coleman declined and Williams and Reyes did not respond to the *Observer's* requests for comment. (A spokesman for the Colorado company later told the *Observer* that two others have joined and that Williams is now a member of Third Future Schools' corporate board.)

The entity's 990 forms do not disclose its symbiotic relationship with the Colorado charter school nonprofit, which has a separate board. That could be problematic, said Jesus Jimenez-Andrade, a former auditor and assistant professor of forensic accounting and finance at Texas A&M University. "If there is a shell organization, or an organization in the middle that was only created for the purpose of bringing in public dollars, and was not executing specific operations, then that has to be well documented" in tax filings, said Jimenez. "They need to answer: Why was money sent to another organization; what were the possible conflicts of interest?"

The transfers of millions of Texas public school dollars to Third Future Schools in Colorado occurred during a period when the charter school nonprofit was in debt; in June 2023 it was forced to close one of its three Colorado schools because of declining enrollment, according to meeting records first reported in May by *Spectrum* as part of [its investigation, "Disappearing Dollars."](#)

In an email, U.S. Representative [Sylvia Garcia](#), a Houston Democrat, told the *Observer* that she believes the state probe into Miles' charter school nonprofit is insufficient and she has called on the federal Department of Education to investigate. "The TEA is responsible for this undemocratic takeover and implanting Mike Miles in our district. TEA investigating Mike Miles is like the fox guarding the hen house. Our children's education is at stake—an independent unbiased review is needed to ensure federal dollars [COVID funds schools received] have not been misspent or misused. Accountability and transparency are non-negotiable. If we leave this up to the state and [the] governor's cronies, we will lose our public school system before our eyes."

"OPEN ENROLLMENT CHARTER SCHOOL APPLICANTS ARE CURRENTLY REQUIRED TO SUBMIT EXTENSIVE INFORMATION. ... WITHOUT SUCH AN AGREEMENT, THERE IS NO TRANSPARENCY OR ACCOUNTABILITY."

Miles, a West Point graduate, began his education career in Colorado and served as the superintendent for Harrison School District in Colorado Springs for six years from 2006 to 2012, before joining the Dallas school district as superintendent.

In 2016, a year after Miles left DISD, he started Third Future Schools, a Colorado nonprofit charter network; between 2016 and 2019, he opened three schools in Colorado. Third Future is registered in

Colorado to do business under the name of one of those schools: Academy of Advanced Learning in Aurora, Colorado.

In 2020, Miles expanded the nonprofit and [registered Third Future Schools-Texas](#) to do business in Texas. That same year the Colorado charter school nonprofit had already incurred [more than \\$8 million in long-term liabilities through a set of related building corporations](#) that housed its schools, according to an internal audit and its Form 990 nonprofit corporation tax filings.

In Texas, Third Future Schools-Texas never opened a physical office. The registered address on its tax filings, including the latest filed in January 2024, is an Austin coworking and event space called [Vuka](#). Vuka's Community and Facility Manager Kenley Young told the *Observer* that Third Future Schools had ended its lease and that mail for the entity had piled up for multiple months before Young started his position in February. After multiple attempts to contact Third Future, Young reached Jessica Lopez, chief of staff in Colorado, who asked him to forward mail to the network's Aurora address.

Zach Craddock, one of the founders of Third Future Schools and the current network's superintendent of schools, told the *Observer* in an interview that the Texas entity only has a post office box and not a physical space.

This appears to contradict [rules posted by the Office of the Texas Secretary of State](#), which advises on its website that "An entity's registered office must be a physical address in Texas where the registered agent can be personally served with process during business hours. It cannot solely be the address of a mailbox service or telephone answering service."

Craddock, who resides and works from Aurora, Colorado, also told the *Observer* that each of its networks in different states has its own board of directors. The Colorado nonprofit's [website](#) indicates it runs charter schools in Texas, Colorado, Louisiana, and Tennessee through various partnerships. Craddock said the Texas entity's current board members include Coleman, Reyes, Martina Van Norden, and Sarah Arrambide. "The Texas board approves all the budgets for our Texas schools. They approve all of the policies that are required. They provide oversight around governance and structure to our Texas schools," Craddock said. When asked about the relationship between the leadership of the Texas and Colorado entities, Craddock told the *Observer*, "There really is none."

Third Future Schools-Texas' 2020 application and 2023 contract with Midland Independent School District list Zach Craddock as the executive director of the Texas schools. In 2023, he was paid a salary of close to \$200,000.

But the Third Future School-Texas operations appear to have been overseen by the Colorado-based nonprofit administrators, according to an analysis of Third Future Schools-Texas' [board minutes](#). While the names of Texas board members were listed in agreements with Texas school districts, its 2020-23 [board minutes](#), posted on the Third Future Schools' website, [reveal](#) that Miles, who was the paid CEO of the Colorado entity for seven years, directed most aspects of the network's Texas operations, from its finances to hiring to academic performance reviews.

Both [Texas charter school laws](#) and [federal laws governing nonprofit organizations](#) require a nonprofit board of directors to be in charge of the organization's finances. However, [bank account records](#) for the Texas entity the *Observer* obtained reveal that none of the Texas board members are account signatories. It was another board, the Third Future Schools' corporate board, that authorized three Colorado-based administrative leaders, including Miles, to be the signatories for Third Future Schools-Texas bank account, according to a [resolution](#) found on the board's website.

A 2023 Midland school district contract with Third Future Schools-Texas lists Miles as the CEO, the same year he was paid \$243,000 by the Colorado charter school nonprofit and five top Colorado employees, including Craddock and Miles, received \$88,000 in total bonuses.

Jimenez, the accounting professor, expressed concern that Texas school districts entered into a contract with Third Future Schools-Texas when the Colorado entity seemed to be running the show. “What is the justification for the triangulation and why not directly send money to the Colorado organization?”

From 2020 to 2023, the Texas Education Agency, under Morath, delivered Third Future Schools-Texas three schools to run in Midland, Ector County, and Austin, following a [2017 state law](#) that incentivized school districts to enter into such partnerships for struggling schools. The arrangement allowed those school districts to avoid state sanctions and also receive extra money traditional public schools don't normally receive.

Third Future Schools-Texas later expanded to a total of eight charter partnerships in Midland, Ector County, Austin, Beaumont, and Jasper.

During its first three years of operations, Third Future Schools-Texas received a total of \$49 million in state funding and federal COVID-19 relief money. Still, by June 2023, Third Future Schools-Texas was in debt. As *Spectrum News* previously revealed, the Texas entity was \$2.7 million in the red, due to what its [2023 internal audit](#) cited as “deficit caused by the liabilities to other TFS network schools and to TFS corporate.”

Spectrum's investigation revealed Miles spoke at a board meeting in Colorado of needing to redirect money to one struggling charter school. In a video clip of a board meeting, which took place in mid-June 2023, a couple of weeks after Miles became Houston superintendent, Miles told Third Future Schools-Colorado board members: “It's now becoming untenable. ... We have to subsidize it to the tune of maybe \$500,000 a year.”

The outlet's investigation also included a June 2023 audio recording of the Colorado entity's then-Chief Financial Officer Renea Ostermiller saying, “We've been supplementing that school [referring to the network's Colorado school which closed due to low enrollment with \$5 million in unpaid bonds] with the General Fund,” said Ostermiller.

In email communications with the *Observer*, Third Future Schools' spokesperson, Whitney Nichols, denied that money the Colorado entity received for Texas public schools was being used to offset its Colorado school's debt. Nichols said Ostermiller “misspoke” and is no longer with the organization.

Craddock also told the *Observer*, “No Texas dollars have ever been used to subsidize Colorado schools.” He said he could not explain why the Texas and Colorado entities were running a deficit.

In a statement posted to its website following *Spectrum's* investigation, Third Future Schools [maintained](#) that the entity's office in Colorado receives the Texas public school dollars and then deposits them into a bank account for the Texas entity. But a bank depository certificate obtained by the *Observer* shows that Third Future Schools-Texas didn't open a bank account until March 2021, almost a year after it started receiving Texas tax dollars. The certificate was signed by Mike Miles.

Third Future Schools spokesperson Nichols said that was because the IRS didn't grant the Texas entity its nonprofit status until March 2021. But the organization's [IRS 501\(c\) 3 nonprofit determination letter](#), issued on September 16, 2020, shows that its nonprofit status started in March of 2020.

The Colorado charter school nonprofit officials characterize the money it admitted taking, at least 10 percent of the Texas entity's \$25 million budget in 2023, as “administrative fees.”

During the interview, Craddock was not able to explain how the administrative fees were calculated and said, “Our finance team would determine that through their numbers. He added the fees were capped at 10 percent of each school's budget. Those fees are collected by the Colorado entity and used to pay for the salaries of its Colorado-based senior staff who provide payroll, administrative, and curricular services, he said.

When asked why the Texas entity listed no paid employees in its Form 990 annual tax filings from 2020 to 2023, when Texas public dollars were used to pay help for the salaries of its Colorado-based administrative leadership, Craddock said, “The majority of our senior leadership are Colorado residents, so that would have to come out of that account [of the Colorado entity] due to the retirement system.”

Nor could Craddock explain why the administrative fees levied on Texas schools were not disclosed in agreements with Texas school districts. Applications, filed and approved by the Texas Education Agency, did not disclose any contract or agreement for the Texas entity to purchase administrative services from the Colorado entity. No contract or formal agreement between Third Future Schools-Texas and Third Future Schools in Colorado was included in any of the three applications for charter partnerships with Texas school districts, according to documents submitted between 2020 and 2023 to the TEA.

“WE STRONGLY BELIEVE TEXAS TAX DOLLARS SHOULD BE SPENT ON TEXAS STUDENTS, AND WE ARE EXTREMELY CONCERNED TO HEAR THAT OUR ECTOR STUDENTS COULD HAVE BEEN SHORT-CHANGED IN THIS PARTNERSHIP.”

Patti Everitt, a former Austin school district official and current education policy and research consultant who monitors Texas charter school operations, said that she believes a formal “support and service agreement” between Third Future School’s Colorado entity and Texas should have been in place, per state law, and that it should have included the scope of services the Colorado entity would provide to the Texas entity along with any financial obligations. This agreement should have been included in Third Future’s application to the Texas Education Agency to operate charter schools in Texas, she said. [State law](#) requires all open-enrollment charter schools to use state dollars [for the purpose](#) of educating Texas students. While charter schools are allowed to enter into contracts with charter management organizations out of state for professional services, they still have to comply with [financial accountability laws](#) that require them to record and disclose to the state each financial transaction with any external organization.

Everitt cited an [application](#) from Rocketship Public School, which includes an agreement between the Texas charter and its California-based network management organization as an example. “Open enrollment charter school applicants are currently required to submit extensive information as part of their charter application submitted to TEA should they propose to contract with an external charter management organization for operational support and services,” Everitt said. “Without such an agreement, there is no transparency or accountability, and it’s especially important if the two separate organizations are related parties such as Third Future Colorado and the Texas entity.”

Nichols, the Third Future spokesperson, told the *Observer* that no such agreements exist. Nor do invoices exist for “administrative fees” the Colorado charter school nonprofit levied on Texas schools, Nichols said.

Third Future Schools-Texas’ applications for partnerships with the [Ector County](#), Midland, and Austin school districts on file with the TEA do not disclose any agreements to use administrative or other services from the Colorado entity. Its subsequent contracts simply instruct the three Texas school districts to send payments allocated for the Texas charter schools directly to Third Future’s Aurora, Colorado office.

In a [statement](#) issued in response to *Spectrum*’s investigation, Ector County school officials wrote: “Under the agreement, the school district was the passthrough for state funding from the Texas Education Agency to TFS. As required, those payments were sent from ECISD to Third Future Schools’ headquarters in Colorado. These funds were intended to be used to operate Ector College Prep. TFS leadership had full authority to spend that money as it deemed appropriate and responsible. We strongly

believe Texas tax dollars should be spent on Texas students, and we are extremely concerned to hear that our Ector students could have been short-changed in this partnership.”

The 2023 Midland school district [contract](#) with Third Future Schools-Texas does mention the latter’s operations would be managed by Colorado administrative leadership, but it includes no contract between the two entities. The contract, unlike other agreements, describes the Texas operation as part of the Colorado charter school nonprofit. A spokesperson for the Midland school district told the *Observer* via email that “Payments are made to the address listed on the vendor packet associated with TFS” and that “TFS assured MISD there is no commingling of funds.”

Nor are the financial arrangements and obligations between the Colorado and Texas entities disclosed in the 990 federal tax forms that the two entities filed separately from 2020 to 2023. The Colorado charter school nonprofit did not list any subsidiaries or related organizations, apart from its three building corporations. The Texas entity mentions no parent or related entity. In its most recent tax filing Third Future Schools-Texas responded “No” when asked if the organization was related to any taxable entity. A [2023 internal audit](#) of the Colorado entity, obtained by the *Observer*, defined the “Third Future Schools Network” as its three Colorado charters.

A review of Third Future Schools’ tax filings and internal audits also reveal potential conflicts of interest. Even in 2023 when its Colorado charter school nonprofit reported a \$5 million deficit on its 990 form, an internal audit noted the nonprofit paid \$232,000 to a landscaping company owned by Chief of Staff Jessica Lopez’s family members. Third Future’s website lists Miles’ sister Shirley A. Miles as the entity’s co-founder and current deputy chief of schools and operations. In 2011, she [was fired](#) from a previous job as the director of the Department of Defense Education Activity due to [multiple allegations](#) of misconduct including nepotism and misuse of funds.

Today, HISD’s top leadership includes several transplants from Third Future Schools: James Terry, who is the district’s chief financial officer; Sandra Massey, who is in charge of leadership and professional development; Delinda Castro, senior executive director of schools in Miles’ reform program called New Education System; and Ena Meyers, interim deputy of strategic initiatives.

Miles’ past financial practices at Third Future Schools have Houston stakeholders wondering if they can trust him with the district’s money. HISD’s [August 2023 budget](#) shows that the district started out with over \$1.1 billion in its reserves at the beginning of this school year after its recapture payments to other Texas districts were cut due to recent property tax reforms. Even so, Miles says the district ended this year with a budget deficit of \$528 million and [plans](#) to sell off school land and slash hundreds of staff positions. This coming November, he’s asking Houstonians to approve a [\\$4.4 billion bond proposal](#), the largest in Texas history.

“We can’t trust Mike Miles to send our money, taxpayers’ money, to children in the district,” Rochelle Cabe, a parent with children at two Houston schools where the principals were recently fired by Miles, told the *Observer*. “He has not been transparent with anyone about where this deficit is coming from and where our money will go.”

Staff Writer Michelle Pitcher contributed to this report.

[JOSEPHINE LEE](#) is the *Texas Observer*’s 2023-2024 David McHam Investigative Reporting Fellow. She has previously worked as an educator and community organizer. Her reporting on labor, environment, politics, and education has been featured in *The Nation*, *The American Prospect*, *The Daily Beast*, and other outlets. She was raised in and lives in Houston.