An analysis of inherent role conflicts in the governance of Michigan charter school boards contracting with full-service, for-profit private management companies

Roderick D. Atkins

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An Analysis of Inherent Role Conflicts in the Governance of Michigan Charter School Boards Contracting with Full-Service, For-Profit Private Management Companies

by

Roderick D. Atkins

Dissertation

Submitted to the Department of Leadership and Counseling
Eastern Michigan University
in partial fulfillment of the requirements for the degree of

DOCTOR OF PHILOSOPHY
Educational Leadership
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November 15, 2016
Ypsilanti, Michigan
Dedication

I dedicate my dissertation to those who have been anchors of support that provided inspiration, motivation, and strength during critical junctures of my journey to a Ph.D. I begin with my family who may not have always fully understood the time requirements, however, provided love and support by their actions. They gave me the space and freedom that I needed to focus and constructively maneuver the demands of such a worthy goal. To my wife Dana, daughter Sidney, and son Ethan thank you for being my anchors of love and support.

To my mother Kathleen who has never missed a special event in my life and my father Kay who passed away before this task was complete, thank you for being my anchors of encouragement and fortitude. Your belief in my ability to accomplish this great academic challenge made me strong during moments of confusion and distractions contrary to the purposeful actions required to finish. I also thank my brother Tony who provided a wonderful example of what happens when you stay the course to achieve dreams that may seem afar. Thank you for being my anchor of vision.

To friends who provided an anchor of friendship when waves were rough and turbulence threatened to detour me from finishing my research. Thank you for the anchor of friendship.

To my dissertation chair Dr. William Price and committee, thank you for your direction and insight to navigate the requirements of a mixed methodology study. Thank you for being my anchor of guidance.
Abstract

The analysis of inherent role conflicts in the governance of Michigan charter school boards contracting with full-service, for-profit private management companies provided quantitative and qualitative perspectives of experienced board members. These perspectives included their view of board governance and how responsibilities are divided and shared with for-profit private management companies.

The triangulated analysis included three major sources of data: quantitative research, qualitative research, and a qualitative contractual analysis that provided the essence of the contracts between charter school boards of directors and their contracted for-profit private management companies. The theoretical framework that grounded this analysis was inclusive of three theories: agency theory, stewardship theory, and contract failure theory. These theories were collectively grounded in economic, psychological, and sociological foundations. The theories synergistically illustrated a framework of potentially inherent conflicts in the relationship between the agent and client.

The charter school boards (client) relationships with the full-service for-profit private management companies (agent) encompassed the complexities of non-profit entities working side-by-side with private for-profit entities. This relationship creates anomalies that contribute to confusion, tensions, and factors that result in governance conflicts, which affect the operations of charter schools. The anomalies were a phenomenon of parallel governance, which is covertly impacting the governance of charter schools.
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Chapter 1: Introduction to the Study

Introduction

The effective governance and leadership of public schools is imperative to achieve academic progress and ensure the transparent, accountable, and the efficient use of public tax dollars. As a response to the educational reform challenge, one of the strategies was the creation of charter schools in the early 1990s. Subsequently, charter schools have become a very heated topic of discussion as it introduces new models of governance inclusive of volunteer appointed boards of directors, non-profit management companies, full-service, for-profit private management companies, and authorizers. This study primarily focuses on two of these major actors: charter school volunteer appointed boards of directors and full-service, for-profit, private management companies. Both actors have roles and responsibilities for which they were designed and intended. However, despite their design and intent, the functional lines of responsibilities are blurred due to the overlapping of governance, which perpetuates conflicts. These conflicts are prevalent in the state of Michigan due to the amount of charter schools managed by full-service, for-profit, private management companies. The overlap and conflicts cause great demand for legislative and policy responses to these complex circumstances that have developed over two decades.

These issues were highlighted in the topics of Dixon’s (2014a) investigation for the Detroit Free Press entitled, “State of Charter Schools: How Michigan Spends 1 Billion But Fails to Hold Schools Accountable.” The investigation uncovered role conflicts in charter school governance, concerns surrounding for-profit private management companies’ operations and performance, and issues of transparency and
accountability involving public tax dollars. Challenges in governance have always been a part of education reform; however, the overlap in governance between authorizers, management companies, and boards of directors increases the probability of conflicts. Although the authorizers have primary oversight, the overlap in governance between boards of directors and management companies exists and intensifies their conflicts.

The Detroit Free Press investigation provided multiple examples of conflicts inclusive of management companies refusing to provide financial information to the boards of directors when requested, financial concerns stemming from the existence of excessive management fees, providing minimally required accounting and finance information, and the implications of the confusion of governance principles and practices that would allow such occurrences. Other role conflicts include the selection process for the boards of directors, the managing of bid processes, human resource management, and transparency and accountability matters. Blitz (2011) stated, “The tension that exists between authorizer-based accountability and market-based accountability is part of the potential conflict facing charter school leaders. Failure to meet either of these types of demands could lead to school closure; yet, these demands also come into conflict.” (p. 358) These conflicting perspectives collide where there is overlap that causes ambiguity with governing roles and responsibilities.

Statement of the Problem

Despite more than twenty years of charter school existence in the state of Michigan, governance has become more challenging, confusing, and conflicting due to the overlapping responsibilities between charter school boards of directors and full-service, for-profit private management companies. More research is needed on the impact
of the overlapping of governing bodies that perpetuate role conflicts in Michigan charter schools. Effective governance will continue to be problematic without clearly defined roles between boards of directors and the full-service, for-profit private management companies. The contracting of full-service, for-profit private management companies exacerbates role conflicts by diminishing and transferring the boards’ governing power and authority to the full-service, for-profit private management companies. The conflicts in these relationships become more complex by issues involving the transparency and accountability of public tax dollars.

**Purpose of the Study**

The purpose of this mixed methodology study is to gain insight into the overlapping roles of governance and conflicts in Michigan charter school boards contracting with full-service, for-profit private management companies and the impact these roles and conflicts have on the ability to provide effective and transparent governance.

**Justification and Significance of the Study**

Research on charter school governance and leadership is imperative to understanding the current challenges of mitigating the overlapping roles of the authorizers, management companies, and the boards of directors, and how it may improve the ability to provide effective governance and transparency. The research provided by the study allows insight into the perspectives of how boards of directors view the conflicts resulting from the overlap of governance roles and how such conflicts may be decreased, eliminated, and addressed.
The study of effective leadership and governance in charter schools is critical in order to deliver on the promises for which charter schools were predicated. Currently, there is minimal research on the impact of the overlapping of governance that perpetuates role conflicts in Michigan charter schools. Appointed charter school board members in Michigan have a high probability of experiencing confusion because a universal road map does not exist for board members to engage and improve their governing capacity. Authorizers oversee differently, management companies manage differently, and board governance differs from one charter school to the next. Given the complexities of governance, it takes more than a two-hour-per-month meeting to become an informed, knowledgeable, and engaged board member. This becomes problematic when boards contract with full-service, for-profit private management companies whose main purpose is to generate profit. When looking at the complexities of governance in Michigan charter schools, it becomes reasonable to expect high levels of conflicts.

This study has significance to those who lead charter schools in Michigan because exploring governance roles and the experiences of charter school board members will provide insight through their perspectives. Obtaining such information may provide knowledge on how to make charter school governance more effective. In addition, the board members’ perspectives of these relationships with full-service, for-profit private management companies and how it may cause potential conflicts are important. This study may provide impetus for future researchers to further explore strategies to improve charter school governance and diminish or prevent inherent conflicts between boards of directors and full-service, for-profit private management companies.
The perspectives and experiences of charter school board members are factors that may provide guidance to better prepare and develop current and future board members in their endeavors to become effective leaders and contribute to the critical governance component of charter school evolution.

**Research Questions or Hypotheses**

The research questions the study seeks to answer emanate from general topics of charter school leadership and governance. Specifically, investigating the consequences of charter school boards of directors contracting for comprehensive services with for-profit private management companies in the state of Michigan. The study focused on obtaining the perspectives of charter school board members in regards to conflicts created by overlapping governance roles with full-service, for-profit private management companies and how such conflicts may be decreased or preempted.

The three questions of the research study are specific to charter school governance and the role conflicts that occurred between charter school boards of directors and the full-service, for-profit private management companies. These management companies were selected by the charter school boards of directors to comprehensively manage the operations of the school. The following questions included:

1. Do the contractual relationships between Michigan charter school boards of directors and full-service, for-profit private management companies contribute to conflicts in governance?

2. Assuming that parallel governance systems created in charter schools whose boards of directors contract with full-service, for-profit private management
companies contribute to governance conflict, what are the factors in the relationship that contribute to conflict in governance?

3. Are accountability and transparency of public funds affected when Michigan charter schools’ boards of directors contract with full-service, for-profit private management companies?

**Research Design and Methodology**

**Methodology**

The research was a mixed methodology approach incorporating quantitative and qualitative designs. This dual approach enabled the capturing of experienced board members’ perspectives through surveys and interviews. The results from the mixed methodology were cross-analyzed for statistical inferences and the identification of common themes. A qualitative contract analysis was conducted to assist with the development of questions for surveys and interviews. Subsequently, an in-depth review of the contracts provided additional data to triangulate with the survey and interview results.

**Research Design and Instruments**

The research design from a quantitative perspective explored and compared elements regarding the participants’ responses to survey questions. This survey instrument captured experienced board members’ perspectives on leadership roles and the resulting conflicts regarding the governance of charter schools based on their individual experiences. (See Appendix A for the survey instrument.) The distribution of surveys targeted 40 to 50 respondents of charter school board members who contracted with full-service, for-profit private management companies for comprehensive management
services. The boards were purposely selected to have cross-representation from contracts with different management companies and different authorizers.

The research design from a quantitative perspective included a hard copy survey for boards of directors who hold an executive position such as president or vice president to distribute and collect from their fellow board members. The participants were surveyed with questions divided into specific categories based on the guiding research questions: Do the contractual relationships between Michigan charter school boards of directors and full-service, for-profit private management companies contribute to conflicts in governance? Assuming that parallel governance systems created in charter schools whose boards of directors contract with full-service, for-profit private management companies contribute to governance conflicts, what are the factors in the relationship that contribute to conflicts in governance? Are accountability and transparency of public funds affected when Michigan charter schools’ boards of directors contract with full-service, for-profit private management companies?

The research design from a qualitative perspective included in-depth interviews to provide inquiry to the perspectives of experienced charter school board members. The interview respondents had a preferred minimum of fifteen years board experience with various roles of leadership appointments. As part of this process, seven participants were purposely selected to capture their responses to research questions regarding experiences of contracting with full-service, for-profit private management companies. The interview candidates served as board members with at least five years and preferably fifteen years of experience as members of various charter school boards of directors. A series of open-
ended questions were utilized to engage the participants and allow subjective detailed responses. (See Appendix B for the qualitative interview questions.)

Each interview respondent was taped with an audio recorder. The tapes were transcribed and electronically saved.

Part of the qualitative portion included exploration and comparative analysis of contracts between charter schools and their selected for-profit private management companies. Five contracts were selected for analysis. Each contract was unique to a board of directors and their contracted full-service for-profit private management company. The contracts were analyzed for patterns of content, terms, and conditions that may potentially cause overlap and conflicts during the life of the agreement. The analysis of contracts assisted with providing insight to the disposition of the contractual parties and if it caused overlap and conflicts from the start of the agreement between the boards of directors and the full-service, for-profit private management company.

The results from the mixed methodology approach enabled a cross-reference of findings gathered from three separate methods of data acquisition; contract analysis, survey questionnaires, and interviews.

**Definition of Terms**

Parallel Governance: Parallel governance structures are defined by Alexia Stainer (July, 2010) as,“ Parallel governance is closely related to the concept of institutional multiplicity, as both refer to situations where non-state actors perform state functions. These are associated with conflict situations and have impact on the processes of state formation.” (Parallel Governance section, para. 1).
Power relationships: Established among those involved in governance. Governance connotes a functional perspective of power, where power is used as a way to manage potential or real conflict, to create group cohesion and collaboration to enforce a dominant view of the way things ought to be, and to maintain order and regulate behavior, both formally and informally through authority and influence (Marshall & Scribner, 1991, p. 349).

Conflict: Lead in a different direction to focus on the competition over scarce resources. People with competing values or competing priorities seek to have their priorities and values prevail. They seek social domination (Morgan, 1986). Conflict is neither something to be maintained nor to be diffused or integrated. Conflict serves as a change function, giving individuals and groups an opportunity to affect existing power relationships. Collaboration, cohesion, and maintenance of order occur only when one group successfully dominates. The dominance of this group is often reified by the structure of bureaucracy, thus disguising power and diffusing conflict under the guise of bureaucratic rationality (Marshall & Scribner, 1991, p.349).

Charter School/Public School Academy: A public school of choice created by a motivated individual or group that has designed a model or program guided by principles outlined in its charter and agreed to by the home district (Brody, 2009; Carpenter, 2006 as cited by Horsburgh, 2011, p.10).

Governance: The set of processes, customs, policies, laws, and institutions by which an organization is controlled. It defines the relationships among the many players who have stakes in an organization’s activities and outcomes. Formal governance arrangements therefore ensure representation of key stakeholders. Governance and
leadership are different. The essence of leadership is influencing the behaviors of others; governance constrains leadership (Hill and Lake, 2006, p.3).

**Authorizer/Sponsor:** The Michigan Department of Education (2012) explains their role by stating, “Pursuant to section 380.502(4): An authorizing body shall oversee, or shall contract with an intermediate school district, community college, or state public university to oversee, each public school academy operating under a contract issued by the authorizing body. The authorizing body is responsible for overseeing compliance by the board of directors with the contract and all applicable law” (Michigan Department of Education, 2012, p.13).

**EMO (Education Management Organization):** A for-profit private management company that provides various ranges of educational and operational services to public schools and charter schools.

**CMO (Charter Management Organization):** A nonprofit management company that provides various ranges of educational and operational services to public schools and charter schools.

**Market-based Accountability:** The dynamics that occur in the market, driven by demands on charter schools from parents, communities, students, and any local stakeholders of the school and not affiliated with an authoritative position.

**Authorizer-based Accountability:** The dynamics that occur from authorizer/sponsor demands on a charter school. These demands are based on oversight related to school finances, compliance to state and federal rules and regulations, and academic outcomes related to the schools’ state performance testing on student achievement and growth.
Transparency: The ability to reasonably and accurately account for revenues from public tax dollars expended for the operations of charter schools.

Delimitations

The delimitations of this study included the population of boards of directors and full-service, for-profit private management companies limited to operations in the state of Michigan and primarily operating in the Metro Detroit area. The other delimitations related to the qualitative study where candidates’ responses were based solely on their experiences with full-service, for-profit private management companies operating under Michigan legislation, compliance, and authorizers. This study does not account for the differences in legislation, policy, and law as it pertains to states other than Michigan.

Limitations

The mixed method approach allowed for encounters with board members with varying years of experience during a period of heavy accountability from federal and state agencies. Also, the preparation, capacity, skills, knowledge, and professionalism of the boards were collectively unique to each governing body. Every board of directors operates within a specific community that presents challenges different from other districts. These experiences make the professionalism and composition of each board different and therefore varied in how each manages the conflict presented in its district.

Summary

Chapter 1 introduced the challenges of charter school governance in the state of Michigan. The study focuses on analyzing inherent role conflicts in the governance of Michigan charter school boards contracting with full-service, for-profit private management companies in the state of Michigan. With more than eighty percent of its
charter schools managed by full-service, for-profit private management companies, Michigan has unique governance challenges inclusive of role confusion, accountability and transparency of public tax dollars, overlap of responsibilities, and board uncertainty around their collective authority, power, and control of the operations of their charter schools. These challenges result in conflicts that impact the governance of Michigan charter schools.

The research methodology is fortified by a mixed approach inclusive of quantitative and qualitative designs. There is a separate qualitative element in the form of an analysis of contracts between boards of directors and for-profit, private management companies. The approach provided multiple data sources to address the research questions.

Chapter 1 also provided conceptual frameworks inclusive of the agency theory, stewardship theory, and contract failure theory. These theories provided multiple lenses to review and help explain the phenomenon of governance conflicts in Michigan charter schools that have contracted with full-service, for-profit private management companies. Chapter 2 provides a literature review based on previous studies on charter school governance, board member roles and responsibilities, and the status and effects of various models of management available for charter school boards to select. Chapter 3 details the mixed methodology approach to provide both quantitative and qualitative data along with a subsequent contract analysis and triangulation. Chapter 4 provides the findings and analysis resulting from the mixed methodology approach, and Chapter 5 subsequently provides a conclusion to the study with recommendations for future research and analysis.
Chapter 2: Literature Review

Conceptual Framework

The conceptual framework encompasses three theories used to provide context to the phenomenon of inherent role conflicts in the governance of Michigan charter school boards of directors contracting with full-service, for-profit private management companies. The theories provided a basis of understanding of the relationship mechanisms between the charter school boards of directors (clients) and the full-service, for-profit private management companies (agents). The agent-to-client relationship included social, psychological, and behavioral implications that define the inter-relational dynamics between the two parties. The relationships represented somewhat polarized derivatives, such as the nonprofit values of the boards of directors and the for-profit values of the management companies in the state of Michigan. The conceptual framework included agency theory, stewardship theory, and contract failure theory.

The dynamics of charter schools are complex, ambiguous, and contentious due to rapidly changing circumstances in educationally underserved areas where government, community, and business entities attempt to improve student outcomes by providing solutions with this alternative model of public education. The problem is magnified with these entities working in isolation and not having cohesive planning, development, and deployment of resources to systematically resolve pervasive issues that plague public school education.

Three of the main actors in Michigan’s charter education system include the authorizers, boards of directors, and full-service, for-profit private management companies. The boards of directors may contract with for-profit private management
companies, which present situations primed with potential role conflicts that permeate the charter school industry in the state of Michigan. The relationship forms an agent-to-client scenario wrought with misperceptions, mainly by the boards of directors, as to which entity has authority and empowerment regarding charter school governance. The challenge of finding a theory that increases understanding and helps explain the relational phenomenon falls short and therefore warrants multiple theories to help provide perspective. These theories come together to develop the conceptual framework that was used in the study. This framework was developed inclusive of the following theories: agency theory, contract failure theory, and stewardship theory. These three theories provide lenses to view the relationships between charter school boards of directors and the entities they contract with to manage the operations of their charter school. The concepts apply to the macro-dynamics of any charter school in the country. However, this application is specifically for the circumstances of charter schools operated in the state of Michigan where more than eighty percent of the charter schools have contracts with full-service, for-profit private management companies.

*Agency Theory*

In the early 1970s, the concept of agency theory emerged from the desire to explain agent-to-client relations and how the objectives of the two parties may conflict given various behaviors that reflected in their individual motivations. According to Mitnick (2013),

The first scholars to propose, explicitly, that a theory of agency be created, and to actually begin its creation, were Stephen Ross and Barry Mitnick, independently and roughly concurrently. Ross is responsible for the origin of the economic
theory of agency, and Mitnick for the institutional theory of agency, though the basic concepts underlying these approaches are similar. Indeed, the approaches can be seen as complementary in their uses of similar concepts under different assumptions. In short, Ross introduced the study of agency in terms of problems of compensation contracting; agency was seen, in essence, as an incentives problem. Mitnick introduced the now common insight that institutions form around agency, and evolve to deal with agency, in response to the essential imperfection of agency relationships: Behavior never occurs as it is preferred by the principal because it does not pay to make it perfect. But society creates institutions that attend to these imperfections, managing or buffering them, adapting to them, or becoming chronically distorted by them. Thus, to fully understand agency, we need both streams ---to see the incentives as well as the institutional structures. (p. 2)

Ross (1973) continues the co-explanation of the agency theory from an economic perspective with focus on the client. Ross stated:

The relationship of agency is one of the oldest and commonest codified modes of social interaction. We will say that an agency relationship has arisen between two (or more) parties when one, designated as the agent, acts for, on behalf of, or as representative for the other, designated the principal, in a particular domain of decision problems. Examples of agency are universal. Essentially all contractual arrangements, as between employer and employee or the state and the governed, for example, contain important elements of agency. (p. 134)
The agency theory describes how the self-interests of different entities permeate the motives, behaviors, and actions of two parties that contractually have the same goals in mind. Contractual parties may have positive intentions; however, these intentions may turn into negative interactions and results when the agent deliberates behaviors that are more beneficial to their existence as opposed to exhibit behavior that is congruent with the goals of their client. Within the context of this study, the boards of directors are the clients in the charter school industry and the full-service, for-profit private management companies are the agents contracted to manage the operations of the charter schools.

The nuances of the agency-to-client relationships may take on many forms given the vast applications related to social, psychological, commerce, and business scenarios. The common element should be that the agent is supposed to align itself to the benefit of the client. It is not a partnership but a unilateral relationship, mutually beneficial for both parties given common objectives. The objectives are predicated on the mission of the client, which the agent adjusts and adapts to the will and purpose of the client. Deviations from this fundamental principal are a philosophical breach of the fundamentals upon which such relations have derived. As stated by Shapiro (2005), “In an agency relationship, one part acts on behalf of another” (p.263). The author continued to elaborate on the agent to client relationship:

The assumption that principals are in the driver’s seat ---specifying preferences, creating incentives, and making contracts, that agents must follow —is also problematic. When principals seek out agents for their expert knowledge, when principals are one-shotters and agents repeat players, when principals are unexpectedly foisted into a new role with no time or life experience to formulate
preferences, let alone a contract or monitoring strategy (e.g., the new parents of an ill newborn, the asymmetry of power shifts from the principal to the agent. (p. 267)

Shapiro gives a perspective that highlights issues regarding the experience of agents in contrast to the novice disposition of clients. The repetitive nature of the subject industry gives agents an advantage, especially when the agent has multiple clients, however the client only has one agent. The author continued:

Agency relationships are enacted in a broader social context and buffeted by outside forces — other agency relationships, competitors, interest groups, regulators, legal rules, and the like — that sometimes right information all imbalances, offer or constrain incentives, exacerbate the risk of adverse selections or moral hazard, provide cover or opportunity for opportunism, and so forth. Relationships endure over time, affording principals and agents occasions to gather data about one another. Principals learn better which incentives are likely to work. Agents learn more about the preferences of the principals they serve. Relationships become embedded as parties develop histories and personal relationships and become entangled in social networks. (p. 269)

The nature of the agency relationship may benefit the agency more so than the client over time given the agent’s desire to expand its network of additional clientele. The client, on the other hand, may risk becoming more dependent on the agent over time as the agent manages the specific duties outlined in the contract. Shapiro (2005) explained:

Over time, agents acquire constituencies other than their principals that buffer them from the contracting, re-contracting, and sanctioning of their principals. And
as agents (government bureaucrats, corporate managers) outlast their principals (legislators, CEOs), the balance of power between principal and agent may shift. (p. 269)

Whereas the agent may develop buffers to leverage it against the risk of losing clients, the client does not have such a buffer and must rely on its one agent. The risk of a dysfunctional relationship and the negative implications of such are greater for the client than the agent. These situations may derive from issues of conflicts in goal attainment or conflicts in how to achieve specific goals. Dysfunction due to separations in perspectives will result in problematic circumstances that may not have apparent resolution. Shapiro (2005) continued:

The classic agency paradigm, with its eye on the principal, perceives goal conflict as the departure of agents from the interests of the principal. Hence, the solution to this agency problem is to come up with incentives that will align the interests of agents with those of the principal. Keep the agent from shirking by paying her a piece rate, perhaps. The agency problem looks quite different from the perspective of the agent, though. Conflicts between the interests of the agents and those of the principal are the least of the agent’s problems. The real problem is that the agent is most likely serving many masters, many of with conflicting interests. Even if the agent is able to silence his or her own interests, there is a matter of how to maneuver through the tangled loyalties he or she owes to many different principals and how to negotiate through their competing interests and sometimes irreconcilable differences. (p. 278)
The interests of the client must be a priority of the agent if there is to be a cohesive relationship focused on achieving the objectives of the client. In the charter industry, the clients are the boards of directors and the agent are the full-service, for-profit private management companies. Bonazzi and Islam (2006) expounded on the effect of agency theory on corporate governance. They stated:

Separation between ownership and control of corporations characterizes the existence of a firm. The design of mechanisms for effective corporate control to make managers act in the best interests of shareholders has been a major concern in the area of corporate governance and finance, and continuing research in agency theory attempts to design an appropriate framework for such control. In a corporation, the shareholders are working on behalf of, and for the interests, of the principals. (p. 7)

The previous statement ties agency theory to the effectiveness of the boards of directors to govern. They illustrate how boards of directors need to have accurate metrics to monitor and evaluate the performance of the agents in regards to meeting or exceeding the objectives of the client. Bonazzi and Islam (2006) concluded, “The greater the level of monitoring, greater the probability of success or enhanced financial performance” (p. 11).

**Contract Failure Theory**

Contract failure theory provides a view of the complexity of having a consumer or client in a position where they cannot adequately monitor or measure the quality of their service or product. In regards to the charter industry, the contract failure theory explains why the majority of the country has charter schools operated by nonprofit organizations.
The reason is primarily due to the high cost of monitoring and the challenges to define
the product or service in terms of what are successful outcomes. Hansmann (1980)
explained the contract failure theory, “I am suggesting that nonprofit enterprise is a
reasonable response to a particular kind of ‘market failure,’ specifically the inability to
police procedures by ordinary contractual devices, which I shall call ‘contract failure’”
(p. 845). The author goes onto explain the circumstances that give rise to contract failure.
Hansmann (1980) stated:

In some instances, the circumstances that give rise to contract failure are simple
and reasonably obvious. This is the case, for example, with institutions such as
redistributive philanthropies and with institutions that provide complex personal
services. In other instances, the problems of contract failure that give rise to
nonprofits are embedded in, or with institutions in which contract failure is bound
with problems of public goods, price discrimination, and imperfect loan markets.
In considering these latter institutions, it will be necessary to examine in some
detail the full complex of factors that give rise to the need for nonprofit
organizations. (p.846)

It is very difficult for charter school boards of directors in Michigan to understand
and define quality outcomes relative to the intangibles of the products or services
provided. Morley (2006) elaborated on Hansmann’s theory of contract failure:

Hansmann’s theory can explain the dominance of nonprofit firms in the charter
school market. Several interest groups influence a charter school’s success and
failure, including parents, government agencies, and donors. Each of these groups
have goals they want the charter school to meet (generally centering on academic
achievement), and each faces significant monitoring costs that prevent them from assessing and enforcing the school’s attainment of those goals. These groups face common monitoring problems, including perceiving and measuring students’ achievement and enforcing the threat of accountability. Hansmann’s theory explains nonprofit dominance as a product of these groups’ efforts to reduce monitoring costs. These groups prefer nonprofits because nonprofits offer assurances that managers will not cut costs and quality in imperceptible ways. (p. 1797)

This theory is rationally applicable to the charter industry in most states except for the state of Michigan, which has about ten percent of its charter schools managed by nonprofit organizations and more than eighty percent of charters managed by full-service, for-profit private management companies.

Morley (2006) continued by explaining the challenges that three significant charter school stakeholders have in terms of difficulties to monitor the performance of the managerial agent and student performance. The three stakeholders include parents, government agencies, and donors. The other stakeholders that may be added are the authorizers or sponsors of the charter school. There is not a universal template that charter school authorizers deploy to monitor student performance and overall success. Parents have challenges with understanding what should be monitored and how may they keep informed of important matters relative to their child’s academic, behavioral, and social performance. There are not consistent ways that public schools, let alone charter schools communicate with parents. In terms of the government, most policies and
legislation differs by state. Other than regulated state testing mandated by the federal government, there is no consistency of how to test for student performance.

Government, donors, and authorizers all have challenges related to monitoring success indicators for charter schools. All three typically have different metrics they would like tracked. These metrics usually serve their own specific interests and their interests may not be linked to those of others but specific to their own agendas.

**Stewardship Theory**

The second concept to assist with providing meaning to the governance phenomenon between boards of directors and full-service, for-profit private management companies is the stewardship theory. Davis, Shoorman, and Donaldson (1997) explained:

Stewardship theory defines situations in which managers are not motivated by individual goals, but rather are stewards whose motives are aligned with the objectives of their principals. Because stewardship theory is relatively new, its theoretic contribution has not been adequately established. (p. 21)

The authors go on to provide the psychological and sociological roots from which the theory derived. Davis, Shoorman, and Donaldson (1997) stated:

Stewardship theory has its roots in psychology and sociology and was designed for researchers to examine situations in which executives, as stewards, are motivated to act in the best interests of their principals (Donaldson & Davis, 1989, 1991). In stewardship theory, the model of man is based on a steward whose behavior is ordered such that pro-organizational, collectivistic behaviors have higher utility than individualistic, self-serving behaviors. Given a choice between self-serving behavior and pro-organizational behavior, a steward's
behavior will not depart from the interests of his or her organization. Stewards will not substitute or trade self-serving behaviors for cooperative behaviors. Thus, even where the interests of the steward and the principal are not aligned, the steward places higher value on cooperation than defection (terms found in game theory). Because the steward perceives greater utility in cooperative behavior and behaves accordingly, his or her behavior can be considered rational. (p. 24)

Stewardship theory provided a conceptual premise based on an agent’s intrinsic motivations to align with the corporate goals and objectives of its client. The stewardship theory differs from the agency theory in that it bypasses motivation and self-interest motivations. Donaldson and Barney (1990) explained:

The executive manager, under this theory, far from being an opportunistic shirker, essentially wants to do a good job, to be a good steward of the corporate assets. Thus, stewardship theory holds that there is no inherent, general problem of executive motivation. Given the absence of an inner motivational problem among executives, there is the question of how far executives can achieve the good corporate performance to which they aspire. (p. 51)

The stewardship theory presents a possible unique structure that would enable a different unit of management structure having top administrative leadership report to the board of directors. Such a reporting structure may diminish potential conflicts by having a key role reporting to the boards of directors of charter schools. Donaldson and Davis (1991) concluded:

Stewardship theory stresses the beneficial consequences on shareholder returns of facilitative authority structures, which unify command by having roles of
CEO and chair held by the same person. The empirical evidence is that ROE (return on equity) returns to shareholders are improved by combining; rather than separating the roles-holders of the chair and CEO. (p. 62)

Such a role in the charter industry would be equivalent to the superintendent and principal roles reporting directly to the charter school board of directors. The stewardship theory and the agency cost theory both consider the relationship between the agent and client from different perspectives. Donaldson and Davis (1991) expounded:

Although agency theory appears to be the dominant paradigm underlying most of the governance literature, researchers have suggested theoretical limits of agency theory and proposed stewardship as an alternative theory of management (Davis et al., 1997, p. 20). Stewardship theory has its roots in psychology and sociology and can be divided into two branches (Caers et al., 2006). The first branch also starts from a conflict between the goals of the principal and the agent, but assumes that the agent will be motivated to act in the interest of the principal (Davis et al., 1997). This implies that, even when the interests of the agent and the principal are not aligned, the agent can attain a higher utility level by acting in the principal’s interest because doing so might lead to opportunities for desired personal outcomes such as achievement, affiliation, and self-actualization (cited from Davis et al., 1997; Tosi et al., 2003). The second branch assumes that the agent’s goals are perfectly aligned with those of the principal (cited from Sundaramurthy & Lewis, 2003). Both agency theory and stewardship theory focus on the relationship between principals and agents, but start from different assumptions and prescriptions.
Organizational identification is defined as, “A perceived oneness with an organization and the experience of the organization’s successes and failures as one’s own” (cited from Mael & Ashforth, 1992, p. 103). Agency theory assumes that agents have a low identification with the organization and may externalize organizational problems to avoid blame. Stewardship theory, in contrast, assumes that agents have a high identification with the mission of the organization. The attribution of organizational successes to themselves will contribute to their self-image and self-concept (cited from Davis et al., 1997). Concerning the agent’s motivation, it is possible to distinguish two basic classes of motivations to perform an activity: intrinsic motivation and extrinsic motivation (cited from Deci, 1972). Stewardship theory stresses the agent’s tendency to be collectively oriented and intrinsically motivated (cited from Sundaramurthy & Lewis, 2003). (p. 436)

Muth & Donaldson (1998) cited Perrow (1986) to explain:

Stewardship theory is an alternative to agency theory and offers opposing predictions about the structuring of effective boards. The stewardship model is one based on manager as “steward” rather than the entirely self-interested, rational economic man of agency theory. Agency theory, with roots in the fields of economics and finance, examines the structures of capitalism, finds only self-interested behavior, and assumes “this is human nature…” and neglects the enormous amount of neutral and other-regarding behavior that exists…and the structures that might increase. (p. 6)
These outlined theories provide conceptual frameworks that help analyze the phenomenon of charter school boards of directors contracting with full-service for-profit private management companies in the state of Michigan. Table 1 compares these theories:

Table 1

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Agency Theory</th>
<th>Stewardship Theory</th>
<th>Contract Failure Theory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Theoretical Basis</td>
<td>Economics and finance</td>
<td>Psychology and sociology</td>
<td>Psychology and economics</td>
</tr>
<tr>
<td>Approach</td>
<td>Control (distrust)</td>
<td>Collaboration (trust)</td>
<td>Uncertainty (trust)</td>
</tr>
<tr>
<td>Principal-Agent Relationship</td>
<td>Goal conflict</td>
<td>Compatible or aligned goals</td>
<td>Somewhat compatible</td>
</tr>
<tr>
<td>Agent’s Motivation</td>
<td>Mainly extrinsic</td>
<td>Intrinsic</td>
<td>Somewhat intrinsic</td>
</tr>
<tr>
<td>Organizational Identification</td>
<td>Low identification</td>
<td>High identification</td>
<td>High identification</td>
</tr>
<tr>
<td>Human Behavior</td>
<td>Individualist</td>
<td>Collectivist</td>
<td>Collaborative</td>
</tr>
<tr>
<td>Governance Mechanisms</td>
<td>Monitoring and incentives</td>
<td>Empowering structures</td>
<td>Monitoring and empowering</td>
</tr>
</tbody>
</table>


The charter school boards of directors have governance and oversight responsibilities that include fiduciary, compliance, and outcome dimensions. The selection of managerial models that boards of directors implement have significant ramifications regarding their authority and empowerment to provide effective governance as they work with full-service for-profit private management companies. Figure 1 illustrates how the conceptual framework is applied to the study’s topic of the
relationship between charter schools’ boards of directors and full-service, for-profit private management companies.

Figure 1. Conceptual framework synthesizing agency theory, stewardship theory and contract failure theory.

For-Profit Private Management Company Operations and Performance

The issues around the challenges of the governance structure were strongly represented in the Detroit Free Press 2014 investigation. An area of conflict that came from their examination centers on for-profit private management companies. As opportunities for charter schools have grown, so has the interest from full-service, for-profit private management companies. These entities have appeared on the scene with the promise of providing boards of directors with comprehensive educational services to manage the academic and non-academic operations of the charter school. Chi and Weiner (2008) stated:
The role of EMOs (Education Management Organization) can vary widely, from contracting a specific service to managing the entire school (cited by author Buckley and Fisher 2002). By definition, such privatization detracts from the public nature of charter schools (see Molnar 2001 for a more complete critique). Notwithstanding some potential advantages to private-sector involvement - primarily the infusion of stronger market forces - laws (even those providing for public oversight) that allow even greater EMO involvement undermine the initial vision of charter policies as a public realm, school-choice alternative to voucher policies. (p. 285)

Wilson (2005) explained how for-profit companies became a part of the charter schools movement:

The last decade has witnessed a new approach to school reform of radical promise. New systems of public schools, overseen by a private organization and operating under a common “brand,” aim to move beyond the isolated success of individual charter schools and bring high-quality schooling to scale. Approaches vary, and their proponents insist on unique designations. The first branded operators, dubbed education management organizations (EMOs), were generally organized as for-profit entities that managed schools, whether charter or district, comprehensively. Typically they sought to impose, with varying degrees of prescription, a school design (including such elements as school structure, schedule, curriculum, instructional programs, and use of technology) on their clients. Education entrepreneurs saw an opportunity: Private organizations could help start and run public schools, free of many debilitating constraints of the
school district. Many organizations managed schools in their entirety, implementing their own curriculum, hiring the school staff, overseeing all day-to-day operations, and assuming responsibility for academic outcomes. (p. 89)

Wilson (2005) further explains how the business model for education management companies (EMOs) work:

In addition to Edison, other major EMOs include National Heritage (with more than twenty thousand students), Chancellor Beacon Academies (seventeen thousand students) the Leona Group, K12, Mosaica Education, Charter Schools USA, White Hat Management, and Victory Schools. The business of education management organizations is to assist school boards in starting and running public schools. At first glance, EMOs that manage schools comprehensively all deploy the same business model. Each enters into management agreements with the boards of either individual charter schools or school districts, under which it assumes responsibility for running one or more schools. In exchange for these services, it either is paid a fixed management fee (generally between 12 and 15 percent of the school’s revenues) or retains the surplus of each school’s revenues over its costs. With enough schools under management, the individual management fees in the aggregate will exceed the costs of running the corporate office, and the EMO will realize a profit. (p. 90)

These full-service, for-profit private management companies are a new part of education reform with the emergence of charter schools and this means that they have brought with them new challenges and potential areas of conflicts. Interestingly, in many instances, EMOs have been contracted to manage all key aspects of school activities,
CONFLICTS IN THE GOVERNANCE OF MICHIGAN CHARTER SCHOOLS

including curriculum design, hiring and professional development of staff, administration, and building management. Allen and Mintrom (2009) stated, “The rise of EMOs in the charter sector has served to diminish the role of traditional actors in school oversight, especially citizen voters who can exercise little or no voice under such administrative structures” (p. 458).

There are generally two sides when it comes to the benefits and drawbacks concerning EMOs. According to Hannaway & Sharkey (2004),

The management of public schools by for-profit firms elicits strong feelings and conflicting arguments about the possible merits and risks of such a management arrangement. Some reformers see EMOs (Education Management Organizations), as for-profit education contractors are commonly called, as a panacea that will free schools from deadening bureaucracy, introduce new accountability pressure, and bring the presumed efficiency benefits of market forces to public schools, especially in urban areas. Others see EMOs as profit-oriented entities that will sacrifice education quality for the sake of the bottom line. (p. 27)

Much of the potential conflict involving for-profit, private management companies (EMOs) surround community needs versus corporate needs. This phenomenon is explained in the Harvard Law Review (1999):

Education occupies a lofty position in the United States. Political and judicial rhetoric declare educational opportunity for all to be critical in both promoting individual and societal welfare. But almost as uncontested as education’s importance is the sense of crisis in American public education… A market delivery approach, which displaces government control, has even extended an
opportunity for-profit seeking enterprises to enter a realm traditionally occupied by public and nonprofit providers … This note examines companies that contract for full management of public schools and intend to profit by offering education more cost effectively than publicly administered schooling. The introduction of profit motives into education more sharply raises the concerns about turning public schooling into a product privately selected and privately delivered. Publicly funded for-profit ventures pose hazards distinct from those of private schools because for-profit ventures are paid out of general public funds, and from those of public charter schools because for-profit ventures are experiments of a larger scale. Because for-profit education companies rely on economies of scale to turn a profit, they propose to change the system in its entirety rather than accommodate individual opt outs or school by school exit innovations. (p. 695-696)

The Harvard Law Review’s article, “Hazards of Making Public Schooling a Private Business (1999),” also stated, “Private providers may not balance social and individual interest or serve all constituencies equally” (p.700). The article then goes onto explain, “Private delivery introduces several risks to that equitable ideal, and an additional quest for profit injects uncertainty about the provider’s commitment to delivering the best education possible within the constraints of tight budgets and evolving community standards of education” (p.704). The Harvard Law Review (1999) clearly identifies the inherent conflict between public schooling and corporations:

The nature of public education may not be amenable to profit which has proven elusive in corporate ventures into public education. For-profit contracting
amplifies these risks because of its incentive and its scope. The profit motive makes schooling a business like any other, not a social enterprise, and elevates personal choice over public good. (p. 709)

In Michigan, the conflict potential is high according to Morley (2006). In the article, “For Profit and Nonprofit Charter Schools: An Agency Cost Approach,” the author stated:

More detailed observation supports the story these national statistics tell of deep involvement by for-profit firms. A report issued by Western Michigan University found that for-profit management companies in Michigan — a state with an unusually high percentage of for-profit schools — often own charter schools’ buildings, equipment and supplies; nominate and cultivate support for board members of nonprofit entities that apply for charters; and contribute startup capital. In fact, some management companies in Michigan refuse to contract for anything other than “full service” agreements that grant them total authority over the schools. The existence of a number of for-profit management companies serving only one school suggests that the line between nonprofit charter holding entities and their for-profit management companies is thin. (p. 1791)

The practice of contracting comprehensive educational services places the advantage with the management company and makes the board of directors extremely vulnerable and dependent on the management company for just about everything. This makes it very difficult for a board to consider terminating, not renewing, negotiating, or even augmenting its management agreement with full-service, for-profit private management companies. Harvard Law Review (2009) explains,
This “full service agreement” often makes it difficult for boards to govern over areas that would be within their rights in a different arrangement, such as human resources, resource allocation, and other areas that the management companies feel falls within their jurisdiction as outlined in the contract. Disagreement about performance measures can prove fatal to contracts. Private providers may be especially nervous about basing compensation on student performance that is partially dependent on inputs beyond its control. (p. 704)

An exemplary example of potential conflict lies in the area of hiring and firing staff. The school principal may be terminated, removed, or demoted without any input from or notice to the charter school board of directors. The potential areas of conflicts between governing boards and for-profit private management companies can also center on the services provided due to the corporate mindset of these companies. Harvard Law Review (2009) further explained:

Private for-profit providers introduce an additional concern because they invariably wrestle with a conflict of interest between shareholders and customers. Profits depend on the extent to which costs are lower than revenues. But revenues are fixed in management contracts, which are set by the school districts. Especially when the product is undefined, maximizing profitability may cut cost at the expense of student needs. (p.705)

The maximization of profit is a complex phenomenon within the social dynamics of American education. Nonetheless, as opportunists made promises to improve education and close gaps between classes and races, the door opened. Bennett (2008) explained this new transition in education:
Beginning in the late 1990’s, for-profit education management organizations (EMOs) like New York City-based Edison began expanding at what Steven F. Wilson, author of *Learning on the Job*, called a “dizzying pace.” Edison, founded by publishing millionaire Christopher Whittle in 1992, grew to 51 schools in just four years; Advantage, which Wilson started in 1997, was managing 16 charter schools within two years. But even that pace was not good enough, and only a handful of EMOs became profitable before their capital ran out and they had to close some of the schools they had just opened. Edison spent a disastrous two years as a public company and now operates 31 schools and provides management services to 54 district schools. Advantage was merged into Mosaica, which runs 35 charter schools in eight states and the District of Columbia.

According to the National Charter School Research Project (NCSRP), the country now has 24 EMOs and about 30 CMOs. Most of these organizations are controlled from a front office and are growing slowly because their headquarters staff can only manage the complicated task of opening one school at a time. Those who thought that proven models could be rapidly scaled up have concluded that they underestimated the difficulty of creating substantially better schools from scratch,” the NCSRP report explains. The entire charter movement, once hailed as a vehicle for transforming education, serves less than 3 percent of the nation’s schoolchildren, less than the percentage that are schooled at home. (p. 30)

In 2013, the National Center for Education Statistics reported that the national average of schoolchildren attending charter schools has grown to 5.1% (2016, April).
Retrieved from http://nces.ed.gov/programs/coe/indicator_cgb.asp. Even though the macro-perspective of charter school growth seems marginal; the infiltration of full-service, for-profit private management companies in the state of Michigan has been prolific. In Detroit, for example, more students attend charter schools than public and private combined. Some concerns from critics include the trade-off of quality versus cost. Robertson and Dale (2013) found that:

For-profit charter schools tended to ‘crop off’ services to students who were difficult to educate, thus minimizing their costs so as to maximize quality gains.

And it is here that profit as a driving motivation (both necessary and inevitable when private providers are involved) will tend to override concerns for education quality in all of its complexity (reducing teacher salaries; staffing ratios, non-unionized labor and so on). (p. 439-440)

**Transparency and Accountability Involving Public Tax Dollars**

Some of the primary actors in Michigan charter schools include authorizers, boards of directors, and full-service, for-profit private management companies. The dynamics of their relations significantly impacts the success or failure status of individual and collectively charter schools. Each actor has a critical role in the complex forums that determines the performance, continuation, and progression of the charter schools as the viable academic entities for the constituents they serve. All players are important; however, research indicates that the ultimate power lies with the authorizer. Their range of power to grant and terminate charters clearly distinguishes authorizers from the boards of directors and the full-service, for-profit private management companies. Management companies may come and go, board members may change, but for the life of most
charters, the authorizer is there from beginning to end. The authorizers therefore have tremendous responsibilities when it comes to holding the boards of directors accountable. In the same respect, the boards of directors have the responsibility of holding the management companies accountable. Sometimes the lines of accountability become blurred and conflicts result. Bulkley (1999) supported this position with research on the various types of accountability:

Sponsors are also responsible for “holding schools accountable” — however, what it means to hold a school accountable is not always clear. Three types of accountability are commonly used by charter school authors: fiscal accountability, which involves the proper use of public funds; compliance accountability where sponsors look at whether schools are in compliance with state and federal regulations, as well as specific procedural portions of their charters (e.g. are they using curriculum they said they would, are they following the appropriate governing board procedures); and outcome accountability, which emphasizes the school’s success in increasing student performance. (p.676)

The state of Michigan is more unique than most states given the high penetration of full-service for-profit private management companies in charter school districts. The for-profit companies do wield power and influence given their level of entrenchment in the charter school movement. Bulkley (1999) explained, “

In Michigan, the traditional idea of government control and governance assurance of quality remains an important influence on charter school sponsors. As such, pressures to be legitimate in the eyes of the public and political actors have [sic.]

[Continued text]
created more uncertainty in Michigan and thus pushed Michigan sponsors to mimic existing institutions more than Arizona sponsors. (p. 695)

All parties in the oversight, governance, and management of charter schools should all be held accountable. It is sometimes unclear how this is carried out and how it can be addressed through legislation and policy. Even though the concept of accountability rings loud in public forums and written documents, it continues to be evasive and warrants attention, discussion, clarity and improvement. Mintrom and Vegari (1997) summarized it by stating,

It is interesting to consider whether a reform intended to promote greater accountability may, in some ways, result in diminished accountability for the public dollars spent. In contrast to local school district boards, charter school boards are not elected. Thus, some analysts wonder whether charter school decision makers may prove even less accountable to the taxpaying public than traditional school boards. Further, as charter schools engage in varying amounts of contracting with private entities, questions may arise over whether given service providers were chosen properly. Finally in cases where public entities with appointed governing boards may sponsor charter schools, issues of adequate charter school oversight and public accountability again arise. Charter school advocates address such issues by noting that parents of charter school students will ultimately ensure accountability. However, others maintain that the accountability issue extends beyond the students who attend charter schools to the general citizenry whose tax dollars fund such schools. (p. 159)
Frazier (2011) elaborated on some of the issues regarding charter school authorizers (sponsors) and boards of directors and supported further research in an area that has not emphasized their roles:

However, charter school board accountability continues to be a problem in charter schools in part because sponsors and boards are making up the rules as they go along. Since their inception in 1991, many charter schools have closed due to administrative and fiscal oversights (Center for Education Reform, 2002). These oversights have focused attention on the capacity of charter school boards to successfully govern their schools. This focus is important because boards have been generally overlooked in charter school research. (p. 1)

**Inherent Role Conflicts**

Graham (2004) explains the inherent conflict when it comes to management companies and accountability. He stated,

Some people and politicians alike would like to create a smokescreen to hide the fact that they are not providing resources, financial or otherwise, to predominantly urban, minority and low achieving school districts. Any meaningful discussion of this endemic problem must be couched and wrapped in language of competition, academic achievement, and accountability. (p. 1)

Frazier (2011) supported this by stating,

Public school boards receive considerable attention from diverse stakeholders such as the general public and elected officials. However, charter school boards have remained out of the limelight even though the number of charter schools in the nation has significantly increased since 1991. The lack of substantive
information about charter schools’ boards of directors contributes to the ambiguity surrounding charter schools and has raised questions about accountability. (p.3)

Typical management company contracts contain management fees, which are normally based on a percentage of aggregate state per pupil funding ranging from 5% to amounts above 10%. Other provisions may allow the full-service, for-profit private management company to retain fund balances or obtain sub fees from managing grant-related financial and in-kind resources. Some of the EMOs require a percentage of vending and fundraising because the revenues fall under their financial management. The role of the governing body becomes ambiguous, if not compromised, with unavoidable inherent conflict as the power and control of the for-profit private management company increases. The relationship is also fraught with potential minefields as the volunteer spirit upon which the board was formed conflicts with the entrepreneurial premise for which the for-profit private management company exists: to make a profit. Conn (2002) elaborated:

In the euphoria of “solving” America’s educational woes, a basic inconsistency in the notion of private, for-profit corporations controlling public education escaped serious consideration. Private corporations are legal entities established within a paradigm of maximization of profits. For those who provide the working capital of the organization: the shareholders. The directors of such organizations owe fiduciary duties of care and loyalty to the shareholders. They owe, under the law, no concomitant duties to other constituencies. (p.129)
Issues regarding accountability and transparency surface as boards try to enforce their governance responsibilities, while some management companies try to legally provide as little information as possible. Sometimes for-profit private management companies say they do not have to provide information because they are private companies. Dixon (2014b) explained in her article entitled, “Charter School Board Members Found Themselves Powerless,” that at a board meeting there was discussion about the amount of the EMO’s management fee:

A representative of the EMO clarified that the entire amount received by the management company was the management fee according to the contract and that there was no separate line item for a “management fee.” He stated that he would not disclose a specific dollar amount for management fees. The appropriateness of this position was questioned since public money was involved. The EMO representative stated that the public dollars became private when they were received by the EMO. He further indicated that because the EMO is a private company; the information needs not be disclosed. (p. 2)

This area of conflict between public interests versus corporate interests, which presents itself in discussions over transparency in decision-making and profitability are exacerbated by the role of the authorizer. Wilson (2005) explained:

Entering into management contracts with local school boards, whether district or charter, proved more often a hindrance than an efficient means of running schools and systematically implementing an educational program. The school’s board remains a legally separate entity from the management company and retains by statute ultimate oversight over all aspects of the school. In many cases, school
staff are required to be public employees of their charter school or district. This structure gives rise to enormous problems. The organization, its client board, and the school director vie for control over the school. When the school’s board lays claim to the school as truly its own, the law is in its favor…The organizations naturally seek as much authority as possible to ensure that they can generate financial and academic results and protect their financial investment. Even when a local board was willing to delegate much of its day-to-day management to the education contractor, state regulators and charter authorizers often prevented it from doing so. Authorizers took the position that boards could not delegate powers assigned to them by the charter statute to contractors. (p. 100)

Two types of management services generally offered include non-profit charter management organizations and educational management organizations (EMO), which are for-profit corporations. As stated earlier, the EMOs dominate the educational service provider market in Michigan. Lacireno-Paquet (2005) explained, “And although these differences in charter school type are beginning to be explored, some have voiced concern that for schools associated with EMOs the profit motive might become the primary focus, with quality and equity lost by the wayside” (p. 81). Wood (2013) further elaborated,

EMO opponents are also concerned about cost. They worry that the same incentives compelling EMOs to operate schools more efficiently might cause EMOs to sacrifice quality and effectiveness. Opponents assert that the cost-minimizing incentive will leave EMOs to cut spending in ways harmful to student achievement. (p.4)
All of these dynamics result in many areas of conflict beyond the public and corporate interests. Wilson (2005) further explained:

With such a muddled chain of command, it was probably inevitable that some boards and EMOs would fight, from the earliest days of their marriage, over the most basic components of the new schools. Where should the school be housed, and at what cost? What instructional programs should be used? Who should lead the school? Once the school was launched, new opportunities for conflict arose, often more personal and bitter. One common area of conflict was the hiring of school staff and the letting of contracts. Education management organizations knew charter authorizers wanted to see “community members” on the boards of charter schools they approved, so EMO staff recruited — often with little diligence — parent activists, local church leaders, and their friends and colleagues to serve on the new boards. Many such trustees were well intentioned but unsophisticated when it came to their ethical responsibilities as public fiduciaries. Some saw nothing wrong with lobbying the principal to hire a friend or decreeing that a male kindergarten teacher could not be hired.

When tensions arose between the board and the management, the board naturally sought to enlist the principal to its side. It took courage to defy trustees who were in and out of the school every day, disparaging the management company, and telling you what to do. Soon enough the relationship between all three parties running the school — board, EMO, and principal — all deteriorated. Avoiding conflict with his customer boards was the “single biggest problem
we’ve had,” Mosaica’s chief executive officer, Michael Connelly, reports. Other CEOs say the same.

Some boards threatened to terminate their management contracts when the relationship deteriorated or the school struggled to live up to its promises. If state officials were unwilling to hold trustees of charter schools to their contracts, the only alternative for EMOs was to litigate. Most found this option unattractive. Entering such a public fight could prove to be a public relations’ nightmare. Faced with these options, most EMOs chose to do everything possible to maintain their engagement with the school. With the contract on the line, they often agreed to renegotiate, resulting in a lower fee, elimination of contract renewals provisions, lost of supervisory authority over school personnel, reduction in responsibilities, and shortened contract terms. (p. 100)

**Maximizing Profitability: For-Profit Versus Non-Profit Models**

Kohn (2002) explained this difficult relationship in the following excerpt:

In the final analysis, the problem with letting business interests shape our country’s agenda for education isn’t just the executives’ lack of knowledge about the nuances of pedagogy. The problem is with their ultimate objectives. Corporations in our economic system exist to provide a financial return to the people who own them: they are in business to make a profit. As individuals, those who work in (or even run) these companies might have other goals, too, when they turn their attention to public policy or education or anything else. But business qua business is concerned principally about its own bottom line. Thus, when business thinks about schools, its agenda is driven by what will maximize
its profitability, not necessarily by what is in the best interest of students. Any overlap in those two goals would be purely accidental — and in practice, turns out to be minimal. What maximizes corporate profits often does not benefit children and vice versa. (p. 118)

With all of these areas of conflict, the question arises as to the reason that these companies are able to survive and flourish. Morley (2006) explained:

Given that monitoring costs in for-profit charters are so high, it seems strange that any parents, agencies, or donors would prefer for-profits. Since nonprofits control agency costs more efficiently than for-profits do, why do for-profits exist at all? The answer lies in for-profit schools’ superior ability to raise capital and to exploit economies of scale.

There is ample evidence to suggest that most for-profit charters schools operate at a larger scale than nonprofits do. Scale in schools can be measured both in individual school size and in school network size. For-profit schools’ ability to run large networks stems largely from their superior access to capital, the most essential ingredient in economies of scale. There are many potential economies of scale in education, both on the individual and network levels. Large individual schools experience economies of scale because they can spread fix costs — such as football fields, administrators, libraries, classrooms, driver’s education practice ranges, and cafeteria equipment — across many students. They accomplish this by using these resources intensely.

Large schools may also allow more subject specialization among teachers. Large school networks experience similar economies of scale. For example, they
allow managers to centralize decision-making, eliminating the need for each school’s principal to invest time into becoming fully informed and weighing the options for every decision facing the school.

Networks can also centralize data collection, reporting, and accounting, which may become major burdens for small schools. Additionally, networked schools can centralize purchasing, perhaps obtaining volume discounts from suppliers.

Finally, large networks diversify risk and provide additional security for creditors. There is undoubtedly a tension between the efficiencies gained from scale and the harmful effects of large schools on achievement. Large classrooms or perhaps even large schools arguably hurt achievement. Indeed, one of the more subtle goals of charter policy is to reduce school size. How for-profit schools balance this concern against the disadvantages of school is not clear. It appears, however, that the benefits of scale are sufficiently large to create spots for at least a significant minority of for-profit schools. (p. 1081)

Morley’s excerpt illustrated why the potential for conflict is so high in the state of Michigan. The majority of the states have an inversed ratio, with non-profit companies dominating their charter schools’ management. Since for-profit companies dominate the Michigan educational landscape, there is a greater need to address these areas that could lead to conflicts between these corporate entities and the public that the school boards serve.
The Challenge of Transparency with Public Tax Dollars

In addition to issues including governance and the financial management by for-profit private management companies, important areas of conflicts exposed in Dixon’s (2014a) article in the *Detroit Free Press* were around accountability and transparency with the use of public tax dollars. The issues surrounding the use of public tax dollars in the charter world is under major scrutiny. Transparency and accountability become confusing when it is not clear who is in control of financial planning, monitoring and reporting. The boards of directors’ roles become more ambiguous as for-profit management companies are hired to manage all aspects of the public school academy including operations, curriculum, hiring, recruitment, finances, and budgets.

As we proceed into the third decade of charter school reform we see trends that are both negative and positive. Positive trends reveal evidence of creativity and autonomy that was hoped for in the beginning of the movement. However, just as there have been some successes, critics provide evidence that many charters are not producing any better results than traditional public schools. Some charters are being closed based on the legislation metrics of academic performance such as No Child Left Behind and school rankings from Race to the Top legislation. The complexity has been magnified, especially in Michigan as it boasts the greatest penetration and number of full-service, for-profit private management companies; more than any other state in the country. The high penetration of for-profit management companies complicates the dynamics of the Michigan Education landscape given its already historic challenges related to economics, urban decline, funding, union battles, and the inability to diminish poverty. On the
contrary, growing concerns have germinated around transparency, accountability, and the effective monitoring and ethical management of taxpayers’ dollars.

Toch (2010) explained these issues and how they are more complex with the involvement of for-profit companies:

Charter schools have brought many talented people to the cause of public school improvement. This new generation of social entrepreneurs includes Ivy League graduates and Rhodes Scholars committed to helping the disadvantaged and drawn to public schooling by the independence offered charter schools. The charter movement has also attracted bad actors more [sic.] interested in enriching themselves than students. There [sic.] are stories of educational failure and financial malfeasance in charter schools just as unscrupulous trade schools fed off the federal financial aid system for years. But accountability remains weak in a number of states, and the charter world remains deeply divided over whether the locus of accountability should rest with consumers or regulators. (p. 70)

This need for accountability is hampered by a lack of resources dedicated to charter school oversight. As Morley (2006) explained:

Government monitoring has also been hampered by a wide range of failings that; though not inherent in charter theory, arise frequently in practice. For example, charter schools and government agencies are often uncertain about the scope of the government’s monitoring authority. The most recent study of the Public Charter School Program found that charter school legislation in the states has provided virtually no guidance on how authorizers should approach the accountability processes. Monitoring agencies also frequently lack adequate
resources. In fact, most monitoring bodies have no staff specifically devoted to charter school issues at all. The symptoms of this problem have included limited communication between agencies, poor information gathering, and in some states, the failure of any agency to take responsibility for assessing charter school performance. What few resources agencies devote to charter schools may have limited effect because charter schools often fail to set clear and measurable goals for themselves. (p. 1081)

In the Annenberg Institute for Charter School Reform report (2014) entitled, “Public Accountability for Charter Schools,” they explained that there is an inherent lack of transparency in charter school governance:

Charter schools, authorizers, and management organizations are sometimes exempted from transparency and public accountability regulations that other publicly funded institutions must adhere to. Lack of transparency has been a significant challenge for authorizers as well as parents and policymakers and opens the door to malfeasance (p.5).

Resnick (2010) contended that, “The public wants their voices heard inside the schoolhouse wall. They want to know that their tax dollars are being spent effectively and responsibly.” He also explained that accountability does not only revolve around financial matters. “Increasingly, local school boards are charged with ensuring that broader state and federal education requirements are met while translating local values and priorities into policies to meet the goal and aspirations of parents, taxpayers, and local businesses. By engaging their communities, school boards create a culture that supports schools in their main mission: raising student achievement” (p. 11).
Resnick (2010) made it clear along with the Detroit Free Press investigation, that the lack of accountability and transparency in charter schools is a primary source for oversight and governance conflicts. The unique quality with this category of conflicts is that all three actors (charter school boards of directors; full-service, for-profit management companies; and authorizers) previously mentioned contribute to the concerns of transparency and accountability. According to the Annenberg Institute on Charter School Reform (2014), management contracts are a source for issues around accountability and transparency:

Many of the most significant concerns around governance and transparency relate to external charter management companies. Nearly every state allows charter school governing boards to subcontract with a non-profit charter management organization (CMO) or a for-profit management organization (EMO) for virtually every facet of school management. Some of these EMO/CMOs have steadfastly refused to open their financial books to the public, even though they are receiving – or are nearly wholly supported by public funds. (p. 6)

In the relationship between all three actors, the authorizer has the main task of providing oversight and accountability. The Annenberg Institute on Charter School Reform (2014), further explained that this is often a challenge:

In most states, charter authorizers are tasked not just with granting charters, but with providing oversight and technical assistance to schools that they authorize, ensuring that each school is in compliance with state and federal law as well as with its individual charter agreements. The rapid expansion of the charter sector
has left authorizers in many states woefully understaffed and unable to appropriately monitor the schools they have chartered. (p. 12)

In conclusion, all of these areas of conflict, which culminate in the requirements for greater accountability and transparency, lead to a reason to review and perhaps revise the charter school laws. The Annenberg Institute on Charter School Reform (2014) makes this recommendation:

Most state charter school laws were written in the 1990s, when the charter schools were expected to only be a small component of state systems of public education. There was little concern that ineffective or unethical charter operators would use schools as nightclubs, or that for-profit corporations would buy up property and lease it back to schools at a substantial profit. Regrettably, the exponential growth of the charter industry over the last twenty years has not coincided with increased oversight. It is time to revisit state charter laws to monitor and ensure the appropriate and effective use of public dollars. (p.12)

**Charter School Autonomy and Accountability**

Barghaus and Boe (2011) explained that there is a trade-off with charter schools being able to have greater autonomy:

Charter schools fundamentally represent a trade-off---greater autonomy for increased accountability (Finnigan 2007). Curiously, 72 percent of states with charter school legislation specify more accountability as an objective, while only 27 percent of such states specify increased autonomy (Smarick 2005). (p. 78)

Autonomy and accountability are essential to improving education. Legitimacy has still not been achieved for charter schools; it is currently in a state of mixed reviews.
But the goal must still be pursued given the high level of importance of public education and what it means for the future for the state of Michigan and the country. The National Conference of State Legislature (2015) explains in their website article entitled, “Charter Schools in the State,” the important role that policy and legislation have in ensuring the quality of these organizations:

Charter schools are publicly funded, privately managed and semi-autonomous schools of choice. They do not charge tuition. They must hold to the same academic accountability measures as traditional schools. They receive public funding similarly to traditional schools. However, they have more freedom over their budgets, staffing, curricula and other operations. In exchange for this freedom, they must deliver academic results and there must be enough community demand for them to remain open.

The number of charter schools has continued to grow since the first charter law was passed in Minnesota in 1991. Some have delivered great academic results, but others have closed because they did not deliver on promised results.

Because state laws enable and govern charter schools, state legislatures are important to ensuring their quality. (“Charter Schools In the State,” 2015)

**Conclusion**

Charter schools have become entrenched into the fabric of American education. For the foreseeable future, charters are here to stay. Once their permanence is accepted, we can hopefully move forward with authentically pursuing better education for the masses including those in less wealthy districts. We have a very long way to go and the
areas to start with include better governance, authorization, and management. The actors who directly impact the regulation and delivery of education to children must not only create, but also promote collaborative policies, legislation, and laws. Michigan has a unique challenge in the charter realm given the high penetration of full-service, for-profit private management companies. The challenge is elevated because of the volunteer spirit of board governance and the profit mission of for-profit management companies. Making a profit is not a bad thing; however, it has not historically been the basis of American education. It does become a problem when issues surface regarding accountability, transparency, financial management, exorbitant charges, and lopsided contracts that favor the management company.

Charter schools will hopefully revisit their reasons of origin. Graham (2004) states,

Charter schools by their very design embody many of the qualities that lawmakers, parents, and concerned citizens are desperately searching for in a reform and governance model. They were created to improve student achievement, provide accountability, and provide expanded choice which was a missing ingredient in public schools (p.5).” Frazier (2011) explained, “Charter schools’ boards are accountable to stakeholders and the general public who entrust public education and public dollars to charter schools. (p. 4)

Frazier (2011) contributes to the research study by providing recommendations for future research regarding governance:

Perhaps the most needed recommendation for future research is that policymakers take a closer look at the lack of information about charter school boards, and begin collecting and analyzing data about charter school board members, their
roles, responsibilities and practices to identify successes and opportunities for improvement. There is not much evidence that charter school boards are operating well, and they may need to develop additional or improve their governance skills. Hence, policymakers should also look at providing opportunities for mandatory board development activities around leadership, communication, and administrative and fiscal management. (p. 82-83)

This need for more information about charter school boards of directors and identifying factors that will lead to their improvement have lead to exploration of what prevents effective governance as it relates to the relationship with full-service, for-profit private management companies with a focus on improving accountability and transparency. The charter school experiment was designed to provide autonomous creativity and innovation, but something has gone awry and conflicts have infiltrated the pursuit of education excellence, thus far preventing Michigan and our country from providing education equality for all children.
Chapter 3: Research Design and Methodology

Introduction

The research questions of the study emanate from the general topic of charter school leadership and governance. Specifically, investigating the consequences of charter school boards of directors contracting with full-service, for-profit private management companies in the state of Michigan. The study focuses on obtaining the perspectives of charter school board members in regard to role conflicts created by overlapping governance with full-service, for-profit private management companies and how such conflicts may be at least mitigated if not eliminated.

Research Questions

The three questions of the research study are specific to charter school governance and the role conflicts that occur between charter school boards of directors and the full-service for-profit private management companies. These management companies are selected by the charter school boards of directors to comprehensively manage the operations of the school. The questions include the following:

1. Do the contractual relationships between Michigan charter school boards of directors and full-service for-profit management companies contribute to conflict in governance?

2. Assuming that parallel governance systems created in charter schools whose boards of directors contract with for-profit management companies contribute to governance conflict, what are the factors in the relationship that contribute to conflict in governance?
3. Are accountability and transparency of public funds affected when Michigan charter schools’ boards of directors contract with full-service for-profit private management companies?

**Methodology**

The proposed research is a mixed methodology approach incorporating quantitative and qualitative designs. The results from the mixed methodology were cross-analyzed for statistical inferences and the identification of common themes. According to Creswell (2014),

> The key assumption of this approach is that both, qualitative and quantitative data provide different types of information—often detailed views of participants qualitatively and scores on instruments quantitatively—and together they yield results that should be the same. It builds off the historic concept of multi-method, multi-trait idea from Campbell and Fiske (1959); who felt that a psychological trait could be best understood by gathering different forms of data. Although the Campbell and Fiske conceptualization included only quantitative data, the mixed methods researchers extended the idea to include the collection of both quantitative and qualitative data. (p.219)

This dual approach enabled the capturing of experienced board members’ perspectives with quantitative surveys and qualitative interviews.

**Research Design and Instruments**

The research design from a quantitative perspective was explored and compared elements regarding the participants’ responses to survey questions. This survey instrument captured experienced board members’ perspectives on leadership roles and the
resulting conflicts regarding the governance of charter schools based on their individual experiences. (See Appendix A for the survey instrument.) The distribution of surveys targeted 40 to 50 respondents of charter school board members who contracted with full-service, for-profit private management companies for comprehensive management services. The boards were purposely selected to have cross-representation from contracts with different management companies and different authorizers.

Creswell (2014) explained, “A survey design provides a quantitative or numeric description of trends, attitudes, or opinions of a population by studying a sample of that population. From sample results, the researcher generalizes or draws inferences to the population” (p. 155). The research design from a quantitative perspective included both hard copy surveys for board members who hold an executive position, such as president or vice president, to distribute and collect from their fellow members, and electronic surveys were sent to eligible board members with permission from their board officers. The participants received survey questions divided into specific categories based on the guiding research questions: Do the contractual relationships between Michigan charter school boards of directors and full-service, for-profit private management companies contribute to conflicts in governance? Assuming that parallel governance systems created in charter schools whose boards of directors contract with full-service, for-profit private management companies contribute to governance conflicts what are the factors in the relationship that contribute to conflicts in governance? Finally, are accountability and transparency of public funds affected when Michigan charter schools’ boards of directors contract with full-service, for-profit private management companies?
The research design from a qualitative perspective included in-depth interviews that provided inquiry to the perspectives of experienced charter school board members (preferably with a minimum of ten years board experience) with various roles of leadership appointments. As part of this process, seven participants were purposely selected to capture their responses to research questions regarding experiences of contracting with full-service, for-profit private management companies. The interview candidates served as board members with at least five years and preferably ten to fifteen years of experience as members of various charter school boards of directors. A series of open-ended questions were utilized to engage the participants and allow subjective detailed responses. (See Appendix B for the list of interview questions.) Each interview respondent was taped with an audio recorder. The tapes were transcribed and electronically saved. Bloomberg and Volpe (2016) explained,

Qualitative research is suited to promoting a deep understanding of a social setting or activity as viewed from the perspective of the research participants. This approach implies an emphasis on exploration, discovery, and description. Quantitative research studies cause-effect phenomenon. Both research approaches involve complex processes in which particular data collection and data analysis methods assume meaning and significance in relation to the assumptions underlying the larger intellectual traditions within which these methods are applied. (p.38)

Part of the qualitative portion included exploration and comparative analysis of contracts between charter schools and their selected full-service, for-profit private management companies. Five contracts were selected for analysis. Each contract was
unique to a board of directors and their contracted full-service, for-profit private management company. The contracts were analyzed for patterns of content, terms, and conditions that potentially caused overlap and conflicts during the life of the agreement. The analysis of contracts assisted with providing insight to the disposition of the contractual parties and if it caused overlap and conflicts from the start of the agreement between the boards of directors and the full-service, for-profit private management companies.

The results from the mixed methodology approach enabled a cross-reference of findings gathered from three separate methods of data gathering; survey questionnaires, interviews, and contract analysis.

**Sample Size and Composition**

The perspectives of board members were obtained from a survey questionnaire provided directly to active and former board members who met the candidate criteria. A sample size of forty to fifty board members was targeted for charter schools working with full-service, for-profit private management companies (EMOs). The definition of acceptable candidates for both populations (1 and 2 as defined below) were individuals who served on a charter school board, either currently or within the last five years: survey candidates for a minimum of one or more years and interview candidates for a minimum period of five years (preferably ten to fifteen years). Candidates were also required to have contracted with a full-service, for-profit private management company operating in the state of Michigan.

Population 1 is composed of survey participants whose charter school boards contracted with an EMO for comprehensive management services. The sample size and
composition of the perception survey candidates were as follows: forty to fifty completed surveys from board members preferably with at least one or more years of appointed service regardless of their role on the board, gender, race, and ethnicity; and regardless of geographic boundaries (urban, suburban, and rural).

Population 2 was defined as interview participants who met the criteria for eligible charter school board members and contracted with an EMO for comprehensive management services. A total of seven interviews were conducted to obtain their subjective governance experiences and perceptions in regards to both contracting and working with EMOs. These board members preferably had at least five years (preferably ten to fifteen years) of appointed service regardless of their role on the board, gender, race, and ethnicity; and regardless of geographic boundaries (urban, suburban, and rural).

**Proposed Analysis of Data**

An analysis was done through comparing the findings of the survey responses. The surveys were formatted in a Likert Scale providing numerical statistical representations of the perspectives of the various board members who contracted with EMOs. The statistical results provided quantitative metrics with a given rating for each survey question.

Respondents were provided their responses on two Likert Scales, part one with ranges of responsibility polarized by full-service, for-profit private management companies’ responsibility (Option 1) to the boards of directors’ responsibility (Option 5):

1 – Management companies’ responsibility

2 - Mostly the management companies’ responsibility and some of the boards of directors
3 – Share responsibility equally between the management companies and the boards of directors

4 – Mostly the boards of directors’ responsibility and some of the management companies

5 – The boards of directors’ responsibility

And part two, a Likert Scale ranging from 1 to 5 with the following designations:

1 – Strongly Disagree
2 – Disagree
3 – Neutral
4 – Agree
5 – Strongly Agree

The results were aggregated to determine the quantitative ratings per question and aggregated for each participant and as a group. The data gathered from the qualitative interviews was transcribed, analyzed, and decoded to search for threads of common themes. The survey results and interview findings were cross-referenced and analyzed for patterns, commonalities, and themes.

**Measures to Ensure Safety, Confidentiality, and Anonymity for Human Subjects**

The quantitative surveys were sent directly to board presidents to facilitate with their members. If the routine board meeting schedule for the charter schools participating was timely, then the time frames were leveraged accordingly. The board presidents (or designees) were asked to disseminate the surveys to each of their fellow board members. The returned anonymous surveys were numbered, coded, and secured.

In terms of the qualitative interviews, the participants were asked where they were most comfortable meeting to which accommodations were made accordingly. The interviews were recorded via an audio device and later transcribed. Notes and their
recordings were electronically stored in a laptop with a pass code for access. (See Appendix C and D for the IRB Letter of Approval and for Human Subjects Review Board (CITI) training and certification)

**Timeline**

The following timeline illustrated the cadence of research activities:

- **Step 1**: Submit appropriate information and documentation to the Human Subjects Review Committee for their review and approval.
- **Step 2**: Implement a query of the research instruments, quantitative surveys, and qualitative questions with a selected board for testing.
- **Step 3**: Upon the Human Research Review Committee’s approval, contact the board presidents of the sample charter schools to ask if they are willing to participate in a study on board leadership and governance.
- **Step 4**: Identify and contact potential candidates for qualitative interviews.
- **Step 5**: Distribute surveys to board presidents with directions to implement surveys and later collect for pick up.
- **Step 6**: Conduct qualitative interviews.
- **Step 7**: Synthesize data for analysis.
- **Step 8**: Draw conclusions of the collected data from both surveys and interviews. Decode interviews and search for common themes within the data.
- **Step 9**: Cross analyzing (triangulation) of the results from all methods of research and data collection.
Summary

Chapter 3 provided the cadence for the research design and methodology to explore the phenomenon around governance conflicts when charter school boards of directors contract with full-service, for-profit private management companies in the state of Michigan. The research was a mixed methodology inclusive of quantitative and qualitative designs. The dual approach was selected to provide a wealth of findings to subsequently enable data convergence and triangulation. A general contract analysis was also implemented to provide insight for the development of survey questions and interview questions. Subsequently, a more in-depth contract analysis was completed to provide qualitative data around the similarities and differences of contract agreements and its implications on the relationship between the charter schools' boards of directors and the chosen for-profit management company. The findings provided an opportunity for analysis and set the stage for conclusions presented in Chapter 7.
Chapter 4: Presentation and Analysis of Data

Introduction

Three questions provided the framework for this mixed methodology study and were specific to charter school governance in the state of Michigan and the role conflicts that often occur between charter school boards of directors and the full-service, for-profit private management companies selected to comprehensively manage the operations of their school. The three research questions that guided this examination were as follows:

1.) Do the contractual relationships between Michigan charter school boards of directors and full service, for-profit management companies contribute to conflict in governance?

2.) Assuming that parallel governance systems created in charter schools whose boards of directors contract with for-profit management companies contribute to governance conflict, what are the factors in the relationship that contribute to conflict in governance?

3.) Are accountability and transparency of public funds affected when Michigan charter schools boards of directors contract with full-service, for-profit management companies?

The data is first presented in a quantitative format followed by an illustration of data findings with a subsequent analysis. The second part of the data presentation is a qualitative format inclusive of summaries of transcripts from interview participants and codification of data to generate patterns and themes for subsequent analysis. The quantitative and qualitative analysis was converged and triangulated with the data from
an analysis of contracts between charter school boards of directors and for-profit private management companies.

**Quantitative Methodology**

The quantitative surveys were obtained in two ways. First, board presidents were provided with hard copy surveys to distribute to their board members who met the criterion of having served on a charter school board for at least one to two years. In some instances, the researcher attended board meetings to clarify the research requests and respond to participants’ questions. Secondly, an electronic version of the survey was provided with a link that enabled board presidents and their members to access, participate, and submit their responses at their convenience. The survey is comprised of two parts both in Likert Scales; Part 1 contained twelve questions seeking to obtain the charter school board respondents perspective as to whether the board of directors or the for-profit management company is responsible for certain duties related to the operations of charter schools. Part 2 contained four questions which gauges the board respondents’ level of agreement or disagreement to questions regarding the impact of managing state funds, accountability, transparency, and the boards’ understanding of their contract with for-profit private management companies.

The goal for the number of survey responses was 40, which was exceeded by 15 for a total of 55 surveys responses. Of those 55 surveys that were submitted, 48 were complete and 7 were incomplete. The total number of surveys sent out to eligible board members was 130 with 48 completed, which resulted in a completed response rate of 37% for the quantitative research.
Qualitative Methodology

The rationale for using the qualitative design included purposefully selected participants from a pool of potential candidates based on the criterion of having fifteen years of experience of contracting with a full-service, for-profit private management company; in addition, the potential participants will have served most of their time in key board member positions such as president, vice-president, or treasurer. The participants were selected from the pool of candidates who were recommended by various sources. The researcher knew three of the participants by professional affiliations and some authorizers and management companies recommended others. The researcher also wanted to consciously mix the boards, management companies, and authorizers in order to have a wide span of different experiences.

Contacting potential interview candidates based on specified criteria facilitated the qualitative interviews. Candidates were selected based on the following criteria: having charter school board experience; contracting with a for-profit private management company; having served in significant board positions such as president, vice president, and treasurer; and having a minimum of five years, and preferably ten to fifteen years of service, as a charter school board member. Table 2 illustrates the board member participants’ profiles that met the candidate criteria and includes their gender, race, years on the board, and profession.
Table 2

Demographics of Charter School Board Members Participation in the Qualitative Interviews

<table>
<thead>
<tr>
<th>Participant</th>
<th>Gender</th>
<th>Race</th>
<th>Years on Board</th>
<th>Profession</th>
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<tbody>
<tr>
<td>Participant A</td>
<td>Male</td>
<td>African American</td>
<td>17</td>
<td>Manager MIS</td>
</tr>
<tr>
<td>Participant B</td>
<td>Male</td>
<td>African American</td>
<td>18</td>
<td>Finance Director</td>
</tr>
<tr>
<td>Participant C</td>
<td>Female</td>
<td>White</td>
<td>13</td>
<td>Health Care</td>
</tr>
<tr>
<td>Participant D</td>
<td>Female</td>
<td>African American</td>
<td>6</td>
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</tr>
<tr>
<td>Participant E</td>
<td>Female</td>
<td>African American</td>
<td>13</td>
<td>Medical Research</td>
</tr>
<tr>
<td>Participant F</td>
<td>Male</td>
<td>White</td>
<td>19</td>
<td>Lawyer</td>
</tr>
<tr>
<td>Participant G</td>
<td>Male</td>
<td>White</td>
<td>12</td>
<td>Entrepreneur</td>
</tr>
</tbody>
</table>

| Years on Board | Mean: 14 | Median: 13 | Mode: 13 | Range: 13 |

The qualitative interview subjects consisted of a demographic mix of charter school board member participants who had an average of 14 years of experience serving on a charter school board in the state of Michigan. The least number of years of experience was six and the most years of experience was 19. The group consisted of four males and three females and consisted of four African Americans and three White participants. The group also represented varied professional and education profiles.

The researcher analyzed the interview responses by identifying common phrases that appeared frequently in the individual respondent’s transcripts. Descriptors is the term used in the study to describe words and phrases that were frequently found in the transcripts and were a common topic of discussion, even if they were not explicitly stated. These identified descriptors were indexed and then compared in order to determine summative common themes among all of the interviews.
Supplemental Comparative Contractual Analysis

The contractual analysis explored five contracts between charter school boards of directors and for-profit private management companies. The contracts were analyzed to provide data on possible patterns related to content, terms, obligations, and conditions that may potentially cause role confusion and conflict between the two parties during the life of the agreement.

The results from the three methodologies enables a triangulation of data to supplement findings and strengthen the analysis of potential role confusion and conflicts as it relates to charter school boards of directors contracting with for-profit private management companies.

Quantitative Findings: Analysis of Part 1 Survey Questions

The quantitative findings that came from the results of the survey responses are as follows and are organized by their alignment to one of the three research questions. The survey questions will not be sequential; however, they are a part of the item analysis with the survey questions in part one germane to the three research questions. Survey Questions 1, 3, 4, 7 and 11 relate to Research Question 1. Survey Questions 5, 8, 9, and 10 relate to Research Question 2. Survey Questions 2, 6, and 12 relate to Research Question 3. The analysis of part two of the survey is organized in the same manner.

Research Question 1: Do the contractual relationships between Michigan charter school boards of directors and full-service for-profit management companies contribute to conflict in governance?

Part 1 Survey Question 1: The responsibility for hiring key personnel such as, superintendent, principals and teachers should be…
As the results of each group are shown in Figure 2, nearly 40% of the board members responded that hiring school personnel is the responsibility of the management company, while 29% responded that it is mostly the management company’s responsibility. Nearly one quarter of the respondents believed that the responsibility is equally shared, and a little over 10% responded that it is mostly or all of the board of director’s responsibility.

There is clearly role confusion as to who has the responsibility for this function. This is a potential source of conflict because more than half of the board respondents did not think that the management company had sole responsibility for hiring school staff. Other responses ranged from the board having sole responsibility for hiring to the responsibility being equally shared with the management company. These findings are contrary to the contract analysis, which clearly states that the management company has complete responsibility for the employment of personnel working at the school and for all human resource functions.
Part 1 Survey Question 3: The responsibility for managing the day-to-day operations of the school should be…

Although nearly three quarters of the respondents indicated that it is the management company’s responsibility to manage the day-to-day operations of the charter school, nearly 30% think the responsibility for the day-to-day should be shared to some degree with the board of directors. (See Figure 3)

The responsibility for managing the day-to-day operations of the school is a source of role confusion given that more than a quarter of the board respondents chose survey options that indicate a level of management responsibility other than solely the management company. This is a source of conflict because consensus is not reached for what entity is responsible for the day-to-day operations. Although board governance contractually does not include managing daily operations, some board members still indicated that managing the day-to-day operations is solely the responsibility of the board of directors. The daily operations is not typically in the realm of responsibility for charter
boards who have chosen to contract with full-service, for-profit private management companies and is contrary to the rationale of hiring such services.

*Part 1 Survey question 4: The responsibility for awarding contracts should be…*

![Figure 4](image)

*Figure 4. Percentage of responses to Part 1 Survey Question 4.*

As shown in Figure 4, approximately 37% of board respondents indicated that the responsibility of awarding contracts should solely rest with the board of directors. Exactly one-third, however, responded that it should be a shared responsibility between the board of directors and the management company. A minimal percent of respondents (2%) agreed that awarding contracts should be solely the responsibility of the management company.

The previous data indicated that there is not consensus on what entity should award contracts for various services required by the school. Also, exactly one-third of the survey respondents selected the option that awarding contracts should be a shared responsibility between the boards of directors and the for-profit private management companies. The lack of consensus and commensurate spread of responses indicates a
presence of confusion and resulting propensity for conflicts. Awarding contracts to vendors and suppliers is an important component to operating a successful charter school program. The systems for awarding contracts may yield returns, positive or negative, based on the processes implemented and how procedurally the board of directors and the management company are involved. It needs to be clear to all stakeholders who is responsible for awarding contracts or if there is a range to where the management can handle smaller contracts and at what dollar amount the board has responsibility. It is also important for the contractors to know to whom they are accountable. Any confusion in this critical area to the charter school’s operations may generate conflicts between the board of directors and the for-profit management company in addition to the conflict implicated with the vendors and suppliers that awarded the contracts from the charter schools.

*Part 1 Survey Question 7: The responsibility for determining curriculum and academic programs should be…*

![Figure 5. Percentages of responses to Part 1 Survey Question 7.](image)
As illustrated in Figure 5, nearly one-third of the survey respondents indicated that the curriculum and academic program responsibility should be solely with the management company. The mix of responses varied by choice with 6% indicating that the board of directors should be responsible for curriculum and academics, 6% also for mostly the board, 19% indicated it should be shared equally between the two parties. The balance of the responses show 38% thinks it should be mostly the management company, and 31% indicated that the management company should solely determine the curriculum and academic programs.

The responses indicated confusion on who has the responsibility for determining curriculum and academic programs in charter schools and are a source of conflict, given the difference of opinion of respondents regarding the survey question. Sixty-nine percent of the respondents selected responses not inclusive of the board of directors. The core service of every school, whether a traditional public school or charter, provides an academic program that effectively serves its community. Decisions about curriculum and academic programs impact every aspect of a school’s success. The contract analysis also indicates, in the section of obligations for the management company, that the charter school’s boards of directors adopt the curriculum and academic programs of the management company. These findings suggest yet another example where specific provisions in the management contracts are not well understood by the boards of directors.

**Part 1 Survey Question 11: The development of the contractual agreement**

between the board and the management company should be…
Figure 6. Percentages of responses to Part 1 Survey Question 11.

As illustrated in Figure 6, the responses for the development of the contractual agreement showed 56% think the responsibility should be shared equally between the board of directors and the management company; the remaining 44% was distributed among the other possible survey responses, inclusive of 23% who chose the responsibility is solely the board of directors, and 15% who chose mostly the board of directors. Less than 7% chose the option of the management company developing the contractual agreement, while 2% responded that it should be solely the management company.

The responsibility for the development of the contractual agreement between the board and the management company is contested and is a source of conflict given the range of responses to the survey question. Contracts are typically at the heart of any business arrangement. It sets the parameters for interactions, recourse, and most of all expectations of the parties who enter into contractual agreements. As previously referred to in the literature review, the state of Michigan has approximately 82% of their charter
CONFLICTS IN THE GOVERNANCE OF MICHIGAN CHARTER SCHOOLS

schools that are managed by full-service for-profit private management companies.

Figure 6 illustrated the levels of responsibility for the development of the contract from the perspective of boards of directors. This also provided insight into how the board of directors perceived the management company. It brings to mind the question of do they see the management company as the superior partner, an equal partner, or as a contractor similar to food services, auditors, consultants, and other significant vendors. The board of director’s perspective of the management company impacts how the board will approach contract development and negotiations for the contractual agreement. The development of the contract between the two parties has significant implications on the interactions and restrictions of each party. A board’s lack of understanding the contract will result in role confusion and conflicts regarding operating the charter school that could last for the duration of the agreement.

**Research Question 2:** The second research question states: Assuming that parallel governance systems created in charter schools whose boards of directors contract with for-profit management companies contribute to governance conflicts, what are the factors in the relationship that contribute to conflicts in governance?

**Part 1 Survey Question 5:** The responsibility for recommending board candidates should be…
Figure 7. Percentages of responses to Part 1 Survey Question 5.

The graph of Survey Question 5 as illustrated in Figure 7, the results show that 65% of board respondents think that board members should solely recommend board candidates. The other 35% was composed of 23% mostly selected the board of directors, 10% selected equally shared between the two parties, and 2% think mostly the management company. None of the survey respondents think that the management company should have sole responsibility for recommending board members.

The responsibility for recommending board candidates is a source of conflict given the percentage of survey respondents who indicated some level of shared responsibility between the charter school board of directors and the management company. The lack of consensus in this critical area of governance is pertinent because it is not clear to these board members who has responsibility for recommending board candidates. The literature review provided various sources for recommending board candidates inclusive of other board members, the management company, the charter school office (CSO), vendors, community groups, community businesses, and parents. Even though these are voluntary appointed positions, the impact and importance of
selecting effective board members has significant implications on the charter school, students, parents, community, and all of the school’s stakeholders. Board candidates sourced from any entity other than the board of directors lends itself to role conflicts between the board of directors and the full-service for-profit management company leading to conflicts of interest.

**Part 1 Survey Question 8: The responsibility for conducting student expulsion hearings should be…**

![Figure 8. Percentages of responses to Part 1 Survey Question 8.](image)

As shown in Figure 8, nearly 44% of surveyed board members selected that it is the board of directors who is solely responsible for conducting student expulsion hearings. While nearly half of the survey respondents indicated that student expulsion responsibility should be shared to varying degrees between the board of directors and the management company, 6% selected that the responsibility should be solely with the management company.
The responsibility for recommending student expulsions is a source of conflict given the percentage of survey respondents who indicated some level of shared responsibility between the charter school board of directors and the management company, as well as the polarized responses that indicated that it should be solely the board or solely the management company. Consensus is not even close and therefore is an indication of potential conflict, which is exacerbated by role ambiguity in terms of student expulsions.

Areas around student discipline are very sensitive. This is partly because it involves discussions about children and the decisions that tremendously impact their future; expulsions are included in this category. There was ambivalence as to who is responsible for conducting expulsion hearings that has procedural and legal implications that further exacerbates potential role conflicts regarding student expulsions.

**Part 1 Survey Question 9: The responsibility for special education policies of the school should be…**

*Figure 9. Percentages of responses to Part 1 Survey Question 9.*
As illustrated in Figure 9, the special education question showed double-digit percentages for all of the survey responses. The polarized responses for solely the board being responsible was 12.5%, and for solely the management company was 29%; the three possible shared responses totaled approximately 59% inclusive of 10% selecting mostly the board’s responsibility, 23% selecting equally shared, and 25% thinks mostly the management company. All possible responses received double-digit percentages.

The responsibility for special education policies is a source of role confusion and conflict given the double-digit percentages for all five of the survey options. The role confusion begins with the comprehensive contracts between the board of directors and the management company. It is typically in the third article of most contracts and it states that the services for students with disabilities are under the obligations of the management company. It also shows a significant lack of consensus indicated by the spread in percentages across the survey responses. The complexities of special education have legal, social, and medical implications that are difficult to comprehend. Special education is also an area that requires high levels of experience, knowledge, expertise, and certification.

Special education generally is an area of contention in education, partly because of all of the laws that seek to protect the rights of families and their children with special needs. These laws have proliferated as the growing needs of the collective special education cases have increased, such as an increase in diagnoses of attention deficit hyperactivity disorder (ADHD), autism spectrum disorder, and oppositional defiant disorder (ODD) to name a few. This complex area of education in the charter school world has strong probability for role conflicts given the lack of understanding by most boards of directors and the intense level of learning required to become knowledgeable in the complexities and legalities of special education.
Part 1 Survey Question 10: The responsibility for developing board meeting agendas and board minutes should be…

Figure 10. Percentages of responses to Part 1 Survey Question 10.

As referenced in Figure 10, more than one-third of those surveyed selected the board of directors as solely responsible for the board meeting agendas and board meeting minutes. More than 60% think the responsibility should be shared to varying degrees inclusive of 27% indicated that mostly the board is responsible for board meeting agendas and minutes, 15% selected shared equally between the two, and 19% selected mostly the management companies’ responsibility. Four percent think it is solely the management companies’ responsibility.

There is not consensus for who is responsible for developing board agendas and minutes. This perpetuates role confusion and conflict because it is the boards’ public meeting and all other attendees are guests or participants. The responsibility for developing the board meeting agendas and minutes is often overlooked as simply a necessary task. However, the relevance and repercussions of the board agendas and its complementary board minutes are extremely important. It is a legal document that may
be used to clarify positions, policies, resolutions, budget decisions, attendance, and contracts. If the management company takes charge of developing the agenda and doing the minutes of the board meeting, they may see the agenda through the lens of the management company and not the perspective of the board of directors. The board meetings may be generally only month-to-month; however, the implications of the agenda and minutes are far reaching given their importance as public documents summarizing a public meeting. Given the level of importance of agendas and minutes, and varied responses of the survey respondents, this is an area with governance conflicts where negative implications could have major impact on the charter school and its governing body.

Research Question 3: Are accountability and transparency of public funds affected when Michigan charter schools’ boards of directors contract with full-service, for-profit management companies?

Part 1 Survey Question 2: The responsibility for managing finance and budget matters should
As shown in Figure 11, approximately 90% of the board respondents indicated that the responsibility of managing budgets and finances should be shared to some degree between the board of directors and the for-profit management company. The 90% is inclusive of 48% chose equally shared, 10% chose mostly the board, and 31% thinks mostly the management company. The polarized options make up 6% for those who selected solely the board of directors, and 4% who chose solely the management company.

The responsibility of managing budgets and finances does not have consensus and is a source of role confusion and conflicts given the importance of financial functions. The role confusion begins with the comprehensive contracts, which explains that finances and budget management falls under the responsibility of the management company and not the boards of directors. The finances and management of the budget typically falls under Article III of most contracts, under educational and administrative services which says, “All aspects of the school’s accounting operations, including general ledger
management, financial reporting, payroll, employee benefits, and payroll tax compliance” are under the obligations of the management company. In examining the contracts, there should be no confusion as to who holds the responsibility for managing finances. The management of the budget and allocation of resources is significant for any entity regardless of industry. The budget is central to the operations of the school. The appropriate allocation of resources is critical to the school’s delivery of its mission and vision. When the management company and the board are not aligned with budgetary and financial management, in addition to board members not fully understanding their fiduciary responsibility for the charter school, these circumstances perpetuate role confusion and conflict.

**Part 1 Survey Question 6: The responsibility for state and federal compliance should be…**

![Figure 12. Percentages of responses to Part 1 Survey Question 6.](image)

The range of survey responses shown in Figure 12 indicates a lack of consensus regarding who is responsible for state and federal compliance and is therefore a potential for role confusion and conflicts. Nearly one-third of the board member respondents’
chose the survey option of an equally shared responsibility between the board of directors and the management company. More than 60% indicated some level of equally shared responsibility between the two parties, and nearly 40% indicated the polarized options of 11% choosing solely the board of directors and 28% choosing solely the management company.

Boards of directors are held accountable by their authorizers for three areas, which include fiscal accountability, outcome accountability, and compliance accountability. The last accountability factor includes making sure the charter school meets the requirements of federal and state regulations. Charter school compliance includes a myriad of tasks that if not met results in financial penalties and fines. This is due to the fact that they are public entities and the primary sources of funding come from the state and federal governments. The receipt of funding has compliance requirements related to a wide range of operational demands inclusive of, but not limited to academic reporting, expulsions, attendance, audits, asbestos, staffing credentials, health inspections, fire drills, board meeting minutes and agendas, school calendars, and annual reports. These components are part of school operations, which come under the obligations of the management company; however, it is the board that is held responsible. Such matters perpetuate role confusion and conflict between the charter school boards of directors and the for-profit management companies because much of the facilitation of the requirements is day-to-day, which is under the management company; however it is the boards of directors who are held accountable by the state and federal governments.

**Part 1 Survey Question 12: The acquisition of real estate, facilities, and capital projects for the school should be...**
As illustrated in Figure 13, close to two-thirds of the survey respondents indicated that the responsibility for capital expenditures should be shared at various levels between the board of directors and the for-profit management company inclusive of 33% selecting mostly the board of directors’ responsibility, 17% selecting equally shared responsibility, and 13% selecting mostly the management company. The polarized responses indicated 33% for solely the board of directors, and 4% felt the management company should solely manage the acquisition of capital expenditures and projects.

There is not consensus regarding the acquisition of real estate, facilities, and capital projects for the charter school and therefore resulting in role confusion and conflicts. The state of Michigan provides provisions regarding expenditures that exceed approximately $20,000.00. These expenditures usually require some kind of bid process to promote transparency and cost efficiency. These include transactions for assets such as buildings, property/real estate, technology, major renovations and repairs. Role confusion and conflict persists given that the comprehensive contracts do not specify limits to
transactions without board approval and clauses included that allude to the management companies’ obligations with reasonable effort to provide or secure facilities on behalf of the board of directors. When for-profit management companies provide the facilities for the charter schools it manages, it places the board in a vulnerable position with weak leverage when it comes to contract negotiations. These circumstances add to role confusion and increase the probability of role conflicts between the board of directors and the full-service, for-profit private management company.

**Quantitative Findings: Analysis of Part 2 Survey Questions**

The questions in the second section of the survey will also not be sequential; however, they are a part of an item analysis with the survey questions germane to one of the three research questions. In part two of the survey, Survey Question 1 relates to Research Question 1. Survey Questions 2, 3, 4 relate to Research Question 3. There are no questions in part two of the survey that directly relate to Research Question 2.

**Research Question 1: Do the contractual relationships between Michigan charter school boards of directors and full-service for-profit management companies contribute to conflict in governance?**

*Part 2 Survey Question 1: The management of funds and resources is affected when boards of directors contract with full-service for-profit management companies*…
Figure 14. Percentages of responses to Part 2 Survey Question 1.

Figure 14 illustrates the responses to Part 2 Survey Question 1, which asks if the management of funds and resources are affected when boards of directors contract with full-service for-profit management companies. The majority of respondents (55%) chose either strongly agree (21%) and agree (34%), and comparatively, 4% chose strongly disagree, while 21% selected disagree, and 19% were uncertain.

The responses for the question, if the management of funds and resources are affected when boards contract with management companies, indicated a lack of consensus given the distribution of the responses. The survey respondents who chose strongly agree or agree think that funds and resources are impacted. Those who disagree and strongly disagree believe that funds and resources are not impacted by the management companies’ skills and knowledge to effectively manage the assets of charter schools. The balance of respondents is uncertain (19%), which is an indication that they are unsure that the funds and resources are affected either way when boards contract with a for-profit private management company.
The results indicated a lack of consensus and therefore role conflicts emerged as it relates to the effect of the management of funds and resources when boards contract with a for-profit private management company. The variability of responses is not an indication of the boards’ positive or negative feelings of the management company, however, it is an indication that board members have varying perceptions related to how and if the funds and resources of the charter school are affected when boards of directors contract with full-service, for-profit private management companies. The management of public funds is more complex given the management and handling of taxpayers’ dollars by for-profit private management companies.

Research Question 3: Are accountability and transparency of public funds affected when Michigan charter schools’ boards of directors contract with full-service for-profit management companies?

Part 2 Survey Question 2: Accounting of Public Funds is Affected When Boards Contract with Full-Service For-Profit Management Companies…

Figure 15. Percentages of responses to Part 2 Survey Question 2.
Figure 15 illustrated the responses to the question about the perception of the board members on if the accounting of public funds is affected when contracting with full-service, for-profit private management companies. The distribution of the selected responses yielded double digits for each possible answer; 19% agreed that the accounting of public funds are affected when boards contract with for-profit management companies, and 31% strongly agreed. This combined for 50% of the responses agreeing to some degree that accountability of public funds is affected. Ten percent of the respondents strongly disagreed, 25% disagreed, and 15% were uncertain to this statement.

The results indicated a lack of consensus, given the varied distribution of responses, therefore causes role confusion that leads to conflicts between the board of directors and the for-profit management company. The variability in responses is in double-digits, including those that chose uncertain as a response. This level of variability in responses displays a lack of consensus, which is an indicator of board confusion that leads to conflict in the accounting of public funds. This ambiguity is increased given the management companies’ private status, which gives the option of not having to report on the accounting of funds that originated from public tax dollars. These dynamics add further to role confusion and conflicts given the lack of accountability and transparency under the guise that management companies have the designation of a private company.

*Part 2 Survey Question 3: Transparency of public funds is affected when boards of directors contract with full-service for-profit management companies*…
Figure 16. Percentages of responses to Part 2 Survey Question 3.

Figure 16 demonstrated that the majority of respondents believed that the transparency of public funds is affected when boards of directors contract with full-service, for-profit private management companies with 27% selected agreed and 19% strongly agreed, combining for 46%. The responses for not agreeing that transparency is affected indicated 15% strongly disagreed, 27% disagreed, and 12% were uncertain regarding the transparency of public funds.

The lack of consensus indicated role confusion and conflicts given the distribution of responses to the survey question on transparency. The transparency of public funds is just as complex as accountability, if not more complex, given the management and handling of taxpayer’s dollars by for-profit private management companies. Also, whereas accountability is generally on the back end of financial and audit-related processes, transparency spans the full spectrum of processes such as bidding, capital acquisitions, and routine purchases. Role confusion and potential conflicts may also surface given the opportunities of for-profit management companies to legally not
disclose information once monies are transferred to their stewardship. The opportunities for non-disclosure by private management companies magnify with various operational functions such as budgeting, hiring and compensation practices including bonus pay, leasing facilities to the boards of directors, and administrating federal and state grants.

**Part 2 Survey Question 4. The board of directors understands the articles, terms, and content of the management contract between the board of directors and the management company...**

![Bar graph showing responses to Part 2 Survey Question 4](image)

**Figure 17.** Percentages of responses to Part 2 Survey Question 4.

As shown in Figure 17, more than two-thirds of the board member respondents indicated that they understand the articles, terms, and content of the contract between the board of directors and the management company; this consisted of 42% indicated that they strongly agree, and 29% indicated agree, which combined for 71%. On the contrary, 10% selected disagree, and 4% indicated strongly disagree, while 15% selected uncertain regarding understanding the articles, terms and content of the contract.
The distribution of responses and the lack of consensus provided impetus for role confusion and resulting conflicts given the disparity. The contract is the foundation of the relationships between the boards of directors and the for-profit private management companies. Understanding the contract as board members is imperative, individually and collectively, to effectively govern. The varied distribution of responses shows various board members’ understanding of the contract, which ultimately reflects their perception of both their roles and the role of the management company. The degree of the boards’ understanding of the contract, sets the dynamics for role insight or confusion, which the latter adds to conflicts due to lack of contractual awareness and understanding.

Summary of Presentation and Analysis of Data

Table 3a and 3b summarize the results of the survey responses from charter school board members who met the criterion for participation. The data collection element was a key component of the quantitative portion of the mixed methodology study.

The summary illustrates the responses to the survey questions and provides data that reinforces the multiple degrees of discrepancy and lack of consensus for all of the survey questions. The lack of consensus is an indication of confusion and implicates potential conflicts in board governance when they contract with full-service for-profit private management services.
<table>
<thead>
<tr>
<th>Questions</th>
<th>Range of response polarity and applied percentages based on quantitative survey responses.</th>
<th>Total</th>
<th>Weighted Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The responsibility for hiring key personnel such as superintendent, principal and teachers should be…</td>
<td>37.50%</td>
<td>18</td>
<td>2.10</td>
</tr>
<tr>
<td>2. The responsibility for managing finance and budget matters should be…</td>
<td>4.17%</td>
<td>2</td>
<td>2.83</td>
</tr>
<tr>
<td>3. The responsibility for managing the day-to-day operations of the school should be…</td>
<td>72.92%</td>
<td>35</td>
<td>1.56</td>
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<tr>
<td>4. The responsibility for awarding contracts should be…</td>
<td>2.08%</td>
<td>1</td>
<td>3.73</td>
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<tr>
<td>5. The responsibility for recommending board candidates should be…</td>
<td>0.00%</td>
<td>0</td>
<td>4.50</td>
</tr>
<tr>
<td>6. The responsibility for state and federal compliance should be…</td>
<td>27.66%</td>
<td>13</td>
<td>2.57</td>
</tr>
<tr>
<td>7. The responsibility for determining curriculum and academic programs should be…</td>
<td>31.25%</td>
<td>15</td>
<td>2.19</td>
</tr>
<tr>
<td>8. The responsibility for conducting student expulsion hearings should be…</td>
<td>6.25%</td>
<td>3</td>
<td>3.79</td>
</tr>
<tr>
<td>9. The responsibility for special education policies of the school should be…</td>
<td>29.17%</td>
<td>14</td>
<td>2.52</td>
</tr>
<tr>
<td>10. The responsibility for developing board meeting agendas and board meeting minutes should be…</td>
<td>4.17%</td>
<td>2</td>
<td>3.71</td>
</tr>
<tr>
<td>11. The development of the contractual agreement between the board and the management company should be…</td>
<td>2.08%</td>
<td>1</td>
<td>3.52</td>
</tr>
<tr>
<td>12. The acquisition of real estate, facilities and capital projects should be…</td>
<td>4.17%</td>
<td>2</td>
<td>3.79</td>
</tr>
</tbody>
</table>
The findings and subsequent analysis of the 16 survey questions were consistent in presenting a lack of consensus in terms of the responsibilities around charter school functions and operations. The first 12 questions provided a variety of options from the polarized choices of solely the responsibility of the management company to solely the responsibility of the board of directors along with intermediate ranges of shared responsibilities between the two parties. The second part of the survey consisted of four questions ranging from polarized opposite responses of strongly agree to strongly disagree, and intermediate ranges inclusive of uncertain. Both parts were formatted in Likert Scales that were provided to board presidents in hard and electronic formats for distribution to board members who met the criterion for survey respondents.

The data illustrated a wide spread of responses indicating that different boards have different perspectives regarding their responsibilities and the responsibilities of the
full-service, for-profit private management companies they chose to contract with to manage their charter school. The survey results portrayed a lack of consensus and a commensurate wide range of perspectives, which indicates that boards of directors are confused and not aware of the provisional elements of their contract. The contract with full-service, for-profit private management companies sets the foundation of the board of directors’ ability to govern their charter school and guide their management company, which impacts their ability to provide effective governance.

The collective responses indicate a lack of consensus regarding board members’ perspective on what the responsibilities are between themselves and their contracted full-service for-profit private management company. The lack of consensus from the surveys presents issues with understanding the contract and shows strong possibilities for confusion and resulting potential conflicts in governance.

**Qualitative Findings**

The qualitative participants were board members who served in the capacity of an officer of a charter school board in the state of Michigan. The participants included seven people who have served most of their time in the office of board president, vice president, treasurer, or a combination of the previous roles. The required aggregate time as a board member was a preferred minimum service length of fifteen years. The demographics of the participants in the interviews were diverse in terms of race and gender with three women and four men. The race of the women included two African Americans and one White with the average age of the women being 53. The qualitative portion of the study also included two African American and two White men. All of the participants have college degrees. The interview participants also represented a strong variety of for-profit, full-service management companies, and authorizers (charter school offices - CSO).
The three research questions in this study are specific to charter school governance and the role conflicts that occur between charter school boards of directors and the for-profit, full-service private management companies. The research questions are as follows:

1.) Do the contractual relationships between Michigan charter school boards of directors and full service, for-profit management companies contribute to conflict in governance?

2.) Assuming that parallel governance systems created in charter schools whose boards of directors contract with for-profit management companies contribute to governance conflicts, what are the factors in the relationship that contribute to conflicts in governance?

3.) Are accountability and transparency of public funds affected when Michigan charter school boards of directors contract with full-service, for-profit management companies?

In the qualitative component of the study, the sources of data included seven charter school board members who served in officer roles. The board members had an average of fourteen years of serving on a charter school board. The longest serving board member had nineteen years and the least had six. Combined years of service was 98 years with nearly a century of experience working with full-service for-profit private management companies.

The participants represented diversity in race, gender, and professions. Every participant had a minimum of a college degree. The participants provided responses to open-ended survey questions during an interview. The responses were based on their
board experiences of working with full-service for-profit private management companies.

The following is a list of the interview questions:

1. From your perspective as a long serving member of a charter school board of directors, what are the pros and cons relative to governing the school that occur as a result of contracting with a full-service management company?

2. Reflecting upon your board member experience in contracting with a for-profit management company, how would you describe the specific contractual relationship between the board and the management company?

3. Considering that the relationship between the board of directors and the management company is a critical element in the successful operation of the school, what do you think are factors that might contribute to tension in governance as a result of this relationship?

4. Do you believe that accountability and transparency of public funds may have changed when contracting with a for-profit private management company, or do you believe this is not an issue?

5. Given what you know about leadership and school governance, are there things that could be done contractually or legislatively to improve the governance of Michigan charter schools?

The qualitative data is organized by the descriptors that emerge from the individual board participants' responses to the qualitative interview questions. A descriptor is a word or phrase that gives meaning to the disposition, perceptions, or perspective of an interview respondent. A descriptor may become a theme depending on the discovery of similar dispositions from other interview participants. Many of the
descriptors are similar amongst the board participants, which exemplified response commonality. Some of the descriptors are different to acknowledge the integrity and uniqueness of the experiences of each board participants’ responses to the interview questions.

**Interview Participant A**

*Background and Rationale for Being a Board Member*

Participant A has served on the same charter school board for seventeen years in multiple roles. His most recent role for the last four years has been as board president and prior to that he served as vice president. He has been on this charter school board since 1998 and was one of the original board members of the public school academy.

Participant A is an African American male in his mid-fifties and is a college graduate who currently works in management information systems as an executive in a Fortune 500 company. He has a strong appreciation and understanding of technology and its application to education and the work force. He stated,

So, when I was asked to participate with the board about 16 years ago, I thought it was intriguing and I thought it was something with my background and skills set that I could help them with technology and things like that and help the overall education process.

Participant A’s rationale for joining a charter school board was so that he could give back to the community and help urban children who may not have access to a quality education:

The reason I actually started working with the board initially is because of the disparity in our community and to make sure that we have viability around
assuring that kids and parents in the community have an option to Detroit Public
Schools that will give them the education they need to be ready for college.

**Pros and Cons of Contracting with a Full-Service Management Company**

In Participant A’s responses to the first interview question relative to the pros and cons of governing when contracting with a full-service, for-profit private management company, he indicated how important it is to select a management company that is well versed in handling the day-to-day operations of the charter school in a manner, which the board cannot. He explained:

> I think bringing the right ESP [education service provider] to the table that will help with the day-to-day operations is key. From my perspective and a governance perspective, you [the management company] can be there every day to ensure that the education is disseminated in classrooms.

Participant A acknowledged the benefits of having an entity that can manage operations in a manner that alleviated pressures from the board of directors to be involved in routine affairs and focused on the broader based concerns of the charter school. He stated:

> So a lot of ESPs and ESPs that we have worked with handle all of the day-to-day operations from soups to nuts; they handle education, they handle the lunch program, they handle hiring and firing of teachers, they handle the whole educational process

> So is that a good thing? I think it is a good thing in a lot of ways in that you have single “one-stop shopping” to make sure that things are handled in a similar manner; this keeps the board away from issues of hiring and firing teachers.
Participant A also shared the cons of the circumstances of having a full-service management company handle all aspects of the charter schools operations. He indicated that it becomes a paradox when the board has the management company take full control of operations and yet the board still has ultimate responsibility inclusive of fiduciary, compliance, and academic outcomes. He expounded:

Let’s talk about a few of the cons that kind of pop up around understanding a full service entity that has full control around how education is disseminated and how it works. So what I have experienced over the years is that allowing an entity to have full operational control is good but when the board is ultimately responsible for the academic outcomes of what actually occurs and you only meet once or twice a month to actually see how the progress is going and looking at the pre and post test scores just is not enough.

He continued to elaborate on the paradoxical disposition of the board having ultimate responsibility and added the specific element of student performance. He continued:

The other con around that is the board itself is ultimately responsible from a fiduciary perspective and academically responsible to make sure students reach grade level; they must get the academic nurturing they need in order to move forward; it becomes really tough because you do not see what is going on a day-to-day basis; so I think those are some of the primary pros and cons around the contractual piece.
**Contractual Relationship**

Participant A’s response to the second interview question reinforced his perspective of the contractual obligations of the management company. He indicated the scope of work around the management company’s obligation to manage sub-contracts such as snow removal, landscaping, and grounds maintenance to larger tasks such as payroll management, health care, insurance, budgeting, accounting, and food services management. He explained:

So a board will hire an ESP [education service provider] to conduct the daily business. The board will hire the ESP to manage its finances from a day-to-day perspective, i.e., ensuring the bills are paid, ensuring that the maintenance company is paid, that the grounds are clean, snow is removed on time, making sure that vendors are around for lunch and breakfast catering so that children have a good hot and healthy meal every day. Contractually, we asked the ESP to handle those things for us, but we the board are ultimately responsible for all milestones every month.

Participant A’s examples explained his perspective that the daily operations of the school are the management company’s obligation due to the contractual agreement.

When asked to describe the routine of activities in terms of the contractual relationship between the board and the management company, he continued:

So the other things that come to mind is making sure that state funds are allocated and spent appropriately, because the board has the responsibility to make sure that state funds are spent appropriately. So when you look at it again, a 30-day period is a financial snapshot we take a look at. We look at the ledger, we look at the
transactions that occur every month to make sure that nothing is out-of-bounds, and we ensure that the principles are aligned to the financial processes. And avoid moneys being spent that are not aligned.

The comment above appears to demonstrate that Participant A viewed the board as the party that monitors the fiscal responsibilities.

**Factors Contributing to Tension in Governance**

In response to question three of the qualitative interview, Participant A indicated that one of the greatest sources of tension is when students’ academic growth is not realized in terms of metrics based on mandatory state and authorizer standardized testing. He felt that the management company should be held directly accountable for student achievement and specifically achievement tied to the goals aligned with the state requirements. There also seemed to be frustration tied to having to wait for student achievement results monthly, quarterly, semi-annually, and in some cases annually. He explained:

The ultimate thing that would…have caused tension is when you do not see the student growth that has been identified in the contract or the student growth that needs to be aligned to the state. So we have state and other accountability to our authorizer to ensure that we are academically sound in the academic goals. If the academic goals are not met, there is a lot of tension around; do we have the right ESP in place? What is going on in that 30-day period that we don’t know about? What is happening between testing that we do not know about? What’s happening day-to-day in advisory roles that will help students reach their academic goals? Ultimately, it is the board that is responsible and the board is responsible to the
students and the community to make sure they have a voice and a system in place to help them meet and exceed the academic goals of the state and the contract.

In his comments concerning tensions, it is likely that there are concerns around communication and who is ultimately responsible for certain factors at the school level.

A reoccurring observation from Participant A was the board’s ultimate responsibility regarding all aspects of the charter school’s operations. There is reiteration of the board’s responsibility and the sense of commitment to the students and community.

When asked if there are any non-academic factors that contribute to tension, he mentioned the challenges around contracts with vendors and how important it is to have the management company with the skills to choose quality vendors who will provide high levels of service to the school, and if not the management company must be held accountable. He stated:

Yes, of course. Look at the ability of the ESP to look at different contracts. We want to ensure that those contracts are going to be the best for the school. So if you look at contracts that you put in place around vendors and lunch providers and look at how we disposition those contracts to make sure that students have a good hot and healthy meal; there may be tension around getting a low level provider and not using the provider that might give the best quality meal to the kids. Based on demographics, the school meal may be the best meal they receive. Some vendors do not understand these dynamics. Therefore it is important that the board understands that the provider understands the school community. Again, a lot of kids don’t eat except for the school’s food program.
Accountability and Transparency

In terms of how these tensions are managed, Participant A indicated that the tensions are addressed at the board meetings. However, he also indicated a level of frustration, which happened when meetings are only once a month and he introduced the importance of transparency and trust between the board and the management company. He stated:

It is really hard. I think when we look at having someone work on your behalf and not getting full disclosure of all of the elements [that] happen within a 30 day period; it is sometimes disconcerting, and not to be petty, sometimes there are little things like fights that actually occur within the school itself and the board does not find out until later… they are actually in the meetings, everything in the meeting is public record. When we look at the budget, the spending on a monthly basis, we want everything to follow a process, so having an overall level of trust with the ESP is critically important to make sure that they are spending resources in alignment.

Participant A substantiated the tensions around transparency and full disclosure as it related to the sensitive and complex issue of student expulsions. He portrayed a sense of discomfort regarding disclosure of how and why students are expelled and why some opt to transition from his public school academy to another district. He said:

We allow the ESP to make the recommendations around expulsions; we require from them proper documentation. Expulsion hearings are brought to the board for final disposition because the board is the only entity that may expel a student. We at times see that this is not taking place…and expulsions may occur unknown to
us, which is a problem, or kids leaving and the board has not had full disclosure of
the circumstances of how and why they left. We want to make sure the right level
of service is provided for the students, academically and socially in that
community.

The role of the board appeared from Participant A’s perspective to be about oversight of
the school and making sure that there is alignment between what is implemented at the
school and the policies set by the board.

Participant A reinforced that the ultimate responsibilities lie with the board and
that they must hold the management company accountable for the financial status of the
school and the management of public funds. In the same respect, he talked about
transparency of procurements and making sure the spending is aligned to the plans. He
explained:

So because the ultimate fiduciary responsibility lies with the board, we need to
make sure that the right level of accountability is being disseminated at the board
meeting. That is why our treasurer works with the financial entity to make sure
that these monies are being spent accordingly and the financial report is being
read to the board every month. We want to make sure that the accounting of the
funds in that 30-day cycle has the right oversight and visibility to it. These are
public funds and the board meetings are public meetings.

He continued about the importance of accountability regardless of the type of
contractual agreement between the board of directors and the management company. He
stated an importance of increasing rigor in accountability if the contractual relationship
requires such adjustments. He stated:
Reporting and analytics are very important in determining accountability. So we can have accountability regardless of what services the board decided upon; even a la carte would have accountability. Because the treasurer and the board would make sure we had the right processes in place to make sure that we are meeting our fiduciary responsibility. In the case of the management company, you are just hiring an entity to manage that function on the board’s behalf. Is there more rigors needed to ensure accountability? I think there is a little more rigor needed to make sure accountability is strong.

Participant A concluded by reiterating that accountability emanates from the board of directors regardless of hiring a full-service, for-profit management company or not. He specifically said, “Accountability is there because it is the board’s responsibility. Accountability is not on the ESP; it is on the board. So whether it be hiring the ESP or the board handles it, accountability is on the board.” The ultimate responsibility, according to these comments, appears to fall under the board’s jurisdiction according to Participant A.

In terms of transparency, he believed visibility is critical in addition to having agreed upon deliverables between the board of directors and the management company. He explained:

Transparency is definitely an issue if you do not have the pre-determined deliverables in place to make sure that you have the right information at the right time; to make sure you understand what is going on during that 30-day cycle. If spending were occurring outside of the process, it should be in the report, which is why it is important to understand the deliverables and visibility. There seems to be issues that right, wrong or indifferent because you hire an ESP there are
different levels of visibility. The management company may try [to] glaze over (I am trying to use a different word than hide) but in certain scenarios there are certain elements that would occur like; what is going on at the school? Do we have the right level of climate and culture in the school? Do we have the right level of data teams engaged to provide information to the teachers, and are students getting what they need? It is really easy to disseminate that into data and say everything is good, but when you dig a little deeper and pull back the layers of the onion you find out in many cases that no, the right level of visibility is not always disseminated to the board of directors and that things are being swept under the rug or hidden to make the overall picture look better than what it actually is.

These comments clearly present that a lack of transparency could be the source of conflict between the board of directors and the management company.

He closed his response to these questions by indicating the importance of timely and accurate data. He also reinforced why the board exists, which is to advocate for the interest of the student and community. Participant A stated:

When we have some of those issues occur, we try to make sure we have access to data to make sure we know what to look for to get issues resolved. We all can improve if we have the right process. We have to ultimately be mindful of why are we here? And we are here for these students and the community. And if we work together as a collective entity with the kids in mind and give the best services for these students, with the best talent we can secure, I think if we
continue on that path and have a collaborative view; that is how we reach our goals.

**Contractual and Legislative Suggestions**

The final question asked if there were things that could be done contractually or legislatively to improve the governance of Michigan charter schools. Participant A responded to both areas. First, legislatively he believed more could be done to balance the disparity of resources in terms of poorer school districts. He exclaimed:

So let’s start with the legislative piece of this one key component around the legislative piece, is that wherever kids are, whatever the zip code we need to make sure that there are congruent amounts of money being spent on each kid to give them the resources they need to meet the metric set by the state; the zip codes such as Northville, West Bloomfield, Farmington; they get more money per student than the inner city zip codes do…that is a huge disparity, because the more resources you have, the ability to obtain other resources for teaching, technology, and more that enables you to develop a stronger student, better results because of the resources in place for the students to meet the state metrics.

He ended his response with the belief that with commensurate financial resources, poorer school districts could close the disparity between them and wealthier school districts:

If schools were given congruent or equal resources, or even close to it, they could perform better. So much of the resources are based on where you live; financial equity is important and we need to find a way to provide equitable resources regardless of zip code; for all kids in Michigan.
The Importance of Understanding the Roles of Key Players

Participant A also mentioned the importance of understanding the roles, responsibilities, and dynamics of all key players in the charter world, such as charter school boards, authorizers, and the management companies. He felt the need for a consistent definition of what the entities do: what are their roles and expectations in the state of Michigan. He briefly mentioned the Michigan Department of Education and their effort to define these roles in the state. He explained:

One thing I found to be good and maybe it is not legislative, maybe it is; the roles and responsibilities around the ESP, the board of directors, and the authorizer are critical and people need to understand that. I think the MDE [Michigan Department of Education] has done a really good job of trying to define those roles and responsibilities, lots of folks for whatever reason do not really understand what those roles are.

He elaborated on how the Michigan Department of Education has provided a level of consistency in defining the roles and expectations of Michigan charter school boards, the management company, and the authorizer. Part of the consistency is the MDE website which provides written information about these three stakeholders. He explained:

There are sets of documents on the MDE website that give you a clear view and definition. It helps identify who is responsible for the school, how the ESP role is to be played, and what the role is of the authorizer. Looking at and just reading what the roles are helps to provide a clear perspective of the entities. Over the years we have had different interpretations of roles and responsibilities because we did not have common sources of information and understanding or a good
understanding of how your role should be operationalized or how the role should be on a daily basis. Everyone must understand the roles they play.

He closed this section again alluding to the disposition that the board of directors is ultimately responsible for their training and understanding their individual and collective roles as board members. He stated:

It is the board’s task to understand their roles and responsibilities. I do not expect the authorizer or the ESP to tell the board what their role is. I say that because if you are ultimately responsible for something, then you should know what that responsibility entails. You should really know what your job is and how to do that job with fidelity and performance on a daily basis. The board itself, from the president all the way down, should have a clear understanding as to what their role is and their responsibilities to the school.

In terms of how to make sure that new board members are prepared and appropriately trained for their roles on a charter school board, he indicated that much of the responsibility is on the charter school board and that it is important to be consistent and sourced from a credible entity such as the MDE. He explained:

Education, as you get new board members in, I try to point them to documentation and elements that they can learn what their role is, so they can understand what is expected from them. There’s lots of information out there that is inconsistent with what the roles are from MDE’s perspective. We need to make sure we go back and make sure the roles as defined are grounded and consistent.

He ends the question regarding what could be done legislatively by providing his thoughts on where the inconsistencies are derived. He responded, “They come from the
authorizer, and the ESP at times because the board is ultimately responsible for
everything that occurs with the PSA. We need to make sure that we know our role and
those [sic.] we are governing correctly.” The need for strong communication and
alignment between all of the stakeholders was very important for resolving these
inconsistencies according to Participant A’s responses.

The final part of the last question was in regard to what could be done
contractually to improve governance in Michigan Charter Schools. His response may be
summarized as understanding the roles and dynamics of the industry and holding all
stakeholders accountable. Participant A stated:

Governance ensures that the desired outcomes happen. Outcomes are going to be
the academic outcomes. [In order] to ensure that the contracts we have in place
with vendors are appropriate, we must understand relationships. The metrics must
be placed in the contract to understand what are the targets for everyone including
the ESP, identify in the contract either hit these marks or reap the consequences.
There must be visibility and accountability around everything we do. Incentives
can even be in place to achieve the metrics and corrective action if progress is not
being realized.

In the previous quote, he illustrated the importance of governance and how it must
be included in the metrics of the contractual agreement between the board of directors
and the management company. He emphasized that consequences for the management
comp any must come along with falling short of contractual metrics. In respect to how to
measure and monitor performance outcomes, Participant A replied:
I think that is a good question. And I think what we need to do is make sure that we understand what those state targets are around Explorer, Plan, ACT, SAT, and NWEA/MAP. Look at those and how much growth towards those metrics can be achieved collaboratively with the board and management company; document the information in the ESP contract to ensure that they know what the goals are and have the right level of accountability. We can provide bonuses if metrics are exceeded; we must make sure that we hit the metrics based on the contract and responding accordingly based on if the metrics are exceeded, met, or not hit.

Participant A closed his responses with the consistency of making sure that state targets and other forms of metrics regarding student performance and outcomes are tied directly to the contract between the board of directors and the management company. He believes effective governance, which includes accountability and understanding the roles of the charter school stakeholders, can impact the gap in education.

**Summary of Results and Analysis**

Participant A’s interview responses brought out some common areas of discussion that lend themselves to an analysis based on the likelihood of these areas being the source of role confusion and potential conflict. Table 4 shows descriptors that were presented in Participant A’s interview, which provided qualitative data from his responses.
He reiterated his disposition, which the researcher has transformed into descriptors inclusive of the board of directors is ultimately responsible; board training; universal role definition and community orientation/volunteerism; contract implications; and the management companies are responsible for the day-to-day. Other descriptors included an overlap of academic responsibility, board accountability versus management autonomy, and role responsibility for student discipline.

Participant A repeatedly expressed that the ultimate responsibility lies with the board of directors. Despite the contracts with management companies, vendors, and suppliers; the charter school board of directors is ultimately responsible and accountable to all stakeholders including students, parents, authorizer, Michigan Department of Education, and the community. He established that the responsibility of the board permeates every aspect of the charter school’s operation despite having a contract with a full-service, for-profit management company. He indicated that board training is needed from a general and tailored perspective. Generally, he said that all members need training
on the board’s roles and terminology, so they may navigate prudently and knowledgeably through the challenges of charter school leadership and governance.

Participant A’s rationale for being on a board is based on volunteerism and community service. He wanted to make a difference and provide opportunities for urban city children. He indicated that he wants to use his technological skills and management information career to help students with their overall educational development.

The qualitative data from the interview of Participant A illustrated potentials for conflicts given the confusion of responsibilities between the board of directors and the for-profit private management company lack of defined roles, the management company’s responsibility for the day-to-day, accountability and transparency, and the confusion of role responsibility for student discipline.

The first descriptor that exemplifies confusion is the board president’s likely disposition that the board is ultimately responsible for all aspects of the charter school’s operations. Whereas the board has ultimate governance from a macro perspective, the operational components are transferred immediately when the boards of directors sign the contract with a full-service, for-profit private management company. Any perspective other than clear lines of delineation will produce confusion and perpetuate conflict between the two contracted parties.

The second descriptor that exemplified confusion is linked to the previous: the universal role definition of what boards do as a collective body in terms of governance and operational responsibilities. This included a clear definition of what are the implications of contracting for comprehensive management services with a for-profit private management company versus other models of contractual agreements that are not full-service. The various opportunities for boards to select different models did not include guidelines on what happens if a particular alternative is selected. This exacerbates
confusion, which results in conflicts if the board does not understand the dynamics of their choices and more importantly the implications of the contractual agreements.

The third descriptor tied in with the first two because the management of the day-to-day becomes confusing when parties do not understand the juxtaposition of their roles and if both parties feel they have sole ultimate responsibility of day-to-day activities, which impacts the operations of the charter school. Day-to-day confusion will lead to problems that perpetuate conflicts in operations and governance.

The final descriptor that emerges from Participant A’s interview is the confusion around the role responsibility for student discipline. He mentioned a few examples of the management company not disclosing matters related to student expulsions and the board of directors finding out after the fact. The interview participant also vehemently mentioned that expulsions are solely the responsibility of the board of directors. Any other entity, specifically the management company, carrying out suspensions is contrary to board members’ understanding and is a source of confusion resulting in conflicts.

The four descriptors from the interview of Participant A illustrated confusion in key areas of operations that perpetuated conflicts in responsibility, operations, management, and most of all governance.

Interview Participant B

Background and Rationale for Being a Board Member

Participant B is an African American male in his late-fifties and is a college graduate who works in management in the banking industry. He appears to have strong analytical skills and a great understanding of financial and economic principles, which are of great assistance given the financial challenges in charter schools.

Participant B has served on the same charter school board for eighteen years in the role of the public school academy’s board president. He accepted the request to serve
on the board from the school’s founding principal. He has been on the charter school board since 1998 and is one of the school’s original board members. Participant B’s rationale for joining a charter school board was so that he could give back to the community and assist a colleague with their attempts to improve the education status of children in the city of Detroit.

**Pros and Cons of Contracting with a Full-Service Management Company**

When asked of the pros and cons of contracting with a full-service management company, Participant B provided the benefits of not having to worry about day-to-day matters such as the maintenance, payroll, and other very important tedious functions and activities required to operate a charter school. He stated:

> Ok, the pros were the ability of the management company to run the day-to-day operations: that was the pros. We were not involved specifically with the HR components like who is off this week and things of that nature, and that was kind of nice. Also the pros were they would handle the maintenance, back room security, things of that nature, and keep us posted on updated compliance issues within the charter school world; any Department of Education updates, newsletters, and publications, that was one of the pros of having a management company.

In response to the cons of contracting with a full-service, for-profit management company, Participant B mentioned the challenge of not having any input into hiring the key leadership positions such as the superintendent and principal. He explained:

> The downside of it as we have come to find is the contract that we had engaged in was a long-term 7-year contract, our most recent contract. And as part of the
contract, was the fact we had no input in terms of who could be hired into key personnel positions. For example, the school leader, the assistant school leaders, any of the support staff, that [sic.] was all the responsibility of the management company. We could talk to them about whom [sic.] they chose, but it was totally their selection and that is what was built into that 7-year contract. We have found that sometimes that is not necessarily the best way. We did not have any input in terms of the selection.

Participant B’s disposition of working with the management company was very positive in most aspects except for the critical area of hiring leadership, which is a key factor in determining the success of the charter school. He explained:

No, actually we had a very fluid and fulfilling relationship until recently. And it was built around the selection of their team that would lead and manage the school. We were very happy with everything they had done. We had a good fund balance and [sic.] they managed the funds closely. The school was always well kept. We were always abreast of any changes. Updates in legislation and things of that nature, I mean they brought a lot of things to the table. The only problem was the changing in the staffing, which was considerable at the top. School leaders in particular for one reason or another. We experienced a lot of turnover at the top, especially in the role of the principal and other administrators.

Given the challenges experienced by Participant B’s board, if he had the opportunity to change the original contract it would likely include provisions to allow board input into the selection of the principal. This would be in hopes to impact
leadership and prevent excessive changes and turnover at the whim of the management company. In terms of restructuring the contract, he said:

We would have placed a clause in the contract saying that we would have the final decision on the selection of the leadership team…I think that would have made a difference in how things would have progressed. We had a situation where the management company actually promoted our school leader and made them a senior person in their company and moved people around internally that eventually did not work out. So had we had the ability to make the determination to select the next and upcoming school leader, the outcome may have been different.

The previous clause may prevent such key decisions being made exclusive of and without any input from the board. In regards to specific instances of leadership changes, Participant B said, “The decision was made exclusive of the board. We were not informed that the decision was coming, but here’s the change; but please embrace it.”

Upon being asked how this type of provision would manifest into operations, he explained that they would form an executive committee that would be empowered to make decisions on behalf of the board of directors. He explained:

We have an executive committee, which comprises of the board president, vice president, and treasurer in our case. And they act on behalf of the board and anything they determine is recorded and ratified at the board meeting. If the executive committee had the opportunity to vet a potential candidate provided to us by the management company, we may have had a better understanding of what to anticipate in terms of their leadership capabilities…I think that may have
helped us in the long run and we would have put a clause in the contract where by either the board or a component of the board has the ability to make the final decision on the selection of the leadership of that school.

**Contractual Relationship**

Despite the issues regarding the hiring of school leadership, the contractual relationship was viewed as positive and functional. Participant B described the contractual relationship as follows:

Contractually, it was effective and efficient. It was very well described in terms of responsibilities. We had our attorney that had been with us since day one review the contract and actually negotiate fine points in the contract. One of the things we already talked about was I wish we had included the ability to select the leadership person. But, in terms of reviewing the contract, structuring the contract, it went fairly well. We missed a couple of things, but it went very well.

Overall, Participant B’s board was pleased with the contractual relationship. He did indicate the importance of having routine monitoring through reports on staffing levels, the budget process, and academic performance. In regards to the latter, he stated, “We would have had the leadership team have to provide information in terms of grades and performance on the academic side.” More monitoring of academic performance and a stake in hiring decisions appeared to be the main issues that Participant B had with the contractual relationship.

**Factors Contributing to Tension in Governance**

When asked about what factors might contribute to tension in governance, Participant B continued the theme of the selection of leadership. The leadership sets the
tone for the school and when turnover is frequent, he felt that stability is at risk. He felt that the primary source of tension came from turnover at the leadership level. He said,

When you have a lack of stability for various reasons, you can look to the management company and ask why is this changing like this and why do you have so much turnover in specific areas, and can’t you find a stable person to come in with us and get the job done. That is where the tension actually comes in.

**Accountability and Transparency**

When asked about accountability and transparency, Participant B indicated a high level of confidence in the tools that assist with monitoring and analyzing monthly operations and functions. He stated,

In our case historically, I don’t think it has been an issue. Our reports are provided monthly. A couple of things that we did were to put us in charge of the checkbook, so we had a chance to see what is paid on a regular basis. We get a check register and then we will transfer the funds to cover a specific bill. Anything we are uncertain of; we ask questions. We do audits once a year, which have been clean.

There appears to be a significant level of comfort in terms of the transparency of reporting of financial and operational matters. Participant B stated, “In terms of transparency and accuracy, it has been good for over 15 years. There are always questions about some of the detail in some of the categories but for the most part, all has been very transparent.”
Even with this comfort level, the board still had provisions including checks and balances to ensure transparency with requiring reports for any budget transfers more than $1,000.00. Regarding budget transfers, Participant B stated, “We would ask them to provide us with what was transferred over and why. We’d want to know what got transferred and why.”

**Contractual and Legislative Suggestions**

In terms of what could be done contractually or legislatively, Participant B believed that monitoring charter school growth and expansion was important given the challenge of limited resources and lack of qualified instructional staff. He stated the following:

Let’s take legislative and this is for selfish reasons more than anything…I think the lift on the cap of charters schools was detrimental to what the charter schools movement could do. It expanded our presence but it also depleted our resources. When I say resources, I am referring to our instructional staff. I think we would have been able to maintain a better instructional staff and higher quality of instructional staff. One of the things legislatively that can be done is that more incentives can be put in place for teachers. Not sure exactly what that would look like, but I think the state can do a better job in trying to attract and promote teaching.

In closing out the concerns legislatively for charter schools in Michigan, he reiterated, “There is a shortage of qualified teachers and lifting the cap provided more schools for less teachers. It spreads negativity across charter schools. I do not think it was done in the best interest of charter schools, or public schools in general.” There
seemed to be concern from Participant B’s perspective on the negative effects that more charter schools can bring, especially in terms of hiring and retaining instructional staff.

The other part of question five asked what could be done contractually to improve governance of Michigan charter schools. Participant B’s response was based upon nearly twenty years of charter school experience. He felt that charter schools are at a disadvantage because they are limited in regards to accessing alternative authorization or sponsorship of their charter. Most public school academies officially begin with the awarding of their charter, which contains their vision, mission, and reason for being. Very seldom have boards been able to transition from one authorizer to another. Participant B appeared to view this as a negative and therefore it disadvantaged board members and their charter schools to the sovereignty of the originating charter school authorizer. He stated:

I have always had…we have one authorizer, and the contract/charter is with one authorizer, I am going to go that route. And the best way to say it, it is like a good ole boys network…I don’t know if you want to put the tape off on that one…but contractually if you are with one authorizer and if you have issues some issues with that one authorizer, for whatever the reason…they have meetings, and if your name comes up in terms of what is going on at that school, does that limit your ability to go or get contracted with another authorizer going forward; I think it might. It would taint any changes you want to do at the school [such as] if you wanted to move to a more vocational program. Could you contract with another authorizer to maybe just do that component or have the authorizer do the whole
thing? Contractually, I think that is something that would be looked at. That has always been a concern of mine anyway.

There are two contracts that are of significance to the board of directors. The first was previously discussed, which is the charter contract between the board of directors and the charter school office. That charter was most likely granted from a public state university or other state entity empowered to give a charter. The second significant contract was that between the board of directors and the management company. This contract entailed the rules of engagement and interaction between the board of directors and the management company. The way the contract was formulated impacted the board’s ability to manage the operations of the charter school. Participant B indicated the following regarding their contract with their management company,

The way that we were structured with our prior management company, it actually worked very well with exception to the educational component. My thought is if we had the foresight to change or put something in the contract so that we had some latitude in terms of the educational component, then I think it would have been a better contract.

Participant B continued to discuss elements that, if restructured, would be placed in the contract. For example, provisions to have educational goals and performance incentives. He stated,

I know that some schools in their foresight had some educational goals in their contract so if you hit educational hurdles and grades you could be paid your full contractual amount. If you did not hit that hurdle, your fee, or your management fee would be reduced by a certain amount.
The metrics would allow for the measurement of the management company’s performance. He continued, “Those kinds of things could have been in place, or included as well, which would have provided more incentive for the management company to do a better job in terms of instruction.” Participant B clearly indicated the impact the contract had on the power and authority of the board. If specific provisions are not placed in the contract in terms of consciously managing full-service management companies, boards may end up in positions where they feel a lack of authority and ownership.

Participant B acknowledged the importance of leadership and governance in charter schools. He believes both can be improved with proper training and networks that allow sharing of insight, knowledge, experiences, and best practices. He supported policy groups such as MAPSA (Michigan Association of Public School Academies) and their mission of advocating for charter schools. He continued:

It would be nice to hear from the source in person about what some of the changes are legislatively and how the charter school movement is doing as a whole; how regions are doing as a whole, what works, what is not working, and you can only get that through face-to-face. Also a best practice is to meet with other boards [in order] to hear what is working and not working. What works for you may not work for me, and what works for me may not work for you, but at least it is a means of sharing information.

In terms of sharing information and developing networks for improvement, Participant B stated, “Actually it is more of a networking. Training is always good, but it is more of a networking function. Because you can always learn from someone who is
doing well.” He continued by stating that the authorizer is the entity to create such networks and forums.

Participant B ended with what he would like to see more of in the future of charter schools. He indicated the need for alternate sources of funding charter schools and the importance of continued growth accompanied by stabilization and managing cost.

Five years out...in terms of governance...I would like to see a forum where charter schools would have the capability of obtaining alternate sources of funding either bonding or some mechanism, not necessarily bonding. How do you control the growth and finances of your structures because basically if you don’t continue to grow, your expenses will escalate beyond your revenue sources? So, if you are stagnant in number and a capacity at your particular facility it is what it is; and you give increases to your staff every year, and if it is a stable staff, if you provide increases to a stable staff, you will bump against a ceiling eventually. How do you change that dynamic? That is a five-year issue for a school that is growing and doing well. If you don’t continue to expand your facilities, you are going to hit that ceiling: is there another source that we can possibly find to support our stability?

Participant B mentioned numerous times the importance of placing provisions in the contract so that input could be provided from the board in terms of the selection of the superintendent and the principal. This would also be an effort to eliminate turnover of school leadership. He also reiterated the importance that leadership selection has on governance.
Summary of Results and Analysis

Participant B’s interview responses discovered some areas of discussion that lend themselves to further analysis of the likelihood of being the source of role confusion and potential conflicts. Significant descriptors emerged from Participant B’s interview responses as seen in Table 5.

Table 5
Identification of Descriptors from Participant B’s Interview Transcript

- ✓ Joint responsibility for hiring key leadership
- ✓ Contract implications → hiring and performance incentives
- ✓ Board training and networking → best practices and communications
- ✓ Community oriented/volunteerism
- ✓ Assumptions of mgt. contract → performance, sub-contracts
- ✓ Management company is responsible for day-to-day
- ✓ Monitoring of contract → tied to student performance
- ✓ Legal guidance on contract
- ✓ Board charter recourse in terms of authorization
- ✓ Role responsibility for student discipline

He provided experiences that formulate his disposition, which the researcher has transformed such as joint responsibility for hiring key leadership, contract implications, board training and networking, community orientation, assumptions of the management contract, monitoring of the contract, and the management company being responsible for the day-to-day. Other descriptors also came out of the interview, such as legal guidance on the contract, board of director’s recourse in terms of authorization, and role responsibility for student discipline.

Participant B strongly emphasized the retrospect of wishing the board of directors would have designed a contract giving them shared input for the selection of key
leadership roles in the school. He added that their situation was exacerbated due to the longevity of the contract with the management company and the high turnover of the principal’s position, which the board had no recourse. He also focused on the importance of contractual implications regarding hiring and performance incentives for the management company. In terms of board training and networking, he appeared to have embraced board training, especially from credentialed sources. He also encouraged networking amongst boards of directors inclusive of sharing best practices. He mentioned his desire to contribute to the education objectives of the founder of his charter school.

Participant B shared the challenges resulting from frequent turnover in the school’s leadership roles. He discussed the changes made and how the board could do nothing about it because the contract provided sole authority for hiring and firing to the management company. He also provided an example of how the management company displaced one of their leaders and brought them into the management company’s headquarters. He then elaborated on the contractual elements and how it affects hiring and performance incentives, which were lacking. He later turned his attention to training and the importance of networking with other charter school boards to share best practices. He suggested that the networking take place in more face-to-face forums. Other descriptors resonated; these descriptors are significant to the perspective of Participant B’s overall disposition regarding contracts and its impact on governance and leadership in Michigan charter schools when contracting with for-profit private management companies.

Participant B’s rationale for joining a charter school board of directors was very similar to most highly educated board members. He believed that it provided a venue to
give back to the community and help improve educational opportunities for young people.

The qualitative data from the interview of Participant B illustrated potential for conflicts given the role confusion of responsibilities between the board of directors and the for-profit private management company in the areas of the inability to affect hiring of key leadership roles, and understanding the impact of the contractual agreement.

The first descriptor that exemplified confusion was the board president and other board members’ perspectives that they would have input into the hiring process. They experienced high turnover in the key roles of leadership and even had one principal promoted from the school into the executive level of the for-profit management company. In an instance where the board of directors expressed concern for a specific decision regarding a change of the principal’s office, they were told by the management company to “Embrace it!” The board of directors’ realization that they could not affect hiring in any aspect appears to have devastated them given their inability to impact hiring practices to even the slightest degree. Once the board signed the contract for full-services, which included all responsibility for employment, their ability to impact any decisions regarding staffing were null and void.

The second descriptor that indicated role confusion was what appeared to be a hope of renegotiating an addendum or clause into the contract between the board of directors and the full-service management company. This clause would have enabled the board to have a voice in the hiring of key leadership roles. However, they signed into a seven-year agreement where the primary source of confusion and conflict centered on the contract, which was locked for seven years without contractual recourse unless there was some kind of material breach. The lack of contractual awareness inflates confusion,
which resulted in conflicts given the board’s lack of understanding of the contract’s dynamics and the far-reaching implications of signing agreements for multiple years.

The two descriptors from the interview of Participant B illustrated confusion in key areas of hiring key personnel and understanding the implications of the dynamics of the contract between the board of directors and the for-profit private management company. The ambiguity resulted in confusion and caused conflict, which impacted the governance of the charter school.

**Interview Participant C**

**Background and Rationale for Being a Board Member**

Participant C is a white female in her late forties with a college degree who has served on her charter school board for more than thirteen years. She has been on the charter school board since 2002 and plans to continue being a board member for years to come. She works in the field of health care and has managed a non-profit organization as well as her own business. She brings a variety of administrative and managerial skills to the board of directors as well as the experience of being a parent on the board of her children’s school.

The impetus of her becoming a charter school board member was so that she could impact the education of her children and the lives of children in the community:

I started as a board member of my school board when my children were young. I had one in kindergarten and one in second grade, and I wanted to be involved in their school experience. After being involved in the first year, I was approached about six months later after being involved in the school and asked if I would consider being a board member. That was over 13 years ago.
**Pros and Cons of Contracting with a Full-Service Management Company**

She strongly believed that contracting with a full-service management company mitigates the responsibilities of the board and diminishes the board’s accountability. She stated, “With the full service, we as board members did not have as much responsibility. There was less accountability (that could go pro or con) from the board, and less responsibility for the school leaders as well. That is the one thing that would free school leaders to lead the school and focus on the kids.”

The contract with a full-service management company allowed the board to not have to be involved in routine affairs. It also enabled the principal to focus on instruction and not have to bother with activities such as hiring staff. She explained,

The hiring of employees did not have to be done by the school leader. The school leader would not have to go through the full process of hiring teachers: same for counselors and things of that nature. When you divert that to a management company that will take care of that. The management company took care of it, which also takes away the power of the school leader to be able to say this is who I want or who I would like. Day-to-day issues would not be the top priority of the board of directors. The management company’s full service role enabled administrators to better focus on students and families.

Participant C often mentioned that the comprehensive management status gave the management company the ability to do what they wanted to in regards to budgeting, financial, and programmatic types of activities. She stated, "Some of the cons; funds were allocated to where the management company wanted them to be. We did not have the accountability. They were able to do what they wanted to with the funds.” The latitude
enabled the management company to have full control over budget development. She continued, “The management company pretty much set the budgets for board approval. Having that particular scenario, it really took control away from the boards.” It was not until program evaluations gave an indication of ineffectiveness that the board began to wonder if more programs were effectively being implemented or wasted school resources. She stated, “I found over the years that as monies were paying for ineffective programs (and we started pulling data) and seeing the effects of some of these programs, that the budget had to be redone and funds had to be allocated to different places.”

**Contractual Relationship**

In terms of question two regarding the contractual relationship between the board of directors and the management company, Participant C indicated a fairly one-sided relationship. The one-sidedness was exacerbated by the inexperience at that time of the board members. She stated,

The contracts were made by the management company and expected to be signed by the board. So it was very one-sided at that point…so the finances and contracts were already set ahead of time and we were not fully grasping what we were doing at that time as board members.

Participant C also gave indication that despite the fact that the management company made decisions regarding budgets and contracts, the board of directors was still the one responsible. She stated:

I would say, in our experience, we had contracts that were made and it was between the management company and our vendor. There were some legal things (which I cannot go into detail), which put our school liable, which resulted in a
lawsuit, which resulted in things in which the school was still liable. The board was still liable for it at the end, even though it was management’s issue and their responsibility. It was still put on the board. We still had to pay fees; we had to pay lawyers out of our school’s budget.

In the experience of Participant C, the management company was making decisions and the board was held accountable. Also, it appeared that the management had the disposition that the board would sign off on whatever they put in front of them: “Yes, the management company were less accountable to the boards because they made all of the decisions. They prepared everything ahead of time and expected the board to just approve it.”

Participant C gave an indication that there was a concern with giving an entity comprehensive control over the operations of the charter school:

I just think the fact of having so much responsibility on one company, which are not as invested as the members of the boards that have seen these kids for so many years; that have grown up with these kids, they don’t have the same vestment as the board members or school leaders.

Factors Contributing to Tension in Governance

Participant C indicated that tensions often came from the disposition of the management company that the board would approve anything the management company placed in front of them. Especially in the beginning years, when the board was less experienced. She stated,

In the fact that all of the contracts would be prepared, even the contracts for venders, they would go out and put out the RFP (Request for Proposal), but still
go ahead and bring to the table and say this is the one we would like to go with and the one we will go with, instead of putting it in front of the board and letting us make the decision.

Accountability and Transparency

In terms of accountability and transparency, Participant C feels that issues exist related to the time board members have to thoroughly review important documents and data such as budgets, audits, and contracts. She stated,

Yes I do, I believe that [by] having a for-profit entity, they already have their set out budgets in place and agendas set in advance. Going back to the fact that a board is there just once a month and their expectation is that you will go ahead and pass everything they put in front of you.

Participant C elaborated on the issues of the board being expected to sign whatever the management company placed in front of them. She provided the following examples:

The budgets, and the budget changes, revised budgets. I have seen revised budgets come in with cuts in certain funds by as much as 20 to 30k for one year. How can you cut that kind of budget without having discussions or providing reasoning behind it? When you have a board that is more involved in such areas then you will have more transparency and accountability. Or an advisory board reviewing and providing input, tearing it apart and asking questions.

In regards to question four on accountability and transparency, Participant C indicated that when a board hired a full-service management company, it needed to be
even more involved given the breadth and scope of their involvement to the operations of the school. She stated:

Other than the fact I believe board members need to be more involved (if they are going to have a full-service management company that takes care of everything from budgets, to purchases, contracts, hiring, firing etc.), their bottom line is, what is going to make them money. They are going to do what will more favorably impact their bottom line. What is first and foremost is their profit margin. They will always think of their profit margin first versus a volunteer position of a board member who is involved because of the kindness of their heart and are there because they want to be and not someone is forcing them there or giving them a big salary, because none of us are getting paid.

Participant C provided a strong contrast of the sense of purpose between the volunteer board and the for-profit private management company.

**Contractual and Legislative Suggestions**

In terms of what could be done contractually or legislatively to improve governance in Michigan charter schools, Participant C suggested exploring other models of management that do not completely hand over all operations. She included some hybrid forms of management and self-management models. She stated:

Contractually, there could be considerations on subcontracting certain entities. Our particular model has gone to more of a self-managed model where the board has given the responsibility back to the school leaders. The school leaders are the ones that put the budgets together and the finances are done by administrators; with teacher input. We contract background checks, payroll and things like that.
for our management company that we currently have. We have now just minimal responsibility at the contract level. Our contracts are laid out with what is specifically laid out for us. However, if we were able to bring it legislatively, to pass laws across the board that would hold schools to the same standard across the board...many, many charters are run very differently, each one has their own accountability and each one has their own contractual agreements. Some have full service; some have no service. Some have sub contracts with many companies. Participant C indicated a legislative need for consistency in terms of how charter schools in Michigan are managed and operated. She also introduced the concept of a non-profit management model she believed might better fit the needs of Michigan charter school boards of directors. She elaborated:

If we were looking at it legislatively, it would be looking for a model across the board…legislature should press for more consistency. In my experience, I believe that having a non-profit management company would be a better model and option…it would be a different understanding to have a non-profit come in and work on behalf of a school…better to have a non-profit partner with a school to find resources through federal resources that are out there.

Participant C further explained the legislative implications on governance regarding effective training for board members to understand their roles. She also indicated training should come from entities other than the authorizer. She stated, “Training, for the boards that are out there, not necessarily from the authorizers of the schools but more training to have board members understand their roles.” She continued to discuss the need for training beyond the general basics currently provided and
promoted tailored training to enhance knowledge and skills with the intent to impact board governance. She continued, “Specifically understanding contract negotiations, understanding budgeting; I believe breakout sessions on how to pick apart budgets, looking at school calendars, placing board members into sub categories to work with finances, discipline, etc. and forming different sub-committees from the board.”

Participant C indicated that the training for Michigan charter school boards should be centralized as much as possible and come from the state level to ensure consistency and accountability. She stated, “It really should be brought at a legislative level, at a much larger level that is going to have accountability. It should be training brought by a nonprofit that has trained and understands what are the responsibilities of charter school boards.”

In conclusion, in regards to legislative implications on governance in Michigan charter schools, Participant C suggested a look at community partnering and non-profits as a viable model for the operations of the schools. She indicated a concern for charters in the future and making sure that school choice is in the hands of parents. She explained:

Personally, I would like to see non-profits come together to offer services to the schools [and] partnering with the schools. Being able to be a part of making sure that schools have their own mission, and goals so that they can accomplish those things. Community partnering is still going to be key in the charter schools going forward. Legislatively, we are in a difficult place right now because we don’t know what is going to happen for charter schools. We could be in a very dangerous place, by not having the freedom of choice. There are bills that could mandate every child going to their local school, and district...regardless of suburb
or city. We need to make sure that the choice stays with the parents to have their children in schools.

**Summary and Analysis of Results**

Participant C’s interview responses brought out some common areas of discussion that lend themselves to an analysis based on the likelihood of these areas being the source of role confusion and potential conflict. Significant descriptors emerged from Participant C’s interview responses as seen in Table 6.

Table 6

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<thead>
<tr>
<th>Identification of Descriptors from Participant C’s Interview Transcript</th>
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<tr>
<td>✓ Board is ultimately responsible</td>
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<td>✓ Rubber stamp</td>
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<tr>
<td>✓ Board Training on roles and responsibilities</td>
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<tr>
<td>✓ Community oriented/volunteerism</td>
</tr>
<tr>
<td>✓ Transparency and accountability</td>
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<tr>
<td>✓ Management company not as vested as the board of directors</td>
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<td>✓ Perceived vs. reality of demand and expectations on charter school board members</td>
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<tr>
<td>✓ Profit motive implications</td>
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<td>✓ Management company is responsible for day-to-day</td>
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<tr>
<td>✓ Board charter recourse in terms of authorization</td>
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<td>✓ Role responsibility for student discipline</td>
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Significant descriptors emerged from the qualitative data from Participant C as illustrated in Table 6. She shared experiences, which conveyed her perspectives inclusive of the board of directors is ultimately responsible; board viewed as a rubber stamp; board training on roles, responsibility, and on the contract itself; and her volunteer/community service based rationale for serving on a charter school board. Other descriptors included transparency, accountability, board investment, demands of a charter school board member, and the profit motive.
Participant C emphasized that the board of directors has the ultimate responsibility regarding the operations and dynamics of the charter school. She also discussed the issue of how her board has experienced an expectation from the management company that the board would sign anything they placed in front of them. This management position aligned with the next description of her experience, which is her perception of the board being viewed as a rubber stamp. This metaphor was used by Participant C to mean that the board is a figurehead to sign and endorse whatever the management company places in front of them.

She subsequently focused on board training on roles, regarding or inclusive of responsibility, and nuances of the management contract. The training was highlighted in her experience where she indicated that she and other board members did not initially fully understand their board of director roles and positions. Instead, they navigated often by trial and error and improved their leadership and governance over time. She also described the profit motive and its implications. Participant C described this as the management company’s focus of making a profit and everything else is secondary. She also appeared to focus on transparency, perceived versus reality of demands and expectations of charter school boards of directors, and the profit motive as previously mentioned.

She provided rationale similar to other interview candidates in her determination to impact education for children in under-served communities. She responded to the request of a friend to join the board and has taken on roles such as vice president and currently president.
The qualitative data from the interview of Participant C indicated potential for conflicts given the confusion of responsibilities between the board of directors and the for-profit private management company with the descriptors such as ultimate responsibility of the board, and feeling like a rubber stamp, issues of accountability or of the board being ultimately responsible and transparent and lack of understanding the contract between the board of directors and the management company.

The first descriptor that expressed role confusion is the board president’s disposition of seeing the board as having ultimate responsibility, and simultaneously feeling like a rubber stamp. This is a state of confusion because the board has the perception of power, however, they are expected to sign whatever the management company places before them and is told who will be their vendor for certain services. This led to the feeling of being a “rubber stamp” as opposed to an actual decision maker. The confusion as to what is the board’s position and what is the board’s power leads to conflicts between them and the management company.

The second descriptor that indicated confusion is viewed through the board president’s perception around issues of accountability and transparency. She expressed what appeared to be frustration with holding the management company accountable due to lack of the certainty of the board’s roles. The other part of the confusion was based on the appearance that the board received reports without explanations on finances that were expended on programs without subsequent program evaluations. She expressed concerns of the board formerly not knowing what to do because they did not have the experience.

The final descriptor encompasses the previous two because the interview participant indicated how more training is needed on the contract upfront to thwart negative implications from not knowing and understanding the contract. The example for
this is how the management company took the lead on sub-contracting and provided subpar information for monitoring and evaluating programs.

The three descriptors from the interview of Participant C illustrated confusion in areas concerning board roles and responsibilities, which produced the feelings of being a rubber stamp. In addition, the board operated from a disposition of inexperience and now suggests that training on the boards’ contracts is implemented upfront for all, and especially new board members. The issues regarding lack of understanding of the board roles, feeling like a rubber stamp, accountability and transparency issues, and not understanding the dynamics of the contract presents confusion and adds to the governance conflicts between the board of directors and the for-profit private management company.

**Interview Participant D**

*Background and Rationale of Being a Board Member*

Participant D is an educated African American female in her early sixties who had served on her charter school board for six years prior to resigning. The impetus of her becoming a charter school board member was so that she could make a difference in the lives of children and provide an option to urban children who needed an alternative to the Detroit Public School system. She is a retired professional. Unfortunately, after six years, she resigned before her term was finished after coming to the realization that what she envisioned as a charter school board member was drastically different from her reality and experience.

Participant D was the vice president on the board of a Michigan charter school. She joined the board of directors with positive visions of what a charter school could be. She remained positive despite hearing mixed reviews on charter schools in the state of
Michigan and the nation. Despite the mixed reviews, she decided to give it a chance and became the vice president of the board of directors. She stated:

Ok, why did I join the board? Basically, at that particular time, my grandchildren were coming of age where they would be attending school, at a Detroit school. And at that time, like everyone else, I was looking for alternatives other than Detroit Public Schools for them. I had heard a lot of good things about the charter school movement, and I heard a lot of bad things. But I wanted to take a chance for them and on their behalf; that is how I got involved.

Participant D’s experience was soon shattered as her first term awakened her to some of the challenging aspects of governance that may occur as a charter school board member. She said,

Basically, where do I start, when I first joined the board I never was really educated or trained, so to speak, on what my position would be as a governor of that particular entity. I came in with all of these expectations of being part of a movement and I was excited about doing great things for the children. However, after being in my second term, I realized that I was a rubber stamp.

**Pros and Cons of Contracting with a Full-Service Management Company**

In regards to the first qualitative question regarding the pros and cons of contracting with a full-service private management company, Participant D referred to a con as the lack of understanding the roles that her board experienced. The lack of understanding created doubt in what their purpose was as a board, which she explained:

We started to question what our responsibility was. Then I started to notice more of the financials, and I was asked to sign checks and different things. And we
were not given line-by-line. As I began to ask questions, I was never given direct answers. So I began to ask more questions by email, and I would get a little bit more but still not really answers. They would give me answers they thought I would want to hear, but at least they responded.

**Contractual Relationship**

In describing the specific contractual relationship between the board and the management company, Participant D simply stated, “That is the only reason they needed a board and that was because they had to have a board. A dictatorship and a rubber stamp.”

**Factors Contributing to Tension in Governance**

In terms of what factors contribute to tension in governance, Participant D provided examples of frustrations caused by the lack of understanding of roles, input from board members seemingly not welcomed, and the difficulty she and board members experienced when asking questions regarding the operations of the school. She stated:

One particular instance when we, the board of directors, were supposed to have say for the handbook and there was a confrontation, verbal, back and forth between the management company and myself and my board members; because they went on and did the handbook without any of our input. And that was the beginning of not only my distaste, but many of the board members at that time that were actively on the board.

Such frustrations became fairly routinized as small issues came up, such as a discrepancy over the student handbook. Issues continued to mount as the board felt the
need to contract legal services to help navigate communications between the board of directors and the management company. Participant D stated,

At that point, the board decided to hire another attorney because they realized at some point in time, when the board first began, it came with a ready-made lawyer; the attorney did not represent the board. We made the decision to start there; to hire another attorney.

More tensions mounted as the board felt that the management company had selected the attorney for the charter school. Participant D articulated:

I did my research and the management company had handpicked attorneys. They picked and assigned [attorneys] to these schools and if you [do] research, you will see that the same attorneys represent different schools. So when we really got into looking for an attorney, I started to get negative calls and negative emails from the management company. They asked to meet with me, myself and the president. I would never meet with them alone, and they asked us to back off with the hiring of a new attorney. When that did not happen, I knew by the next term I would be terminated so I got busy trying to do as much as I could before my term was up.

Further tension came when the board did not receive feedback to questions asked. It appeared as though the management company did not feel compelled to give direct answers. Participant D stated, “Well the bottom line is, and they love to use the term, they are a for-profit and they don’t have to tell you anything.”

**Accountability and Transparency**

In terms of question four, Participant D emphatically believed accountability and transparency was an issue. She referred to questioning where the money was being spent
and why it was not clear in terms of rent, contracts, and other significant expenditures.

She said:

> Who is getting these contracts? Are you putting the bids out there like you are supposed to and sharing it with the board? You tell me that you are spending millions of dollars on the school, but I don’t see what you did. The children do not have a lunchroom; they are eating in their rooms. They have no gymnasium; we are totally in the dark.

The issues of accountability and transparency are in part because of the challenges Participant D depicted her board faced when asking for financial and budget related information. As previously indicated, she felt the management company’s disposition was due to being a for-profit private company and therefore not compelled to share their information. She stated:

> Well, my question at the end of the day is, how much profit are you making? You don’t want to show me that. And if you don’t want to show me how much profit you are making, then I am not quite sure that the children are getting what they are supposed to get. You can tell me anything, but I need to see the figures. I need to see the numbers. I need to see where the money is going.”

The tensions continued all the way to the end of Participant D’s last day and resignation. She had asked that the board’s lawyer attend their public meeting and that specific documents be provided from the management company. She indicated:

> On the night I resigned, I invited the company they used to do their financials. They came in with some actual documents because they had sent us blacked out documents…their explanation was that something happened to the copier. But in
actuality, I had asked for the original documents so that was not true...they obviously sent us blacked out documents because it was something in it they did not want us to see.

The tensions were obviously very high between the board and the for-profit management company as indicated by Participant D. Unfortunately, she did not have any pros to speak of given her and other fellow board members’ experiences with their contracted for-profit private management company.

**Contractual and Legislative Suggestions**

When asked what could be done contractually and legislatively to improve governance in Michigan charter schools, she indicated that there should not be a for-profit entity running a public school academy that receives tax payers’ dollars. She stated, “Let’s start with legislatively because if you start legislatively, then the contractual will fall into place. They need to stop passing laws that gives these guys the opportunity to do what they are doing legally. That is the bottom line.” She continued to specifically state, “Well, I personally believe there should not be a for-profit running any public school. Because it is all about profit! And if they don’t have the children’s best interest at heart then it is a no brainer. They should not be in the business.”

In terms of contractually, Participant D took the disposition that boards of directors should have their own contracted legal counsel. She explained, “Well, if, when the board comes in play, they should have their own attorney. Someone they trust who is looking out for their best interest and not the management company’s best interests. If it starts there, I think the rest will follow.”
Participant D reinforced the lack of empowerment saying that boards’ hands are tied and she alluded to a “rubber stamp.” When asked if anything could be done to improve the board’s ability to govern, she responded,

No, because if the contract is tying the board’s hands behind their back, which is what these contracts are doing, basically you are a rubber stamp. And not only are you a rubber stamp, there is not transparency and no accountability, so other than that the contract is basically just paper.

Despite the negative experience as a board member, Participant D says that she can live with charter schools as long as they are held accountable and their activities monitored. She said:

I can live with charter schools. Because if someone is watching our money; then someone is watching the children. I am not against per se charter schools…I am against how they are being run and not servicing the children they say they are servicing. For example, the school that I was on the board for, there were a lot of social issues in that area…when you move in there you should know that…You should move there with a plan to include that whole child not just to make a profit.

Participant D also suggested making sure that new and current board members are aware of the details of the contract between the charter school board of directors and the for-profit private management company. She stated, “Well, once again we are going back to the contract. When you sit on one of these boards, make sure you know what you can and cannot do.”
She also suggested that training occur from the first day of a person becoming a charter school board member. She said that roles are not clear from the beginning and she came in with a very naïve perspective. She stated, “No, it is not clear from the start. You would have to be there wide-eyed and bushy-tailed for a couple of years to really know what was going on unless you already had board experience.” She gave an example of how board minutes should be managed by the board of directors and not the management company. She also believed that people should be made aware of the demands of board roles so there are no misconceptions. She stated, “For novices like myself who just want to do something good…it took me a while to realize that this is not good…I am really not making a difference here.” In closing, Participant D stated,

When I think back and I say why it took me so long, you know, could I have done more? Those questions will always remain with me. But I do hope that I did make a difference…I did go and say this is not right.

She also stated that the contract was a critical piece and should be revisited routinely by the board and that opportunities to renegotiate should be seized to reflect the boards’ requirements. She appeared to believe that leverage and a position of strength for the board is in the contract. The contract should be reviewed as she stated:

Yes, starting there...line-by-line...precept-by-precept...Bring in the attorney, allowing the attorney to educate that board member as to what the contract is about. Not one of the authorizer’s; not one of the management company’s… it should be a one-to-one relationship between the attorney and the board and make sure that attorney indeed works for the board.
Summary and Analysis of Results

Participant D’s experience as a board member appeared to encompass frustrations that manifested into a sense of distrust for the management company. Her responses, which abated her focus on the need for the board to have independent legal council, were illustrated in terms of focusing on revising the contract. (See Table 7)

Table 7
Identification of Descriptors from Participant D’s Interview Transcript

- Transparency and full disclosure
- Rubber stamp
- Board training on roles and responsibilities
- Community oriented/volunteerism → student advocacy
- Profit motive implications
- Confusion of overlap of academic responsibilities
- Tension due to contract negotiations with management company
- No recourse for board of directors when in disagreement with the mgt. company
- Management of sub-contractors
- Role responsibility for student discipline

The qualitative data from the interview of Participant D indicated potential areas for conflicts given the confusion of responsibilities between the board of directors and the for-profit private management company. Multiple descriptors emerged from the qualitative data from Participant D as illustrated in Table 7. She shared her experiences, which conveyed perspectives inclusive of: issues of transparency and full disclosure, feeling like a rubber stamp, lack of board training, and overlap of academic responsibilities between the board of directors and the for-profit private management company. Other pertinent descriptors also emerged but were less direct sources of
confusion and role conflicts. These included; community orientation/volunteerism, profit motive implications, and tensions due to contract negotiations.

The first descriptor that emerged from Participant D reiterated a sense of skepticism due to the ambiguity that the board of directors felt regarding transactions, budget reporting, and responses (or lack of responses) to the questions from the board of directors to the management company. The skepticism increased, as interactions over time seemed to not improve. These interactions led to issues involving the descriptors of accountability and transparency. Participant D expressed a sense of bewilderment regarding the reporting of public funds, and the seemingly evasiveness of the for-profit management company when it came to reporting and accountability to the board of directors. The confusion of the board of directors led to conflicts between the two parties.

The second descriptor that emerged from Participant D is the feeling of being a rubber stamp. She indicated feelings of disorientation because the board seemed to not be able to govern from a position of strength. On the contrary, it seemed to have weaknesses in terms of obtaining basic information from its management company. This metaphor was introduced to this study by the data gathered from interview Participant C. In similar fashion, it describes the board’s feeling of just being a figurehead for parallel governance where they are just in board roles for the sake of meeting state requirements. The example provided by Participant D was the issue of the handbook where she stated that the board of directors was not allowed to provide input despite their request to preview and edit. She stated that these actions caused the board to question their purpose and if they were truly empowered. These experiences led to confusion and resulted in conflicts in the relationship between the board of directors and the for-profit private management company.

The third descriptor is relative to the lack of board training, which she stated needs to be initiated as soon as a person becomes a board member. She stressed the
importance of understanding roles and understanding what the board of directors can and cannot do. The lack of role understanding led to confusion as to the board’s sense of purpose and commensurately contributed to conflicts in their ability to govern.

The three descriptors from the interview of Participant D illustrated confusion in areas concerning issues of accountability and transparency, the feeling of being a rubber stamp, the lack of understanding their board roles, and the contractual elements between the board of directors and the for-profit private management company individually and collectively contributed to confusion and added to the governance conflicts between the board of directors and the for-profit private management company.

**Interview Participant E**

*Background and Rationale for Being a Board Member*

Participant E is an African American female with a college degree in her late forties who has served on her charter school board for approximately eleven years. She has served in multiple roles for the past five years including vice president and currently she is the board president. She is a medical researcher for a local hospital. Her primary reason for becoming a board member is to help urban city children have access to educational opportunities. She stated:

Ok, I have been serving on my current board for about 11 years. I was invited to be a board member by a good friend of mine of this particular board and I was intrigued with the idea of helping children. Also, seeing that I had a few of my own children that were school aged. We had been through several types of school systems with my children: Private schools, public schools, so I thought I would give it a try and see how much of an impact I could make with the board. I did not
know anything about being a board member for a charter school, so it was new to me.

Participant E is one of the few charter school board presidents to lead her program through the challenging process of transitioning from one authorizer to another. She indicated, throughout her interview, how demanding the roles of charter school board members have become in terms of time and preparation. Often, she said it was like a second job.

She distinguished the differences in the role of general board members from those board members who hold specific roles such as treasurer, vice president, or president. The amount of time for preparation is essential for board members to add value to meetings inclusive of fruitful discussions and prudent decision-making. She talked of supporting the community and student advocacy.

She mentioned the importance of the board and the management company working together to meet the challenges of public education. She discussed the importance of leveraging the authorizer and the community to maximize the resources of the school. She emphasized the importance of board training and supported the idea of the board having input into selecting the leadership of the school.

**Pros and Cons of Contracting with a Full-Service, For-Profit Management Company**

In Participant E’s response to the first interview question regarding the pros and cons relative to governance when contracting with a full-service management company, she indicated how it is a voluntary position based on the premise of being an advocate for the community. She reiterated how demanding it is to be a contributing board member and how much support is needed to govern effectively. She stated:
I would say the pros, partly, when you are a board member for a charter school, it is voluntary. There is no monetary compensation for being a member, you don’t get any financial perks, per say, there is no financial gain from being a member. So your time is all relative to you giving back to the community. With that being said, being a board member of a charter school could almost be like a full time job. And you need a lot of assistance to help manage and maintain the school that you govern. And the pro, I would say, is if you have a very astute, professional, experienced management group you could accomplish a lot of that and maintain some type of trust that they are doing the day-to-day stuff that needs to be done; relevant to providing a good education to the students of your school. So I would say that is a pro because it takes a lot to run a school.

In acknowledging the challenges of what it takes to run a charter school, she included the fact that a board requires a lot of support if it is to provide an opportunity for a good education. In the same respect, she recognizes that a balance is needed to govern from a macro perspective and not micro-manage the day-to-day, which is the responsibility of the management company. However, giving space to the management company requires a lot of trust that they will be transparent and vigilant in managing the resources of the school. She articulated this in the following:

One of the cons I would say is although you do not want to micromanage, as a voluntary board member you do not have the means to be involved in the day-to-day minutia of running the school…you can often allow too much leeway for the management company to manage the school and often you allow them to make decisions that should be made by the board. So you have to strike a delicate
balance between governing and then overseeing the activities and make sure there is transparency between you and the management group, so you can trust what they are doing and allow them to do it as a board. Yet that everything is transparent; that there is nothing going on that the board is not aware of.

The demands on all public schools are tremendous and require training and insight if a board member is to be effective and not just present. She contrasted the difference between being a regular board member and one that holds an officer’s role:

I would say, me on a personal basis, that being a board president for the last few years, the contrast between when I first became a regular board member, and the last three to four years as president. The climate of accountability changed a lot in the state of Michigan. Accountability to standardized testing, and holding the board and school accountable for how well their children performed. It became a lot more laborious for the board members to be aware of how academically astute our children are based on the standards put in place and then have to account for any shortfalls. Either we have to do a lot of the research ourselves or put onus on our management group to provide us with the proper resources to keep us aware of where we are as far as the standards are concerned, and where we should be…so it became a situation where having a full time job makes it difficult for me to give the attention needed to be effective.

As Participant E substantiated the complexities of standardized testing and other federal and state requirements, she elaborated on the demands that she stated are much greater than a two-hour per month meeting. She explained:
I thought about the activities and welfare of our children and it became a second job. It was not just a once a month activity for me. It was becoming more of a weekly assessment of what I need to be doing; how we need to be preparing for our kids so they could perform at their greatest ability. Also, we need to make sure that we have the proper resources in place to do that. That is what I would say in terms of it becoming a job more so than a 1 or 2 hours a month situation. She further elaborated on the importance of understanding board roles, especially when one holds an officer’s position:

I would say yes, it depends on the role you have. Of course, if I were just a regular board member, I would not have as much responsibility like that as president. I have been a board president for about 4 years now and I would say over the last two years or so I have become more integrally involved in the welfare of the school and our relationship with our new authorizer. And also, the accountability of our management group because we had some new personnel changes. I just want to make sure that the level of service we receive from our management group does not go down, that it still continues to be quality service. And with that being said, I find myself thinking more about my responsibilities as a board member and providing more action outside of those meetings that we have once a month and little committee meetings we may have periodically. I take my role more seriously because I know there are little lives dependent on us to advocate on their behalf for them to get a good education. So my volunteer job as a board member; sometimes it could be a part time job for me, not 40 hours a week, but it is definitely not just meeting on one Tuesday out of the month for a
few hours. I take it very seriously what I do, and regretfully so, I wish I could do more…but I have a family and I work full time. But I do the best I can.

Participant E mentioned multiple times that despite the demands and requirements from the state and federal government; and despite contracting with a full-service management company, the responsibility primarily was on the charter school’s board of directors. She articulated this disposition as follows:

Ultimately, it is the board of directors’ responsibility to see that we put in place, what needs to be implemented utilizing our management company; needs to be implemented in terms of getting the proper instruction in place, data management and utilizing the data to better equip our teachers and looking at the performances of the students. So, ultimately I would say it is the board of directors’ responsibility for that.

Participant E articulated the specific demands on the person who assumes the role of board president. She expounded:

Yes the responsibility and onus of a regular board member is not as heavy. The board chair, of course, because whatever goes wrong, the buck stops with you. So I have to sign off on contracts, I have to sign off on bids, and different things that I have to have my name on…If I am not aware of what is going on and it goes awry, my name is on it…so I have to make sure that I understand what I am getting myself into as a board president for the school and individually. Whereas a regular member, I did not have that level of accountability per se. So it is a heavier role to assume and I kind of assumed this role by default, but I am glad to be the board president for this school.
Given the board of directors’ position of ultimate responsibility, she made it clear that if the management company is not meeting the requirements of making students successful, then their performance must come under question and scrutiny. She exemplified this with the following:

And then if the management group are not doing what they need to be doing in terms of equipping the staff with what they need in order to educate the students and teach them in terms of where they can perform at an acceptable level. Or even see some gains overall as we assess our core groups of students, our cohorts, and compare them to other districts and things like that. So, if they are not doing what they need to do, the board is ultimately responsible to assess what we see and then see what we need to do in terms of that particular management group.

Participant E acknowledged the challenges of changing management companies and therefore reiterated the importance of trust and working together. Given the challenges of working together, there are areas with great concerns. One of those concerns was the appointment of school leadership. In the following, she discussed the importance of hiring leadership and staff:

In terms of hiring, for example, we give at my particular school; we give our management company leeway on hiring teachers, instructional coaches, and the like. We think they have enough experience to do that…there are situations where we may feel like we want some input. For instance, a school leader, we want to have some input as the board as to who is hired for that particular position. But for the most part, we give our management group leeway in that respect and trust they choose the right people for the position.
Participant E was comfortable as long as the trust is present to allow the management company the lead role in hiring all staff. However, there was some hesitancy to give them full autonomy in hiring the principal or superintendent roles. She acquiesced to the experience of the management company while maintaining a level of input into that particular decision. She stated,

I personally am not an educator and as a board member I would not know what to look for. I can look at generalities and credentials and say this person’s credentials are more conducive to this role than another person, but it is not my area of expertise. And therefore, we can leave it to the experts.

Participant E indicated that regardless of who does the hiring and at what level, the board is still responsible for all of the school’s outcomes and that included the allocation of resources. She said:

Overall it is the board, as far as the governance of the funding, we are responsible for that. We should know, and we do as far as budgetary needs, what our needs are, what our student count should be; maintaining a healthy fund balance in case we need to move some monies around for instructional people in place to help the instruction of the students; the adjunct personnel that could help with our students getting up to par. We know, most importantly, we make sure that resources go toward student needs.

She exemplified the breadth and scope of the board’s responsibilities by mentioning many of the resources required to operate a school, while keeping students’ needs in perspective. Next, she indicated the importance of selecting the appropriate human resources while balancing funds. She continued to reiterate that, regardless of how
the school is managed, it is ultimately the responsibility of the board of directors. She explained:

We want to make sure that we take care of our teachers and the Para pros in the classroom and that we provide them with the resources they need. It is a challenge because you have to balance the student count right; that impacts what you are able to do; the cuts in state funding; it is a delicate balance, but we know that we are ultimately responsible for that and we leave our management group the leeway to make sure that they get the proper pieces or parties in place, so we can do what we need to do to maintain or help to improve the academic success of our students.

**Contractual Relationship**

The second qualitative interview question asked for a description of the contractual relationship between the board of directors and the management company. Participant E referred to the board’s awareness of the contract; however, she admitted that the contract is not always at the forefront of their minds because of the longevity of the relationship with the current management company. She stated:

I would say we are very much aware that there is a contract between the management and the board of directors. But because, as with my particular school, there is such a long history with this management group that sometimes the fact that there is a contract kind of gets lost because of the long relationship. And there is always this assumption that sometimes you have to shake things up a little bit, so that we are not taken for granted; that because you have been with us all these years that we won’t make any changes.
There are benefits and drawbacks to having a long contractual relationship with a management company. The benefit is familiarity with the drawback being that the management company may take their client for granted. Participant E’s board appeared to be aware of the issue of contractual longevity. She said:

So we have to periodically let them know that we hold them accountable for making sure our children get what they need. So you have to maintain a professional relationship, but yet because you work with someone, people or an entity, it can become personal and you have to make sure to let them know we may be like a family, but you still need to do what you need to do and fulfill the contract obligation.

Participant E alluded to the importance of the contractual agreements that the board has with the management company. She explained that if the relationship is strong, it could weather challenges that would typically threaten it. Given the challenges of standardized testing and mandates from the federal government, authorizers feel the pressure of having solid portfolios of the schools that they create. These pressures trickle down to boards and management companies. In most instances, the authorizer will remain the constant, and the board of directors or the management company will change. In very few instances, an anomaly will occur and it is the authorizer that is out of the relationship. She gave the following iteration:

There were some changes that came and affected the schools in the state in general and how authorizers were accountable to the state for the schools they authorized. And a lot of it had to do with standardized testing and it put a strain on the relationship between the authorizer and our management group. And we were
kind of the “middle guy”...we were placed in the middle and kind of in between, and the authorizer put pressure on us to maybe dissolve our relationship with the management group. And we took a stance in that we needed to look at what is best for the children first and look at our longevity of the school and not so much give-in to the pressure from the authorizer, from what they were under from the state, so with that it did make the management company nervous; and we did let them know under no certain terms no one was indispensable [sic.] and we would look at considering another option. So we were able to weather the storm.

Actually, it turned out that we ended up with another authorizer and we are still with the same management group.

Participant E’s board seemed to have found a balance in managing the benefits and drawbacks of a long-term contractual relationship and they have leveraged it to make changes by transitioning from one authorizer to another. At the same time, she reiterated the value of a long contractual relationship, but also making sure the management company does not take them for granted. Her board seemed to have found equilibrium between the three entities of the board of directors, the management company, and the authorizer.

Despite the synergy, everyone is held accountable. When asked about what needs to be prioritized to maintain a contractual agreement, Participant E indicated that student performance is the main element and if it is not meeting the requirements through the management company’s evaluation, then the board of directors would look to make a change. She stated:
I would say because there is so much focus on the standardized testing, but our overall goal is to provide an education that will allow our children to excel to the next level and beyond. So we know that standardized testing is part of it, a small part of it and we know that our children have to walk against, run against, and usually lag behind some of our suburban counterparts. They have so many issues they have to deal with to even get them to a place where they can excel academically. But with that being said, we know that as a board, if our management group loses focus, students are not first and we do not see the progression with our students’ growth, then it is time to evaluate whether we need to stay with this management group or not.

Factors Contributing to Tension in Governance

The contract is one of many matters that may cause tension in the governance of charter schools. However, there are many other factors that may potentially cause tension. This interview entailed that question and how the relationship between the board of directors and the management company may contribute to tension as it relates to governance.

Participant E’s initial response included making the decision on the leadership of the school. Her response reinforced how important the school leader is regarding the success of the school. She responded:

Well, I have a perfect example. A few years ago we had a wonderful school leader, who has tried to retire and after several attempts finally made that leap to retire. We had to get a new school leader to replace this person. And we chose a particular person and this was the board of governance and the management group
both selected this person. And the management group found the candidates and we interviewed them collectively. After they got to a certain point, the board of governance came into the process of the interview and between the two candidates we selected the person. This particular person came in as a school leader and because there was such a transition, our previous school leader was such an important part of our school culture; it was going to be a big adjustment anyway.

The previous response indicated tension as it relates to hiring school leadership. Other tensions followed such as those stemming from academic performance and specifically as it is measured by state standardized testing. Other sources of tension affecting governance included fiscal and resource management. She stated:

Yes, academic standardized testing, making sure you have the right people in place to get our students’ gains where they need to be. Financial resources, there are always struggles as to how we are going to use these little bitty funds that we have and how we are going to distribute them. And is it going to go to more teachers or getting school buses; so we may bring more students in from outlying areas into our school district. And so it is a delicate line on how to manage the finances so we can ultimately help our children be successful academically. So there is always that struggle there.

*Accountability and Transparency*

The next interview question asked if the board member believed that accountability and transparency of public funds changed when contracting with a for-profit company. Participant E responded:
As a volunteer board member, when I look at how much charter schools are scrutinized over their funding, and then you read stuff about what is going on in Detroit Public Schools, I am like we must not be dealing with the same level of accountability because there is no way in the world I could run my school like a Detroit Public School and we would not be shut down. So in terms of the management group, I think our board in general is just very conscientious about knowing where the funds are and how they are dispersed because we do not want to get in trouble and more we want to make sure that students are getting what they need with limited funds. I think our charter school does a good job in terms of transparency and managing the funds that we have.

**Contractual and Legislative Suggestions**

Participant E was then asked if there was anything contractually or legislatively that could be done to improve governance. She responded:

I think legislatively we do not play with a level playing field. We should be able to get the same amount of dollars per pupil that public schools get. It should be an even playing field for every district, public and charter in the state. So we know that is not fair. It should be done legislatively to make sure that every pupil gets a fair share and amount of dollars so we can help our children get to where they need to be. You have to have the financial resources for that. Contractually, of course, in your contract you hold the management group accountable for maintaining certain academic milestones and goals and growth…and that ties to your authorizer [charter] contract as well. Just making sure all parties are aware of what the agreed upon contracts are, making sure that they can be attainable, and
that we strive towards obtaining those goals. At least we want to see growth and
we don’t want to see that students are going backwards.

She expressed her belief that the field is not level between urban and suburban
schools. Her legislative desire is that it will be addressed one day. In terms of the
contract, she shared the concept of fortifying the contract between the board of directors
and the management company with performance metrics that reward results and
scrutinizes when falling short of the performance metrics. She responded:

Well, they get a percentage. Contracts are usually written [that] if our
management company meets a certain milestone, they get a certain percentage per
pupil. If you do not meet that milestone then you do not get that increased
percentage: or whatever. We have to reassess if they are not reaching
expectations. Then we have to reassess if we need to decrease the amount of
money you are getting per pupil or even …or even consider bidding out …so
there is that contractual obligation that the management group has…and we have
to make sure that as governance we hold them accountable to that and if they do
not hit those milestones; [we] do not just ignore it, but address that issue and
decide what we are going to do moving forward.

In terms of the contract and spelling out the roles between the board of directors
and the management company, Participant E believed more direct training is needed and
that the board needs to do more in terms of training. She stated the following:

I believe it is, it may not be directly written out, what the board as a whole or as
individual parties, but it is implied that we govern the school and that we employ
our management group to help us to do the day-to-day operations. And I think we
probably as a board, because we are a small board and have some turnover, I mean you are asking people to volunteer and it is demanding and people work. It is a commitment and it is something to be taken seriously, so I think we, as a board, need to do a better job at even educating our board members of their roles. A lot of times it is “on the job” training. You learn as you go [about] what your role is as a volunteer board member for a public charter school…but it is more probably implied than implicit of the roles in the contract.

Participant E mentioned that training from the former and current authorizers has been well received, especially given the turnover of members on her board. She argued that it is imperative that board members know their role: “Our authorizer and past authorizer did a really good job trying to orientate and provide governance seminars for their various boards. And so it is a contingent that it should happen, so that board members understand their roles in governance.” She continued that it is important to have a working knowledge of charter schools and the key entities in the charter school industry. She concluded:

Just to understand what it means to be a board member of a charter school. Even just understanding what a charter school is…and how the authorizer is and what role they play…if you use a management group and how they help in that scenario; understanding all of the stakeholders and how they are involved in the continuum of relationships from the authorizer to the management group, to the board, to parents, the community, and the management group employing the teachers, and understanding all of these relationships; that is important that the authorizer helps as well.
This final response by Participant E demonstrated her perspective on the role of the authorizer in the relationship between the management company and the board of directors, which was unique to her interview.

**Summary and Analysis of Results**

Participant E’s experience as a board member appears to entail perceptions that the board provides leeway to the management company for hiring and that the longevity has both pluses and minuses when it comes to the relationship between the board of directors and the for-profit private management company. She mentions that the management company must be held accountable for student achievement and growth. She expresses the need for board training for all members, and special training for members that are new and novice to the charter world. She values the relationship between the two parties and feels a synergistic relationship is a must in order to produce positive results. Participant E believes that the board of directors is ultimately responsible for all aspects of the charter school.

Table 8

*Identification of Descriptors from Participant E’s Interview Transcript*

- ✔ Shared responsibility for hiring key leadership
- ✔ Board ultimately responsible
- ✔ Board training on roles and responsibilities
- ✔ Community oriented/volunteerism ➔ student advocacy
- ✔ Contract with incentives for student performance
- ✔ Confusion of overlap of academic responsibilities
- ✔ Giving mgt. company leeway ➔ not micro managing
- ✔ Perceived vs. reality of demand and expectations of charter school board members
- ✔ Contract based on performance metrics and not history
- ✔ Transparency and accountability of financial resources
- ✔ Role responsibility for student discipline
- ✔ Management company is responsible for day-to-day
The qualitative data from the interview of Participant E indicated potential areas for conflicts given the confusion of responsibilities between the board of directors and the for-profit private management company. Multiple descriptors emerged from the qualitative data from Participant E as illustrated in Table 8. She expressed experiences, which conveyed perspectives inclusive of: issues of shared responsibility for hiring key leadership positions, the board being ultimately responsible, board training and responsibility, volunteerism/community orientation (student advocacy), giving the management company leeway for hiring, and the perceived versus reality of the demands and expectations of charter school boards of directors. Other pertinent descriptors also emerged, but were less direct sources of confusion and role conflicts. These included; roles and responsibility for student discipline, contract based on performance metrics and not history, and the management company is responsible for the day-to-day.

The first descriptor that emerged from Participant E’s interview is the confusion of having shared responsibility for hiring key leadership positions in the charter school. The allowed input of the board is not formal and not inclusive of the contractual agreement between the board of directors and the for-profit private management company. The potential for conflict is the perception of the board members impact on hiring roles, such as the principal. There is not a formal clause in the contract, which gives the board input into the hiring of administrative roles. As a matter of fact, the contract indicates that the management company has sole responsibility for hiring the administration and all positions in the charter school.

The second descriptor that emerged is the perception that the board is ultimately responsible for all aspects of the charter school including operations. Even though there is
a feeling that the board of directors is responsible for all aspects of the operations of the school, they are not. It is more accurate to say the board is accountable for all aspects of the charter school dependent upon their contract with the management company. However, once they sign a contract for full-services with a management company, the responsibility is contractually transferred to the management company. The potential for confusion increases, which leads to great potential for conflicts in these circumstances because with the transfer of responsibility comes the commensurate transfer of power and authority and the board’s ability to influence the operations of the school is diminished.

The third descriptor from the interview is board training on roles and responsibilities. The board president acknowledged the need for training, which precipitated from a significant level of board member turnover. This change in board membership, in many instances, leads to novice replacements. The replacements are sometimes not oriented prior to their start and are not aware of the elements of the contract, which impacts the ability of the board. Some may even not understand the dynamics of charter schools and the environment within which they operate. These situations perpetuate confusion from the start and sets high probability for confusion and conflict given the ambiguity of board members’ roles and responsibilities.

The fourth descriptor is that of community orientation/volunteerism and student advocacy, which is often the premise for people joining charter school boards. The volunteer mindset may not be aligned to the profit-centric position of the management company and collides when activities, policies, and objectives are not agreed upon or fall into dispute. Participant E joined the board after being asked by a friend if she would consider being on a charter school board. Having children of her own and experimenting with trying to find the best locations for them, she accepted becoming a board member.
The fifth descriptor is the concept of the perception of the board of directors giving leeway to the management company to hiring staff. This is accompanied by a false impression that boards have any say in the hiring practices of the management company. The hiring practice is clearly stated in the contractual agreement between the board of directors and the management company that the latter has full and complete control over who is hired and terminated. This misperception is a precursor of confusion and potential conflict given the likelihood of disagreement on hiring at any point in time.

The sixth descriptor is the perceived versus reality of the demands and expectations of charter school board members. Interview Participant E articulated that her perceptions of what was entailed with being a board member far exceeded the reality of being a board member. She indicated numerous times that it is like a part-time and full-time job; and that the preparation and follow-through is tremendous, especially for those who hold positions such as president, vice president, and treasurer. When a volunteer position entails such demands, it is a possibility for potential conflicts given the rationale for contracting a full-service private management company includes alleviating board members from having to manage the detailed operations of the charter school.

The previous descriptors from Participant E’s interview illustrated confusion in areas of shared responsibility for hiring key leadership, perception of the board being ultimately responsible, board training and responsibility, the concept of volunteerism, and the perception of giving leeway for staff hiring by the management company. These descriptors are part of multiple factors that contributed to confusion and added to the potential governance conflicts between the board of directors and the for-profit private management company.
Interview Participant F

**Background and Rationale for Being a Charter School Board Member**

Participant F is a white male in his mid-fifties and is a college graduate. He is an attorney who works heavily in civil rights. He is also a former teacher. He has a strong knowledge of contracts and values all aspects of community development and relations. He has been on the board and president of a charter school since its inception in 1996. Participant F has been an active board president since 1997. He assisted with the beginning phases of the school as they originally operated from a former catholic high school. He guided the program through a series of financial challenges and navigated multiple moves to different facilities while he worked with two for-profit private management companies during his tenure.

He received six renewals to serve in his board role all with one authorizer and two full service for-profit private management companies. His experiences in teaching and civil rights provided a dynamic perspective of charter schools’ evolution and fiscal operations in terms of how public tax dollars are managed between a non-profit school and a for-profit private management company.

His rationale for joining a charter school board was linked to his community development and civil rights background, which provided a brilliant lens to view the challenges and needs of charter schools. His legal career gave him analytical skills to better understand the contractual, legal, financial, and political infrastructures that often challenge less credentialed board presidents. Being on a board provided Participant F with a means of helping the community and simultaneously impacting education in urban areas lacking the resources of most traditional public schools. He was contentious about
how for-profit private management companies are able to receive taxpayers’ dollars so easily when they are allocated to Michigan charter schools, which are non-profit entities. He mentioned that not many industries allow such transactions.

Pros and Cons of Contracting with a For-Profit Private Management Company

Participant F believed the main positive aspect of contracting with a for-profit management company for educational services is that you may be working with professional people who are well trained in functional areas. He stated:

Let’s start with the pros; you are dealing with, you can be dealing with business people. Not always, but you can be dealing with business people. And as an organization, they can manage contracts. Ideally, they should manage contractors well. They should be fully up to speed on payroll, personnel, and compliance issues. They, I would say from the business end of it, should be credible.

Participant F’s list of pros ended at the business aspect of what for-profit private management companies bring into practice. After the initial pro, he went said, “I would say I should have a longer list of pros. Unfortunately, but I probably don’t.”

He then listed out his perspective of cons tempered with a lot of phrases such as, “things could go well if you have the right people who put the children, families, and the community first.” As he began to list the cons, he said, “If you have the right people that are student-child-family oriented: it’s fine. Or just feel in their heart to do the right thing: full disclosure, honesty, careful with expenditures, and things of that nature. It can work very, very well.” He elaborated on the previous and began to introduce the profit motive as a concept of what drives for-profit private management companies. He explained:
But the profit motive is very, very high. It does dictate and influence a lot of what occurs that are said that are not for the student or for the welfare of the school and things of that nature. But at its core: it’s a money-driven process. And that’s really sad. But I see what they are doing is anything to maintain that contract. The contract and the money that is generated through it can be enormous. The head of it, the top people in a for-profit management company, can make more than a superintendent in a large public school district can make. The contracts are about a million dollars every 3 years and as far as the expenditures and that, they can hire staff and things like that, charged back to the school, where the million dollars every 3 years really almost purely represents profit with very little overhead actually to be incurred by the management company. That concerns me. Other cons that were mentioned were related to the management company taking actions and seemingly expecting the board to be non-resistant. He provided the following example:

I can give you a very specific example. Our contract provides that our management company provides bookkeeping fees. With our new management company, they insisted that, oh, we hire a bookkeeper at all of our schools. They had a bookkeeper that did it at another school on a part-time basis. The other school closed and so they made her full time at our school. So we are paying full time for a bookkeeper that makes as much as our second or third top teacher. $40,000 a year plus benefits for a bookkeeper even though bookkeeping is provided for, that is something that the management company, at their expense, should provide.
Participant F addressed the concerns as such, “When I approached it with the management company, during a board meeting, I was told, well, um, we hire bookkeepers at the school’s expense at all of our schools and this is just something that we do.” The nature of the previous response from the management company gives a perception that the management company has the authority to allocate resources without the approval of the board of directors. He also stated, “If the board doesn’t know, that doesn’t make it right, and because maybe boards don’t read the contract, they don’t understand that that is something that’s supposed to occur.”

Participant F also indicated that the relationship between the management company and the authorizer could be nebulous for board governance given the contract between the board of directors and the authorizer; and a separate contract between the board of directors and the management company. He went on to say, The authorizers’ goal is stability at the school, no change for any reason, and that they can get their authorizer fee. And so you tend, when you have the for-profit arrangement you have, you tend to develop that close relationship between the management company and the authorizer. And to me, the board is kind of extraneous to the management and governance of the school. And that is a concern. But I think you would probably have that in any area where they have high profit margins and I could say the same things as far as the mortgage industry. I see that kind of excess in the mortgage industry because the compensation is so high. I see it in my practice when it comes to securities and investments…the same kind of thing. So I am not saying that this is any different
than other areas, but I’m saying that it is a problem. It’s a problem as the high profit model is in other areas, in other kinds of industries.

Coupled with the previous perspective, Participant F felt that the management company would conduct themselves in a manner to keep the contract. He stated that their primary objective “Is to preserve the contract at all costs; absolutely.”

When asked to elaborate on one of the earlier statements that positive things may happen if a management company is student, family, and community oriented, he replied; “First off, that having a charter school can, in my opinion, be very responsive to the needs that occur. If something happens, we can change direction midcourse. It's not bureaucratic…things can happen.” He went on to provide an example, which included attendance and responsiveness. He explained:

Whether a problem with attendance, or a problem with a particular subject matter or whatever, charter schools can rapidly change to meet the needs; so that should result in better academic performance so that’s the value of a charter school. Where it’s an individual school that is controlled, managed locally, and things can get done; so that’s the plus side of it.

Participant F expounded on the role of the management company’s liaison to the board of directors. He stated:

When you have someone, and there are individuals that I can point to… I mean we have had two management companies, but at times there have been people of high integrity, high commitment, and high caliber that are honest and trustworthy and will alert you right up front. Where if they say something, you know it’s the truth. That is thrilling, that’s refreshing, and I get a sense that is how the other
board members feel. Their happy, their comfortable, and they feel a big loss when someone like that leaves; because now we are only going to get filtered information, and a public relations presentation and things of that nature rather than just accurate information.

Participant F expressed an appreciation for trust, openness, and disclosure, which appeared to be based on the character of the board liaison person who is assigned to the account. However, he said that if the liaison is not of high caliber, then problems emerge. He stated:

There is nothing wrong with something coming up and saying we need to address this, we need to address that, no one is going to terminate a management company. We’re not going to get upset about it, we would like to know because that enables us as a board to say what can we as a board do to come alongside the management company or what can we do to reach out to the authorizer. What can we do to improve the situation and we are supposed to be team players working towards the same goal; but when that breaks down; then it’s a problem.

**Contractual Relationship**

In terms of question two regarding the contractual relationship between the boards of directors and the management company, Participant F clarified the difference in the school’s two main contracts. He explained, “I know with the management company we have a management agreement. I know with the authorizer that we have a charter contract.” He also expressed that board members are probably not aware of the contract to the degree that they have a full understanding of its dynamics. He stated,
Well I think first off, I think a lot of the board members aren’t really aware that the contract governs the relationship. I just don’t think that they quite understand it. I really don’t think they know what is required and what the management company is supposed to do.

He subsequently mentioned another dynamic in terms of the disposition of the management company and their feelings regarding the school. He said, “I think the management company almost feels as though it is their school, if that makes sense, when it’s not. It’s the PSA, it’s the Academy’s school.” He then elaborated on the disparity of responses between the two management companies contracted with over the charter school’s life cycle. He stated:

In terms of requests for records and information, if I back up with the previous management company, then a simple phone call was all I needed to get that information and it was provided. With the current management company, the simplest of requests takes a series of emails and it’s carefully defined and filtered. By the time you are done with that process, you are skeptical about what is the big concern with it. There are times with communications where I will have to reference paragraphs of the management agreement, which shouldn’t be necessary. Lip service is given to full disclosure, but there isn’t full disclosure. And again, because of [the] for-profit motive I am concerned that the email is being written to me to be phoned into the authorizer, but it’s not really being written to me. Like I’m just a third party to whatever posturing that the management company is attempting to do.
In terms of obtaining information on student performance, it was sometimes difficult to obtain or receive a prompt response. Participant F said, “If asking for background information or supporting information, it can be grudgingly provided.” He continued to explain:

For example, I asked for student performance and achievement data and I was told that I would have to get it from the building leader, the principal at the school. I contacted the principal and then from there I was directed to the head of the management company and then I was directed to the board liaison. I sent a request to the board liaison that was delayed for quite some time. Finally, he sent kind of an overview summary of it, but I never got the data. Never got it. And again it’s important because if you try to set things from a board standpoint like a budget or some governance you need to know what it is. I just wanted to actually see the data. Just for my curiosity… I wanted to see it. I am embarrassed if you ask me specific questions on student performance that I don’t know as much as I should and that’s not right. Then the next set of data came out and I went through the same thing and I never got the actual data.

He continues to discuss the challenges of getting data on school performance that he feels should be readily accessible to board members. However, he further presents a sense of resistance from the management company and said:

I have gotten summary reports and information on things they wanted to present. I had found online where they had the different kinds of data and graphs that you can get, so I made a specific request to get that but you’ve got to independently search and study on your own or you won’t be educated going to the board. You
won’t be fully advised going to the board meetings. It just doesn’t happen. I have to reach out beyond the management company. I try to find other people in the education field to advise me. I do have to reach out to find people to give me objective information that I need as a board member. And I would have hoped that I could turn to an authorizer and get that, but no…they don’t really want to hear from me. They really don’t. I’m a bother or whatever. Their interaction is strictly with the management company talking about student performance and this and that.

Participant F went on to share other areas where information was difficult to obtain, or where the board of directors did not have adequate information to address school matters such as the budget and finances. He said, “We are not to touch budget items. How do you have a board and govern as a board? We can’t even control the budget? Why I say it’s a concern is because by the time we get budgets proposed and amended budgets, they’re running deficits and that’s a concern to us; but we are not empowered to deal with that.”

**Factors that Contribute to Tension in Governance**

When asked about what factors might contribute to tension in governance, Participant F talked about board members getting up to speed and valuing the longevity of experienced board members. He stated:

It creates tension in how to get a board member up to speed and some of it is just experience. The longer you serve on the board, after you cycle through the first year, you get a sense of all of the things that occur on an annual basis or on a
school year basis and then as you go through a couple of times, 3 or 4 times, you get more and more familiar with it.

Another source of tension mentioned is when the board is used as a scapegoat and when staff is discouraged, if not permitted to approach the board with concerns. He said,

Another thing that contributes to the friction is that some management companies block anybody from approaching the board or they’ll say, well we would like to do this but the board won’t let you do this or the board won’t let you do that. I mean so we are kind of scapegoated or kind of used.

He substantiated the previous concern by illustrating how staff (employees of the for-profit management company) is advised to take their concerns to the human resources department of the management company, and not to the board of directors. In the same respect, if the management company wants to push their agenda, they may have the employees come in full force to a board meeting. Participant F explained:

They were told: if you have comments or concerns you take it to HR, you do not go to the board. There was one instance where there were letters and things written and they came before us as the board…we didn’t take action because we don’t get involved in personnel issues and so we just referred it back to the management company. But after that it was made clear and communicated to the staff that they were never to contact the board.

He took exception of the management company’s communication to the staff and stated that:

We are a public entity. People have a statutory right to contact the board at any time. There is a complaint procedure in place if they are not satisfied. Same for
parents, well if they are not satisfied going through the channels with the management company then they go in front of the board. If they aren’t satisfied with that then they can go in front of the authorizer. There is a procedure that people are supposed to go through. Things are not going necessarily through that process … it’s another way that we can become out of touch with what is going on at the school… the counteract is that under our policies we are required to have one board member that is a parent and we are fortunate that we have two and they are active … so they are enormously helpful to me as a board member to know what is going on at the school. I cannot begin to tell you how important that is. Without them, I would not have the parents’ information … it doesn’t mean that it actually changes anything, but you want to know what are the concerns.

He says that the board would like to hear from staff to help provide a feel for what they think and how things are going. However, that line of direct communication does not exist and what the board hears is directly from the management company. Participant F stated:

I have no interaction with the staff. I don’t know what they think so I’m relying on the head of the management company and what they think about this, which may or may not reflect what the teachers says or what the paraprofessionals or the staff say. That’s the kind of friction that occurs because being a board member means always receiving partial information. The more information I can get is so valuable and it is so difficult to obtain.
Accountability and Transparency

Participant F expressed feelings of frustration as a board president who has a desire to communicate accurately and consistently with constituents and stakeholders. Part of the lack of communication between the board of directors and the for-profit private management company lends itself to issues regarding accountability and transparency of public funds when contracting with management companies, or does he believe that it is an issue? He said with heavy emphasis:

Well… I would like you to put this in caps: A public school academy is a non-profit entity but in reality those funds are passed through to a for-profit entity…to me that can’t be. You can’t do that. It makes a public school academy simply as a shell for the for-profit company because the funds, operations and management are turned over to a for-profit entity. I happen to think from a policy standpoint, that’s wrong … the whole purpose of setting up a school as a non-profit entity is for that purpose. It’s not a money-making entity. Profits are not to be derived from it, but when those funds are passed onto a for-profit entity, we are doing just that. If you take a step back and just think about it, it makes absolutely no sense to do that. To have that framework in place…it’s unacceptable. I don’t think that there, under any stretch of the imagination, there should be a non-profit entity passing on its funds for its operation to a for-profit entity. I’m trying to think of an example of where it’s done and it’s not just non-profit passing the funds onto a for-profit. These are not only non-profit funds but these are government funds…government funds should not be used.
Participant F referred to concerns of legitimacy if all of a sudden, rules change and these for-profit management companies simply switch over to non-profits. He said, “My concern is you are used to years of running a for-profit organization to just come up with a name and register it with the state as a non-profit entity raises questions in my mind to the legitimacy and credibility of your representation that suddenly you are going to switch and behave as a non-profit: that’s my concern.” He explained the rationale for his concern as just a cosmetic alteration that will internally be the same as the for-profit company. He said, “So what I am saying is that if we say all PSAs can only work with the non-profits, you’ll be getting the same players handling the non-profits that were handling the for-profits, and so that won’t work.” He concluded this section with a comparison to traditional public schools and the imbalance of for-profit management companies managing charter schools in the state of Michigan. He explained:

In terms of a traditional public school, it’s purely non-profit in its governance and in its organization and a PSA should be the same way. So I don’t think we have thought long and hard of it. Michigan is way out of whack with the percentages of for-profit management companies. I did some research on it and I found that our authorizer is representative of the state numbers in terms of being wildly disparate between for-profit and non-profit management companies.

Contractual and Legislative Suggestions

The previous observations of Participant F led well into the next qualitative question asking what could be done contractually or legislatively to improve governance in the state of Michigan. He began with the contractual element of adding provisions to
have the charter school’s leadership (superintendent/principal) report to the board of
directors. He said:

The first thing I would like … the critical component of the school is the
leader…the studies go all over the place. I read that its 60% (that the principal) is
the main factor of the success of the school…their leadership over time impacts
every aspect of the school. I would like the board to have more of a say…in some
schools it’s actually written into the management agreement. I would say the right
to refusal…that the building leader serves with the consent of the board. That if
the board is unsatisfied, it can dismiss the leader right there.

Participant F presented concerns that all staff reports to the management company
and this limits the ability of the board to receive direct and objective feedback. He voiced
his concerns by saying,

My concern is that the board, in implementing things; the board goes to the
management company or deals with the staff members. But the staff members,
principal, AP, everybody answers to the management company. They serve at the
will of the management company. You don’t get direct, accurate info from the
building leader because the building leader is saying what the management
company wants him or her to say. And so that’s a real concern.

Participant F continued to build on the contractual possibilities and moves to a
complimentary legislative action that would strengthen and further empower the board.
He said,

That’s a contractual one. You could write it into state law, obviously. For
example, state law says that you can terminate a school administrator with 30
days’ notice, so the state law has spoken on it legislatively. I know we talked about it, made mention of it, in a previous answer of taking the profit motive out of it. I think that would be one.

He provided more suggestions in terms of having more non-profits manage the charter schools and simplifying the accounting budget codes to be more “user-friendly.” He said,

Yes. Yes, and making it truly be non-profit, top to bottom. I thought of another one to say. I am concerned about the budget codes... they are confusing. From a budget standpoint, a CPA can understand it. Given the way the categories are grouped and that, the information is not given in a practical way.

He provided an example from the banking industry and how they made information easier to understand to the novice borrowers and consumers. He stated:

In a lending context, the CPV restructured the good faith estimate of closing costs to make it understandable to a layperson. I think there needs to be that type of thing when it comes to the school accounting ...categories are too long, its confusingly presented, both on the income and the expenses, but they need to take a step back and say you know what we’re not doing is setting up these codes for CPAs...we’re setting them up for lay people and the general public to understand how the funds were spent, where they are going to, like that...we don’t have that.

He continued his concerns by revisiting the profit motive and how the funds may not get to those closest to the student, but goes to top management. He expressed:

Another concern I have, in getting back to the for-profit motive, at the end of the day, the money is being given to the senior management and it’s not being given
to the people delivering instruction … it’s not being given to improve expenditures or instructional materials, books and things like that that actually benefits the students or the improvement of the facilities and things of that nature. So I think if we move the profit motive out [of] there and the profit component, we can put greater power into improving instruction.

He is basically saying that provisions are needed to help boards better understand financial documents and budgets reports and that would greatly assist with board governance. It would also impact transparency with boards being in a position to better scrutinize reports, ask questions, and better prepare for board meetings. He stated:

These are the major things, so absolutely financial transparency in terms of how that information is presented and that answer ties into the question you asked about the board members getting up to speed. If the financial information were there, in a way that was readily understandable, that would go a long way to assisting board members and others doing it.

The other element of the report that is mentioned is the reporting of student data on performance. It is often presented in a way that is not fully understood by board members. He exclaimed:

I would say this; another one would be reporting student performance data. It’s not always so clear; I understand what a standard deviation is but I have no idea what a standard deviation means in terms of the testing.

He felt that the board of directors is limited with resources to navigate the complexities of financial and budget reports. He explained:
So I don’t think that’s done and what we do, and here is where the problem comes in, so what do we do as a board member? Well… If we don’t understand the financials, we get an opportunity to ask whom: the management company? And they are the ones making it clear for us. That’s a problem. That’s a real problem. Or, I want to understand student performance data, so who do I go to? And the problem is the information is filtered, it is put in such a way. I’m not faulting management companies; that’s what they are going to do. They are going to make themselves look good.

Participant F went on to recommend hiring external companies to assess the budget and assess the educational components inclusive of an explanation of the academic metrics. He recommended that there would be third-party advisors that would come in and perform operational and academic assessments. He stated,

So I’m hearing it directly from a third party rather than hearing it from a management company. And I think we could do the same thing for student performance. If I had my way, I would think that boards should be encouraged to get independent assessments.”

He gave the example of having an independent auditor for finances; this would be an independent auditor for academic metrics and they would not only assess what is done but what should be done; because even a financial audit only matches expenses to planned expenditures; it doesn’t tell you how to strategically allocate resources. He stated,

For example, they make sure that expenditures match up with the budget, but they don’t address the wisdom of are the monies being spent properly. Auditors don’t
tell us that. Auditors are not a benefit to us in that sense they may identify if money is misappropriated, but it doesn’t tell us what we are doing.

Participant F shared that even after being a board president for nearly two decades that he is still uncomfortable with the schools’ finances. He stated:

I am not comfortable with our finances. And I sit here as a board member up to 19 years and I’m not comfortable. Not saying that money is being pocketed, I’m not accusing anybody of that, but I would like to know specifically are these expenditures reasonable. Are salaries in line with what they should be? I need to know these things: are we being charged for things that under the management agreement should belong to the management company? There are independent professionals out there that can advise us on these questions and that would really improve our comfort level as a board and mine as a board member, and I’m sure others as well.

Participant F discussed what he believed are the priorities of management companies based on his experience of contracting with the two that comprehensively managed their charter school. He said, “The priority of a management company is, obviously, to preserve the contract. Period. They like student performance. They like numbers because that’s what someone may look at. It’s a good selling point to get more contracts: keep and maintain the contracts.” He subsequently indicated that management companies’ focus on making sure they keep a solid relationship with the authorizer. He said the following:

They’re very, very careful before anything else to serve the authorizer. They want a strong relationship with the authorizer. I know full well, if anything, whether it’s
timely preparing the board minutes and the agenda, they’re doing so to meet the compliance standard or timeline of the authorizer. From top to bottom, their focus is on keeping the contract, [and] satisfying the authorizer. That is quite clear.

He also expressed a belief that when authorizers are supportive of boards, it better positions the board to manage the contract with the for-profit management company. He said,

If you have the authorizer that is supportive of the board, then you may see the management company be concerned with serving the board, but otherwise they are not now. That’s our passion as board members. It never gets far beyond it. That’s what we want to see, so I get excited when the student performance is strong.

Participant F articulated his perspective of how the board of directors affects student performance. He stated,

I think the best thing we can do at the end of the day is to ensure that we as a board have selected the very best whether it’s a management company, CPA, board counsel, custodial services, you name it. That we select the best, the best professionals to assist us.

He substantiated this position with acknowledging that a professional board should be able to make solid choices. He said:

We as a board, if we have a professional background: We should be able to identify them. We have to do our homework and make sure that we have the best people in place. If they are not performing up to par, then make that switch.
Where my frustration comes in is where I see a weakness here or there and not being empowered to make that academic change.

**Conflicts in Board and Subcontract Relationship**

He then shifted to the board’s ability to assess contracts and how difficult it is to sometimes obtain information about vendors. He also felt that his hands are tied, as noted:

I would like a list of contractors and see what the compensation is, what the term is, where they are located, and have that and have it presented to the board. We should have it on an instant; these are the people that we contract and deal with and then as we decide to renew these contracts or put a bid out and get the best rates we need to do that on a regular basis. I have board members I know don’t know all of the contracts and things that we have.

He continued his discussion on contracts and how vendors have the impression that they are contracted with the management company. The example he used was the contract between the board and the food service provider. He stated that the previous management company said on several occasions, “Those are our contracts.” Participant F responded that the contracts are with the board of directors. He explained that vendors have a tendency to erroneously function as if their contract is with the management company. He said, “They contract with us, but they tend to see it as the management company. That they are actually contracting with the management company and that’s just not accurate.” He goes on to talk about the perception of the board and how board members may not fully understand:
But there’s that perception that we are hands-off and in a lot of respects we are, but I don’t think the board realizes that those are our contracts. Those checks are coming from the board [and] they aren’t coming from the management company. But you know… But are we getting the best people at the best rate? I think we could do a lot better and this is where the incentive comes in. The management company is not bearing those costs directly.

*Agent-to-Client Contractual Relationship*

In the discussions of contracts, Participant F provided a perspective of the relationship between the board and the management company and if it is seen as a client to vendor relationship. He replied, “Yes and no. Yes, it is clear in my mind ‘who’ works for who. It’s also clear in my mind ‘who’ works for who. The management company should be working for the board. I mean we are parties to a contract.” He does indicate that it is difficult to manage at times given the management company’s attention to the authorizer. He feels the management company may do what it wants to do unless it falls out of favor with the authorizer. He says, “Until they are dissatisfied with the management company, or feel there are some deficiencies with the management company; it doesn’t come from us. There’s lip service to that the management company does what it wants because it only answers to the authorizer.”

He indicated that he chooses his battles and that the main purpose is to focus on student performance. He said, “The greater purpose is the welfare of our students and the performance of our students. That’s the bottom line. If that means sacrificing something that I feel I have the right to in the contract, absolutely, it’s about the students.” He stated
as a final perspective a concern with being viewed as a rubber stamp and not truly empowered as a board. He concluded,

All you have to do is slap us down on a couple of budget items and at some point we are like ok fine you don’t want us to do anything, so what do we do: rubber stamp what the management company gives us; you can get anybody to rubber stamp it if that’s what you want.

**Summary and Analysis of Results**

Participant F’s interview responses brought out some common areas of discussion for analysis based on the likelihood of these areas being the source of role confusion and potential conflict. He mentioned concerns that the board often feels disempowered (rubber stamp) to make decisions, and that the management company only honors the board of directors if the authorizer makes it clear that the board is empowered to govern. He uniquely voiced concerns regarding how tax dollars are handled and articulated his concerns that such funds morph from a public taxpayers source to a private destination often without an ability to be tracked and not required to be disclosed. Participant F articulated fundamental issues regarding the contract and how it governs the relationship between the board of directors and the for-profit private management company.

Significant descriptors emerged from Participant F’s interview as listed in Table 9.
Significant descriptors emerged from the qualitative data from Participant F as seen in Table 9. He shared approximately 19 years of experiences that helped to develop his perspective on leadership and governance. The highlights of his experiences included shared responsibility for key leadership roles, profit motive, board training on roles and responsibilities with an emphasis on the contract, and public funds going to for-profit entities. He also mentioned highlights regarding the mindset of being a volunteer: transparency and full disclosure, and disempowerment expressed in terms of feeling like a rubber stamp.

Participant F’s experience emphasized the importance of the contract and that board members should focus their attention to understanding the contract between the board of directors and the for-profit management company. The understanding of the contract would eliminate who has the ultimate authority and that the management company is a contractor and not the main party. He believed the contract should be

<table>
<thead>
<tr>
<th>Identification of Descriptors from Participant F’s Interview Transcript</th>
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<tr>
<td>✓ Shared responsibility for hiring key leadership</td>
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<tr>
<td>✓ Profit motive very high implications</td>
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<tr>
<td>✓ Board training on roles and responsibilities –– training on contract</td>
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<tr>
<td>✓ Public funds issue –– channeled through a non-profit to a for-profit</td>
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<tr>
<td>✓ Rubber stamp –– disempowered</td>
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<tr>
<td>✓ Transparency and full disclosure</td>
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<td>✓ Board ultimately responsible</td>
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<tr>
<td>✓ Community oriented/volunteerism</td>
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<tr>
<td>✓ Value of charter school is ability to respond</td>
</tr>
<tr>
<td>✓ Transparency and accountability of financial resources</td>
</tr>
<tr>
<td>✓ Support of authorizer is significant</td>
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<tr>
<td>✓ Management company is responsible for day-to-day</td>
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revised to include board input into key leadership roles and that the board should have the right to revoke any key positions that are not meeting expectations.

He strongly emphasized the profit motive and how powerful it is for the management company. He indicated that they would do anything to maintain the contract and also keep the authorizer content. Transparency and full disclosure are of concern because he believed it would depend on who is the management company liaison that works with the board of directors. He also described experiences of feeling like a rubber stamp in that the board was expected to simply agree with the agenda of the management company. He indicated sometimes experiencing the feeling of being an outsider when the management company communicated with the authorizer.

Other descriptors resonated and are significant to the disposition of Participant F’s overall experiences, which shaped his perspective on governance and leadership in Michigan charter schools when contracting with for-profit private management companies. Other descriptors included the board is ultimately responsible, the value of a charter system is the ability to move quickly, and how support from the authorizer is essential if the board is to be respected.

Participant F’s rationale for being on a board is based on volunteerism and community service. He wanted to make a difference and provide opportunities for urban city children. He felt that the charter movement is not of value unless the performance metrics exceed that of traditional public schools.

The qualitative data from the interview of Participant F indicated potential areas for conflicts given the confusion of responsibilities and the contractual agreement between the board of directors and the for-profit private management company. Multiple descriptors emerged from the qualitative data from Participant F as illustrated in Table 9.
He conveyed 19 years of board experience in the role of the president. These descriptors illustrated his board experiences and perceptions inclusive of shared responsibility for hiring key leadership, profit motive and implications, board training (especially on the contract), public funds issues, feeling like a rubber stamp (disempowerment), transparency (full disclosure) and accountability, and the board is ultimately responsible. These descriptors, separately and collectively, contributes to confusion, which results in potential conflicts between the board of directors and the for-profit private management company.

The first descriptor that emerged from Participant F’s interview is the issue of having shared responsibility for hiring key leadership positions in the charter school. The board realized after the fact that they did not have any input into the hiring practices. In retrospect, they would have placed a clause that indicated they have input and the right to refute any placements. Both positions are contrary to the current practices of the management company, which advocates for comprehensive management responsibilities inclusive of sole responsibility for staffing. The potential for conflict increases with such circumstances given the critical role of school leadership and the implications of reporting to the management company, reporting to the board of directors, or reporting to a confusing version of both. The current contract is not inclusive of a formal clause that gives the board input into the hiring of administrative roles.

The second descriptor that emerged from Participant F’s interview is the perception that the profit motive of the management company is very strong and has far-reaching implications that affects every aspect of the operations of the charter school. The board of directors is driven by the premise of volunteerism, while the board president feels that the management company is driven by profit, and as he stated, “[the management company] will do anything to keep the contract.” He also gave indication that the contract is stacked against board members and that they should receive training.
specifically on the dynamics of the contract to better understands the expectations of their roles.

The third descriptor emerged from the need for the board to receive training on the contract. It appears to be a missed opportunity because of the length of the contract and the assumption that every management agreement must parallel the length of the charter, which may be as long as seven years depending on the criteria of their authorizer. Conflict is inherent in circumstances where board members do not understand the expectations of both the management company and the governance roles of the board of directors.

The fourth descriptor entails the issue of public funds as they come in sourced from public tax dollars with high priorities of transparency and accountability, but later morphs into the private accounts of the for-profit private management companies where it becomes void of access, scrutiny, transparency, and accountability. This transformation of managing funds is prime for potential conflicts given the accountability of the board of directors and their role as fiduciary stewards of public funds and resources. Conflicts also arise from the inability of funds to be tracked once they arrive in the possession of the for-profit management company.

The fifth descriptor is the feeling that the board is disempowered and becomes a rubber stamp for the will and agenda of the for-profit private management company. This matter fosters confusion because it is contrary to how board members are recruited and appointed by authorizers in the state of Michigan. They are presented with a role of respect, ownership, and authority as volunteer citizens; ready to accept the reigns of stewardship for responsibility of assets, resources, and funds; not to mention the ability to impact communities, families, and children. Situations where volunteers feel they are a rubber stamp creates a feeling of confusion and resulting in potential conflicts impacting governance.
The sixth descriptor is transparency, full disclosure, and accountability. Participant F presented many situations where they were unable to receive answers to questions regarding the allocation of resources, the tracking of funds, and no urgency to respond to questions regarding student performance. Most of the matters, if not all, of charter school academies are subject to public meetings and also accessible by decree of the freedom of information act. When a board cannot readily obtain responses from its management company, this creates confusion and generates conflicts between them given the board requirements to govern, which is predicated on receiving data and information as needed and when requested. This matter also sets up conflicts in terms of what recourse boards have when such circumstances are present.

The final descriptor is the common perception that the board of directors is responsible for all aspects of the operations of the school, which is accurate before a contract is signed for full-services to manage the operations. Once full-service agreement contracts are signed, the board’s breadth and scope of authority and responsibility is drastically reduced and commensurately shifted to the full-service, for-profit private management company. The contract makes such provisions legal and provides little to no recourse to the boards of directors. The potential for confusion grows, which leads to great potential for conflicts in these circumstances because the boards’ power becomes spurious and their ability to influence the operations of the school reduced.

Participant F’s experience emphasized the importance of the contract and that board members should channel their energy to understanding the contract. The understanding of the contract mitigates questions of who has the authority and responsibility for the charter school and that the management company is a contractor and not the owner of the charter school.

**Interview Participant G**

*Background and Rationale for Being a Charter School Board Member*
Participant G is a white male in his sixties with a college degree. He is an entrepreneur working in the horticulture industry. He is currently the vice president of the charter school’s board of directors. He stated that he has been on the board for more than 12 years and has served every board role possible except for board president. He said,

I am vice president only because I wanted to be in the position to ask questions rather than be a facilitator and ask for motions and stuff. I would rather be in a different position where I can have more flexibility, whereas I think a president is more of a figurehead.

He has held numerous positions on the board such as, board director, general board member, treasurer, and vice president. All of the roles he has served in have helped him to build board knowledge and capacity regarding governance. He said, “I have pretty much enjoyed all of them. I mean you still have your voting privileges and stuff in every role. You are a part of the decision-making process. I enjoyed them all. I think the vice president has a little more flexibility than some of the other ones.” His primary reason for joining a charter school board included a desire to help children and make a difference in the community. He said:

The primary reason [I like charter schools] was I think the way it was run. Being involved with the educational system, I have seen a lot of complaints with teachers through the years and I like the concept of the charter schools being more of a business operation. There is a lot more accountability to be held. There’s no running for elections for board members. There is no way to be bribed or coerce the decision-making process. And I like the concept of how the teachers were evaluated and the students with a lot of accountability. It was run in the confines
of a business compared to public schools. I felt that was a better avenue for the future of the next generation of people to run the country.

Participant G has been affiliated with the charter school board since its inception. He took a leave of absence for four years for an out of state job opportunity. Upon his return, he continued his role as a board member.

Participant G made it clear that a trusting relationship has developed between the management company and the board of directors. One area that was questionable is the dynamics around selecting top school leadership. The following was in response to asking if there were situations where the board of directors had concerns or questioned their management company’s decisions. He said:

Sometimes, and some things that had to be worked out if we had questions in regards to a principal leaving. As a board, I think we had questions as to why they left. A new teacher, I should say new principal, was appointed and the board had very little say so and then we suddenly had another. Basically, we as a board had questions as to why the change [had occurred]. It affects the board because we are in there day-in and day-out and we have to work with him. We see the teachers, we see the students, basically everything on a daily basis. So we felt as a board we should be included in that process; not that we wanted to hire them ourselves; but we should know more about their background, what their specialty was, their concerns, and what their vision is for the future of our students.

After the board approached the management company with their concerns, changes were made to include the board in the screening process and allow them to
question and address the appointment of top school leadership before they were offered employment. Participant G explained:

And now we get invited to more or less a meet and greet where we meet the potential candidate they plan on hiring. We ask questions of them, and it is not monitored necessarily by the management company. So of our own freewill, we can ask whatever questions we want of the principal and the management company. I think that process is really good and we got no roadblocks when we requested that. But in the past, we got no say-so, as a governing board. We had no say-so; the management company made all of the decisions on hiring and firing; it affected us as a board. So now we have more say-so on the hiring and firing than we had before.

The board required and negotiated a position of strength that allowed them to impact one of the primary positions of charter schools. This gave them the opportunity to better understand the disposition of the people that will lead and respond to the concerns and governance of the board of directors.

**Contractual Relationship**

The second qualitative interview question asked for a description of the contractual relationship between the board of directors and the management company. Participant G said that everything is in writing and they have an open relationship. He articulated:

Again everything is in writing. I mean as far as the contract with the management company. And it is an open relationship. Where we have questions, they will explain things to us. The management company is forthcoming with any questions
we may have. And they seem to be able to address all of our questions and concerns. And so I do not have any problem with the management company.

Participant G reiterated the importance of trust and the basis of the relationship between the board and the management company. He explained how the management company responded to inquiries and honored the parameters of the contract. He explained:

It is a very open relationship and that is something that is needed. I would say contract-wise, anything we ask for is provided to us. If we get into a shady or gray area, our attorney advises us. Sometimes even the attorney has a different view than we have. But again, as a board we make that decision. They have been very good as far as the contract and following it. We know what is expected of us and how to function.

When asked to elaborate and describe the term “open relationship,” Participant G said, “No matter whom you want to speak to. For example, if we have a financial question, it is not we will get back with you within two to three weeks or to their convenience. If you have a question, it is handled almost immediately.” He elaborated by providing an example and more definition of the term “open relationship” with the following:

I have yet, since working with my management company, had yet to not get an answer, and if someone was out of town or in a meeting they would get someone through our board liaison who would get us answers to what we were looking for. So by open I mean there’s no hesitation, no delay. Whatever you ask, even something that would be offensive to the management company, they have never
withheld information. We have always gotten factual information, and have
gotten it backed up with documentation and so I think that is a big plus working
with a management company.

In transition to deeper questions regarding the contract and the board’s
understanding of the contractual relationship, Participant G responded, “I would say yes.
I would say yes because again, through our authorizer, through our management
company, through our legal representation, we have meetings or part of the meeting set
aside so that we are brought through different things step-by-step.” In conclusion to the
questions regarding the contract and asked if he would like to see any contractual
revisions, he said,

No not at this time. If something was handled inappropriately or there were gray
areas that came up, most definitely then. Like I said, everything that may be a
potential problem is handled on a timely basis and it is generally to the
satisfaction of everyone involved.

Factors Contributing to Tension in Governance

In terms of what factors contribute to tension in governance, Participant G feels
there is not any tension beyond the previously mentioned issue with the selection of
school leadership, which was eventually resolved. He says that when problems occur they
are immediately addressed with the management company. He explained:

I am trying to think of an example where there is tension of governance…I don’t
feel there is any tension because I think anything that has come up is always
resolved; nothing lingered, and it is resolved by the entire board; not just one
person. And I can’t really think of any tension. Like I said, the only one that came
up was the fact of hiring the principal. There was a little bit of tension there because we felt that we should be more involved but again that was rectified and it was agreed, and now that is part of our operating procedure.

Participant G provided more examples of what may have caused tension. He returned to the one example of the management company hiring a principal without their input. They felt totally out of the process and used the term “disempowered” as follows:

Well, by tension, you sometimes as a board member get the impression they want more than just a warm body, so they put their principal in as a figurehead to run things. As a board, we are the ones that have to work with him: we are the ones that have to make that we as a governing board are making sure they follow procedures and the outline that has been given to us by the management company and the authorizer. So back to the tension part, by the [management company] just putting someone in we felt we were disempowered because we did not have the opportunity to learn more about this person they were putting in. This is a part of our leadership team and we need to know more about that person that we are working with; so that raised a little bit of tension…we were not happy with it, we felt that we were not in the loop or part of the team; so with that being resolved with the new system now the tensions have been reduced.

Participant G recalled the point of having input into the selection of school leadership. Roles other than top leadership are solely the call of the management company. He believed the principal should be totally empowered to make all the staff decisions. This kept the board focused on governance, and the management company on operations. He explained:
Pretty much the principal because again the principal, she’s in charge of the teachers, building, and everything else, so we don’t disempower her. We are only there as a governing board: a monitor. If there is a teacher, and the management company or authorizer feels a teacher is not doing their job properly, that is up to them to resolve it. It has nothing to do with us other than a governing board; we make sure that the processes are done according to the contract set up.

When asked how long it took for the management company to respond, he said:

Almost immediately, the tension came up. It rose, of course, the more we talked about it the more agitated the board was with our liaison and the management company. And again when the situation arose and we had to have a new principal, we were given like a bio on him so we had some background on that person before we met him and then we had a meet and greet at a local restaurant. So with the management company, it was not really delayed or dragged out. If we had any concerns, it was addressed and the compromise was brought into play.

The Importance of Empowerment in Governance

Participant G provided more feedback regarding the management company’s responsiveness and the importance of working together as a group. His board was emphatic about their empowerment and ownership of governance. An example was when the authorizer imposed a board member on their team. The subject board took issue and conferenced with the authorizer to make sure that the board determined who is brought on as a candidate and eventual board member. Participant G stated:

Our school liaison told us that we needed a board member and of course everyone is always looking for one: teachers, staff, everybody else. We try to keep a well-
mixed board. We try to keep someone that has a business background, someone that has an education background; someone that is a parent or has a student in the school… is a parent or grandparent so that we can see more ideas to solutions. When the board liaison came on, he found a board member somewhere and somehow and told us this is who we were going to have. And I kind of resented that because we were getting a board member that we knew nothing about. We felt they were being put into place because of a time constraint. And you have to have so many board members so this is who we are going to give you. And I think we resented that as a board, because again as a board we look for certain qualities and somebody that has a commitment to the education of the kids and stuff. He is going to see the education system as we as a group see it and realize that we are there to govern not to dictate policy but to evaluate the circumstances. So when the authorizer appointed this particular person, I would say that him and I had somewhat of an escalated conversation. But it was more to clear the point of view…anyhow the board member, he felt, as the authorizer this is who he felt we needed and as a board member we felt we should have the option to review this person as a member of our team, not his team.

Participant G and his board members wanted to have a voice in all decisions impacting governance; the leadership of the school and candidates for the board of directors are two examples where they felt their input was imperative. While demanding empowerment, they maintained respect for the functions of operations and oversight. An example below included working with the management company and the authorizer:
The management company obviously does the hiring and firing, so that’s their
decision. But again back to the board. As a governing board, we are seeing the
total picture so we always ask to be in the loop so if someone is going to be fired
or something like this is going down. We should question this …it’s our team
leader of our building. The person in charge of our school may have a different
change of heart or venue and things are not for the best of the students, then we
may even bring it to the management company and question… this or that. Again,
if everybody is in the same loop and feels the job is not getting done, and like any
other job, that is the whole concept of the charter school. It is simply like a job, if
you cannot do the job to the best of your ability and show accountability that you
are doing it, than you need to be replaced.

Participant G referred to the board’s philosophy by which it governed as “whatever
is best for the students,” determines what decisions are made. He made it clear that it is
all about the students and not the management company. He stated:

I think as a whole it is the board. I can speak for the rest of them, that it is like a
guideline or parameter we use [for] teachers, curriculum, [and the] Management.
A lot of things go on between the management company and the authorizer: the
state rules, regulations, and stuff and I think it is real important the board can look
at all of those things collectively and be able to be involved with them because all
of those decisions are going to [sic.] impact the students. When you come back to
it, what are we talking about here; we are talking about a school; what does a
school do; it educates the mind of the young children so we are looking for the
best education and what is best for the student, not what is best for the
management company, not what is best for the authorizer, it is what is best for the student in the long range. So if the authorizer says we need to do this, or if the management company says we need to do that, we have to take a look at it and go back to those golden parameters: how does this decision affect the future of our students? And if we don’t feel that it is in a positive way, we can change it.

**Accountability and Transparency**

The fourth question asked Participant G if he believed that accountability and transparency of public funds might have changed when contracting with a for-profit management company or if there was an issue. He responded by basically saying that accountability improved with a management company. In addition, transparency improved given the processes required for procurement. He stated the following:

I think the accountability is better with the management company. Again, because with the movement of the charter schools there are a lot of eyes on what is going on and with the accounting staff and with what is required from the state, auditors, and everything else. I feel more confident about the charter system than I do the public schools in regards to accountability. I think the transparency is more open with the for-profit companies than with the public school system, I feel much more relaxed with the ability of the management company than I do with the public schools.

There appears to be a strong comfort with transparency and accountability that is tied to the level of trust in the relationship compounded with the routine reports at board meetings and procedures and systems tied to annual audits. He stated, “Financial-wise, we see the report at our meetings and we also obviously see the auditor’s report so the
transparency and openness is there for us.” He fortified the board’s disposition with the following statement:

Because of the reports that we receive at every meeting; because of the audit reports from a reputable audit firm; everything is in writing, and decisions are made on money pending, money being used. There is a paper trail; the paper trail is so obvious that you don’t need an accountant to follow it. I mean you can follow the agenda on what was approved, what was spent and the balances…so I think the transparency is very good. I would not question it at all.

Contractual and Legislative Suggestions

When asked about what could be done contractually or legislatively, to improve leadership and governance in Michigan charter schools, Participant G said that it is still early in the evolution of charter schools and that they were initially not looked upon favorably. He explained:

I don’t know anything off the top of my head that could be done. It is almost a retro situation that something has to happen first. For example, the concept of the charter schools was not looked at favorably. And then as they became more involved, they started to, for example, remove the caps on the charter schools so they got more recognition. And as far as legislatively, I said there are ways, it is a situation where time is going to tell the answers. I think as the movement toward the charter schools continues, I think those things will have to be addressed as they arise. And at this point, I can say everything that has been going on, as far as the cap being removed, we are progressing ahead. You have to be subject to change, and I think some of the teachers get complacent with the way things have
always been done. But the way things were always done may fit that era. With technology and the way the world has changed, it has people who are going to oversee the next generation of these kids. You have to make those changes to keep up with the world the way it is.

Participant G believed that it is still too early to place judgment on charter schools. He does believe that they are progressing constructively and will be the wave of the future and eventually impact, if not replace, the functions of traditional public schools. He stated the following:

So I can’t pinpoint anything, there is no golden rule of what needs to be done…the evolution of the charter schools if it continues to progress, if things continue the way I have been seeing it, I think that will be a thing of the future. Public schools will be non-existent…they are set up more efficiently: The planning that goes into it, the class, the layout, the curriculum, the evaluating the teachers, the students. I think in the future, it will be the whole concept. All public schools are either going to adapt to the way charter schools are run for profit and for education or they are going to fall by the wayside.

Participant G is committed to the charter school model and believed that every aspect of the charter school model is more proficient than traditional public schools. His focus was primarily on the students and the effect of governance on performance and stability. He emphatically stated the following:

Well if I may be blunt, as far as our interview this morning, the questions are revolved around governance and leadership, transparency and again the focus seems to be on the charter schools themselves; where again my focus is on the
kids. I think if you had been asking me more from the kid’s aspect on the kids: what is good for the kids, what is the future for the kids; I am not much of a politician, I let the management company work out those problems. In a governing position, I am more concerned with how it affects our students and their education; I don’t want to dictate policy. They are the ones that have all of the data and the research. But I enjoy seeing that data: looking to see if the grades improve and seeing the attendance records. The end result of all this work and effort comes down to the students, so that is what I am focused on: not unless they do something outwardly stupid and it is proven that way…All the decisions, if the focus is on the students; that’s the end result, that is the report card...that is the part I watch, the students and the grades.

In terms of Participant G’s final responses to if governance can be affected through the contract or legislatively; he defied the negative propaganda that highlights the ills of charter schools. He did not generally believe that charters are all bad. On the contrary, he felt there is a lot of value when charters are compared to public schools. He stated:

Probably again, the propaganda when the charter school first started. Being a board member for so long, you know it was money grabbing. It was companies out there to make money…education was not a factor...it seems as though the charter schools were being getting beat up from all sides...from the standpoint of governance, the other school systems, the public school and everybody seemed to be dead set against charter schools. I think the perseverance and staying with the plans and following through on it and now with the changes. And I have been
involved over the years; I think they are seeing a lot of value in the charter schools versus the public schools.

In conclusion, Participant G reinforced the student-focused philosophy. He spoke of some of the entities and rhetoric against charter schools. He provided a very positive construct in terms of what the future holds for charter schools and the positive impact they may have on public education.

**Summary and Analysis of Results**

Participant G’s experience as a board member appears to encompass a positive perception of the contractual relationship with the for-profit private management company. The board of directors appeared to have a constructive relationship that is guided by trust and an understanding of the contract and the roles of both parties. Some areas did provide areas for potential confusion and resulting conflicts in governance. The primary sources are related to the hiring of leadership roles, which the board has required input based on previous issues where they had no input into the hiring of principals. The other sources include the potential for conflicts in the monitoring of day-to-day activities where the board is involved. It also includes the placement of board candidates, which Participant G and his board vociferously supports only the members having the final say given it is their team and they have to work with them directly.
Significant descriptors emerged from the qualitative data from Participant G as illustrated in Table 10. He expressed appreciation for how charters operate in terms of functioning like a business. The highlights of his experiences included shared responsibility for hiring key leadership, transparency and full disclosure (open relationships and trust), full-service management is viewed as a positive, board recommendations for board candidates and volunteerism/community oriented (student advocacy).

Participant G’s experiences included the board’s participation in the selection of key leadership positions at the school. The board expects to meet, interview, and question all candidates for school leadership. They also demanded to recruit any and all board candidates. His board felt they should have a say in any decision that impacted their leadership and governance.

He indicated how the positive interactions, over time, have developed into an open relationship between the board of directors and the management company. The
relationship has fostered a level of trust that has permeated the interactions between the two parties. This mutual respect enabled the board to work in confidence that the management company will respond in good faith.

Participant G has served in all board positions except for president, which he viewed as a figurehead. His experiences in the roles of a general member, treasurer, and vice president have equipped him with a strong understanding of board roles and responsibilities. His primary rationale for becoming a board member was to serve his community and help children to achieve.

The qualitative data from the interview of Participant G indicated potential areas for conflicts given the confusion of responsibilities between the board of directors and the for-profit private management company. Two of the multiple descriptors that emerged from the qualitative data from Participant G have potential for conflict as illustrated in Table 10. The other descriptors represent a more constructive relationship between the two parties that appeared to function positively based on his twelve years of experience. His shared experiences conveyed perspectives inclusive of; issues of hiring key leadership and having board members sourced by any means void of the board of directors given they are the ones that must work with new members. The other descriptors provided insight to the relationship that is effectively working on the grounds of trust and mutual respect. These descriptors included trust through an open relationship; and the ability of the management company to provide value-added educational services.

The first descriptor from the interview with Participant G emerged as the ability of the board to have input into the hiring process. This situation, although seemingly positive, has great potential for confusion and conflicts. The board has been granted access to meet the school leadership as chosen by the management company. This gives a
sense of having their input valued; however, contractually the boards of directors have no recourse when it comes to selecting the school’s leadership. The management company is wise in making provisions for the board of directors to have an informal forum in which to ask questions and discuss the school leader’s philosophies, vision, and experience. However, again, this is permitted outside the boundaries of the contractual agreement.

The second descriptor that emerged from Participant G is who has the authority for recommending board candidates. The board took offense to having external sources provide candidates for the board of directors’ positions given the sensitivity that it is the members that have to work with the possible appointee. This is problematic and has potential for confusion and conflict given the multiple sources from which board candidates are derived. Circumstances where the management company may recommend a board or board members must come under heavy scrutiny given the need to keep relationships authentic and void of hidden agendas, favoritism, and subjectivity.

The third descriptor from Participant G is the feeling of having a constructive open relationship between the board of directors and the for-profit private management company. He mentioned the importance of having a professional management company equipped with the ability to prudently manage the business operations of the charter school. He mentioned their ability to obtain information swiftly and effectively in order for the board to address issues that improve their governance abilities. Openness is a positive for any relationship; trust and disclosure allows cooperation so that the school may prosper.

The final descriptor is related to the management of the day-to-day operations of the charter school. The board seems to have a hand in the daily operations from a positive perspective in dealing with teachers, students, families, and the community. Even though the circumstances that Participant H conveyed in his interview are positive; it is an area of potential confusion and conflicts given the board’s participation in daily operations beyond the boundaries of governance.
Emerging Themes from Qualitative Data

Analysis of the qualitative research provided an opportunity to explore the stories of experienced board members based on their individual interviews. The verbal interviews were typed into transcripts, which allowed the researcher to find meaning from the responses of the seven board member participants. The review of the individual transcripts enabled the researcher to codify data in a manner to reveal descriptors that were reoccurring from the interviews. Each board member expressed unique perspectives based on their board experiences, which illustrated what they believe regarding governance in their charter schools when contracting with full-service for-profit private management companies.

The areas of importance based on repetition within individual interviews emerged as descriptors. Once all transcripts were analyzed, the descriptors were identified so comparisons could be made to find the common ground from the collective interview transcripts. What follows is a thematic analysis based on codifying the qualitative data so themes may emerge from the discovery of similarities and consistencies in the data of the interview participants.

The themes captured the meaning of what the interview participants expressed in their respective comments. A summary of themes that emerged collectively from the interview participants were based on the frequency or repetition of the key words, phrases, and descriptions in the interviews, are provided in Figure 18. These nine themes emerged based on the frequency of the descriptors mentioned in the qualitative interviews and the topic’s relevance as expressed in the participants’ verbal responses.
Emerging Themes from Codifying Qualitative Data

**Community-centered and Volunteerism Theme**

The Community-centered and Volunteerism theme emerged on the basis of repetition and depth of description provided by the participants. All seven of the qualitative interview participants talked about their rationale for becoming charter school board members. The underlying theme for each participant was that giving back to the community and providing opportunities to families and children, who would otherwise not have a viable alternative to traditional education, was an important part of their volunteerism. The long-term board members volunteer their time due to the fact that their reward is helping their community and providing viable education alternatives for children. The following quotes are directly from the participants’ transcripts. Participant A stated:

*Figure 18.* Emerging themes from codifying qualitative interview data. This illustration presents the frequency of times that the subject themes were mentioned in the qualitative interviews with seven participants.
I have been a board member going on 15 years now. The reason I actually started working with the board initially is because of the disparity in our communities around ensuring that we have a congruent academic process and services that were going to be extended throughout the community in southwest Detroit. So when I was asked to participate with the board about 15 years ago, I thought it was intriguing and I thought it was something with my background I could help them with technology and things like that and help the overall education process. He conveyed a passion for assisting urban students by giving his time and technology skills which is a part of his career in management information systems. He has concerns regarding what he perceives as gapping disparity between wealthy and poor school districts. He continued:

One thing I would like to reiterate is again, the disparity around and within the zip codes, it is critical not to discriminate against any of the children just because they are in a different zip code. I think we need to make sure from a legislative piece that we put processes in place and the right level of rigor in place so we may take this to our government and work with our governing bodies so we can fix this. Some of the communities have a lower set of wage earners; it corresponds to having less resources in the community overall. I just think it’s the wrong way to go from where I sit. We need to understand how we can make sure we get that gap decreased and have some processes in place so we get some congruency in place because these kids are critically important…
The impetus of Participant D’s volunteerism is two-fold. First it is a desire to impact her grandchildren’s education and second was to become part of a movement that could impact education. She exclaimed:

Ok, why did I join the board? Basically, at that particular time, my grandchildren were coming of age where they would be attending school, a Detroit school, and at that time, like everyone else, I was looking for alternatives other than Detroit Public Schools for them. I had heard a lot of good things about the charter school movement and I heard a lot of bad things. But I wanted to take a chance for them and on their behalf; that is how I got involved.

In this final example of the community-centered and volunteerism theme, Participant F gave another illustration of why board members volunteer. Participant F’s careers have included teaching and civil rights. He is a lawyer who is determined to help disadvantaged urban minority children. Similar to Participant A, he wants to close the gap between wealthy districts and poor districts and he wants to level the education landscape as much as possible. He exclaimed:

Board members serve because they want to see student performance and our school is an urban school. I want to see minority students; disadvantaged students; have the same opportunity for life and careers as others do in other areas. I want to make the playing field equal. That’s the passion and I want to make sure that we are offering something that they are not getting at a traditional public school. If we are not making a difference, if there is not a substantial improvement, then we are wasting our time with this being the same or being slightly better than what someone could obtain educationally in a public school is not enough. That’s
what we need to know. That’s our passion as board members. It never gets far beyond it.

**Analysis of Community-centered and Volunteerism Theme**

The interview participants all shared common passions in terms of becoming members of charter school boards of directors. They all wanted to serve in a capacity to provide opportunities to children and give back to communities that would benefit from their volunteerism. The rationale for joining differs between the previously mentioned volunteers. Some joined because of their own children or grandchildren, seeking alternatives to traditional public schools. Other participants volunteer in order to unselfishly share their talents and skills to benefit others. The unanimous desire to serve on the board of directors is predicated by a paradigm of charity and volunteerism that is very different from the paradigm of for-profit management companies that is profit-driven. These somewhat opposing paradigms may clash, causing confusion and resulting in conflicts that manifest in policy and procedural differences between the board and management company.

**Board Training is a Necessity Theme**

The board training that is universal and tailored theme emerged on the basis of multiple mentions of the need for a variety of board trainings that were expressed in the interviews. Two types of training surfaced in the dialogue of the interviews, which were general board training and specific or tailored board training. The desire for general board training emphasized core dynamics of governance that would be applicable to all board members. Whereas, more specific or tailored board training would be for those board members who hold or anticipate holding an office such as treasurer, vice president, and
president. The participants mentioned a desire to have board training from multiple sources beyond what is typically provided from the authorizers and the management companies. The following quotes are directly from the participants’ transcripts.

Participant A stated:

One thing I found to be good and maybe it is not legislative, maybe it is, the roles and responsibilities around the ESP, the board of directors, and the authorizer are critical and people need to understand that. I think the MDE has done a really good job of trying to define those roles and responsibilities; lots of folks for whatever reason do not really understand what those roles are… we have come a long way to bridging that gap of understanding the roles and acting within the roles to ensure that everyone has a clear understanding of what their roles and responsibilities are around each of these entities to ensure collaborative efforts to educate these children.

In most instances, the authorizer has provided board training. Participant A explained,

It is the board’s role to understand their roles and responsibilities. I do not expect the authorizer or the ESP to tell the board what their role is; I say that because if you are ultimately responsible for something, then you should know what that responsibility entails.

The next participant echoed the previous sentiment by reiterating that training should come from multiple sources. Participant B stated, “Training for the boards that are out there, not just from the authorizers, but more training to have board members understand their roles.” She continued by providing areas to train board members such as,
“Specifically understanding contract negotiations, budgeting, breakout sessions on how to pick apart budgets, looking at school calendars, placing board members into sub categories to work with finances, discipline…etc. But different sub groups focus on different aspects.”

The next participant’s comments illustrated the challenge of decoding and understanding various financial and accounting budget codes. Participant F admitted, “I am concerned about the budget codes, they are confusing. From a budget standpoint, it can be understood by a C.P.A.” He continued expressing his concern in the following:

Well, if we don’t understand the financials, we get an opportunity to ask who…the management company. And they are the ones making it clear for us. That’s a problem. That’s a real problem. Or, I want to understand student performance data, so who do I go to? And the problem is the information is filtered, it is put in such a way. I’m not faulting management companies; that’s what they are going to do. They are going to make themselves look good.

Participant F closed with expressing his concerns about the finances of the charter school: “In the worst, I am not comfortable with our finances. And I sit here as a board member up to 19 years and I’m not comfortable.”

The next example is provided by Participant E who has the benefit of having served in multiple roles with the latest being board president. She articulated a significant difference between the demands of a regular board member versus the demands of serving in a board officer capacity such as treasurer, vice president, and president. She explained:
I would say yes, it depends on the role you have. Of course, if I were just a regular board member, I would not have as much responsibility like that as president. I have been a board president for about 4 years now and I would say, over the last two years or so, I have become more intractably involved in the welfare of the school and our relationship with our new authorizer and also, the accountability of our management group.

Participant B discussed training from the perspective of including networking with other boards and having forums with different policy groups. Participant B stated:

Well, this is my own opinion, and shortcomings; one of the things I think that could have been improved; with our changes to social media such as Facebook, and Instagram. We have gone to a process where we don’t necessarily meet with peers, and or legislative groups, or leadership groups like MAPSA (Michigan Association of Public School Academies). It would be nice to hear from the source in person what some of the changes are legislatively and how the charter school movement is doing as a whole; how regions are doing as a whole, what works, what is not working, and you can only get that through face-to-face… also a best practice with other boards to hear what is working and not working.

Analysis of Board Training is a Necessity Theme

The previous board members expressed the need for general and specific kinds of board trainings. There appears to be a desire for training from multiple sources other than their authorizer. The general training is for novices and regular board members who do not hold a specific role as an officer, while tailored training is desired for boards of directors who hold specific officer roles such as president, vice president, and treasurer.
The specific training would be designed to enable the officers to better perform effectively in their roles and responsibilities. What frequently surfaced from the board member participants’ interviews is the lack of training, which directly correlates to role confusion that exacerbates conflicts between boards and management companies. These conflicts have implications on many aspects of charter school operations, policy development, awarding of sub contracts, handling of discipline matters, deployment of curriculum and academics, and much more. An additional area mentioned by some of the interview participants is training specific to becoming aware and understanding the contracts between boards and their management companies. Some of the interview participants believe that by becoming aware of and understanding the contract, board members will better understand their roles and the roles of the for-profit management company, which implies less confusion and resulting in a reduction of conflicts in governance.

_**Transparency and Full Disclosure Theme**_

The Transparency and Full Disclosure theme emerged on the basis of repetition and consistency. The board interview participants placed a high value on transparency and full disclosure as a necessity for having a trusting and an open relationship with the for-profit private management company. Some participants voiced concerns of the lack of transparency in terms of not having all pertinent information for decision-making; while others indicated that boards were being told only what management companies felt was needed.

Positive expressions were given in the cases of boards having an open professional relationship with the management companies. Negative expressions were
given where boards experienced circumstances that information was withheld, partially provided, or where multiple requests had to be made. The latter circumstances fostered distrust and a feeling of disrespect for the office of the board of directors.

Participant A led with the description of his experience and disposition on transparency. His disposition indicated a level of skepticism in terms of the board being presented with accurate reports if the news is not positive. He explained:

There seem to be issues that, right, wrong or indifferent, because you hire an ESP [Education Service Provider] there are different levels of visibility. The management company may try glaze over (I am trying to use a different word than hide), but in certain scenarios there are certain elements that would occur like what is going on at the school. Do we have the right level of climate and culture in the school? Do we have the right level of data teams engaged to provide information to the teachers, and are students getting what they need? It is really easy to disseminate that into data and say everything is good, but when you dig a little deeper and pull back the layers of the onion, you find out in many cases that the right level of visibility is not always disseminated to the board of directors and that things are being swept under the rug or hidden to make the overall picture look better than what it actually is.

Continuing with Participant D, she provided a strong degree of concern regarding transparency and full disclosure. She indicated a desire in knowing details of how the money is being expended and what are the monetary [profit] benefits to the for-profit private management company. She expressed the following:
Well, my question at the end of the day is, how much profit are you making, you don’t want to show me that, and if you don’t want to show me how much profit you are making then I am not quite sure that the children are getting what they are suppose to get; you can tell me anything, but I need to see the figures, I need to see the numbers, I need to see where the money is going?

Participant D provided further concerns on transparency and gives examples of specific areas that increased skepticism around transparency. She continued:

Oh absolutely, and the amount of money we are paying in rent and who is getting these contracts. Are you putting the bids out there like you are suppose to and sharing it with the board? You tell me that you are spending millions of dollars on the school, but I don’t see what you did. The children do not have a lunchroom; they are eating in their rooms. They have no gymnasium. We are totally in the dark.

Other participants also experienced issues regarding transparency. Participant F expressed a concern of not receiving accurate information. He stated,

They would say, no, no, no, we have always given you the information that you want. What do you mean that we are not giving it to you? And the answer is well, you’re giving it, but it’s been filtered, censored, and scrubbed up.

Some of the board member participants provided positive responses regarding transparency in terms of receiving information as requested and having an open relationship with the for-profit private management company. Participant G stated:

I think the accountability is better with the management company. Again because with the movement of the charter schools, there are a lot of eyes on what is going
on and with the accounting staff and with what is required from the state, auditors, and everything else, I feel more confident about the charter system than I do the public schools in regards to accountability.

No matter what their viewpoint on transparency and full disclosure, it was clear that this was a theme that was prevalent in the comments of the interview respondents.

**Analysis of Transparency and Full Disclosure Theme**

All of the interview participants indicated some kind of concerns regarding transparency and disclosure. The concerns ranged from areas inclusive of financial and budget reporting, sharing information regarding student performance, awarding of subcontracts, allocation of resources, rent, and the transformation of public tax dollars into the private world of non-disclosure of the for-profit management company. The implications of issues around transparency and non-disclosure are far reaching and causes confusion and conflicts in the realms of governance.

**The Profit Motive Theme**

The Profit Motive theme emerged on the premise of moderate repetition and depth. The theme was repeated in terms of boards of directors conveying that management companies’ prime motive for managing charter schools is to make a profit. The depth of the profit motive was given in regards to placing students and academics as secondary to the bottom line of management companies. A feeling also surfaced that the desire for profit influences many of the academic and non-academic challenges facing charter schools.

In responding to the question of what are the pros and cons of contracting with a for-profit private management company, Participant F’s response as follows:
The con, well it’s in your question. It is, if you have the right people that are student-child-family oriented, its fine. Or just feel in their heart to do the right thing, full disclosure, honesty, careful with expenditures and things of that nature. It can work very, very, well. But the profit motive is very, very, high. It does dictate and influence a lot of what occurs. There may be things that are said that are for the student or for the welfare of the school and things of that nature. But at its core, it’s a money driven process. And that’s really sad, but I see what they’re doing is anything to maintain that contract. The contract and the money that is generated through it can be enormous.

As Participant F continued, he expressed concerns over how taxpayer funds pass from a not-for-profit entity to a for-profit entity. He continued:

A public school academy is a non-profit entity but in reality those funds are passed through to a for-profit entity; to me that can’t be. You can’t do that. It makes a public school academy simply as a shell for the for-profit company because the funds, operations, and management are turned over to a for-profit entity; I happen to think from a policy standpoint, that’s wrong! The whole purpose of setting up a school as a non-profit entity is for that purpose. It’s not a moneymaking entity. Profits are not to be derived from it, but when those funds are passed onto a for profit entity, we are doing just that. If you take a step back and just think about it, it makes absolutely no sense to do that. To have that framework in place, it’s unacceptable. I don’t think that there, under any stretch of the imagination,
should be a non-profit entity passing on its funds for its operation to a for-profit entity. I have a major problem with that.

Participant F concluded his perspective on the profit motive by stating, “So I think if we move the profit motive out of there, we can put greater power into improving instruction.” It was evident from Participant F and others, that they have an awareness of the profit motive and its role in the relationship with the management companies.

Multiple interview participants provided perspectives that the management companies primary reason for existence is to generate a profit and that this motive overshadowed the vision, mission, and values of the charter school and the board of directors. A significant number also indicated that the for-profit business ideologies were in contrast to the philosophies which the board members embraced such as volunteerism, civic mindedness, and building communities by providing better educational opportunities for families and their children. The potential conflicts for such contrasting perspectives are far-reaching and extend to issues including operations, academics, bids, staffing, and cost versus quality related matters where the board may emphasize quality and the management company cost. The confusion for the board of directors emerged from their position of hiring a for-profit management company and somewhat unconsciously passing their power to the management company who is, subsequent to contract signing, the entity that now decides much of what programs are chosen and implemented; and what is acceptable from a cost perspective. Another example is the incentive that management companies have when there is inherently a bigger profit by cutting programs and their associated cost. For example, in some management contracts, the management company may legally retain the budget surplus of the charter school.
Therefore, the less the school spends, the greater the management company’s profit margin.

**Feeling Like a Rubber Stamp Theme**

The Feeling Like a Rubber Stamp theme was stated multiple times with the specific phrase most often quoted verbatim and other moments synonymously stated by the interview participants. For example, some of the synonymous phrases included using terminology such as being disempowered or a feeling of being expected to sign off on whatever was placed in front of the board of directors. In these instances, boards of directors felt a strong sense of powerlessness. Often times, the participants expressed that they felt they were without a sense of recourse or true authority, despite having the titles of being a charter school board member. Participant F provided a disposition, which included a statement of not being empowered. He stated:

So we don’t get into that kind of detail in the minutes and I don’t think that’s constructive, but the message was clear …we are not to touch budget items. How do you have a board and govern as a board? We can’t even control the budget? Why I say it’s a concern is because by the time we get budgets proposed and amended budgets, they’re running deficits and that’s a concern to us; but we are not empowered to deal with that.

In terms of discussing the elements of the contractual agreement between the board of directors and the for-profit private management company, Participant D indicated concerns over being a rubber stamp. She explained:

If the contract is tying the board’s hands behind their back, which is what these contracts are doing, basically you are a rubber stamp. And not only are you a
rubber stamp; there is not transparency and no accountability. So, other than that, the contract is basically just paper.

She continued to discuss the issue of just being part of a board because boards are required for charter schools. She explained:

Basically, where do I start, when I first joined the board I never was really educated or trained, so to speak, on what my position would be as a governor of that particular entity. I came in with all of these expectations of being part of a movement and I was excited about doing great things for the children. However, after being in my second term I realized that I was a rubber stamp. This feeling of not truly making the decisions or feeling like a rubber stamp permeated many of the interviews.

**Analysis of Feeling like a Rubber Stamp Theme**

A significant percentage of the interview participants articulated concerns of not having the authority to provide effective governance, if any governance at all. Board members expressed feelings of disempowerment, having their hands tied behind their backs, and given things to sign without explanation. These feelings were in opposition to the reasons why the participants became board members. They wanted to contribute to an ideology of improving education; instead some of them stated that they felt they were engaged only because boards of directors are required for charter schools. These feelings more than likely stem from a lack of understanding of the contract inclusive of the differing roles and obligations of the board of directors and the for-profit management company. The lack of understanding of the roles contributes to confusion and conflicts in
governance. To paraphrase one of the interview participant’s statements, the management company can only do what the contract allows.

**Input into Hiring School Leadership Theme**

The theme of input into hiring school leadership emerged to some degree in all of the interviews. However, it strongly resonated with five of the seven boards of directors. It was presented in multiple ways that this decision has cascading effects on the entire school in terms of academic performance to working constructively with the boards of directors. A consistent disposition was that boards of directors wanted to achieve or pursue input into the role(s) of school leadership. Some even mentioned a desire to have input not only in the selection of school leadership, but also input into the leadership’s evaluation.

Participant B expressed regret that they, the board, did not have terms placed in the contract that would have enabled the board of director’s executive committee to have input to the selection of school leadership. He said:

We have an executive committee, which comprises of the board president, vice president, and treasurer in our case. And they act on behalf of the board and anything they determine is recorded and ratified at the board meeting. If the executive committee had the opportunity to vet a potential candidate provided to us by the management company, we may have had a better understanding of what to anticipate in terms of their leadership capabilities…I think that may have helped us in the long run and we would have put a clause in the contract where by either the board or a component of the board has the ability to make the final decision on the selection of the leadership of that school.
Participant E discussed how their board provides the management company with the discretion to hire constituency roles; however, the leadership roles require board input. Participant E stated:

In terms of hiring, for example, we give at my particular school, we give our management company leeway on hiring teachers, instructional coaches, and the like; we think they have enough experience to do that. There are situations where we may feel like we want some input, for instance, a school leader we want to have some input as the board as to who is hired for that particular position.

Participant E provided an example of where the board of directors not only had input but also selected the person for their school’s leadership. She explained:

We had to get a new school leader to replace this person. And we chose a particular person. The board of governance and the management group both selected this person and the management group found the candidates and we interviewed collectively. After they got to a certain point, the board of governance came into the process of the interview and between the two candidates we selected the person.

The Participant F gave an example of how they initially did not have input into the selection of school leadership, but subsequently poised themselves to change it to where they do have input to the selection of school leadership. Participant G explained:

So of our own freewill we can ask whatever question we want of the principal and the management company. I think that process is really good and we got no roadblocks when we requested that. But in the past we got no say-so, as a governing board we had no say-so; the management company made all of the
decisions on hiring and firing; it affected us as a board. So now we have more say-so on the hiring and firing than we had before.

The final illustration comes from Participant F. He explained how he would go about addressing the issue of the board of directors having input to the decision of school leaders within the contract. He explained:

The first thing I would like; the critical component of the school is the leader. I read that its 60% [that the principal] is the factor of the success of the school; the leadership over time impacts every aspect of the school. I would like the board to have more of a say; in some schools its actually written into the management agreement. I would say the right to refusal; that the building leader serves with the consent of the board. That if the board is unsatisfied, it can dismiss the leader right there.

The need to provide input into hiring, though limited to school leadership roles, was a theme with the majority of the interview respondents.

**Analysis of Input into Hiring School Leadership Theme**

The majority of the participants articulated a desire to have boards of directors’ provide input into the selection of the charter schools’ administrative leadership. These positions include the superintendent and principal roles. Many of the interview participants stated that if they could change anything in the contracts it would be to have a say in the key leadership roles. Some of the participants indicated an informal say in the selection of principals; however, there is not official provisions to allow the boards to have input into the selection of key leadership roles. There is definite confusion here because even though some boards are allowed to meet with leadership candidates, there
are not any provisions in the contract between the boards and their management companies to formally have input or recourse if any disagreements occur. The confusion creates potential for conflicts in the governance of charter schools.

**The Board Is Ultimately Responsible Theme**

The Board Is Ultimately Responsible theme emerged from the majority of the qualitative interview participants. These respondents took an adamant posture that they are ultimately responsible for every aspect of the school despite having a contract with a full-service, for-profit private management company. Their responsibility permeated every aspect of the school’s operations and functions inclusive of student achievement, finances, budget, facilities, and other areas. Participant A commenced with statements for the boards’ feeling they have ultimate responsibility. He said, “Because the board is ultimately responsible for everything that occurs with the PSA. We need to make sure that we know our role and that we are governing correctly.” Participant A continued:

The board itself is ultimately responsible from a fiduciary perspective and academic responsibility to make sure students reach grade level. They must get the academically nurturing they need in order to move forward. It becomes really tough because you don’t see what is going on day-to-day.

Participant A discussed some of the detailed responsibility of the management company regarding the day-to-day operation. He then reiterated that the board has ultimate responsibility. He explained:

So a board will hire an ESP to conduct the daily business. The board will hire the ESP to manage its finances from a day-to-day perspective, i.e. ensuring the bills are paid, ensuring that the maintenance company is paid, that the grounds are
clean, snow is removed on time, making sure that vendors are around for lunch
and breakfast catering so that children have a good hot and healthy meal every
day. Contractually, we asked the ESP to handle those things for us, but, we the
board, are ultimately responsible that all milestones are met every month.

Participant E provided a perspective that the board has ultimate responsibility and
this gives the direction for the management company’s actions in terms of school
operations. She stated:

Ultimately, it is the board of directors’ responsibility to see that we put in place
what needs to be implemented utilizing our management company; needs to be
implemented in terms of getting the proper instruction in place, data management
and utilizing the data to better equip our teachers and looking at the performances
of the students.

These examples typify the ultimate sense of responsibility that the respondents had in
terms of being the governing body.

**Analysis of the Board Is Ultimately Responsible Theme**

The Board is Ultimately Responsible theme emerged in the majority of the
transcripts of the interview participants. This theme illustrated the disposition and belief
of board members who think that the board is ultimately responsible for everything
involving the charter school, inclusive of, but not limited to functions of: Operations,
hiring, sub contracts, curriculum and academics, expulsions, special education, student
performance, compliance, budgets, and other key aspects of operating charter schools.
The confusion around this topic is that when they sign a contract with a for-profit private
management company, similar to those in the contract analysis, the board transfers
significant amounts of their responsibilities/functions over to the management company. The length of the contracts also become an issue because the majority of the contracts, if not all, encompass clauses that make the term of the contractual agreement parallel to the length of the charter agreement with the authorizer. The confusion emanates from the lack of awareness, familiarity, and knowledge of the contract between the board and management company, which implicates potential conflicts in the boards’ ability to provide effective governance.

**Once a Month Is Not Enough Theme**

The Once a Month Is Not Enough theme provided the disposition of board members feeling that a once a month meeting, for approximately two hours, is not enough time to effectively deploy governance roles. They exclaimed that there was not enough time for the due diligence needed to provide not only effective governance, but also attention to details of common needs such as grading, financial analysis, budgets, student performance, school culture and climate, facilities, acquisitions, and many other aspects that are part of operating a school. They also expressed the need and requirement for preparation and follow-up time required for boards to effectively engage discussions, analysis, and decision making at the board meetings. In regards to this theme, Participant A stated:

No, no, once a month is not nearly enough to get a good foothold of what is going on in the building out of the 30 days; looking at a dash board that looks at things such as Explorer, PLAN, ACT…looks at NWEA MAP on a daily or monthly basis does not give you the ability to determine how well those students are doing
when it comes to the state targets that we are looking at; we do have, it is nowhere enough to just look at the data from a 30 day window.

Participant E discussed the challenges of becoming a board member with an officer’s role. She has served in multiple positions and now is the board president. She says that her board duties are like a second job. She explained:

So it became a situation where having a full time job makes it difficult for me to give the attention needed to be effective. I thought about the activities and welfare of our children and it became a second job. It was not just a once a month activity for me. It was becoming more of a weekly assessment of what I need to be doing, how we need to be preparing for our kids so they could perform at their greatest ability.

Part of the challenges that she expressed entailed the activities that require attention outside of the parameters of the once-a-month board meetings. She continued to explain:

I find myself thinking more about my responsibilities as a board member and providing more action outside of those meetings that we have once a month and little committee meetings we may have periodically. I take my role more seriously because I know there are little lives dependent on us to advocate on their behalf for them to get a good education. So my volunteer job as a board member sometimes it could be a part time job for me, not 40 hours a week, but it is definitely not just me meeting on one Tuesday out of the month for a few hours; I take it very seriously what I do and regretfully so I wish I could do more…but I have a family and I work full time. But I do the best I can.
There was a strong sense from these and other interview comments that there is much more time required to implement the tasks of board members. Once a month meetings, which many came in under the premise that this was the main time commitment, appeared to not be enough for effective governance.

**Analysis of Once a Month Is Not Enough Theme**

A significant number of the qualitative interview participants indicated perspectives that meeting once a month is not enough in terms of board members having ample time to analyze, contemplate, discuss, and follow up on issues and matters relative to board agendas and meetings. Most feel that two hours per month is not enough to give due diligence to matters relating to the operations, budgets, finances, compliances, awarding of contracts, and performance outcomes pertinent to the charter school. The circumstances become even more demanding in terms of board members that take on officer roles such as president, vice president, and treasurer in that these roles require preparation and analysis so that topics may be discussed from a position of knowledge, which enables suggestions and recommendations that are valued added; as opposed to relying solely on perspectives outside of the board of directors. Some of the board member officers indicated feelings of having a second job given the demands of their roles. The challenge becomes identifying the lines of demarcation drawn to separate duties; is it clear that where the board’s responsibility begins and ends in conjunction with those of the management company. When the roles are not clear, the board may not spend time on broader policy issues and cross the lines into the day-to-day operations, which presents great potential for confusion resulting in conflicts between the board of directors and their selected full-service for-profit private management company. Two
hours a month, which is equivalent to one day out of the year, is not enough time to govern an entity of such complexity as a charter school and the millions of taxpayers’ dollars allocated to its operations.

**Everything Goes Back to the Contract Theme**

The theme of Everything Goes Back to the Contract emerged from the qualitative interview participants with one exception. They discussed the importance of placing clauses in the contract between the boards of directors and the management companies to prudently effect hiring of school leadership, performance measures in the contract, and having board members trained on the elements and content of the contract. The challenge included having an active contract that is long-term with an inability to augment until the term is reached and it is time for renewal or termination of the contractual relationship.

Participant F provided one example inclusive of a concern that his board does not fully understand the contract between the board of directors and the management company. He explained:

> Well, I think first off, I think a lot of the board members aren’t really aware that the contract governs the relationship. I just don’t think that they quite understand it. I really don’t think they know what is required and what the management company is supposed to do. Where I think the management company almost feels as though it is their school, if that makes sense, when it’s not, it’s the PSA; it’s the academy’s school.

Participant G provided a positive perspective of the contractual relationship between the board of directors and the for-profit private management company. He stated:
It is a very open relationship and that is something that is needed. I would say contract-wise, anything we ask for is provided to us. If we get into a shady or gray area our attorney advises us. Sometimes, even the attorney has a different view than we have. But again as a board, we make that decision. They have been very good as far as the contract and following it. We know what is expected of us and how to function.

Participant A provided a perspective of how the contract could be structured to positively impact the governance of charter schools. He elaborated:

I think the things that could be done contractually that will support governance. Governance ensures that the desired outcomes happen; outcomes are going to be the academic outcomes; to ensure that the contracts we have in place with vendors are appropriate; we must understand relationships. The metrics must be placed in the contract to understand what are the targets for everyone including the ESP…identify in the contract either hit these marks or reap the consequences. There must be visibility and accountability around everything we do. Incentives can even be in place to achieve the metrics and corrective action if progress is not being realized.

Participant B discussed the component of legal counsel in terms of negotiating parts of the contract. However, he indicated how crucial it was to miss that element in former contract formations. He explained:

Contractually, it was effective and efficient. It was very well described in terms of responsibilities. We had our attorney that had been with us since day 1 review the contract and actually negotiate fine points in the contract. One of the things we
already talked about was how I wish we had included the ability to select the leadership person; but, in terms of reviewing the contract, structuring the contract, it went fairly well. We missed a couple of things but it went very well. All of the discussions around the other themes featured a discussion on making sure the contract had provisions to address that particular issue or concern. In the end, there was a clear understanding of the participants that the contract was a tool for making sure certain aspects were addressed.

**Analysis of Everything Goes Back to the Contract Theme**

Four of the interview participants provided qualitative data with findings that well represented the feelings of all seven respondents. They all presented a perspective, whether accurate or not, of how important the contract was in terms of operating and setting the parameters for the interactions of the board of directors and the for-profit private management company. The four examples from findings presented strong indications that these board members realize how critical the contracts are; however, all are stated in a sense of retrospect. Retrospect meaning their discoveries are after the fact of the contract being signed and in effect.

In addition, there is an acknowledgement that board members probably do not fully understand the contract and that legal counsel is beneficial to assist the boards of directors with navigating the legal complexities of charter school contracts. One of the board respondents reiterated the benefits of an open relationship. Whereas this appears to be a positive element in the relationship between the board and the management company in that the board has an opportunity to give input into the hiring of school leadership; it is a gesture from the management company to have a positive relationship with the board of
directors. However, it is not a contractual matter in that if the management company decided not to allow the board’s input; there would be no recourse for the board given the elements of the contract which clearly states in the section of personnel, that the management company is solely responsible for all activities related to hiring and terminations. The previous are prime examples of confusion regarding the relevance of the contract and how this results in potential conflicts, which impacts the boards of directors’ ability to provide effective governance.

**Summary of Qualitative Analysis**

The qualitative analysis includes an in-depth review of the stories of the interview participants and their transcripts. A codification process fostered the emergence of themes from descriptors identified in each individual transcript. A cross-analysis identified threads of commonality from the codifying process based on frequency. The themes that emerged from this analysis included community-centered/volunteerism, board training is a necessity, transparency and full disclosure, the feeling of being a rubber stamp, the board is ultimately responsible, and input into hiring administrative leadership of the charter school. The previous themes are all centric to issues within the relationship between the charter school boards of directors and the full-service for-profit private management companies. The themes encompassed a myriad of implications fostered by confusion, which often times included issues of role ambiguity and lack of contractual awareness and knowledge. These themes illustrated the varied levels of board confusion, which leads to potential conflicts in the governance of charter schools in the state of Michigan.
Chapter 5: Presentation and Analysis of Charter School Contracts and For-Profit Management Companies

Introduction

The contractual analysis is an element of the qualitative components of the mixed methodology study of potential inherent conflicts in the governance of Michigan charter school boards contracting with full-service for-profit private management companies. The comparative analysis explores the content of five recent contractual agreements between charter school boards and their chosen full-service for-profit private management company to manage the operations of the public school academy.

The contract analysis (See Appendix D for contracts used in analysis and Appendix E for Comparative Contract Analysis Matrix) contains nineteen item descriptors based on a review of the contracts and listed in a matrix with comments to explain the contractual phenomena, which takes place as a result of the comparison. The format allows for designators to be placed in the appropriate cells if the item description is present in the five management contracts denoted by titled Contract A, Contract B, Contract C, Contract D, and Contract E, all representing a specific contract between charter school boards and for-profit management companies.

The comparative analysis matrix contains nineteen descriptors that are part of eight sections, which are sourced from commonalities in the five contracts. The matrix illustrates if the specific descriptors are present in each contract designated by a check mark or if the descriptors are not present, which is designated by a circle.
Contract Comparison Analysis --- Macro Findings

In the contract analysis, 80% of the five contracts were strongly similar in presentation, structure, and content. Only one of the contracts (20%) contained a very different structure from the other four. The latter is probably due to the management company being based in the state of New York, which may have their own templates for their charter school industry. None of the contracts were exactly the same but all had some dominate similarities, which included:

- All contracts indicated in some manner that they manage the day-to-day operations of the school.
- All contracts clearly indicated that the management companies solely have responsibility for hiring and terminating employees at all levels and positions whether instructional, operational, and administrative.
- All contracts indicated a reference to the authorizer.
- All contracts indicated (to a varying degree) that they have the right to manage subcontractors.
- All contracts articulated the fee/compensation structure of each for-profit management company, which is very different except for two.
- All of the contracts indicated that the management company is responsible for the charter schools’ curriculum and academic program.
- All of the contracts specified the role of the management company and all but one indicated the obligations of the boards of directors.
- All contracts, except for one, clearly indicated that the management company has financial, accounting, and budgetary responsibilities.
• All contracts indicated in some form that the management companies are responsible for special education.

• Four of the five contracts used a standard boilerplate template.

All of the contracts were void of the following:

• None of the contracts indicated who is responsible for student expulsions.

• None of the contracts indicated who is responsible for managing board agendas and minutes.

• None of the contracts indicated who is responsible for capital acquisitions.

The following lists some areas and items that were somewhat unique to some of the contracts:

• One of the contracts has a very different fee structure based on various management tasks and deliverables with associated cost for each.

• Two of the management companies indicated that part of their fee is to retain the school’s fund balance.

• One of the management companies had a partially incentive based strategy, which provided additional compensation for achieving student performance metrics.

• One of the management companies had a five-year progressive fee plan which increases from year 1 to year 5; this same company charged an exorbitant amount for use of their proprietary curriculum.

• Two of the management companies provided access to start-up funds for their clients (charter school boards of directors) and also provided financing availability where repayment is made through the schools state funding. These
two companies also indicated a willingness to provide facilities and lease it to the school.

**Summary of Contract Analysis**

The contracts are essential to providing the expectations of both the client (charter school boards of directors) and the agency (for-profit private management companies). The contracts clearly articulated the responsibilities and expectations of the management companies. Their roles are clear in terms of having full-service responsibilities for the operations of their public school academy clients. Whereas the management company has clear expectations, the boards’ roles are not as specific and are generically ambiguous. Four of the contracts have a small paragraph; which lists approximately six to eight items that conveyed the boards’ obligations. These items are fairly generic and basically state that the boards have governing responsibility, however, governance is not defined and left to interpretation.

The majorities of the contracts are very similar and seem to originate from the perspective of the for-profit private management companies given the dominance of articles pertaining to the management companies’ roles and responsibilities and very little in terms of the boards of directors.

Boards of directors are also at a significant disadvantage given legal structure and jargon of the contracts. They will find themselves frustratingly getting in a quagmire of legalities, complex legislation, and regulations. Unless they have retained legal counsel who is versed and knowledgeable of charter school laws in the state of Michigan. Management companies typically have legal counsel that is a part of their executive team or they have retained a law firm that provides their legal counseling.
If boards are not conscious of the significance of the contract, they will operate in a fog of unawareness as to what are their expectations, obligations, and rights. This will commensurately affect their ability to effectively govern and provide prudence when imposing governance and developing policies and resolutions for charter schools.

Boards of directors’ awareness and comprehension of the contracts with management companies are essential to mitigate confusion and overlapping of responsibilities, which perpetuates conflicts in the governance of charter schools in the state of Michigan. The complexity of charter school laws and the challenges of governance permeated the charter school industry. Knowledgeable and informed boards are required given the challenging dynamics of charter schools’ existence and operations. This is especially the case in the state of Michigan where for-profit private management companies manage more than 80% of charter schools.
Chapter 6: Quantitative and Qualitative Triangulated Convergence

Introduction

The following triangulates the quantitative data, qualitative data, and the contractual analysis. The quantitative data was obtained through a two-part Likert Scale survey that was provided to qualified board members. The surveys were provided in two ways, hard copy and electronic, in order to increase the probability to reach or exceed the goal of receiving forty completed surveys from eligible Michigan charter school board members. The qualitative data was obtained by the purposeful selection of seven board members who had been on charter school boards contracting with for-profit private management companies. The board members selected for interview participation had a preferred fifteen years of experience and served in an officer position such as board president, vice president, and treasurer.

The researcher deployed a parallel mixed method design, which Creswell (2014) stated,

A researcher collects both quantitative and qualitative data, analyzes them separately, and then compares the results to see if the findings confirms or disconfirms each other. The key assumption of this approach is that both the qualitative and quantitative data provide different types of information — often detailed views of participants qualitatively and scores on instruments quantitatively --- and together yield results that should be the same (p.219).

The triangulation process provided data reiteration and substantiation of the two different designs. This approach provided an opportunity to merge data for confirmation or disconfirmation of the phenomenon of conflicts in governance when charter school
boards in Michigan contract with full-service for-profit private management companies. The researcher transformed the qualitative data into numeric values by applying percentages to the responses of each interview participant to the collective responses of the aggregate group, which consisted of seven board members from seven different Michigan charter schools. Figure 19 illustrated the conceptual framework for the conduct of analysis that was used.

**Conceptual Framework for Conduct of Analysis**

*Figure 19. Conceptual framework for conduct of analysis.*

The triangulation of the quantitative and qualitative data included the topics of role confusion and resulting conflicts around the responsibilities for hiring and terminating key personnel such as superintendents, principals, and teachers; the effect on transparency and full disclosure of public funds when boards of directors contract with for-profit private management companies; the realization that everything goes back to the contract; and the paradoxical challenge of boards of directors feeling they are ultimately responsible for charter school operations. These topics surged from the quantitative design and emerged from the qualitative design warranting triangulation inclusive of the
contractual agreement; which dictates the parameters of the inter-relational dynamics between the board of directors and the full-service, for-profit private management company.

The Parallel Convergence and Triangulation of Hiring Charter School Personnel

Introduction

Table 11 illustrated the convergence and triangulation of the quantitative and qualitative findings, along with the contractual analysis as it relates to the responsibility of hiring, terminating, and evaluating charter school staff. It aligns to Research Question 1 that addresses the contractual relationships between the boards of directors and the for-profit private management companies and how it contributes to role conflicts in the governance of charter schools in the state of Michigan.

Table 11
The Parallel Convergence and Triangulation of Hiring Charter School Personnel

<table>
<thead>
<tr>
<th>Do the Contractual Relationships Between Michigan Charter School Boards of Directors and Full-Service For-Profit Private Management Companies Contribute to Conflict in Governance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quantitative: The responsibility for hiring key personnel such as the superintendent, principal, and teachers should be:</td>
</tr>
<tr>
<td>Qualitative:</td>
</tr>
<tr>
<td>1. From your perspective as a long serving member of a charter school board of directors, what are the pros and cons relative to governing the school that occur as a result of contracting with a full-service management company.</td>
</tr>
<tr>
<td>3. Considering that the relationship between the board of directors and the management company is a critical element in the successful operation of the school, what do you think are factors that might contribute to tension in governance as a result of this relationship.</td>
</tr>
<tr>
<td>58% of the board survey respondents indicated that the hiring decision should be shared to varying degrees for hiring key personnel. This included teachers.</td>
</tr>
<tr>
<td>60% of the qualitative data provided the ability of the board to affect hiring as a major issue; as well as a factor contributing to tension in governance between the board of directors and the management company.</td>
</tr>
</tbody>
</table>

Contractual Analysis:
The contractual analysis of five contracts between Michigan boards of directors and management companies all substantiate the contractual position that the management companies have exclusivity regarding hiring and terminating charter school staff. The verbiage specifically uses terms/vocabulary such as; the management company has sole responsibility and authority to determine staffing. This responsibility includes; hiring, terminating, evaluating, disciplining, moving, shifting, and transferring any and all employees of the management company who are deployed to work at the subject charter school(s).

From a quantitative disposition as explained in Table 10, 4% of survey responses indicated that hiring should be a function of the board of directors. Thirty-eight percent of the survey responses indicated that hiring should be a function of the management
company. Fifty-eight percent indicated that some shared input between the board of directors and the management company should occur. Qualitatively, six out of seven interview participants discussed hiring matters, while 60% of the interviews exclaimed hiring as a factor fostering tension. From the qualitative findings, one of the interview respondents stated,

The downside [con] of it as we have come to find is the contract that we had engaged in was a long-term contract. And part of the contract was the fact we had no input in terms of who could be hired into key personnel positions. We did not have any input in terms of the selection.

The qualitative and quantitative data provided board perspectives that were incongruent with the intentions of the contractual agreement. In both research methodologies, the board members all believed they could or they wanted to impact hiring of the charter school’s staff. This is in stark contrast to the charter contractual agreements explored between Michigan charter schools’ boards of directors and their chosen for-profit private management company. The contracts specifically state, as seen in the example of Contract D, the following:

15. I Personnel Responsibility. Subject to the limitations of this Agreement, the Public School Academy Contract, the Code and other applicable laws and regulations, The correlating management company will have the sole responsibility and authority to determine staffing levels, and to select, evaluate, assign, discipline, supervise, manage, transfer and terminate personnel necessary to carry out the Educational Services, the Administrative Services, the Supplemental Programs (if any) and all other services provided under this
Agreement, all within the financial constraints of the Academy Budget approved by the Board.

Another example of the contract contrasting the responses of the participants is seen in Contract B. It stated:

**ARTICLE VI. PERSONNEL AND TRAINING**

Subject to Sections I.01 and 1.02 above, the Charter, the Code and other applicable laws and regulations, the correlating management company will have the sole responsibility and authority to provide qualified administrative, teaching and support staff to operate the System within the staffing levels approved by the Board in its annual budget, and to select, evaluate, assign, discipline, supervise, manage and transfer personnel necessary to carry out the Educational Services, the Administrative Services, the Supplemental Programs (if any) and all other services provided under this Agreement.

A final example was extracted from Contract A that explained that the management company has the authority to make all hiring decisions. It stated:

**ARTICLE V. PERSONNEL & TRAINING**

A. Personnel. The correlating management company shall select and hire qualified personnel to perform services at the Academy. The correlating management company shall have the responsibility and authority, subject to subparagraphs B, C and D below, to select, hire, evaluate, assign, discipline, transfer, and terminate personnel consistent with the Budget and applicable
law. Personnel working at the Academy shall be employees of the correlating management company unless otherwise agreed by the correlating Management Company and the Board.

**Analysis of Hiring Charter School Personnel Convergence**

The data from the quantitative surveys indicated role confusion and conflicts given the wide variance of responses indicating that the board should have a say in the hiring of staff including administrators and teachers. Data from the experiences of interview participants substantiated the quantitative results. The board members all indicated a desire to impact hiring, especially administrative roles such as superintendents, principals, and others. This is a particular source of conflict given the desire of the boards of directors to influence, if not select key positions.

The quantitative and qualitative data regarding the issues of hiring personnel at Michigan charter schools contracting with full-service for-profit private management companies displays reinforcing patterns that substantiated the findings of each methodology. The findings and analysis of both designs illustrated role confusion and resulting conflicts; given the disparity of responses and lack of consensus in the quantitative and qualitative findings and analysis that indicated that all the board respondents believed that the board of directors should have a say in the hiring of staff. This especially resonated with the hiring of key administrative personnel, such as the superintendent, principal, and other top-level administrative roles; non-administrative roles such as teachers, paraprofessionals, etc., did not contribute as much to the hiring conflicts.
The subsequent in-depth analysis of the contract overtly indicated that the management company has sole unequivocal responsibility for hiring all personnel and employees of the charter school. As a matter of fact, the employees are viewed by the management company as specifically their employees who may be shifted, moved, and transferred at the beckoning of their sole employer; the full-service, for-profit private management company. The confusion manifested with what appears to be the lack of contractual awareness of the board and accelerated role conflicts when issues surface where the parties do not agree. The board is at a tremendous disadvantage and the management company has legal leverage given the content of the contract between the board of directors and the management company. The boards do not appear to realize, until circumstances of conflict arise, that they have zero say in who is hired or who is terminated in all positions of the charter school. This position is clearly stated in the signed contracts, which is the legal endorsement management companies have and present when personnel matters surface.

**The Parallel Convergence and Triangulation of Transparency and Full Disclosure**

Table 12 illustrates the convergence and triangulation of the qualitative and quantitative findings, along with the contractual analysis as it relates to transparency and full disclosure. It aligns to Research Question 3 that addresses the accountability and transparency of public funds and the effect when contracting with a full-service for-profit private management company. The effects are complex given the source of funding, which are primarily public tax dollars and the transfer of those funds to a private management company.
The data from the surveys indicated role confusion and potential conflicts given the lack of consensus and variance of responses indicating that many boards feel that transparency of public funds is affected when boards of directors contract with full-service for-profit private management companies. The quantitative analysis provided the complexities of transparency given the ample functions that are conducive to transparency issues such as budgets, financial reporting, and data involving sub contracts and student performance.

Data from the experiences of interview participants substantiated the quantitative data results. A significant percentage (71%) of the interview respondents indicated that public funds are affected when boards of directors contract with full-service, for-profit management companies. The interview participants provided statements that inferred high levels of discomfort regarding the reports that are provided on costs, reporting finances, students’ performance, and most of all the transformation of public taxpayer dollars into the private accounting of management companies.
The contractual analysis illustrated the ability of the management company to legally report on broadly required functions to meet the requirements of the state of Michigan. However, it does not explain these functions from a novice and detailed perspective. The average board member will be perplexed with these financial reports given its complexity, such as those from the Contract C, containing in its Article IV --- Financial Arrangements --- a detailed reporting of revenues and expenditures from the preceding month:

a. Budget projections, Summary Actuals and Summary Budget
b. Balance Sheet
c. Academy account summary
d. Historical Aged Trial Balance
e. Monthly statement of actual and projected cash flow of Academy funds received and disbursed

Other:

a. Reports on other Academy operations and student performance
b. Other information on a periodic basis to enable the board to monitor the management company's performance and the efficiency of its operation of the Academy.

*Analysis of Transparency and Full Disclosure Parallel Convergence*

Transparency and full disclosure issues cause role confusion, which creates conflicts due to the lack of reporting requirements placed in the obligation section of the contracts between the boards of directors and the management companies. For example, it is clear in the contracts that the management company will manage the finances and
budgets of the charter school. However, the specifics of the contracts allow a variance of interpretations as to what has to be reported out and to what degree. Role confusion results in conflicts due to the board of director’s inadequate knowledge of the contract between the two parties. The lack of knowledge of the financial information reported to the board of directors creates a situation where the board is not clear of their role and lacks an understanding of the management company’s role, thus resulting in conflicts.

Many of the interview participants illustrated a concern that they are being told only what the management companies want to tell the boards of directors. To reiterate a perspective of one of the interview participants, she stated, “You tell me that you are spending millions of dollars on the school, but I don’t see what you did. The children do not have a lunchroom; they are eating in their rooms. They have no gymnasium. We are totally in the dark.”

Whereas the example of the contract meets the requirements of financial reporting standards for the state of Michigan, it does not provide financial information that is conducive for the average board member to comprehend. The management company has professionals with the appropriate education and training to understand the fiscal dynamics of charter schools, and the board may or may not have a member with a financial pedagogy to understand the details of formal and technical terms such as balance sheets, trial balances, and cash flow statements, to name a few.

The complexity of these reports enables the management company to report based on minimal state requirements and not translate fiscal data into language of content that boards of directors would understand. When decisions have to be made on such data, it places the board of directors at a disadvantage where they must rely on the management
company for interpretation. These issues of transparency not only exist for fiscal matters, but also include areas such as special education, expulsions, performance outcomes, and other compliance related reporting matters.

The Parallel Convergence and Triangulation of Everything Goes Back to the Contract Theme

Table 13 illustrates the convergence and triangulation of the quantitative and qualitative findings, along with the contractual analysis as it relates to awareness, familiarity, and understanding the contract. It aligns to Research Question 1, which asks do the contractual relationships between Michigan charter school boards of directors and full-service, for-profit private management companies contribute to conflict in governance, and Research Question 2 that states that assuming that parallel governance systems created in charter schools whose boards of directors contract with for-profit management companies contribute to governance conflict, what are the factors in the relationship that contribute to conflict in governance.

Table 13
The Parallel Convergence and Triangulation of Everything Goes Back to the Contract

<table>
<thead>
<tr>
<th>Do the Contractual Relationships Between Michigan Charter School Boards of Directors and Full-Service For-Profit Private Management Companies Contribute to Conflict in Governance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Part II 4. The board of directors understand the articles, terms, and content of the management contract between the board of directors and the full-service for-profit management company.</td>
</tr>
<tr>
<td>2. Reflecting upon your board member experience in contracting with a for-profit management company, how would you describe the specific contractual relationship between the board and the management company.</td>
</tr>
<tr>
<td>5. Given what you know about leadership and school governance, are there things that could be done contractually or legislatively to improve the governance of Michigan charter schools.</td>
</tr>
</tbody>
</table>

71% of survey respondents selected strongly agreed or agree that the board of directors understand the contract with the boards of directors and the full-service for-profit private management companies; 14% strongly disagree or disagree; and 15% were uncertain.

Based on inference from the interview data; 57% indicated they agree that finances and resources are affected when boards of directors contract with full-service for-profit private management companies; 43% disagree.

From a quantitative perspective; More than half, 71% of the survey respondents agreed or strongly agreed that the board of directors understand the contract with the boards of directors and the full-service for-profit private management companies; 14% disagreed or strongly disagreed. A significant number (15%) were uncertain. Interview participants summarized their position as follows; Participant H summarized: “I would say contract wise, anything we ask for is provided to us. If we get into a shady or gray area our attorney advises us; sometimes even the attorney has a different view than we have. But again as a board we make that decision. They have been very good as far as the contract and following it. We know what is expected of us and how to function.” Participant B stated, “The metrics must be placed in the contract to understand what are the targets for everyone including the exp. identify in the contract either hit these marks or reap the consequences; there must be visibility and accountability around everything we do;” and Participant F said, “contractually, of course in your contract you hold the management group accountable for maintaining certain academic mile stones and goals and growth.”
Findings of Everything Goes Back to the Contract Parallel Convergence Theme

From a quantitative perspective, 29% strongly agree and 42% agree that the boards of directors understand the terms of the contractual agreement between the boards and the for-profit private management company; 15% were uncertain; and 15% selected strongly disagree or agree. The data from the quantitative surveys illustrated discrepancy and a lack of consensus regarding how surveyed boards of directors feel about their understanding of the contract between the charter school boards and their full-service, for-profit management company.

The qualitative data from the experiences of interview participants substantiated the quantitative data results and reinforced role confusion, which leads to conflicts in governance. Most of the interview participants conveyed an awareness of how important the contractual agreement is in terms of governance; however, many of the interview participants admitted that many board members are not aware and do not understand the dynamics of the contractual agreement between the board of directors and the for-profit private management company. Interview Participant F stated, “I think a lot of board members aren’t really aware that the contract governs the relationship. I just don’t think they quite understand it.” He continued to share his perspective regarding his board’s insufficient knowledge, not only of the board’s roles, but their insufficient understanding of what the management company’s role is; he added, “I really don’t think they know what is required and what the management company is supposed to do.”

Participant G referred to the importance of utilizing the board’s lawyer for times when the contract was confusing or difficult to interpret. His experience is polarized to that of Participant F’s and appears to be positive, based on having legal counsel. He said,

If we get into a shady or gray area, our attorney advises us. Sometimes even the attorney has a different view than we have. But again, we as a board make that decision. They have been very good as far as the contract and following it. We
Some of the interview participants wanted to add provisions to their contracts with the management company subsequent to signing the agreement.

Participant E also indicated the need for the board of directors to have legal counsel. Her perspective is that it needs to be a lawyer or legal entity that is employed to what is in the best interest for the board. She expounded, “Well, if when the board comes in play, they should have their own attorney. Someone they trust who is looking out for their best interest and not the management company’s best interest. If it starts there, I think the rest will follow.”

Participant B stated, “The way that we were structured with our prior management company, it actually worked well with exception to the educational component.” She elaborated on the lack of foresight during the point of negotiations. She continued, “My thought is if we had the foresight to change or put something in the contract so that we had some latitude in terms of the educational component, then I think it would have been a better contract.”

The final qualitative example also resonates from Participant B. He stated what they would have done in retrospect. He said, “We would have placed a clause in the contract saying that we have the final decision on the selection of the school’s leadership team. I think that would have made a difference in how things would have progressed.”

The previous quantitative and qualitative data enabled the researcher to converge the methodologies for comparison and relatedness. The following contract analysis explored elements of the contract that aligned with the theme of everything goes back to the contract.

The macro findings of the sample contracts between the boards of directors and the full-service, for-profit private management companies uncovered many similarities and some differences in terms of content and style; however, it is obvious that most of the contracts are based off of a generic template. The contracts were clear and listed the
obligations of the board of directors and the management company. The contracts indicated the roles and responsibilities of the management company; and the limited roles, responsibilities, and obligations of the board of directors. The contracts with full-service management companies overtly indicated that the management company has sole responsibility for important functions such as hiring, managing the budget and finances, responsibility for special education, and responsibility for managing the day-to-day operations.

The macro findings also uncovered many areas of needed interpretation. For example, the contracts did not state who is responsible for taking board minutes and managing agendas; who is responsible for nominating board member candidates; and who is responsible for capital expenditures. These key functions and many others were left to interpretation often requiring knowledgeable legal counsel to navigate the challenges.

*Analysis of Everything Goes Back to the Contract Parallel Convergence*

The quantitative analysis provided evidence that boards’ awareness and understanding varies from board to board. The lack of consensus regarding the quantitative survey data is an indication that role confusion permeates many Michigan charter school boards and contributes to conflicts in governance.

The lack of contractual awareness and understanding exacerbated role conflicts in many areas including fiduciary responsibilities, subcontracting, expulsions, compliance, student performance, etc. The interview participants also stated how important it is for boards of directors to receive specific training on the contract to increase awareness and understanding to minimize confusion and enable better and more effective governance. In addition, many participants referred to the importance of having legal counsel that has the board of directors’ best interest.

The quantitative data and the qualitative data for everything goes back to the contract aligns and supports the concept that most, if not all, decisions goes back to the
contact between the board of directors and the full-service, for-profit private management company. It supports the position of the board’s role confusion and subsequent conflicts in governance. This convergence, along with the contract analysis lends credence to the findings and unveils the circumstances that exacerbate conflicts between the board and management company. It is clear that the contract contains parameters, definition of roles, and certain levels of recourse. However, if the contracts between the board of directors and the management companies are not understood, then board members will struggle to understand their roles and the roles of the management company.

The Parallel Convergence and Triangulation of the Ultimate Responsibility

The convergence included the Figures 20 through 23, which illustrated the triangulation of multiple quantitative findings with the emerging theme of the board is ultimately responsible from the qualitative research findings. The contractual analysis was also presented as it relates to the quantitative and qualitative results and the implications that come from boards of directors contracting with full-service, for-profit private management companies.

The Convergence of Data Related to Hiring Key Personnel
Figure 20. The convergent parallel mixed methods of hiring key personnel and leadership.

The Convergence of Data Related to the Transparency of Public Funds

Figure 21. The convergent parallel mixed methods of the transparency of public funds.
The Convergence of Data Related to the Board of Directors Understanding the Contract

*Figure 22.* The convergent parallel mixed methods of the board of directors understanding the contract.
The Convergence with Multiple Quantitative Data Points — Board is Ultimately Responsible Theme

**Figure 23.** The convergent parallel mixed methods of the board are ultimately responsible theme.

Figures 20, 21, 22, and 23 are reiterations of the previous tables, which illustrated the triangulation of data displaying findings in the research questions surrounding the following; data for hiring charter school personnel, data for transparency and full disclosure, and data for everything goes back to the contract. Figure 23 illustrated five contractual areas representing quantitative findings from the survey research and was aggregately converged with the theme of the boards’ ultimate responsibility. The convergence also included an analysis of the contract and how it relates to research findings. The five quantitative data areas included; hiring, managing day-to-day, awarding of contracts, managing contracts, and determining curriculum.

Figure 20 specifically reiterated the findings regarding the responsibility of hiring charter school staff. It displayed the circumstances and confusion, which may cause impending role conflicts in the governance of Michigan charter schools due to boards of
directors contracting with full-service, for-profit private management companies. The convergence also included an analysis of the contract and how it relates to research findings.

Figure 21 specifically reiterated the findings regarding the research question; is transparency and full disclosure affected when boards of directors contract with for-profit private management companies. Role conflicts resulted from the possibilities of confusion and lack of knowledge around understanding what and how the management companies are required to report. The contracts have room for interpretation that may require legal competence in order to effectively comprehend and enforce. The contractual analysis illustrated the contract and legal jargon that may be beyond novice interpretation.

Figure 22 specifically reiterated the findings regarding how everything goes back to the contract. This theme is an indication of how imperative it is to have awareness and knowledge of the contract between the board of directors and the for-profit management company. In many instances, the contracts clearly denote who is responsible for specific functions and operations of the charter school. The quantitative findings illustrated role confusion and role conflict, which resulted from a lack of contractual awareness that commensurately mirrors a lack of contractual understanding. The qualitative interviews displayed many examples of board members wanting to change structure and clauses in the contracts retrospectively. The contract analysis disclosed contracts that are in many ways clear and inclusive of role definitions for both the management company and the board of directors.

Figure 23 illustrated a conglomerate of quantitative data aggregately triangulated with qualitative data and the contract analysis. The five areas from the quantitative data included: hiring, managing day-to-day operations, awarding of contracts, managing finance/budget, and determining curriculum. The theme that emerged from the qualitative data is described as ultimate responsibility. This theme summarized the feelings of the
interview participants who felt that regardless of the functions or circumstances; the boards of directors have ultimate responsibility. The previous quantitative data is converged with the qualitative data and the contract to confirm or disconfirm findings as it relates to role conflicts in the governance of Michigan charter schools.

Managing the Day-to-Day and the Theme of Ultimate Responsibility

In terms of the survey question of who has the responsibility for managing the day-to-day operations of the school, the response did not have consensus. Instead, responses were spread over four possible selections: 73% indicated the management company, 17% mostly the management company, 8% selected the board of directors, and 2% selected mostly the board of directors.

The qualitative summary for the Board Is Ultimately Responsible theme surfaced in the majority of the interview transcripts of each board participant. Approximately 57% mentioned that the board is responsible for everything regarding the operations and functions of the charter school.

The qualitative and quantitative findings both indicated a lack of consensus regarding day-to-day operations and functions. Both forms of data are an example of confusion, which leads to role conflicts. Participant A commented,

From my perspective and a governance perspective, you can’t be there every day to ensure that the education is disseminated in classrooms, but we can ensure that the right level of resources and the right educational platform is being presented because we sign off on that.

His comments contain an acknowledgement that it is improbable for board members to be daily engaged in the operations of the charter school; however, he does indicate a desire to impact the routine operations by making resource decisions that prudently allocate resources to the benefit of the day-to-day activities. Participant A discussed how efficient it is to have an entity fully control the routine aspects of operations, however he re-emphasized that the board of directors have apex responsibility
when it comes to the charter school. He stated, “Contractually, we ask the ESP to handle those things for us, but we the board are ultimately responsible that the school’s milestones are met every month.”

The contract analysis illustrated the specifications of the contractual agreement. It is clear in the contracts that the full–service for-profit private management companies have the responsibility for the day-to-day operations and functions of the charter schools. Board members do not have the time and inclination to engage in the day-to-day operations of their charter schools. Also, a board mindset to engage in the day-to-day is counterintuitive with contracting with a full-service, for-profit private management company.

**Awarding of Contracts and the Theme of Ultimate Responsibility**

In terms of the quantitative question of who has the responsibility for awarding charter school contracts to various vendors and suppliers, the response lacked consensus. Instead, responses were spread over all five possible selections: 2% indicated the management company, 13% mostly the management company, 37% selected the board of directors, 15% selected mostly the board of directors, and 33% selected that the responsibility for awarding contracts should be equally shared between the board of directors and the management company.

The qualitative summary for the Board Is Ultimately Responsible theme surfaced in the majority of the interview transcripts of each board participant. Approximately 57% mentioned that the board is responsible for everything regarding the operations and functions of the charter school.

The qualitative and quantitative findings both indicated a lack of consensus regarding what entity should award contracts to suppliers and vendors. Both forms of findings contained examples of confusion, which leads to role conflicts. Participant F commented, “I think the best thing we can do at the end of the day is to ensure that we as a board have selected the very best whether it’s a management company, CPA, board
counsel, custodial services, you name it; that we select the best; the best professionals to assist us.” He indicated the perspective that it is the board that hires suppliers and vendors. However, the findings illuminate an issue that develops given the perception of suppliers and vendors that their contracts are with the management company and not the board of directors. He exclaimed, “The prior management company, the head of it, told me on several occasions, ‘Oh that is our contract,’ well, that is not correct. These contracts are board contracts. They contract with us, but they tend to see it as the management company that they are actually contracting with, and that is just not accurate.” His comments acknowledged the potential for confusion and conflicts in governance as it relates to the selection and awarding of contracts to suppliers and vendors.

Another qualitative example regarding confusion and conflicts in who is responsible for awarding contracts was found in the experience of Participant C. She stated,

In our experience we had contracts that were made between the management company and the vendors that put liability on the board and school; which resulted in a lawsuit and other negative things…still the board is liable in the end and even though it was the management company making the deals.” From her perspective, the board was liable regardless of who made the contract with the specific supplier or vendor.

She continued to elaborate on the issue of awarding contracts and stated, “The contracts were made by the management company and expected to be signed off by the board. Finances and contracts were set ahead of time and we were not fully grasping what we were doing at that time as board members.” She acknowledged her board’s confusion of not comprehending what was going on which appears to enable the management company to lead and guide the bidding process. She elaborated, “For example, since all of the contracts were prepared by the management company; and the bids were done by
the management company; they would tell the board who they wanted to select instead of allowing the board to make the decision.”

The contract analysis typically illustrated that, unless otherwise specified, the management company was responsible for bids and sub-contracting. For example, Contracts A and C between the for-profit management companies and the boards of directors stated, “The management company reserves the right to sub-contract any and all aspects of the services.” This may be interpreted as the management company has sole responsibility for awarding contracts.

*Managing Finance and Budget Matters and the Theme of Ultimate Responsibility*

In terms of the quantitative question of who has the responsibility for managing finance and budget matters of the school, the responses lacked consensus and varied according to these following metrics; 4% indicated the management company; 31% mostly the management company; 6% selected the board of directors; and 10% selected mostly the board of directors; 48% indicted that the responsibility for managing finance and budget matters should be equally shared between the board of directors and the management company.

The qualitative summary for the Board Is Ultimately Responsible theme surfaced in the majority of the interview transcripts of each board participant. Approximately 57% mentioned that the board is responsible for everything regarding the operations and functions of the charter school.

The qualitative and quantitative findings both indicated a lack of consensus regarding the responsibility for managing the financial and budgetary matters for the charter school. Both forms of findings comparably reinforced role confusion and resulting conflicts in governance relative to whether it is the board or management company that should be responsible for the charter school’s finances and budget. Boards of directors may monitor finances and budgets very differently. They are asking the
management company to adhere to specific reporting formats. For example, Participant B commented, “Historically, we would ask to be made aware of anything transferred over $25000.00. We would want to know what got transferred and why? Sometimes small things would be done without board knowledge.”

Participant E provided insight as to her board’s experiences regarding the responsibility for managing the finances and the budget. She conveyed a belief that the overall fiduciary responsibility resides with the board of directors. She said, “Overall it is the board, as far as the governance of the funding; we are responsible for that.” She continued providing examples of what the board should know in terms of stakeholder’s needs. “We should know, and we do as far as budgetary needs, what our needs are, what our student count should be, maintaining a healthy fund balance in case we need to move some monies around for instructional people to help the instruction of students.” She continued to place emphasis on the board’s ultimate responsibility regarding allocation of resources. Even though she acknowledged the management company’s involvement, she clearly believed that managing the finances and budget is the board’s responsibility. She said,

Financial resources; there are always struggles as to how we are going to use these little bitty funds that we have and how we are going to distribute them and is it going to go to more teachers or getting school buses so we may bring more students in from outlying areas into our school district.

Her comments reinforced the belief that she felt the board is ultimately responsible for finances and budgetary matters of the charter school. However, the potential for conflicts are great given the structure of the contract with the management company, which clearly states that they have the responsibility for managing these functions. Contracts A and C stated, “The management company shall be the chief administrative officer and be responsible for the sound financial operation of the academy within a budget approved by the academy board.”
Curriculum and Academic Programs and the Theme of Ultimate Responsibility

In terms of the quantitative question of who has the responsibility for determining curriculum and academic programs of the charter school, the responses did not have consensus and varied according to the following metrics: 31% indicated the management company, 38% mostly the management company, 6% selected the board of directors, and 6% selected mostly the board of directors; and 19% indicated that the responsibility should be equally shared between the board of directors and the management company.

The qualitative summary for the Board Is Ultimately Responsible theme surfaced in the majorities of the interview transcripts of each board participant. Approximately 57% mentioned that the board is responsible for everything regarding the operations and functions of the charter school.

The qualitative and quantitative findings both indicated a lack of consensus regarding the responsibility for who determines the curriculum and academic programs for the charter school. Both methodologies of findings comparably reinforced role confusion and resulting conflicts in governance relative to whether it is the board or management company that should be responsible for the charter school’s curriculum and academics. Participant E mentioned the implications of testing and how the board of directors is accountable for student performance. She mentioned the challenges of the board in terms of understanding the dynamics of improving test scores. She stated:

The climate of accountability changed a lot in the state of Michigan; accountability to standardized testing, and holding the board and school accountable for how well their children performed. It became a lot more laborious for the board members to be aware of how academically astute our children are based on the standards put in place and then have to account for any shortfalls; either we have to do a lot of the research ourselves or put onus on our management group to provide us with the proper resources to keep us aware of where we are as far as the standards are concerned, and where we should be…so
it became a situation where having a full time job makes it difficult for me to give
the attention needed to be effective.

She continued to discuss the challenges of tight budgets and how the
management company is given leeway to provide sound curriculum and academics in
order to improve testing:

It is a challenge because you have to balance the student count right, that impacts
what you are able to do; the cuts in state funding, it is a delicate balance, but we
know that we are ultimately responsible for that and we give our management
group the leeway to make sure that they get the proper pieces or parties in place,
so we can do what we need to do to maintain or help to improve the academic
success of our students.

Participant E reiterated the importance of having academic metrics in the contract
between the management company and the board of directors. She stated:

Contractually, of course in your contract, you hold the management group
accountable for maintaining certain academic milestones and goals and
growth…and that ties your authorizer [charter] contact as well; just making sure
all parties are aware of what the agreed upon contracts are, making sure that they
can be attainable, and that we strive towards obtaining those goals; at least we
want to see growth and we don’t want to see that students are going backwards.

In addition to the previous interview participant’s perspective, Participant B
provided the importance of having the contract metrically fortified with academic goals.
The metrics allow the board of directors to monitor academic performance. He
expounded:

Monitoring the components in the contracts such as (monitoring not necessarily
making specific selections but monitoring); the staffing levels, the budget process,
the maintenance, and this should have been number one, academic performance
of the school; in doing that we would have the leadership team have to provide information in terms of grades and performance on the academic side.

Interview Participant A reinforced his position of the boards’ responsibility regarding the finances and academics of the charter school: “The board itself is ultimately responsible from a fiduciary perspective and academically responsibility to make sure students reach grade level.”

Interview Participant F shared the frustration of not feeling empowered to affect academic outcomes regarding student performance. He said, “Where my frustration comes in is where I see weaknesses here or there and both being empowered to make that academic change.”

Summary of Triangulation of Research Designs and Contractual Analysis

The quantitative and qualitative research methods were designed to provide a convergent opportunity to analyze and better understand the phenomenon of role confusion and resulting role conflicts in the governance of charter schools in the state of Michigan. The convergence of quantitative and qualitative data was subsequently triangulated with a contractual analysis, which provided a premise based on actual contracts between Michigan boards of directors and full-service, for-profit private management companies. As previously stated by Creswell (2014), the mixed method design enables a parallel convergence. Creswell stated, “The key assumption of this approach is that both qualitative and quantitative data provide different types of information — often detailed views of participants qualitatively and scores on instruments quantitatively — and together yields results that should be the same” (p. 219).

The quantitative data was obtained through the implementation of surveys, both hard and electronic formats, to enable board presidents to provide the survey instruments
in optional manners conducive to their eligible board members. The survey consisted of two Likert Scale sections. Part I contained twelve questions focusing on if the board of directors or the for-profit private management companies was responsible for specific functions related to charter school operations, compliance, outcomes, and management. Part II focused on the polarized levels of strong agreement to strong disagreement. The qualitative portion of the mixed methodology consisted of a purposeful selection of interview participants whose selection criterion included a preference of fifteen years of experience as a Michigan charter school board member inclusive of officer roles such as president, vice president, and treasurer.

The contract analysis was based on a review of five different contracts between five charter schools and five management companies. The contracts provided an ability to compare and contrast various forms of comprehensive management models, so that similarities and differences could be analyzed. In addition, the contract analysis also provided an opportunity to triangulate data with the quantitative and qualitative data from the surveys and interviews.

The convergence and triangulation of data strengthened the analysis of the phenomenon of conflicts in the governance of Michigan charter school boards contracting with full-service, for-profit private management companies. The quantitative and qualitative data provided evidence of role confusion, which resulted in role conflicts due to the lack of consensus in the quantitative data; and the experiences captured from the interview participants provided the foundation of the thematic development and analysis. The in-depth contract analysis provided a view of the complexities of charter
school management and the legal contractual premise from which the parties of the contract operate.
Chapter 7: Conclusions, Implications, and Recommendations

Introduction

The governance of charter schools in the state of Michigan is a very complex phenomenon with multiple entities playing an integral part in this aspect of education reform. Three of the entities have significant roles in Michigan’s charter school system; they include authorizers, boards of directors, and full-service, for-profit private management companies. The interactions and inter-relational dynamics of these three parties impact charter school reform and governance from every perspective. It is therefore imperative that charter school boards of directors understand not only their role, but also the roles of authorizers and management companies. A lack of understanding of the governance roles will lead to board confusion and resulting conflicts within the client and agent relationship. The governance challenges and conflicts of Michigan charter schools were the impetus of the study: An analysis of role conflicts in the governance of Michigan charter schools when boards of directors contract with full-service, for-profit private management companies. Full-service, for-profit private management companies are currently contracted with more than 80% of the charter schools in the state of Michigan. The penetration of full-service, for-profit private management companies in Michigan is by far much greater than any other state in the nation. In respect to Education Management Organizations (EMOs), Miron (2013) stated:

Michigan is a real anomaly in terms of the extensive involvement in for-profit EMOs that open and operate charters schools. Seventy-nine percent of Michigan’s charter schools are operated by for-profit EMOs, and another 10% of these schools are operated by nonprofit EMOs. After Michigan, Missouri (37%),
Florida (34%), and Ohio (31%) follow in terms of prevalence of for-profit EMO involvement in the operation of charter schools. (p. 18)

These for-profit private management companies may bring a plethora of skills, professionalism, and experience to the operations of their portfolios of charter schools and rely on economies of scale in order to achieve and maintain levels of profitability. Their primary purpose is to make a profit. The volunteer appointed boards of directors, on the other hand, bring a sense of community, goodwill and charity; their primary purpose is to give back to the community by volunteering to help the charter school achieve its mission of providing an educational alternative to the community in which it exists. The polarized philosophies set in motion dynamics that generate governance conflicts between the two parties.

The volunteer and appointed board members will vary in terms of their awareness, understanding, and knowledge of the management contract and charter school operations. The greater the lack of contractual awareness and understanding turns into a commensurate level of confusion resulting in governance conflicts. As a result, governance conflicts emerge because of the blurring, overlapping, and confusion between the roles of the boards of directors and the full-service, for-profit private management companies. The confusion of roles results in conflicts that permeate the governance spectrum of charter school operations in the state of Michigan.

Research Questions

The three questions that framed the research of the analysis of conflicts in Michigan charter schools’ governance as a result of boards of directors contracting with for-profit private management companies are as follows:
1.) Do the contractual relationships between Michigan charter school boards of directors and full service for-profit management companies contribute to conflict in governance?

2.) Assuming that parallel governance systems created in charter schools whose boards of directors contract with for-profit management companies contribute to governance conflict, what are the factors in the relationship that contribute to conflict in governance?

3.) Are accountability and transparency of public funds affected when Michigan charter schools’ boards of directors contract with full-service, for-profit management companies?

The three research questions provided an outline of conclusions from the mixed methodology approach. The approach provided both quantitative and qualitative data that was fortified with a supplemental analysis of five sample contracts between five different charter school boards of directors and their contracted full-service, for-profit private management companies.

**Research Methodology**

The mixed methodology consisted of quantitative and qualitative designs. The findings from both designs were separately analyzed. Subsequently, the quantitative data from surveys and the qualitative data from interviews were converged and triangulated with the qualitative data from the contract analysis.

The quantitative design encompassed hard copy and electronic formats of a two-part Likert Scale survey. The first format included surveys that were provided to charter school board presidents to engage their board members who met the survey profile of
having a minimum of 12 months of board experience. Electronic survey access were randomly sent to various charter school boards in the state of Michigan in order to effectively and efficiently generate a significant number of responses from a diverse and broad range of charter school board members.

The qualitative design encompassed a series of interview questions. The questions were presented to a purposeful selection of seven board members with a preferred ten to fifteen or more years of board service experience inclusive of participation in board roles such as president, vice president, treasurer, and secretary.

The contract analysis consisted of two parts. Part I was a brief review of charter school contracts in order to provide insight into the development of the survey and interview questions. Part 2 was a post research in-depth analysis of sample contracts to provide an additional qualitative component as a third source of data. The post research contract analysis provided a detailed comparison of five contracts between Michigan charter schools’ boards of directors and full-service, for-profit private management companies. The qualitative findings from the in-depth contract analysis provided data to converge with the quantitative data from the surveys and the qualitative data from the interviews. The application of the mixed methodology allowed data exploration, gathering, findings, and analysis from three different sources around the phenomenon of conflicts in charter school governance. The convergence of all three sources of data provided opportunities to further strengthen research findings and increase understanding of the governance conflicts that occur when boards of directors contract with full-service, for-profit private management companies.
Conclusions Organized by Research Questions

Research Question One

The conclusions are organized by the research questions that framed the analysis of potential role conflicts in the governance of Michigan charter schools when boards of directors contract with full-service, for-profit private management companies. The first research question asked: Do the contractual relationships between Michigan charter school boards of directors and full service, for-profit private management companies contribute to conflicts in governance?

Contractual Relationships

The contractual relationship between Michigan charter school boards of directors and for-profit private management companies set the parameters for the inter-relational dynamics between the two parties. A firm awareness and understanding of the contract is imperative for both parties and enables roles to be defined and acted out in a manner conducive to the expectations and obligations of the contracted parties. The client (board of directors) to agent (full-service, for-profit private management company) relationship and interactions are defined by the contractual elements, which are formalized when the entities sign. The contract sets the premise for the relationship and affects the boards of directors’ ability to govern from a position of authority or a lesser position based upon the formal transfer of their power to the full-service, for-profit private management companies.

The findings and analysis in chapter four presented exclusive and convergent evidence that the contractual relationships between the boards and the management companies contribute to conflicts in governance. These conflicts stem from the boards of
directors’ general and specific lack of collective awareness and understanding of the fundamental principles upon which the contract was based. The lack of contractual awareness and understanding is possibly perpetuated by boards’ turnover, which facilitates novice replacements that are not receiving effective overviews and training in the contractual governance roles. This overlooked training includes defining of the roles and responsibilities of both the boards of directors and the for-profit management companies.

**Contractual Relevance, Awareness and Understanding**

Given the scope and relevance of the contract, it does not typically receive the attention required by board members to effectively understand the roles of the boards of directors and also the roles of the full-service, for-profit private management companies. Therefore, when governance issues arise due to role confusion and conflicts, boards become frustrated and find themselves in a position with limited, and even possibly non-existent, recourse. This is due to the contractual agreement, which gives the agent (full-service, for-profit private management company) the latitude to comprehensively manage the operations of the client (charter school board of directors). Some pervasive examples from the findings included; selecting the charter schools’ leadership and staff, managing sub-contracts, allocation of resources, determining curriculum and academic programs, and facilities’ management.

The contract analysis provided insights into the structural core elements of the management agreement. The sample contracts articulated the expectations, responsibilities, and obligations of the full-service, for-profit private management companies and the boards of directors. The articles of the contracts clearly indicated that
the management companies are “solely responsible” for all elements around hiring leadership and staff; budgeting, financial, and accounting responsibilities; curriculum and academic programming; sub-contracting, and some of the specific responsibilities for facilities management.

**Factors Contributing to Tension and Governance Conflicts**

One of the major factors that caused tension between the boards of directors and the full-service, for-profit private management companies were the responsibilities for hiring. The quantitative data illustrated a lack of consensus regarding the specific survey question of who is responsible for hiring charter school personnel. This question focused primarily on hiring administrative leadership positions. In the qualitative findings, interview participants from the board indicated that responsibilities for hiring became a major contention. The interview participants indicated that they thought the board of directors had input into hiring principals or they wanted to subsequently augment the contract with clauses enabling the boards of directors to affect hiring decisions. Both the quantitative and qualitative data provided evidence of role confusion and resulting conflicts relative to hiring charter schools’ personnel. The sample management contracts, on the other hand, clearly stated that the full-service for-profit management companies had the “sole responsibility” for hiring all of the charter schools’ staff. For example, language from the contracts clearly specifies that the management company, as stated in Contract D, “will have sole responsibility and authority to determine staffing levels, and to select, evaluate, assign, discipline, supervise, manage, transfer and terminate personnel.” The quote from Contract D confirms that the management company has sole responsibility for hiring and the peripheral elements that come along with it such as
evaluations, discipline, and termination. These contractual terms contrasted with the perceptions of the board member participants in the study who thought they had the ability to influence the hiring of charter school staff, especially leadership positions. That confusion is significantly part of the cause for tensions and conflicts due to board members’ misperceptions of their roles and responsibilities when they contract with full-service for-profit private management companies.

**Research Question Two**

The second research question asked the following: Assuming that parallel governance systems created in charter schools whose boards of directors contract with for-profit private management companies contributes to governance conflict, what are the factors in the relationship that contribute to conflicts in governance?

Parallel governance structures as defined by Alexia Stainer (2010, July) are as follows: “Parallel governance is closely related to the concept of institutional multiplicity, as both refer to situations where non-state actors perform state functions. These are associated with conflict situations and have impact on the processes of state formation.”

**Factors Contributing to Role Confusion**

In terms of the factors in the relationship that contributes to conflicts in governance, the boards of directors and the management companies have responsibilities that overlap due to industry practices, assumptions, and misperceptions from board members. Such factors include, but are not limited to the responsibility for recommending board candidates, responsibility for conducting student expulsion hearings, responsibilities for special education policies; and the responsibility for developing board meeting agendas and minutes. Some of the previous factors are
articulated in the contractual agreement, while others are left for interpretation. For example, it is clearly stated in the contract that management companies have responsibilities for special education policies, however, it is left for interpretation as to who has the responsibilities for recommending board candidates, student expulsion hearings, and the responsibilities for developing board meeting agendas and minutes.

The convergence of quantitative and qualitative data provided evidence that there is confusion and resulting role conflicts regarding who is responsible for the development of special education policies. The lack of general consensus relative to all data fortifies the position of role confusion and resulting conflicts. The quantitative data lacked consensus and it may be inferred from the qualitative data that the board of directors believes that it has input in special education. The contract analysis clearly indicated that the management companies have responsibility for special education just as they do for general education students.

The previous example of the responsibility for special education policies was stated in the contracts between the boards of directors and the management companies; however other factors that contributed to governance conflicts do not have contractual references and are left again to the interpretation of the two contracted parties.

The survey question for who is responsible for the recommendations of board candidates did not have consensus; however, it was one of the few responses that had zero percent for the response of solely the responsibility of the management company. Interestingly, there was a small percentage that believed that the management company should have some shared responsibilities in recommending board candidates. Overall, the collective responses did not have consensus and indicated possibilities for confusion.
There is also potential for conflicts of interest when management companies have a say in
determining who is selected to be a charter school board member.

    In terms of the survey question regarding who is responsible for student
expulsions, the quantitative and qualitative data lacked consensus and indicated
confusion as to whether the boards of directors or the management companies are
responsible. The Michigan Department of Education empowers the school boards to
establish their own guidelines regarding suspensions and expulsions. In a brief prepared
by the Department of Education (2013), it stated,

    Suspensions and Expulsions in General: The Revised School Code provides each
school board with the authority to establish a local discipline policy. Each local
school board has the authority to make reasonable recommendations relative to
anything necessary for the proper establishment, maintenance and management of
the schools in the district. (p. 1)

    In reference to expulsions, Interview Participant A stated,

    Expulsion hearings are brought to the board for final disposition because the
board is the only entity that can expel a student. We at times see that this is not
taking place; and expulsions may occur unknown to us, which is a problem. Or
kids leaving and the board has not had full disclosure of the circumstances of how
and why they left.

    The final example of an area left for interpretation is who has the responsibility
for the development of the board meeting agendas and minutes. The lack of consensus
around board agendas and minutes emerged from the quantitative data and was
inferentially apparent in the qualitative data. Many board members seem unaware as to
the legal implications of public board meetings, agendas, and minutes. These documents are critically important to the maintenance of the charter school’s history, policy resolutions, and the compliance as a public entity to federal and state mandates. The agendas and minutes are most often deferred as tasks for the management companies; however, if boards truly understood the legal implications of these public documents and the significance of board meetings they would maintain development and control of this critical element of their responsibility.

**Research Question Three**

The third research question stated the following: Are accountability and transparency of public funds affected when Michigan charter schools’ boards of directors contract with full-service for-profit private management companies?

**Accountability and Transparency of Public Funds**

In terms of the question, if boards of directors contracting with full-service, for-profit private management companies affect accountability and transparency, the findings demonstrated that both are impacted. Nearly half of the survey respondents indicated that the accountability and transparency of public funds are affected. The quantitative data resulted in a lack of board member consensus; and the qualitative responses also lacked consensus in terms of the responses from interview participants. Accountability was paired with transparency as a joint topic. However, where both were seen as an issue, transparency received most of the emphasis from the interview participants. The conflicts of transparency threaded through multiple topics including reporting around; budgets, finances, sub-contracts, and performance outcomes. The interview participants mentioned multiple times high levels of discomfort regarding transparency and full disclosure. The
previous concerns tied directly to the transition of funds from a non-profit public status to a private status once transferred to the full-service for-profit private management company.

The qualitative findings provided multiple examples of the board members questioning how money is allocated, monitored, spent, and reported. The budgetary and financial reports prepared by the full-service, for-profit private management companies met the requirements of the state, however, the reports struggled to meet the expectations of the charter school boards in terms of being presented in a user-friendly manner and codified for novices, such as board members who do not have financial expertise.

*Awarding of Contracts*

The findings from the quantitative data illustrated a lack of consensus regarding if the boards of directors or the management companies have responsibility for awarding contracts. One-third of the survey respondents selected the option that the responsibility for awarding contracts should be equally shared between the two parties. Many of the interview participants provided qualitative data, which indicated that the contracts should be directly between the board of directors and the vendors of the charter school. The majority of contracts in the contractual analysis indicated that the management company reserved the right to sub-contract the services provided to the charter school. The contrast is perpetuated by the perspectives of the board members, which are misaligned to contractual provisions between the boards of directors and the management companies. The findings indicated role confusion, which resulted in governance conflicts regarding critical aspects of the charter schools’ operations.
Transparency and Full Disclosure of Performance Outcomes

The final example regarding accountability and transparency is in reference to performance outcomes. In terms of the quantitative findings and accountability, boards had mixed reviews, indicating feelings of being ultimately responsible for academic and non-academic outcomes, and many survey participants indicated that it is the management companies’ responsibility to provide the curriculum and academic programming. The qualitative findings illustrated a sense of ownership by the boards for performance outcomes; however, this position was tempered by an understanding that curriculum and academic programming are the core technology of what the management companies provide. The comprehensive contracts reviewed in the contract analysis indicated that it is the responsibility of the management companies to provide the curriculum and academic programming for the charter schools.

Implications/Recommendations for Board Members

Professional Development for Officer Roles

One of the key findings that permeated most of the interviews was the need for professional development in the areas of board members’ roles (individually and collectively), finances, and training on the contract with the full-service, for-profit private management company. It was clear in the qualitative data that the board members believed that the officer roles, such as president, vice president, treasurer, and secretary included expectations that required time to prepare, facilitate, and follow-up on board-related activities in order to provide effective governance. There are major differences of time requirements between charter school board officers and general board members. Officers of the board are expected to understand the dynamics that come with their
specific roles. For example, the board president is considered a generalist and is expected to know something about all aspects of charter school governance. The board presidents’ most significant role is to facilitate the board meetings and manage all of the peripheral dynamics that public board meetings encompass. The board presidents must guide, collaborate, and lead the board members in an effective manner to meet the governance requirement outcomes of fiduciary, compliance, and academic performance. The vice presidents’ most significant role is to fill in as needed for the president and provide support for committee development and general support to the board as a whole.

The treasurers’ role is to be the financial expert for the board. The board treasurer is the most technical role and requires a base level of skills and knowledge in both financial and accounting management. Charter school board members, in the role of treasurer, is detrimental to the board if they lack the financial skills, knowledge, and capacity to effectively analyze cash flow statements, budgets, balance sheets, trial balances, and other basics of fiduciary reporting. The board secretaries’ most significant role includes keeping the board members collectively organized with compliance matters and signing key documents such as board resolutions, subsequently making sure that signed documents are recorded, and logged as permanent records of the public board meetings. General members have the least demands of their time; however, their most significant role is to provide input and objectively vote on important matters regarding the charter school and its obligation to deliver the purpose set forth in the articles of the charter. Each member must understand that the power of the board is embedded in its collective membership; and board members alone do not constitute the decision-making
for the charter nor wield any individual power and authority other than that granted to the board in its entirety as one group collectively.

Charter school board members’ meticulous understanding of board roles and responsibilities is imperative to achieving effective governance. Boards cannot govern effectively if they do not understand their roles and the roles of the other key players in the charter system, specifically management companies, and authorizers. The selection of the management decision model that the boards of directors choose is of great relevance and impacts their ability to govern. There is tremendously polarized disparity between the models of self-management and opting for a full-service, for-profit private management company. The qualitative findings illustrated that the boards did not realize that once they chose a full-service management company, their power and authority becomes diminished and their ability to govern is impacted. When a standard full-service management contract is signed, the board of directors has transferred its power to effect key operational aspects such as hiring, financial reporting, vendor selection, and management of curriculum and academic programming.

Need for Retaining Legal Counsel for the Boards of Directors

The need for legal counsel surfaced in the qualitative data findings multiple times. Some of the interview participants expounded on the need for the charter school boards to have knowledgeable legal counsel to assist the board of directors with navigating the complexities of the legal, contractual, and legislative elements of the charter school system in the state of Michigan. The board members often referred to engaging legal counsel for objective advice, especially in terms of conflicting matters with the contracted management company. One of the interview participants specifically argued
that the attorney should be exclusively hired to represent the sole interest of the board of directors; and not be retained by any person or entity other than the board of directors.

The rationale for legal counsel centers on the complexities of contractual management, legalities, and legislative matters. Contractual management is generally a difficult topic to comprehend. It requires in-depth analysis and attention to details given the importance and longevity of management agreements between charter school boards and management companies. Management companies have a distinct advantage over boards given the professional disposition of the management companies and their knowledge of the charter school industry. A legal professional or a law firm that is employed directly by the management company to manage risk and provide consultation on complicated legal issues often accompanies this knowledge. When governance conflicts arise, it is best managed between the agent and client. However, when complex issues emerge, it is prudent to have legal counsel engaged who are aware of charter school laws, policies and legislation.

Legalities also occur and are most often spontaneous. Disputes happen given the number of formal and informal relations and the complex inter-dynamics of entities that work with the charter school boards of directors. Disputes between the boards of directors and the full-service, for-profit private management companies will lead to governance conflicts and boards that are not well equipped with legal capacity will be at a disadvantage and contractually inept to confront issues and pursue recourse.

The final component that increases the boards’ need for legal counsel is the complexities of legislation. The legislative component also contains political implications that affect policy formation. Legislative and policy formation is typically driven by state
and federal agencies to monitor and regulate the charter school system. Legal counsel provides insight and input for the volunteer appointed charter school boards of directors to be able to navigate complexities that could put them in a vulnerable position when working with management companies who have the professional and legal acumen to use these laws and policies to their advantage. The boards of directors’ action to secure effective legal counsel may prevent governance conflicts related to role confusion due to lack of awareness and understanding of the management contract.

**Board Professionalization**

Charter school boards of directors have a complicated and important role to play in terms of being appointed volunteers. A lot of responsibility is entailed with being a charter school board member, however, the scope of the commitment required to be an effective board member is seldom communicated with accuracy to board candidates; especially the roles of board officers which were previously discussed. Charter school board members are responsible for fiduciary, compliance, and performance outcomes; all three areas are demanding, especially the fiduciary responsibilities. The probability of being an effective board member includes basic skills of management, communications, leadership, community activism, and finance. The findings, especially from the interview participants, demonstrated that the experience and knowledge that board members bring to the role has an impact on their ability to provide effective governance.

A focus on professionalization of the board could be achieved through a variety of means. This may include support from the authorizers to provide better processes to assist charter school boards of directors with attracting, selecting, and maintaining effective candidates and members to positively influence its composition and professionalization.
This could also be supported through universal board role definitions inclusive of descriptions of duties and training outlined by the Michigan Department of Education. The Michigan Department of Education could mandate certain requirements and qualifications for certain board roles, such as financial literacy for those holding the role of treasurer; and Robert’s rules of order training for board presidents, vice presidents and secretaries. A final recommendation would be to transform the mindsets and perceptions from boards of directors being volunteers to public officials with the collective authority to provide effective stewardship and governance of Michigan charter schools. This transformation would require policy changes such as moving toward charter school board members being elected directly by the communities in which they serve similar to traditional public school boards. True empowerment of Michigan charter school boards is a step toward preventing role confusion and resulting conflicts in governance when boards of directors contract with full-service, for-profit private management companies to comprehensively manage their operations.

*Everything Goes Back to the Contract*

The quantitative and qualitative findings and analysis illustrated many issues related to the boards of directors’ lack of awareness and understanding of the contract with the full-service, for-profit private management companies. The summarization of the survey responses illustrated a consistent lack of consensus. It became apparent that board members had varying perspectives of which party (boards of directors or the full-service, for-profit private management companies) had or should have ownership of specific responsibilities relative to the operations of their charter schools. The perspectives from the quantitative findings were reinforced by the qualitative findings where the majority of
the interview participants made statements contrary to the parameters, expectations and obligations of the contractual agreements. The board of directors’ lack of contractual awareness emerged frequently in the areas of hiring charter school staff, awarding of sub-contracts, transparency, and roles and responsibilities in general.

The responsibility of hiring charter school staff is a quintessential example of conflict resulting from the boards of directors’ lack of awareness and understanding of the contract with the full-service, for-profit private management companies. In the survey results, nearly one-third of the survey respondents selected options that indicated that the board members had equally, partially, or full responsibility for hiring key charter school personnel. The majority of the board member interview participants indicated perceptions that boards of directors had or should have input in the decision-making process for hiring staff. Some of the interview participants wanted to subsequently augment their contract to have the superintendent and or principals chosen by and report directly to the charter school boards of directors. Other board interview participants felt comfortable with an ability to influence the decision of who is selected for key leadership roles in the charter school. All of the previous positions are misaligned and contrary to the findings in the contract analysis, which universally and emphatically included terminology such as the management company had “sole responsibility” for all aspects of hiring and terminating employees. These responsibilities included evaluating, re-deploying, and reprimanding employees as the management company saw necessary. This also included the mandatory and optional peripheral responsibilities of providing health insurance, retirement programs, and life insurance.
The responsibility for awarding sub contracts is a premier example of conflicts resulting from the boards of directors’ lack of awareness and understanding of the contract with the for-profit private management company. There was disparity in the survey responses, which illustrated a wide range of board members’ perceptions as to who should be responsible for awarding contracts. Half of the respondents indicated that awarding sub contracts should be entirely or mostly the board of directors. The qualitative findings and analysis showed that some boards felt that they were only tolerated and seen as, “rubber stamps” in the process to award contracts and that the management company went through the motions of a selection process only to choose the subcontractor they wanted. Conflicts resulted as boards felt they should be responsible for subcontracts. The contract analysis disclosed that some contracts contain clauses that give the management companies the obligations of subcontracting. This is an area of conflict because it is not universally clear who has subcontracting authority; or if it is shared between the two parties.

Another illustration of confusion is found with the intent from the Michigan Department of Education to facilitate transparency of the bidding and procurement processes to prevent the awarding of contracts based on subjectivity. The memorandum from the Michigan Department of Education on competitive bid thresholds (2015) stated:

The purpose of this letter is to communicate changes to the base amount above which competitive bids must be obtained for remodeling, procurement of supplies, materials, and equipment. Sections 623a, 1267, and 1274 of the Revised School Code establish a base above which competitive bids must be obtained and provide an increase in the base that corresponds with increases in the Consumer
Price Index. The fiscal year 2015-2016 base for Section 1267, pertaining
construction, renovation, repair, or remodeling and the new base for Sections
623a and 1274, pertaining to procurement of suppliers, materials, and equipment,
is $23,230.

The memorandum presented intent to prevent the awarding of contracts
subjectively. However, even though the state presents a mandate on bidding thresholds, it
leaves it up to the boards of directors to decide how and what entity will handle the
process. It is not stated in the contracts that were analyzed that a bid process is required
for amounts more than $23,230.00. This discretion exacerbates the role confusion and
perpetuates governance conflicts.

_The Contrast of Paradigms_

A clash of paradigms was discovered in the qualitative data. The interview
participants illustrated a powerful sense of volunteerism in response to the opening
interview question of why did they have a desire to become board members of a charter
school. The response was unanimous in terms of their rationale for volunteering to be an
appointed board member and was summarized as follows; the interview participants all
felt a sense of community, charity, and student advocacy. They wanted to give to an
effort that was providing opportunities for children who they felt were underserved by a
strained education system that was falling short of providing quality education. Many of
the interview participants indicated a philosophically opposing paradigm from the full-
serve, for-profit private management companies. They expressed the concern of the
management companies’ primary reason for its existence, to make a profit. The profit-
centric motives of the management companies and community-centric motives of the
volunteer charter school boards presented a clash of values, which created inherent governance conflicts.

The interview participants’ rationale for becoming a board member had threads of consistency inclusive of altruism, making a difference in the community, and providing an alternative to status quo education for children in typically underserved school districts. These intentions clashed with those of the full-service, for-profit private management companies when conflicts arose from inherently different values. The boards were making decisions based on the desired outcomes of student performances and management companies were making decisions influenced by the ever-present requirement of making a profit.

Another example of governance conflicts derived from opposing values are the challenges of transparency and full disclosure. The charter school board is a public non-profit entity inclusive of non-profit values. Transparency is critical in terms of fiduciary planning, budgeting, and acquisitions. Finances are primarily from public tax dollars and accountability is to the funding sources and the constituents of the community served by the charter school boards’ stewardship. Transparency becomes compromised when public funds are transitioned to a private entity and the ability to track and monitor such funds becomes improbable if not impossible.

The inherent conflicts are a result of the different, and somewhat opposing, paradigms, beliefs, and values of the charter school boards of directors and the full-service, for-profit private management companies. The volunteer philosophy of the charter school board and the private corporate philosophy of the management company have different values and motivations. These forces result in role conflicts as each entity
pursues their organizational objectives within their distinctive paradigms, which impacts the responsibilities and requirements for operating charter schools in the state of Michigan.

**Policy Recommendation**

*Universal Role Definition/Descriptions*

Many of the challenges in the charter school infrastructure in the state of Michigan include the inconsistencies with the roles and responsibilities of three of the primary stakeholders; charter school authorizers, charter school boards of directors, and full-service, for-profit private management companies. Boards of directors conduct their governance responsibilities differently from other boards of directors; charter school management companies manage very differently from other management companies; and authorizers conduct their oversight responsibilities differently from other authorizers. There are examples of inconsistencies throughout the practices of all three stakeholders; despite initiatives to regulate and standardize the fundamental practices, roles, and responsibilities of each of these critical three actors in the Michigan charter school system. The lack of universal practices permeates activities such as; how charter schools are awarded, monitored, evaluated, re-authorized, placed on probation, and possibly revoked or discontinued. The inconsistencies of general practices and the absence of universal principles for all three actors contributes to role confusion and conflicts that impacts the governance of charter schools in the state of Michigan.
**Universal Oversight and Governance Principles**

The literature review provided examples on how many of the practices of boards of directors, management companies, and authorizers are different in many functions and similar in others. The differences in practice make it difficult to deploy oversight, governance accountability, and measure what is successful performance. As Frazier (2011) stated in the literature review, “Charter school board accountability continues to be a problem in charter schools in part because sponsors and boards are making up the rules as they go along.” Frazier is referring to the variance in business practices and the variance of how authorizers and charter school boards are held accountable. This accountability factor is also applicable to the full-service, for-profit private management companies that really do not have a government agency to regulate them. One could argue that the market forces hold boards of directors and management companies accountable. However, when charter schools fail, the authorizers and management companies then move on to the other challenges while the boards of the directors and the charter school constituencies are left to cope with the ramifications of school closures. This leaves behind devastated communities, families, and students who had limited input from the beginning and no recourse in the end other than commencing the search for a different option for another public school. The results are the communities and families that were served by the charter schools are abandoned to face the residual consequences.

The strategy of deploying universal oversight and governance principles would be a significant step toward improving industry-wide expectations and practices. A tool that
would help boards of directors and other stakeholders is the development of a universal charter school governance manual. The reason for a universal governance manual would be to provide written guidelines that give consistency and a common criterion for issues such as: fiscal management, compliance, and outcome performance. This would assist all three of the actors by equipping them with a common perspective of requirements and guidelines created by a cross-section of representatives, versus myopic and incongruent perspectives from the individual actors alone. With boards of directors, management companies, and authorizers operating from a common source of guidelines, it would mitigate role confusion and governance conflicts. The universal manual would provide common languages, guidelines, standards and practices for all of the authorizers, management companies, and charter school boards of directors to follow in the state of Michigan. This action would also provide an additional means of standardizing oversight processes for authorizers to provide to all boards of directors regardless of their location in the state of Michigan. The manual would provide guidance for processes and procedures to hold all three actors accountable. In order to increase probable success and implementation, such an initiative should be led by a state agency to mediate disagreements and make decisions when consensus cannot be reached.

When conflicts reach levels of urgency, boards of directors often times feel they do not have recourse regarding both the full-service, for-profit private management company they selected, and the authorizer that sponsored the charter of their school. The qualitative findings indicated the boards of directors’ feelings of lacking recourse regarding conflicts pertaining to transparency and full disclosure. As one of the interview participants stated, “It is really hard; I think when we look at having someone work on your behalf and not getting full disclosure.” The conflicts arise from a lack of trust and a
feeling that if the management company does not cooperate, there is not much a board can do beyond idle threats. The exception is during the period where the contract is nearing an end, at which point the charter school boards may renegotiate for other resources and options for changing to a different management company or changing to a different management model altogether.

**Board of Directors Recourse for Major Conflicts**

Another area of governance conflicts, relative to transparency and full disclosure, was around student performance regarding academics and behavior. Many of the interview participants mentioned that it was difficult to obtain data from the management companies when the results are negative. For example,

It is really easy to disseminate that into data and say everything is good, but when you dig deeper and pull back the layers of the onion you find out in many cases that the right level of visibility is not always disseminated to the board of directors and that things are being swept under the rug or hidden to make the overall picture look better than what it actually is.

One of the interview participants even went as far to say, “Lip service is given to full disclosure, but there isn’t full disclosure.” Such feelings were pervasive in the qualitative data. Boards may respond differently and experience confusion, especially if it is a novice board of directors. The same interview participant did share an observation regarding empowerment or the lack of empowerment. He basically stated that the authorizer is key: “If you don’t have the support of the authorizer, there is not a lot you can do.” The previous statement is an indication that board members need support and empowerment from their authorizers to govern effectively.
The quantitative and qualitative research findings show that boards need assistance and support in obtaining transparency and full disclosure in the areas of operations, whether it is regarding fiscal matters, bid processes, and accurate reports of the success indicators for the school, including student performance and test results. The authorizer is one entity that may provide clarity in this area. Authorizers often times will work indirectly with a full-service, for-profit private management company. The management companies may have multiple contracts with different charter schools’ boards of directors who may share the same authorizer. A management company’s positive relationship with its board of directors may be an indication that they are functioning in an ethical manner inclusive of operating with transparency and full disclosure. The other entity that has an ability to provide recourse for charter school boards of directors is the Michigan Department of Education. It is ambiguous as to how much jurisdiction the Michigan Department of Education has and if boards of directors can consider them as a reference for recourse, clear protocol for the boards to file grievances, complaints, and concerns. This leaves charter school boards of directors feeling like they have little to no option when governance conflicts occur and authorizers do not step in to provide them with support.

The clear choice for the boards of directors to ensure transparency and full disclosure is to insist that it is in the contract with clearly outlined metrics that the full-service, for-profit private management companies must abide by or risk breach of the contract. This will require a level of contract proficiency and expertise that may be probable if the boards of directors select astute legal counsel who is aware of charter school laws and legislation. The period of contract negotiations is a time when the boards of directors can leverage their position to mandate systems of controls and objectives for the management company to achieve; such as tying the percentage of the management fee to achieving certain academic goals as one of the examples provided by an interview
participant. The Michigan Department of Education could also mandate or strongly suggest that boards of directors hire legal counsel that work strictly on behalf of the boards’ interests.

**Authorizers’ Recommendations and Practices**

*The Authorizers’ Role and Impact on Conflicts in Governance*

The role and impact of the authorizers are arguably one of the most critical components to the success of the charter school system in the country. The authorizers in the state of Michigan have the added challenge of overseeing the highest penetration of charter schools managed by full-service, for-profit private management companies; by far more than double any other state. Their decision to remain neutral or engage in the conflicts between charter school boards of directors and the private for-profit management companies have reverberating ramifications. The authorizers’ primary relation is with the board of directors as defined by the charter agreement. The authorizer is the legal body that is granted the range of power to create or dissolve charter agreements. The authorizers have the power to grant, revoke and terminate the charter contracts along with singularly appointing every member of the charter school boards of directors. Vergari (2001) echoes the responsibility of the authorizer by stating, “Charter school authorizers occupy a critical position in the charter school system. Indeed, they serve as the public’s primary formal agent for holding charter schools accountable for performance” (p. 131). The legal contracts of the charters are specifically between the authorizing bodies and the governing boards of directors. The charter contract typically indicates that it is the board that has the comprehensive responsibilities to uphold the principles on which the charter was predicated and granted.
Technically, the authorizer does not have a formal and contractual relationship with the management companies; however, informal relations with the management companies sometimes germinate and impact the formal and contractual relationships between charter school boards and for-profit private management companies. It is important that authorizers provide tailored support strategies to boards given the unique and varied differences of boards of directors in their collective knowledge, skills, experience, and composition. Boards of directors must feel confident that the authorizer is a source of support and empowerment; existing and poised to oversee, develop, and assist with the charter schools’ success in pursuing their missions as stated in the charter agreements with the boards of directors.

The ability to hold the players in the charter school system accountable is extremely difficult. Critics refer to the lack of accountability as a glaring issue in charter school practices. Despite the disposition of critics, it is clear that authorizers hold boards accountable. It is also apparent that boards of directors who choose the model of contracting with for-profit private management companies should be responsible for holding management companies accountable. However, the boards of directors’ ability to do so are impacted by the parameters of the contract and the empowerment of their authorizers. Issues inherent in the contract and lack of authorizers’ support may generate board confusion and predicate conflicts in governance. These issues were prevalent in the quantitative data and the qualitative data.
As previously mentioned in the literature review, the key actor in charter school oversight in Michigan is the authorizer. The Michigan Department of Education (2012) explained the authorizer role as the following:

Pursuant to section 380.502(4): An authorizing body shall oversee, or shall contract with an intermediate school district, community college, or state public university to oversee, each public school academy operating under a contract issued by the authorizing body. The authorizing body is responsible for overseeing compliance by the board of directors with the contract and all applicable law. (p. 13)

The authorizers’ control of the boards’ membership by appointment has been a source of conflict. There are no term limits for board members and they may continue service unless negative behavior or some kind of violation, conflict of interest, or member defect takes place. The authorizers have the power to take members off the board or simply allow their term to expire without renewal. They also have the power to pressure or coerce the board to vote members off or force them to resign. The authorizers’ sole power to remove members also contains elements of conflict as Dixon’s (2014a) Detroit Free Press investigation found examples where board members were threatened with removal by the authorizer for trying to obtain financial information from their management company. Some of the qualitative data illustrated board members feeling a lack of effective systematic support from the authorizer led to some conflicts in governance.
Contributions To The Field

The contributions to research manifests as a result of exploration in the governance of Michigan charter schools when their boards of directors contract with full-service, for-profit private management companies. The literature review illustrated high levels of confusion regarding roles of board members, overlapping of roles and responsibilities with the full-service, for-profit private management companies, and resulting conflicts derived from such circumstances. The phenomenon of conflicts is clear and related to areas of operations where boards typically have jurisdiction and governance. However, when boards of directors opt to contract the services of full-service, for-profit private management companies, their control and authority transfers to the private management companies. These actions appear somewhat subliminally and do not surface unless conflicts arise between the two parties; at which time the boards realize that they are disempowered due to contractual terms and obligations within the management agreement that empowers the management company to control operations and the peripheral responsibilities of managing charter schools. This subsequently perpetuates disempowered feelings within the board as some of the qualitative interview participants phrased as feeling like a “rubber stamp.”

Michigan laws seem to favor management companies and not the boards of directors. Boards are the most disadvantaged of the three main actors in the state of Michigan; authorizers, charter school boards of directors, and full-service, for-profit private management companies. The complexities of the charter school industry are typically and understandably beyond the average citizen’s comprehension and therefore
require access to professional and legal counselors who may guide the charter school boards of directors into the practice of effective governance.

The main discovery from the research is that all things lead back to the contract. The findings and analysis revealed that boards of directors are not aware of and do not understand the pertinence of the contract with the full-service, for-profit private management companies. In order for charter school boards of directors to govern effectively, they must invest the time and effort to become aware of and versed in the contractual dynamics. Boards of directors must also retain legal counsel who has the capacity and experience to guide them to contractual prudence. Such levels of contractual awareness will enable charter school boards of directors in the state of Michigan to consciously decide which management model to pursue. In this pursuit, they can objectively make informed decisions to contract with a full-service, for-profit private management companies or decide to maintain a level of authority and control of their charter schools and act out the governance purpose of the boards of directors.

**Suggestions for Further Study**

The quantitative and qualitative data yielded opportunities to discover phenomenon worthy of exploration regarding the evolution of charter schools in the state of Michigan and the country. Some pervasive challenges that warrant further analysis included the opposing forces of two business models (non-profit and for-profit) working side-by-side, how to improve transparency and full disclosure in charter school systems, testing the implementation of having elected boards for charter schools, comparative analysis of two polarized management models, non-profit charter management organization (CMOs), for-profit private management companies or education
management organizations (EMOs) and their impact on charter school governance, the impact of governance on charter school performance, who is ultimately accountable for charter school governance in the state of Michigan, and finally an analysis of the authorizers impact on the governance of charter schools in the state of Michigan.

**Researcher Reflections**

The analysis of inherent role conflicts in the governance of Michigan charter boards contracting with full-service, for-profit private management companies provides many insights into the inner-workings of a different structure in public school education. It has reinforced what is working and what still needs to be restructured in order for charter schools to become what it was originally intended to be or make a conscious effort to accept what it has become and understand its position in the reform of education. The challenges of charter school boards of directors are vast and centered on their awareness and understanding of the contracts they sign to facilitate their vision of governance and leadership. Their range of decisions is between the extreme choices of self-managing, and choosing to contract with full-service, for-profit private management companies. If they choose the former, they maintain the full span of governance control and operational responsibility; empowerment is at its fullest. If they choose to contract with a full-service, for-profit private management company, then their control is diminished and authority transferred to the management company. However, despite the mitigation of control they still have full responsibility.

One of the primary issues of the research is that boards of directors do not realize the inter-relational governance dynamics given the parameters of the contract due to a lack of awareness of the contract. This occurs for many reasons, such as new board
candidates and new members who may have never been trained on the elements of the contract. When new members become part of a board, they are excited to give back to the community and are given erroneous impressions that they have ultimate authority; this is not the case when they contract with full-service, for-profit private management companies. The state of Michigan has many examples of such instances given that private management companies manage four out of five charter schools.

The implication of charter schools choosing a full-service, for-profit private management company affects how the schools are managed and operated. The decision infiltrates every part of the charter school including governance, leadership, operations, and finances. Governance becomes confusing because many of the boards’ responsibilities have become convoluted ranging from exclusive control to varying ranges of control given to the private management company. The best example is the responsibility for hiring charter school staff. Under the full-service management scenario, the private management company has sole responsibility for hiring everyone from top leadership to paraprofessionals and the board has no input into the process of selecting the school’s human resources. The determination of school leadership and the boards of directors’ inability to impact such decisions is a primary impetus of governance conflicts. The contractual analysis provided evidence that every contract reviewed indicated terminology phrased as; the management company has sole responsibility for hiring school staff and all of the peripheral responsibilities such as training, evaluating, placement and termination.

Many aspects of governance are compromised under the models of education management organizations. However, the problem is not with the model; the problem is
with the charter school boards of directors not being aware of and not understanding the contracts. The importance of the contracts must be placed at the forefront of board training so that boards of directors may build their contractual acumen and make a conscious, purposeful, and strategically aligned decision in terms of how they want the school to operate. If they choose the model of having a full-service, for-profit private management company, then they make such a decision fully aware that their ability to govern is diminished and they relinquish significant parts of their responsibilities and authority to the management company.

The governance roles of charter school boards of directors are crucial to the success of charter school reform. Board members have fiduciary, compliance, and performance outcome responsibilities for the charter schools. If these board roles are ambiguous, it will harness conflicts in governance that may negatively impact the charter schools. These conflicts may be identified and solved; however, it could also lead to negative scenarios that may result in school closure. As paraphrased by one of the references, governance of charter schools does matter, and so do charter school boards.

Summary

The analysis of inherent role conflicts in the governance of Michigan charter school boards contracting with full-service, for-profit private management companies provided quantitative and qualitative perspectives from experienced board members. These perspectives included their view of board governance and how responsibilities are divided and shared with for-profit private management companies. The responsibilities include the management of operations, compliance, and outcome components of charter schools. The analysis included three major sources of data generation: quantitative
research, qualitative research, and a qualitative contractual analysis that provided the essence of the contracts between charter school boards of directors and their contracted full-service, for-profit private management companies.

The data was triangulated and provided analysis to strengthen findings and galvanize perspectives on the causes of confusion that resulted in governance conflicts when boards contract with full-service, for-profit private management companies.

The theoretical framework that grounded this analysis included three theories; agency theory, stewardship theory, and contract failure theory. These theories were collectively rooted in economic, psychological, and sociological foundations. The theories synergistically illustrated a framework of potentially inherent conflicts in the agent-to-client relationships. The charter school boards (client) relationships with the full-service, for-profit management companies (agent) encompassed the complexities of non-profits entities working side-by-side with private for-profit entities. This relationship creates anomalies that contribute to confusion, tensions, and factors that result in governance conflicts, which affect the operations of charter schools. The anomalies included a phenomenon of parallel governance, which covertly impacts the governance of charter schools in the state of Michigan.
References


CONFLICTS IN THE GOVERNANCE OF MICHIGAN CHARTER SCHOOLS


Appendix A: Quantitative Survey Questionnaire
<p>| 1. The responsibility for hiring key personnel such as superintendent, principal, and teachers should be | O | O | O | O | O |
| 2. The responsibility for managing finance and budget matters should be | O | O | O | O | O |
| 3. The responsibility for managing the day-to-day operations of the school should be | O | O | O | O | O |
| 4. The responsibility for awarding contracts should be | O | O | O | O | O |
| 5. The responsibility for recommending board candidates should be | O | O | O | O | O | O |
| 6. The | | | | | |</p>
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<th>Responsibility</th>
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<td>for state and federal compliance should be</td>
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<td>7. The responsibility for determining curriculum and academic programs should be</td>
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<td>8. The responsibility for conducting student expulsion hearings should be</td>
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<td>9. The responsibility for special education policies of the school should be</td>
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<td>10. The responsibility for developing board meeting agendas and board minutes should be</td>
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<td>11. The development of the contractual agreement between the board and management company should be</td>
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<td>12. The acquisition of real estate, facilities, and</td>
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capital projects for the school should be

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<th>Please indicate your level of agreement or disagreement with the statements on the by filling in your response.</th>
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<tr>
<td>Strongly Disagree</td>
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<td>1. The management of funds and resources is affected when boards of directors contract with full-service for-profit management companies</td>
</tr>
<tr>
<td>2. Accountability of public funds is affected when boards of directors contract with full-service for-profit management services</td>
</tr>
<tr>
<td>3. Transparency of public funds is affected when boards of directors contract with full-service for-profit management services</td>
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<tr>
<td>4. The board of directors understand the articles, terms, and content of the management contract between the</td>
</tr>
<tr>
<td>board of directors and the full-service management company</td>
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Appendix B: Qualitative Interview Questions
Qualitative Interview Questions – Board of Directors

1. From your perspective as a long serving member of a charter school board of directors, what are the pros and cons relative to governing the school that occur as a result of contracting with a full-service management company?

2. Reflecting upon your board member experience in contracting with a for-profit management company, how would you describe the specific contractual relationship between the board and the management company?

3. Considering that the relationship between the board of directors and the management company is a critical element in the successful operation of the school, what do you think are factors that might contribute to tension in governance as a result of this relationship?

4. Do you believe that accountability and transparency of public funds may have changed when contracting with a for-profit company, or do you believe this is not an issue?

5. Given what you know about leadership and school governance, are there things that could be done contractually or legislatively to improve the governance of Michigan charter schools?
Appendix C: IRB Approval Letter
RESEARCH @ EMU

UHSRC Determination: EXPEDITED MODIFICATION APPROVAL

DATE: April 10, 2016

TO: Roderick Atkins
    Eastern Michigan University

Re: UHSRC: # 873482-2
    Category: Expedited
    Approval Date: April 08, 2016
    Expiration Date: March 10, 2017

Title: An Analysis of Role Conflicts in the Governance of Michigan Charter Schools

Your requested modifications for the project entitled An Analysis of Role Conflicts in the Governance of Michigan Charter Schools have been approved in accordance with all applicable federal regulations.

This approval includes the following: Option for participants to electronically complete the quantitative survey through SurveyMonkey. Board presidents or board designees may present the option when informing board members of the request for their participation.

1. Use of the modified stamped: Informed consent form

Renewals: This approval does not change the original expiration date. This study expires on March 10, 2017. If you plan to continue your study beyond March 10, 2017, you must submit a Continuing Review Form by February 8, 2017 to ensure the approval does not lapse.

Modifications: All additional changes must be approved prior to implementation. If you plan to make any minor changes, you must submit a Minor Modification Form. For any changes that alter study design or any study instruments, you must submit a Human Subjects Approval Request Form. These forms are available through IRBNet on the UHSRC website.

Problems: All major deviations from the reviewed protocol, unanticipated problems, adverse events, subject complaints, or other problems that may increase the risk to human subjects or change the category of review must be reported to the UHSRC via an Event Report form, available through IRBNet on the UHSRC website.

Follow-up: If your Expedited research project is not completed and closed after three years, the UHSRC office requires a new Human Subjects Approval Request Form prior to approving a continuation beyond three years.

Please use the UHSRC number listed above on any forms submitted that relate to this project, or on any correspondence with the UHSRC office.

Good luck in your research. If we can be of further assistance, please contact us at 734-487-3090 or via e-mail at human.subjects@emich.edu. Thank you for your cooperation.

Sincerely,

Joan Cowdery, PhD
Appendix D: CITI Human Subjects Review Board Certification
COLLABORATIVE INSTITUTIONAL TRAINING INITIATIVE (CITI PROGRAM)
COURSEWORK TRANSCRIPT REPORT**

** NOTE: Scores on this Transcript Report reflect the most current quiz completions, including quizzes on optional (supplemental) elements of the course. See list below for details. See separate Requirements Report for the reported scores at the time all requirements for this course were met.

- Name: Roderick Akine (ID: 4562777)
- Email: rakine@emich.edu
- Institution Affiliation: Eastern Michigan University (ID: 1788)
- Institution Unit: Education
- Curriculum Group: Investigators, Students, and Faculty Mentors
- Course Learner Group: Same as Curriculum Group
- Stage: Stage 1 - Basic Course
- Report ID: 14942613
- Report Date: 09/29/2015
- Current Score**: 92

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<th>MOST RECENT</th>
<th>SCORE</th>
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<td>02/25/15</td>
<td>4/5  (80%)</td>
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<td>02/26/15</td>
<td>5/5  (100%)</td>
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<td>Belmont Report and CITI Course Introduction (ID: 1127)</td>
<td>02/25/15</td>
<td>3/5  (100%)</td>
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<td>02/26/15</td>
<td>5/5  (100%)</td>
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<td>5/5  (100%)</td>
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<td>02/26/15</td>
<td>5/5  (100%)</td>
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<td>5/5  (100%)</td>
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<td>Research in Public Elementary and Secondary Schools - SBE (ID: 508)</td>
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<td>4/5  (80%)</td>
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<tr>
<td>Populations in Research Requiring Additional Considerations and/or Protections (ID: 16680)</td>
<td>03/01/15</td>
<td>5/5  (100%)</td>
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</tbody>
</table>

For this Report to be valid, the learner identified above must have had a valid affiliation with the CITI Program subscribing institution identified above or have been a paid Independent Learner.

CITI Program
Email: citisupport@tmi.edu
Phone: 305-343-7970
Web: https://www.citiprogram.org
Appendix E: Management Contracts from Contractual Analysis
MANAGEMENT AGREEMENT

THIS MANAGEMENT AGREEMENT (the "Agreement") is made and entered into as of the 5th day of [DD/MM/YY], 2011, by and between NATIONAL HERITAGE ACADEMIES, INC, a Michigan corporation ("NHA"), and EAST ASHORE CHARTER ACADEMY, a body corporate and public school academy (the "Academy").

RECORDS

The Academy is a charter school, organized as a public school academy under the Revised School Code (the "Code"). The Academy was issued a Charter Contract by Grand Valley State University (the "Authorizer") to organize and operate a public school academy. The Academy's Charter Application and the Charter Contract between the Academy and Authorizer, and all amendments to the Charter, are collectively referred to as the "Charter".

The Academy and NHA desire to create an enduring educational alliance, whereby the Academy and NHA will work together to promote educational excellence and innovation, based on NHA's school design, comprehensive educational program and management principles.

In order to facilitate the organization and opening of the Academy, and to implement an innovative educational program at the Academy, the parties desire to establish this arrangement for the management and operation of the Academy.

The Academy and NHA agree that no provision of this Agreement shall be construed to interfere with the Academy Board's constitutional duty to exercise its statutory, contractual and fiduciary responsibilities in governing the operation of the Academy. The parties acknowledge and agree that the Academy Board is an independent, self-governing public body which shall operate in accordance with the Charter and applicable law.

Therefore, for good and valuable consideration, the receipt of which is hereby acknowledged, it is mutually agreed as follows:

ARTICLE I

CONTRACTING RELATIONSHIP

A. Authority. The Academy's Board of Directors (the "Board") represents that it is authorized by law to contract with a private entity and for that entity to provide educational, business administration and management services. Upon issuance of the Charter to the Board by the Authorizer, the Board will be vested with all powers and authority necessary to operate a charter school under the Code.

B. Management Services. Subject to the terms and conditions of this Agreement, the Academy hereby contracts with NHA, to the extent permitted by law, for the provision of all labor, materials, equipment and supervision necessary for the provision of educational, business administration and management services.
C. Compliance with Academy’s Charter. NHA agrees to perform its duties and responsibilities under this Agreement in a manner that is consistent with the Academy’s obligations under the Academy’s Charter issued by Grand Valley State University Board of Trustees. The provisions of the Academy’s Charter shall supersede any competing or conflicting provisions contained in this Agreement. NHA agrees to comply with the terms and conditions pursuant to Section 11.15 as set forth in the Charter.

D. Designation of Agents. Neither NHA nor its employees, agents or representatives shall be deemed an agent or employee of the Academy solely on account of this Agreement, except as follows:

1. The Board shall by Board resolution appoint the Board Treasurer, or such other officer as determined by the Board, to serve as the chief administrative officer of the Academy (the “CAO”). The Board resolution shall designate NHA’s chief financial officer, or such other NHA officer or employee as is mutually agreed upon by NHA and the Academy, as the designated agent of the CAO to assist the CAO with the performance of the CAO’s duties under the Uniform Budgeting and Accounting Act, MCLA 141.421 et seq. (the “Budgeting and Accounting Act”).

2. NHA, and its respective officers, directors, employees and designated agents are each hereby authorized to serve as agents of the Academy having a legitimate educational interest in the Academy and its students for purposes of the Family Educational Right and Privacy Act, 20 U.S.C. §1232g et seq (“FERPA”), such that they are jointly and severally entitled to access the educational records of the Academy for all purposes related to FERPA.

3. As otherwise expressly designated by written resolution or agreement of the Board.

E. Status of the Parties. The parties to this Agreement intend that the relationship between NHA and the Academy created by this Agreement is that of an independent contractor and not employer – employee. NHA shall be solely responsible for its acts and the acts of its agents, employees and subcontractors. NHA is a for-profit Michigan corporation, and is not a division, subsidiary or employee of the Academy. The Academy is a body corporate and governmental entity authorized by the Code, and is not a division, subsidiary or employee of NHA. The relationship between NHA and the Academy is based solely on the terms of this Agreement, and the terms of any other written agreements between NHA and the Academy.

ARTICLE II

TERM

A. Term. This Agreement shall be effective as of ______________ 2011 and unless otherwise terminated pursuant to this Agreement, this Agreement shall continue until the termination or expiration of the Charter currently in effect, inclusive of any Charter reauthorization or renewal periods. The first school year of this Agreement shall be from July 1,
2011 to June 30, 2012, and each school year thereafter shall commence on July 1 and end on June 30 of the following year.

ARTICLE III

OBLIGATIONS OF NHA

A. Responsibility. NHA shall be responsible and accountable to the Board for the educational, business administration and management services of the Academy in accordance with the Charter. NHA’s responsibility is expressly limited by: (i) the Academy’s budget which is to be submitted in proposed form by NHA to the Board and approved by the Board as provided in this Agreement ("Budget"), and (ii) the availability of state funding to pay for said services. Subject to Article VI(B)(3), neither NHA nor the Academy shall be allowed to expend Academy funds on services in excess of the amount set forth in the Budget.

B. Educational Program. The Academy has adopted NHA’s educational and academic programs and goals as set forth in the Charter (collectively the “Educational Program”). NHA, subject to the oversight of the Academy, agrees to implement and administer the Educational Program. The Educational Program was developed by NHA; in the event that NHA reasonably determines that it is necessary or advisable to make material modifications to the Educational Program, NHA shall inform the Board of the proposed changes and obtain Board approval, as well as Authorizer approval if required by the terms of the Charter. The parties hereto acknowledge that an essential principle of the Educational Program is its flexibility, adaptability and capacity to change in the interest of continuous improvement and efficiency. The Academy and NHA each agree that they are interested in results and not in inflexible prescriptions. Not less than annually, and otherwise as requested, NHA will provide the Board with a progress report detailing progress made on each of the educational goals set forth in the Educational Program.

C. Specific Functions. Subject to the oversight and authority of the Board as provided herein, NHA shall be responsible for implementing the Educational Program and the educational, business administration and management services of the Academy including establishment of operational practices that are consistent with Board policy. Such functions include, but are not limited to:

1. Student recruitment and student admissions.

2. Implementation and administration of the Educational Program, including, without limitation, the acquisition of instructional materials, equipment and supplies and the administration of any and all extra-curricular and co-curricular activities and programs approved by the Board and NHA and funded by the Board Spending Account as defined in Article VI(B)(3).

3. Employment of personnel working at the Academy and management of all personnel functions, as set forth in Article VII below.

4. All aspects of the Academy’s business administration.
5. All aspects of the accounting operation, including general ledger management, financial reporting, payroll, employee benefits and payroll tax compliance.

6. Transportation and food service to the extent such services are authorized by the Board and to the extent NHA agrees to provide such services.

7. All aspects of the Academy’s facility administration.

D. NHA Purchases Funded By Board Spending Account. Items purchased by NHA for the Academy and paid for by the Academy with funds from the Board’s Spending Account, as defined in Article VI(B)(3), such as non-proprietary instructional and/or curriculum materials, books, supplies and equipment, shall be the property of the Academy. At the Board’s request, NHA shall provide the Board on an annual basis with a listing of all assets owned by the Academy. The property of the Academy excludes items leased, financed or purchased by NHA with NHA’s Fee as defined in Article VI(C). NHA agrees not to add any fees or charges to the cost of equipment, materials or supplies purchased by NHA on behalf of the Academy with funds from the Board’s Spending Account.

NHA, in making such purchases for the Academy pursuant to this subparagraph D, shall comply with Section 1274 of the Code, MCL 380.1274, as if the Academy were making such purchases itself from a third party, and shall provide the Board, upon request, with available documentation evidencing the costs associated with such purchases.

E. Subcontracts. NHA reserves the right to subcontract any and all aspects of all services it agrees to provide to the Academy, including, but not limited to transportation and/or food service. However, NHA shall not subcontract the management or oversight of the Educational Program, except as specifically permitted in this Agreement or with prior written approval of the Board.

F. Place of Performance. NHA reserves the right to perform functions other than instruction, such as purchasing, professional development, and administrative functions, off-site, unless prohibited by the Charter or applicable law.

G. Student Recruitment. NHA shall be responsible for the recruitment of students. Students shall be selected in accordance with the procedures set forth in the Charter and in compliance with the Code and applicable law. Marketing costs charged to the Academy shall be limited to those costs specific to the Academy and shall not include costs for the marketing of NHA.

H. Due Process Hearings. NHA shall provide student due process hearings in conformity with the requirements of the Academy’s Charter and applicable law regarding discipline, special education, confidentiality and access to records. The Board shall retain the right to provide due process as required by law.

I. Legal Requirements. NHA shall implement and enforce rules, regulations and procedures applicable to the Academy that are consistent with adopted Board policy and the Educational Program in accordance with the Charter and applicable law. To the extent allowable under the Charter and permitted by the Authorizer, the Board shall interpret all applicable
federal, state and/or local laws, rules and regulations reasonably to give NHA flexibility and
freedom to implement its Educational Program.

J. Rules and Procedures. NHA shall recommend to the Board reasonable rules,
regulations, policies and procedures applicable to the Academy and is authorized and directed by
the Board to enforce such rules, regulations and procedures adopted by the Board.

K. School Year and School Day. The school year and the school day schedule shall
be approved by the Board as required under the Charter.

L. Pupil Performance Standards and Evaluation. NHA shall implement pupil
performance evaluations that permit evaluation of the academic progress of each Academy
student. NHA shall be responsible and accountable to the Board for the academic performance
of students who are enrolled at the Academy. NHA will utilize assessment strategies required by
the terms of the Charter and applicable law. The Board and NHA will cooperate in good faith to
identify academic goals and methods to assess the students’ academic performance.

M. Services to Disabled Students and Special Education. NHA shall provide
special education services to students who attend the Academy in conformity with the
requirements of applicable law. NHA may subcontract as necessary and appropriate for the
 provision of services to students with special needs. Such services shall be provided in a manner
that complies with applicable law.

N. Contract between the Academy and Authorizer. NHA will not act in a manner
that causes or would cause the Academy to be in breach of its Charter.

O. Unusual Events. NHA agrees to notify the Board and school
administrator of any anticipated or known material: (i) health or safety issues, (ii) labor,
employee or funding problems, or (iii) problems of any other type that could reasonably be
expected to adversely affect the Academy in complying with the Academy’s responsibilities
under the Charter, this Agreement or applicable law.

P. Academy Records. The financial, educational and student records pertaining to
the Academy (collectively the “Academy Records”), are property of the Academy. Except as
may be prohibited or limited by the Charter or applicable law, the Academy Records shall be
available to the Board and the Authorizer for their review, and are subject to inspection and
copying to the same extent that records of a public school are subject to inspection and copying
pursuant to applicable law. All Academy Records shall be physically or electronically available
upon request at the Academy’s physical facility.

Q. Intellectual Property Rights. “Educational Materials” shall include (without
limitation) all curriculum, print and electronic textbooks, instructional materials, lesson plans,
teacher guides, workbooks, tests and all other curriculum-related materials.

The Academy will own all proprietary rights to Educational Materials that: (i) are
developed by the Academy and paid for out of the Board Spending Account (as defined in
Article VI(B)(3)); or (ii) are developed by NHA or a third party at the direction of the Academy
and paid for out of the Board Spending Account (the “Academy Materials”).
NHA shall own all proprietary rights to, and the Academy's proprietary interest shall not include, Educational Materials that were developed by NHA or copyrighted or similarly protected by NHA. NHA shall own all intellectual property rights, including (without limitation) copyrights in and to the Educational Program and all Educational Materials relating thereto, as well as any non-curriculum materials created or provided by NHA in connection with, or related to, the implementation of the Educational Program including, without limitation, all corrections, modifications, and derivatives thereof (collectively all of the foregoing shall be referred to as the "NHA Materials").

The parties acknowledge that to the extent the Academy's Materials are derivative of NHA Materials, the Academy's intellectual property ownership rights extend only to the new, original aspects of such works and not to any underlying or pre-existing material. Relevant Educational Materials and teaching techniques used by or at the Academy shall be subject to disclosure to the extent required under the Code and Freedom of Information Act.

NHA hereby grants to the Academy the non-exclusive, non-transferable license to use the NHA Materials in furtherance of the Educational Program during the term of this Agreement including, without limitation, the right to reproduce, publicly display, distribute, and create derivatives of same, in hard copy format, or electronically via the Academy's intranet. To the extent any part of the Academy Materials may be a derivative of NHA Materials, the Academy shall have the non-exclusive, non-transferable right to use such NHA Materials, as same may have been previously embodied or incorporated in the Academy Materials, beyond the termination or expiration of this Agreement solely in connection with the operation of the Academy and in the ordinary course of such operations. The Academy represents and warrants that during the term of this Agreement, or following the expiration or termination of this Agreement, the Academy will not exploit, or assist any third party in exploiting, the Academy Materials or any NHA Materials for commercial purposes. Subject to applicable law, inclusive of FERPA, the Academy hereby grants NHA the non-exclusive, irrevocable, worldwide, assignable right to use, distribute, modify and display the Academy Material, solely for education purposes in any and all media now known or hereafter developed.

NHA hereby grants the Academy the non-exclusive, non-transferable license to use NHA's trade name and NHA's trademark(s) to promote and advertise the Academy. No other use of the NHA Trademarks is permitted without NHA's prior written permission. The Academy shall acquire no rights in the NHA Trademarks, and all goodwill of the NHA Trademarks shall inure to the benefit of and remain with NHA. NHA shall have pre-approval rights for each form and manner of public display of the NHA Trademarks.

R. Facility. NHA shall use reasonable efforts to secure a facility to be leased or otherwise provided to the Board on terms mutually agreeable to NHA and the Board. Obligations of the Board created under the terms of such lease are to be fulfilled by NHA unless otherwise agreed to in writing by NHA and the Board. The facility shall comply with the requirements of the Charter and applicable law. NHA shall also use reasonable efforts to cause the facility to be furnished with equipment and technology as is reasonably necessary to implement the Educational Program.
ARTICLE IV
OBLIGATIONS OF THE BOARD

A. Good Faith Obligation. The Board shall be responsible for its fiscal and academic policies. The Board shall exercise good faith in considering the recommendations of NHA, including but not limited to, NHA's recommendations concerning policies, rules, regulations and budgets.

B. Assistance to NHA. The Board shall cooperate with NHA and, to the extent consistent with applicable law, shall timely furnish NHA all documents and information necessary for NHA to properly perform its responsibilities under this Agreement.

C. Unusual Events. The Board agrees to timely notify NHA of any anticipated or known material: (i) health or safety issues, (ii) labor, employee or funding problems, or (iii) problems of any other type that could reasonably be expected to adversely affect NHA in complying with its responsibilities hereunder.

D. NHA Office Space. Upon request by NHA, the Board shall provide NHA with suitable space at the Academy, provided: (i) the requested space is available and can be provided without materially prejudicing the Educational Program, and (ii) the requested space is used only for activities related to the Academy. The space shall be provided at no cost to NHA.

E. Retained Authority. The Board shall retain the authority to make reasonable regulations in accordance with applicable law relative to anything necessary for the proper establishment, maintenance, management, and operation of the Academy, including, without limitation, regulations relative to the conduct of pupils while in attendance at the Academy or en route to and from the Academy.

ARTICLE V
SOLICITATION AND USE OF PRIVATE FUNDS

NHA must seek the Board's approval prior to soliciting any non-governmental grants, donations or contributions on behalf of the Academy. Any such funds so received shall be used solely in accordance with the purpose for which they were solicited, applicable donor restrictions, or as otherwise approved by the Board. Subject to applicable donor restrictions, the Board shall determine the allocation of any funds subject to this Article V that remain unexpended following completion of the project or purpose for which they were originally designated.
ARTICLE VI

FINANCIAL ARRANGEMENTS

A. Revenues. Except as hereinafter provided, all monies received by the Academy Board shall be deposited in the Academy's depository account within three (3) business days with a financial institution acceptable to the Board; provided, however, that upon receipt of a notice from NHA, the Academy agrees to pay all such funds owing under this Agreement directly to the account or party specified in such notice. Interest income earned on the Academy depository account shall accrue to the Academy. Except as specifically excluded by the terms of this Agreement, the term "Revenues" shall include all funds received by or on behalf of the Academy, including but not limited to:

1. Funding for public school students enrolled at the Academy.

2. Special education funding provided by federal and/or state governments that is directly allocable to special education students enrolled at the Academy.

3. Gifted and talented funding provided by federal and/or state governments that is directly allocable to gifted and talented students enrolled at the Academy.

4. At-risk funding provided by federal and/or state governments that is directly allocable to at-risk students enrolled at the Academy.

5. Funding provided by federal and/or state governments that is directly allocable to students enrolled at the Academy with limited English proficiency.

6. All other federal and/or state grant sources, including, but not limited to, Title I and any start up funding allocable to the Academy.

7. All other grants and donations received by the Academy to support or carry out programs at the Academy (except to the extent NHA is not required or involved in soliciting, administering or managing the contribution and/or donation in which case such funds shall be deposited in the Board Spending Account).

8. Fees charged to students as permitted by law for extra services approved by the Board.

The Revenues shall be expended by NHA in accordance with the Budget and as otherwise authorized by the Board. The expenditure of Revenues received from governmental entities shall be consistent with all applicable regulations and policies. The expenditure of Revenues received from non-governmental grants, contributions and donations shall be made consistent with the provisions of Article V.
B. Budget

1. **Budget.** NHA shall provide the Board with an annual proposed Budget prepared and maintained in accordance with the Budgeting and Accounting Act and the Academy's Charter. The proposed Budget shall include all of the Academy's projected revenues and expenses at the object level as described in the Michigan Department of Education's Michigan School Accounting Manual. For the Academy's first school year, the proposed Budget shall be submitted prior to the beginning of the school year. Thereafter, the proposed Budget shall be submitted to the Board prior to June 1st for the next school year.

2. **Review and Approval of Budget.** The Board shall be responsible for reviewing and approving the Budget in accordance with the Charter and applicable law. The Budget shall be amended from time to time as necessary to comply with the Budgeting and Accounting Act.

3. **Board Spending Account.** Notwithstanding any other provision of this Agreement, each school year during the term of this Agreement, NHA shall pay to the Board an amount equal to the lesser of (i) 2% of state per pupil aid reflected in the Budget for that respective school year, or (ii) $35,000 (the “Board Spending Account”). The aforesaid amount shall be deposited by NHA into the Board Spending Account pro-rata during the course of the Academy's school year as Revenues are received. All funds in the Board Spending Account are the property of the Academy and may be used by the Academy at the discretion of the Board. Funds in the Board Spending Account that are not spent by the Academy during the school year shall carryover to the Academy's next school year.

G. **Fee.** NHA shall receive all Revenues as its Management Fee (the "Fee"), from which it shall pay all operating costs of the Academy as detailed in the Budget. NHA and the Board acknowledge that operating costs include an administrative fee of 3% payable to the Authorizer as set forth in the Charter. It is anticipated that NHA will be paid its Fee on the same frequency that the Academy receives its Revenues. NHA shall be entitled to retain as compensation for its services rendered pursuant to this Agreement the difference, if any, between the amount of the Fee and the amount actually expended by NHA in operation and/or management of the Academy during the Academy’s fiscal year.

D. **Availability of Funds.** Except as specifically set forth in this Agreement, NHA shall only be required to perform its responsibilities under this Agreement to the extent that there are sufficient Revenues to make payments in accordance with the terms of the Budget.

E. **Other Schools.** The Academy acknowledges that NHA has entered into similar management agreements with other schools. NHA shall maintain separate accounts for expenses incurred in the operation of the Academy and other schools managed by NHA, and shall reflect in the Academy’s financial records only those expenses incurred in the operation of the Academy. If NHA incurs expenses that are for both the benefit of the Academy and other schools managed by NHA, then NHA shall allocate, to the extent permitted by law, such expenses among all such affected schools, including the Academy, on a prorated basis based
upon the number of enrolled students, the number of classrooms, or the number of teachers at the
affected schools, or on such other equitable basis.

F. Financial Reporting. NHA shall provide the Board with:

1. The annual proposed Budget as required by the terms of this Agreement.

2. Statement of Revenues, Expenditures and Changes in Fund Balance
detailing all revenues received, and all expenditures for services rendered or expenses incurred in
operation of the Academy. The Statement of Revenues, Expenditures and Changes in Fund
Balance shall include detail of budget to actual revenue and expenditures with an explanation
of variances.

3. Reports on Academy operations and student performance shall be
provided to the Board quarterly, unless otherwise reasonably requested by the Board.

4. Such other information as the Board may reasonably request to enable the
Board to (i) evaluate the quality of the services provided by NHA to the Academy, and (ii)
timely provide all reports and information that the Academy is required to provide pursuant to
the Charter and applicable law.

G. Access to Records. NHA shall keep accurate financial records pertaining to its
operation of the Academy, together with all Academy financial records prepared by or in
possession of NHA, and shall retain all of the aforesaid records according to the Charter
and applicable law to which such books, accounts, and records relate. NHA and the Board shall
maintain the proper confidentiality of personnel, students, and other records as required by law.

H. Accounting Standards/Annual Audit.

1. Accounting Standards. The Academy shall at all times comply with
generally accepted public sector accounting principles, accounting system requirements of the
State School Aid Act of 1979, as amended, and applicable Michigan Department of Education
rules.

2. Annual Audit. The Board shall select and retain an independent auditor to
carry out the annual audit of the Academy’s financial matters in accordance with the Academy’s
Charter and applicable law. Subject to applicable law, all records in the possession or control of
NHA that relate to the Academy, including, but not limited to, financial records, shall be made
available to the Academy and the Academy’s independent auditor.

I. Start-up Costs/NHA Contribution. NHA will provide start-up funds for (i) the
development of curriculum, a technology system and a school operations plan; (ii) recruiting,
selecting and training of staff members; and (iii) cleaning, renovating (to the extent necessary as
reasonably determined by NHA) and equipping of the Academy facility. In addition, NHA may,
but need not, make contributions to the Academy in the event Academy expenses exceed
revenues (the “Contributions”). NHA Contributions, if any, shall be in amounts acceptable to
NHA and the Board and shall be included in the Budget. The Academy shall not be legally obligated to repay NHA for NHA Contributions made to or on behalf of the Academy. NHA's agreement to make such Contributions shall not be deemed to negate or mitigate the need for the Academy to apply for or solicit state or federal start-up funds, grants or sub-grants which the Academy, as a public school, may be eligible to receive.

ARTICLE VII
PERSONNEL & TRAINING

A. Personnel. NHA shall select and hire qualified personnel to perform services at the Academy. NHA shall have the responsibility and authority, subject to subparagraphs B, C and D below, to select, hire, evaluate, assign, discipline, transfer, and terminate personnel consistent with the Budget and applicable law. Personnel working at the Academy shall be employees of NHA unless otherwise agreed by NHA and the Board. Each party shall be responsible for their respective employees. However, the compensation of all employees working at the Academy shall be included in the Budget. Upon Board request, NHA shall disclose to the Board the level of compensation and fringe benefits provided by NHA to NHA employees working at the Academy. A criminal background check and unprofessional conduct search in compliance with applicable law shall be conditions for the hiring of or services provided by any person who will or may be reasonably expected to have unsupervised access to and the care, custody or control of, any Academy student(s).

B. School Administrator. The Academy Administrator (the "Administrator") shall be an employee of NHA and not the Board. The duties and terms of the Administrator's employment shall be determined by NHA. The Administrator shall work with NHA in the operation and management of the Academy. The accountability of NHA to the Academy is an essential foundation of this Agreement. Since the Administrator is critical to the Academy's success, NHA shall have the authority, consistent with subparagraph A above, to select, hire, evaluate, assign, discipline, transfer and terminate the Administrator, and to hold the Administrator accountable for the performance of the Academy. NHA shall consult with the Board prior to the placement and/or removal of the Administrator at the Academy. Absent compelling circumstances, the consultation shall commence at least ninety (90) days prior to NHA placing and/or removing the Administrator at the Academy. NHA shall give due consideration to the input, if any, of the Board or board's designated representative prior to making a final decision regarding placement and/or removal of the Administrator at the Academy. NHA shall remove the Administrator from the Academy if the Board is reasonably dissatisfied with the Administrator's performance. Absent compelling circumstances, however, the Board shall give NHA and the Administrator six (6) months to correct the basis for the Board's reasonable dissatisfaction. The parties agree that the purpose of the above provisions is not to deny the Administrator the opportunity for growth and/or promotion within NHA. Notwithstanding any of the foregoing, the placement of the initial Administrator for a new Academy shall be made by NHA.

C. Teachers. NHA shall, consistent with subparagraph A above, provide the Academy with teachers qualified to teach their assigned subjects and grade level. The curriculum taught by the teachers shall be consistent with the Educational Program. The
teachers may, at the discretion of NHA, work at the Academy on a full or part time basis. If working at the Academy on a part time basis, the teacher(s) may also work at other schools managed or operated by NHA. The cost for such teacher(s) shall be shared proportionately among the schools at which the teacher(s) are working. Each teacher working at the Academy shall hold a valid teaching certificate issued by the state board of education or applicable state agency to the extent required by the Code.

D. Support Staff. NHA shall, consistent with subparagraph A above, provide the Academy with qualified support staff as needed to operate the Academy in an efficient manner. The support staff may, at the discretion of NHA, work at the Academy on a full or part time basis. If assigned to the Academy on a part time basis, the support staff may also work at other schools managed or operated by NHA. The cost for such support staff shall be shared proportionately among the schools at which the support staff is working. An individual who provides a service to students in the Academy that is not teaching, and for which a license is required under Michigan law, must have the appropriate license to provide the service in Michigan.

E. Training. NHA shall provide training in its methods, curriculum, program, and technology to all teaching personnel on a regular basis. Instructional personnel shall receive at least the minimum hours of professional development as required by the Code. Non-instructional personnel shall receive training as NHA determines reasonable and necessary under the circumstances.

F. Background Checks and Qualifications. NHA shall comply with Michigan law regarding background checks, unprofessional conduct searches and certification/licensure, as applicable, for all persons working in the Academy.

G. Terms of Employment. No member of the staff at the Academy shall be subject to any covenant not to compete or other employment restriction as part of the terms of his or her employment with NHA for services at the Academy.

H. Limitations on Discretion. All decisions made by NHA, and any discretion exercised by NHA, in its selection, hiring, evaluation, assignment, discipline, transfer, and termination of personnel, shall be consistent with the Budget, the parameters adopted and included in the Educational Program, and applicable law.

ARTICLE VIII
TERMINATION OF AGREEMENT
A. Termination.

1. By NHA. NHA may, at its option, terminate this Agreement prior to the end of the terms specified in Article II in the event the Board fails to remedy a material breach within thirty (30) days after notice from NHA. A material breach includes, but is not limited to, NHA's failure to receive for any reason compensation or reimbursement as required by the terms of this Agreement, or the Academy's loss or suspension of its Charter.
2. By Academy. The Academy may terminate this Agreement prior to the end of the terms specified in Article II in the event that NHA shall fail to remedy a material breach within thirty (30) days after notice from the Board. A material breach includes, but is not limited to: (i) failure to account for its expenditures or to pay Academy operating costs in accordance with the terms of the Budget (provided funds are available to do so), (ii) failure to follow policies, procedures, rules, regulations or curriculum duly adopted by the Board that are not in violation of the Charter, this Agreement, or applicable law, (iii) receipt by the Board of unsatisfactory reports from NHA or from an educational consultant retained by the Board about matters concerning NHA's performance or the performance of the Academy that are not adequately corrected or explained; or (iv) if this Agreement or its implementation would serve as grounds for revocation of the Academy's Charter or would otherwise jeopardize tax exemptions or non-profit tax status of the Academy.

3. By Either Party. Either party may terminate this Agreement for any reason upon giving not less than ninety (90) days notice to the other party.

4. Revocation or Termination of Charter. If the Academy's Contract issued by the Grand Valley State University Board of Trustees is revoked or terminated, this Agreement shall automatically terminate on the same date as the Academy's Contract is revoked or terminated without further action of the parties.

B. Termination/Expiration.

1. Effective Date of Termination. In the event this Agreement is terminated by either party prior to the end of the term specified in Article II, absent a material breach or unusual and compelling circumstances, and absent an effective date to the contrary determined under Article VIII(A)(4), the termination will not become effective until the end of the then current school year in which the notice of termination is issued.

2. Removal of Personal Property. Upon termination or expiration of this Agreement, NHA shall have the right to remove equipment and other assets owned or leased by NHA. Equipment and other assets owned by the Academy or leased by the Academy from third parties shall remain the property of the Academy.

3. Amounts Due upon Termination or Expiration. Except as otherwise provided in this Agreement or unless otherwise agreed to in writing by NHA, upon termination or expiration of this Agreement for any reason, the Academy shall pay or reimburse NHA for: (i) the prepaid portion of any expenses paid by NHA in accordance with the Budget; and (ii) for any outstanding liabilities incurred by NHA as of the effective date of the termination of this Agreement, in accordance with the budget or as a result of NHA's obligations under this Agreement. NHA will provide the Academy with written documentation of all such amounts.

4. Transition. NHA, for a fee reasonably acceptable to NHA, may at its sole discretion assist the Academy for a period not to exceed ninety (90) days following the effective date of termination of this Agreement, with the Academy's transition to another administrative or managerial arrangement (notwithstanding the foregoing, NHA will have no obligation to provide
any assistance to the Academy if the Academy intends to transition to another management company or service provider).

ARTICLE IX

INDEMNIFICATION

A. Indemnification. To the extent not prohibited by the Charter or applicable law, each party to this Agreement does hereby agree to indemnify and hold the other party (the “Indemnified Party”), harmless from and against any and all claims, actions, damages, expenses, losses or awards which arise out of (i) the negligence of the indemnifying party, (ii) any action taken or not taken by the indemnifying party, or (iii) any noncompliance or breach by the indemnifying party of any of the terms, conditions, warranties, representations, or undertakings contained in or made pursuant to this Agreement. As used in this subsection, Indemnified Party shall include the party’s trustees, directors, officers, employees, agents, representatives and attorneys. Such indemnification may be achieved by the joint purchase of general liability and property insurance policies, or by such other means as the parties may mutually agree. Notwithstanding anything in this Agreement to the contrary, the Academy Board shall not be precluded by the terms of this Agreement from asserting or declining to assert a claim of governmental immunity.

B. Indemnification of Grand Valley State University. The parties acknowledge and agree that the Grand Valley State University Board of Trustees, Grand Valley State University and its members, officers, employees, agents or representatives are deemed to be third party beneficiaries for purposes of this Agreement. As third party beneficiaries, the parties hereby promise to indemnify and hold harmless Grand Valley State University Board of Trustees, Grand Valley State University and its members, officers, employees, agents or representatives from all claims, demands, or liability, including attorney fees, and related expenses, on account of injury, loss or damage, including, without limitation, claims arising from bodily injury, personal injury, sickness, disease, death, property loss or damage or any other losses of any kind whatsoever and not caused by the sole negligence of Grand Valley State University, which arise out of or are in any manner connected with Grand Valley State University Board’s approval of the School of Excellence application, the University Board’s consideration of or issuance of a Contract, the Academy’s preparation for and operation of a public school, or which are incurred as a result of the reliance by Grand Valley State University and its Board of Trustees members, officers, employees, agents or representatives upon information supplied by the Academy or NIH, or which arise out of the failure of the Academy to perform its obligations under the Contract issued to the Academy by Grand Valley State University Board of Trustees. The parties expressly acknowledge and agree that Grand Valley State University and its Board of Trustees members, officers, employees, agents or representatives may commence legal action against either party to enforce its rights as set forth in this Agreement.
ARTICLE X

INSURANCE

A. Insurance Coverage. NHA shall maintain such policies of insurance as required by the Charter, Michigan Universities Self-Insurance Corporation ("MUSIC"), and applicable law. In addition, NHA shall maintain an umbrella liability policy of not less than two million dollars ($2,000,000.00) or such greater amount as required by the terms of the Charter, MUSIC or applicable law. Each party shall maintain general liability insurance in the amount of One Million Dollars ($1,000,000.00) per occurrence (or such greater amount as required by the terms of the Charter, MUSIC or applicable law), with the other party listed as an additional insured if permitted by MUSIC. The Academy shall maintain insurance on its facility and related capital items leased by the Academy, all as required by the terms of the Academy's lease(s). Each party shall, upon request, present evidence to the other that it maintains the requisite insurance in compliance with the provisions of this paragraph. In the event that MUSIC requests any change in coverage by NHA, NHA agrees to comply with any change in the type and amount of coverage requested by MUSIC within thirty (30) days after notice of the insurance coverage change is provided to NHA. Each party shall comply with any information or reporting requirements required by the other party’s insurer(s), to the extent reasonably practicable.

B. Workers’ Compensation Insurance. Each party shall maintain workers’ compensation insurance as required by law, covering their respective employees.

ARTICLE XI

WARRANTIES AND REPRESENTATIONS

A. Academy Warranties and Representations. The Board warrants and represents that, on behalf of and in the name of the Academy, it has the authority under law to execute, deliver and perform this Agreement and to incur the obligations provided for under this Agreement. The Board warrants that its actions have been duly and validly authorized, and that it will adopt any and all resolutions or expenditure approvals required for execution of this Agreement.

B. NHA Warranties and Representations. NHA warrants and represents that it is a corporation in good standing and is authorized to conduct business in the State of Michigan. NHA will comply with all registration and licensing requirements relating to conducting business under this Agreement. The Board agrees to assist NHA in applying for such licenses and permits and in obtaining such approvals and consents.

C. Mutual Warranties. The Board, on behalf of the Academy, and NHA mutually warrant to the other that there are no pending actions, claims, suits or proceedings, to its knowledge, threatened or reasonably anticipated against or affecting it, which if adversely determined, would have a material adverse effect on its ability to perform its obligations under this Agreement.
ARTICLE XII
MISCELLANEOUS

A. Entire Agreement. This Agreement and any attachments to this Agreement shall constitute the entire agreement of the parties on the subject matter set forth in this Agreement. This Agreement supersedes and replaces any and all prior agreements and understandings between the Academy and NHA.

B. Force Majeure. Notwithstanding any other sections of this Agreement, neither party shall be liable for any delay in performance or inability to perform due to acts of God or due to war, riot, embargo, fire, explosion, sabotage, flood, accident, labor strike, or other acts beyond its reasonable control; provided either party may terminate this Agreement in accordance with the termination provisions contained in this Agreement if sufficient grounds exist as provided in the Article governing termination.

C. State Governing Law/Waiver of Jury Trial. The rights of all parties hereto shall be subject to the jurisdiction of courts located in Kent County, Michigan, and be construed according to the laws of the State of Michigan without regard to conflict of law principles. NHA and the Academy hereby waive the right to a jury trial in any action, proceeding or counterclaim brought by either NHA or the Academy against the other.

D. Official Notices. All notices and other communications required by the terms of this Agreement shall be in writing and sent to the parties hereto at the facsimile number or address set forth below. Notice may be given by (i) facsimile with written evidence of confirmed receipt by the receiving party of the entire notice, (ii) certified or registered mail, postage prepaid, return receipt requested, or (iii) personal delivery. Notice shall be deemed to have been given on the date of transmittal if given by facsimile, or upon the date of postmark if sent by certified or registered mail, or upon the date of delivery if given by personal delivery. Notices to the Academy shall be sent to the current address of the then current Board president, with a copy to the then current Board attorney. The address of the parties hereto for the purposes aforesaid, inclusive of the address of the initial Board president, are as follows:

The Academy: East Arbor Academy
Attn: President, Board of Directors

Telephone: ( ) Facsimile: ( )
WITH A COPY TO:

Law Office of La Rae G. Munk, P.C.
1650 Sanctuary Circle
Howell, Michigan 48855
Telephone: (517) 410-6957

NHA:

National Heritage Academies, Inc.
Attn: Chief Financial Officer
3850 Broadmoor, S.E. Ste. 201
Grand Rapids, Michigan 49512
Telephone: (616) 222-1700
Facsimile: (616) 222-1701

WITH A COPY TO:

McShane & Bowie
Attn: John R. Grant
1100 Campau Square Plaza
99 Monroe Ave., N.W.
Grand Rapids, Michigan 49501
Telephone: (616) 732-5000
Facsimile: (616) 732-5098

E. Assignment. NHA may assign this Agreement with the prior written approval of the Board.

F. Amendment. This Agreement shall not be altered, amended, modified or supplemented except by memorandum approved by the Board and signed by both an authorized officer of the Academy and NHA.

G. Waiver. No waiver of any provision of this Agreement shall be deemed or shall constitute a waiver of any other provision. Nor shall such waiver constitute a continuing waiver unless otherwise expressly stated.

H. Cost and Expenses. If any party commences an action against another party as a result of a breach or alleged breach of this Agreement, the prevailing party shall be entitled to have and recover from the losing party reasonable attorneys' fees and costs of suit.

I. Severability. If any term or provision of this Agreement is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of the terms and provisions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and the parties hereto shall use their best efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term or provision.
J. Delegation of Authority. Nothing in this Agreement shall be construed as delegating to NHA powers or authority of the Board which are not subject to delegation by the Board under the Charter or applicable law.

K. Compliance with Law. The parties to this Agreement agree to comply with the Charter and all applicable law.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date and year first above written.

Date: May 5, 2011

NATIONAL HERITAGE ACADEMIES, INC., a Michigan corporation

By: [Signature]

Its: Sr. Director – Legal and Compliance

Date: May 5, 2011

EAST ARBOR CHARTER ACADEMY

By: [Signature]

Its: President

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East Arbor Management Agreement (01.4.18.11)
v. 5.2.11 0.4.0
MANAGEMENT AGREEMENT

This Management Agreement (the "Agreement") is made and entered into as of the 9th day of
July, 2012, by and between Mosica Education, Inc., a Delaware corporation ("MEI"), and the
Muskegon Heights Public School Academy System (the "System"), a Michigan non-profit corporation
and public school academy organized under the Michigan Revised School Code (the "Code").

RECITALS

WHEREAS, the System has been granted a charter (the "Charter") from the Board of Education
for the School District of the City of Muskegon Heights (the "Authorizing Body") to organize and operate
a public school academy, as defined in the Code;

WHEREAS, MEI was established, among other things, to manage public schools and to provide assistance and expertise, including regulatory, financial, facilities, and other advice, in connection with the organization and operation of public school academies;

WHEREAS the System desires to develop educational excellence at the System based on MEI's school design, comprehensive educational program and management principles;

WHEREAS, subject to the terms of this Agreement, the System has approved the MEI curriculum and received a proposed budget for the upcoming school year, and agrees that it is in its best interests to enter into this Agreement with MEI; and

WHEREAS, the System's Board of Directors (the "Board") desires to engage MEI to perform certain services related to the Academy's educational program and operations, all as set forth below.

THEREFORE, the parties mutually agree as follows:

ARTICLE I

EDUCATIONAL SERVICES AND ADMINISTRATIVE SERVICES

1.01 Educational Services.

(a) For the Term (as defined in ARTICLE II below), MEI shall implement the educational goals and programs set forth in the Charter and established by the Board, including but not limited to methods of pupil assessment, admission policy and criteria, school calendar and school day schedule, age and grade classifications of pupils to be enrolled, and methods to be used to monitor performance towards targeted educational outcomes (collectively the "Educational Program"). In the event that MEI determines that it is advisable to modify the Educational Program set forth in the Charter, MEI will provide written notification to the Board specifying the changes it recommends and the reasons for the proposed changes. No changes in the Educational Program shall be implemented without the prior approval of the Board and the Authorizing Body. MEI shall provide the Board with periodic written reports specifying the level of achievement of each of the Academy's educational goals set forth in the Charter and detailing its plan for meeting any educational goals that are not being attained. These reports will be submitted to the Board on a quarterly basis, and at such other times as specified in Board policy as the same may be changed from time to time. The Educational Program shall be in compliance with applicable state and federal laws, rules and regulations.

Under the policy direction of the Board, MEI shall be responsible for the aforesaid educational services (the "Educational Services") to be provided to the System and its students. Such Educational Services include, but are not limited to:

(i) Curriculum. The development and implementation of the curriculum used in the System, including a license, for which the System will pay MEI an annual license fee of $200,000, such fee to be paid in 12 equal monthly payments, for (i) the use of MEI's Paragon™ Curriculum and (ii) such lesson plan materials ("Paragon™ Lesson Materials").
CONFLICTS IN THE GOVERNANCE OF MICHIGAN CHARTER SCHOOLS

MOSAICA MANAGEMENT AGREEMENT

as MEI may provide in printed or other format for implementation of the Paragon™ Curriculum;

(ii) Instruction. Oversight and coordination of the services to be provided by instructional and administrative personnel, including the Head of School, the building principals and the rest of the leadership team, the teachers and support staff, all in accordance with ARTICLE VI below;

(iii) Special Education. Provision of special education services to System students in conformity with the requirements of state and federal laws and applicable regulations and policies;

(iv) Instructional Tools. At the request of the Board, the selection of instructional tools, equipment and supplies, including textbooks, computers, software and multi-media teaching tools and such other tools as are appropriate and commonly used in public education;

(v) Extra-Curricular and Co-Curricular Programs. The development and implementation of appropriate extra-curricular and co-curricular activities and programs approved by the Board, including the operation and oversight of the System's athletic programs as approved by the Board (but not Supplemental Programs as defined in ARTICLE V below); and

(vi) Additional Educational Services. At the request of the Board, such other services as are necessary or expedient for the provision of teaching and learning at the System as may be agreed to in writing between the parties.

(b) MEI will be responsible and accountable to the Board for the provision of the Educational Services, provided that such obligations, duties and responsibilities are limited by the System Budget established pursuant to Section 1.02(a)(iii)(D) below, and MEI will not be required to expend funds on such services in excess of the amounts set forth in such System Budget unless approved by the Board and MEI.

(c) The Board may retain an educational consultant or consultants to review the operations of the System and the performance of MEI under this Agreement. MEI shall cooperate with the educational consultant or consultants and, subject to the terms of this Agreement, the Charter and the Code, will provide those individuals with access to records, facilities and information as if such requests came from the Board. MEI shall have no authority to select, evaluate, assign, supervise or control any educational consultant employed by the Board, and agrees that it will not bring or threaten to bring any legal action against any educational consultant for the performance of the functions requested to be performed by the Board and which are consistent with this Agreement, the Charter and the Code. The cost of the education consultant will be the responsibility of the System and will be provided for in the System Budget.

1.02 Administrative Services.

(a) For the Term (as defined in ARTICLE II below), MEI will provide to the System the following administrative services (the "Administrative Services");

(i) Personnel Management. Management and professional development of all personnel providing Educational Services and Administrative Services in accordance with ARTICLE VI below;

(ii) Facility Operation and Maintenance. Operation and maintenance of the System's facilities (the "Facilities") to the extent consistent with any and all leases or other
Mosaica Management Agreement

documents pertaining to the Facilities, including oversight and management of any
repairs and renovations undertaken by the System with respect to the Facilities;

(iii) Business Administration. Administration of the following business aspects of the
System:

(A) Payroll. MEI will manage the payroll using ADP or such other suitable alternative
payroll provider as MEI may select from time to time. MEI employees, including
administrative employees assigned to the System and corporate employees in the
national or regional offices, will be responsible for all data input. The System will be
responsible for establishing appropriate banking arrangements to enable ADP to
make direct charges of payroll against the System's payroll account each pay period.

(B) Transportation and Food Services. MEI will be responsible managing the provision
of transportation and food services, including the supervision of MEI employees
involved in providing such services, coordination with the entities with which the
System contracts for such services, and the management and assessment of the
services provided under such contracts, all as required by the Board;

(C) Public Relations. Coordination and assistance with any and all advertising, media
and public relations efforts, including community outreach programs. All public
relations will be subject to the mutual approval of both parties.

(D) Budgeting and Financial Reporting.

1) The Board is responsible for adopting a budget in accordance with the provisions
of the Uniform Budgeting and Accounting Act, MCL 141.421 et seq, that has
adequate resources to fulfill its obligations under the Charter, including but not
limited to its oversight of MEI, the organization of the System, negotiation of the
Charter and any amendments, payment of employee costs, insurance required
under the Charter and this Agreement, the annual financial audit and retention of
the Board’s legal counsel and consultants. In addition, the Board is responsible
for determining the budget reserve amount included as part of the System’s
annual budget, for implementing fiscal policies that will assist the System in
attaining the stated budget reserve amount and for approving necessary
amendments to the budget to reflect necessary deviations from the adopted
budget. Beginning with respect to the first school year governed by this
Agreement, MEI will prepare and present to the Board a proposed annual budget
(the "System Budget"). Future annual budgets will be prepared by MEI in the
same general manner as the first year’s annual budget (unless a different format
is required by the Code, the Charter or the Board) and will be subject to the
approval of the Board, consistent with this Agreement, the Charter and the Code.
The projected annual budget will include, but not be limited to, the financial
details relating to the Educational Services and Administrative Services to be
provided pursuant to this Agreement and may be amended from time to time as
deemed necessary by the Board.

2) The preparation of detailed statements of all revenues received, from whatever
source, with respect to the System, and detailed statements of all expenses,
including an accounting of all expenditures for services rendered to, or on behalf
of, the System by MEI, whether incurred on-site or off-site.

3) The preparation of other financial statements as required by and in compliance
with the Charter, the Code and other applicable laws and regulations, including
such documentation as may be required by the independent certified public
accounts retained by the Board to perform annual audits of the System's financial statements. The cost for preparation of the financial statements will be the responsibility of MEI. The cost of the audit will be the responsibility of the System and will be provided for in the System Budget.

4) The preparation of such other reports on the finances and operation of the System as requested or required by the Michigan Department of Education (the “MDE”), the Board or the Authorizing Body to ensure compliance with the terms of the Charter. Monthly unaudited financial statements for the months August through May will be provided to the Board within 25 days after the end of the month. Year-end unaudited financial statements will be provided within 45 days of the end of the fiscal year. Financial statements for the month of July will be provided to the Board with the August financial statements no later than September 25, unless the parties shall otherwise agree.

5) Other information on a periodic basis or requested with reasonable notice as may be reasonably necessary to enable the Board to monitor MEI's performance under this and any related agreements, including the effectiveness and efficiency of its operations at the System.

(E) Maintenance of Financial and Student Records.

1) MEI will maintain accurate financial records pertaining to its operation of the System together with all System financial records prepared by MEI, and retain these records as required by the Records Retention and Disposal Schedule for Michigan Public Schools and other applicable laws and regulations. All the System financial records retained by MEI pertaining to the System will be available to the System, the Authorizing Body, and to all other appropriate regulatory authorities for inspection and copying at the System’s facilities upon request, it being understood that in most cases such copies will be made available within thirty (30) business days.

2) MEI will maintain accurate student records pertaining to students enrolled in the System as is required and in the manner provided by the Charter, the Code and applicable laws and regulations, together with all additional System student records prepared by or in the possession of MEI. MEI shall retain such records permanently on behalf of the System, until this Agreement or its successor (if any) is terminated, at which time such records will be delivered to the System, which shall thereafter be solely responsible for the retention and maintenance of such records (it being understood that such student records are and shall be at all times the property of the System).

3) During the term of this Agreement, the System may disclose confidential data and information to MEI and its respective officers, directors, employees and designated agents to the extent permitted by applicable law, including without limitation, the Individuals with Disabilities Education Act (“IDEA”), 20 USC §1401 et seq., 34 CFR 300.610 – 300.626; Section 504 of the Rehabilitation Act of 1973, 29 USC §794a, 34 CFR 104.36; the Michigan Mandatory Special Education Act, MCL 380.1701 et seq.; the Americans with Disabilities Act, 42 USC §12101 et seq.; the Health Insurance Portability and Accountability Act (“HIPAA”), 42 USC 1320d – 1320d-8; 45 CFR 160, 162 and 164; and social security numbers, as protected by the federal Privacy Act of 1974, 5 USC §552a; and the Michigan Social Security Number Privacy Act, MCL 445.84. MEI and the System will maintain the proper confidentiality of such records as required by
law and the Charter, including the provisions of the Family Educational Rights and Privacy Act (20 USC Section 1232g et seq) ("FERPA"). MEI and its respective officers, directors, employees and designated agents are hereby authorized to serve as agents of the System, having a legitimate educational interest in the Program and its students for purposes of the FERPA such that they are jointly and severally entitled to access the educational records of the Program for all purposes related to FERPA.

4) MEI will maintain accurate employment, business and other records pertaining to the operation of the System as is required and in the manner provided by the Charter, the Code and applicable laws and regulations, together with all additional System employment, business and other records prepared by or in the possession of MEI. MEI shall retain such records permanently on behalf of the System until this Agreement or its successor agreement (if any) is terminated, at which time such records will be delivered to the System, which shall thereafter be solely responsible for the retention and maintenance of such records (it being understood that such employment, business, and other records are and shall be at all times the property of the System). MEI and the System will maintain the proper confidentiality of such records as required by the Charter and applicable law. All System records shall be physically or electronically available, upon request, at the System’s physical facilities. The financial, educational, operational and student records pertaining to the System are System property, and are public records subject to disclosure in accordance with the provisions of the Michigan Freedom of Information Act. This Agreement shall not be construed to restrict the Authorizing Body’s or the public’s access to these records under the Freedom of Information Act or the Charter, except to the extent permitted by law.

5) The Board shall be entitled at any time upon reasonable notice to MEI to audit the books and records of MEI pertaining to its operation of the System pursuant to this Agreement (including, without limitation, the financial records relating thereto).

(iv) Admissions. Implementation of the System’s admission and student enrollment policy in accordance with the Charter and applicable laws and regulations;

(v) Student Hearings. Administration and enforcement of student disciplinary and special education hearings in conformity with the requirements of the Code, the procedures established by the Board, and other applicable laws and regulations (including, but not limited to, requirements involving due process and confidentiality) to the extent consistent with the Board’s duties and obligations under the Code and other applicable laws and regulations;

(vi) Academic Progress Reports. MEI will provide to the Board on a quarterly basis (or as necessary for the Board to satisfy its obligations under the Charter, the Code and other applicable laws and regulations) a report detailing (A) the System’s students’ academic performance, and (B) MEI’s performance of the Educational Services and Administrative Services;

(vii) Rules and Procedures. MEI will recommend to the Board rules, regulations and procedures applicable to the System and its students and will enforce such rules, regulations and procedures adopted by the Board that are not in direct conflict with this Agreement, the Charter, the Code and other applicable laws and regulations. The Board shall exercise good faith in considering the recommendations of MEI on such issues, subject to the constraints of law and the requirements of this Agreement and the Charter,
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but the Board is responsible for determining the fiscal and academic policies that will govern the operation of the System, including policies relative to the conduct of students while in attendance at the System or en route to and from the System.

(viii) Parent Satisfaction Forms. MEI will provide to the Board copies of Parent Satisfaction Forms to be completed by parents of the System's students, with copies or summaries thereof promptly provided to the Board on an annual basis.

(ix) Financing. The parties recognize that the System may be required to incur unsecured or subordinated financing to fund building repairs or renovations, start-up costs or other working capital requirements, some or all of which MEI shall arrange. Any such loans shall be structured to require repayment in full during the term of the Charter, and the System's annual budgets shall provide for repayment in accordance with the loan terms. If MEI provides, co-signs or guarantees such debt financing, the loan and the terms thereof will be separately documented.

(x) System Funds. The Board shall determine the depository of all funds received by the System. All funds received by the System shall be initially deposited in the System's depository account. Signatories on the depository account shall be current Board members or their designees, properly designated by Board resolution. All interest or investment earnings on System deposits shall accrue to the System.

(xi) Additional Administrative Services. Any other services reasonably necessary or expedient for the effective administration of the System as agreed to in writing from time to time by MEI and the Board.

(b) The Administrative Services will be provided in accordance with the Educational Program, the Code, and the Charter.

(c) Subject to this Agreement, the Charter, the Code, other applicable laws and regulations, MEI may modify the methods, means and manner by which such Administrative Services are provided at any time, provided that MEI supplies the Board with written notice of such modifications.

(d) MEI will be responsible and accountable to the Board for the provision of the Administrative Services, provided that such obligations, duties, and responsibilities are limited by the System Budget established in Section 1.02(a)(ii)(D) above, and MEI will not be required to expend funds on such services in excess of the amounts set forth in such System Budget unless approved by the Board and MEI.

(e) The Board shall have the right to select and retain legal counsel to advise it regarding its rights and responsibilities under the Charter, this Agreement and applicable law. The cost thereof will be the responsibility of the System and will be provided for in the System Budget.

1.03 Place of Performance; Provision of Offices. The Board is responsible for the acquisition by purchase or lease of Facilities that comply with all of the requirements of the Charter and will provide MEI with necessary and reasonable classroom and office space at the Facilities to perform all services described in this Agreement. MEI will provide instructional, extracurricular and co-curricular services at the Facilities. MEI may provide other services elsewhere, unless prohibited by the Charter and applicable laws.

1.04 Authority. By this Agreement, the Board provides MEI all authority and power necessary and proper for MEI to undertake its responsibilities, duties and obligations provided for in this Agreement, except in cases wherein such authority may not be delegated under the provisions of the Code, any other applicable laws and regulations, or the Charter, provided further that no
 provision of this Agreement shall prohibit the Board from acting as an independent, self-
  governing public body, permit public decisions to be made other than in compliance with the
Open Meetings Act or interfere with the Board’s obligations to exercise its statutory, contractual
and fiduciary responsibilities in governing the operation of the Academy.

1.05 Charter Compliance. MEI agrees to perform its duties and responsibilities under this Agreement
in a manner that is consistent with the System’s obligations under its Charter, including all
schedules attached thereto and the Authorizing Body’s policies referenced therein. This
Agreement is subject to all the terms and conditions of the Charter, which shall be deemed
incorporated herein by reference, and the provisions of the Charter shall supersede any conflicting
or conflicting provisions contained in this Agreement. MEI agrees to assist the System in
complying with all of its reporting, recordkeeping, and other obligations under the Charter, and
shall not cause the System to be in breach thereof.

1.06 Compliance with Section 503c. On an annual basis, MEI agrees to provide the Board with the
same information that a school district is required to disclose under section 18(2) of the State Aid
Act of 1979, MCL 388.1618, for the most recent school fiscal year for which the information is
available. Within thirty (30) days of receipt of this information, the Board shall make the
information available on the System’s website home page, in a form and manner prescribed by
the MDE. The defined terms in section 503c of the Code, MCL 380.503c, shall have the same
meaning in this Agreement.

1.07 Compliance with Section 12.21 of Charter Terms and Conditions. MEI shall make information
concerning the System’s operation and management, including without limitation the information
described in Schedule 4 of the Charter, available to the Board as deemed necessary by the Board
to satisfy its obligations under Section 12.21(a) of the Charter’s Terms and Conditions.

1.08 Evaluation of MEI. The Board will evaluate the performance of MEI annually to provide MEI
with an understanding of the Board’s view of its performance under this Agreement. A
preliminary evaluation will normally occur in December of each year followed by a year-end
evaluation in June. The Board will determine the format to conduct this evaluation. Special
evaluations may occur at any time. The Authorizing Body shall conduct a review of MEI’s
performance under this Agreement every two years.

ARTICLE II
TERM

2.01 Term. Subject to ARTICLE VII below and Section 2.02 below, this Agreement will become
effective as of the date hereof (the “Effective Date”), cover five academic years and end on June
30, 2017 (the “Termination Date”).

2.02 Renewal. Upon the expiration of the Term defined in Section 2.01 above or a Renewal Term
defined in this Section 2.02, this Agreement will automatically renew for a period of five years,
each renewal term to run from July 1 to June 30 of the fifth succeeding year (a “Renewal Term”) unless (i) written notice of an intent to terminate or renegotiate is given by either party not less
than 180 days prior to the Termination Date or the end of a Renewal Term, or (ii) this Agreement is
terminated pursuant to ARTICLE VII below.
ARTICLE III.
RELATIONSHIP OF THE PARTIES

3.01 Status of the Parties. The Authorizing Body has granted the Charter to the System to organize and operate a public school academy, together with the powers necessary or desirable for carrying out the Educational Program set forth therein. The System is authorized to contract with MEI to provide the Educational and Administrative Services provided for herein. MEI is not a division or any part of the System. The System is a body corporate and governmental entity authorized under the Code and is not a division or a part of MEI. The relationship between the parties was developed and entered into through arms-length negotiations and is based solely on the terms of this Agreement and those of any other agreements that may exist from time to time between the parties. Nothing herein will be construed to create a partnership or joint venture by or between the System and MEI or, except as provided in Section 1.02(a)(iii)(E)(3), above, to make one the agent of the other. Neither the System nor MEI will otherwise hold itself out as a partner or agent of the other or state or imply by advertising or otherwise any relationship between it and the other in any manner contrary to the terms of this Agreement. Neither the System nor MEI has, and neither will represent that it has, the power to bind or legally obligate the other. No employee of MEI will be considered an employee of the System by either party for any purpose whatsoever.

3.02 MEI Attendance at Board Meetings. MEI shall receive notice from the Board of any regular, special, or executive session meeting of the Board and shall have the right to have its Regional Vice-President or designee present at any such meeting, provided, however, that the MEI representative shall have no right to attend a properly constituted executive session except upon invitation of a majority of the Board, it being understood that the parties intend to work together as transparently as possible, subject to this Agreement, the Charter and the Code, and consistent with preserving their legal rights.

3.03 No Related Parties or Common Control. MEI will not have any role or relationship with the System that, in effect, substantially limits the System's ability to exercise its rights, including cancellation rights, under this Agreement. The Board may not include any director, officer or employee of MEI. None of the voting power of the Board will be vested in MEI or its directors, members, managers, officers, shareholders and employees, and none of the voting power of the Board of Directors or Shareholders of MEI will be vested in the System or its directors, officers and employees. Furthermore, the System and MEI will not be members of the same control group, as defined in Section 1.150-1(f) of the regulations under the Internal Revenue Code of 1986 as amended (or its successor), or related persons, as defined in Section 144(a)(3) of the Internal Revenue Code of 1986 as amended (or its successor).

3.04 Other Schools. The parties acknowledge that this arrangement is not exclusive and that MEI will have the right to render similar services to other persons or entities including other public or private schools or institutions ("Other Schools"). MEI will maintain separate accounts for reimbursable expenses incurred on behalf of the System and Other Schools and only charge the System for expenses incurred or consideration earned on behalf of the System. All grants or donations received by the System, or by MEI for the specific benefit of the System, will be maintained in separate accounts and used solely for the System. If MEI incurs authorized reimbursable expenses on behalf of the System and Other Schools which are incapable of precise allocation between the System and Other Schools, then MEI will allocate such expenses among all such Other Schools and the System on a pro rata basis based upon the number of students enrolled at the System and the Other Schools, or upon such other equitable basis as the parties may agree.

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ARTICLE IV.
CONSIDERATION

4.01(a) Compensation for Services. Commencing July 1, 2012, for the term of this Agreement, including each and every Renewal Term, and subject to subsection (b) below, the Academy will pay MEI an annual fee calculated as follows:

(i) **2012-2013 School Year.** The annual fee to be paid for services performed between July 9, 2012 through June 30, 2013 shall be the sum of (a) $1,450,000 plus (b) $200,000 as a license fee for Paragon and (c) twelve and one-half (12.5%) percent of all adjusted gross revenues in excess of $13,200,000 received during that school year.

(ii) **2013-2014 School Year.** The annual fee to be paid for services performed between July 1, 2013 through June 30, 2014 shall be the sum of (a) $1,500,000 plus (b) $200,000 as a license fee for Paragon and (c) twelve and one-half (12.5%) percent of all adjusted gross revenues in excess of $13,600,000 received during that school year.

(iii) **2014-2015 School Year.** The annual fee to be paid for services performed between July 1, 2014 through June 30, 2015 shall be the sum of (a) $1,550,000 plus (b) $200,000 as a license fee for Paragon and (c) twelve and one-half (12.5%) percent of all adjusted gross revenues in excess of $14,000,000 received during that school year.

(iv) **2015-2016 School Year.** The annual fee to be paid for services performed between July 1, 2015 through June 30, 2016 shall be the sum of (a) $1,600,000 plus (b) $200,000 as a license fee for Paragon and (c) twelve and one-half (12.5%) percent of all adjusted gross revenues in excess of $14,400,000 received during that school year.

(v) **2016-2017 School Year.** The annual fee to be paid for services performed between July 1, 2016 through June 30, 2017 shall be the sum of (a) $1,650,000 plus (b) $200,000 as a license fee for Paragon and (c) twelve and one-half (12.5%) percent of all adjusted gross revenues in excess of $14,800,000 received during that school year.

MEI’s annual fee shall be paid in twelve (12) equal monthly installments beginning in July of each school year. The exact day of the month that each monthly installment payment is to be paid will coincide with the timing of any state aid payment from the State of Michigan to be received in that month. In months where no state school aid payments are to be received, the day of the month when that monthly installment will be due will be mutually agreed upon by the parties after taking into consideration available year-end funds and the timing of funds to be made available from state aid anticipation notes or other sources. All installments of the annual fee for the 2016-2017 school year shall be paid by June 30, 2017 if this Agreement is not extended beyond that scheduled termination date. The amount of the annual fee is subject to reduction in a mutually agreeable amount in any school year if extenuating circumstances make the entire annual fee inappropriate.

(b) Any additional compensation paid to MEI by the System during each fiscal year under this Agreement pursuant to Section (a)(i)(c), (a)(ii)(c), (a)(iii)(c), (a)(iv)(c), (a)(v)(c) or any other provision of this Agreement shall not exceed $412,500 in 2012-2013, $425,000 in 2013-2014, $437,500 in 2014-2015, $450,000 in 2015-2016, or $462,500 in 2016-2017.

4.02 Payment of Costs. In addition to the Management Fee described in Section 4.01 above, the System will reimburse MEI for all costs incurred and paid by MEI in providing the Educational Services and Administrative Services. Such costs include, but are not limited to, rent and/or lease payments (including costs pursuant to any Equipment Lease or Facility Lease that the parties may enter into), facility maintenance and utility costs, salaries of MEI employees assigned to the staff.
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of the System, costs related to curriculum, instructional materials, textbooks, library books, computers, software, supplies, food service, transportation, special education, psychological services and medical services. MEI and its subcontractors will comply with all federal and state laws, rules and regulations in addition to such policies as the Board may, from time to time adopt, under Section 1267 and Section 1274 of the Code as if the Academy were making these purchases directly from a third party supplier. Except as provided in Section 4.04(d) below or as may be provided in loan documents or other financing agreements hereinafter entered into between the parties, in charging for such costs to the System and paying for such costs, MEI will not charge an added fee unless such fee is approved in advance by the Board.

4.03 Notwithstanding the Payment of Costs provision described in Section 4.02 above, the Management fee described in Section 4.01 above is intended to compensate MEI for all expenses it incurs for managerial, supervisory, educational and administrative services it provides under this Agreement beyond those services provided by MEI employees assigned to work as administrators, teachers or support staff at System facilities. Such non-reimbursable expenses include but are not limited to, salaries and expenses associated with MEI corporate employees providing professional, advisory and curriculum development services, accounting, budgeting and other administrative services, legal and management services and administrative services. In addition, no part of MEI’s general corporate overhead costs shall be allocated to the System.

4.04 Time and Priority of Payments:

(a) MEI will receive its Management Fee in the same number of installments and in the same proportion that the System receives its revenues. Each installment of the Management Fee will be due and payable within ten (10) business days of receipt by the Charter School of the revenues related thereto, and shall be payable without any further notice or invoice from MEI.

(b) MEI will notify the System of any payments due and owing to MEI pursuant to Section 4.02 above as soon as possible after the end of each month and the System will make such payments to MEI within fifteen (15) days thereafter.

(c) The System will satisfy its payment obligations under this Article to MEI in the following order of priority: (i) payments due and owing under Section 4.02 above with the oldest amounts due first, and (ii) payments due and owing pursuant to Section 4.01 above with the oldest amounts due first.

(d) Any payment due under Section 4.01 or Section 4.02 above not paid when due will be subject to a late fee calculated as interest on the amount in arrears calculated at Prime plus 2% from the due date, where “Prime” shall be the interest rate charged by Bank of America as its “Prime Rate.”

4.05 Other Revenue Sources.

(a) The System and MEI may, together or independently, solicit and receive grants and donations from public and private sources consistent with the mission and the System’s Charter, in the name of either MEI or the System; provided, however, that any solicitation of such grants by MEI in the name of the System or which identifies the System shall be subject to the prior approval of the Board.

(b) All funds received by MEI or the System for the benefit of the System from such other revenue sources and programs pursuant to this Section 4.05 shall be deemed System funds. MEI shall receive no compensation from the System upon receipt or expenditure of such funds and shall have no responsibility for management of the programs funded by donations
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5.01 Supplemental Programs. In addition to the Educational Services and Administrative Services provided by MEI to the System, MEI may, subject to Board approval (which approval shall not be unreasonably withheld), provide additional services, including, but not limited to, pre-kindergarten, summer school, academic camps, before and after school programs, vocational training, and latch-key programs to students and non-students of the System (the "Supplemental Programs"), provided that nothing herein shall require MEI to provide any such Supplemental Program. MEI may retain the full amount of any and all revenues collected from or for such Supplemental Programs, and MEI will be responsible for the full cost of providing such Supplemental Programs. The Board will permit MEI to operate such Supplemental Programs at the Facilities without charge to MEI; provided, however, that MEI shall provide to the System a fee equal to 12.5% of the profits (if any) derived by MEI from such Supplemental Programs.

ARTICLE VI.
PERSONNEL AND TRAINING

6.01 Personnel Responsibility.

(a) Subject to Sections 1.01 and 1.02 above, the Charter, the Code and other applicable laws and regulations, MEI will have the sole responsibility and authority to provide qualified administrative, teaching and support staff to operate the System within the staffing levels approved by the Board in its annual budget, and to select, evaluate, assign, discipline, supervise, manage and transfer personnel necessary to carry out the Educational Services, the Administrative Services, the Supplemental Programs (if any) and all other services provided under this Agreement.

(b) Except as specified in this Agreement or as required by the Code or the Charter, the HOS (as defined in Section 6.02 below), teachers and support staff recommended by MEI pursuant to this Agreement will be employees of MEI, which, subject to Section 4.02 above, will be responsible for the payment of all costs attributable to these employees, including wages, salaries, fringe benefits, unemployment costs, workers compensation costs, and liability insurance costs. Unless required by applicable statute, court or administrative decision, or Attorney General's opinion, MEI shall not make payments to the Michigan Public School Employees' Retirement System or any other public retirement system on behalf of its employees. The Board may employ such other employees as it deems necessary, provided that the cost thereof are included in the System Budget. MEI will be responsible for conducting reference, employment checks, criminal background checks and unprofessional conduct checks on its employees to the extent required under the Code and other applicable laws and regulations as if the employees were employed by a Charter School, and will not assign any individual to work at a System facility who could not legally be employed in a similar position by a Charter School. Upon request, MEI will provide the Board with documentary evidence of such background checks and with a detailed listing of the actual compensation and fringe benefits costs for all MEI employees assigned to provide services at the System.

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(c) MEI will comply with the requirements of applicable law regarding the evaluation of its employees based in part upon data on student growth and the establishment of employee compensation levels that include job performance and job accomplishments as a significant factor.

6.02 Head of School/Principal. Each Head of School ("HOS") and/or School Principal will be an employee of MEI and will be the academic and administrative head of the System and/or one of the System's schools. As such, he or she shall have full responsibility for its operation and shall be required to implement the Paragon™ Curriculum and MEI's Educational Program. MEI will have the authority, consistent with the Code and other applicable laws and regulations, to supervise the HOS and Principals and to hold them accountable for the success of the System.

6.03 Teachers. MEI will provide to the System such teachers as are required to provide the Educational Services, Administrative Services and Supplementary Programs (if any). Subject to the System Budget, MEI will determine the number and assignments of such teachers. Such teachers may work at the System on a full or part time basis. Each teacher assigned to the System will be qualified in his or her grade levels and subjects, and, to the extent required under the Code and other applicable laws and regulations, hold a valid teaching certificate. The teachers will be employees of MEI, which shall have the right to evaluate the teachers and to determine promotions, salaries, discharge and other factors relating to their employment.

6.04 Support Staff. MEI may hire such support staff for the System as are required to provide the Educational Services, Administrative Services and Supplementary Programs. Such support staff may include, among others, teachers' aides, clerical staff, administrative assistants to the HOS, bookkeepers and maintenance personnel. Such support staff may work at the System on a full or part time basis.

6.05 Training. MEI will provide training in its instructional methods, curriculum, educational program and support technology to its instructional personnel on a regular and continuous basis. Such training will enable the HOS and the System's instructional staff to provide in-service training to each other. Non-instructional personnel will receive such training as MEI determines to be reasonable and necessary under the circumstances.

6.06 Non-Hiring. During the term of this Agreement and for one complete school year after any termination or expiration of this Agreement by either party for any reason, including without limitation Section 7.01(b) hereof, the System shall not hire, employ, or retain, as trustee, director, officer, employee or consultant, or in any other capacity, the HOS, Principal, any Vice President, any curriculum director or consultant, or any regional program facilitator of MEI (or anyone who served in any such positions within one year prior to any termination or expiration of this Agreement). MEI shall otherwise not provide in employment contracts with any teachers or support staff assigned to work at the System any restrictions that would prevent the System from employing those individuals at the System or would prevent those individuals from working for the System or for any other entity providing educational services to the System after the Termination of this Agreement. MEI agrees that any provision of an employment agreement in violation of this provision is void and shall not be enforceable in any forum.

ARTICLE VII
TERMINATION OF AGREEMENT

7.01 Termination.

(a) By MEI. MEI may terminate this Agreement prior to the end of the term specified in ARTICLE II in the event that the Board fails to remedy a material breach within a period reasonable under the circumstances, which in no event shall be longer than sixty (60) days...
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after written notice from MEI. A material breach includes, but is not limited to (i) the
System’s failure to pay any fee or reimbursement as required by the terms of this Agreement,
(ii) adoption by the System of an Educational Program in substantial variance from the
Paragon™ Curriculum or the material recommendations of MEI, or (iii) an act or omission
that causes MEI to be unable to perform its material obligations under this Agreement.
Termination by MEI will not relieve the System of any obligations for payments outstanding
to MEI as of the date of termination or liability for financial damages suffered by MEI as a
consequence of the System’s breach (or of MEI’s termination as a result thereof) of this
Agreement.

(b) By the System. The System may terminate this Agreement prior to the end of the term
specified in ARTICLE II in the event that MEI fails to remedy a material breach of this
Agreement within 30 days after written notice from the Board. A material breach by MEI
includes, but is not limited to: (i) a material failure to account for its expenditures of System
funds or for other expenses incurred by the System at MEI’s direction, (ii) MEI’s failure to
substantially follow policies, procedures, rules, regulations or curriculum duly adopted by the
Board which are not in violation of or conflict with the Charter, this Agreement, the Code, the
Paragon™ Curriculum and applicable laws and regulations, (iii) failure to abide by and meet
the educational goals set forth in the Charter such that the Charter will be terminated or
revoked, (iv) the employment of teachers in violation of the Code or this Agreement, (v) any
act or omission that causes the System to materially breach the Charter or any of the System’s
other material contractual obligations in any way, or (vi) filing of bankruptcy by MEI.
Termination by the System will not relieve the System of any obligations for payments
outstanding to MEI as of the date of the termination.

(c) By the System Without Cause. Notwithstanding the provisions of the foregoing
subparagraph (b), the Board shall have the right (assuming that MEI otherwise has no
continuing liability, contingent or otherwise, to third parties under contracts entered into by
Charter School) to terminate this Agreement without cause, provided, however, that upon
such termination, MEI shall be entitled to an award of damages suffered on account of such
early termination.

(d) Termination of the Charter. This Agreement will terminate upon the System’s ceasing to be a
party to a valid and binding charter. If the Charter is suspended, revoked or terminated, or a
new charter contract is not issued by the Authorizing Body after expiration of the Charter,
this Agreement shall automatically be suspended or terminated, as the case may be, on the
same date as the Charter is suspended, revoked, terminated or expires without further action
by the parties provided, however, that this Agreement will continue to remain in effect until
the Termination Date or the end of a Renewal Term (as applicable) if the Board has entered
into a subsequent charter. Termination pursuant to this paragraph will not relieve the System
of any obligations for payments outstanding to MEI as of the date of termination.

7.02 Change in Law. If any federal, State or local law or regulation, court or administrative decision
or Attorney General’s opinion has a materially adverse effect on the ability of either party to carry
out its obligations under this Agreement, such party, upon written notice, may request
renegotiation of this Agreement. Such renegotiation will be undertaken in good faith and will
include the use of a third party mediator or other alternative dispute resolution process. If the
parties are unable to renegotiate the terms within 90 days after such notice and good faith
negotiations, the party requesting the renegotiation may terminate this Agreement on 120 days’
further written notice or at the end of a school year, whichever is earlier.

7.03 Real and Personal Property. Upon termination, all real and personal property leased by MEI to
the System will remain the real and personal property and leases of MEI, and all other personal
property purchased by MEI with the funds provided to MEI by the System pursuant to Section 4.02 above will be the personal property of the System.

7.04 Future Advances/Out-of-Pocket Expenses. Prior to (and in the case of the System as a condition of) termination in accordance with Section 7.01(b) above, or upon the termination or expiration of this Agreement for any other reason, the System shall (i) reimburse MEI for all expenses incurred pursuant to Section 4.02 above, (ii) repay all advances or loans from MEI, whether or not then due, and (iii) post a letter of credit or bond in favor of MEI guaranteeing (A) any future payments due under any equipment or facilities lease from, guaranteed, consigned, or collateralized by MEI or an affiliate thereof and (B) the System’s performance of any other obligations guaranteed, consigned, or collateralized in whole or part by MEI or an affiliate thereof.

7.05 Termination of Paragon™ License. Upon termination or expiration of this Agreement by either party for any reason, including without limitation Section 7.01(b), the license to use the Paragon™ curriculum shall automatically terminate, and the System shall immediately cease any use of the Paragon™ curriculum. If the System shall be delinquent by 30 days or more in making any payments due to MEI pursuant to this Agreement, MEI shall have the right to suspend the license of the System to use the Paragon™ curriculum until such amounts have been paid in full, and the System shall not use the Paragon™ curriculum during any such period of suspension.

7.06 Return of MEI Materials. Within five business days of any termination or expiration of the Management Agreement by either party for any reason, including without limitation Section 7.01(b) the System shall (a) all materials relating to the Paragon™ Curriculum, including the Paragon™ Lesson Materials and the Paragon™ Resource Materials, whether in hard copy or electronic format or otherwise, and any copies thereof, (b) all professional development and training materials, guides, and models, prepared and provided by MEI in connection with training of instructional or administrative personnel, and (c) all operational, systems and other administrative manuals and material, and copies thereof, and (ii) the CAO of the System and/or the President of the Board shall certify to MEI in writing that the System has ceased to use the Paragon™ Curriculum, such Paragon™ Lesson Materials, Paragon™ Resource Materials, all professional development and training materials, guides, and models, and all such administrative manuals and materials. At MEI’s direction, the System will promptly send at its expense all such materials to MEI or permit representatives of MEI to pick up all such materials at the System’s Facilities.

ARTICLE VIII
PROPRIETARY INFORMATION AND OWNERSHIP

8.01 Ownership. Curriculum or other educational materials purchased by MEI with funds MEI receives pursuant to this Agreement will be the property of the System. Notwithstanding the foregoing, the System acknowledges that MEI owns the intellectual property rights and interests in the Paragon™ Curriculum, and the Paragon™ Lesson Materials licensed to the System during the term of this Agreement and to the names “Mosaica” and “Paragon” (such names being registered marks of MEI). The Board acknowledges and agrees that the System has no intellectual or property interest or claims in the Paragon™ Curriculum, the Paragon™ Lesson Materials or such names and has no right to use the Paragon™ Curriculum, the Paragon™ Lesson Materials, or such names unless expressly agreed to in writing by MEI. MEI shall have the right to install signs approved by the Board (which approval shall not be unreasonably withheld) on the System facilities, including under the System’s or one of its schools’ name, describing the services provided by MEI, including “Managed by Mosaica Education, Inc.” or “Educational Services Provided by Mosaica Education, Inc.” Upon any expiration or termination of this Agreement, those signs shall be promptly removed.
ARTICLE IX.
INDEMNIFICATION

9.01 Indemnification of MEI. To the extent permitted by law, the System will indemnify, defend and
save and hold MEI and its affiliates and all of their respective employees, officers, directors,
subcontractors and agents harmless against any and all claims, demands, suits or other forms of
liability (including reasonable attorneys' fees and costs) that may arise out of, or by reason of,
any noncompliance by the System with any agreements, covenants, warranties or undertakings of
the System contained in or made pursuant to this Agreement, and any misrepresentations or
breach of the representations and warranties of the System contained in or made pursuant to this
Agreement. In addition, the System will reimburse MEI for any and all legal expenses and costs
associated with the defense of any such claim, demand or suit. The indemnification requirements
of this Section 9.01 may be met by the purchase of insurance pursuant to ARTICLE X below.

9.02 Indemnification of the System. MEI will indemnify, defend and save and hold the System and all
of its employees, officers, directors, subcontractors and agents harmless against any and all
claims, demands, suits or other forms of liability (including reasonable attorneys' fees and costs)
that may arise out of, or by reason of, any noncompliance by MEI with any agreements,
covenants, warranties or undertakings of MEI contained in or made pursuant to this Agreement,
and any misrepresentation or breach of the representations and warranties of the MEI contained in
or made pursuant to this Agreement. In addition, MEI will reimburse the System for any and all
legal expenses and costs associated with the defense of any such claim, demand or suit. The indemnification requirements of this Section 9.02 may be met by the purchase of insurance pursuant to ARTICLE X below.

9.03 Defense. A party entitled to indemnification under this ARTICLE IX (the "Indemnitee") shall
give notice to the indemnifying party (the "Indemnitor") of a claim or other circumstances likely
to give rise to a request for indemnification, promptly after the Indemnitee becomes aware of the
same. The Indemnitor shall be afforded the opportunity to undertake the defense of and to settle
by compromise or otherwise any claim for which indemnification is available under this
ARTICLE IX. The Indemnitor's selection of legal counsel is subject to the Indemnitee's
approval (which approval shall not be unreasonably withheld). If an Indemnitor so assumes the
defense of any claim, the Indemnitee may participate in such defense with legal counsel of the
Indemnitee's selection and at the expense of the Indemnitee. If the Indemnitor, prior to the
expiration of the fifteen (15) days after receipt of notice of a claim by the Indemnitee under this
ARTICLE IX, has not assumed the expense of the defense thereof, the Indemnitee may thereupon
undertake the defense thereof on behalf of, and at the risk and expense of, the Indemnitor, with all
reasonable costs and expenses of such defense to be paid by the Indemnitor.

9.04 Limitations of Liabilities/Governmental Immunity. The Board shall determine when to assert,
waive or not waive its governmental immunity. The System will not be entitled to
indemnification under this ARTICLE IX to the extent that its claim for indemnification would be
limited by the assertion of immunity or other statutory limitation of liability in connection with
any claims arising from its operations. The System shall not be entitled to indemnification to the
extent its claim is contributed to by the System's waiver, without the prior written consent of
MEI, of any immunities or limitations.

9.05 Right of Set-Off. Either party may, but shall not be obligated to, set off against any and all
payments due the other party under this Agreement, any amount to which the party is entitled to
be indemnified hereunder, provided that the parties have agreed to the indemnification obligation
under this ARTICLE IX or there has been a final judicial determination thereof.

9.06 Indemnification of the Authorizing Body. The parties acknowledge and agree that the School
District for the City of Muskegon Heights ("District"), the District's Board of Education

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CONFLICTS IN THE GOVERNANCE OF MICHIGAN CHARTER SCHOOLS

MOSAICA MANAGEMENT AGREEMENT

("District Board") and the District’s Emergency Manager ("Emergency Manager") are deemed to be third party beneficiaries for purposes of this Agreement. As third party beneficiaries, the parties hereby promise to indemnify, defend and hold harmless the District, the District Board and the Emergency Manager from all claims, demands, or liability, including attorney fees and related expenses, on account of injury, loss or damage, including, without limitation, claims arising from bodily injury, personal injury, sickness, disease, death, property loss or damage or any other losses of any kind whatsoever and not caused by the sole negligence of the District, the District Board or the Emergency Manager, which arise out of or are in any manner connected with MEI’s operation of the System, or which are incurred as a result of the reliance by the District, the District Board or the Emergency Manager upon information supplied by the Board or MEI or which arise out of the failure of the Board or MEI to perform their obligations under the Charter or Applicable Law. The parties expressly acknowledge and agree that the Emergency Manager may commence legal action against either party to enforce the District’s, the District Board’s or the Emergency Manager’s rights as set forth in this section of the Agreement.

ARTICLE X.
INSURANCE

10.01 Insurance Coverage. The System will maintain general liability insurance and umbrella insurance coverage in the amounts required by the Charter. Such policies shall name MEI and its affiliates and their respective directors, officers, employees, subcontractors, and agents as additional insureds under such policies. The System will comply with any information requests from its insurer(s) and all reporting requirements applicable to such insurance.

10.02 MEI Coverage. MEI will maintain general liability insurance and umbrella insurance coverage in the same amounts required of the System by the Charter. Such policies shall name the System and its respective directors, officers, employees and agents as additional insured under such policies. MEI will comply with any information requests from its insurer(s) and all reporting requirements applicable to such insurance.

10.03 Workers' Compensation Insurance. Each party will maintain workers' compensation insurance as required by law, covering its respective employees.

10.04 Cooperation. Each party will, upon request, present evidence to the other that it maintains the requisite insurance in compliance with the provisions of this ARTICLE X. Each party will comply with any information or reporting requirements required by the other party's insurer(s), to the extent reasonably practicable.

ARTICLE XI.
WARRANTIES AND REPRESENTATIONS

11.01 Representations and Warranties of MEI. MEI hereby represents and warrants to the System:

(a) MEI is a duly organized corporation in good standing and is authorized to conduct business in the State of Michigan.

(b) To the best of its knowledge, MEI has the authority under the Code and other applicable laws and regulations to execute, deliver, perform this Agreement, and to incur the obligations provided for under this Agreement.

(c) MEI's actions under this Agreement have been and will be duly and validly authorized, and it will adopt any and all further resolutions or expenditure approvals required for execution of this Agreement.
11.02 **Representations and Warranties of the System.** The System hereby represents and warrants to MEI:

(a) The Charter to be received by the System (i) authorizes the System to operate and receive the State, Federal and Local education funds, as well as other revenues; (ii) approves the Education Program and other activities contemplated by this Agreement; and (iii) vests the System with all powers necessary and desirable for carrying out the Education Program and other activities contemplated in this Agreement.

(b) The System has the authority under the Code and other applicable laws and regulations to contract with a private entity to perform the Educational Services, Administrative Services, Supplemental Programs, and all other services under this Agreement and execute, deliver and perform this Agreement, and to incur the obligations provided for under this Agreement.

(c) The System's actions and those of the Board have been duly and validly authorized, and the System and Board will adopt any and all further resolutions or expenditure approvals required for execution of this Agreement; provided, however, that with regard to expenditures, such resolutions and approvals shall be required only if the relevant information is available to the System and the System has sufficient funds in the Budget to pay for such expenditures.

(d) The System has provided and will provide MEI all authority and power necessary and proper for MEI to undertake its responsibilities, duties, and obligations provided for in this Agreement.

(e) The System is not in breach of the terms of the Charter and will not breach the Charter once fully issued.

(f) The System is not in breach or default under any loan or financial obligations, including, but not limited to, salary obligations and related benefits, payroll taxes, and leases for real and personal property, to the extent that any such obligation is related to the System's required performance under this Agreement.

(g) The Educational Program has been reviewed and approved by the Board.

(h) The System has no intellectual or property rights or claims in the Paragon™ Curriculum or in the names "Mosaic™" or "Paragon™" and will make no such claims in the future.

11.03 **Mutual Warranties.** Each party to the Agreement warrants to the other that there are no pending actions, claims, suits or proceedings, to its knowledge, threatened or reasonably anticipated against or affecting it, which if adversely determined, would have a material adverse effect on its ability to perform its obligations under this Agreement.

**ARTICLE XII**

**DISPUTE RESOLUTION**

12.01 **Dispute Resolution Procedure.** The parties hereto will endeavor to resolve in good faith any controversy, disagreement or claim arising between them, whether as to the interpretation, performance or operation of this Agreement or any rights or obligations hereunder. If they are unable to do so, any such controversy, disagreement or claim will be submitted, for final resolution to a court of competent jurisdiction in the County of Muskegon in the State of Michigan. Pending the resolution of the dispute, all other obligations of the parties hereto will continue as stipulated herein, and all monies not directly involved in such dispute or difference will be paid when due. The court will make its decision in accordance with the laws of the State of Michigan and the United States.
12.02 **Damages Upon Termination.** The parties agree that in the event of the wrongful termination of this Agreement by the System, the System will owe MEI existing obligations such as unpaid Management Fees through the date of the wrongful termination of this Agreement, unreimbursed expenses, and obligations of the System pursuant to Sections 6.04 and 6.05 and ARTICLE VIII and ARTICLE IX. The Board acknowledges that MEI will argue that the System will owe to MEI damages equal to the present value of the estimated Management Fees specified in ARTICLE IV through the end of the term specified in ARTICLE II based upon its assertion that such Management Fees are used to offset MEI’s fixed costs, corporate overhead and profit. MEI acknowledges that the System has the right to contest such damage claim and/or the calculation thereof and that the provisions of this Agreement provide no specific authority for granting damages based upon that assertion.

**ARTICLE XIII. MISCELLANEOUS**

13.01 **Sole Agreement.** This Agreement supersedes and replaces any and all prior agreements and understandings between the System and MEI.

13.02 **Force Majeure.** Notwithstanding any other sections of this Agreement, neither party will be liable for any delay in performance or inability to perform due to acts of God or due to war, riot, terrorism, civil war, embargo, fire, flood, explosion, sabotage, accident, labor strike or other act beyond its reasonable control.

13.03 **Governing Law.** The laws of the State of Michigan will govern this Agreement, its construction, and the determination of any rights, duties and remedies of the parties arising out of or relating to this Agreement.

13.04 **Agreement in Entirety.** This Agreement constitutes the entire agreement of the parties.

13.05 **Counterparts.** This Agreement may be executed in counterparts, each of which will be deemed an original, but both of which will constitute one and the same instrument.

13.06 **Official Notices.** All notices and other communications required by the terms of this Agreement will be in writing and sent to the parties hereto at the addresses set forth below (and such addresses may be changed upon proper notice to such addressees). Notice may be given by: (i) certified or registered mail, postage prepaid, return receipt requested, (ii) facsimile (with confirmation of transmission by sender’s facsimile machine) or (iii) personal delivery. Notice will be deemed to have been given two days after mailing or on the date of personal delivery or on the date of transmission of a facsimile if on a business day during normal business hours (or, if not, the first business day). The addresses of the parties are:

**To:**
Muskegon Heights Public School Academy System
Attn: Board President
2603 Leathy Street
Muskegon Heights, MI 48003

**To:**
Mosaica Education, Inc.
42 Broadway, Suite 1039
New York, NY 10004
Attn: CEO
Fax: (212) 232-0309
13.07 Assignment. This Agreement will not be assigned by MEI without the prior consent in writing of the System (which consent will not be unreasonably withheld) or by the System without the prior consent in writing of MEI (which consent will not be unreasonably withheld). It is anticipated that MEI may utilize subcontracts to provide some of the services it is required to provide to the System. MEI shall not subcontract the management, oversight or operation of the teaching and instructional programs without the prior approval of the Board. Board approval of other subcontracts is not required unless the cost for these subcontracted services exceeds the funds appropriated for that purpose in the System’s approved budget. Every subcontract entered into without Board approval, and the appropriation(s) from which it will be paid, shall be reported to the Board at its next meeting.

13.08 Amendment. This Agreement will not be altered, amended, modified or supplemented except in a written document approved by the Board and signed by both the President or other authorized officer of the System and an authorized officer of MEI. Any amendment to this Agreement shall be presented to the Authorizing Body and shall not be effective unless it has been approved by the Authorizing Body or has been reviewed and not disapproved as provided for in the Code.

13.09 Waiver. No waiver of any provision of this Agreement will be deemed to be or will constitute a waiver of any other provision, nor will such waiver constitute a continuing waiver unless otherwise expressly stated.

13.10 Severability. The invalidity of any of the covenants, phrases or clauses in this Agreement will not affect the remaining portions of this Agreement, and this Agreement will be construed as if such invalid covenant, phrase or clause had not been contained in this Agreement. To the extent that any of the services to be provided by MEI are found to be overbroad or an invalid delegation of authority by the System, such Services will be construed to be limited to the extent necessary to make the Services valid and binding.

13.11 Successors and Assigns. Except as limited by Section 13.07 above, this Agreement will be binding upon, and inure to the benefit of, the parties and their respective successors and assigns.

13.12 No Third Party Rights. This Agreement is made for the sole benefit of the System and MEI. Except as otherwise expressly provided, nothing in this Agreement will create or be deemed to create a relationship between the parties to this Agreement, or either of them, and any third person, including a relationship in the nature of a third party beneficiary or fiduciary.

13.13 Survival of Termination. All representations, warranties and indemnities made in this Agreement will survive termination of this Agreement.
SERVICES AGREEMENT

THIS SERVICES AGREEMENT ("Agreement") by and between PrepNet, LLC, a Michigan limited liability corporation ("PrepNet"), and Taylor Preparatory High School, a body corporate and public school academy (the "School") is effective the ___ day of ____, 2013 (the "Effective Date"). For purposes of this Agreement, PrepNet and the School shall be referred to collectively as the "Parties."

RECITALS

WHEREAS, the School was issued a Charter Contract by Grand Valley State University (the "Authorizer") to operate a public school academy pursuant to the Michigan Revised School Code (the "Authorizing Law"); and

WHEREAS, the Parties desire to work together to promote educational excellence and innovation based on PrepNet’s school design, comprehensive educational program and management principles; and

WHEREAS, the Parties desire to set forth the terms and conditions of such a relationship in this Agreement;

NOW, THEREFORE, for good and valuable consideration, including the mutual promises and benefits contained in this Agreement, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

ARTICLE I

CONTRACTING RELATIONSHIP

A. Services. Subject to the terms and conditions of this Agreement, and as permitted by applicable law, the School hereby contracts with PrepNet for the provision of certain educational, business administration, facility, and management services, including without limitation, all labor, equipment, and materials necessary for the provision of the same, as set forth herein (collectively, the "Services").

B. Charter. This Agreement shall: (i) be subject to and comply with the terms and conditions of the Charter Contract and the School’s Charter Application (collectively, the "Charter"); and (ii) not be construed to interfere with the constitutional, statutory, or fiduciary duties of the School’s Board of Directors (the "Board"). PrepNet agrees to perform its duties and responsibilities under this Agreement in a manner that is consistent with the School’s obligations under the Charter issued by the Authorizer. The provisions of the School’s Charter shall supercede any competing or conflicting provisions contained in this Agreement.

C. Independent Contractor. PrepNet shall provide the Services as an independent contractor, and not as an employee, partner, agent, or associate of the School. This independent contractor relationship shall extend to the officers, directors, employees, and representatives of PrepNet. Consistent with the status of an independent contractor, PrepNet reserves to itself the
right to designate the means and methods of accomplishing the objectives and purposes of this Agreement consistent with Board policy, applicable law and the Charter. PrepNet shall be solely responsible for its acts and the acts of its agents, employees and subcontractors. The relationship between the Parties is based solely on the terms and conditions of this Agreement, and the terms and conditions of any other written agreement between the Parties.

D. Designations and Appointments.

1. The Board shall by Board resolution appoint the Board Treasurer, or such other officer as determined by the Board, to serve as the chief administrative officer of the School (the “CAO”) under the Uniform Budgeting and Accounting Act, MCL 141,421 et seq. (the “Budgeting and Accounting Act”) Notwithstanding any other provision of the Agreement to the contrary, the Board resolution shall designate PrepNet’s chief financial officer, or such other PrepNet officer or employee as is mutually agreed upon by PrepNet and the Board, as the designated agent of the CAO to assist the CAO with the performance of the CAO’s duties under the Budgeting and Accounting Act.

2. PrepNet, including its directors, officers, and employees are hereby designated as “School Officials” for purposes of the Family Educational Right and Privacy Act, and its implementing regulations, 20 U.S.C. §1232g et seq. (FERPA); 34 CFR § 99.31(a)(1)(i)(B). Additionally:

(a) PrepNet agrees that it shall observe Board policies and applicable law regarding the confidentiality of Covered Data and Information. Covered Data and Information (“CDI”) includes paper and electronic student education record information and includes, without limitation, “education records” as defined under FERPA, 34 CFR § 99.1. CDI also includes any new records created and maintained by PrepNet under this Agreement using CDI.

(b) PrepNet shall not use or disclose CDI received from or on behalf of the School except as permitted or required by this Agreement and/or applicable law.

(c) Upon termination or other conclusion of this Agreement, PrepNet shall return all CDI to the School.

(d) PrepNet shall develop, implement, maintain and use appropriate administrative, technical and physical security measures to preserve the confidentiality, integrity and availability of all CDI received from, or on behalf of, the School or its students. These measures will be extended by contract to include subcontractors used by the PrepNet.

(e) PrepNet, within two business days of discovery, shall report to the Board any use or disclosure of CDI not authorized by this Agreement. PrepNet’s report shall identify: (i) the nature of the unauthorized use or disclosure, (ii) the CDI used or disclosed, (iii) who made the unauthorized use or received the unauthorized disclosure, (iv) what PrepNet has done or shall do to mitigate any deleterious effect of the unauthorized use or disclosure, and (v) what corrective action PrepNet has taken or shall take to prevent future similar unauthorized use
or disclosure. PrepNet shall provide such other information, including a written report, as reasonably requested by the Board.

3. PrepNet, its directors, officers, and employees may be designated by the School for other purposes by a written resolution of the Board.

ARTICLE II
TERM & TERMINATION

A. Term. This Agreement shall commence on the Effective Date, and unless terminated as set forth herein, shall continue until the revocation, termination or expiration of the Charter currently in effect (the "Term"). The first school year of this Agreement shall commence July 1, 2013 to June 30, 2014, and each school year thereafter shall commence on July 1 and end on June 30 of the following year.

B. Termination.

1. By PrepNet. PrepNet may terminate this Agreement prior to the end of the Term if the School fails to remedy a material breach of this Agreement within thirty (30) days after receiving a notice from PrepNet of such breach. For purposes of this Subsection, a material breach (which for the sake of clarity is a default hereunder) includes, but is not limited to: (i) PrepNet's failure to timely receive any compensation or reimbursement required by this Agreement; or (ii) a suspension, termination, revocation, or non-renewal of the Charter.

2. By the School. The School may terminate this Agreement prior to the end of the Term if PrepNet fails to remedy a material breach of this Agreement within (30) days after receiving notice from the School of such breach. For purposes of this Subsection, a material breach includes, but is not limited to: (i) PrepNet’s failure to account for expenditures or pay operating costs pursuant to the Budget (as defined below); (ii) PrepNet’s failure to follow policies, procedures, rules, regulations or curriculum adopted by the Board, provided they do not violate the Charter, applicable law, or this Agreement; (iii) a receipt by the Board of an unsatisfactory report from PrepNet or an independent education consultant retained by the Board regarding the Services or the School’s performance, provided the unsatisfactory performance cannot be adequately corrected or explained; (iv) a determination that this Agreement or its implementation would serve as grounds for suspension, termination, revocation, or non-renewal of the Charter; (v) a determination that this Agreement or its implementation would jeopardize material tax exemptions of the School or its non-profit status; or (vi) any action or inaction by PrepNet that places the Charter in jeopardy of termination, suspension or revocation.

3. By Either Party. Either party may terminate this Agreement prior to the end of the Term, with or without cause, by providing the other party with at least ninety (90) days' prior written notice.

4. Revocation or Termination of Charter. If the Academy's Contract issued by the Grand Valley State University Board of Trustees is revoked or terminated, this Agreement
shall automatically terminate on the same date as the Academy’s Contract is revoked or
termination without further action of the parties.”

5. If this Agreement is terminated prior to the end of the Term other than as
provided for in Article II(B)(4) of this Agreement, and unless otherwise agreed by the Parties,
such termination will not become effective until the end of the then-current school year.

C. Effect of Termination. Upon the effective date of termination or expiration of this
Agreement:

1. Subject to any provisions contained in a lease between the Parties, the
Parties shall have the right to remove from the School any equipment or other assets owned or
leased by the respective Party;

2. The School shall pay or reimburse PrepNet through the Fee (as defined
below) for the prepaid portion of any expenses or liabilities incurred by PrepNet pursuant to the
Budget as of the date of such termination or expiration, provided PrepNet supplies the School
with documentation of all such expenses and liabilities;

3. PrepNet may agree, in its sole discretion, to assist the School for a
reasonable amount of time, not to exceed ninety (90) days, and for a reasonable fee, with the
School’s transition to another administrative, managerial, or services arrangement;

4. PrepNet shall, if applicable, reasonably assist the School in the execution
of a closure and dissolution plan and cooperate in the closure and dissolution process, including
without limitation, in any audits and court or other proceedings related thereto; and

5. The party to whom Confidential Information (as defined below) has been
disclosed shall, upon request and at the direction of the disclosing party: (i) return such
Confidential Information within thirty (30) days, including any copies thereof, and cease its use;
or (ii) destroy such Confidential Information and certify such destruction to the disclosing party,
except for a single copy thereof which may be retained for the sole purpose of determining the
scope of any obligations incurred under this Agreement, and except where disclosure or retention
is required by applicable law.

ARTICLE III
OBLIGATIONS OF PrepNet

A. Manager at Risk. PrepNet shall be responsible and accountable to the Board for
providing the Services. During the Term, PrepNet shall provide the Services regardless of
whether actual revenue meets the level projected in the Budget, and PrepNet hereby assumes the
risk of funding shortfalls during the Term. Notwithstanding the foregoing, PrepNet shall not be
required to expend funds on Services in excess of the amount set forth in the Budget.
B. Comprehensive Educational Program. The School has determined to adopt PrepNet's proprietary educational and academic programs and goals, as set forth in the Charter (the "Educational Program"). Subject to the oversight of the Board, PrepNet shall implement and administer the Educational Program. In the event that PrepNet reasonably determines that it is necessary or advisable to make material changes to the Educational Program, PrepNet shall inform the Board of the proposed changes and obtain the Board's approval before making such changes, as well as the Authorizer's approval if required by the Charter or applicable law. The Parties acknowledge and agree that an essential principle of the Educational Program is its flexibility, adaptability and capacity to change in the interest of continuous improvement and efficiency. Not less than annually or as reasonably requested by the Board, PrepNet shall provide the Board with a report detailing progress made on each of the educational goals set forth in the Educational Program. The school year calendar and the school day schedule shall be approved by the Board as required under the Charter.

C. All Children Welcome. PrepNet places a high value on diversity, and the School shall welcome students of all races, ethnicity, religion, gender and economic backgrounds.

D. Services to Students with Disabilities. PrepNet welcomes students with disabilities at the School. PrepNet shall provide special education and related services, in conformity with the requirements of applicable law, to students who attend the School.

E. Educational and Administrative Services. Subject to the oversight of the Board, PrepNet shall implement operational practices and procedures that are consistent with Board policy, the Charter and applicable law. Such practices and procedures shall include, but are not limited to:

1. Student recruitment and student admissions.

2. Student assessments, including testing, promotion, and retention.

3. The acquisition of instructional materials, equipment and supplies, and the administration of any and all extra-curricular and co-curricular activities and programs approved by the Board and PrepNet.

4. Employment of personnel working at the School and management of all personnel functions, as set forth herein.

5. All aspects of the School's business administration.

6. All aspects of the School's accounting operation, including general ledger management, financial reporting, payroll, employee benefits and payroll tax compliance.

7. Food service and transportation approved by the Board and PrepNet.

8. All aspects of facilities administration and maintenance.

9. Student behavior management and discipline.
F. Location of Services. Other than instruction, and unless prohibited by the Charter or applicable law, PrepNet may provide the Services, including but not limited to, purchasing, professional development and administrative services, off-site.

G. Subcontracts. PrepNet reserves the right to subcontract any and all aspects of the Services. PrepNet shall not subcontract the oversight of the Educational Program, except as specifically permitted in this Agreement or with prior written approval of the Board. Notwithstanding the foregoing, the Board specifically acknowledges and agrees that from time to time PrepNet may use third parties or independent contractors to assist in the creation and development of Educational Materials (as defined below) that may be used as a part of the Educational Program.

H. Pupil Performance Standards and Evaluation. PrepNet shall implement pupil performance evaluations that permit evaluation of the academic progress of each School student. PrepNet shall be responsible and accountable to the Board for the academic performance of students who are enrolled at the School. PrepNet shall utilize assessment strategies required by the Charter and applicable law. The Board and PrepNet shall cooperate in good faith to identify academic goals and methods to assess such academic performance. PrepNet shall provide the Board with timely reports regarding student performance.

I. Unusual Events. PrepNet shall timely notify the Board and the Administrator (as defined below) of any anticipated or known material: (i) health or safety issues, including all mandatory reporting required by applicable law; (ii) labor, employee or funding issues; or (iii) other issues that may reasonably and adversely impact the School’s ability to comply with the Charter, applicable law or this Agreement.

J. School Records. The financial and education records pertaining to the School (collectively, the “School Records”), are property of the School. Except as may be prohibited or limited by the Charter or applicable law, the School Records shall be available to the Board and the Authorizer for their review, and are subject to inspection and copying to the same extent that records of public schools are subject to inspection and copying pursuant to applicable law. All School Records shall be physically or electronically available at the School’s physical facility upon request made by the Board or the Authorizer. PrepNet shall provide the Board on a timely basis all information that is required to be disclosed under section 22f of the State School Aid Act of 1979, MCL 388.1622f.

On an annual basis, PrepNet agrees to provide the Board the same information that a school district is required to disclose under section 18(2) of the State School Aid Act of 1979, MCL 388.1618, for the most recent school fiscal year for which the information is available. Within thirty (30) days of receipt of this information, the Board shall make the information available on the School’s website homepage, in a form and manner prescribed by the Michigan Department of Education. The defined terms in section 503c and 553c of the Code, MCL 380.503c and MCL 380.553c, whichever is applicable, shall have the same meaning in this Agreement.

PrepNet shall make information concerning the operation and management of the School, including without limitation the information described in Schedule 4 of the Charter,
available to the School as deemed necessary by the Board in order to enable the School to fully satisfy its obligations under Section 12.17(a) of the Charter.

K. **Facility.** PrepNet shall use reasonable efforts to secure a facility to be leased or otherwise provided to the School on terms mutually acceptable to PrepNet and the Board. Obligations of the Board created under the terms of such lease are to be fulfilled by PrepNet unless otherwise agreed to in writing by PrepNet and the Board. The facility shall comply with the requirements of the Charter and applicable law. PrepNet shall also use reasonable efforts to cause the facility to be furnished with equipment and technology as is reasonably necessary to implement the Educational Program.

L. **Legal Compliance.** PrepNet will implement and enforce rules, regulations and procedures applicable to the School that are consistent with adopted Board policy, if any, and the Educational Program in accordance with the Charter and applicable law, including without limitation, rules, regulations, and policies regarding non-discrimination, discipline, special education, confidentiality and access to records.

M. **Rules and Procedures.** PrepNet will recommend to the Board reasonable rules, regulations, policies and/or procedures applicable to the School. The Board hereby authorizes and directs PrepNet to enforce such rules, regulations and procedures consistent with Board policy, and make such rules, regulations and procedures available to the Board upon request.

N. **Assistance to the Board.** PrepNet shall cooperate with the Board and, to the extent consistent with the Charter and applicable law, timely furnish the Board with all documents and information necessary for the Board to properly perform its responsibilities under this Agreement.

**ARTICLE IV**

**OBLIGATIONS OF THE BOARD**

A. **Board Policies.** The Board shall be responsible for the fiscal and academic policies of the School. The Board shall exercise good faith in considering the recommendations of PrepNet, including but not limited to, PrepNet's recommendations regarding policies, rules, regulations and the Budget (as defined below).

B. **Academy Budget.** The Board is responsible for establishing, approving and amending the Budget in accordance with the Budgeting and Accounting Act.

C. **Governance Oversight.** The Board shall provide governance level oversight of the School in accordance with the Charter and applicable law. The Board shall cooperate with PrepNet and, to the extent consistent with applicable law, timely furnish PrepNet all documents and information necessary for PrepNet to properly perform its responsibilities under this Agreement.

D. **Unusual Events.** The Board shall timely notify PrepNet of any anticipated or known material: (i) health or safety issues; (ii) labor, employee or funding issues; or (iii) other
issues that may reasonably and adversely impact PrepNet’s ability to comply with the Charter, applicable law, or this Agreement.

E. Office Space. The Board shall provide PrepNet with suitable office space at the School, provided the requested space is: (i) available and can be provided without materially prejudicing the Educational Program; and (ii) used only for activities related to the School. The space shall be provided at no cost to PrepNet.

F. Retained Authority. The Board shall retain the authority to adopt reasonable policies in accordance with applicable law relative to anything necessary for the proper establishment, maintenance, management, and operation of the School.

ARTICLE V
INTELLECTUAL PROPERTY

A. Definitions.

1. “Educational Materials” means all curriculum, print and electronic textbooks, instructional materials, lesson plans, teacher guides, workbooks, tests, and other curriculum-related materials licensed, developed or otherwise owned by the School or PrepNet.

2. “Confidential Information” means any confidential and non-public trade, technical or business knowledge, information and materials regarding the School or PrepNet (or their respective affiliates), which is given by one party to the other, or any of their respective representatives, in any form, whether printed, written, oral, visual, electronic or in any other media or manner. Confidential Information includes, but is not limited to, research, operations and procedures, financial projections, pricing, sales, expansion plans and strategies, services data, trade secrets and other intellectual property, or the results of any mediation or private adjudication, as well as information with respect to each party’s or its affiliates’ plans for market expansion, except for information which a party can show by contemporaneous written records was developed or formulated independently of work or services performed for, or in connection with performance of, this Agreement. Notwithstanding the foregoing, the disclosure of the other party’s Confidential Information as required to be disclosed by law, rule or regulation or by reason of subpoena, court order or government action shall not constitute a breach of this Agreement; however, in such event the party required to disclose such information will reasonably cooperate with the party whose information is required to be disclosed in order to obtain a protective order applicable to such disclosure. All Confidential Information will remain the sole property of the party disclosing such information or data.

B. School Materials. The School shall own all right, title and interest in and to Educational Materials that are: (i) licensed or owned by the School as of the Effective Date; or (ii) licensed, developed, characterized, conceived, derived, generated, identified, or otherwise made by the School during the Term, provided such materials do not reference the PrepNet Materials (as defined below), or incorporate any Confidential Information of PrepNet.
(collectively, the "School Materials"). The School Materials shall include all intellectual property rights associated therewith.

C. PrepNet Materials. PrepNet shall own all right, title and interest in and to Educational Materials that are: (i) licensed or owned by PrepNet as of the Effective Date; (ii) licensed, developed, characterized, conceived, derived, generated, identified, or otherwise made by PrepNet during the Term, provided such materials do not reference School Materials or incorporate any Confidential Information of the School; and (iii) any and all Educational Materials and non-curriculum materials provided to the School by PrepNet relating to the Educational Program, including all changes and derivatives thereof (collectively, the "PrepNet Materials").

D. Derivative Works. The Parties acknowledge that to the extent any Educational Materials created by the School are derivative of the PrepNet Materials, use of such derivative materials during the Term is subject to the license granted herein, and the license to use such derivative materials shall cease as of the date of expiration or termination of this Agreement.

E. No Transfer or Sale. The School acknowledges and agrees that PrepNet is not transferring or selling, and the School is not receiving, purchasing or acquiring, any intellectual property or proprietary rights in or to the PrepNet Materials.

F. Licenses. PrepNet hereby grants the School a non-exclusive, non-transferable license (without the right to sublicense) to use the PrepNet Materials, and any Educational Materials created by the School which are derivative of the PrepNet Materials, solely in furtherance of the Educational Program during the Term, including without limitation, the right to reproduce, publicly display, distribute and create derivative works of the same, in hard copy format or electronically, within the United States. The School represents and warrants that during the Term, and following the expiration or termination of this Agreement, the School will not exploit or assist any third party to exploit any of the PrepNet Materials for commercial purposes. Subject to applicable law, the School grants PrepNet a non-exclusive, non-transferable license (without the right to sublicense) to use the School Materials, solely in furtherance of the Educational Program during the Term, including without limitation, the right to reproduce, publicly display, distribute and create derivative works of the same, in hard copy format or electronically, within the United States.

G. PrepNet Marks. During the Term, PrepNet grants the School a non-exclusive, revocable, non-transferable license (without the right to sublicense) to use PrepNet's trademark(s) and PrepNet's trademark(s) (the "PrepNet Marks") solely for the purposes of promoting and advertising the School. PrepNet shall have the opportunity to review and approve all artwork, copy or other materials utilizing the PrepNet Marks prior to any production or distribution thereof. All uses of the PrepNet Marks require PrepNet's prior written permission. The School shall acquire no rights in or to the PrepNet Marks, and all goodwill associated with the PrepNet Marks shall inure to the benefit of and remain with PrepNet. Upon expiration or termination of this Agreement, the School shall immediately discontinue use of the PrepNet Marks and shall remove the PrepNet Marks from its locations, vehicles, websites, telephone directory listings and all other written or electronic promotional materials.
H. **Assignment.** Each party shall, and hereby does assign to the other, with full title guarantee and without additional compensation, such right, title and interest in and to any intellectual property as is necessary to fully affect the ownership provisions set out herein, and any accrued rights of action in respect thereof. Each party shall, if so requested by the other, execute all such documents and do all such other acts and things as may be reasonably required to comply with this Agreement to vest in the appropriate party all rights in the relevant intellectual property and shall procure execution by any named inventor of all such documents as may reasonably be required by the other party in connection with any related patent application.

**ARTICLE VI**

**SOLICITATION AND USE OF PRIVATE FUNDS**

PrepNet shall seek the Board’s approval prior to soliciting any non-governmental grants, donations or contributions on behalf of the School. Any such funds received shall be used solely in accordance with the purpose for which they were solicited, applicable donor restrictions, or as otherwise approved by the Board. Subject to applicable donor restrictions, the Board shall determine the allocation of any such funds subject to this Article that remain unexpended following completion of the project or purpose for which they were originally designated.

**ARTICLE VII**

**FINANCIAL ARRANGEMENTS**

A. **Revenues.** Except as provided herein, all monies received by the School shall be deposited in the School’s depository account within three (3) business days with a financial institution acceptable to the Board; provided, however, that upon receipt of a notice from PrepNet, the School shall pay all such funds owing under this Agreement directly to the account or party specified in such notice. The signatories on the School depository account shall solely be Board members. Interest income earned on the School’s depository account shall accrue to the School. Except as specifically excluded by this Agreement, the term “Revenues” shall include all funds received by or on behalf of the School, including but not limited to:

1. Funding for public school students enrolled at the School.
2. Special education funding provided by the federal and/or state government that is directly allocable to special education students enrolled at the School.
3. Gifted and talented funding provided by the federal and/or state government that is directly allocable to gifted and talented students enrolled at the School.
4. At-risk funding provided by the federal and/or state government that is directly allocable to at-risk students enrolled at the School.
5. Funding provided by the federal and/or state government that is directly allocable to students enrolled at the School with limited English proficiency.

6. All other federal and/or state grant sources, including, but not limited to, Title I and any start-up funding allocable to the School.

7. Grants and donations received by the School to support or carry out programs at the School (except to the extent PrepNet is not required or involved in soliciting, administering or managing the contribution and/or donation, in which case such funds shall be deposited in the Board Spending Account (as defined below)).

8. Fees charged to students as permitted by law for extra services provided by PrepNet as approved by the Board.

The expenditure of any Revenues received from governmental entities shall be consistent with all applicable regulations and policies. The expenditure of any Revenues received from non-governmental grants, contributions and donations shall be made consistent with the provisions of Article VI.

B. Budget. PrepNet shall provide the Board with an annual proposed Budget prepared and maintained in accordance with the Charter, the Michigan Budgeting and Accounting Act, and applicable law (the “Budget”). The Budget shall include all of the School’s projected revenues and expenses at the object level as described in the Michigan Department of Education’s Michigan School Accounting Manual. For the School’s first school year, the Budget shall be submitted prior to the beginning of the school year. Thereafter, the Budget shall be submitted to the Board prior to June 1 for the next school year.

C. Review and Approval of Budget. The Board shall be responsible for reviewing and approving the Budget in accordance with the Charter and applicable law. At the direction of either PrepNet or the Board, with the approval of the Board, the Budget shall be amended from time to time as necessary.

D. Board Spending Account. Notwithstanding any other provision of this Agreement to the contrary, each school year during the Term, PrepNet shall allocate to an account controlled by the Board an amount equal to the lesser of: (i) 2% of state per pupil aid reflected in the Budget for that respective school year, or (ii) $35,000 (the “Board Spending Account”). The aforesaid amount shall be deposited by PrepNet into the Board Spending Account pro-rata during the course of the School’s school year as Revenues are received. All funds in the Board Spending Account are the property of the School and may be used by the School at the discretion of the Board. Funds in the Board Spending Account that are not spent by the School during the school year shall carryover annually. Items purchased by PrepNet for the School and paid for by the School with funds from the Board Spending Account, such as non-proprietary instructional and/or curriculum materials, books, supplies and equipment, shall be the property of the School. The property of the School excludes items leased, financed or purchased by PrepNet with the Fee (as defined below). PrepNet agrees not to add any fees or charges to the cost of equipment, materials or supplies purchased by PrepNet at the request of or
on behalf of the School with funds from the Board Spending Account. PrepNet, in making such purchases for the School pursuant to this subsection, shall comply with applicable law, as if the School were making such purchases itself from a third party, and shall provide the Board, upon request, available documentation evidencing the costs associated with such purchases. PrepNet shall maintain a listing of all assets owned by the School and shall provide the list to the Board annually upon request.

E. Fee. PrepNet shall receive all Revenues as its services fee (the “Fee”), from which it shall pay all operating costs of the School as detailed in the Budget. PrepNet and the Board acknowledge that operating costs includes an administrative fee payable to the Authorizer as set forth in the Charter. Payment of the Fee shall be made on the same frequency that the School receives its Revenues. PrepNet shall be entitled to retain as compensation for the Services the difference, if any, between the Fee and the amount actually expended by PrepNet in operation and/or management of the School during the School’s fiscal year. PrepNet agrees not to add any fees or charges to the cost of equipment, materials or supplies purchased by PrepNet at the request of or on behalf of the School.

F. No Loans. PrepNet shall not make or extend loans to the Board.

G. Other Schools. The School acknowledges that PrepNet has entered into similar services agreements with other schools. PrepNet shall maintain separate accounts for expenses incurred in the operation of the School and other schools assisted by PrepNet, and shall reflect in the School’s financial records only those expenses incurred in the operation of the School. If PrepNet incurs expenses that are for both the benefit of the School and other schools assisted by PrepNet, then PrepNet shall allocate, to the extent permitted by law, such expenses among all such affected schools, including the School, on a prorated basis based upon the number of enrolled students, the number of classrooms, or the number of teachers at the affected schools, or on such other equitable basis as is reasonably determined by PrepNet. In no event shall marketing and development costs incurred solely for the benefit of PrepNet (and not the School) be allocated to the School.

H. Financial Reporting. PrepNet shall provide the Board with:

1. At least annually, the Budget as required by this Agreement.

2. Monthly, financial statements no more than forty-five (45) days in arrears and at least one week prior to each Board meeting. These financial statements will include a Balance Sheet, Statement of Revenues, Expenditures and Changes in Fund Balance at object level detail with a comparison of budget to actual revenue and expenditures and explanations of variances.

3. Quarterly, or as reasonably requested by the Board, a report on School operations and student performance.

4. As reasonably requested, other information to enable the Board to: (i) evaluate the quality of the Services; and (ii) timely provide all reports and information that are required by the Charter and applicable law.
I. **Access to Financial Records.** PrepNet shall keep accurate financial records pertaining to its operation of the School, together with all School financial records prepared by or in possession of PrepNet, and shall retain all of the aforereferenced records according to the Charter and applicable law to which such books, accounts, and records relate. PrepNet and the Board shall maintain the proper confidentiality of personnel, students, and other records as required by law. All records shall be kept in accordance with applicable state and federal requirements.

J. **Accounting Standards; Annual Audit.**

1. The School shall at all times comply with generally accepted public sector accounting principles, accounting system requirements of the State School Aid Act of 1979, as amended, applicable Michigan Department of Education rules, and applicable law.

2. The Board shall select and retain an independent auditor to conduct an annual audit of the School’s financial matters in accordance with the Charter and applicable law.

3. Subject to applicable law, all records in the possession or control of PrepNet that relate to the School, including but not limited to, financial records, shall be made available to the School and the School’s independent auditor. The expense of the annual audit shall be included in the Budget.

K. **Start-up Funds; Contributions; Repayment.**

1. PrepNet shall provide start-up funds for: (i) the development of curriculum, a technology system and a school operations plan; (ii) recruiting, selecting and training of staff members; and (iii) to the extent necessary as reasonably determined by PrepNet, cleaning, renovating and equipping of the School facility (the “Start-Up Funds”).

2. PrepNet shall make contributions to the School in the event School expenses for the Services exceed Revenues (the “Contributions”). The Contributions, if any, shall be in amounts acceptable to the Parties and, once made, shall be included in the Budget.

3. The School shall not be legally obligated to repay PrepNet for the Start-Up Funds or the Contributions. PrepNet’s agreement to make such Contributions shall not be deemed to negate or mitigate the need for the School to apply for or solicit state or federal start-up funds, grants or sub-grants which the School, as a public school, may be eligible to receive.

**ARTICLE VIII**

**PERSONNEL & TRAINING**

A. **Qualified Personnel.** PrepNet shall select and hire qualified personnel to perform the Services. PrepNet shall have the responsibility and authority, subject to this Article, to select, hire, evaluate, assign, discipline, transfer, and terminate personnel consistent with the Budget, the Charter and applicable law. Personnel working at the School shall be employees of
PrepNet unless otherwise expressly agreed by PrepNet and the Board. PrepNet and the Board each shall be responsible for their respective employees. However, the compensation of all employees working at the School shall be included in the Budget. Upon Board request, PrepNet shall disclose to the Board the level of compensation and fringe benefits provided by PrepNet to PrepNet employees working at the School. A criminal background check and unprofessional conduct search in compliance with applicable law shall be conditions for the hiring of or services provided by any person assigned by PrepNet under this Agreement to regularly and continuously work in any of the School’s facilities or at program sites where the School delivers Services. PrepNet shall pay all salaries, wages, benefits, payroll and other taxes to or on account of its employees. The Academy shall not be liable for the payment of any such salaries, wages, benefits, payroll or taxes thereon for or on behalf of any PrepNet employee, contractor or agent. PrepNet acknowledges and agrees that it is the sole and exclusive responsibility of PrepNet to make the requisite tax filings, deductions and payments to the appropriate federal, state and local tax authorities for and on behalf of all persons employed or engaged by PrepNet to provide Services under this Agreement. As applicable, PrepNet shall conduct employee evaluations consistent with Section 1249 and 1250 of the Code.

B. School Administrator. The School administrator (the “Administrator”) shall be an employee of PrepNet and not the Board. The duties and terms of the Administrator’s employment shall be determined by PrepNet. The Administrator shall work with PrepNet in the operation and management of the School. The Administrator shall attend meetings of the Board and shall provide reports to the Board. The accountability of PrepNet to the School is an essential foundation of this Agreement. PrepNet shall have the authority, consistent with this Article, to select, hire, evaluate, assign, discipline, transfer and terminate the Administrator, and to hold the Administrator accountable for the performance of the School. Without limiting the foregoing, PrepNet shall consult with the Board prior to the placement and/or removal of the Administrator. Absent compelling circumstances, the consultation shall commence at least ninety (90) days prior to PrepNet placing and/or removing the Administrator. PrepNet shall give due consideration to the input of the Board or the Board’s designated representative prior to making a final decision regarding placement and/or removal of the Administrator. PrepNet shall remove the Administrator if the Board is reasonably dissatisfied with the Administrator’s performance. Absent compelling circumstances, however, the Board shall give PrepNet and the Administrator six (6) months to correct the basis for the Board’s reasonable dissatisfaction. The parties agree that the purpose of the above provisions is not to deny the Administrator the opportunity for growth and/or promotion within PrepNet. Notwithstanding any of the foregoing, the placement of the initial Administrator for the School in its first year of operation shall be made by PrepNet.

As the employer, PrepNet shall be solely responsible for the performance evaluation of the Administrator. PrepNet shall seek feedback from the Board prior to completing an annual Administrator performance evaluation.

C. Teachers. PrepNet shall, consistent with this Article, assign to perform Services at the School, teachers qualified to teach their assigned subjects and grade level. The curriculum taught by the teachers shall be consistent with the Educational Program. The teachers may, at the discretion of PrepNet, be assigned to work at the School on a full or part time basis. If assigned to work at the School on a part time basis, the teacher(s) may also be assigned to work at other schools for which PrepNet provides services. The cost for such teacher(s) shall be
shared proportionately among the schools at which PrepNet has assigned the teacher(s) to work. Each teacher assigned to work at the School shall hold a valid teaching certificate issued by the state board of education or applicable state agency to the extent required by the Authorizing Law.

D. Support Staff. PrepNet shall, consistent with this Article, assign to perform Services at the School, qualified support staff as needed for PrepNet to operate the School in an efficient manner. The support staff may, at the discretion of PrepNet, be assigned to work at the School on a full or part time basis. If assigned to work at the School on a part time basis, the support staff may be assigned to work at other schools for which PrepNet provides services. The cost for such support staff shall be shared proportionately among the schools at which PrepNet has assigned the support staff to work. An individual assigned to work at the School that is not teaching, but for which a license is required under applicable law, shall have the appropriate license.

E. Training. PrepNet shall provide or procure training in its methods, curriculum, program, and technology to all teaching personnel on a regular basis. Instructional personnel shall be required to obtain at least the minimum hours of professional development as required by applicable law. Non-instructional personnel shall receive training as PrepNet determines reasonable and necessary under the circumstances.

F. Background Checks and Qualifications. PrepNet shall comply with applicable law regarding background checks, unprofessional conduct searches and certification/licensure, as applicable, for all persons working in the School, the costs of which shall be included in the Budget.

G. Terms of Employment. No member of the staff at the School shall be subject to any covenant not to compete or other employment restriction as part of the terms of his or her employment with PrepNet for the Services.

H. Limitations on Discretion. All decisions made by PrepNet, and any discretion exercised by PrepNet, in its selection, hiring, evaluation, assignment, discipline, transfer, and termination of personnel, shall be consistent with the Budget, the Charter, the parameters adopted and included in the Educational Program, and applicable law.

ARTICLE IX
INDEMNIFICATION

A. Indemnification of Parties. To the extent not prohibited by the Charter or applicable law, the Parties hereby agree to indemnify, defend, and hold the other (the "Indemnified Party"), harmless from and against any and all third-party claims, actions, damages, expenses, losses or awards which arise out of (i) the negligence or intentional misconduct of the indemnifying party, (ii) any action taken or not taken by the indemnifying party, or (iii) any noncompliance or breach by the indemnifying party of any of the terms, conditions, warranties, representations, or undertakings contained in or made pursuant to this Agreement. As used herein, Indemnified Party shall include the party's trustees, directors,
officers, employees, agents, representatives and attorneys. The Parties may purchase general liability, property, or other insurance policies. Notwithstanding anything in this Agreement to the contrary, the Board shall not be precluded by the terms of this Agreement from asserting or declining to assert a claim of governmental immunity.

B. Indemnification of Authorizer. The parties acknowledge and agree that the Grand Valley State University Board of Trustees, Grand Valley State University and its members, officers, employees, agents or representatives are deemed to be third party beneficiaries for purposes of this Agreement. As third party beneficiaries, the parties hereby promise to indemnify and hold harmless Grand Valley State University Board of Trustees, Grand Valley State University and its members, officers, employees, agents or representatives from all claims, demands, or liability, including attorney fees, and related expenses, on account of injury, loss or damage, including, without limitation, claims arising from bodily injury, personal injury, sickness, disease, death, property loss or damage or any other losses of any kind whatsoever and not caused by the sole negligence of Grand Valley State University, which arise out of or are in any manner connected with Grand Valley State University Board's approval of the School of Excellence application, the University Board's consideration of or issuance of a Contract, the Academy's preparation for and operation of a public school, or which are incurred as a result of the reliance by Grand Valley State University and its Board of Trustees members, officers, employees, agents or representatives upon information supplied by the Academy or the ESP, or which arise out of the failure of the Academy to perform its obligations under the Contract issued to the Academy by Grand Valley State University Board of Trustees. The parties expressly acknowledge and agree that Grand Valley State University and its Board of Trustee members, officers, employees, agents or representatives may commence legal action against either party to enforce its rights as set forth in this Agreement."

ARTICLE X

INSURANCE

A. Insurance Coverage. PrepNet shall maintain such policies of insurance as required by the Charter, the Authorizers insurance carrier recommendations, and applicable law. Each party shall, upon request, present evidence to the other that it maintains the requisite insurance in compliance with the provisions of this Article. In the event that the Authorizer's insurance carrier recommends any change in coverage, PrepNet agrees to comply with any change in the type and amount of coverage as requested by the Authorizer's insurance carrier within thirty (30) days after notice of the insurance coverage change is provided to PrepNet. Each party shall comply with any information or reporting requirements required by the other party's insurer(s), to the extent reasonably practicable.

B. Workers' Compensation Insurance. Each party shall maintain workers' compensation insurance as required by law, covering their respective employees.
ARTICLE XI

REPRESENTATIONS & WARRANTIES

A. Board and School. The Board represents and warrants, for itself and on behalf of the School, that: (i) it is legally vested with all power and authority necessary to operate a charter school under the Authorizing Law; (ii) it is legally vested with all power and authority necessary to execute, deliver and perform this Agreement, including without limitation, the power and authority to contract with a private entity for the provision of educational, business administration and management services; (iii) its actions have been duly and validly authorized, and it has adopted any and all resolutions or expenditure approvals required for the execution of this Agreement; and (iv) there are no pending actions, claims, suits or proceedings, or, to its knowledge, threatened or reasonably anticipated against or affecting either the Board or the School, which if adversely determined, would have a material adverse effect on its ability to perform under this Agreement.

B. PrepNet. PrepNet represents and warrants that: (i) it is a corporation in good standing and is authorized to conduct business in the State of Michigan; (ii) it is legally vested with all power and authority necessary to execute, deliver and perform this Agreement; (iii) there are no pending actions, claims, suits or proceedings, or, to its knowledge, threatened or reasonably anticipated against or affecting PrepNet, which if adversely determined, would have a material adverse effect on its ability to perform its obligations under this Agreement; and (iv) it will comply with all registration and licensing requirements relating to conducting business under this Agreement, which the Board agrees to assist PrepNet in applying for such licenses and permits and in obtaining such approvals and consents.

ARTICLE XII

MISCELLANEOUS

A. Entire Agreement. This Agreement and any attachments hereto shall constitute the entire agreement of the Parties on the subject matter set forth herein. This Agreement supersedes and replaces any and all prior agreements and understandings regarding the subject matter set forth herein between the School and PrepNet.

B. Force Majeure. Except for payment obligations, and notwithstanding any other provisions of this Agreement, neither party shall be liable for any delay in performance or inability to perform due to acts of God, war, riot, embargo, fire, explosion, sabotage, flood, accident, labor strike, or other acts beyond its reasonable control; provided either party may terminate this Agreement in accordance with provisions contained herein if sufficient grounds exist as provided in the Article governing termination.

C. State Governing Law; Waiver of Jury Trial. This Agreement shall be construed, interpreted, governed and enforced pursuant to the laws of the State of Michigan, without regard to its conflict-of-laws principles. The Parties hereby waive the right to a jury trial in any action, proceeding or counterclaim brought by either PrepNet or the School against the other.
D. **Notices.** All notices and other communications required by this Agreement shall be in writing and sent to the Parties at the facsimile number or address set forth below. Notice may be given by: (i) facsimile with written evidence of confirmed receipt by the receiving party of the entire notice; (ii) certified or registered mail, postage prepaid, return receipt requested; or (iii) personal delivery. Notice shall be deemed to have been given on the date of transmittal if given by facsimile, upon the date of postmark if sent by certified or registered mail, or upon the date of delivery if given by personal delivery. For purposes of the foregoing, “personal delivery” shall include delivery by nationally recognized overnight courier (such as FedEx), if signed for by the recipient or a delegate thereof. Notices to the School shall be sent to the current address of the then current Board President, with a copy to the then current Board attorney. The addresses of the Parties for the purposes aforesaid, including the address of the initial Board President, are as follows:

**The School:**
Taylor Preparatory High School  
Attn: President, Board of Directors  
9540 Telegraph  
Taylor, Michigan 48180  
Telephone: (___) ___-____

**WITH A COPY TO:**
Joseph Urban  
Clark Hill  
151 S. Old Woodward Avenue  
Suite 200  
Birmingham, MI 48009  
(248) 988-1829

**PrepNet:**
PrepNet, LLC  
Attn: Chief Financial Officer  
3755 36th Street SE, Suite 250  
Grand Rapids, MI 49512  
Telephone: (616) 726-8900  
Facsimile: (616) 726-8901

**WITH A COPY TO:**
McShane & Bowie  
Attn: John R. Grant  
1100 Campau Square Plaza  
99 Monroe Ave., NW  
Grand Rapids, MI 49501  
Telephone: (616) 732-5013  
Facsimile: (616) 732-5099

E. **Assignment.** PrepNet may assign this Agreement with the prior written approval of the Board and in a manner consistent with the Authorizer’s policies.
F. Amendment. This Agreement shall not be altered, amended, modified or supplemented except by memorandum approved by the Board and signed by both an authorized officer of the School and PrepNet and in manner consistent with the Authorizer's policies.

G. Waiver. No waiver of any provision of this Agreement shall be deemed or shall constitute a waiver of any other provision. Nor shall such waiver constitute a continuing waiver unless otherwise expressly stated.

H. Costs and Expenses. If any Party commences and action against another Party as a result of a breach or alleged breach of this Agreement, the prevailing Party shall be entitled to have and recover from the losing Party reasonable attorneys' fees and costs of suit.

I. Severability. If any term or provision of this Agreement is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of the terms and provisions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and the Parties shall use their best efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term or provision.

J. Delegation of Authority. Nothing in this Agreement shall be construed as delegating to PrepNet powers or authority of the Board which are not subject to delegation by the Board under the Charter or applicable law.

K. Compliance with Law. Each party will comply with the Charter and laws applicable to the performance of such party's obligations hereunder.

L. Time of Essence. The Parties understand and agree that time is of the essence in performing their respective responsibilities under this Agreement.

[Signatures on Following Page]
MANAGEMENT AGREEMENT

This Management Agreement (the "Agreement") is made and entered into as of the 2nd day of July, 2014, by and between Francis Bok Public School Academy, a Michigan public school academy and body corporate ("the Academy"), by and through its Board of Directors (the "Board"), and TLG Group, Inc., a Michigan limited liability company ("TLG").

RECITALS

A. The Academy has been established by Northern Michigan University Board of Trustees (the "Authorizer") pursuant to that certain Public School Academy Contract dated July 1, 2014 between Northern Michigan University and the Academy (the "Public School Academy Contract" or "Contract") to operate the Academy pursuant to the Public School Academy Contract in accordance with the Michigan Revised School Code (the "Code") under the name of "the Academy."

B. The Academy and TLG desire to create an enduring educational partnership, whereby the Academy and TLG will work together to develop an environment of educational excellence and innovation at the Academy, based upon TLG's experience and capacity to implement and manage a comprehensive educational program (the "Educational Program").

C. The Academy has approved TLG's Educational Program, and agrees that it is in the best interest of the Academy to enter into this Agreement with TLG.

D. The Academy and TLG intend that this Agreement constitute, and this Agreement shall constitute, a "qualified management agreement" in compliance with applicable requirements of Section 141 of the Internal Revenue Code of 1986 (the "1986 Code") and Rev. Proc. 97-13, 1997-5 I.R.B. 18 ("Revenue Procedure 97-13") and shall be interpreted in accordance with such requirements.

THEREFORE, the parties mutually agree as follows:

1. Public School Academy Contract; Required Provisions. Notwithstanding, anything contained in the Agreement to the contrary, the Academy and TLG covenant and agree, as follows:

1.1 Indemnification of Northern Michigan University. The parties acknowledge and agree that the Northern Michigan University Board of Trustees, Northern Michigan University and its members, officers, employees, agents or representatives are deemed to be third party beneficiaries for purposes of this Agreement. As third party beneficiaries, the parties hereby promise to indemnify and hold harmless Northern Michigan University, Northern Michigan University Board of Trustees and its members, and their respective officers, employees, agents or representatives from all claims, demands, or liability, including attorney fees, and related expenses, on account of injury, loss or damage, including, without limitation, claims arising from bodily injury, personal injury, sickness, disease, death, property loss or damage or any other losses of any kind whatsoever and not caused by the sole negligence of Northern Michigan University, which arise out or are in any manner connected with Northern Michigan University.
Board of Trustee’s approval of the Academy’s application, Northern Michigan University Board of Trustee’s consideration of or issuance of a Contract, the Academy Board’s or TLG’s preparation for and operation of the Academy, or which are incurred as a result of the reliance by Northern Michigan University, Northern Michigan University Board of Trustees or its members, or their respective officers, employees, agents or Trustees or its members, or their respective officers, employees, agents or representatives, upon information supplied by the Academy Board or TLG, or which arise out of the failure of the Academy Board or TLG to perform its obligations under the Contract or Applicable Law. The parties expressly acknowledge and agree that Northern Michigan University, Northern Michigan University Board of Trustees and its members, and their respective officers, employees, agents or representatives, or any of them, may commence legal action either party to enforce its rights as set forth in this Agreement.

1.2 Agreement Coterminal With Academy’s Contract. If the Academy’s Contract issued by the Northern Michigan University Board of Trustees is suspended, revoked or terminated, or a new charter contract is not issued to the Academy after expiration of the Contract, this Agreement shall automatically be suspended or terminated, as the case may be, on the same date as the Academy’s Contract is suspended, revoked, terminated or expires without further action of the parties.

1.3 Compliance with Academy’s Contract. TLG agrees to perform its duties and responsibilities under this Agreement in a manner that is consistent with the Academy’s obligations under the Academy’s Contract issued by Northern Michigan University Board of Trustees. The provisions of the Academy’s Contract shall supersede any competing or conflicting provisions contained in this Agreement.

1.4 Compliance with Section 503c. On an annual basis, the ESP agrees to provide the Academy Board with the same information that a school district is required to disclose under section 18(2) of the State School Aid Act of 1979, MCL 388.1618, for the most recent school fiscal year for which the information is available. Within thirty (30) days of receipt of this information, the Academy Board shall make the information available on the Academy’s website home page, in a form and manner prescribed by the Michigan Department of Education. The defined terms in section 503c of the Code, MCL 380.503c, shall have the same meaning in this Agreement.

1.5 Compliance with Section 12.17 of Contract Terms and Conditions. TLG shall make information concerning the operation and management of the Academy, including without limitation the information described in Schedule 4 of the Contract, available to the Academy as deemed necessary by the Academy Board in order to enable the Academy to fully satisfy its obligations under Section 12.17(a) of the Contract Terms and Conditions.

1.6 TLG shall (i) comply with the requirements of the Public School Academy Contract to the extent TLG performs services on behalf of the Academy and (ii) assist and cooperate with the Academy in complying with the requirements of the Public School Academy Contract.
1.7 Nothing in this Agreement shall be construed to (i) interfere with the Board's duties under the Public School Academy Contract and (ii) cause the Academy's duties under the Public School Academy Contract to be limited or rendered impossible by action or inaction of TLG.

1.8 No provision contained in this Agreement shall in any way impact the Academy's course of action in choosing to assert or not assert governmental immunity.

1.9 All financial, educational and student records pertaining to the Academy are Academy property ("Academy Records") and that the Academy Records are subject to the provisions of the Michigan Freedom of Information Act. The Academy Records must be stored, in physical form, on-site at the Academy's Facility (the "Facility") or be directly accessible at the Facility. In addition, all records pertaining to teacher and administrator certification, as well as a copy of the employee handbook, shall be maintained physically on site or directly accessible at the Facility.

1.10 All finance and other records of TLG related to the Academy will be made available to the Academy's independent auditor. In addition, no provision of this Agreement shall alter the Board Treasurer's legal obligation to direct that the deposit of all funds received by the Academy be placed in the Academy's depository account as required. Further, the signatories on the Board's depository account shall be solely Board members and/or properly designated Board employees. All interest or investment earnings on Academy deposits shall accrue to the Academy. The Chief Administrative Officer (CAO) for the Academy shall be a designated Board Member.

1.11 The Board shall have sole responsibility and authority to select and retain the independent auditor for the Academy to perform the annual financial audit in accordance with the Public School Academy Contract and applicable state law.

1.12 TLG hereby certifies that it will not markup the costs of supplies, materials or equipment procured by TLG on the Academy's behalf and that all supplies, materials and equipment procured by TLG on behalf of the Academy will be inventoried by an acceptable method of inventory and further that an inventory of Academy equipment shall be maintained so that it can be clearly established which property belongs to the Academy.

1.13 In the event of termination of this Agreement for any reason by either party prior to the end of the Agreement's Term, TLG shall provide transition services to the Academy as follows:

1.13.1 Close the Academy's books on the final year of operations in a manner and form in keeping with the industry standard, prepare financial records in audit-ready form, and hand said records off to the Board or successor management company. If the school year of termination extends beyond June 30, this Paragraph shall include getting all Academy business and financial records from July 1 through August 31 of that year prepared in a form in keeping with the industry standard which may be turned over to the Board or successor management company.
1.13.2 Complete student records in a manner in keeping with the industry standard and hand them off to the Board or successor management company.

1.13.3 Complete and organize all Academy documents in a manner and form in keeping with the industry standard, including without limitation minutes, third party contracts, correspondence relating to Academy business, notices, and so forth, and hand them off to the Board or successor management company.

1.13.4 Complete all Academy reporting and compliance requirements up to and including the final year of operations.

1.13.5 The parties may agree upon other transition services to be provided by TLG, at a mutually agreed upon fee.

1.14 With respect to all persons providing instructional or administrative services to the Academy on a full time basis (the "Academy Staff") (i) nothing in this Agreement shall be construed as imposing a non-competition, no-hire, or similar provision, which would prohibit or restrict the Academy or a party contracting with the Academy from hiring a member of the Academy Staff; nor (ii) shall any separate agreement between TLG and a member of the Academy Staff contain such a provision prohibiting or restricting a member of the Academy Staff from accepting employment from the Academy or a party contracting with the Academy.

1.15 The Board shall select and retain legal counsel to advise it regarding its rights and responsibilities under the Public School Academy Contract, this Agreement and applicable law. No material amendment or modification to this Agreement by the parties shall be undertaken without notification of the Authorizer and each such amendment or modification shall be accompanied by a legal opinion of the Academy's independent legal counsel that all requirements of applicable law have been met and that there are no improper and/or unlawful interrelations or conflicts created by such amendment or modification.

1.16 All Academy Staff shall undergo criminal background and unprofessional conduct checks as required by applicable law and all evidence of such reviews shall be available, in physical form, at the Facility or directly accessible at the Facility.

1.17 TLG shall notify the Board if any principal or officer of TLG or if TLG as an entity (including any related organizations or organizations in which a principal or officer of TLG served as a principal or officer) has filed for bankruptcy protection in the last six (6) months or within any applicable preference period, whichever is longer.

1.18 In the event that the Authorizer determines to exercise it prerogative under MCL 380.507(7) to reconstitute the Academy by requiring the termination or amendment of this Agreement, TLG hereby agrees to abide by such termination or amendment, with (i) no cost or penalty to the Academy and (ii) no recourse against the Authorizer by TLG or any subcontracted person of entity of TLG.

1.19 TLG shall cooperate with the Academy and the Board in fulfilling the Board's duty to meet and implement the Academy's Board's statutory, contractual and fiduciary responsibilities relating to the governance and operation of the Academy. No provision in this
Agreement shall be construed as prohibiting or impeding the Board from acting as an independent, self-governing public body, or allowing public decisions to be made other than in compliance with the Michigan Open Meetings Act.

1.20 Any equipment, materials and supplies ("Academy Equipment") purchased by TLG on behalf of or as the agent of the Academy, shall be and remain the sole property of the Academy. When acquiring Academy Equipment, TLG and its subcontractors will comply with Section 1274 of the Code ("Bidding Requirements") and with the Board's procurement policy to the same extent that the Bidding Requirements would apply to the Academy when making purchases of Academy Equipment directly from a third party supplier. TLG will not include any fees or charges to the cost of the equipment, materials and supplies purchased from third parties when it seeks reimbursement for the cost of these acquisitions. All supplies, materials, and equipment procured for the Academy by TLG shall be inventoried by an acceptable method of inventory and an inventory of Academy equipment shall be maintained so that it can be clearly established which property belongs to the Academy.

1.21 The Academy owns all proprietary rights to curriculum or educational materials ("Educational Materials") that (i) are both directly developed and paid for by the Academy; or (ii) were developed by TLG at the direction of the Academy Board with Academy funds dedicated for the specific purpose of developing such curriculum or materials. TLG shall own all proprietary rights to Educational Materials previously developed or copyrighted by TLG, or Educational Materials that are developed by TLG using funds from the Academy that are not dedicated for the specific purpose of developing Academy Educational Materials. TLG acknowledges and agrees that the Educational Materials owned by TLG and teaching techniques used by the Academy may be subject to disclosure under the Code and the Michigan Freedom of Information Act.

1.22 Marketing and development costs paid by or charged to the Academy shall be limited to those costs specific to the Academy program, and shall not include any costs for the marketing and development of TLG.

1.23 The maximum term of Agreement must not exceed five (5) academic years or the remaining term of the Public School Academy Contract, whichever is less.

2. Educational Services. For the Term of this Agreement, TLG will provide to the Academy the following educational services consistent with the Public School Academy Contract (the "Educational Services"):

2.1 Curriculum. The development and implementation of the curriculum used at the Academy.

2.2 Instruction. Oversight and coordination of the services to be provided by TLG instructional personnel, including the School Leader(s), its teachers and support staff, all in accordance with this Agreement.

2.3 Instructional Tools. The selection of instructional tools, equipment and supplies, including text books, computers, software and multi-media teaching tools.
2.4 **Extra-Curricular and Co-Curricular Programs.** The development and implementation of appropriate extra-curricular and co-curricular activities and programs.

2.5 **Additional Educational Services.** Any other services required by the Authorizing District or the State of Michigan Department of Education and such other services as are necessary or expedient for the improvement of teaching and learning at the Academy as agreed to from time to time between TLG and the Board ("Supplemental Programs").

2.6 **Subcontracts.** It is anticipated that TLG will utilize subcontracts to provide some of the services it is required to provide to the Academy. TLG shall not subcontract the management, oversight or operation of the teaching and instructional program without the prior approval of the Board. TLG will receive no additional fee as a result of subcontracting of any services.

3. **Administrative Services.** For the Term (as defined in Section 10), subject to the Public School Academy Contract and the approval of the Board, TLG will provide to the Academy for the Academy the following administrative services (the "Administrative Services"):  

3.1 **Personnel Management.** Management and professional development of all personnel providing Educational Services and Administrative Services in accordance with Section 15.

3.2 **Facility Operation and Maintenance.** Coordination with entities for the provision of operation and maintenance services for the Facility to the extent consistent with any and all documents pertaining to the Facility, together with the management and assessment of the services provided under such contracts and/or the supervision of employees involved in providing such services.

3.3 **Technology and Professional Development.** Coordination with entities for the provision of technology and professional development services for the Academy, together with the management and assessment of the services provided under such contracts and/or the supervision of employees involved in providing such services.

3.4 **Business Administration.** Administration of all business aspects of the Academy operation.

3.5 **Transportation and Food Services.** Coordination with entities for the provision of transportation and food services for the students enrolled at the Academy together with the management and assessment of the services provided under such contracts and/or the supervision of employees involved providing such services.

3.6 **Public Relations.** Coordination and assistance with any and all advertising, media and public relations efforts, including community outreach programs. All public relations will be subject to the mutual approval of both parties, which approval may not be unreasonably withheld.
3.7 Budgeting, Budgeting Process, Financial and Other Reporting.

3.7.1 Beginning with respect to the 2014-2015 School Year, the preparation of a proposed annual budget (the "Academy Budget") for each School Year, subject to the reasonable approval of the Board acting in its fiduciary capacity. For purposes of this Agreement, the term "School Year" shall have the meaning as provided in the Public School Academy Contract. The projected Academy Budget shall contain object level detail, shall comply with public accounting standards and shall include, but not be limited to, the financial details relating to the Educational Services and Administrative Services to be provided pursuant to this Agreement.

3.7.2 TLG shall deliver a draft of the Academy Budget for each School Year to the Board not less than forty-five (45) days prior to the date on which the Academy Budget for any School Year must be submitted to Authorizer and/or any State governmental agency. The Board shall review the Academy Budget within ten (10) business days following the receipt thereof (the "Budget Review Period") which review may include an independent evaluation of the Academy Budget by such accountants, attorneys, and other financial advisors that the Board deems necessary or desirable. The Board shall deliver any comments or objections to the Academy Budget prior to the expiration of the Budget Review Period. Within five (5) business days following the expiration of the Budget Review Period, the Board President of the Academy and the Chief Financial Officer of TLG shall reconcile any comments or objections made by the Board during the Budget Review Period. TLG and the Academy shall agree to a final Academy Budget for each such year not later than two (2) business days prior to the date on which the Academy Budget must be submitted to the Authorizer and/or any other State governmental agency.

3.7.3 Working in cooperation with the Board, TLG shall prepare, for Board approval, modifications or amendments to the Academy Budget which may be necessitated by changes in projections or circumstances or the occurrence of unexpected events, which impact projected revenue and/or expense items contained in the approved Academy Budget.

3.7.4 As required by the Board or such other time as may be necessary or desirable in TLG's reasonable judgment, TLG shall provide the Board with an enrollment report stating the number of actual students enrolled at the Academy (an "Enrollment Report"). If an Enrollment Report indicates that enrollment is lower than that which was projected in the Academy Budget and such lower enrollment number shall materially adversely impact the Academy Budget for such School Year, TLG shall propose a student recruitment plan to restore the enrollment level to the projected enrollment reported to the Board and the Authorizer prior to the commencement of the next following School Year.

3.7.5 The preparation of detailed statements of all revenues received, from whatever source, with respect to the Academy, and detailed statements of all expenses, including an accounting of all expenditures for services rendered to, or on behalf of, the Academy by TLG, whether incurred on-site or off-site.
3.7.6 The preparation of other financial statements as required by and in compliance with the Public School Academy Contract, the Code and other applicable laws and regulations, including such documentation as may be reasonably required by the independent certified public accountants retained by the Board to perform annual audits of the Academy’s financial statements. The cost for preparation of the financial statements and audits will be responsibility of the Academy and will be provided for in the Academy Budget.

3.7.7 The preparation of such other reports on a periodic basis, relative to the finances and operation of the Academy, as the same may be requested or required by the Michigan Department of Education or the Authorizer to ensure compliance with the terms of the Public School Academy Contract and applicable law.

3.7.8 Other information on a periodic basis reasonably necessary to enable the Academy to monitor TLG’s performance under this and related agreements including the effectiveness and efficiency of its operations at the Academy.

3.8 Maintenance of Financial and Student Records.

3.8.1 TLG will maintain accurate financial records pertaining to its operation of the Academy, together with all the Academy financial records prepared by TLG and retain all such records for a period of five (5) years (or longer if required by the Code or other applicable laws and regulations) from the close of the School Year to which such books, accounts and records relate. All financial records retained by TLG pertaining to the Academy will be available to the Board, the Authorizer or the Michigan Department of Education for inspection and copying within two weeks of a written request to the extent practicable.

3.8.2 TLG will maintain accurate student records pertaining to the students enrolled at the Academy as is required and in the manner provided by the Public School Academy Contract, the Code and applicable laws and regulations and retain such records permanently on behalf of the Academy or until this Agreement or its successor (if any) is terminated, at which time such records will be transferred to the Academy and become the sole responsibility of the Board. TLG and the Academy will maintain the proper confidentiality of personnel, students and other records as required by law and the Public School Academy Contract.

3.8.3 The Academy shall be entitled at any time upon reasonable written notice to TLG to audit the books and records of TLG pertaining to its operation of the Academy pursuant to this Agreement (including, without limitation, the financial records relating thereto), provided that any such audit shall be at the sole expense of the Academy.

3.9 Admissions. Implementation of the Academy’s admission policy in accordance with the Public School Academy Contract.

3.10 Student Due Process Hearings. Administration and enforcement of student disciplinary and special education hearings in conformity with the requirements of the Code and other applicable laws and regulations (including, but not limited to, requirements involving due
process and confidentiality) to the extent consistent with the Academy's duties and obligations under the Code and other applicable laws and regulations. The Board shall retain the right to provide due process as required by law and to determine whether any student will be expelled.

3.11 Academic Progress Reports. TLG will provide to the Board on a periodic basis, as necessary or appropriate for the Academy to satisfy its obligations under the Public School Academy Contract, the Code and other applicable laws and regulations, a report detailing (i) the Academy's students' academic performance, and (ii) TLG's performance of the Educational Services and Administrative Services.

3.12 Rules and Procedures. TLG will recommend to the Board rules, regulations and procedures applicable to the Academy and its students and will enforce such rules, regulations and procedures adopted by the Board that are not in direct conflict with this Agreement, the Public School Academy Contract, the Code and other applicable laws and regulations.

3.13 Advances. Subject to the Board's request and prior approval and in compliance with Section 1225 of the Code, TLG may, during the Term, elect to make advances of cash to the Academy for the Academy (an "Advance") for the purpose of meeting the short term working capital or cash flow needs of the Academy to the extent consistent with the Academy Budget. Each Advance, which shall be separately documented, shall bear interest at the then prime rate of interest announced by Wells Fargo Bank plus 3% per annum from the date of the Advance until date of repayment by the Academy from the subsequent free cash flows of the Academy or the Academy's other resources.

3.14 Additional Administrative Services. Any other services reasonably necessary or expedient for the effective administration of the Academy as agreed to, in writing, from time to time by TLG and the Board.

4. Provision of Educational Services and Administrative Services. The Educational Services will be provided in accordance with the educational goals, curriculum, methods of pupil assessment, admissions policy, student recruitment policy, school calendar, school day schedule and age and grade range of pupils to be enrolled at the Academy as proposed by TLG and adopted by the Board, all in compliance with the Public School Academy Contract and the Code. The Administrative Services will be provided in a manner consistent with the Educational Program, the Code and the Public School Academy Contract.

5. Modification of Educational Services and Administrative Services. Subject to this Agreement, the Public School Academy Contract, Authorizer oversight, the Code and other applicable laws and regulations, TLG may modify (i) the Educational Services, provided that any material modification of the Educational Services will be subject to the prior approval of the Board, and (ii) the methods, means and manner by which such Administrative Services are provided at any time, provided that the Board will have the right to approve all material changes.

6. Budgeting for Educational Services and Administrative Services. TLG will be responsible and accountable to the Board for the provision of all Educational Services and Administrative Services, provided, that such obligations, duties and responsibilities are expressly limited by the Academy Budget established pursuant to Section 3.7, and TLG shall not expend funds on such services in excess of the amounts set forth in such Academy Budget.
7. **Place of Performance; Provision of Offices.** The Academy will provide TLG with necessary and reasonable classroom and office space at the Facility to perform all Educational and Administrative Services described in this Agreement. TLG will provide instructional, extra-curricular and co-curricular services at the Facility. TLG may provide other services elsewhere, unless prohibited by the Public School Academy Contract, the Code and other applicable laws and regulations.

8. **Qualified Management Agreement.** In the event that the Academy undertakes any Tax Exempt Bonds (as defined in this Section 8), the following provisions shall become applicable:

8.1 **Qualified Management Agreement.** This Agreement is intended to and shall constitute a “qualified management agreement” in compliance with applicable requirements of Section 141 of the 1986 Code and Revenue Procedure 97-13 and shall be interpreted in accordance with such requirements. TLG represents to the Academy that TLG has reviewed the applicable requirements of Section 141 of the 1986 Code and Revenue Procedure 97-13.

8.2 **Tax Covenant.** TLG agrees that it will operate and manage the Academy in a manner which, to the extent of its rights and authority under this Agreement and as otherwise authorized by the Board in writing, preserves the exemption from federal income tax of interest on any tax-exempt bond obligations of the Academy ("Tax Exempt Bonds") and, in particular, will comply with the requirements of Section 141(b) of the Code, Section 1.141-3 of the Treasury Regulations and Revenue Procedure 97-13 relating to conditions under which tax-exempt bond-financed property will be considered used for an impermissible private business use; provided, however, that the foregoing shall not require TLG to breach any of the provisions of this Agreement unless such action is authorized and such breach is waived in writing by the Board and Trustee.

8.3 **Approval of Contracts.** Notwithstanding anything to the contrary contained herein, neither the Academy nor TLG will enter into contracts with unrelated third parties for the management or use of the Academy without first submitting such contracts for review and approval to the other party and any designated bond counsel to ascertain whether such contracts could adversely affect the exemption from federal income tax of interest on any Tax Exempt Bonds.

8.4 **Contracts with Related Parties.** Notwithstanding anything to the contrary herein contained, TLG shall not enter into any contract, as a result of which TLG, or any affiliate of or party related to TLG, receives, directly or indirectly, any direct or indirect benefit (other than the receipt by the vendor of the stated contract consideration), including without limitation any rebate, revenue sharing, royalty, profit participation, equity participation, barter consideration in the form of goods or services, or any other device, however denominated, and whether similar or dissimilar to any of the foregoing.

9. **Authority.** By this Agreement, the Board provides TLG such authority and power as is reasonably necessary or proper for TLG to undertake its responsibilities, duties and obligations provided for in this Agreement, except in cases wherein such authority may not be delegated by the Code and other applicable laws and regulations.
10. **Term.**

10.1 **Term.** This Agreement will be effective on July 1, 2014, and shall continue for the same length of time as the term of the Public School Academy Contract, and ending on June 30, 2019 (the "Term"). Notwithstanding the foregoing, in the event that the Public School Academy Contract is revoked, suspended, terminated, or not renewed, this Agreement shall automatically terminate as of the date thereof.

11. **Further Assurance.** The Academy and TLG shall do and cause to be done all such acts, matters and things and shall execute and deliver all such documents and instruments as shall be required to enable the parties to perform their respective obligations under, and to give effect to the transactions contemplated by, this Agreement. Notwithstanding the foregoing, neither party shall have an obligation to agree to any changes which (a) materially increase that party’s obligations or materially reduce its rights under this Agreement, (b) materially alter any terms of the Agreement, including without limitation the economic terms, (c) would jeopardize TLG’s receipt of the Management Fee, (d) would prevent either party from meeting the Academy and TLG’s educational goals.

12. **Relationship of the Parties.**

12.1 **Status of the Parties.** TLG is a for-profit corporation, and it is not a division or a part of the Academy. The Academy is a body corporate and governmental entity authorized by the Code, and is not a division or part of TLG. The relationship between the Academy and TLG is based on the terms of this Agreement. Further, each party is acting as an independent contractor and not as a partner, joint venturer, agent or employee of the other and that except as expressly set forth in this Agreement, no employee of TLG shall be deemed to be an agent or employee of the Academy. Each party will be solely responsible for its own actions and those of its agents, employees and subcontractors, and neither party will be liable for any debts or expenses incurred by the other or the other’s employees, agents and subcontractors.

12.2 **No Related Parties or Common Control.** TLG will not have any role or relationship with the Academy that, in effect, substantially limits the Academy’s ability to exercise its rights, including termination rights, under this Agreement. The Academy and TLG will not be members of the same control group, as defined in Section 1.150-1(c) of the Treasury Regulations under the 1986 Code, or related persons, as defined in Section 144(a)(3) of the 1986 Code.

12.3 **Designation of Agents.** The Board designates the employees of TLG as agents of the Academy having a legitimate educational interest such that they are authorized access to educational records under 20 U.S.C. § 1232g, the Family Educational Rights and Privacy Act ("FERPA"). Except as set forth in this Section or as expressly acknowledged in writing by the Board, no employee of TLG shall be deemed to be an agent of the Academy.

13. **Consideration for Services.**

13.1 **Management Fee.** For the Term of this Agreement, the Academy will pay TLG an annual fee equal to nine (9%) percent of the Academy’s Gross Revenue for each School Year ("Management Fee"), payable in monthly installments. For purposes of this Agreement the term
“Gross Revenue” shall mean all receipts of the Academy of whatsoever kind or nature, excluding any proceeds from borrowings undertaken by the Academy. Notwithstanding the foregoing, any administration fees with respect to grant funding for the Academy ("Grant Administration Fees") which are paid directly to TLG during the Term of this Agreement shall be deemed a credit, in the amount of the Grant Administration Fees, against the Management Fee for the year in which the Grant Administration Fees are received by TLG.

13.2 Incentive Fees. In addition to the Management Fee, the Academy will annually pay TLG incentive fees (the “Incentive Fees”) during the Term of this Agreement as follows:

13.2.1 An amount equal to three quarters of a percent (3/4%) of the Academy’s Gross Revenue in the event that during a School Year the Academy either (a) has (i) received approval from the Authorizer to undertake a grades 9-12 high school program (the “High School Program”) and (ii) identified and secured a site at which to operate the High School Program or (b) operates the High School Program.

13.2.2 An amount equal to three quarters of a percent (3/4%) of the Academy’s Gross Revenue in the event that during the immediately prior School Year the Academy met all of the academic goals of the Academy contained in the Public School Academy Contract, as amended, provided that if an academic goal is not by its terms measurable in a given School Year, a reasonably equivalent and available performance measure, as determined in the discretion of the Board, may be substituted for purposes of this Section.

13.2.3 An amount equal to one half of a percent (1/2%) of the Academy’s Gross Revenue in the event that during the immediately prior School Year, the Board determines, in its sole discretion, that the level of services provide by TLG pursuant to this Agreement merits additional compensation.

13.3 Reasonable Compensation. The Management Fee and the Incentive Fees under this Agreement are reasonable compensation for services rendered. TLG’s compensation for services under this Agreement will not be based, in whole or in part, on a share of net surplus or profits from the operation of the Academy.

13.4 Payment of Costs/Advances. The parties acknowledge the Academy is obligated to pay all costs and expenses associated with the operation of the Academy including but not limited to all personnel and benefits costs referenced in Section 15 ("Operational Expenses"). To the extent that TLG provides an Advance or Advances to the Academy pursuant to Section 3.13 of this Agreement for the purpose of providing working capital to cover such Operational Expenses, the Academy will reimburse TLG for such Advances as and when the finances and cash flows of the Academy will reasonably permit and in compliance with Section 1225 of the Code. TLG shall not be reimbursed for any corporate expenses or expenses not related to providing the Education Program at the Academy.

13.5 Payments to TLG. TLG will receive the monthly installment of its Management Fee in advance on or about the fifteenth (15th) day of each month (but in no event later than the date that the Academy receives payments from the State of Michigan). Incentive Fees will be paid in a manner that is mutually agreed upon by the Board and TLG.
14. **Other Revenue Sources.** The Academy and TLG may, together or independently, solicit and receive grants and donations from public and private sources consistent with the mission, and the Public School Academy Contract, of the Academy, in the name of either TLG, the Academy or the Academy; provided, however, that (i) any solicitation of such grants by TLG in the name of the Academy and/or the Academy that are in excess of One Hundred Thousand Dollars ($100,000) shall be subject to the prior approval of the Board, (ii) all such funds received by TLG or the Academy for the benefit of the Academy from such other revenue sources shall be deemed to be the Academy funds, (iii) TLG shall not be required to administer any grants that are not specifically approved, in writing, by TLG, in advance, (iv) only to the extent specifically provided in a grant, TLG shall be entitled to receive, in addition to any other amounts which are payable to TLG under this Agreement, a grant administration fee, and (v) both the Academy and TLG shall be required to mutually approve, in writing, any grants proposed by a third party grant writer. Nothing in this Section 14 will be construed to prohibit TLG from soliciting funds or grants solely for its own general corporate purposes and using such funds or grants solely for such purposes, except that TLG shall not use the Academy’s and/or the Academy’s name in such solicitation without the consent of the Board.

15. **Personnel and Training.**

15.1 **Personnel Responsibility.** Subject to the limitations of this Agreement, the Public School Academy Contract, the Code and other applicable laws and regulations, TLG will have the sole responsibility and authority to determine staffing levels, and to select, evaluate, assign, discipline, supervise, manage, transfer and terminate personnel necessary to carry out the Educational Services, the Administrative Services, the Supplemental Programs (if any) and all other services provided under this Agreement, all within the financial constraints of the Academy Budget approved by the Board.

15.2 **Employment Status.** Except as specified in this Agreement or as required by the Code or the Public School Academy Contract, the School Leader, teachers and support staff selected by TLG for the Academy pursuant to this Agreement will be employees of TLG or an affiliate of TLG which handles all TLG employment and human resources administration (the “Employees”). Benefits paid, to, due, or to be paid for or on behalf of any Employees shall be the sole and exclusive obligation of TLG.

15.3 **Background Checks.** TLG will provide assistance to the Academy in conducting or causing to be conducted all reference, employment checks, criminal background checks and unprofessional conduct checks on all Employees and other personnel working or providing services at the Academy to the extent required under the Code and other applicable laws and regulations (“Background Checks”). All records of Background Checks shall be maintained and secondarily disseminated by the Academy solely in accordance with applicable law and regulation.

15.4 **School Leader.** The Academy and TLG acknowledge and agree that the accountability of TLG to the Academy and the Academy is an essential foundation of this Agreement, and because the responsibility of the administrator of the Academy (the “School Leader”) is critical to the success of the Academy TLG will have the authority, consistent with the Code and other applicable laws and regulations, to select and supervise the School Leader and hold the School Leader accountable for the success of the Academy. The employment
contract with the School Leader, and the duties and compensation of the School Leader shall be determined by TLG. The School Leader and TLG, in turn, will have similar authority to select and hold accountable the teachers in the Academy. Notwithstanding anything in this Section, TLG agrees to consult with the Board prior to hiring the School Leader and will consult with the Board prior to taking any action that would alter the employment status of the School Leader. At the request of the Board, TLG will review the performance of the School Leader with the Board. Upon receipt of written notification indicating that the Board is not satisfied with the performance of the School Leader, TLG will provide a replacement School Leader if the performance problems are not resolved within a reasonable time.

15.5 Teachers. TLG will provide the Academy with such teachers as are required to provide the Educational Services and Administrative Services. Consistent with the Academy Budget, TLG and the School Leader will determine the number and assignments of such teachers. Such teachers may work at the Academy on a full or part time basis. Each teacher assigned to the Academy will be qualified in his or her grade levels and subjects, hold a valid teaching certificate issued by the Michigan Department of Education under the Code, to the extent required under the Code and other applicable laws and regulations. Upon written request, TLG will provide the Academy with documentary evidence of TLG’s compliance with this Section 15.5.

15.6 Support Staff. TLG will provide the Academy with such support staff as is required to provide the Educational Services, Administrative Services and any associated Supplementary Programs. Such support staff may include, among others, teachers’ aides, clerical staff and administrative assistants to the School Leader, bookkeepers and maintenance personnel. Such support staff may work at the Academy on a full or part time basis.

15.7 Training. TLG will provide training (i) in the instructional methods and curriculum, which comprise the Educational Program, and (ii) with regard to support technology to the teachers and other instructional personnel on a regular and continuous basis, as stated in the Public School Academy Contract and consistent with TLG’s past practices. Non-instructional personnel will receive such training as TLG determines to be reasonable and necessary under the circumstances.

15.8 Academy Employees. The Board may employ such employees as it deems necessary. The cost to employ Academy employees shall be paid by the Board.

15.9 Educational Consultants. The Board may retain an educational consultant or consultants to review the operations of the Academy and the performance of TLG under this Agreement. TLG shall cooperate with the educational consultant or consultants and will provide those individuals with prompt access to records, facilities and information as if such requests came from the full Board. TLG shall have no authority to select, evaluate, assign, supervise or control any educational consultant employed by the Board, and agrees that it will not bring or threaten to bring any legal action against any educational consultant for the performance of the functions requested to be performed by the Board and which are consistent with this Agreement. The cost to employ an educational consultant shall be paid by the Board.
16. Termination of Agreement.

16.1 By TLG. TLG may terminate this Agreement with cause prior to the end of the Term specified in Section 10 in the event that the Academy fails to remedy a material breach of this Agreement within sixty (60) days after written notice from TLG. A material breach includes, but is not limited to (i) the Academy’s failure to pay any fee or reimbursement as required by the terms of this Agreement, (ii) adoption by the Board of an Educational Program for the Academy in substantial variance from the material recommendations of TLG, (iii) the Academy’s failure to approve a Academy Budget, which is fully compliant with the requirements of Section 3.7.1, or (iv) an act or omission that causes TLG to be unable to perform its material obligations under this Agreement. In order to terminate this Agreement for cause, TLG is required to provide the Board with written notification of the facts it considers to constitute material breach. After the period set forth in this section to remedy the material breach has expired, TLG may terminate this Agreement by providing the Board with written notification of termination. Termination by TLG will not relieve the Academy of any obligations for payments outstanding to TLG as of the date of termination or liability for financial damages suffered by TLG as a consequence of the Academy’s breach (or of TLG’s termination as a result thereof) of this Agreement.

16.2 By the Academy. The Academy may terminate this Agreement with cause prior to the end of the Term specified in Section 10 in the event that TLG fails to remedy a material breach of this Agreement within sixty (60) days after written notice from the Academy. A material breach by TLG includes, but is not limited to: (i) a material failure to reasonably account for its expenditures related to the Academy funds, (ii) TLG’s failure to substantially follow the material policies, procedures, rules, regulations or curriculum required by the Public School Academy Contract, this Agreement, the Code or applicable laws and regulations, (iii) failure to abide by and meet the educational goals set forth in the Public School Academy Contract such that the Public School Academy Contract will be terminated, (iv) the employment of administrators, teachers and staff in violation of the Code or this Agreement, (v) any act or omission of gross negligence by TLG that causes the Academy to materially breach the Public School Academy Contract or any of the Academy’s other material contractual obligations in any way, or (vi) filing of bankruptcy by TLG. In order to terminate this Agreement for cause, the Board is required to provide TLG with written notification of the facts it considers to constitute material breach and the period of time within which TLG has to remedy this breach, not to exceed 60 days. After the period to remedy the material breach has expired, the Board may terminate this Agreement by providing TLG with written notification of termination. Termination by the Academy will not relieve the Academy of any obligations for payments outstanding to TLG as of the date of the termination, nor will it relieve TLG for liability for financial damages suffered by the Academy as a consequence of TLG’s breach (or of the Academy’s termination as a result thereof) of this Agreement. TLG is not relieved of providing the services required of TLG under this Agreement until after the date of termination of this Agreement.

16.3 Automatic Termination. This Agreement shall automatically terminate in the event of the following:
16.3.1. The Academy no longer possesses a Public School Academy Contract to operate a public school academy, including but not limited to a termination or revocation of the Public School Academy Contract or a failure to renew an existing Public School Academy Contract, with no cost or penalty to the Academy, and no recourse against Authorizer or any third party affiliated with or engaged by the Authorizer, by TLG or any subcontracted person or entity of TLG, in the event Authorizer determines to exercise its prerogative under this Public School Academy Contract to reconstitute the Academy by requiring the termination or amendment of the Agreement.

16.3.2. In the event that TLG or any of its Shareholders, and/or Board of Directors shall be guilty of felony or fraud, gross dishonesty, or other act of gross misconduct in the rendering of services under the Agreement;

16.3.3. If TLG shall cease to be approved by the Authorizer to render services under this Agreement.

16.3.4. Further, this Agreement may be terminated by either party immediately in the event the other party is declared bankrupt or insolvent, or makes an assignment for the benefit of its creditors, or if a receiver is appointed or any proceedings are commenced, voluntary or involuntary, by or against such party under bankruptcy or similar law and such status is not cured within sixty (60) days from its occurrence.

16.4 Termination Without Cause. Either party may elect to terminate the Agreement at the end of a school year, provided that the terminating party gives the other party written notification of termination at least one hundred eighty (180) calendar days prior to the termination date.

16.5 Real and Personal Property. Upon termination or expiration of this Agreement by either party for any reason, any real or personal property leased by TLG, or any affiliate thereof, to the Academy or the Academy will remain the real and personal property of TLG, and all personal property purchased by TLG with the funds provided to TLG by the Academy will be the personal property of the Academy.

16.6 Repayment of Advances and Expenses. Upon termination or expiration of this Agreement for any reason, the Academy shall (i) reimburse TLG for all expenses owed pursuant to Section 13.4, (ii) repay all Advances from TLG and (iii) post a letter of credit or bond in favor of TLG guaranteeing (A) any future payments due under any equipment or facilities lease from, or guaranteed, cosigned, or collateralized by TLG or an affiliate thereof and (B) the Academy’s performance of any other obligations guaranteed, cosigned, or collateralized in whole or part by TLG or an affiliate thereof.

16.7 Role of TLG on Termination. Upon termination of this Agreement, for any reason, TLG shall, without charge (i) close the books on the then-current school year; (ii) organize and prepare the Academy’s records for transition to the Board or a new educational management company; (iii) organize and prepare student records for transition to the Board or a new educational management company; and (iv) provide for the orderly transition of employee compensation and benefits to the Board or a new educational management company without disruption to staffing.
16.8 **Transition.** In the event of termination of this Agreement for any reason by either party prior to the end of the Agreement’s term, TLG shall provide the Academy reasonable assistance for up to 90 days after the effective date of the termination to allow a transition back to a regular school program or to another education service provider.

17. **Proprietary Information and Ownership.** Notwithstanding anything contained herein to the contrary, third party curriculum or other educational materials purchased by TLG with funds TLG receives pursuant to this Agreement will be the property of the Academy. Notwithstanding the foregoing, the Academy acknowledges that TLG owns the intellectual property rights and interests in TLG’s curriculum and Education Program being licensed and/or utilized at the Academy during the Term of this Agreement. The Academy acknowledges and agrees that it has no intellectual or property interest or claims in TLG’s curriculum and Education Program and has no right to use TLG’s curriculum and Education Program unless expressly agreed to in writing by TLG. The Academy shall be permitted to report any new teaching techniques or methods of significant revisions to known teaching techniques or methods to the Authorizer and to the State Board of Education, which teaching techniques or methods may thereafter be made available to the public, as provided in Sections 505(3) of the Code, notwithstanding anything contained in this Article to the contrary.

18. **Indemnification.**

18.1 **Indemnification of TLG.** To the extent permitted by law, the Academy will indemnify, defend and save and hold TLG and its affiliates and all of their respective employees, officers, directors, subcontractors and agents harmless against any and all claims, demands, suits or other forms of liability (including reasonable attorney’s fees and costs) that may arise out of, or by reason of, any noncompliance by the Academy with any agreements, covenants, warranties or undertakings of the Academy contained in or made pursuant to this Agreement, and any misrepresentations or breach of the representations and warranties of the Academy contained in or made pursuant to this Agreement. In addition, the Academy will reimburse TLG for any and all legal expenses and costs associated with the defense of any such claim, demand or suit. The indemnification requirements of this Section 18.1 may be met by the purchase of insurance pursuant to Section 19.

18.2 **Indemnification of the.** TLG will indemnify, defend and save and hold the Academy, its Board and all of its employees, officers, directors, subcontractors and agents harmless against any and all claims, demands, suits or other forms of liability (including reasonable attorney’s fees and costs) that may arise out of, or by reason of, any noncompliance by TLG with any agreements, covenants, warranties or undertakings of TLG contained in or made pursuant to this Agreement, and any misrepresentation or breach of the representations and warranties of TLG contained in or made pursuant to this Agreement. In addition, TLG will reimburse the Academy for any and all legal expenses and costs associated with the defense of any such claim, demand or suit. The indemnification requirements of this Section 18.2 may be met by the purchase of insurance pursuant to Section 19.

18.3 **Indemnification for Negligence.** To the extent permitted by law, the Academy shall indemnify and hold harmless TLG and its owner, board of directors, partners, officers, employees, agents and representatives, from any and all claims and liabilities which TLG may incur and which arise out of the negligence of the Academy's directors, officers, employees,
agents or representatives. TLG shall indemnify and hold harmless the Academy, and the Academy's Board of Directors, officers, employees, agents or representatives, from any and all claims and liabilities which the Academy may incur and which arise out of the negligence of TLG’s directors, officers, employees, agents, contractors or representatives.

19. Insurance.

19.1 Insurance Coverage. The Academy will maintain general liability insurance and umbrella insurance coverage in the amounts required (i) by the Public School Academy Contract or (ii) by sound business practices. Such policies shall name TLG and its affiliates and their respective directors, officers, employees, subcontractors, and agents as additional insureds under such policies. The Academy will comply with any information requests from its insurer(s) and all reporting requirements applicable to such insurance.

19.2 Property and Casualty Insurance. Each party will maintain property and casualty insurance covering all real and personal property owned by that party and which are used or useful in the operations of the Academy. The amount of such coverage shall be sufficient to fully comply with sound business practices.

19.3 Workers' Compensation Insurance. Each party will maintain workers' compensation insurance as required by law, covering their respective employees, including the maintenance of such insurance with respect to the School Leader, teachers and support staff of the Academy, the cost of which shall be provided for in the Academy Budget.

19.4 Coordination and Cooperation. To the extent requested by the Academy, TLG shall undertake to coordinate the acquisition and maintenance of the insurance requirements of the Academy under this Agreement and the parties will cooperate with each other to assure the complete, efficient and economical provision of the required insurance coverage. In addition, each party will, upon request, present evidence to the other that it maintains the requisite insurance in compliance with the provisions of this Section 19. Each party will comply with any information or reporting requirements required by the other party's insurer(s), to the extent reasonably practicable.

20. Warranties and Representations.

20.1 Representations and Warranties of TLG. TLG hereby represents and warrants to the Academy:

20.1.1 TLG is a duly organized limited liability company in good standing and is authorized to conduct business in the State of Michigan.

20.1.2 To the best of its knowledge, TLG has the authority under the Code and other applicable laws and regulations to execute, deliver, perform this Agreement, and to incur the obligations provided for under this Agreement.

20.1.3 TLG's actions under this Agreement have been and will be duly and validly authorized, and it will adopt any and all further resolutions or expenditure approvals required for execution of this Agreement.
20.2 Representations and Warranties of the Academy. The Academy hereby represents and warrants to TLG:

20.2.1 The Academy is a duly organized non-profit corporation in good standing and is authorized to conduct business in the State of Michigan.

20.2.2 The Public School Academy Contract (i) authorizes the Academy to operate the Academy and receive revenues under the Code from the State of Michigan and from federal, State and other resources; (ii) approves the Education Program and other activities contemplated by this Agreement; and (iii) vests the Academy with all powers necessary and desirable for carrying out the Education Program and other activities contemplated in this Agreement.

20.2.3 The Academy has the authority under the Code and other applicable laws and regulations to contract with a private entity to perform the Educational Services, Administrative Services, Supplemental Programs and all other services under this Agreement and execute, deliver and perform this Agreement, and to incur the obligations provided for under this Agreement, provided that no provision of such a contract shall be effective if it would prohibit the Board from acting as an independent, self-governing public body, allow public decisions to be made other than in compliance with the Open Meetings Act, or interfere with the Board’s constitutional duty to exercise its statutory, contractual and fiduciary obligations governing the operation of the Academy. The Academy is therefore vested with all powers within applicable law for implementing the Educational Program contemplated in this Agreement.

20.2.4 The Academy’s actions and those of the Board have been duly and validly authorized.

20.2.5 To the best of its knowledge, the Academy is not in breach of the terms of the Public School Academy Contract and will use its best efforts to insure that it will not breach the Public School Academy Contract in the future.

20.2.6 To the best of its knowledge, the Academy is not in breach or default under any loan or financial obligations, including, but not limited to, leases for real and personal property, to the extent that any such obligation is related to the Academy’s required performance under this Agreement.

20.2.7 The Educational Program has been reviewed and approved by resolution by the Board.

20.2.8 The Academy and the Board will use its best efforts to insure that the Educational Program complies with and will continue to comply with the Public School Academy Contract, the Code and other applicable laws and regulations.

20.2.9 The Public School Academy has no intellectual or property rights or claims in TLG’s curriculum and Education Program and will make no such claims in the future.
CONFLICTS IN THE GOVERNANCE OF MICHIGAN CHARTER SCHOOLS

20.3 Mutual Warranties. Each party to the Agreement warrants to the other that there are no pending actions, claims, suits or proceedings, to its knowledge, threatened or reasonably anticipated against or affecting it, which if adversely determined, would have a material adverse effect on its ability to perform its obligations under this Agreement.


21.1 Dispute Resolution. All claims, disputes, and other matters in controversy ("Disputes") between the parties hereto arising directly or indirectly out of or related to this Agreement, or the breach thereof, whether contractual or non-contractual, and whether during the Term or after the termination of this Agreement shall be resolved exclusively according to the procedures set forth in this Section 21.

21.2 Arbitration. All disputes between the parties, concerning any alleged breach of this Agreement, or arising out of or relating to the interpretation of this Agreement or the parties’ performance of their respective obligations under this Agreement that are unable to be resolved through discussion and negotiation shall be resolved by arbitration, and such an arbitration procedure shall be the sole and exclusive remedy for such matters. The arbitrator shall be selected from a panel provided by and in accordance with the Commercial Rules of the American Arbitration Association. The arbitration shall be conducted in accordance with the Commercial Rules of the American Arbitration Association, with such variations as the parties and the arbitrator unanimously accept. Any arbitration hearing shall be conducted in Detroit, Michigan. The arbitrator shall be required to issue a cause opinion with a written explanation as to the final decision. This cause opinion shall be made available to the Authorizer upon request. A judgment on the award rendered by the arbitrators may be entered in any court having appropriate jurisdiction to ensure compliance with the applicable law and this Agreement. The cost of arbitration, not including attorney fees, shall be paid by the losing party. It shall be in the discretion of the arbitration panel to award reasonable attorney fees to the prevailing party.

21.3 Costs and Attorneys’ Fees. If a party hereto fails to proceed with arbitration as provided herein or unsuccessfully seeks to stay such arbitration, or fails to comply with any arbitration award, or is unsuccessful in vacating or modifying the award pursuant to a petition or application for judicial review, the other party shall be entitled to be awarded costs, including reasonable attorneys’ fees, paid or incurred by such other party in successfully compelling such arbitration or defending against the attempt to staying, vacating or modifying such arbitration award and/or successfully defending or enforcing the award.

21.4 Tolling of Statute of Limitations. All applicable statutes of limitation and defenses based upon the passage of time shall be tolled while the procedures specified in this Section 21 are pending. The parties will take such action, if any, required to effectuate such tolling.

22. Miscellaneous.

22.1 Sole Agreement. This Agreement supersedes and replaces any and all prior agreements and understandings between the Academy and TLG regarding the Academy.
22.2 Force Majeure. Notwithstanding any other sections of this Agreement, neither party will be liable for any delay in performance or inability to perform due to acts of God or due to war, riot, terrorism, civil war, embargo, fire, flood, explosion, sabotage, accident, labor strike or other acts beyond its reasonable control.

22.3 Governing Law. The laws of the State of Michigan will govern this Agreement, its construction and the determination of any rights, duties and remedies of the parties arising out of or relating to this Agreement.

22.4 Agreement in Entirety. This Agreement constitutes the entire agreement of the parties regarding the Academy.

22.5 Counterparts. This Agreement may be executed in counterparts, each of which will be deemed an original, but both of which will constitute one and the same instrument.

22.6 Official Notices. All notices and other communications required by the terms of this Agreement will be in writing and sent to the parties hereto at the addresses set forth below (and such addresses may be changed upon proper notice to such addressees). Notice may be given by: (i) certified or registered mail (postage prepaid and return receipt requested), (ii) facsimile (with confirmation of transmission by sender’s facsimile machine) or (iii) personal delivery. Notice will be deemed to have been given two days after mailing or on the date of personal delivery or on the date of transmission of a facsimile if on a business day during normal business hours (or, if not, the first business day thereafter). The addresses of the parties are:

To Academy:

Franco's Prep Academy
2201 Owen Street
Saginaw, MI 48601
Attention: Board President
Tel: __________________________
Fax: __________________________

With a copy to:

Ernst, Richter & Pregler, P.C.
6050 Livernois
Troy, MI 48098
Attention: Gerald J. Richter, Esq.
Tel: (248) 813-9900
Fax: (248) 813-9901

To TLG:

The Leona Group, L.L.C.
2125 University Park Dr.
Okemos, Michigan 48864
Attention: William Coors, CEO
Tel: 517-333-9030
Fax: 517-333-4559

With a copy to:

The Leona Group, L.L.C.
2125 University Park Drive
Okemos, Michigan 48864
Attention: Michael R. Atkins
Tel: (517) 333-9030
Fax: (517) 333-4559

22.7 Assignment. This Agreement will not be assigned by TLG without the prior consent in writing of the Board or by the Academy without the prior consent in writing of TLG, provided that TLG may assign this Agreement to an affiliated entity or an entity that is a successor to all or a substantial portion of TLG’s business and may delegate the performance of, but not responsibility for, any duties and obligations of TLG hereunder to any independent
contractors, experts or professional advisors, subject to the Board approval, which approval cannot be unreasonably withheld.

22.8 Amendment. This Agreement will not be altered, amended, modified or supplemented except in a written document approved by the Board and signed by authorized officers of both the Academy and of TLG.

22.9 Waiver. No waiver of any provision of this Agreement will be deemed to be, nor will constitute a waiver of any other provision, nor will such waiver constitute a continuing waiver unless otherwise expressly stated.

22.10 Severability. The invalidity of any of the covenants, phrases or clauses in this Agreement will not affect the remaining portions of this Agreement, and this Agreement will be construed as if such invalid covenant, phrase or clause had not been co-maintained in this Agreement. To the extent that any of the services to be provided by TLG are found to be an invalid delegation of authority by the Board, such services will be construed to be limited to the extent necessary to make the services valid and binding.

22.11 Successors and Assigns. Except as limited by Section 22.7, this Agreement will be binding upon, and inure to the benefit of, the parties and their respective successors and assigns.

22.12 No Third Party Rights. This Agreement is made for the sole benefit of the Academy and TLG, and their affiliates, successors and assigns. Except as otherwise expressly provided, nothing in this Agreement will create or be deemed to create a relationship between the parties to this Agreement, or either or them, and any third person, including a relationship in the nature of a third party beneficiary or fiduciary.

22.13 Survival of Termination. All representations, warranties and indemnities made in this Agreement will survive termination of this Agreement.

22.14 Binding Effect; Counterparts. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original and all of which together shall be deemed one and the same instrument.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date and year first above written.

Francis Reh Public School Academy

The Leona Group, L.L.C.

By: [Signature] [Signature]

Its: President

CE0
CONFLICTS IN THE GOVERNANCE OF MICHIGAN CHARTER SCHOOLS

Service Agreement

SERVICE AGREEMENT WITH LIGHHOUSE OF MICHIGAN, INC.

This Agreement is effective September 1, 2012, between Lighthouse of Michigan, Inc. (“Client”) and Lighthouse Academies, Inc. (“Consultant”) for Consultant to act as a consultant (also referred to as an independent contractor) in providing certain services to Client (the “Agreement”). The parties agree as follows:

1. **Services.** The services to be provided to the Client by the Consultant are outlined in Exhibit A “Scope of Work.”

2. **Term.** September 1, 2012 through December 31, 2013 unless terminated or extended by mutual agreement prior to that date.

3. **Termination.** The Client reserves the right to terminate this agreement at any time, with or without cause. Any payments due to Consultant for the work performed up to the date of receipt of the notice of termination will be paid in full within thirty (30) days of such termination date. Such notice may be provided via regular mail, electronic mail or facsimile.

4. **Payment and Expenses.** Lighthouse Academies shall assign two consultants to complete the scope of work on behalf of Client as outlined in Exhibit A “Scope of Work”. Consultant A shall be paid fifty-eight dollars per hour ($58.00) and be assigned approximately nine hundred (900) hours of work. Consultant B shall be paid twenty-one dollars per hour ($21.00) and be assigned approximately three hundred and eighty hours (380) of work. Consultants shall invoice Client for work as completed in accordance with the guidelines that apply to Client funds. Consultant shall also lead the development of community outreach materials for the school at a cost of no more than twelve thousand dollars ($12,000), contract for professional development for the board and staff at a cost of no more than seven thousand seven hundred dollars ($7,750.00), and purchase accounting software and audit services at a cost of no more than $3,500 (three thousand five hundred dollars). Consultant shall be reimbursed for the cost of these services by Lighthouse of Michigan.

5. **Subcontractors Payment and Expenses:** Consultant shall sub-contract with Charter Facilities Management, Inc. (CFM) for site research and selection for ten thousand dollars($10,000). Consultant shall also sub-contract with John Burket, Esq. of Davis Burket Savage Listman Brennan law firm, as selected by the Lighthouse of Michigan Board of Directors, to provide legal services for no more than six thousand seven hundred fifty dollars($6,750). Consultant shall be reimbursed for the cost of both of these sub-contractors by Client.
Service Agreement

6. **Total Contract Amount:** Per the payment and expenses in clauses four and five, the total contract shall not exceed one hundred thousand dollars ($100,000).

7. **Amendment.** The Scope of Work may be amended by the parties by mutual agreement.

8. **Confidentiality.**

   (a) **Confidential Information.** "Confidential Information" shall mean any information about Client, including but not limited to customer and vendor lists, business plans, methodologies, specify service area materials, financial and accounting records, and any other information which a reasonable person would deem to be confidential information or any other information which has been expressly or implicitly designated as being confidential information by Client. To the extent required by law, "Confidential Information" does not include information that is or becomes part of the public domain, unless such information became part of the public domain through Consultant’s action or omission. Consultant acknowledges and understands that in the performance of her services as a consultant to the Client she will obtain knowledge of Confidential Information. Consultant agrees that she shall not, either during the term of this Agreement or at any time thereafter, except as required in the performance of the Services hereunder or by law (i) use or disclose any Confidential Information to third parties or (ii) remove or aid in the removal from the premises of the Client any Confidential Information or any property or material relating thereto.

   (b) **Delivery of Client Information and Documents.** Upon the termination of the Services hereunder, or at any other time the Client may so request, Consultant will return all documents, computer disks and storage devices and other materials, and all copies thereof, which contain or embody Confidential Information which Consultant may then possess or have under her control, including all copies of such items.

9. **Independent Contractor Status.** The parties hereto agree that Consultant is an independent contractor, and nothing herein or in the relationship of the parties shall alter or affect such status. Without limiting the generality of the foregoing, the parties hereto acknowledge that at all times during the term of this Agreement:

   (a) Consultant shall have the right to perform services for others;
Service Agreement

(b) Consultant shall have the sole right to control and direct the means, manner and method by which the Services will be performed;

(e) Consultant shall have the right to perform the Services at such places, locations or times as she shall deem appropriate;

(d) Consultant shall furnish all equipment and resources necessary to provide the Services;

(e) The Client shall not require Consultant to devote full time to performing the Services hereunder.

10. **Professional Services.** Consultant shall perform the Services with the skill and care that would be exercised by comparable qualified professionals performing similar services. The Services shall be performed in accordance with the ethical standards of the specific service area profession.

11. **Hold Harmless.** Consultant irrevocably and unconditionally agrees, to the fullest extent permitted by law, to defend, indemnify and hold harmless the Client, Consultant, and the officers, directors, trustees, employees and agents of either from and against any and all claims, liabilities, losses and expenses, including reasonable attorney fees, directly or indirectly, wholly or partly, arising from or in connection with any act or omission of Consultant in carrying out the Services described in this Agreement.

12. **Enforceability.** This Agreement shall be interpreted so as to be effective under applicable Massachusetts law, but if any portion hereof is prohibited or invalid, such portion shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of this Agreement. If any one or more of the provisions contained in this Agreement are for any reason held to be excessively broad as to duration, geographic scope, activity or subject, such provisions shall be construed by limiting and reducing them so as to remain enforceable to the maximum extent permitted under applicable law.

13. **Notices.** Any notice or other communications should be directed to:

   a. If to the Client:
      Lighthouse Academies of Michigan, Inc.

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Service Agreement

163 Madison Street
Room 250
Detroit, MI 48210

b. If to Consultant:

President
Lighthouse Academies, Inc.
1661 Worcester Road, Suite 207
Framingham, MA 01701

14. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of Massachusetts.

15. Amendments and Waivers. No amendment or waiver of this Agreement or any provision hereof shall be binding upon the party against whom enforcement of such amendment or waiver is sought unless it is made in writing and signed by or on behalf of such party. The waiver by either party of a breach of any provision of this Agreement by the other party shall not operate as a waiver by that party of the same or any subsequent breach of any provision of this Agreement by the other party.

16. Binding Effect; Assignment. This Agreement shall be binding on and inure to the benefit of the parties hereto and their respective heirs, executors and administrators, successors and assigns.

17. Entire Agreement. This Agreement constitutes the final and entire agreement of the parties with respect to the matters covered hereby, and replaces and supersedes all other agreements and understandings relating thereto.

SIGNATURES APPEAR ON THE NEXT PAGE
Service Agreement

Exhibit A – Scope of Work

<table>
<thead>
<tr>
<th>Task</th>
<th>Deliverables</th>
<th>Budgeted Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-1 Legal fees</td>
<td>Review service agreement with CMO on behalf of the board; introductory conversation with board on roles/responsibilities</td>
<td>$2,500</td>
</tr>
<tr>
<td>Estimated 30 hrs@$225/hr John Burkett</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1-2 Purchase of QuickBooks</td>
<td>Accounting system for reporting and recording charter school grant activity during planning phases</td>
<td>$500</td>
</tr>
<tr>
<td>including setup of MI Chart of Accounts (252)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1-3 Facility Search and Selection</td>
<td>Identified facilities and/or locations recommended for Board approval include: Negotiating Letter of Intent (LOI) $2K, board review and execution of LOI $1K, draft lease and execute $3K, review environmental phase I $1K, create detailed project schedule $3K</td>
<td>$10,000</td>
</tr>
<tr>
<td>Third Party consultant Charter Facilities Management (451)</td>
<td>– see bottom of plan for criteria selection</td>
<td></td>
</tr>
<tr>
<td>1-4 Contract with LHA to provide administrative services during Phase 1 Planning - $58/hour for about 380 hours (232)</td>
<td>Task: Provide feedback on the layout and design of school building that meets the unique needs of the school’s academic program. Deliverable: floor plan for the school and for individual classrooms that meets the needs of the educational program (40 hours)</td>
<td>$22,000</td>
</tr>
<tr>
<td>1-5 Facilities Management (645)</td>
<td>Task: Community outreach and research on community partnerships for community resources, arts programs, after school programs, sports programs, etc. Deliverable: Report recommending school partners and criteria for selection (50 hours)</td>
<td></td>
</tr>
<tr>
<td>1-6 Build community awareness. Deliverable: list of local organizations and families who are aware of LHA and advising on development (50 hours)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1-7 Research on Common Core Standards, Michigan curricula, and curricular programs for use Deliverable: PowerPoint presentation to the board on which curriculum and assessments should be selected (100 hours)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1-8 Develop school calendar and school day schedule. Deliverable: Approved school calendar meeting the needs of the academic program and requirements of the district/state. School day schedule for each grade in which students are moving through the academic program. (50 hours)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Service Agreement

<table>
<thead>
<tr>
<th>Task</th>
<th>Deliverables</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>2-1 Contract with LHA to provide administrative services during Phase II Planning $5K/month - $55/hour for one FTE for 520 hours - $21/hour for second FTE (March-June) for 380 hours (232)</td>
<td>Manage the MDE planning grant.</td>
<td>$38,000</td>
</tr>
<tr>
<td></td>
<td>Monthly reports, timesheets (30 hours)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Manage the establishment of contracts with the board including the compiling all documents for the GVSU charter contact. Delivery: signed charter contract between GVSU and SDLCA (60 hours)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Use criteria established by the board to select community partners for after school programs, arts partnerships, community resources. Delivery: contracts with selected partners (200 hours)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Plan series of events for community to learn about LHA and its plans for the building, including an advisory board of local community residents. Delivery: At least 3 events/month and one advisory meeting every 6 weeks, list of assets interested in Lighthouse (225 hours)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Curriculum selection and design using research produced in stage one. Delivery: fully designed curriculum and assessment program to the lesson level (325 hours)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Development of strategy for staffing and hiring in line with ed model. Delivery: Plan for cultivating and hiring staff including principal, teachers, and office staff (100 hours)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>MDE grant management. Delivery: edits to grant materials, progress reports (50 hours)</td>
<td></td>
</tr>
<tr>
<td>2-2 Community outreach and awareness materials and purchased goods</td>
<td>Print materials for community awareness, LHA promotional items (table cloth, post its, pens, backpacks, etc.) for community booths, invitations, School web page $5K.</td>
<td>$12,000</td>
</tr>
<tr>
<td></td>
<td>Website, postage for mailings, parents and 3 grassroots events per month including invitations, materials, print media, space rentals for events, food for community events (282)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Community events – materials, space rentals, local newspaper announcements $5K</td>
<td></td>
</tr>
<tr>
<td>Development – plan to aligning and Development</td>
<td>Board training on board governance, compliance, fiscal oversight. Roles/responsibilities</td>
<td>$2,000</td>
</tr>
<tr>
<td>-----------------------------------------------</td>
<td>-----------------------------------------------------------------------------------------</td>
<td>-------</td>
</tr>
</tbody>
</table>
| Sessional Development for Leaders | Increased capacity to:  
  - Lead instruction that makes an impact  
  - Manage people to promote development;  
  - Build an environment that promotes effective instruction;  
  - Use tools to  
  - Inform progress and effectiveness. | $5,750 |
| by External Provider witharter school planning grant e (231) | Successful audit | $3,000 |
| Fees  
  30 hrs@$225/hr John | review facility lease and/or purchasing documents, authorizer agreement, advise board on additional contracts | $4250 |
Appendix F: Comparative Contract Analysis Matrix
### Comparative Contract Analysis Between Five Michigan Charter School Boards and Their Management Companies

<table>
<thead>
<tr>
<th>The contract;</th>
<th>Contract A</th>
<th>Contract B</th>
<th>Contract C</th>
<th>Contract D</th>
<th>Contract E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Template/Format of Contract</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Is in standard format (boilerplate or common with other management companies)</td>
<td>✓</td>
<td>✓</td>
<td>✓ v</td>
<td>✓</td>
<td>❌</td>
</tr>
<tr>
<td>Comments</td>
<td>Note: (MC denotes Management Company)</td>
<td>Three of the five MC’s call the contract a management agreement (A, B, D) while companies C and E call it a service agreement. Other that MC “E”, there appears to be little to no real difference except for the title terminology.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Is unique in comparison to other companies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>------------------------------------------</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
</tr>
</tbody>
</table>

MC “E” has an agreement that is titled differently and lays out its contract in an unique manner than the other four MCs. MC “E”’s service agreement specifies tasks, deliverables, budgets and fees associated with each category.

<table>
<thead>
<tr>
<th>Recitals</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>References the authorizer</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

Four of the management companies (A, B, C, D) clearly mention the authorizer while MC “E” mentions the authorizer in the scope of the work.

<table>
<thead>
<tr>
<th>Contractual/service relationship</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Indicators</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>---------------------------------------------------------------------------</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Indicates comprehensive educational programming and management</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Two of the five MC’s (B and C) use the words “comprehensive educational program” while MC’s (A and D) state they will provide adaptable and flexible programs that are not prescriptive. MC “E” says it will provide a presentation for the board to pick a curriculum.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indicates that the facility is owned or acquired by the management company</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Only MC “A” indicates their capacity to provide facilities and facilities’ management for the board. Therefore, having the board lease from the MC. All others do not mention provisions for facilities.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indicates that the management company has sole responsibility for hiring and terminating all employees</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>All management contracts/agreements clearly indicate that the management company is solely responsible for the hiring and termination of all employees. This also includes management of payroll health care benefits, insurance, etc.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indicates that the management company will provide start-up funds for charter school boards</td>
<td>✓</td>
<td>❋</td>
<td>✓</td>
<td>❋</td>
</tr>
<tr>
<td>Indicates that the management company has the right to subcontract any and all services</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Terms and Terminations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Indicates that the management company has responsibility for special education services

<table>
<thead>
<tr>
<th></th>
<th>✓</th>
<th>✓</th>
<th>✓</th>
<th>✓</th>
<th>✓</th>
</tr>
</thead>
</table>

The contracts for three of the MCs indicate that the management company is responsible for special education services. MC “D” and “E” do not clearly specify their roles in special education except in a general statement that they will provide general supplemental service as required by law.

Specifies the compensation to the management company

<table>
<thead>
<tr>
<th></th>
<th>✓</th>
<th>✓</th>
<th>✓</th>
<th>✓</th>
<th>✓</th>
</tr>
</thead>
</table>

All of the contracts and service agreements between the MC and the board of directors indicate the MC’s compensation. However, each compensation structure is different.
| Indicates the management company has the responsibility for curriculum and academic programs | ✓ | ✓ | ✗ | ✓ | ✓ | All of the contracts specify that the MC has responsibility for the curriculum and academic programs. MC “B” has significant cost and proprietary for its curriculum programs. MC’s A and C also have proprietary rights to their curriculum and academic programs including materials. |
| Indicates that the responsibility for board agendas and minutes is provided in the contract | ✗ | ✗ | ✗ | ✗ | ✗ | None of the contracts specify whether the boards of directors or the management companies have the responsibility for board meeting agendas and minutes. |

**Obligations of the Board**
<table>
<thead>
<tr>
<th>Clearly specifies the roles of the board</th>
<th>✓</th>
<th>✓</th>
<th>✓</th>
<th>✓</th>
<th>All of the contracts and agreements except for MC “D” and “E” specify the obligations of the boards of directors. MC “B” does not indicate obligations but uses the phrase “relationship of the parties” and MCs D and E says words and phrases synonymous to partnerships and alliances with the board of directors.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clearly specifies the roles of the management company</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

Financial Arrangements
| Clearly states that the board retains the school’s fund balances |  | ✓ |  | ✓ | ✓ | ✓ |
| Three of the MC’s leave the fund balances with the school, however two make the charter school’s fund balance part of their management fee. The remainder of the balance after the operational cost becomes the profit of MC “A” and “C.” |

| Expulsions, capital acquisitions, academic performance and day-to-day operations |  |  |  |  |  |  |
| Indicates who is responsible for expulsions and behavior |  |  |  |  |  |  |
| None of the contracts indicate whether the board of directors or the management company have responsibility for student expulsions. |

<p>| Indicates that the board or the management company is responsible for capital acquisitions |  |  | ✓ |  | ✓ |  |
| None of the contracts indicate whether the board or the management company is responsible for capital acquisitions except for MC “A” and “C” who provides startup funds and financing to the board, which is later reimbursed from their charter schools’ revenues. |</p>
<table>
<thead>
<tr>
<th>Indicates who is responsible for academic performance</th>
<th>☐</th>
<th>☐</th>
<th>☒</th>
<th>☒</th>
<th>☐</th>
</tr>
</thead>
</table>
| Indicating who is responsible for academic performance, the checkmark indicates that the attribute is applicable to the identified contract. The ☐ indicates the attribute is not applicable. The abbreviation “MC” represents, “the management company” in the comments sections.

**MC “D”** is the only contract that has metrics regarding academic performance. In MC “D”’s contract, there are financial incentives for the attainment of academic goals agreed upon with the boards of directors.

<table>
<thead>
<tr>
<th>Indicates that the management company is responsible for the day-to-day operations</th>
<th>☑</th>
<th>☑</th>
<th>☑</th>
<th>☑</th>
<th>☑</th>
</tr>
</thead>
</table>
| The contracts do indicate that for all MCs that the day-to-day operations of the school are the responsibility of the MC.

Notes: The ☐ denotes a slight difference from the common format of the specific item. The checkmark indicates that the attribute is applicable to the identified contract. The ☐ indicates that the attribute is not applicable to the identified contract. The abbreviation “MC” represents, “the management company” in the comments sections.