

HAYNSWORTH SINKLER BOYD

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August 11, 2021

VIA EMAIL AND FIRST CLASS MAIL

Sarah Anderson Timmons
Timmons Law Firm, LLC
25 Delano Drive, Suite E
Greenville, SC 29601
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Re: Interim Report and Findings of GCA Review

Dear Ms. Timmons:

This firm represents Gray Collegiate Academy, Inc. ("GCA"). As you know, we have assisted GCA throughout a process that began on or about May 30, 2020, when the Charter Institute at Erskine (the "Institute" or "CIE") communicated several areas of concern, and began its own process of review which has included several separate elements and processes initiated by CIE.

I am writing on behalf of the Board of Directors at GCA to provide an interim update on facts that have been gathered, actions that have been taken, and improvements that have been implemented promptly as circumstances warrant. While it would be ideal to reach a complete and final end of the review process before commenting or making assessments, GCA believes that sufficient time has elapsed to warrant reporting at this time. GCA is committed to continuing its cooperation and collaboration with CIE in the continuous improvement of the governance and operation of GCA. GCA takes this opportunity to (1) report the initial, prompt improvements that resulted from CIE's initiation of the review; (2) to "self-report" some items that remain under review and evaluation; and (3) to report GCA's observations and conclusions about the reasons why some of the problems occurred. The ultimate result is a recognition by GCA's board that constant vigilance and expertise will be needed to ensure past mistakes are not repeated. GCA requests CIE's assistance in providing additional training for board members and school leaders in order to capture and build upon the lessons learned throughout this process.

1. IMMEDIATE CORRECTIVE ACTIONS

Although it has been appropriate to engage in a thoughtful and thorough review process, GCA did not delay corrective action wherever the opportunity presented itself. At the suggestion of CIE in June of 2020, GCA retained this firm as separate, outside counsel to assist in its dealings with Pinnacle, its efforts to make reforms under the Management Agreement, and to advise it in connection with its intent to take seriously CIE's concerns. Second, GCA promptly confronted Pinnacle about charges for "subcontracted" management services which CIE contended should have been included in the management fee. To its credit, Pinnacle agreed to remove the questioned costs from the budget, and incorporate them as part of its overall management fee. This immediate reform included three cost areas: (1) the financial services provided by Sancap; (2) the HR services provided by Ahna D'Angelo; and (3) the services of Southern Strategies. This resulted in immediate savings to the school budget of approximately \$100,000 annually.

Most importantly, the GCA Board began to take immediate steps to bring about structural changes in how the school is managed. In particular, the Board opened a dialogue with Pinnacle about having the principal work directly for the Board and firmly resisted efforts by the management company to retaliate against the principal. You are aware of the unfortunate litigation that ensued. The great stride that the litigation should represent at this stage was GCA's Board's willingness to stand strong and remain committed to the process of improvement.

2. AMENDMENT OF MANAGEMENT AGREEMENT

As a result of the chain of events set in motion by CIE's review, including litigation commenced by Pinnacle, the GCA Board has achieved an amendment to its Management Agreement with Pinnacle that will bring about a governance structure that is accountable. In particular, GCA entered that certain Settlement Agreement dated February 1, 2021, and entered into the corresponding Amendment to Management Agreement effective July 1, 2021. The principal is now an employee of the GCA Board and will have primary responsibility to (1) oversee the activities taking place under the management contract; (2) make recommendations to the Board; and (3) give the Board a full-time representative to monitor all aspects of the school's fiscal operation. As part of the new management agreement, the parties developed a "Responsibility Matrix" which more specifically delineates the roles, responsibilities, and authority related to key identified tasks.

3. EXPENDITURES UNDER CONTINUED REVIEW

There are several items of information turned up in the audit process which remain under investigation and review by the Board, and for which there are not final answers or remedies in place at this time. The two most significant are (1) the accounting for planning and implementation

(“P&I”) funds; and (2) potential monies paid for lobbying services. For the P&I issue, the Board is requesting an accounting from Pinnacle and an explanation based upon the issues raised by CIE during the audit process. Although we do not have an explanation to provide at this time, we note that quite a bit of time has passed since the expenditures in question, and the magnitude of the issue appears to be fairly small. We remain hopeful that there is an adequate explanation, and that any issues can be remedied through reimbursement.

On the issue of lobbying services allegedly provided by Southern Strategies, the GCA Board confirms it does not consider itself to have retained a lobbyist, nor did it consider itself to be receiving lobbying services from Southern Strategies at any time. However, GCA takes seriously the description in its annual audits of expenditures related to “lobbying,” and notes that it has been unable to determine with certainty that its funds did not go to pay for lobbying by Southern Strategies on behalf of Pinnacle. By and through its letters from undersigned counsel in June and July of 2020, GCA obtained information about how much money had gone to Southern Strategies in recent years. GCA was not able to learn whether Pinnacle separately compensated Southern Strategies to perform lobbying services for Pinnacle. Based upon the refusal of Pinnacle to provide this information, GCA makes the valid inference that either no such compensation was paid by Pinnacle (as would have been proper) or the withheld information is otherwise damaging to Pinnacle. As a remedy on this issue, GCA proposes to insist upon reimbursement for the past three years of school funds paid to Southern Strategies.

4. ASSESSMENTS OF UNDERLYING CAUSES

GCA continues to carry out its plans for (1) structural improvements in the governance of the school; (2) enhanced oversight and accountability; and (3) a continued cooperative relationship with CIE. However, GCA will not overlook candid assessments of why the areas of concern presented themselves in the first place. Being willing to learn is the most important step toward ensuring a strong and accountable future for GCA. After much introspection and Board deliberations, the GCA Board believes that there are two main underlying causes: (1) the inherent difficulty in operating a charter school that has an EMO consistently with the strong responsibilities of Board members under South Carolina’s Charter Schools Act; and (2) the need for separate and vigorous legal representation for the Board in charter schools where an EMO has a comprehensive management agreement. While talented board members come from the ranks of involved parents, community leaders, and education professionals, an EMO can have a great deal of control over the flow of information. An EMO is incentivized to retain power in order to protect its investment and expectation of future profits.

The GCA Board proposes that the remedy is quality board recruitment and training. Although the GCA Board has received quality training from available resources here in the State, that training has not been focused upon the unique challenges presented by the EMO setting. GCA

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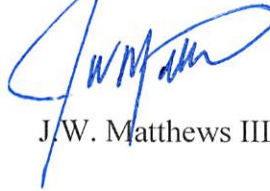
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requests that CIE assist in identifying and establishing a board member training program that is designed to achieve and maintain a high level of excellence in oversight and governance, particularly in the EMO setting.

The GCA Board invites your input and response on the issues outlined in this letter, and plans to follow through with the action items that remain outstanding. The Board is willing to meet with CIE to discuss further if that is desired. As always, do not hesitate to call me if I can answer any questions or be of assistance.

Very truly yours,

HAYNSWORTH SINKLER BOYD, P.A.



J.W. Matthews III