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June 13, 2022

Zoe Ann Holmes

Head of School

Colorado Springs Charter Academy
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Dustin Sparks

Legal Counsel

Charter School Law Group

Sent Via Email: zholmes@cscharter.org ; dustin@dustinsparkslaw.com

RE: **April 22nd Notice of Breach**

Dear Mr. Sparks:

Thank you for Colorado Springs Charter Academy's ("CSCA") response to the Notice of Breach and cease-and-desist demand issued by the Colorado Charter School Institute ("CSI") on April 22, 2022. Between (1) the draft compliance report issued by Paragon Financial on April 21st, (2) the records CSCA produced in response to CSI's May 6th records request, (3) the representations made in CSCA's May 16th response letter, and (4) Joe Peters' interviews of school staff, CSI has completed its investigation.

Grounds for Breach

CSI asserted three distinct grounds for breach.

I. Ground One: Financial Improprieties

CSI asserted that CSCA was in breach of its statutory and contractual duties to meet generally accepted standards of fiscal management, due to (1) allowing internal fraud-prevention controls to collapse and (2) allowing budgetary controls to collapse. Alongside these problems, CSI was made aware of allegations—unproven at the time—that the school had been spending money for the benefit of specific individuals believed to have close personal relationships with the board members primarily responsible for the collapse of financial and budgetary controls. If proven true, this would have established "reasonable grounds" requiring referral for a criminal investigation under § 18-8-115, C.R.S.

To begin with the most important part: CSI has concluded that the allegations that would have raised this issue to the level of a criminal referral were unfounded. The records not only do not support any inference of criminal wrongdoing, but also (in our view) dispositively establish the absence of criminal wrongdoing.

To be clear, there is evidence suggesting inappropriate conduct. The emails produced in response to CSI's records request and the interviews conducted with CSCA staff, together, establish: (1) that specific individuals with personal relationships with specific board members received substantially larger mid-year raises than did other staff, and (2) that an individual with a close friendship to a specific board member stands to benefit directly from the expenditures on CSCA's vacant rental residence. The records *also* establish, however, that most of the larger raises are plausibly explained by additional duties; that the full CSCA board took part in these decisions formally or informally; and that the board chair was directly involved in decision about facilities expenditures on the vacant residence. As a result, although the episode reflects poor governance practices and non-transparent decision-making, it does not establish reasonable grounds within the meaning of § 18-8-115, C.R.S.

To the extent CSCA disputes the existence of a breach of contract, CSI disagrees¹ and notes that the time for disputing such matters under section 3.4 of the contract has passed. CSI also notes that, contrary to the letter's representation, the board treasurer has not yet been removed as an authorized signer on the school's bank accounts. Nonetheless, given that the school has (1) re-committed to following its written financial policies, (2) removed the board treasurer's edit access in QuickBooks, and (3) cancelled her purchasing card, CSI finds the breach to be cured. CSI lifts its demand to pause payment on facilities-related expenses. CSI asks that CSCA timely update its written financial policies as described in CSCA's response and that all expenditures follow the current policies as nearly as possible until then.

II. Ground Two: Governance Improprieties

CSI asserted that CSCA was in breach of its statutory and contractual duties to maintain governance and operation practices consistent with the standards adopted by rule of the State Board of Education, by (1) failing to follow board bylaws on the board's composition, (2) failing to follow board policy on secure voting methods, and (3) failing to follow board policy on board conduct.

In response, CSCA summarized grounds that would disprove the first of these grounds for breach. Although CSCA did not provide evidence to substantiate its summary, the response to CSI's records request does contain some emails tending to support CSCA's statements. The remaining grounds, on their own, do not rise to the level of a breach however they do still demonstrate issues in governance practices that need to be resolved and could lead to further notices of concern if not resolved. CSI withdraws its second claim of breach and thanks CSCA for its diligent response.

CSI asks that CSCA work with an external advisor on dramatically improving its open-meetings compliance, to prevent further confusion.

¹ CSI reiterates that anyone having access to bank accounts, to spending authority, and to accounting software, all at the same time, is a grave violation. While we understand CSCA had the best of intentions, CSI finds it troubling—to say the least—that CSCA would deny that these facts reflect “inappropriate access.”

III. Ground Three: Failure to Cure Feb. 15th Notice of Concern

CSI asserts a breach based on (1) a failing to fully cure the February 15, 2022 notice of concern, and (2) failing to maintain proper books for the school's building corporation and bond obligations.

CSI finds the February 15, 2022 Notice of Concern has not been cured as CSI has yet to be provided a copy of the amended budget for FY22. CSI asks for a further report on the status of the amended budget, building corporation and bond obligations by July 15, 2022.

Cease-and-Desist Demand

Given the resolutions above, CSI lifts its demand that the CSCA board abstain from appointing new members. CSI insists, however, that individual board members recuse from voting on any appointments that would raise the appearance of a conflict of interest.

Conclusion

The existence of the first and third asserted breaches will be duly noted in applicable CARS reports. Except as otherwise stated above, however, CSI requests no further remedial steps. Please reach out with any questions.

Sincerely,

Anastasia Hawkins

Anastasia Hawkins

Director of Governance

cc: Terry Croy Lewis, Executive Director, Colorado Charter School Institute
Joe Peters, Senior Assistant Attorney General
Jill Anschutz, Board Chair, Colorado Charter School Institute
CSCA Board of Directors