



## TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
INTRODUCTION	7
CAVA ENROLLMENT SNAPSHOT	8
CAVA STUDENT PERFORMANCE FALLS BELOW STATE LEVELS IN SEVERAL KEY INDICATORS	10
EVIDENCE OF A TROUBLED TEACHING ENVIRONMENT AND AN UNDERINVESTMENT OF RESOURCES IN THE VIRTUAL CLASSROOM	21
K12 CALIFORNIA MANAGES CAVA IN A WAY THAT MAXIMIZES THE REVENUE FLOW TO ITS FOR-PROFIT PARENT COMPANY K12 INC.	31
A SIGNIFICANT PORTION OF K12 INC. REVENUE GOES TO ADVERTISING, EXECUTIVE SALARIES AND PROFIT	36
K12 INC.'S POOR TRACK RECORD IN OTHER STATES	37
EXISTING OVERSIGHT MECHANISMS IN THE STATE OF CALIFORNIA HAVE NOT SUFFICIENTLY MONITORED CAVA OPERATIONS	42
POLICY RECOMMENDATIONS	45

## EXECUTIVE SUMMARY

This report examines management practices and student academic performance at California Virtual Academies (CAVA),<sup>1</sup> the largest provider of virtual public education in California.<sup>2</sup> Our research shows that students at CAVA are at risk of low quality educational outcomes, and some are falling through the cracks entirely, in a poorly resourced and troubled educational environment.

One of CAVA's functions is to act as revenue producer for its manager and primary vendor K12 California LLC (K12 California), a subsidiary of K12 Inc.<sup>3</sup> K12 Inc. is a publicly traded company. This can put the leaders of the company in a position where they must choose between maximizing profit to fulfill their responsibility to shareholders and fully investing in the education of public school children, including those in California. As a private company, K12 Inc. offers us limited information concerning internal operations; however, our research indicates that some of the problems identified at CAVA result from inadequate resources in the virtual classroom, which suggests that funds are not being directed where they are needed.

Several findings suggest that the virtual education model advanced by K12 Inc. in California does not adequately serve many of its students. In every year since it began graduating students, except 2013, CAVA has had more dropouts than graduates.<sup>4</sup> Its academic growth was negative for most of its history and it did not keep up with other demographically similar schools after 2005.<sup>5</sup> Its Academic Performance Index scores consistently ranked poorly against other demographically similar schools and the state as a whole.<sup>6</sup> Evidence of low

quality educational materials, understaffing of clerical employees and low teacher salaries all indicate that an additional investment of resources in the classroom is necessary for improvement.

A high quality virtual charter school has the potential to be a valuable alternative for certain targeted students for whom a traditional classroom model is not feasible.<sup>7</sup> However, CAVA's record suggests that its approach is neither targeted nor high quality.

Others have expressed concern about the management practices of K12 Inc. managed charter schools throughout the country, including state officials,<sup>8</sup> shareholders,<sup>9</sup> a stock analyst<sup>10</sup> and a major investor.<sup>11</sup> In addition, we have found evidence of poor academic outcomes in other states that are very similar to our findings in California.<sup>12</sup> A close analysis of the business relationship between CAVA and K12 California, a relationship that offers the K12 Inc. subsidiary a large degree of control over the operations of each CAVA location, further strengthens our concern that the problems at CAVA are endemic to K12 Inc.'s business model.

The amount of control that K12 Inc. and K12 California exert over CAVA also contradicts the new push towards local control that is occurring with California's implementation of the Local Control Funding Formula.<sup>13</sup> Contracts between the various CAVA locations and K12 California make it clear that the boards at each CAVA location and the boards of these CAVA location's authorizing school districts have little leeway in budget, program and contracting decisions independent from K12 California.<sup>14</sup> This undermines the system that the state of California has established for oversight and accountability.<sup>15</sup>

## OVERVIEW OF OPERATIONAL CONCERNS

CAVA has operated a virtual charter school system in California with multiple locations since 2002 and currently enrolls 14,500 students from all major counties in grades K-12.<sup>16</sup> As of January 2015, the CAVA network included 11 locations and employed 766 teachers who work from home and interact with students online.<sup>17</sup>

Each CAVA location currently receives full, per-pupil public education funding.<sup>18</sup> Students attend school from home computers. The majority of the teachers we interviewed reported that their students are eligible to be counted as having attended with as little as one minute of log in time each day.<sup>19</sup>

In 2012-13, CAVA produced at least \$47 million in revenue for K12 Inc.,<sup>20</sup> which is based in Virginia. The money paid to K12 Inc. represents more than 49% of the \$95 million in public funding the CAVA locations received that year.<sup>21</sup> K12 Inc. was paid this money for management, technology, curriculum and equipment rental services. CAVA used the other 51% to pay for all program expenses, including teacher's salaries, district oversight fees, services for special education students, administrative office expenses, insurance and accounting services.<sup>22</sup>

The operational practices at the school that cause us concern, especially in a business model that involves both public funds and the education of children, include:

- *Self-Dealing* – K12 California is both the manager of each CAVA board's school funds and the primary vendor at CAVA. K12 California's agreements with CAVA allow it to pay itself for services out of CAVA bank accounts it is authorized to manage.<sup>23</sup>

- *Lack of Competitive Bidding* – CAVA is contractually prohibited from seeking another vendor for services K12 California is willing and able to provide.<sup>24</sup>

- *Service Arrangements That Do Not Incentivize Quality* – For its administrative and technology services, K12 California collects a percentage of revenue rather than a fee for service per pupil.<sup>25</sup> If California ever increases per-pupil funding, K12 California collects more money regardless of any improvements to its product.

- *Conflicts of Interest* – As employees of K12 California, top CAVA school administrators must answer to shareholders' needs as well as students' needs; public school districts charged with oversight of CAVA receive a portion of their operating budget from CAVA payments;<sup>26</sup> and CAVA boards risk the closing of the school unless they cooperate with K12 Inc.'s budget proposals.<sup>27</sup>

- *Debt Relationship* – K12 Inc. charges more than the CAVA locations can reasonably pay. As a result, K12 Inc. issues "budget credits" every year, without which each CAVA location would be insolvent.<sup>28</sup> This unusual financial arrangement has a number of negative implications when considering how much autonomy the various CAVA locations have from K12 California and K12 Inc., as evidenced by language in contracts and year-end Financial Reports.<sup>29</sup>

- *Lack of Transparency* – The actual amount K12 California spends on providing services for California students, like the amount of profit K12 Inc. makes from the state,<sup>30</sup> is private information. The public, parents, students, teachers and policymakers have no way of accurately calculating the level of resources being spent on CAVA's virtual classrooms.

## DETAILED FINDINGS

### 1. CAVA HAS STRUGGLED WITH PERFORMANCE.

- *CAVA's graduation rate has consistently been a fraction of the rate in California overall.* In the last four years, CAVA's overall graduation rate was 36%, compared to 78% for California as a whole during the same time period.<sup>31</sup> 2012-13 was the first year CAVA was able to graduate more than 50% of its students, with a rate of 58%.<sup>32</sup> Even this improved rate fell far short of the California rate of 80% that year.<sup>33</sup>

---

*In the last four years, CAVA's overall graduation rate was 36%, compared to 78% for California as a whole.*

---

- *CAVA's Academic Performance declined every year but one since 2005.* Since 2005, CAVA's Academic Performance Index (API) growth score<sup>34</sup> was negative in all years but 2009.<sup>35</sup> Using this same measurement, CAVA students as a whole fell behind their peers at demographically similar schools for every year since 2005, including 2009.<sup>36</sup>

- *CAVA ranks poorly when ranked against other demographically similar schools in the state.* For all years of operation, CAVA's enrollment-weighted, system-wide average similar school rank was a 4.9 out of 10. In 2012-13, CAVA's similar school rank was a 4.3, while its statewide rank was a 2.9.<sup>37</sup> This means that in that year, 57% of schools with similar student populations performed better than CAVA and 71% of all schools in the state performed better than CAVA.

- *CAVA has not shown consistent improvement over time.* An analysis of academic performance data over time shows that performance measures have not improved steadily over time, as would be true with a developing, improving charter school. CAVA's academic performance declined in all but one year since 2005-06 and its similar school ranking vacillated from year to year.

## 2. MANAGEMENT DECISIONS HAVE EXPOSED STUDENTS TO A TROUBLED TEACHING ENVIRONMENT

- *CAVA teachers we interviewed<sup>38</sup> report substandard materials.* Most of the teachers we interviewed reported that the quality of the computers, the education software and other materials used by teachers and parents is poor and that this impedes their ability to teach.

- *Some students at CAVA are not a good fit for online education.* K12 Inc. engages in aggressive advertising, especially on children's TV networks, as USA Today documented in 2012.<sup>39</sup> In addition, there is evidence that K12 Inc. engages in aggressive recruitment tactics.<sup>40</sup> This aggressive advertising and recruitment is paired with what a majority of the teachers we interviewed report is a difficult process for dismissing students at their CAVA locations.<sup>41</sup> Several of the teachers we interviewed reported that a significant portion of their students are not a good fit for online education.<sup>42</sup>

- *Inadequate guidelines allow only one minute of login time to constitute attendance and allow a parent to verbally verify attendance, regardless of evidence.* Most of the teachers we spoke with report inadequate guidelines for confirming attendance at their CAVA locations. Most report having been instructed that only



Public education resources that flow to California Virtual Academies are not being spent in a way that sufficiently benefits their students or teachers. CAVA's poor educational performance, its questionable financial arrangement with K12 California and K12 Inc. and the schools' troubled teaching environment all support this.

one minute of login time is sufficient to constitute attendance and that a parent can verbally confirm attendance, even with no evidence that the student participated that day.<sup>43</sup> This means that some students who are not sufficiently participating and are not withdrawn from the program can still count towards Average Daily Attendance-based state funding.<sup>44</sup>

- *CAVA has a fraction of the clerical staff they need and many teachers report being expected to pick up the slack to a degree that impedes effective teaching.* CAVA locations report eight total clerical employees for the CAVA system, while districts with a similar enrollment to CAVA as a whole report an average of 94 clerical employees.<sup>45</sup> The ratio of students to clerical staff is 13 times higher at CAVA than comparably sized districts.<sup>46</sup> At the same time, most of the teachers we interviewed reported that clerical assignments make up the vast majority of the work they do and prevent them from spending sufficient time on teaching.<sup>47</sup> Additionally, 104 CAVA teachers sent a letter detailing concerns over excessive non-instructional duties to CAVA administrators in November of 2014.<sup>48</sup>

- *CAVA pays a fraction of what corresponding districts pay and all of the teachers we spoke with report high teacher turnover.* All of the teachers we spoke with report a high teacher turnover rate.<sup>49</sup> This is concerning, as teacher turnover has been shown to harm students.<sup>50</sup> In 2011-12, the most recent data available, CAVA paid teachers an enrollment-weighted, system-wide average of \$36,000 a year, while teachers at CAVA's authorizing districts made an average of \$60,000 a year.<sup>51</sup>

- *CAVA had high student turnover in 2012-13.* Using the California Department of Education's definition of "con-

tinuous enrollment,"<sup>52</sup> we found CAVA to have a 2012-13 student turnover rate of 24%, compared to 7% in California. For an alternate measurement of student turnover we compared the number of students defined as continuously enrolled to the "cumulative enrollment"<sup>53</sup> for the entire year. Using this methodology, we found an alternate student turnover rate of 51%, compared to 11% for California.<sup>54</sup> This alternate rate shows us that more than half of CAVA's students that year either left or had recently enrolled.

- *Teachers report inadequate services for special education students at their locations.* The special education teachers we spoke with report that CAVA has failed to provide needed services to some of their students.<sup>55</sup> For example, one teacher reports that she has students with severe mental disabilities who need basic life skills training, like personal hygiene, and are not receiving it.<sup>56</sup> In addition, these teachers report caseloads that exceed 35 students. This is significantly higher than the 28 students that California mandates for special education teachers in traditional public schools.<sup>57</sup> Given the vulnerability of this sub group, we feel an immediate investigation is warranted.

#### 4. CONSIDERABLE AMOUNTS OF K12 INC.'S REVENUES GO TO ADVERTISING, EXECUTIVE COMPENSATION AND PROFIT.

- *In 2012, K12 Inc. spent about 5% of revenue on advertising.* An analysis of advertising expenses in 2012 suggests that about 5% of K12 Inc. revenue was spent on advertising that year.<sup>58</sup>

- *In 2012-13, K12 Inc. spent 2.5% of revenue on executive salaries.* An analysis of executive salaries shows that in 2012-13, 2.5% of K12 Inc. revenue was spent on the salaries of the top nine executives.<sup>59</sup>

- In 2013, K12 Inc. reported that 5.4% of revenue became profit. A review of the company's 2013 Annual Report shows that 5.4% of revenue became profit or "operating income" in 2012-13.

- K12 Inc. received more than \$47 million in revenue from CAVA in 2012-13. CAVA received more than \$95 million in public education funds and is paying an amount equal to 49% of that to K12 Inc.<sup>60</sup> California taxpayers should have a right to know how much of the public money paid to K12 Inc. is spent on the services delivered.

## 5. EXISTING OVERSIGHT MECHANISMS IN THE STATE OF CALIFORNIA HAVE NOT SUFFICIENTLY MONITORED CAVA OPERATIONS.

- Some CAVA locations have chosen exceptionally small districts as authorizers that may lack the capacity to fulfill their Education Code-mandated oversight duties.<sup>61</sup> CAVA San Diego, the charter school's largest location, provides a stark example of this phenomenon. CAVA San Diego's enrollment of more than 3,000 is about 100 times the size of its authorizer, Spencer Valley Elementary.<sup>62</sup> This is a school district with a core population of 30 students. CAVA's total 2013-14 enrollment of 14,500 is equal to 80% of the core district enrollment at its authorizing districts added together.<sup>63</sup>

- There is evidence that CAVA has failed to comply with California's forward thinking funding requirements for non-classroom based schools. The amount paid to personnel cited in CAVA's year-end Financial Reports represents a lower percentage of public revenue than was required to be paid to certificated staff by the California Department of Education when it funded

each CAVA location.<sup>64</sup> Furthermore, the amount paid to K12 Inc. is not correctly reported in several applications for funding.<sup>65</sup> The process by which the California Department of Education verifies compliance with these and other funding requirements is insufficient.<sup>66</sup>

## CONCLUSION

Our research shows that public education resources that flow to California Virtual Academies are not being spent in a way that sufficiently benefits their students or teachers. CAVA's poor educational performance, its questionable financial arrangement with K12 California and K12 Inc. and the schools' troubled teaching environment all support this.

The situation at CAVA requires the attention of California education authorities to ensure that students are being served appropriately. Many areas of the Education Code, as well as other applicable regulations, allow a more thorough review of CAVA's operations by state authorities, which we strongly recommend. In addition, the situation at this virtual charter school system suggests that policies guiding the oversight of the industry should be revisited and strengthened.

This bold new experiment in education, the virtual, self-paced model, has the potential, around the world, to be a valuable resource to certain student populations. However, if left unchecked, the model being advanced by CAVA will continue to negatively impact the educational outcomes of a large number of California children. This is not what virtual education in California should look like.

## INTRODUCTION

In recent years, there has been a widespread emergence of charter school models that fall outside traditional governmental regulations in regard to management, bidding and contracting. One area of particular concern is the rise of the virtual public school, where students in kindergarten through 12th grade attend classes entirely online. It is a radical departure from the traditional classroom model, yet very little research has been done on its benefits, drawbacks and outcomes. Furthermore, the leaders in virtual public education<sup>67</sup> are for-profit companies whose revenues are largely made up of public education dollars.<sup>68</sup> Too little analysis has yet been done on the nature of these public-private arrangements and their effects on the education of their students.

To understand the implications of for-profit virtual education, we chose one large company to serve as a case study subject and analyzed its operations and outcomes in detail. We chose K12 Inc., the largest operator of virtual public schools in the country,<sup>69</sup> then narrowed our focus to California Virtual Academies (CAVA), a network of 11 virtual charter schools launched in 2002 and managed by a K12 Inc. subsidiary. We chose California in part because the state has introduced some of the nation's most forward thinking regulations around virtual education, and in part because K12 Inc. is the largest provider of virtual education in California.

Our findings suggest that the virtual education model advanced by CAVA does not adequately serve many of its students. In every year since it began graduating students, except 2013, CAVA has had more dropouts than graduates.<sup>70</sup> Its academic growth has been negative for

most of its history and it has not kept up with other similar schools since 2005.<sup>71</sup> Its Academic Performance Index scores have consistently ranked poorly against other similar schools and the state as a whole.<sup>72</sup> A virtual program may be a valuable alternative to certain students for whom a traditional classroom model is not feasible, but CAVA's record suggests that its approach is not up to that task.

Our findings also show that CAVA's management practices have resulted in an under-resourced, troubled teaching environment. The CAVA teachers we interviewed reported regular problems with the technology and materials supplied by K12 California.<sup>73</sup> In addition, most of the teachers we spoke with describe inadequate attendance requirements and difficult procedures for moving a student out of CAVA when they are not a good fit for online education, which leads some to fall through the cracks.<sup>74</sup> There is also evidence that CAVA has not employed sufficient clerical staff, relying instead on teachers to perform an excessive array of non-instructional tasks, which interferes with teaching.<sup>75</sup> The teachers we spoke with report high teacher turnover rates<sup>76</sup> and an analysis of California Department of Education Data shows CAVA to have high student turnover. All of this portrays an environment unfavorable to both students and teachers.

Furthermore, our research on CAVA reveals a system in which a large percent of public education funds received by CAVA are funneled out of the state and into the hands of a private, for-profit, publicly traded company with limited transparency. In CAVA's contractual arrangement with K12 California, we have found evidence of self-dealing,<sup>77</sup> as well as language that discourages competitive bidding.<sup>78</sup> Indeed, our research indicates that some of the problems

*A large percent of public education funds received by CAVA are funneled out of the state and into the hands of a private, for-profit, publicly traded company with limited transparency.*

identified at CAVA result from inadequate resources in the virtual classroom, which suggests that funds are not being directed where they are needed.

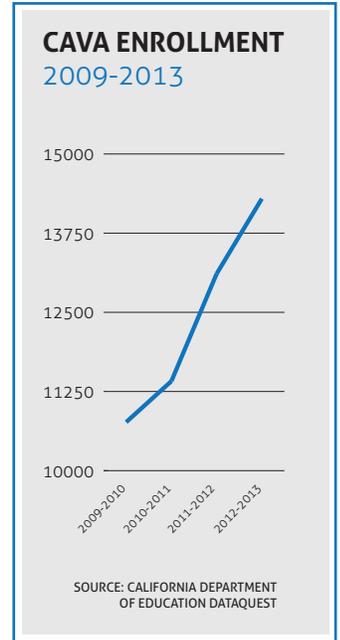
In this report, we begin by looking at CAVA's educational performance. Then, to understand why these results are so poor, we examine the practices and conditions that shape the educational environment. To put CAVA's managerial decisions in context, we analyze the contractual relationship between CAVA and K12 California and look at how K12 Inc. spends the revenue it collects from various state-level operations. We also consider the poor track record of schools managed by K12 Inc. subsidiaries in other states to understand if the problems in California are an isolated case. Finally, we examine those oversight mechanisms already in place in California and how they might be revised to improve outcomes at CAVA. We offer a number of policy recommendations because we believe that additional measures are required to ensure that students in virtual schools receive a quality education.

## CAVA ENROLLMENT SNAPSHOT

CAVA opened in California in 2002 with three locations and 653 students. CAVA's enrollment grew exponentially and by 2009-10 it had more than 10,000 students.<sup>78</sup> In 2008-09 CAVA began graduating its first students. In 2013-14, two CAVA high school locations, CAVA Los Angeles High and CAVA Santa Ysabel, were turned into Insight schools, a K12 Inc. managed virtual charter available to middle and high school students only.<sup>80</sup>

### CAVA'S ENROLLMENT GROWTH

Total enrollment at CAVA has grown consistently over the last five years. Some individual locations show increases from 2009 to 2011, then a drop in 2012-13. This drop is more than made up for by new locations, however, so the overall enrollment trend is upward.



### CAVA ENROLLMENT | 2009-2013

CAVA SCHOOL	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
JAMESTOWN	204	263	294	168	155
KINGS	738	781	872	585	558
LOS ANGELES	4,222	4,375	4,897	3,874	3,913
SAN DIEGO	2,235	2,435	2,794	3,079	3,091
SAN JOAQUIN	360	417	559	1,512	1,596
SAN MATEO	908	1,020	1,246	792	805
SONOMA	975	1,026	1,159	863	901
SUTTER	607	603	687	735	821
MARICOPA (OPENED AUGUST 2012)				1,433	1,393
MARICOPA HIGH (OPENED JULY 2012)				616	637
FRESNO (OPENED JULY 2012)				637	627
KERN (CLOSED JUNE 2012)	517	493	599		
<b>TOTAL ENROLLMENT</b>	<b>10,766</b>	<b>11,413</b>	<b>13,107</b>	<b>14,294</b>	<b>14,497</b>

SOURCE: CALIFORNIA DEPARTMENT OF EDUCATION DATAQUEST

*CAVA enrolls almost no English Learners and has a lower percentage of socioeconomically disadvantaged students.*

## CAVA'S STUDENT DEMOGRAPHICS DO NOT MATCH CALIFORNIA'S

CAVA enrolls almost no English Learners (EL), while the state has a significant EL population. CAVA also has a lower percentage of students defined as socioeconomically disadvantaged (those qualifying for free or reduced price meals<sup>81</sup>) than California as a whole. In recognition of the extra time and attention these subgroups need to maximize performance, they have been designated by the California Department of Education as requiring of more resources.<sup>82</sup>

We analyzed the demographic composition of CAVA's system-wide population over the last five years. CAVA is notably white. In 2013-14, only 25% of California students are white, but 51% of CAVA students are white. CAVA's percentage of African American students is also two times that of the state. Simply

put, CAVA has roughly twice the state's percentage of white and African American students and half its percentage of Asian and Latino students. It is unclear why the numbers are so divergent.

## CAVA'S RACIAL DEMOGRAPHICS DO NOT MATCH CALIFORNIA'S

We analyzed the demographic composition of CAVA's system-wide population over the last five years.<sup>83</sup> CAVA is notably white. In 2013-14, only 25% of California students are white, but 51% of CAVA students are white. CAVA's percentage of African American students is also two times that of the state. Simply put, CAVA has roughly twice the state's percentage of white and African American students and half its percentage of Asian and Latino students. It is unclear why the numbers are so divergent.

### CAVA'S STUDENT POPULATION COMPARED TO CALIFORNIA

PORTION OF...	2013-2014	2012-2013	2011-2012	2010-2011	2009-2010
CAVA STUDENTS WHO ARE ENGLISH LEARNERS	1.9%	1.46%	1.45%	0.85%	0.04%
CALIFORNIA STUDENTS WHO ARE ENGLISH LEARNERS	22.7%	21.62%	22.31%	17.00%	23.71%
CAVA STUDENTS WHO ARE SOCIOECONOMICALLY DISADVANTAGED	54.42%	47.08%	47.08%	25.87%	17.63%
CALIFORNIA STUDENTS WHO ARE SOCIOECONOMICALLY DISADVANTAGED	60.90%	59.45%	59.45%	54.59%	50.85%

SOURCE: CALIFORNIA DEPARTMENT OF EDUCATION DATAQUEST

## CAVA'S RACIAL DEMOGRAPHICS COMPARED TO CALIFORNIA

PORTION OF...	2013-2014	2012-2013	2011-2012	2010-2011	2009-2010
CAVA STUDENTS WHO ARE WHITE	51%	55%	52%	54%	53%
CALIFORNIA STUDENTS WHO ARE WHITE	25%	26%	26%	27%	27%
CAVA STUDENTS WHO ARE LATINO	24%	18%	17%	16%	15%
CALIFORNIA STUDENTS WHO ARE LATINO	53%	53%	52%	51%	50%
CAVA STUDENTS WHO ARE ASIAN	5%	5%	4%	4%	4%
CALIFORNIA STUDENTS WHO ARE ASIAN	9%	9%	9%	9%	9%
CAVA STUDENTS WHO ARE AFRICAN-AMERICAN	14%	13%	13%	12%	12%
CALIFORNIA STUDENTS WHO ARE AFRICAN-AMERICAN	6%	6%	7%	7%	7%

SOURCE: CALIFORNIA DEPARTMENT OF EDUCATION DATAQUEST

## CAVA STUDENT PERFORMANCE FALLS BELOW STATE LEVELS IN SEVERAL KEY INDICATORS<sup>84</sup>

During its 12 years of operation in California, CAVA has struggled with performance in key measurements used by the California Department of Education and falls below the state's performance in these areas, despite having a smaller population of traditionally low performing subgroups, specifically English Learners and socioeconomically disadvantaged students, than the state.<sup>85</sup>

Other organizations have recognized the problems with CAVA's perfor-

mance as well. The California Charter Schools Association called for the closure of CAVA Kern in December 2011 because the school did not meet the Association's modest "Minimum Criteria for Renewal" standards.<sup>86</sup> In April 2014, the National Collegiate Athletic Association announced that it would not accept coursework from two dozen K12 Inc. managed schools, including all CAVA locations.<sup>87</sup> The University of California system does not accept any of CAVA's laboratory science classes.<sup>88</sup>

CAVA's performance is in line with the rest of K12 Inc.'s managed schools. A report released in July 2012 by the National Education Policy Center found that students at K12 Inc. managed schools are falling further behind in reading and

*In every year except 2013, CAVA had more dropouts than graduates. From 2010-11 through 2012-13, CAVA's overall graduation rate was 36%.*

math scores than students in brick-and-mortar schools.<sup>89</sup> The same study also found that as of 2012, the average on-time graduation rate for K12 Inc. managed schools was 49.1%, as compared with an average of 79.4% in the states where these schools were located. This differential is very similar in California.<sup>90</sup> In 2011, only 19.4% of K12 Inc. managed schools had ratings from state education authorities that indicated satisfactory progress status.<sup>91</sup> After examining the educational performance at CAVA and other K12 Inc. affiliated schools around the country, we have serious concerns about K12 Inc.'s educational model.

We analyzed data in two categories to measure performance at CAVA: graduation rates and Academic Performance Index (API) scores. CAVA has struggled with performance in both of these areas. Furthermore, it has shown no consistent improvement of the sort that would indicate a solid, developing program.

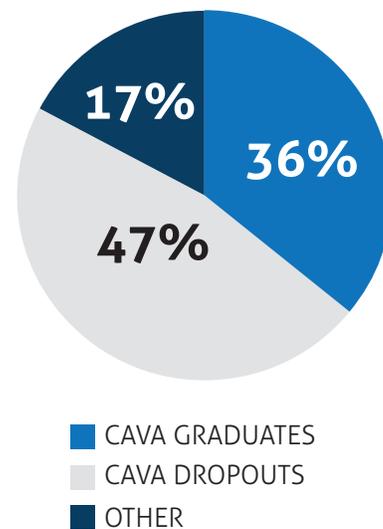
### CAVA'S GRADUATION RATE HAS BEEN CONSISTENTLY LOW<sup>92</sup>

In every year except 2013, CAVA had more dropouts than graduates. In the last three years for which data is available, from 2010-11 through 2012-13, CAVA's overall graduation rate was 36%.<sup>93</sup> Over this time period, 3,700 students were scheduled to graduate; of these, 1,725 (47%) dropped out and only 1,350 (36%) graduated. In 2010, the worst year, 62% dropped out while only 16% graduated. Research has shown that high school graduates do much better later in life than their peers who drop out,<sup>94</sup> which makes CAVA's low graduation rates a major concern.

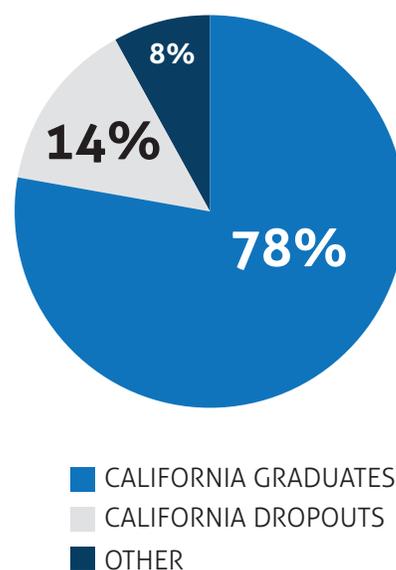
CAVA's graduation rates are consistently lower than state averages. In 2013,

when CAVA's graduation rate was the highest it has ever been at 58%, the State of California had a graduation rate of 80%. From 2010 to 2013, California's average graduation rate was 78%—more than double CAVA's—with only 14% of students dropping out.

### CAVA GRADUATES 2010-2013



### STATE GRADUATES 2010-2013



SOURCE: CALIFORNIA DEPARTMENT OF EDUCATION DATAQUEST

## API SCORES SHOW THAT CAVA RANKS POORLY AND THAT ITS ACADEMIC PERFORMANCE DECLINED MOST YEARS SINCE 2005

The Academic Performance Index (API) measurement scale was approved in 1999 with the passage of the Public Schools Accountability Act.<sup>95</sup> Its purpose was to measure the academic performance and growth of schools based on the results of the statewide testing that occurred every spring. The California Department of Education set a target score of 800 and measured all California public schools' progress towards that goal until last year when the API system was discontinued.<sup>96</sup>

The API score that schools received each year—a number between 200 and 1,000—was based on statewide assessments that students took in multiple content areas and multiple grade spans. The results of these tests were converted into points that were averaged together to produce the score. In 2013 the enrollment-weighted, system-wide API score at CAVA was 730.<sup>97</sup>

*After 2005, CAVA experienced negative academic growth in every year but 2009.*

API scores were used to measure academic performance in two ways. One involved comparing an individual school's score from one year to the next to measure academic growth at that school.<sup>98</sup> The other involved ranking the school against both the state and a group of demographically similar schools each year.<sup>99</sup> After 2005, CAVA experienced negative academic growth in

every year but 2009.<sup>100</sup> CAVA's state and similar school rankings have also been low. We detail both of these approaches as they apply to CAVA below.

## CAVA'S API SCORES RANK POORLY COMPARED TO OTHER SIMILAR SCHOOLS

Prior to 2014, when the API scoring system was repealed,<sup>101</sup> the California Department of Education gave schools a "similar school ranking." This ranking was in addition to the statewide ranking and compared a school's API scores to that of other schools with comparable demographics.<sup>102</sup> The similar school ranking narrowed the field of comparison and thus gave a more accurate view of a school's performance under its own particular demographic conditions than the statewide comparison. The demographics used by the state to make this comparison included student ethnicity, socioeconomic status, percentage of English Learner students and average class size per grade level, among other factors.<sup>103</sup>

In 2012-13, the most recent year available, CAVA's enrollment-weighted, sys-

### CAVA AVERAGE STATEWIDE AND SIMILAR SCHOOL RANK

SCHOOL YEAR	CAVA API STATEWIDE RANK (1-10) <sup>105</sup>	CAVA API SIMILAR SCHOOL RANK (1-10) <sup>106</sup>
2012-2013	2.6	4.3
2011-2012	2.2	5.4
2010-2011	2.6	4.7
2009-2010	3.1	5.5
2008-2009	3.7	6.5
2007-2008	4.8	4.7
2006-2007	5.3	2.8
2005-2006	6.2	6.2
2004-2005	6.4	2.7
2003-2004	5.8	1.8
<b>2003-2013 AVERAGE</b>	<b>3.2</b>	<b>4.9</b>

SOURCE: CALIFORNIA DEPARTMENT OF EDUCATION DATAQUEST

## SIMILAR SCHOOL RANK AT INDIVIDUAL CAVA LOCATIONS

NAME	SIMILAR SCHOOL RANK 2012-2013	SIMILAR SCHOOL RANK 2011-2012	SIMILAR SCHOOL RANK 2010-2011	SIMILAR SCHOOL RANK 2009-2010	SIMILAR SCHOOL RANK 2008-2009
CAVA JAMESTOWN	1	4	4	2	N/A
CAVA KERN	1	2	2	3	8
CAVA KINGS	6	6	5	4	5
CAVA LOS ANGELES	3	5	4	5	7
CAVA SAN DIEGO	7	6	6	7	8
CAVA SAN JOAQUIN	3	3	3	5	N/A
CAVA SAN MATEO	4	8	6	9	6
CAVA SONOMA	5	6	6	5	2
CAVA SUTTER	5	4	4	5	5

NOTE: CAVA FRESNO AND CAVA MARICOPA AND MARICOPA HIGH ARE NOT INCLUDED BECAUSE THEY OPENED IN 2013-2014.

SOURCE: CALIFORNIA DEPARTMENT OF EDUCATION DATAQUEST

### CAVA'S API GROWTH HAS BEEN NEGATIVE ALMOST EVERY YEAR SINCE 2005

tem-wide average similar school ranking was 4.3, on a scale of 10. A similar school ranking of 4.3 would mean that 57% of similar schools performed better. Since its inception in 2002, CAVA has achieved an average similar school ranking higher than 5 in only two years, and has never achieved a score higher than 6.5.

There does not appear to be a consistent trend at any one location, or for the CAVA system as a whole, to indicate that the program is developing and improving over time. Although some locations do trend, on average, slightly better than others, rankings at CAVA as a whole and for a majority of individual locations fluctuate from year to year and do not trend upward. CAVA San Mateo's ranking through the years is a good example. In 2009-10, this location had an impressive similar school ranking of 9, but in the preceding and following years received only a 6. Then, in 2011-12, it achieved a ranking of 8, followed by a ranking of 4 in 2012-13.

To determine the academic growth of a school, the state measured the difference between API scores from one year to the next.<sup>107</sup> It then assigned a positive or negative number to reflect the school's API growth.

If API growth was at zero, the school was as academically successful in one year as it was the year prior, meaning that on average, that year's classes performed as well on tests as the prior year's classes. If the number was positive, the school improved academically; if negative, its performance declined. Due to a yearly shift in methodology for determining scores, the California Department of Education has made it clear that while a school's API growth can be charted over time, a school's actual scores cannot.

Measuring API growth over time at CAVA has been complicated by the fact that the California Department of Education did not measure API growth for any CAVA location in 2011 due to "significant demographic changes."<sup>108</sup> Charter schools and districts were allowed to

request this exemption and if the Department of Education determined that sufficient demographic changes had taken place at the school, it did not measure API growth for that year.<sup>109</sup> The Department of Education did not measure API growth at any CAVA location in 2013 either, with the exception of CAVA Kings, which received a -29. At six of these locations, API growth was not measured due to significant demographic changes; at four others, API growth could not be measured because these locations did not have a valid API for the prior year.<sup>110</sup> These four schools were considered new by the Department of

Education. Of these four, however, three were recognized by the Department of Education as new after having changed merely their name or authorizer.<sup>111</sup>

Below is a chart representing CAVA's enrollment-weighted, system-wide API growth over time as compared to the growth at demographically similar schools. After two good years in 2003-04 and 2004-05, CAVA students as a whole fell behind their peers at similar schools in every subsequent year. Due to the problems with 2011 and 2013 data described above we chose to exclude 2013 and omit 2011 information for CAVA.

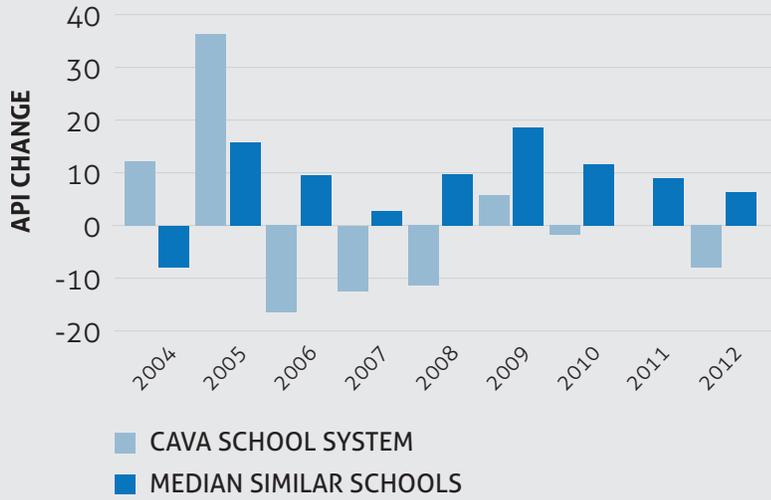
*After two good years, CAVA students as a whole fell behind their peers at similar schools in every subsequent year.*

To provide a more complete picture of CAVA's API growth, we've also provided school-by-school charts with the same information. For certain years in these charts, either CAVA or the similar school API growth is left blank. This is because the data was not available on the California Department of Education DataQuest database. We detail these issues thoroughly in endnotes.

SCHOOL YEAR	CAVA'S SYSTEM-WIDE AVERAGE API GROWTH
2013	No data other than Kings at -29
2012	-7.9
2011	No data
2010	-1.8
2009	5.8
2008	-11.4
2007	-12.4
2006	-16.5
2005	26
2004	12.2

SOURCE: CALIFORNIA DEPARTMENT OF EDUCATION DATAQUEST

**AVERAGE CAVA API GROWTH VS.  
AVERAGE MEDIAN SIMILAR SCHOOLS API GROWTH**



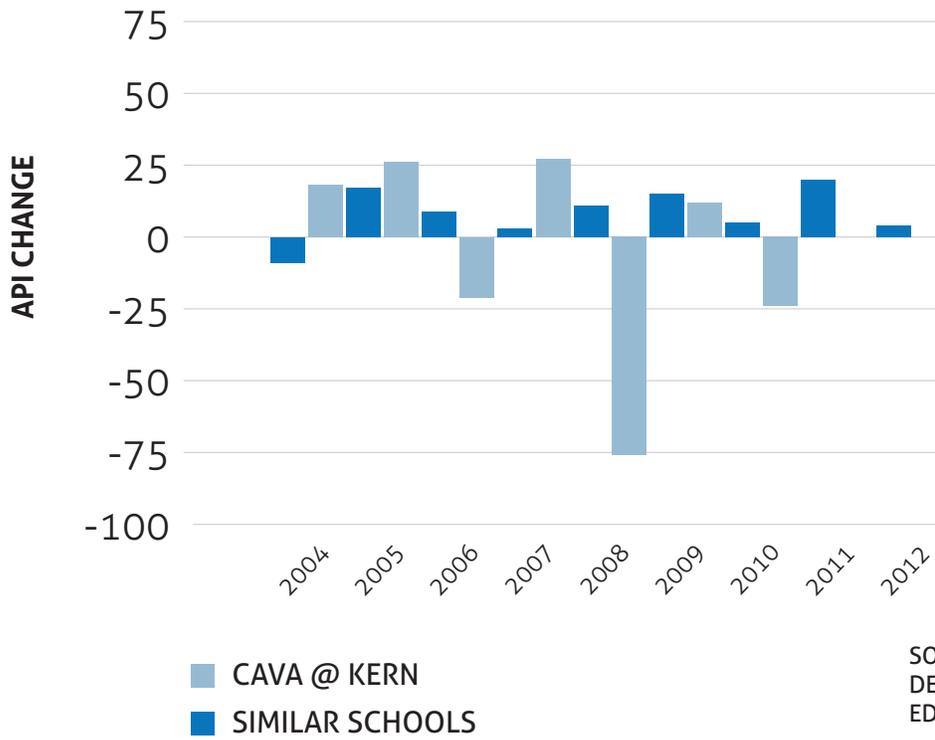
SOURCE: CALIFORNIA DEPARTMENT OF EDUCATION DATAQUEST <sup>112</sup>

**CAVA @ JAMESTOWN VS.  
MEDIAN SIMILAR SCHOOLS API GROWTH**



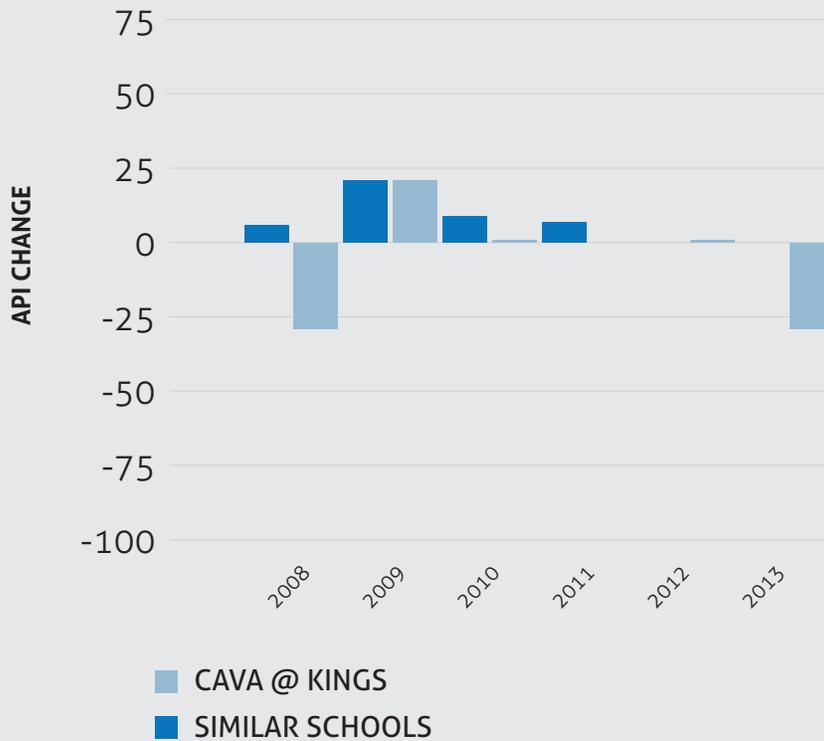
SOURCE: CALIFORNIA DEPARTMENT OF EDUCATION DATAQUEST <sup>113</sup>

**CAVA @ KERN VS.  
MEDIAN SIMILAR SCHOOLS API GROWTH**



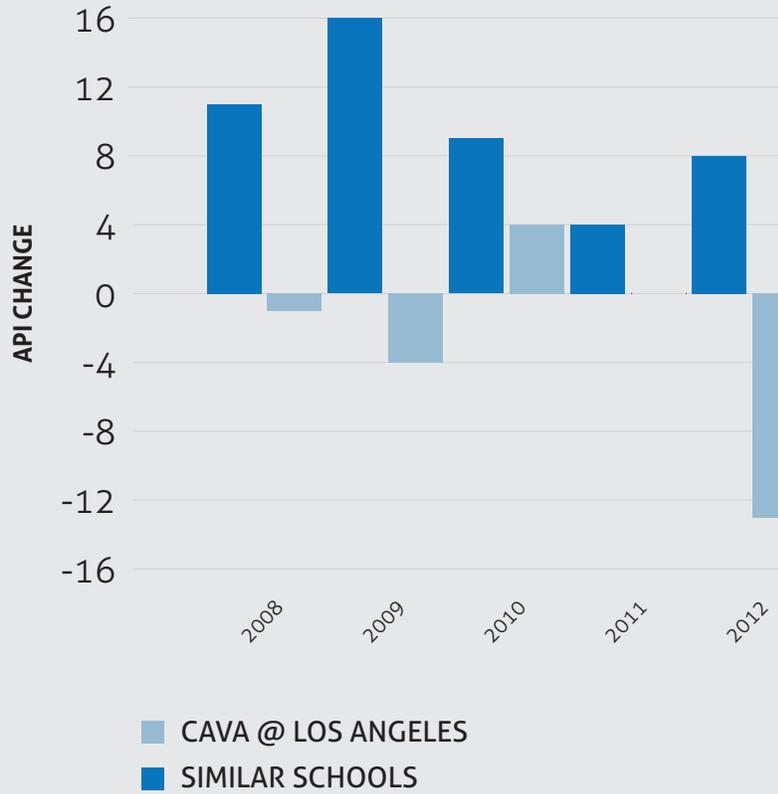
SOURCE: CALIFORNIA  
DEPARTMENT OF  
EDUCATION DATAQUEST <sup>114</sup>

**CAVA @ KINGS VS.  
MEDIAN SIMILAR SCHOOLS API GROWTH**



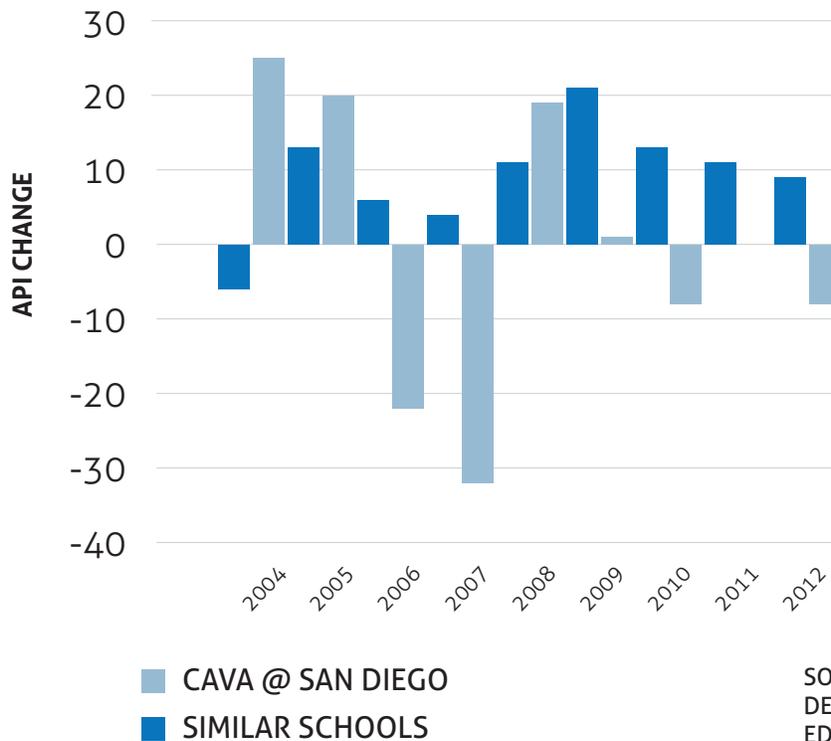
SOURCE: CALIFORNIA  
DEPARTMENT OF  
EDUCATION DATAQUEST <sup>115</sup>

**CAVA @ LOS ANGELES VS.  
MEDIAN SIMILAR SCHOOLS API GROWTH**



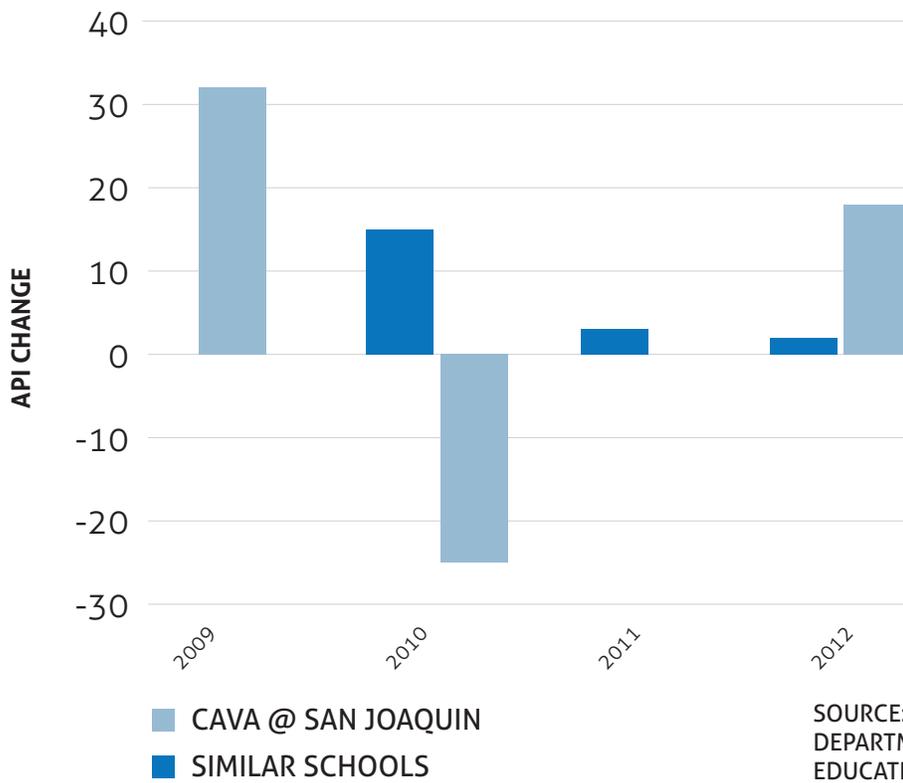
SOURCE: CALIFORNIA DEPARTMENT OF EDUCATION DATAQUEST <sup>116</sup>

**CAVA @ SAN DIEGO VS.  
MEDIAN SIMILAR SCHOOLS API GROWTH**

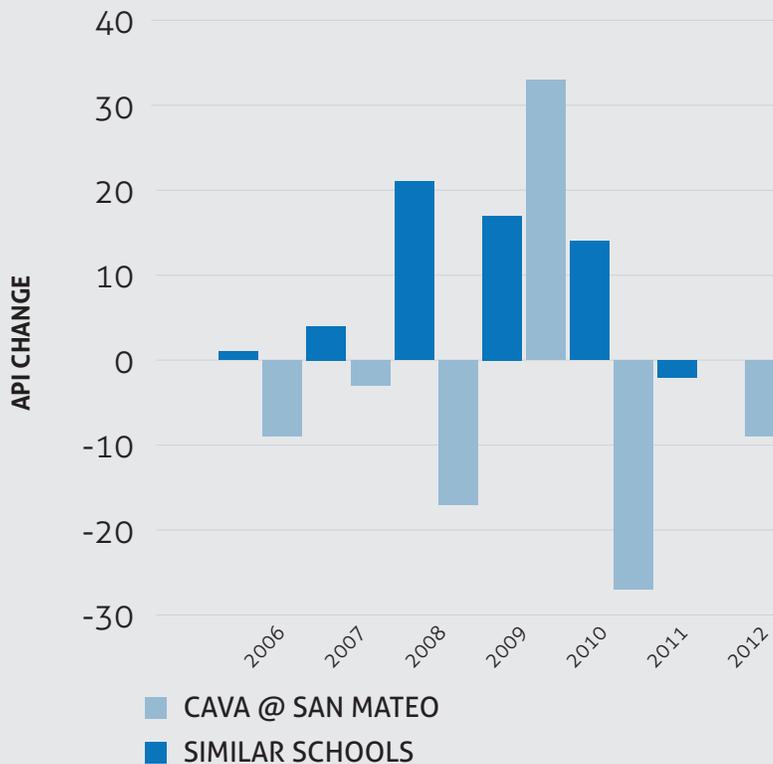


SOURCE: CALIFORNIA DEPARTMENT OF EDUCATION DATAQUEST <sup>117</sup>

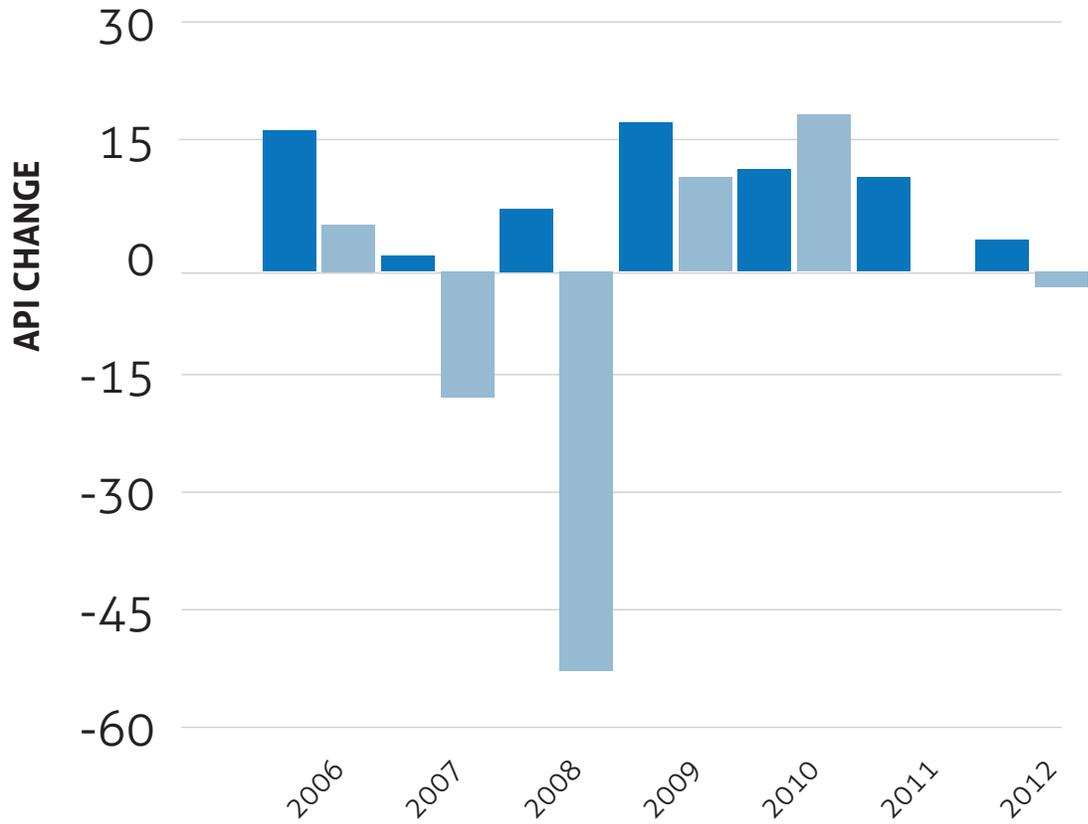
**CAVA @ SAN JOAQUIN VS.  
MEDIAN SIMILAR SCHOOLS API GROWTH**



**CAVA @ SAN MATEO VS.  
MEDIAN SIMILAR SCHOOLS API GROWTH**



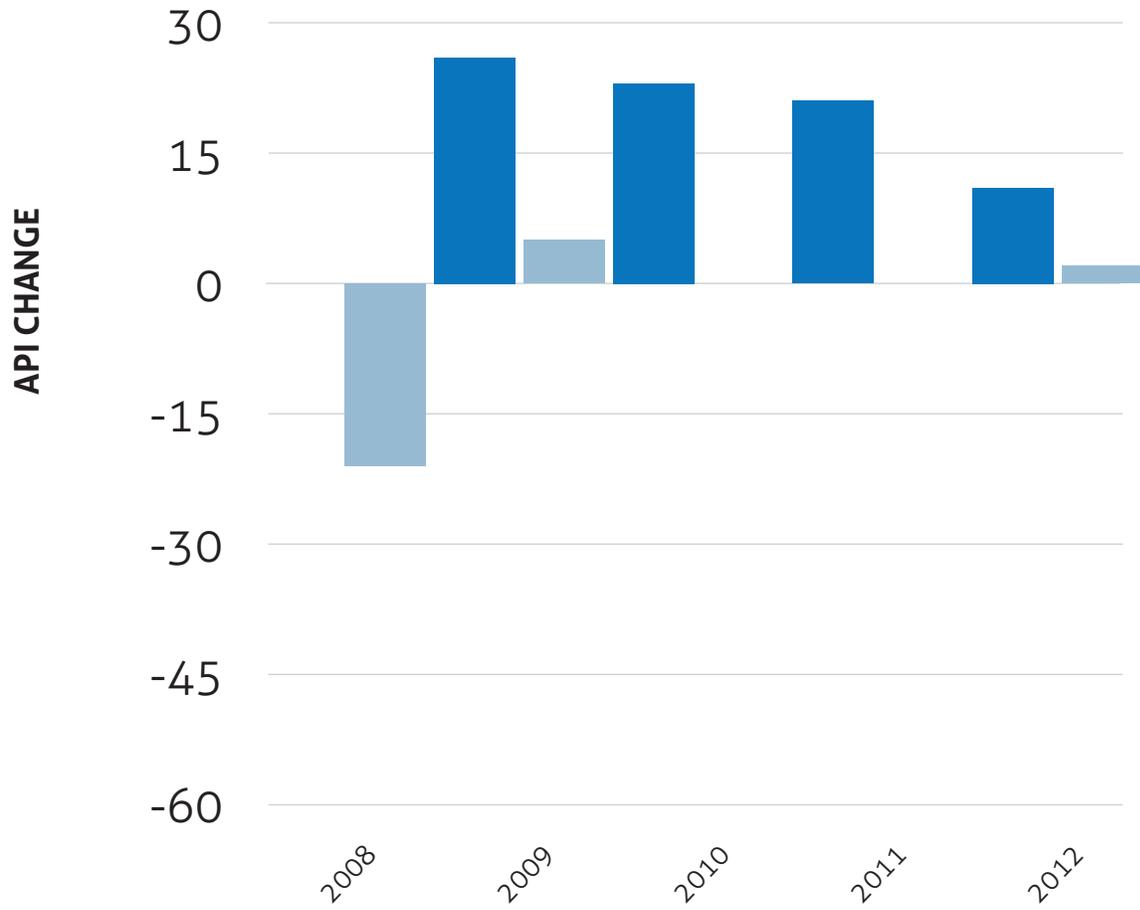
**CAVA @ SONOMA VS.  
MEDIAN SIMILAR SCHOOLS API GROWTH**



■ CAVA @ SONOMA  
■ SIMILAR SCHOOLS

SOURCE: CALIFORNIA  
DEPARTMENT OF  
EDUCATION DATAQUEST <sup>120</sup>

**CAVA @ SUTTER VS.  
MEDIAN SIMILAR SCHOOLS API GROWTH**



■ CAVA @ SUTTER  
■ SIMILAR SCHOOLS

SOURCE: CALIFORNIA  
DEPARTMENT OF  
EDUCATION DATAQUEST <sup>121</sup>

## EVIDENCE OF A TROUBLED TEACHING ENVIRONMENT AND AN UNDERINVESTMENT OF RESOURCES IN THE VIRTUAL CLASSROOM

We interviewed CAVA teachers in depth to get an understanding of how virtual education works at CAVA, how K12 Inc. systems work, how the school is managed when it comes to attendance, participation and involuntary withdrawal procedures and most importantly whether they feel these systems are working towards the best result possible for their students.<sup>122</sup> What we found was that most of the teachers we interviewed were concerned about some key areas of CAVA's operations crucial to student learning.

Areas of concern, such as frequently dysfunctional technology, poor educational materials and excessive clerical responsibilities that get in the way of teaching, suggest an under-investment in both staff and materials that has significant implications in regard to the question of whether a student can adequately learn in this environment. The aggressive advertising and recruitment by K12 Inc., explained below, and the description by teachers we spoke with of inadequate program dismissal and attendance requirements are also problems. These practices create a situation in which some students who are not participating can both stay enrolled and count towards Average Daily Attendance when funding is determined.

Additional evidence of a troubled teaching environment was discovered in high student turnover rates at CAVA when compared to the state and high teacher turnover rates. Our research leads us to believe that this high turnover further impacts students' education negatively.

## TEACHERS WE INTERVIEWED REPORT SIGNIFICANT TECHNOLOGY AND CURRICULUM PROBLEMS AT THEIR LOCATIONS THAT LIMIT STUDENTS' LEARNING POTENTIAL

The quality of the technology and educational materials provided by K12 California and K12 Inc. is a crucial component of students' ability to learn under this educational model. Students begin by logging on to K12 Inc.'s Online School, or the OLS, as teachers and students call it. Once they enter the OLS, they click on links that take them to various courses, to live sessions or to a page where they log attendance. Students are expected to log in to each of their courses daily and then complete the online reading and any assignments required. Live sessions, in which teachers and students interact directly, are available through a different link than their courses and are optional. Recordings of live sessions can be viewed later if a student wishes to see them.<sup>123</sup>

All of this learning requires that supporting technology functions properly. If a student or teacher has a problem accessing the OLS, school is closed until the problem is resolved. A majority of the teachers we interviewed cited regular problems accessing the online school.<sup>124</sup> One teacher explained how important functioning technology is:

*“Students need the Online School offered by K12 Inc. to function properly in order to attend class. When it isn't working, it's like the school bus broke down.”*

– Cara Bryant,  
CAVA Sonoma, 9 years

*Interviews with teachers suggest that frequently dysfunctional technology, poor educational materials and excessive clerical responsibilities get in the way of an ideal teaching environment.*

In addition to difficulties accessing the OLS, the same teachers described regular problems with the rest of the technology as well.<sup>125</sup> They spoke of frequent instances in which they or their students could not get online or, once in the Online School, could not access their courses or their live sessions. The teachers who cited regular problems with technology felt that these technological interruptions impede students' learning potential. Several teachers shared their frustrations:

*“It used to take three to four minutes to enter a live session, now it takes anywhere from nine to 22 minutes. In addition, students and teachers are constantly having connectivity issues—being kicked out of class at the most inconvenient times for no apparent reason.”*

– Kelly Walters,  
CAVA San Diego, 4 years

*“You will not go a week without having numerous kids contact you to say that the reason they aren't working is because their computer isn't working or they can't get into the live sessions or other problems. Me too, I have problems with the technology every week.”*

– Terrasa Maguire,  
CAVA San Joaquin, 2 years

When asked how many hours they generally lose to the technological issues described above, individual teachers responded with statements like: “a ton,” “all the time” and “it is getting worse.” One teacher said she lost 15 hours in an average week; two other teachers reported losing a day and a half straight recently.<sup>126</sup>

It is instructive to note that although access to the Internet is essential for these

students to attend school, the agreements between CAVA locations and K12 California explicitly exempt K12 California from ensuring this access:

*“K12 makes no guarantees and shall not be liable for non-accessibility of the K12 website, end-user connection speed or connectivity problems regardless of the reason.”<sup>127</sup>*

### *The Home Environment*

As noted on the K12 Inc. website, a “core element” of the online learning model is the learning coach, typically a parent.<sup>128</sup> This is an individual “who facilitates progress through daily lessons in the K-8 environment and who plays a supportive role to help the student stay on task in high school.” K12 Inc. notes on their website that the learning coach should expect to spend three to five hours per day with students in kindergarten through 6th grade and two hours per day with students in 6th through 8th grades. If the learning coach is hindered in his or her ability, it negatively impacts the student's chances of maximizing the potential of this educational model.

Teachers noted, however, that some of their families are not tech savvy enough to utilize the computers and the software necessary for attending online class.<sup>129</sup> Two teachers reported that inadequate instructions are provided to the families at her CAVA location on how to use the computer and the systems.<sup>130</sup> A number of the teachers interviewed also expressed concern that CAVA has reduced the number of textbooks it is willing to provide at the teachers' locations and that several classes are being changed to “online only,” with no textbook.<sup>131</sup> These teachers all agreed that despite the online nature of the school,



Photo: Official GDC, Creative Commons License  
<https://www.flickr.com/photos/officialgdc/>

textbooks are still a vital tool for both the student and their learning coach.

Teachers' and parents' personal experiences illustrate these problems:

*“What they are sending parents is insufficient, they don't have what they need to be effective learning coaches at home. This is an important part of the online education model, having an effective learning coach at home.”*

– Sarah Vigrass,  
CAVA Los Angeles, 8 years

*“Too many parents have very limited to no knowledge of their duties and how to navigate the online learning system.”*

– Jason Spadaro,  
CAVA Los Angeles, 1 year

*“A parent reached out to me because she could not afford a novel for her high school English class that was not provided. One was donated to her by another parent after some effort by another teacher.”*

– Ellen Davidson,  
CAVA San Joaquin, 2 years

*“I had the opportunity to meet with some K12 Inc. board members and expressed frustration at the fact that there isn't a physical textbook for science so that I can help my 8th grader better understand the material. I was asked by these board members if I was willing to pay for one out of my own pocket.”*

– Kathy Klein, CAVA parent <sup>132</sup>

## CAVA STUDENTS FOR WHOM ONLINE EDUCATION IS NOT A GOOD FIT ARE IN DANGER OF FALLING THROUGH THE CRACKS

K12 Inc. engages in aggressive advertising, notably on children's television networks, as documented by USA Today in 2012.<sup>133</sup> It also employs aggressive recruitment tactics, according to a 2011 *New York Times* exposé.<sup>134</sup> These strategies for increasing enrollment are particularly concerning given that the majority of CAVA teachers we spoke with reported a difficult process for removing students from the program as well as inadequate attendance requirements.

These teachers' testimony leads us to believe that some students at CAVA are falling through the cracks in that they are not sufficiently participating but are still being counted as if they are fully enrolled in and attending school.

### *Who Is a Good Fit for Online Education?*

The teachers we spoke with reported that online education involves independent learning and several teachers stated that if students are not self motivated they do not do well with this model of learning.<sup>135</sup> One teacher was also clear in pointing out that this model does work well for those students who are self motivated.

---

*Several teachers stated that if students are not self motivated they do not do well with this model of learning.*

---

When we asked teachers what percentage of their students they felt were not a good fit for online education, six high school teachers responded with numbers that fell between 60% and 75%.<sup>136</sup>

One teacher of kindergarten through 8th grade students felt that the percentage in her grades was closer to 50%.

### *A Difficult Dismissal Process*

When a student is not a good fit, it is important that there is a process for dismissal from the program that leads this student to re-enroll at a brick-and-mortar school, where more face-to-face attention from a teacher is possible. One CAVA teacher reported that on paper, the involuntary withdrawal process is clear: two separate letters are sent to the student and parent requesting compliance with the program and if nothing changes, the student is dismissed from the program.<sup>137</sup> However, a majority of the teachers we spoke with explained that they experience a different process for removing a student from the program, one that is confusing, allows for endless second chances and errs on the side of keeping students enrolled.<sup>138</sup>

The teachers reported problems such as: the refusal of the administration to dismiss a student after the teacher has been working to do so; a time-consuming filing process; and the passing of students to the next grade level despite their not having completed work from the previous grade.<sup>139</sup>

Some teachers shared specific experiences of trying to dismiss students from CAVA:

“Some students are clearly not learning and we as teachers are frustrated trying to get them into a school environment where they will learn. There is a process laid out and it looks good, letter, second letter, withdrawn. But this is not what happens, they are given a million chances.”

– Ellen Davidson,  
CAVA San Joaquin, 2 years

The teachers we interviewed reported that they have been instructed to count one minute of log in time as sufficient to constitute attendance.

*“I have a student that has 0% in all courses and was not withdrawn. This student finished the semester with 0% in every course.”*

– Debbie Scoltock,  
CAVA San Diego, 5 years

*“Dismissals are absolutely controlled by administrative decisions. The process is convoluted and frustrating. It takes an act of God to get a student administratively withdrawn.”*

– Ellen Davidson,  
CAVA San Joaquin, 2 years

*“At an in person staff meeting at the beginning of February, we were told that for a student working just a little bit, there would be no withdrawal, that it is not in the student’s best interest. But the student loses a semester of credit while CAVA collects ADA. I do not know of a student who has been withdrawn.”*

– Cara Bryant,  
CAVA Sonoma, 9 years

#### *Inadequate Attendance Requirements Lead to Students Counted as Attended Who Showed Little Evidence of Participation*

In addition to the danger of students remaining enrolled at CAVA who are not a good fit for the self-driven educational model, teachers also reported inadequate attendance requirements at some locations.<sup>140</sup> Students who were not sufficiently participating, and who were not withdrawn from the program, were still counted for the average daily attendance-based funding the school receives.

The teachers we interviewed described a process wherein a parent is allowed to verify verbally that the student attended even when he or she did not show evidence of work for that day. The teachers we interviewed also reported that they have been instructed to count one minute of log in time as sufficient to constitute attendance.<sup>141</sup> Three teachers reported that CAVA administrators have altered their attendance records to show students present rather than truant, after the fact.<sup>142</sup> The accounts of these teachers indicate that CAVA’s practices for logging attendance creates neither accountability nor a productive learning environment.<sup>143</sup>

In a follow-up survey of those CAVA teachers interviewed on the subject of attendance problems, nine reported that, on average, 18% of their students are regularly counted as having attended despite showing no signs of participating.<sup>144</sup> The range of these responses was quite large; teachers reported numbers from 0% to 40%, but a majority of them reported numbers between 20% and 30%.

Some teachers shared specific experiences regarding attendance:

*“I definitely have students whose attendance is not as accurate as it should be. I’ve been told that at the end of the learning period you verify attendance by looking at all the work they’ve done, but I don’t have sufficient time. Also, I received minimal training and guidance on measuring attendance.”*

– Mark Holtebeck,  
CAVA San Joaquin, 3 years

“ Even last week the attendance clerk revised my attendance to falsely reflect that a student has been in attendance for 26 days when they had not logged in or attended any sessions. I have another student who has not attended for 56 days and is continued to be allowed to have the parents log attendance despite the fact that this student is clearly truant. This student clearly does not have access to a free and adequate education.”

– Danielle Hodge,  
CAVA San Joaquin, 5 years

“ Figuring out how to track attendance is very confusing because there is a lack of consistency in the training.”

– Ellen Davidson,  
CAVA San Joaquin, 2 years

## CAVA DOES NOT HAVE SUFFICIENT CLERICAL STAFF GIVEN ITS SIZE AND MOST OF THE TEACHERS WE INTERVIEWED REPORT THAT THEY ARE EXPECTED TO PICK UP THE SLACK

The number of clerical employees reported by the CAVA locations to the California Department of Education indicates insufficient clerical staffing for the population being served.<sup>145</sup> At the same time, most of the teachers we interviewed report that excessive clerical assignments take up so much time that they impact the teachers' ability to provide the amount of personal attention their students need.<sup>146</sup>

In 2012-13, the information CAVA locations reported to the California Department of Education shows them to have had eight total clerical employees for the CAVA system as a whole.<sup>147</sup> We compared the clerical employees reported by CAVA in 2012-13 to the number of

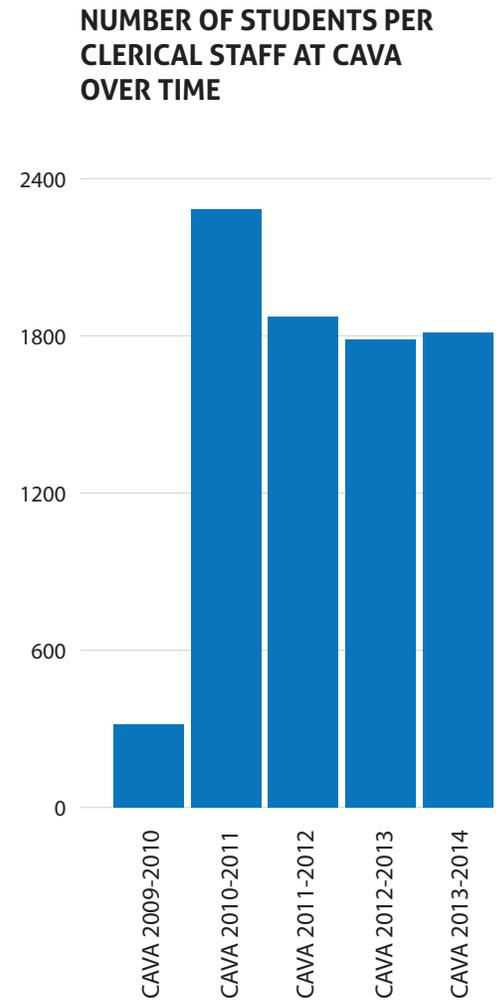
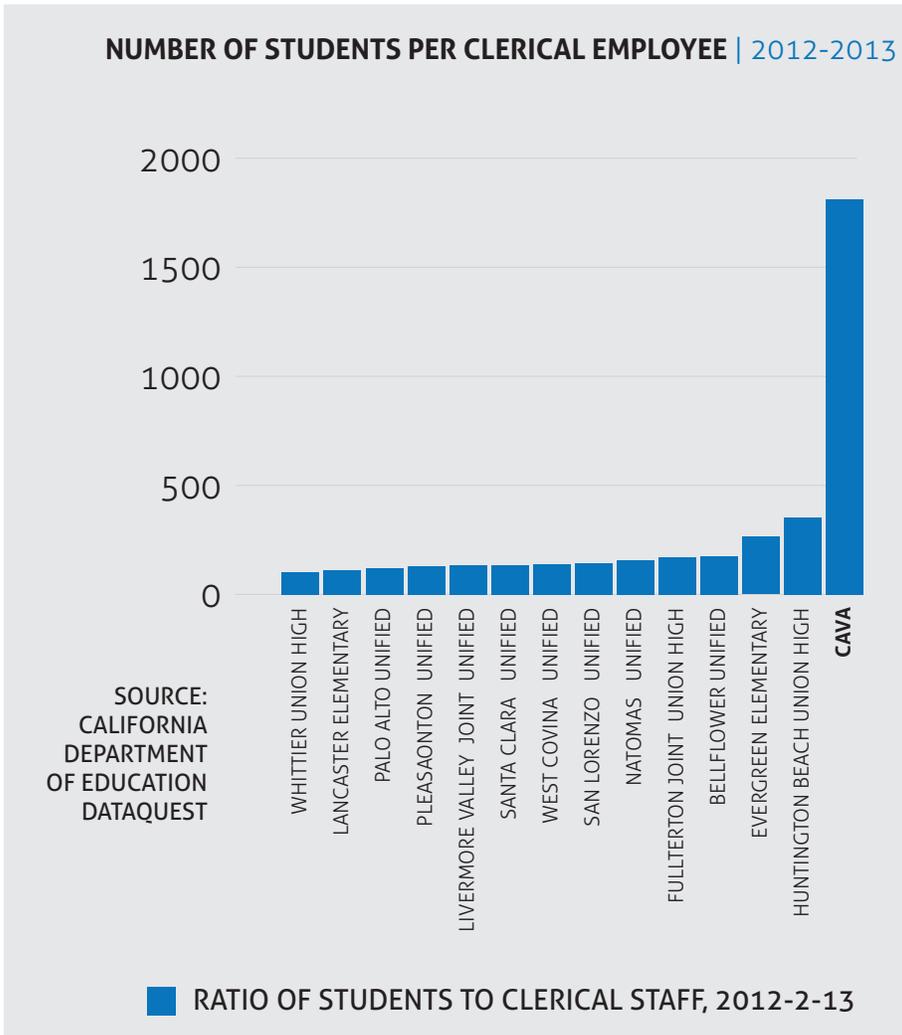
*Three teachers we interviewed reported that CAVA administrators have altered their attendance records to show students present rather than truant, after the fact.*



clerical employees reported by 13 California districts with an enrollment similar to CAVA's system-wide enrollment in the same year.<sup>148</sup> These districts reported an average of 94 clerical employees.<sup>149</sup>

We then used enrollment numbers to calculate the ratio of students to clerical employees at each district and for the CAVA system.<sup>150</sup> The average number of students per clerical staff member at these similarly sized districts was 164, while at CAVA this number was 13 times that, with each clerical staff member responsible for 1,812 students.

Insufficient clerical staffing is also found in prior years and clerical staffing levels do not mirror enrollment trends.<sup>151</sup> CAVA experienced a large drop in clerical employees between the 2009-10 and 2010-11 school years, despite an increase in enrollment, and in subsequent years it maintained this low number of clerical employees. CAVA reported having 34 clerical employees in 2009-10, when it enrolled 10,800 students.<sup>152</sup> Then, in 2011-12, its enrollment grew to 11,400 while the number of clerical employees it reported to the California Department of Education fell to five. This low level of clerical staffing continued. The chart below illustrates this trend.



K12 California's agreement with each CAVA location requires that the location pay 13% of the total public revenue it receives to K12 California for "administrative services."<sup>153</sup> The clerical understaffing is additional evidence that K12 California does not spend a sufficient portion of what it collects in fees on operations at CAVA. We believe that this underinvestment has a negative impact on students.

*Most of the Teachers We Interviewed Described Excessive Clerical Duties That Interrupt Effective Teaching*

A letter signed by 104 CAVA teachers detailing concerns over excessive non-instructional duties was sent to CAVA administrators in November of 2014.<sup>154</sup> Also, in recent interviews,<sup>155</sup> most of the teachers we spoke with described being asked to take on excessive non-instructional duties performed at most schools by a front office administrative staff—duties that take up the majority of their time. These same teachers report that they spend, on average, 80% of their time on clerical work and feel that this severely impacts their ability to spend time teaching students.<sup>156</sup> Teachers' personal experiences illustrate this point:



*“I found myself working 50-plus hours a week just to keep up with all the clerical duties and phone calls to families that could have been relegated to a secretary. ... I found myself having to sacrifice training in order to keep up with all the clerical duties. It got to the point that I was only teaching one hour per week!”*

– Bernadette Taplin,  
former CAVA teacher,  
from her letter of resignation<sup>157</sup>

*“I could spend 100% of my time on clerical given what they ask of us.”*

– Mark Holtebeck  
CAVA San Joaquin, 3 years

*“When I was hired, I was told that this job is mostly clerical.”*

– Ellen Welt,  
CAVA San Mateo, 1 year

*“Non-instructional duties, conferences, attendance and attendance-no-progress duties take up too much time. With all the non-instructional duties, there is little time to plan for lessons and improve upon our teaching in live sessions.”*

– Jason Spadaro,  
CAVA Los Angeles, 1 year

*“Clerical duties are a huge, significant part of this job. In my capacity as an engagement support teacher last year, part of my job was to help teachers with their clerical duties and I spent a lot of time talking to colleagues who felt frustrated, over-worked and overwhelmed by policies and procedures that had become increasingly time-consuming and impossible to fit into an eight-hour workday while still supporting students.”*

– Cara Bryant, CAVA Sonoma, 9 years

*The clerical understaffing is additional evidence that K12 California does not spend a sufficient portion of what it collects in fees on operations at CAVA.*

## ALL OF THE TEACHERS INTERVIEWED REPORT HIGH TEACHER TURNOVER RATES AND TEACHERS AT CAVA RECEIVE LOW PAY

All of the teachers we spoke with reported that they experience a high teacher turnover rate at their locations.<sup>158</sup> These teachers described an atmosphere of instability and an ever-shifting workload as students without a teacher are transitioned to other staff.

“*The revolving door of teachers harms students and other CAVA teachers and threatens the stability of the school. It harms other CAVA teachers because they inevitably have to pick up the slack for teachers who leave.*”

—Maggie Pulley,  
CAVA Los Angeles, 5 years

CAVA teachers also receive a low pay in comparison to others in the state: just over half of what their district counterparts make.<sup>159</sup> On average, CAVA teachers made an enrollment-weighted, system-wide average of \$36,000 a year in 2011-12, the most recent year available. The average teacher salary in CAVA’s authorizing districts for that year was \$60,000. The average teacher salary in California that year was \$69,000.

As a current CAVA teacher explained:

“*Many of us can’t live on this salary.*”

—Ellen Welt,  
CAVA San Mateo, 1 year

## IN 2012-13, CAVA HAD HIGH STUDENT TURNOVER RATES

We found, using two different methodologies, that CAVA had significantly higher turnover rates than California public schools overall in 2012-13. The aggressive advertising and recruitment that we described above may contribute to a high student turnover rate, as students who were not properly vetted discover that this model does not work for them. We fear that this instability negatively affects the students for whom this model could work.

To determine student turnover rates at CAVA, we initially used the California Department of Education’s measurement of continuous enrollment. Continuous enrollment, according to the Department of Education, “means that the student was enrolled from Fall Census Day through the first day of STAR Program testing,” or, in the case of CAVA in 2012-13, from October 1 through April 9.<sup>160</sup> CAVA had a system-wide continuous enrollment of 76% in 2012-13, as compared to California’s continuous enrollment of 93% for that year.<sup>161</sup> CAVA’s student turnover that year was therefore 24%, as compared to 7% in California.<sup>162</sup>

We also used an alternate methodology to determine student turnover at CAVA. We compared the number of students who were counted as continuously enrolled to the cumulative enrollment, which is defined as “the total number of unique or unduplicated primary, secondary and short-term enrollments within the academic year.”<sup>163</sup> The cumulative enrollment at CAVA between July 1, 2012, and June 30, 2013, was 22,271 students.<sup>164</sup> The number of students defined as continuously enrolled, as explained above, was 10,874 students.<sup>165</sup> This analysis shows that only 49% of all students who were enrolled at CAVA any time throughout the year were enrolled in October and still enrolled in

## CAVA'S STUDENT TURNOVER COMPARED TO CALIFORNIA | 2012-2013

	TURNOVER RATE USING CONTINUOUSLY ENROLLED DATA	ALTERNATE TURNOVER RATE, COMPARING CONTINUOUSLY ENROLLED TO CUMULATIVE ENROLLMENT
CAVA SYSTEMWIDE	24%	51%
CALIFORNIA	7%	11%

SOURCE: CALIFORNIA DEPARTMENT OF EDUCATION DATAQUEST

April, resulting in an alternate student turnover rate of 51%. Using the same methodology, we found that the State of California had an alternate continuous enrollment of 89%, and an alternate student turnover rate of 11%. It is important to note that this alternate turnover captures mid year enrollments as well.

### TEACHERS REPORT PROBLEMS WITH SPECIAL EDUCATION SERVICES AT THEIR LOCATIONS

Three CAVA special education teachers we spoke with reported that CAVA has failed to provide services that some of their students need.<sup>166</sup> These teachers also reported that their caseloads regularly exceed 35 students, which is significantly higher than the 28 student cap California mandates for special education teachers in traditional public schools.<sup>167</sup>

Special Education teachers expressed their concern for students:

*“We have students who have disabilities that make it hard for them to access curriculum. We are talking about students with severe intellectual disabilities, in the 60th percentile. They need to be in life skills programs, to learn personal hygiene, for example, and they are here at CAVA not getting any of this. I have one student who aged out after six years and in six years he earned five credits. The*

*whole time he was here, CAVA administrators failed to find him appropriate placement even though I raised the issue over and over. We are putting students who read at a kindergarten level into a high school class and they can't access the curriculum. We've been having issues with mental health, speech or language services, occupational health services and others. It is in their Independent Learning Plan and they wait a long time and still don't get these services.*”

—Danielle Hodge, special education teacher, CAVA San Joaquin, 5 years

*“Special education caseloads have been skyrocketing at CAVA. The generally accepted maximum caseload defined by professional organizations is 25. The State of California maximum is 28. CAVA claims their maximum is 33, but because of the constant entering and leaving of students, I had over 40 students throughout the year. Every time a new student enters, you have to hold an Individualized Education Plan meeting. Last year I spent so much time writing IEPs, I didn't get to work with a single student on any of their goals.*”

—James Sheldon, special education teacher, CAVA San Mateo, 2 years

*We found, using two different methodologies, that CAVA had significantly higher student turnover rates than California public schools overall in 2012-13.*

## K12 CALIFORNIA MANAGES CAVA IN A WAY THAT MAXIMIZES THE REVENUE FLOW TO ITS FOR-PROFIT PARENT COMPANY K12 INC.

Each location in the CAVA system has entered into a nearly identical 10-year agreement with K12 California LLC (a subsidiary of K12 Inc.).<sup>168</sup> K12 Inc. is a publicly-traded education company based in Virginia. In fiscal year 2014, K12 Inc. enrolled 123,000 students<sup>169</sup> in 33 States<sup>170</sup> and Washington D.C. In the same year, K12 Inc. reported revenues of \$919.6 million and operating income (or profit) of \$55.1 million.<sup>171</sup> K12 California is contracted to provide all the essential services needed to run each CAVA location.

*Both the centralized control and the involvement of an out of state, for-profit corporation run counter to a push towards local control in California.*



Our analysis of the agreements between these two entities found that K12 California has a large degree of control over the operations and expenditures of each CAVA location, as detailed below. Furthermore, CAVA year-end Financial Reports show a significant, ongoing debt relationship between the two entities that allows K12 California even more control over decision making and resource allocation. The contractual relationship described below is troublesome, especially when considering that this business model involves both public funds and the education of children. Both the centralized control and the involvement of an out of state, for-profit corporation run counter to the push towards local control that has followed California's implementation of the Local Control Funding Formula.<sup>172</sup>

### OVERVIEW OF K12 INC.'S RELATIONSHIP TO ITS MANAGED SCHOOLS

K12 Inc. divides its operations into two categories, managed and non-managed. At managed schools like CAVA, K12 Inc. subsidiaries are responsible for the day-to-day operations of the school. At non-managed schools, K12 Inc. provides other services but does not manage day-to-day operations. In 2014, managed schools accounted for 88% of K12 Inc.'s revenue, according to the company's annual report,<sup>173</sup> and brought in 70% more revenue per student than non-managed schools, according to one stock analyst.<sup>174</sup>

K12 Inc. has a term to describe the flow of resources between it and its subsidiaries: "internal financial contribution." It defines this contribution as the amount of revenue collected from each state for its services minus the amount it takes to deliver the services.<sup>175</sup>

The evidence below indicates that one of CAVA's functions is to act as revenue producer for K12 Inc. meaning that a sizeable fraction of the education resources received by CAVA flow to the Virginia-based company. The troubled educational environment and poor educational performance described above would benefit from an additional investment of resources.

### CAVA's Relationship with K12 California

CAVA exists on paper as a network of independent, nonprofit organizations. Each location files with the California Department of Education as a single charter school with its own board. We found this appearance to be misleading. The fact that the language in many of CAVA's institutional documents—the agreements between K12 California and CAVA locations, charter documents, year-end Financial Reports and CAVA board meeting minutes—is identical from location to location suggests that CAVA operates more like a single entity than 11 separate schools.<sup>176</sup>

A close analysis of the Education Products and Services Agreements between K12 California and the various CAVA locations<sup>177</sup> reveals that K12 California retains a large degree of control over CAVA operations, including resource allocation. Neither the individual CAVA location boards nor the boards of CAVA's authorizing school districts have much leeway in terms of budget, program and contracting decisions, independent from K12 California, as evidenced in the following points.<sup>178</sup>

- The agreements with K12 California are self-dealing. K12 California is both the manager of each CAVA board's

school funds and the primary vendor at each CAVA location. K12 California pays itself for services out of CAVA bank accounts that it is authorized to manage.

*“K12 is authorized by the Board to pay itself... out of the School's funds managed by K12.”<sup>179</sup>*

- The agreements limit competitive bidding. The CAVA locations are prohibited from seeking another vendor for services K12 California is willing and able to provide unless approved by K12 California in advance.<sup>180</sup>

*“K12 shall be the sole provider of the Educational Products and Services for the Program unless otherwise waived in writing by an authorized officer of K12.... [T]he school shall be permitted to procure goods and services from a third party to the extent required by law, solely provided such goods and services are not otherwise included in the Educational Products and Services.”<sup>181</sup>*

- The service and payment arrangements do not incentivize quality. The agreements specify that K12 California is paid for its administrative and technology services as a percentage of revenue, rather than as a fee for service per pupil. K12 California is entitled to 13% of public revenue received by CAVA for administration and 7% for technology. Should California ever increase per pupil funding K12 California will collect more money through this flat payment of 20% of public revenue, regardless of any improvement to its product.<sup>182</sup> This does not incentivize improvements to the products and services being delivered. In addition to these flat percentage payments, K12 California also charges each CAVA location for the “educational products” it

delivers and these prices can be raised by K12 California on a yearly basis at K12 California's "reasonable discretion."<sup>183</sup>

- The service agreements grant K12 California a large degree of control and create a dynamic in which there is little accountability. If the local CAVA boards or the boards of the authorizing districts make any decision that requires K12 California to increase the services provided or increase the financial risk to K12 California, K12 California can terminate their agreement, yet K12 California is explicitly exempted from responsibility for the achievement of CAVA students. The result is a situation in which local agencies are not empowered to ensure a proper flow of resources to students and K12 California is not bound to prioritize it, leaving an accountability gap.

*K12 may terminate this Agreement effective immediately ... in the event that the Charter is amended or the Board or the Charter Authorizer adopts or amends a policy, in each case without the prior written approval of K12, and the effect of such amendment of policy could reasonably be determined to require K12 to increase materially the level of services required to be provided hereunder or to increase materially the financial risk to K12 arising from its performance of its obligations hereunder, thus rendering K12's performance economically unviable as determined by K12.*<sup>184</sup>

K12 AND ITS AFFILIATES MAKE NO GUARANTEES AS TO THE RESULTS OR ACHIEVEMENTS OF THE STUDENTS.<sup>185</sup>

- K12 California controls budgeting and expenditures in other ways as well. K12 California provides each location with a budget and this budget must be approved

within 30 days, despite the fact that these all-volunteer boards only meet quarterly.<sup>186</sup> If expenditures vary from the K12 California-proposed budget, they must be approved by K12 California in advance.

*Termination for Failure to Approve Budget. In the event that the Board does not approve a budget or reasonable modification to a budget within thirty (30) days following the submission of a proposal therefore by K12, K12 may terminate this Agreement.*<sup>187</sup>

*[I]f any total Program Expenses are, as reasonably known, going to be incurred at a variance of two percent (2%) or more above the budgeted amount, they must be pre-approved in writing by K12.*<sup>188</sup>

- The agreements do not specify any penalty to K12 California if it terminates the agreement, and it has wide leeway to do so. However, if any of the local CAVA boards terminates its agreement, it owes K12 California an extra 15% of public revenue, on top of any outstanding payments.

*Loss of Value. ... In view of the difficulty in estimating K12's damages incurred, the Parties agree to the extent not precluded by Applicable Law, for the purposes hereof that K12's damages (in addition to those entitled under law or equity) shall be fifteen percent (15%) of the Program Revenues in the Fiscal Year in which the Agreement is being terminated, due within thirty (30) days following date of such termination.*<sup>189</sup>

*[T]ermination does not relieve the School of any obligations for payments outstanding to K12 as of the date of termination or other obligations that continue upon termination as provided in this Agreement.*<sup>190</sup>

## CAVA SYSTEM-WIDE FINANCES | 2012-2013

TOTAL REVENUE AND SUPPORT	\$95,463,556
TOTAL THAT K12 INC. BILLS CAVA FOR ITS SERVICES	\$70,604,820
TOTAL THAT K12 INC. BILLS AS PERCENTAGE OF TOTAL REVENUE	73.96%
TOTAL ACTUALLY PAID AFTER "BUDGET CREDITS"	\$47,009,573
PERCENTAGE OF TOTAL REVENUE PAID TO K12 INC.	49.24%
BUDGET CREDITS	\$23,595,247

SOURCE: 2012-2013 FINANCIAL REPORTS  
FOR EACH CAVA LOCATION <sup>192</sup>

### *A Significant, Ongoing Debt Relationship Further Strengthens K12 California's Control Over Resources and Decision Making*

Another aspect of the structure that maximizes K12 California's control and revenue flow is a perpetual debt relationship that CAVA maintains with this K12 Inc. subsidiary. As the following table demonstrates, the cost of K12 California's services is, on paper, quite high—more than \$70 million, or 74% of CAVA revenues. Because CAVA cannot reasonably pay this amount and continue operating, K12 California issues what it calls "budget credits" to even out the balance sheet. These credits allow CAVA to pay only what it can (\$47 million, or 49% of revenues), while the rest becomes debt (\$24 million). Each CAVA Location ends every year with a zero surplus and zero deficiency in its balance sheet,<sup>191</sup> which is possibly due to this inscribed debt relationship. Such a payment structure leaves little room for the maintenance of a reserve fund, a fiscally advisable measure at any school.

This debt relationship does not appear to operate like a traditional debt relationship.<sup>193</sup> Nonetheless, it allows K12 California the right to any funds not spent by CAVA on essential functions each year. It also allows K12 California

to collect a portion of any surpluses. Section 4.2 of the agreement reads: "Should the Program end a Fiscal Year in a Positive Net Asset Position ... and K12 has issued Balanced Budget Credits in prior years for which a balance remains, the School will reimburse K12."<sup>194</sup>

K12 California also retains the right to withhold these budget credits if it believes CAVA to be acting out of accord with policies described in the agreement. The fact that these schools rely on the budget credits to continue operating severely limits their capacity for dissent. If objecting to a K12 budget proposal, for instance, runs the risk of shutting down the school, a CAVA board is unlikely to object and this presents a conflict of interest. The power that K12 California maintains with these credits is evidenced in the following passages:

*"In the event Customer does not cure the material breach of this Agreement as set forth in this provision K12's [sic], in its sole discretion, may suspend the issuance of Balanced Budget Credits."<sup>195</sup>*

The relationship between CAVA locations and K12 California undermines the system California has established for oversight and accountability.

*In the event this Agreement expires or is terminated ..., the School shall fully exhaust its Net Assets to pay off the outstanding balance of Balanced Budget Credits.<sup>196</sup>*

*The parties agree that K12 will present to the Board ... a proposed Program budget. ... In the event the Parties cannot agree in writing upon a final budget (or any subsequent budget modification), K12 shall only be obligated to issue Balanced Budget Credits, if any, up to the amount proposed and reflected in the original budget submission or any proposed modifications to such budget by K12.<sup>197</sup>*

*This Lack of Local Control Undermines California Oversight Mechanisms*

The amount of control that K12 California exerts over the operations of the CAVA network, as described above, contradicts the push towards local control that has followed California's implementation of the Local Control Funding Formula.<sup>198</sup> In this way, the relationship between CAVA locations and K12 California undermines the system California has established for oversight and accountability. The California Education Code gives authorizers the primary responsibility for monitoring and enforcing the student performance and financial health of the charter school. These authorizers are expected to work with the local CAVA boards in administering this responsibility.<sup>199</sup>

The agreements between CAVA locations and K12 California do refer to a local board's ability to participate in decision making. Section 3.3 of the agreement, for instance, reads:

*“[I]t shall be the responsibility of K12 to recommend various policies for the operation of the Program .... K12 will implement procedures consistent with such policies, but the School retains ultimate responsibility for adopting policies and for overseeing K12's implementation. ... K12 and the school will work collaboratively and in a timely manner on the creation of Program policies that may include, but are not limited to, policies relating to the budget, authorization of expenditures, curriculum, admissions procedures, [and] student conduct online .... Until the foregoing collaborative policies are in effect, the Parties agree that K12's standard policies and best practices applicable to the Program shall be used to avoid a lack of any policy.”<sup>200</sup>*

However, this language is undermined by the fact that the all-volunteer CAVA boards spend very little time on the operations of the school. From CAVA board minutes, we can determine that during the 2013-14 school year, the 11 CAVA school boards met only four times each for less than half an hour each time, on average.<sup>201</sup> To put these numbers in perspective, the CAVA Los Angeles board met for a total of only one hour and 47 minutes during the 2013-14 school year, to oversee a school of more than 3,000 students.

The agendas for these meetings are nearly identical across locations and are provided to the boards of each location by CAVA's "Head of Schools," who is a K12 California employee.<sup>202</sup> Throughout the 2013-14 school year, there is not a single instance of a CAVA location board voting to reject a proposed agenda item or introduce an item not already on the agenda.<sup>203</sup>

## A SIGNIFICANT PORTION OF K12 INC. REVENUE GOES TO ADVERTISING, EXECUTIVE SALARIES AND PROFIT

Despite the self-dealing and lack of competitive bidding described above, K12 Inc. is not required to account for how it spends the public education dollars it receives from K12 California. The proportion of the company's income—an income made up almost entirely of public education dollars—put toward updating and improving its curriculum, technology products, textbooks and other essential educational materials is unknown. The amount spent on administrators and clerical staff, as specified in its management contract, is also unknown. Similarly, it is impossible to determine exactly how many taxpayer dollars are spent on advertising and corporate salaries, or are channeled into profit.

To the degree possible, we have conducted an analysis of the amount of revenue K12 Inc. spent on advertising, executive salaries and profit in 2012-13, isolating these particular expenses because they are the most removed from the core goal of educating students. We estimate, based on figures reported in USA Today, that about 5% of K12 Inc. revenue went toward advertising expenses that year.<sup>204</sup> An analysis of K12 Inc.'s 2013 Proxy Statement reveals that 2.5% of revenue was spent that year on the salaries of eight executives. A review of the company's 2013 Annual Report reveals that 5.4% of its revenue became profit or "operating income."<sup>205</sup> Altogether, we estimate that these expenses represent about 12.9% of K12 Inc. revenue.

## ADVERTISING

In a 2012 investigative piece on advertising by for-profit online schools, USA Today estimated that K12 Inc. spent \$21.5 million on ads in the first eight months of 2012.<sup>206</sup> K12 Inc. would not comment on the accuracy of these figures. If we extrapolate for the year, the total would be \$32.3 million spent on ads in 2012 as a whole. K12 Inc. revenue that year was \$708.4 million. If these figures are correct, therefore, K12 Inc. spent roughly 4.6% of its revenue on advertising in 2012.

---

*Should money earmarked for education be spent on advertising a for-profit company?*

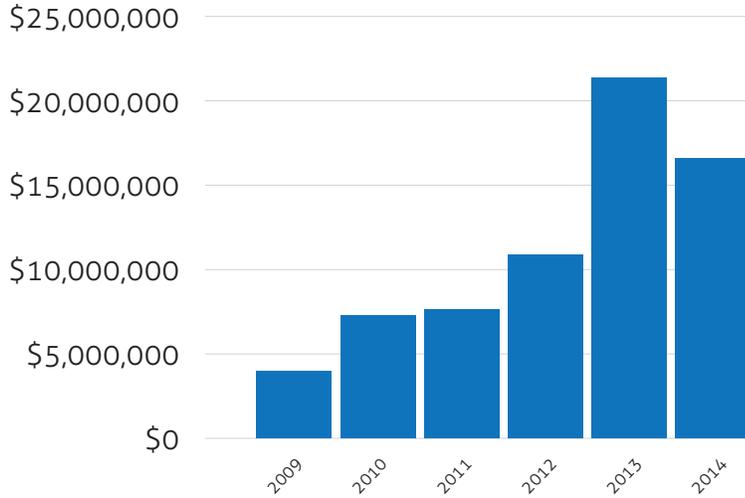
---

In the same article, Kevin Welner, a professor at University of Colorado and director of the National Education Policy Center, estimated that K12 Inc. was likely to spend 5.2% of its 2012 per pupil expenditures on advertising.<sup>207</sup> These figures are only educated estimates, but they raise the question of whether any money earmarked for educating children should be spent on advertising a for-profit company.

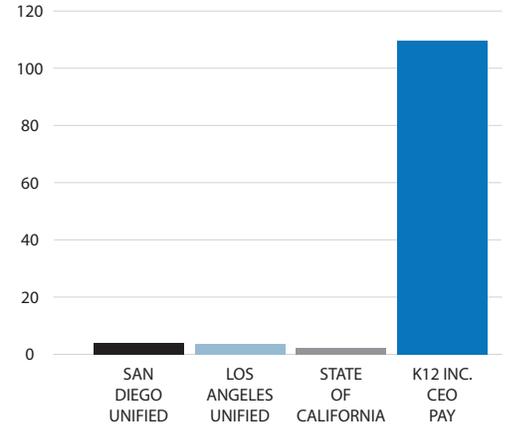
## CORPORATE-LEVEL SALARIES

K12 Inc.'s executive pay is commensurate with that of other publicly traded, for-profit education companies.<sup>208</sup> Total executive compensation at K12 Inc. has trended upward since 2009 (see chart below).<sup>209</sup> 2013 was an unusually high year, with eight executives reported as receiving compensation; in previous and subsequent years, there were five or six. K12 Inc. revenue in 2013 was \$848.2 million, meaning that 2.5% of revenue was spent on executive salaries. In 2014, revenue was \$917 million, 1.9% of which went to executive salaries.

**TOTAL EXECUTIVE PAY AT K12, INC. | 2009-2014**



**RATIO OF TOP ADMINISTRATOR PAY TO AVERAGE TEACHER PAY**



SOURCE: CALIFORNIA DEPARTMENT OF EDUCATION ED-DATA

SOURCE: K12 INC. PROXY STATEMENTS <sup>210</sup>

Executive salaries are not unnecessary; school districts, similarly, also have superintendents and other executive level staff. For this reason, it is instructional to compare executive salaries at K12 Inc. to the salaries of top administrators in California’s largest school districts and the state as a whole. When average teacher salaries are included in such an analysis, the discrepancy becomes even clearer. The table and the chart below illustrate the comparison for 2011-12. Because we do not have access to average teacher pay throughout all of K12 Inc.’s managed schools, we use the average CAVA salary as a substitute.

**K12 INC’S POOR TRACK RECORD IN OTHER STATES**

CAVA’s problems in California are not isolated incidents. K12 Inc. managed schools have a track record of poor outcomes, including struggling academic performance and low graduation rates, in multiple states. In addition, K12 Inc. managed schools across the country have experienced high student turnover and student-teacher ratios that leave students at a disadvantage. The company has also engaged in troublesome

**COMPARISON OF K12 INC. CEO PAY TO SUPERINTENDENT PAY IN LARGE CALIFORNIA DISTRICTS | 2011-2012**

DISTRICT	NUMBER OF STUDENTS	TOP ADMINISTRATOR SALARY	AVERAGE TEACHER SALARY	RATIO
K12 INC.	100,686	\$3,960,499 <sup>15</sup>	\$36,150	109.6
SAN DIEGO UNIFIED	131,016	\$265,000	\$65,367	4.1
LOS ANGELES UNIFIED	662,140	\$247,149	\$66,851	3.7
STATE OF CALIFORNIA	6,220,993	\$150,314	\$68,531	2.2

211

Note: We are considering the CEO to be K12 Inc.’s “top administrator”; the pay indicated includes bonuses. The average teacher salary we indicate for K12 Inc. is the average teacher salary within the CAVA network which we use as an estimate of average teacher salary at all K12 Inc. managed schools.

SOURCE: CALIFORNIA DEPARTMENT OF EDUCATION DATAQUEST FOR ENROLLMENT, ED-DATA FOR ADMINISTRATOR AND AVERAGE TEACHER SALARIES, K12 INC. 2012 YEAR END PROXY STATEMENT FOR CEO SALARY

business practices in other states as well. It all suggests that what we see occurring at CAVA is endemic to K12 Inc.'s business model and is not just a result of poor local management decisions.

### Poor Academic Performance

A 2012 report by the National Education Policy Center examined K12 Inc.'s performance in virtual schools across in the country. Researchers found that students at K12 Inc. managed schools are falling further behind in reading and math than students in brick-and-mortar schools.<sup>212</sup> Specifically, K12 Inc. students scored between 14 and 36 percentage points lower on math tests than comparable students in their state. They also lagged behind their peer groups by between five and 12 percentage points in reading.<sup>213</sup> Of the 36 full-time virtual schools operated by K12 Inc. that were assigned school performance ratings by state education authorities in 2011, only seven (19.4%) had ratings that in-

dicated satisfactory progress status.<sup>214</sup>

We see similar results in individual states. The following chart compares math and reading proficiency, as gauged by standardized tests scores, for K12 Inc. schools and public schools in the states where they are located for 2010-11. These states were chosen because they had easily accessible, publicly available data in this area. In every instance, the statewide average was higher.

### Low Graduation Rates

The National Education Policy Center also found that in 2012, the on-time graduation rate for K12 Inc. managed schools was 49.1%, compared with 79.4% in the corresponding states.<sup>216</sup> The chart on the following page compares graduation rates over three years. In every case save the Nevada Virtual Academy, the K12 Inc. managed school had a significantly lower graduation rate.

## PROFICIENCY ON MATH AND READING STANDARDIZED TESTS

		2010-2011		2011-2012		2012-2013	
		M	R	M	R	M	R
<b>AZ</b>	K12 ARIZONA VIRTUAL ACADEMY	43	75	46	75	44	75
	ARIZONA STATE PUBLIC SCHOOLS	64	79	65	79	65	80
<b>CO</b>	K12 COLORADO VIRTUAL ACADEMY	38.7	64.0	34.4	64.0	35.9	63.6
	COLORADO STATE PUBLIC SCHOOLS	70	73	55.8	69.3	56.7	69.5
<b>GA</b>	K12 GEORGIA CYBER ACADEMY (ODYSSEY SCHOOL)	77.0	93.7	72.0	93.7	74.4	95.1
	GEORGIA STATE PUBLIC SCHOOLS	84.4	93.2	84.7	94.7	86.1	95.5
<b>NV</b>	K12 NEVADA VIRTUAL ACADEMY	48.5	46.0	49.0	51.4	41.4	51.1
	NEVADA STATE PUBLIC SCHOOLS	68.0	56.9	71.1	60.6	59.0	61.9
<b>OH</b>	K12 OHIO VIRTUAL ACADEMY	68.9	84.1	65.3	80.6	67.3	82.8
	OHIO STATE PUBLIC SCHOOLS	79.7	84.5	80.4	84.6	79.6	85.4
<b>PA</b>	K12 AGORA CYBER CHARTER SCHOOL	43.7	52.3	33	45	37	47
	PENNSYLVANIA STATE PUBLIC SCHOOLS	76	72	74	71	73	70
<b>SC</b> <sup>217</sup>	K12 SOUTH CAROLINA VIRTUAL CHARTER SCHOOL	44.6	61.1	40.6	54.5	33.3	54.1
	SOUTH CAROLINA STATE PUBLIC SCHOOLS	51.8	60.6	54.1	57.4	53.1	61.4
<b>TX</b>	K12 TEXAS VIRTUAL ACADEMY	68	86	61	78	61	78
	TEXAS STATE PUBLIC SCHOOLS	84	90	77	79	79	80
<b>WA</b> <sup>218</sup>	K12 WASHINGTON VIRTUAL ACADEMIES <sup>219</sup>	36.6	54.1	31.9	49.7	35.2	62.9
	WASHINGTON STATE PUBLIC SCHOOLS	58.0	67.3	60.7	70.1	61.1	70.8

SOURCE: MULTIPLE STATE EDUCATION WEBSITES AND DATABASES<sup>220</sup>

## GRADUATION RATES (%)

STATE		2010-2011		2011-2012		2012-2013	
		K12 SCHOOL	STATE	K12 SCHOOL	STATE	K12 SCHOOL	STATE
AZ	ARIZONA VIRTUAL ACADEMY	28.2	77.9	26.8	76.7	28.3	75.1
CO	COLORADO VIRTUAL ACADEMY	21.6	73.9	21.5	75.4	30.4	76.9
NV	NEVADA VIRTUAL ACADEMY	32.5	62.0	36.6	63.1	52.3	70.7
OH	OHIO VIRTUAL ACADEMY	33.9	79.7	41.6	81.3	36.6	82.2
PA	AGORA CYBER CHARTER SCHOOL	75.7	91.0	49.3	83.0	50.4	84.0
SC	SOUTH CAROLINA VIRTUAL CHARTER SCHOOL	7.4	73.6	17.8	74.9	24.0	77.5

SOURCE: MULTIPLE STATE EDUCATION WEBSITES AND DATABASES <sup>221</sup>

### High Student Turnover

Turnover rates, also known as churn rates, calculate how many students who enrolled in the school dropped out before the end of the school year. The National Education Policy Center, citing K12 Inc.'s own data, reports that 23% of K12 Inc.'s current students are enrolled for less than a year and 67% leave within 2 years.<sup>222</sup> The Financial Investigator found similarly high student turnover rates in several individual schools surveyed for the 2010-11 school year:<sup>223</sup>

- Ohio Virtual Academy, one of K12's largest virtual academies, enrolled 18,743 students; 9,593 withdrew by the end of the year, for a turnover rate of 51.1%.
- Colorado Virtual Academy schools enrolled 6,449 students; 2,330 withdrew, for a turnover rate of almost 36.1%.
- Agora Cyber Charter School in Pennsylvania enrolled 7,578 students; 2,688 withdrew, for a turnover rate of 35.5%.

### High Student-Teacher Ratio

An internal K12 Inc. company memo obtained by the Florida Center for Investigative Reporting in 2012 revealed unusually high student-teacher ratios across K12 Inc. managed schools nationwide.<sup>224</sup> As seen in the box below, K12 Inc.'s target student-teacher ratio varies depending on how much the company is paid by the district per student. A high school teacher might have up to as many as 275 students at once.

#### K12 INC.'S REPORTED STUDENT-TEACHER RATIOS FLORIDA, FY 2011

##### GRADE LEVEL | K-8

60:1 — \$4,000 per student  
65:1 — \$3,000 to \$3,999 per student  
72:1 — \$2,000 to \$2,000 per student

##### GRADE LEVEL | HIGH SCHOOL

60:1 — \$4,000 per student  
65:1 — \$3,000 to \$3,999 per student  
72:1 — \$2,000 to \$2,000 per student

SOURCE: INTERNAL COMPANY MEMO

High student-teacher ratios have been uncovered in individual states as well. As the New York Times has reported, elementary school teachers at the Ohio Virtual Academy and Colorado Virtual Academy supervised up to 75 students at a time.<sup>225</sup> At this ratio, a teacher can only devote about 30 minutes per week to each student in a 40-hour workweek.

An investigation of the Colorado Virtual Academy by the radio station KUNC found that middle school English teachers, as well as many high school teachers, had as many as 240 students.<sup>226</sup> Teachers at Agora Cyber Charter School in Pennsylvania have also complained of high student-teacher ratios. While that school reported a student-teacher ratio of 49-1, one teacher claimed that elementary teachers actually have 70 to 100 students in their class.<sup>227</sup>

### *State Investigations and Leaked Documents Have Revealed a Pattern of Mismanagement*

*Tennessee:* In emails leaked to the press in February 2013, middle school teachers at the Tennessee Virtual Academy were instructed by administrators to delete negative grades from grade reports.<sup>228</sup> The emails instructed teachers to “take out the October and September progress [report]; delete it so that all that is showing is November progress.” The emails also instructed teachers to inflate grades by removing assignments that students scored poorly on. One email reads: “If you have given an assignment and most of your students failed that assignment, then you need to take that grade out.”<sup>229</sup>

*Colorado:* State auditors found that the Colorado Virtual Academy counted about 120 students for state reimbursement whose enrollment could not be

verified.<sup>230</sup> Some of these students had never logged in. The school was ordered to reimburse the state \$800,000.

*Florida:* In 2013, the Florida Department of Education investigated K12 Inc. for allegedly using teachers who were not properly certified in the subject they were teaching and pressuring certified teachers to sign class rosters of students they did not teach, a potential violation of Florida law.<sup>231</sup> The investigation began after emails surfaced in which a K12 Inc. employee instructed teachers to sign off on students they never instructed.<sup>232</sup> K12 Inc. initially failed to disclose the investigation to its investors,<sup>233</sup> and later downplayed the gravity of the allegations in communications to investors.<sup>234</sup>

*New Mexico:* In April 2014, the Attorney General of New Mexico released a formal opinion stating that the New Mexico Virtual Academy, which opened in 2012, was operating in violation of the New Mexico Charter Schools Act, which prohibits the management of a charter school by a for-profit entity.<sup>235</sup> The opinion details K12 Inc.’s integration into nearly every aspect of the school’s administration, including budget preparation, financial planning and obtaining insurance.

K12 Inc. is also “intimately involved in the maintenance of the school’s student records and business administration,” according to the opinion.<sup>236</sup> K12 Inc. thus has significant influence in areas such as student discipline, privacy, identifying funding opportunities, advertising, interviewing job candidates and making recommendations to the school board.

*North Carolina:* In 2012, K12 Inc. attempted to open a statewide virtual charter school in North Carolina over the objections of at least 90 school districts in the state.<sup>237</sup> After the North Carolina Board

“There have been so many regulatory issues and accusations of malfeasance that I’m convinced the problems are endemic.”

—Hedge fund investor Whitney R. Tilson

of Education declared that it would not be accepting applications for statewide virtual schools pending a clarification on state policy, K12 Inc. persuaded one local district to authorize its charter and asserted its right to run a statewide school.<sup>238</sup> The Wake County Superior Court blocked this attempt to circumvent state law, clarifying that the state Board of Education was the sole body that could authorize charter schools in the state.<sup>239</sup>

#### *Actions Taken around the Country Reflect Concerns with K12 Inc. Managed Schools*

*Pennsylvania:* In August 2014, the Agora Cyber Charter Board voted to sever ties with K12 Inc. and no longer use its services for management or curriculum.<sup>240</sup>

*Tennessee:* In July 2014, the Tennessee Education Commissioner announced that Tennessee Virtual Academy would close at the end of the 2014-15 school year unless performance improved drastically.<sup>241</sup> The order to close was based on a statute calling for action if a virtual school fails to demonstrate student learning gains above “Level 1,” the lowest category on a 1 to 5 scale, for three years.

*Colorado:* In 2013, the Colorado Virtual Academy Board severed ties with K12 Inc. for the 2014-15 school year amid ongoing concerns over poor academic performance, management of school resources and teacher understaffing.<sup>242</sup>

*Illinois:* In May 2013, Illinois Governor Pat Quinn signed a one-year moratorium on the expansion of virtual charter schools outside the Chicago area.<sup>243</sup> The legislation blocked an attempt by K12 Inc. to launch a new school, the Illinois Virtual Charter School @ Fox River Valley, though even prior to the

moratorium, the school had been denied by all 18 of the districts to which it was able to apply for a charter.<sup>244</sup>

In addition to these state-level actions, K12 Inc. has been under attack by investors as well. In September 2013, hedge fund investor Whitney R. Tilson presented a broad critique of K12 Inc. to explain his short position on the company. He called K12 Inc. a “horrible” company that fails investors and students and declared its stock overvalued.<sup>245</sup> He stated: “There have been so many regulatory issues and accusations of malfeasance that I’m convinced the problems are endemic.”<sup>246</sup>

---

*Hedge fund investor Whitney R. Tilson called K12 Inc. a “horrible” company that fails investors and students and declared its stock overvalued.*

---

A class action lawsuit filed in 2012 alleged that K12 Inc. deceived shareholders by making false and misleading statements to shareholders and to the Securities and Exchange Commission concerning student recruiting strategies, the pressure exerted to pass students despite poor performance and overall poor academic outcomes for students.<sup>247</sup> The suit was settled in 2013 for almost \$7 million, with K12 Inc. denying all wrongdoing.<sup>248</sup>

## EXISTING OVERSIGHT MECHANISMS IN THE STATE OF CALIFORNIA HAVE NOT SUFFICIENTLY MONITORED CAVA OPERATIONS

There are a number of oversight mechanisms in place that should work to ensure accountability at nonclassroom-based charters like California Virtual Academies. Every CAVA location has its own governing board. District authorizers are empowered to enforce a school's charter and provide oversight concerning performance and financial health. Finally, the California Department of Education has established a process by which it determines funding eligibility based on numerous requirements intended to protect students. However, for a variety of reasons, these safeguards have failed to stem CAVA's troubling outcomes.

### *CAVA Boards Provide Little Oversight*

CAVA boards are made up of two to four members each, with terms that generally last two to four years.<sup>249</sup> Several factors limit the capacity of these boards to provide meaningful oversight, including the debt relationship between CAVA and K12 California and the fact that CAVA's central office provides all leadership and support functions for the boards, including agendas and action items.

A review of CAVA board meeting minutes reveals that these boards spend very little time at their task. During the 2013-14 school year, the 11 CAVA boards met a total of four times each: in September 2013, December 2013, March 2014 and June 2014.<sup>250</sup> On average, each meeting lasted less than 30 minutes. The

CAVA Los Angeles board, for instance, spent a mere one hour and 47 minutes throughout the year to oversee a school of more than 3,000 students. The agendas for these meetings are nearly identical across locations.<sup>252</sup> In the 2013-14 school year, there is not a single instance of a CAVA board voting to reject a proposed agenda item or introducing an item not already on the agenda.<sup>253</sup>

---

*During the 2013-14 school year, the CAVA Los Angeles board spent a mere one hour and 47 minutes throughout the year to oversee a school of more than 3,000 students.*

---

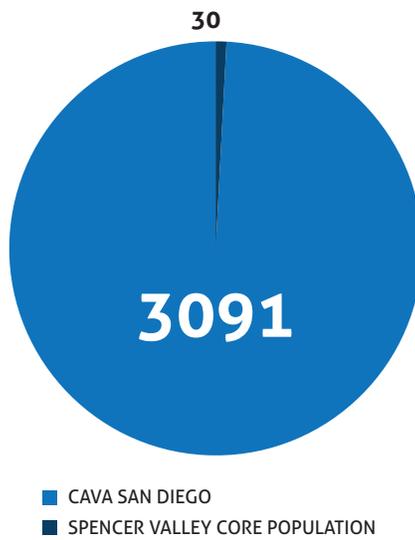
### *We Have Concerns That Chartering Districts Are Too Small to Provide Adequate Oversight*

In California, the primary responsibility for providing oversight on a charter school's performance and financial health falls to the school district, or authorizer, that approved that school's petition.<sup>254</sup> Many of CAVA's schools are located in small districts with limited capacity or incentive to provide this oversight.<sup>255</sup>

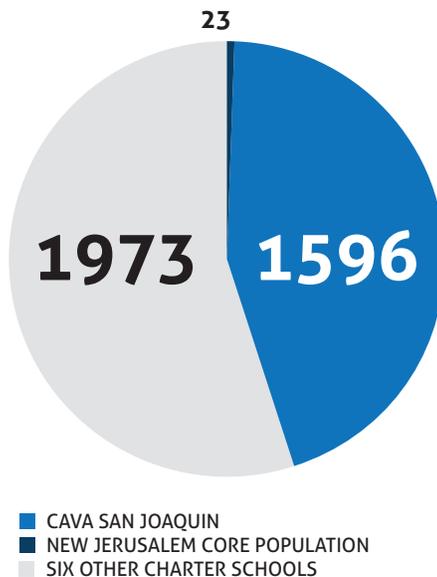
In 2013-14, the total enrollment at CAVA accounted for 40% of the total enrollment in all its authorizing districts combined.<sup>256</sup> It is also instructive to compare CAVA's total enrollment to the core district enrollment, which we are defining as the enrollment at the district minus any charters, including CAVA. CAVA's total enrollment is equivalent to 80% of the core district enrollment at its authorizing districts.<sup>257</sup>

Two of the more extreme examples will illustrate the problem. CAVA San Diego's enrollment of more than 3,000 represents 99% of the total enrollment in its authorizing district, Spencer Valley Elementary.<sup>258</sup> It is more than 100 times the size of Spencer Valley's core population of 30 students. Similarly, CAVA San Joaquin's enrollment of 1,600 students is 69 times larger than the core district enrollment of 23 students in its authorizing district, New Jerusalem.<sup>259</sup>

### SPENCER VALLEY ELEMENTARY DISTRICT ENROLLMENT



### NEW JERUSALEM SCHOOL DISTRICT ENROLLMENT



Each district receives between 2% and 4% of CAVA's total public revenue.<sup>260</sup> Since CAVA does not require a physical location for its schools, it is easier than it might otherwise be to switch district authorizers if things aren't going smoothly. CAVA has switched authorities twice in the last two years: in 2013, when CAVA Sutter moved from Nuestro Elementary School District to Meridian Elementary School District; and in 2012, when CAVA San Joaquin moved from Stockton Unified School District to New Jerusalem School District.<sup>261</sup>

We believe the small authorizing districts, the payments CAVA makes to these districts and CAVA's ease of mobility all create a disincentive for authorizers to practice rigorous monitoring and enforcement.

*California Department of Education Regulations*

The State of California has enacted legislation that includes a number of requirements that non classroom-based charters must meet in order to receive funding equal to brick-and-mortar schools.<sup>262</sup> These requirements are a good first step toward ensuring that these schools operate in a responsible manner. It appears, however, that CAVA may not be complying with these requirements, and that enforcement is insufficient. A CAVA school's compliance with these requirements is only audited when that school submits a funding determination application, which occurs once every two to five years.<sup>263</sup> This is an audit for which a school can predict and plan. The central role that K12 California and K12 Inc. play in determining compliance also complicates enforcement, insofar as a public agency cannot fully audit the operations of a private, for-profit entity. We see evidence of CAVA's non-compliance in the following two areas.

1. Evidence teachers were not paid the percent required by the California Department of Education

California Education Code requires that 40% of public revenue be paid to certificated staff in order for CAVA to receive 100% of the allotted state funding.<sup>264</sup> A number of CAVA locations requested and were granted an exception from this requirement, allowing them to pay a lower minimum percent for the life of the funding determination.<sup>265</sup> In the chart below, the schools which are indicated as having less than 40% required by funding determinations are the schools to which an exception was granted.<sup>266</sup> It appears from the year-end Financial Reports of several CAVA locations, however, that some schools were paying less than was required to certificated staff, even when granted an exception.<sup>267</sup> The chart below details the discrepancies.

SCHOOL	YEAR	TOTAL PAID TO K12 INC. AS STATED IN FUNDING DETERMINATION	TOTAL PAID TO K12 INC. AS STATED IN FINANCIAL REPORTS	DIFFERENCE
CAVA JAMESTOWN	2011-2012	\$372,155	\$980,996	\$608,841
CAVA LOS ANGELES HIGH	2011-2012	\$44,462	\$146,118	\$101,656
CAVA KERN	2011-2012	\$1,671,777	\$2,130,659	\$458,882
CAVA SAN JOAQUIN	2011-2012	\$1,817,918	\$1,964,112	\$146,194
CAVA SANTA YSABEL	2011-2012	\$56,668	\$184,812	\$128,144
CAVA FRESNO	2012-2013	\$0	\$2,009,987	\$2,009,987
CAVA MARICOPA HIGH	2012-2013	\$0	\$4,640,469	\$4,640,469
CAVA SAN JOAQUIN	2012-2013	\$0	\$4,794,448	\$4,794,448
CAVA SUTTER	2012-2013	\$1,094,152	\$2,340,922	\$1,246,770
<b>TOTAL</b>		<b>\$5,411,867</b>	<b>\$20,776,748</b>	<b>\$15,364,881</b>

SOURCE: CAVA FUNDING DETERMINATION APPLICATIONS, CAVA FINANCIAL REPORTS

2. Payments to K12 Inc. are not properly reported.

The California Education Code requires that funding applications list any payment made to an outside entity that is in excess of \$50,000, or accounts for more than 10% of a school's total expenditures.<sup>268</sup> It appears that several CAVA locations do not properly report the amount paid to K12 Inc. in their fund-

ing determination applications. Several locations fail to list any payments to K12 Inc. at all, and those that do so specify amounts considerably lower than anything reflected in the Financial Reports for the same year.<sup>269</sup> The chart below compares the amount paid to K12 Inc. as stated in the funding determination application to a conservative estimate of the amount actually paid to K12 Inc., as determined from the Financial Reports.

SCHOOL	YEAR	% OF PUBLIC REVENUE TO CERTIFICATED STAFF REQUIRED BY FUNDING DETERMINATION	% SPENT ON PERSONNEL, ACCORDING TO FINANCIAL REPORT	% DIFFERENCE	\$ DIFFERENCE	NOTES
CAVA JAMESTOWN	2011-2012	38%	34%	4%	\$74,431	34% was permitted by CDE under mitigating circumstances
CAVA SAN MATEO	2011-2012	34%	32%	2%	\$157,053	
CAVA SONOMA	2011-2012	40%	35%	6%	\$451,559	
CAVA KERN	2011-2012	40%	34%	6%	\$238,604	
CAVA JAMESTOWN	2012-2013	38%	37%	1%	\$10,629	38% was permitted by CDE under mitigating circumstances
CAVA KINGS	2012-2013	39%	37%	2%	\$81,936	39% was permitted by CDE under mitigating circumstances
CAVA MARICOPA	2012-2013	40%	38%	2%	\$179,553	
CAVA SAN JOAQUIN	2012-2013	40%	37%	3%	\$278,884	
CAVA SONOMA	2012-2013	41%	37%	4%	\$240,700	
<b>TOTAL</b>					<b>\$1,472,649</b>	

## POLICY RECOMMENDATIONS

As our analysis shows, CAVA struggles with performance, provides a troubled educational environment and engages in questionable contracting practices with K12 California, a subsidiary of K12 Inc. We conclude from this research that the virtual education being offered at CAVA needs to improve. The CAVA system of schools greatly needs K12 California to invest more of the public education dollars it receives in improving CAVA operations to improve conditions for students and teachers. While California does have existing mechanisms to monitor virtual schools and help guide the allocation of resources, we believe that these mechanisms have failed to result in a sufficiently high quality education. We recommend the following action to ensure that California Virtual Academies's students are served properly.

### *Existing Oversight Mechanisms*

- State authorities should investigate the possible violations of funding determination requirements. If CAVA is found to be underpaying certificated staff as per state requirements, that should be remedied, including back pay where applicable.
- Authorizing districts, or county superintendents if districts fail to act,<sup>272</sup> should ask CAVA to provide a plan for student academic improvement and follow up with enforcement action.
- Authorizing districts, or county superintendents if districts fail to act, should ask CAVA to offer alternate budgets that include reserves and do not involve a perpetual debt relationship

with an out of state, for-profit entity.

- The California Department of Education should investigate reports that special education students at CAVA are not receiving the services they should.
- State authorities must ensure that CAVA complies with important California statutes such as the Brown Act, Public Records Act and Political Reform Act.

### *New Policy Recommendations*

- California should consider policy options that would limit the role that for-profit companies can play in managing charter schools in California.
- California should consider policy options that would forbid self-dealing and ensure competitive bidding at all public schools to ensure that educational dollars make it to the classroom and are used wisely.
- The process for auditing compliance with funding requirements for nonclassroom-based charter schools is flawed and should be strengthened. It directs auditors to check the accuracy of application documents, but does not include instructions for auditors to verify compliance on an ongoing basis. This results in an audit of compliance that is rare and known about by the company in advance.
- The state should conduct a review of the current system for ensuring that charter schools maintain high quality performance and graduation numbers, operate in a fiscally responsible way and adhere to their charter agreements. This system needs strengthening. Currently, authorizing districts are primarily responsible for this oversight. As CAVA exemplifies, small districts often do not have the incentive or the

ability to conduct proper oversight.

- California lawmakers must ensure that authorizers have the capacity to provide competent oversight of charter schools.

- California lawmakers must establish stricter, clearer and more measurable guidelines for what constitutes attendance in the virtual education sphere. These guidelines should be readily available to all teachers and the public. The current guidelines are vague and allow administrators at virtual schools to establish their own rules. Most of the CAVA teachers we interviewed describe administrator-driven practices that allow a student to be marked as having attended if a parent verbally verifies that he or she did work, regardless of log-in time, classes attended or assignments completed.<sup>273</sup>

## ENDNOTES

1. California Virtual Academies is a network of eleven schools that exist at the following sites: California Virtual Academy @ Fresno, California Virtual Academy @ Jamestown, California Virtual Academy @ Kings, California Virtual Academy @ Los Angeles, California Virtual Academy @ Maricopa, California Virtual Academy @ Maricopa High, California Virtual Academy @ San Diego, California Virtual Academy @ San Joaquin, California Virtual Academy @ San Mateo, California Virtual Academy @ Sonoma and California Virtual Academy @ Sutter. Each location has its own board. California Virtual Academy @ Los Angeles High and California Virtual Academy @ Santa Ysabel were changed to Insight schools, another K12 Inc.-affiliated brand, as of the 2013-14 school year. When we refer to “CAVA” throughout the report, we are referring to this operationally cohesive network of 11 schools.
2. California Department of Education DataQuest, available here: <http://data1.cde.ca.gov/DataQuest>.
3. In their Educational Products and Services Agreements, the various CAVA locations contract with an entity called K12 Inc. California LLC. According to these agreements, K12 Inc. California LLC does business as K12 Educational Solutions LLC, which is a subsidiary of K12 Management Inc., which is a subsidiary of K12 Inc., according to the U.S. Securities and Exchange Commission Form 10-K, attached to the K12 Inc. 2012 Annual Report, exhibit 2.1. While K12 California is the name on these contracts, the year-end Financial Reports and the applications for funding submitted to the California Department of Education both refer to payments to K12 Inc., not K12 California.
4. California Department of Education DataQuest.
5. California Department of Education DataQuest. See full report for a more detailed description of how the demographically similar schools are determined. 2011 was left out of this analysis because no data was available for API growth at CAVA locations due to “significant demographic changes.”
6. California Department of Education DataQuest.
7. On its website, K12 Inc. lists among potential candidates for virtual schooling: struggling students, advanced students, students who are medically homebound, homeschoolers, children of families in the military or with other overseas commitments, elite athletes and performers, and students who work full time. K12 Inc., “Who We Help,” <http://www.k12.com/who-we-help>.
8. Joshua Kellogg, “Attorney General Gary King says New Mexico Virtual Academy in Farmington is violating state law,” Daily Times/Four Corners News, April 9, 2014. Joey Garrison, “Huffman Orders Closure of Tennessee Virtual Academy Next Year,” The Tennessean, July 31, 2014. Further examples available in the section of this report titled “K12 Inc.’s Poor Track Record in Other States.”
9. David Hoppaugh v. K12 Inc. et al., 1:12-cv-00103-CMH-IDD, Amended Class Action Complaint, filed on June 22, 2012.
10. Brian Stoffel, “K12 Inc. Beats And Still Goes To The Principal’s Office? Here’s Why,” The Motley Fool, October 31, 2014.
11. In 2013, Whitney Tilson, a well known investor, explained publicly why he was taking a short position on K12 Inc. His presentation is available here: <http://www.tilsonfunds.com/K12-Tilson-9-17-13.pdf>.

12. See the “K12 Inc.’s Poor Track Record in Other States” section of this report.
13. An overview of the Local Control Funding Formula is available here: <http://www.cde.ca.gov/fg/aa/lc/lcffoverview.asp>.
14. Educational Products and Services Agreement Between California Virtual Academy @ Fresno and K12 California LLC, Section 3-12, p. 4-13. Educational Products and Services Agreement Between California Virtual Academy @ Sutter and K12 California LLC, Section 2-15, pp. 3-18. With the exception of Sutter, all of the CAVA/K12 California agreements are identical in their language, varying only slightly in the pagination. (The Sutter agreement is substantially comparable, with similar or identical language on most points, but differs in its organization.) Unless otherwise noted, we will draw from the Fresno agreement throughout this report, noting when the page number differs in another agreement. We will also note if and how the language differs in the Sutter agreement.
15. California Education Code Section 47604 gives local authorizers the primary responsibility for monitoring and enforcing the student performance and financial health of the charter school. These districts work directly with the boards of the various charter schools.
16. California Department of Education DataQuest. Enrollment for each location was added together for the year 2013-2014.
17. Letter from Jackson Lewis, a law firm retained by CAVA, to the California Public Employment Relations Board, dated June 17, 2014, Case No. LA-RR-1227-E.
18. As determined from a review of funding determination applications and approvals for all CAVA locations.
19. Personal interview with 18 CAVA teachers, January 31, 2015. Twelve teachers reported being instructed to count one minute of login time as sufficient for attendance. These teachers work at six CAVA locations that together make up 51% of CAVA enrollment.
20. Financial Reports for each CAVA location, 2012-13, received from the California Department of Education. The totals listed as having been paid to K12 Inc. in the Financial Reports’ Notes to Financial Statements section were added together to arrive at this amount.
21. Financial Reports for each CAVA location, 2012-13, received from the California Department of Education. To arrive at this percentage, the total amount paid to K12 Inc. for all locations, as noted above, was divided by the total public revenue received by all locations, as specified in the Financial Reports.
22. Educational Products and Services Agreement Between California Virtual Academy @ Fresno and K12 California LLC, Section 4.8, p. 7. Educational Products and Services Agreement Between California Virtual Academy @ Sutter and K12 California LLC, Section 2.7, pp. 5-6. We are assuming that the remaining revenue CAVA receives is spent on the items listed in Section 4.8 of the Agreements, which are specified as being the responsibility of the individual CAVA locations.
23. Educational Products and Services Agreement Between California Virtual Academy @ Fresno and K12 California LLC, Section 8.6, p. 11. Educational Products and Services Agreement Between California Virtual Academy @ Sutter and K12 California LLC, Section 11.6, p. 13.
24. Educational Products and Services Agreement Between California Virtual Academy @ Fresno and K12 California

LLC, Section 4.3.1, p. 6. (Appears on p. 7 of the Los Angeles agreement.) Educational Products and Services Agreement Between California Virtual Academy @ Sutter and K12 California LLC, Section 5, p. 8.

25. Educational Products and Services Agreement Between California Virtual Academy @ Fresno and K12 California LLC, Sections 6.3-6.4, p. 8-9. Educational Products and Services Agreement Between California Virtual Academy @ Sutter and K12 California LLC, Section 4.3-4.3, p. 7.

26. The amount paid to authorizing districts by CAVA was found in the CAVA Financial Reports for each location, 2011-12, 2012-13 and 2013-14, received from the California Department of Education.

27. Educational Products and Services Agreement Between California Virtual Academy @ Fresno and K12 California LLC, Section 11.4, p. 13. (Appears on p. 12 of the Los Angeles agreement.) Educational Products and Services Agreement Between California Virtual Academy @ Sutter and K12 California LLC, Section 14.1.4, p. 15.

28. CAVA Financial Reports for each location, 2011-12, 2012-13 and 2013-14, received from the California Department of Education. The amount of the budget credit granted to each was large enough to render each location insolvent had it not been granted, due to the fact that each CAVA location must pay at least 35% of its public funds to certificated staff in order to be funded by the California Department of Education, as stated in California Education Code Section 11963.4. The amount that K12 Inc. bills each CAVA location is more than 65% of public revenue.

29. Educational Products and Services Agreement Between California Virtual Academy @ Fresno and K12 California LLC, Section 3-12, p. 4-13. Educational Products and Services Agreement Between California Virtual Academy @ Sutter and K12 California LLC, Section 2-15, pp. 3-18. Also, CAVA Financial Reports for each location, 2011-12, 2012-13 and 2013-14, received from the California Department of Education.

30. K12 Inc. refers to the amount collected from each state minus the amount it costs them to provide services as an “internal financial contribution.” K12 Inc., “K12 Inc. Awarded Contract to be Curriculum Provider for Agora Cyber Charter School” (press release), October 9, 2014. <http://investors.k12.com/phoenix.zhtml?c=214389&p=irol-newsArticle&ID=1975692#VMRYvieps4Q>.

31. We used data from California Department of Education DataQuest to calculate the total number of students who were in the cohort to graduate and the total number who actually did graduate, across the CAVA system as a whole from 2010 to 2013. We chose to measure the average from 2010 to 2013 for two reasons. First, it gives CAVA the benefit of the doubt because it only began to graduate students in 2008; this methodology thus discounts years it could have been adjusting its program. Second, the State of California began measuring graduation rates using a “cohort analysis” in 2010 and we ensure that all years used in the average are calculated with the same methodology.

32. California Department of Education DataQuest. The number of students throughout the CAVA system who graduated in 2013 was divided by the number in the cohort who were scheduled to graduate that year.

33. California Department of Education DataQuest.

34. Information on the API and how it is calculated can be found here: California Department of Education, “Executive Summary Explaining the Academic Performance Index (API),” <http://www.cde.ca.gov/ta/ac/ap/documents/apiexecsummary.pdf>. Also: California Department of Education, “2012-13 Academic Performance Index Reports Information Guide,” pp. 5, 10-14. In order to determine API growth, the California Department of Education calculated a school’s Base API score in one year; then, the following year, used the same tests to calculate a Growth API score. To measure growth, the Base score is simply subtracted from the Growth score. The tests used to determine the Base and

the Growth score were the same, but the two numbers could differ given yearly methodology changes. It is due to these methodology changes that the Department of Education specified that comparing actual API scores over time was an invalid way of analyzing the data.

35. 2011 was not analyzed because no API growth score was recorded at any CAVA location that year due to “significant demographic changes.” For a complete description of our methodology in evaluating CAVA’s API scores, see full report.

36. California Department of Education DataQuest. The enrollment-weighted, system-wide API Growth score for CAVA was compared to the median API Growth score of similar schools.

37. California Department of Education DataQuest. The rank for each school was weighted according to enrollment when determining a CAVA system-wide average.

38. Personal interview with 18 CAVA teachers, January 31, 2015. Fourteen of the teachers reported problems with technology and materials. These teachers work at six CAVA locations that together make up 72% of CAVA enrollment.

39. Greg Toppo, “Virtual, for-profit K-12 schools have spent millions in taxpayer dollars on advertising, an analysis shows,” USA Today, November 28, 2012.

40. Stephanie Saul, “Profits and Questions at Online Charter Schools,” New York Times, December 11, 2011.

41. Personal interview with 18 CAVA teachers, January 31, 2015. Eleven teachers described the dismissal process as we present it. These teachers work at six CAVA locations that together make up 72% of CAVA enrollment.

42. Personal interview with 15 CAVA teachers, January 27, 2015. Seven teachers estimated that between 50% and 75% of their students were not self motivated enough to be a good fit for the CAVA program. These teachers work at five CAVA locations that together make up 71% of CAVA enrollment.

43. Personal interview with 18 CAVA teacher, January 31, 2015. Twelve teachers reported the attendance guidelines described in this report. These teachers work at six CAVA locations that together make up 51% of CAVA enrollment.

44. California Education Code Section 46010. Funding in California is determined based on an Average Daily Attendance (ADA) rate. If a student is absent, a school does not receive funding for that student on that day.

45. California Department of Education DataQuest Staffing Reports. CAVA locations report eight total office or clerical classified employees for the CAVA system. Using the same staffing reports, we looked at 13 districts with the most similar enrollment to CAVA—within 2,000 students—and added their total number of office or clerical classified employees, then divided by 13. Office or clerical classified staff are defined as “employees who perform clerical or administrative support duties, such as a school secretary.” California Department of Education, “Glossary of Terms,” <http://www.cde.ca.gov/ds/sd/cb/glossary.asp#o>.

46. California Department of Education DataQuest. Using enrollment and total clerical staff as reported on DataQuest, we calculated the ratio of students to clerical staff for each district and for the CAVA system as a whole.

47. Personal interview with 18 CAVA teachers, January 31, 2015. Thirteen teachers reported that clerical work takes up about 80% of their time on average. They work at seven CAVA locations that together make up 78% of CAVA enrollment.

48. Letter from 104 CAVA teachers to the Administrative Heads of Schools, Directors and Regional Program Coordinators of CAVA, November 12, 2014, available here: [http://cavirtualeducators.org/wp-content/uploads/2014/11/IssueLetter\\_10-2014\\_Final.pdf](http://cavirtualeducators.org/wp-content/uploads/2014/11/IssueLetter_10-2014_Final.pdf).
49. Personal interview with 18 CAVA teachers, January 31, 2015. All of the teachers reported that they experience a teacher turnover rate of about 50% per year. They work at seven CAVA locations that together make up 78% of CAVA enrollment.
50. Susanna Loeb, Matthew Ronfeldt and James Wyckoff, “How Teacher Turnover Harms Student Achievement,” *American Educational Research Journal*, 50(1), pp. 4-36, 2013. Donald Boyd, Pam Grossman, Hamilton Lankford, Susanna Loeb, and James Wyckoff, “Who Leaves? Teacher Attrition and Student Achievement,” National Bureau of Economic Research Working Paper No. 14022, May 2008.
51. Average teacher salaries for the state, for school districts and for individual school locations are drawn from: Ed-Data (a partnership of the California Department of Education, EdSource, and the Fiscal Crisis and Management Assistance Team), <http://www.ed-data.k12.ca.us/Pages/Home.aspx>. We compared the enrollment weighted, system-wide average teacher salary at CAVA to the enrollment-weighted average teacher salary at CAVA’s authorizing districts combined. We also compared the average teacher salary at CAVA to the average for the state. The average teacher salary for Spencer Valley Elementary School District, the authorizer of CAVA San Diego, was not available and we used the average small district salary instead.
52. Continuous enrollment “means that the student was enrolled from Fall Census Day through the first day of STAR Program testing,” (California Department of Education, “2011-12 APR Glossary-Demographic Characteristics,” <http://www.cde.ca.gov/ta/ac/ap/glossary12c.asp>), or from October 1 through April 9 in CAVA’s case. The student demographic section of the API growth report for each CAVA school on California Department of Education DataQuest includes the number of students who were continuously enrolled as well as the enrollment on October 1. We calculated the percentage continuously enrolled as defined by the California Department of Education (the number of students continuously enrolled divided by the number of students enrolled on October 1) for the CAVA system as a whole.
53. The “cumulative enrollment” count provides for “the total number of unique or unduplicated primary, secondary, and short-term enrollments within the academic year (July 1 to June 30), regardless of whether the student is enrolled multiple times within a school or district.” California Department of Education, “File Structure: Truancy Data,” <http://www.cde.ca.gov/ds/sd/sd/fstd.asp>.
54. We divided the number of students determined to be continuously enrolled (the total fall enrollment times the percentage continuously enrolled as recorded by California Department of Education DataQuest) by the cumulative enrollment.
55. Personal interview with three CAVA special education teachers, January 31, 2015. These three teachers work at 2 CAVA locations San Joaquin and San Mateo.
56. Personal interview with 15 CAVA teachers, January 31, 2015.
57. California Education Code Section 56362(c).
58. Greg Toppo “Virtual, for-profit K-12 schools have spent millions in taxpayer dollars on advertising, an analysis

shows,” USA Today, November 28, 2012.

59. K12 Inc. 2013 Annual Report was used to determine total revenue. K12 Inc. 2013 Proxy Statement was used to determine total executive compensation, including stock options and bonuses.

60. CAVA Financial Reports for each location, 2011-12, 2012-13 and 2013-14, received from the California Department of Education. Each report lists the total public revenue received by each location. The Notes to Financial Statements section in the reports list the amount paid by that location to K12 Inc. for management, technology, curriculum and equipment leasing. In each case, the figures from each location’s Financial Report were added to arrive at a system-wide total.

61. California Education Code Section 47604 gives authorizers the primary responsibility for monitoring and enforcing the student performance and financial health of the charter school. The 11 districts that have authorized CAVA’s charters are: Orange Center Elementary in Fresno County; Jamestown Elementary in Tuolumne County; Armona Union Elementary in Kings County; West Covina Unified in Los Angeles County; Maricopa Unified in Kern County; Spencer Valley Elementary in Santa Ysabel (San Diego County); New Jerusalem Elementary in Tracy (San Joaquin County); Jefferson Elementary in Daly City (San Mateo County); Liberty Elementary in Petaluma (Sonoma County); and Meridian Elementary in Sutter County.

62. California Department of Education DataQuest.

63. “Core district enrollment” is the enrollment at the district minus all charter enrollment. Some districts’ enrollments appear quite large due to having authorized a large number of charters. We wanted a number that would clearly communicate the size of the district headquarters. Total CAVA enrollment was divided by total core district enrollment at all CAVA authorizing districts.

64. We compared the amount required to be paid to certificated staff by CAVA location’s funding determinations to the amount paid to Personnel in the CAVA Financial Reports. From an analysis of staff lists provided by CAVA teachers, it is clear that very few employees who might be included in “personnel” expenses are not certificated staff. To the degree that such non-certificated employees exist, they only make the discrepancy larger. However, we note the difference between the two and the fact that it may or may not explain these discrepancies.

65. We compared the amount paid to K12 Inc. as noted in CAVA Financial Reports for each location in 2011-12 and 2012-13 to the amount paid to K12 Inc. as listed on funding determination applications that were submitted by CAVA locations in those two years. Not all CAVA locations submitted an application in those two years; those locations that didn’t were not analyzed.

66. Personal interview with a California Department of Education administrator, November 14, 2014. Auditors are expected to make sure that applications submitted by a school for funding match the audited Financial Reports in all key figures. However, these funding determinations can cover as many as five years and there is no process by which to monitor compliance in these intervening years. As a result, infrequent audits, anticipated by school far in advance, are the only means of ensuring that the school is adhering to the strict funding requirements.

67. The two largest providers of virtual education are K12 Inc. and Connections Academy (a subsidiary of Pearson PLC); both are for-profit companies. John Watson et al., “Keeping Pace with K-12 Digital Learning: An Annual Review of Policy and Practice,” Evergreen Education Group, 2014.

68. Gary Miron and Jessica L. Urschel, “Understanding and Improving Full-Time Virtual Schools: A Study of Student

Characteristics, School Finance, and School Performance in Schools Operated by K12 Inc.,” National Education Policy Center, 2012, pp. 1-3. <http://nepc.colorado.edu/files/nepcrbk12miron.pdf>

69. John Hechinger, “K12 Backed by Milken Suffers Low Scores as States Resist,” Bloomberg Business, November 14, 2014.

70. California Department of Education DataQuest, available here: [data1.cde.ca.gov/dataquest/](http://data1.cde.ca.gov/dataquest/). See “CAVA Student Performance Falls below State Levels in Several Key Indicators” section of this report.

71. California Department of Education DataQuest. See “CAVA Student Performance Falls below State Levels in Several Key Indicators” section of this report.

72. For all years of operation, CAVA’s enrollment-weighted, system-wide average similar school rank was 4.9 out of 10; its statewide rank was 3.2 out of 10. California Department of Education DataQuest

73. Personal interview with 18 CAVA teachers, January 31, 2015. Fifteen teachers described regular problems accessing the OLS. These teachers work at seven CAVA locations that together make up 78% of CAVA enrollment.

74. Personal interview with 18 CAVA teachers, January 31, 2015. Eleven teachers described a difficult dismissal process. These teachers work at six CAVA locations that together make up 72% of CAVA enrollment. Twelve teachers described inadequate attendance policies. These teachers work at six CAVA locations that together make up 51% of CAVA enrollment.

75. We found clerical staffing (“office or clerical classified staff”) levels on California Department of Education Dataquest Staffing Reports, for more information see full report. Also, personal interview with 18 CAVA teachers, January 31, 2015. Thirteen teachers describe excessive clerical work that gets in the way of teaching. They work in seven CAVA locations that together make up 78% of CAVA enrollment. Also, 104 CAVA teachers sent a letter to the Administrative Heads of Schools, Directors and Regional Program Coordinators of California Virtual Academies, November 12, 2014. Available here: [http://cavirtualeducators.org/wp-content/uploads/2014/11/IssueLetter\\_10-2014\\_Final.pdf](http://cavirtualeducators.org/wp-content/uploads/2014/11/IssueLetter_10-2014_Final.pdf).

76. Personal interview with 18 CAVA teachers, January 31, 2015. All of the teachers cited a personal experience with high teacher turnover. They work at seven CAVA locations that together make up 78% of CAVA enrollment.

77. Educational Products and Services Agreement Between California Virtual Academy @ Fresno and K12 California LLC, Section 8.6, p. 11. Educational Products and Services Agreement Between California Virtual Academy @ Sutter and K12 California LLC, Section 11.6, p. 13. We will cite the Fresno agreement throughout this report, but the language is consistent across all CAVA/K12 California agreements, save CAVA Sutter. Thus, citations for Sutter are noted separately. See endnote 111 for further explanation.

78. Educational Products and Services Agreement Between California Virtual Academy @ Fresno and K12 California LLC, Section 4.3.1, p. 6. (Appears on p. 7 of the Los Angeles agreement.) Educational Products and Services Agreement Between California Virtual Academy @ Sutter and K12 California LLC, Section 5, p. 8.

79. California Department of Education DataQuest.

80. California Department of Education DataQuest indicates that these schools were transitioned to Insight. Information on the Insight brand can be found in K12 Inc.’s 2014 Annual Report (p. 9) and at: [ca.insightschools.net](http://ca.insightschools.net).

81. California Department of Education, 2010-11 APR Glossary-Base API – Subgroups section. <http://www.cde.ca.gov/ta/ac/ap/glossary11b.asp>.
82. The Local Control Funding Formula grants more funds to schools with EL students and students who qualify for free or reduced price lunches and are defined as socioeconomically disadvantaged. An overview of the Local Control Funding Formula is available here: California Department of Education, “Local Control Funding Formula Overview,” <http://www.cde.ca.gov/fg/aa/lc/lcffoverview.asp>.
83. We included only those ethnicities that make up more than 3% of CAVA’s population in this analysis. The one exception was the American Indian/Alaska Native population, which was 3.4% in 2009-10 but fell to a much lower percentage in subsequent years.
84. Unless otherwise noted, all performance data in this section is from California Department of Education Dataquest. Enrollment weighted averages were used when finding system-wide averages or wherever applicable.
85. California Department of Education Dataquest. See table in CAVA Enrollment Snapshot section of this report.
86. California Charter Schools Association, “CCSA Calls for the Non-Renewal of 10 Charter Schools as a Result of Academic Underperformance” (press release), December 15, 2011. <http://www.calcharters.org/blog/2011/12/california-charter-schools-association-ccsa-calls-for-the-non-renewal-of-ten-charter-schools-as-a-re.html>
87. “NCAA Bans Coursework Completed by Athletes in 24 K12 Inc. Virtual Schools,” Education Week, Michele Moinar, April 23, 2014.
88. According to the University of California’s A-G Course List, there are no approved Laboratory Science classes offered at any of the CAVA school locations. Laboratory Science classes are defined as Biology, Chemistry, and Physics. UC requires at least two years of Laboratory Science, but strongly recommends three years. The A-G course requirements are one of three requirements for a freshman entering the UC system. The approved A-G Course list for CAVA school locations is available here: <https://hs-articulation.ucop.edu/agcourselist#/list/search/all?q=&f=>
89. Gary Miron and Jessica L. Urschel, “Understanding and Improving Full-Time Virtual Schools: A Study of Student Characteristics, School Finance, and School Performance in Schools Operated by K12 Inc.,” National Education Policy Center, 2012. <http://nepc.colorado.edu/files/nepcrbk12miron.pdf>
90. See “CAVA Student Performance Falls below State Levels in Several Key Indicators” section of this report.
91. Gary Miron and Jessica L. Urschel, “Understanding and Improving Full-Time Virtual Schools: A Study of Student Characteristics, School Finance, and School Performance in Schools Operated by K12 Inc.,” National Education Policy Center, 2012. <http://nepc.colorado.edu/files/nepcrbk12miron.pdf>
92. Unless otherwise noted, all performance data in this section is from California Department of Education Dataquest. We calculated a weighted average graduation rate for the entire CAVA network by finding the total number of potential graduates across the entire CAVA system and dividing into the total number of graduates and total number of dropouts. Beginning in 2010, we used the cohort graduate numbers.
93. We measured the average from 2010-2013 for two reasons. One, it gives CAVA the benefit of the doubt because it only began to graduate students in 2008; thus, this methodology discounts years it could have been adjusting its program. And two, in 2010, the State of California began measuring graduation rate using a “cohort analysis” and we

ensure that all years used in the average are calculated with the same methodology.

94. Grace Kena et al., “The Condition of Education 2014,” National Center for Education Statistics, May 2014, pp. 10-17. Also draws from updated data published with the online version of the report, available here: “Youth Neither Enrolled in School Nor Working,” [http://nces.ed.gov/programs/coe/indicator\\_soa.asp](http://nces.ed.gov/programs/coe/indicator_soa.asp).

95. For more information on API measurements, see: California Department of Education, “Executive Summary Explaining the Academic Performance Index (API),” [www.cde.ca.gov/ta/ac/ap/documents/apiexecsummary.pdf](http://www.cde.ca.gov/ta/ac/ap/documents/apiexecsummary.pdf). API calculations are based on the following: California Standards Test, California Modified Assessment, California Alternate Performance Assessment and California High School Exit Examination. We calculated a weighted API by weighting schools according to enrollment.

96. California Department of Education, “FAQs for 2013-14 Accountability,” <http://www.cde.ca.gov/ta/ac/ar/apr-faq.asp>.

97. California Department of Education DataQuest. The 2013 Growth API scores of each CAVA location were recorded, weighted by the enrollment at each location, and then averaged to find a system-wide total.

98. California Department of Education, “Executive Summary Explaining the Academic Performance Index (API),” p. 3. <http://www.cde.ca.gov/ta/ac/ap/documents/apiexecsummary.pdf>. For an explanation of the methodology for measuring API growth, see endnote 41.

99. California Department of Education, “Executive Summary Explaining the Academic Performance Index (API),” <http://www.cde.ca.gov/ta/ac/ap/documents/apiexecsummary.pdf>. For an explanation of similar school ranking, see endnote 36.

100. California Department of Education DataQuest. API growth for each CAVA location was recorded and weighted by the enrollment at each location and then averaged to arrive at a system-wide total for each year between 2004 and 2013. 2011 is not included in this calculation due the fact that no growth data is available for any CAVA location that year due to “significant demographic changes,” according to the California Department of Education.

101. California Department of Education, “FAQs for 2013-14 Accountability,” <http://www.cde.ca.gov/ta/ac/ar/apr-faq.asp>.

102. A comparison group of 100 similar schools of the same school type was formed for every school being ranked, based on similar demographic characteristics. The API scores for this group of 100 schools was ranked in 10 categories of equal size, called deciles. A school’s similar schools rank—a number between one and 10, with 10 being best—was the decile in which that school’s API falls in relation to the Growth APIs of the other 100 similar schools in the comparison group. For example, a similar school ranking of one meant that 90 percent of the schools with a similar student population achieved higher API scores. California Department of Education, “Executive Summary Explaining the Academic Performance Index (API),” <http://www.cde.ca.gov/ta/ac/ap/documents/apiexecsummary.pdf>.

103. The full list of demographic characteristics specified by the Public Schools Accountability Act is as follows: Pupil mobility; Pupil ethnicity (eight variables); Pupil socioeconomic status (two variables); Percentage of teachers who are fully credentialed; Percentage of teachers who hold emergency credentials; Percentage of pupils who are English Learners (ELs); Average class size per grade level; Whether the school operates a multitrack year-round educational program; Percentage of grade span enrollments (grades two, three to five, six, seven to eight, and nine to eleven); Percentage of students in gifted and talented education program; Percentage of students with disabilities (SWDs); Percent-

age of reclassified fluent-English-proficient (RFEP) students; and Percentage of migrant education students. California Department of Education, “2012–13 APR Glossary-Growth API, <http://www.cde.ca.gov/ta/ac/ap/glossary13f.asp#gf25>.”

104. California Department of Education DataQuest. We used the enrollment numbers for students included in API calculations to calculate an enrollment-weighted average for the CAVA system as a whole for each year. Whenever we refer to the “average similar school ranking” it refers to an enrollment-weighted, system-wide average.

105. We used each CAVA location’s API enrollment to calculate CAVA’s enrollment-weighted, system-wide average statewide rank for each year. This column ranks CAVA against all schools in the state regardless of demographics.

106. We used each CAVA location’s API enrollment to calculate CAVA’s enrollment-weighted, system-wide average similar school rank for each year. This ranks CAVA against 100 schools with a similar demographic makeup.

107. California Department of Education, “Executive Summary Explaining the Academic Performance Index (API) p. 3. <http://www.cde.ca.gov/ta/ac/ap/documents/apiexecsummary.pdf>. In order to determine API growth, a school is given a base API score in one year and then the following year, the California Department of Education uses the same methodology from the prior year to analyze the current year’s tests and this becomes the growth API score. To measure growth you simply subtract the base score from the growth score. The tests used to determine a growth score are also used to determine the base score for that year, but these two numbers can be different given yearly methodology changes. Due to these methodology changes, the Department of Education explains that comparing actual API scores over time is an invalid way of analyzing the data.

108. California Department of Education DataQuest. For every CAVA location, in place of a growth number, there is a “C,” which is defined as indicating “significant demographic changes” that would make a growth measurement invalid.

109. The regulations governing API determination, including exemptions of the sort requested by CAVA, are available here: California Department of Education, “2012–13 Academic Performance Index Reports Information Guide,” <http://www.cde.ca.gov/ta/ac/ap/documents/infoguide13.pdf>, p. 40. According to an email exchange with the California Department of Education, the exemption process is initiated when a district or charter school requests consideration. The department considers any demographic change above 20% to be automatically large enough to warrant an exemption from growth target analysis because year over year comparisons would be invalid. Any demographic change below 20% is approved after a close examination by the Department to determine if the demographic changes are likely to invalidate a year-over-year comparison. This explanation was in response to an email question sent to a general information mailbox and no staff name was included in the response. Personal correspondence with California Department of Education administrator, December 1, 2014.

110. California Department of Education DataQuest. When a school did not have a valid prior year API score, the code “B” is put in its place to indicate this.

111. California Department of Education, California School Directory, <http://www.cde.ca.gov/re/sd/>. CAVA @ Kern, authorized by Maricopa Unified Schools District, closed on June 30, 2012. Then two new CAVA locations, CAVA @ Maricopa and CAVA @ Maricopa High, opened on August 16, 2012, in this same district. CAVA @ San Joaquin, authorized by Stockton Unified School District, closed on August 14, 2012, and CAVA @ San Joaquin, authorized by New Jerusalem School District, opened on August 16, 2012.

112. For some schools in some years, no growth was recorded. This was either because of significant demographic changes in which case the school is labeled with a “C” or because there was no valid data in the prior year, usually

because the school is considered new, and this is labeled in DataQuest with a “B”. In the case that data was missing the remaining CAVA schools were weighted proportionally to calculate the average CAVA API Growth except in 2011 when no school had data and no analysis was possible. These are the following schools and years where data was missing: In 2012 CAVA @ Kern was labeled with “C”, in 2011 all schools were labeled with “C”, in 2008 CAVA @ San Joaquin was labeled with “B”, in 2007 CAVA @ Kings, Los Angeles and Sutter were labeled “B”, in 2005 CAVA @ Sonoma and San Mateo were labeled “B”. Some similar school median growth API scores were not listed and no reason was given, they were just blank. In the case that data was missing we left that location out of the analysis and the remaining CAVA schools’ similar school median API growth scores were weighted proportionally. These are the following schools and years where similar school data was missing: 2004-2009 CAVA @ Jamestown, 2009 CAVA @ San Joaquin, 2008 CAVA @ Sutter and 2006 CAVA @ San Mateo.

113. See prior endnote .

114. Ibid.

115. Ibid.

116. Ibid.

117. Ibid.

118. Ibid.

119. Ibid.

120. Ibid.

121. Ibid.

122. Personal interview with 12 CAVA teachers, January 27, 2015; personal interview with 18 CAVA teachers, January 31, 2015. All but one of the 12 teachers from the January 27 meeting were present at the meeting on January 31. The teachers we interviewed are employed by the following seven CAVA locations: Los Angeles, San Mateo, San Joaquin, Sutter, Sonoma, Jamestown and San Diego. These locations account for 78% of CAVA’s enrollment. The locations not represented in these interviews are: Fresno, Maricopa, Maricopa High and Kings.

123. Personal interview with one CAVA Sonoma teacher, February 5, 2015.

124. Personal interview with 18 CAVA teachers, January 31, 2015. Fifteen teachers described regular problems accessing the OLS. These teachers work at seven CAVA locations that together make up 78% of CAVA enrollment.

125. Personal interview with 18 CAVA teachers, January 31, 2015. Fourteen teachers described significant problems with the technology and teaching materials provided. These teachers work at six CAVA locations that together make up 72% of CAVA enrollment.

126. Personal interview with 12 CAVA teachers, January 27, 2015. These teachers work at six CAVA locations.

127. Educational Products and Services Agreement Between California Virtual Academy @ Fresno and K12 California LLC, Section 18.1.4, pg. 18. The same statement appears in: Educational Products and Services Agreement

Between California Virtual Academy @ Sutter and K12 California LLC, Section 20.1.3, p. 21.

128. K12 Inc., “How a K<sup>12</sup> Education Works,” <http://www.k12.com/what-is-k12/how-k12-education-works>.

129. Personal interview with 15 CAVA teachers, January 27, 2015. Three teachers offered comments on the technological aptitude of their families., these teachers work at two CAVA locations.

130. Personal interview with 12 CAVA teachers, January 27, 2015. Two teachers mentioned materials provided to families. They worked at two CAVA locations.

131. Personal interview with 18 CAVA teachers, January 31, 2015. Six teachers described that textbooks were removed entirely from several of their classes; two additional teachers reported that textbooks were removed but that when parents complained, they were returned. These eight teachers worked at five CAVA locations that together make up 71% of CAVA enrollment.

132. Personal interview with Kathy Klein, February 10, 2015.

133. Greg Toppo, “Virtual, for-profit K-12 schools have spent millions in taxpayer dollars on advertising, an analysis shows,” USA Today, November 28, 2012.

134. Stephanie Saul, “Profits and Questions at Online Charter Schools,” New York Times, December 11, 2011.

135. Personal interview with 12 CAVA teachers, January 27, 2015. Seven teachers spoke about how important self-motivation is to the success of their students. These teachers work at five CAVA locations that together make up 71% of CAVA enrollment.

136. Ibid.

137. Personal interview with 12 CAVA teachers, January 27, 2015.

138. Personal interview with 18 CAVA teachers, January 31, 2015. Eleven teachers described the dismissal process as we present it. These teachers work at six CAVA locations that together make up 72% of CAVA enrollment.

139. Ibid.

140. Personal interview with 18 CAVA teachers, January 31, 2015. Twelve teachers described these attendance policies. These teachers work at six CAVA locations that together make up 51% of CAVA enrollment.

141. Personal interview with 18 CAVA teachers, January 31, 2015. Twelve reported that they had been instructed to count one minute of log in time as sufficient for attendance. . These twelve worked at six CAVA locations that together make up 51% of CAVA enrollment.

142. Personal interview with 18 CAVA teachers on January 31, 2015. Three CAVA teachers from three separate locations experienced altered attendance records.

143. Personal interview with 18 CAVA teachers, January 31, 2015. Twelve talked about accountability and a productive learning environment. These twelve worked at six CAVA locations that together make up 51% of CAVA enrollment.

144. After hearing about attendance problems in our interview of January 31, 2015, we sent an online survey—anonymously, due to the sensitivity of the subject matter—to the 18 CAVA teachers who attended that interview. These 18 teachers work at seven CAVA locations that together make up 78% of CAVA enrollment. Nine teachers responded to the survey.

145. California Department of Education, “Glossary of Terms,” <http://www.cde.ca.gov/ds/sd/cb/glossary.asp#o>. Office or clerical classified staff are defined as “employees who perform clerical or administrative support duties, such as a school secretary.”

146. Personal interview with 18 CAVA teachers, January 31, 2015. Thirteen teachers describe excessive clerical work that gets in the way of teaching. They work at seven CAVA locations that together make up 78% of CAVA enrollment.

147. California Department of Education DataQuest Staffing Reports.

148. California Department of Education Dataquest. The number of Office or clerical classified employees in 2012-13 was collected for 13 different districts whose enrollment was within 2,000 students of CAVA’s to determine how many clerical employees they each employed.

149. California Department of Education DataQuest. We added the total number of clerical employees for each of these 13 districts and divided the total by 13.

150. California Department of Education DataQuest.

151. California Department of Education DataQuest Staffing Reports. We collected this data going back to 2009-10, the earliest year available on DataQuest.

152. California Department of Education DataQuest. We added enrollment at each CAVA location for a system-wide total.

153. Educational Products and Services Agreement Between California Virtual Academy @ Fresno and K12 California LLC, Exhibit A: Curriculum and Services. All the agreements between K12 California and individual CAVA locations, including Sutter, contain this section. The Administrative Services K12 California agrees to provide are: Educational Program Consulting, Personnel Assistance, Insurance, Facility Management, Business Administration (day-to-day management), Budgeting and Financial Reporting, Financial Management, Maintenance of Financial and Student Records, Student Discipline, Annual Reports to Charter Authorizer, Teacher Effectiveness and Training, Charter Authorizer Policies and Charter Renewal, Instructional Property Management and Grants and Donations. (The Sutter list does not include insurance.)

154. Letter from 104 CAVA teachers to the Administrative Heads of Schools, Directors and Regional Program Coordinators of CAVA, November 12, 2014, available here: [http://cavirtualeducators.org/wp-content/uploads/2014/11/IssueLetter\\_10-2014\\_Final.pdf](http://cavirtualeducators.org/wp-content/uploads/2014/11/IssueLetter_10-2014_Final.pdf).

155. Personal interview with 18 CAVA teachers, January 31, 2015. Thirteen teachers describe excessive clerical work that gets in the way of teaching. They work in seven CAVA locations that together make up 78% of CAVA enrollment.

156. Personal interview with 18 CAVA teachers, January 31, 2015. Five teachers reported that clerical work takes up about 80% of their time. They work at four CAVA locations that together make up 65% of CAVA enrollment.

157. Bernadette Taplin sent her letter of resignation to other teachers. She subsequently shared it with us and gave us permission to quote it in this report.
158. Personal interview with 18 CAVA teachers, January 31, 2015. All of the teachers cited a personal experience with high teacher turnover. They work at seven CAVA locations that together make up 78% of CAVA enrollment.
159. Average teacher salaries for the state, for school districts and for individual school locations are available here: Ed-Data (a partnership of the California Department of Education, EdSource, and the Fiscal Crisis and Management Assistance Team), <http://www.ed-data.k12.ca.us/Pages/Home.aspx>. We compared the enrollment weighted, system-wide average teacher salary at CAVA to the enrollment-weighted average teacher salary at CAVA's authorizing districts combined. We also compared the average teacher salary at CAVA to the average for the state. The average teacher salary for Spencer Valley Elementary School District, the authorizer of CAVA San Diego, was not available and we used the average small district salary instead.
160. California Department of Education, "2012-13 APR Glossary-Demographic Characteristics," <http://www.cde.ca.gov/ta/ac/ap/glossary13h.asp>.
161. California Department of Education Dataquest. The student demographic section of the API growth report for each CAVA school includes the number of students who were continuously enrolled (that is, enrolled by October 1 and still enrolled as of April 9) and the enrollment on October 1. We calculated the percentage continuously enrolled as defined by the California Department of Education (the number of students continuously enrolled divided by the number of students enrolled on October 1) for the CAVA system as a whole.
162. California Department of Education DataQuest.
163. California Department of Education Dataquest. The full definition of cumulative enrollment is: "the total number of unique or unduplicated primary, secondary, and short-term enrollments within the academic year (July 1 to June 30), regardless of whether the student is enrolled multiple times within a school or district." California Department of Education, "File Structure: Truancy Data," <http://www.cde.ca.gov/ds/sd/sd/fstd.asp>.
164. California Department of Education DataQuest.
165. California Department of Education DataQuest.
166. Personal interview with 3 CAVA special education teachers, January 31, 2015. These three work at two CAVA locations, San Joaquin and San Mateo.
167. California Education Code Section 56362(c).
168. K12 California LLC is a subsidiary of K12 Management Inc., which in turn is a subsidiary K12 Inc., according to the U.S. Securities and Exchange Commission Form 10-K, attached to K12 Inc. 2014 Annual Report Exhibit 21.
169. K12 Inc. 2014 Annual Report, p. 63.
170. K12 Inc. 2014 Annual Report, p. 6.
171. K12 Inc., 2014 Annual Report.

172. California Department of Education, “Local Control Funding Formula Overview,” <http://www.cde.ca.gov/fg/aa/lc/lcffoverview.asp>.
173. K12 Inc. 2014 Annual Report, p. 62.
174. Brian Stoffel, “K12 Inc. Beats and Still Goes to the Principal’s Office? Here’s Why,” *The Motley Fool*, October 31, 2014.
175. K12 Inc., “K12 Inc. Awarded Contract to be Curriculum Provider for Agora Cyber Charter School” (press release), October 9, 2014. <http://investors.k12.com/phoenix.zhtml?c=214389&p=irol-newsArticle&ID=1975692#.VMRYvieps4Q>.
176. All but one of the CAVA charter agreements is essentially identical but for those details pertaining to the school name and student population. The same is true for CAVA’s year-end Financial Reports: all have the same auditor, the same format and the same information detailed in the Notes to Financial Statements section. The same is true for the Educational Products and Services Agreements between K12 California and the various CAVA locations: all but one of these contracts are identical. The only contract to differ significantly is that of CAVA Sutter, which was signed in 2009 and may be out of date.
177. With the exception of Sutter, all of the CAVA/K12 California agreements are identical in their language, varying only slightly in the pagination. (The Sutter agreement is substantially comparable, with similar or identical language on most points, but differs in its organization.) Unless otherwise noted, we will draw from the Fresno agreement throughout this report, noting when the page number differs in another agreement. We will also note if and how the language differs in the Sutter agreement.
178. Educational Products and Services Agreement Between California Virtual Academy @ Fresno and K12 California LLC, Section 3-12, p. 4-13. Educational Products and Services Agreement Between California Virtual Academy @ Sutter and K12 California LLC, Section 2-15, pp. 3-18.
179. Educational Products and Services Agreement Between California Virtual Academy @ Fresno and K12 California LLC, Section 8.6, p. 11. A comparable statement appears in: Educational Products and Services Agreement Between California Virtual Academy @ Sutter and K12 California LLC, Section 11.6, p. 13.
180. Educational Products and Services Agreement Between California Virtual Academy @ Fresno and K12 California LLC, Section 4.3.1, p. 6. (Appears on p. 5 of the Los Angeles agreement.) Educational Products and Services Agreement Between California Virtual Academy @ Sutter and K12 California LLC, Section 5, p. 8.
181. Educational Products and Services Agreement Between California Virtual Academy @ Fresno and K12 California LLC, Section 4.3.1, p. 6. (Appears on p. 5-6 of the Los Angeles agreement.) A nearly identical statement appears in: Educational Products and Services Agreement Between California Virtual Academy @ Sutter and K12 California LLC, Section 5, p. 8.
182. Educational Products and Services Agreement Between California Virtual Academy @ Fresno and K12 California LLC, Sections 6.3-6.4, p. 8-9. Educational Products and Services Agreement Between California Virtual Academy @ Sutter and K12 California LLC, Section 4.3-4.3, p. 7.
183. Educational Products and Services Agreement Between California Virtual Academy @ Fresno and K12 Cali-

fornia LLC, Section 6.2, p. 8. Educational Products and Services Agreement Between California Virtual Academy @ Sutter and K12 California LLC, Section 4.2, p. 6.

184. Educational Products and Services Agreement Between California Virtual Academy @ Fresno and K12 California LLC, Section 11.5, p. 13. (Appears on p. 12 of the Los Angeles agreement.) A nearly identical statement appears in: Educational Products and Services Agreement Between California Virtual Academy @ Sutter and K12 California LLC, Section 14.1.5, p. 16.

185. Educational Products and Services Agreement Between California Virtual Academy @ Fresno and K12 California LLC, Section 18.1.4, p. 18. An identical statement appears in: Educational Products and Services Agreement Between California Virtual Academy @ Sutter and K12 California LLC, Section 20.1.3, p. 21.

186. Board agendas and minutes for each CAVA location for the 2013-14 school year, received from CAVA central administrative offices.

187. Educational Products and Services Agreement Between California Virtual Academy @ Fresno and K12 California LLC, Section 11.4, p. 13. (Appears on p. 12 of the Los Angeles agreement.) A nearly identical statement appears in: Educational Products and Services Agreement Between California Virtual Academy @ Sutter and K12 California LLC, Section 14.1.4, p. 15.

188. Educational Products and Services Agreement Between California Virtual Academy @ Fresno and K12 California LLC, Section 4.8.17, p. 8. (Appears on p. 7 of the Los Angeles agreement.) A similar statement appears in: Educational Products and Services Agreement Between California Virtual Academy @ Sutter and K12 California LLC, Section 2.7.20. In the Sutter agreement, however, the percentage is 5%, not 2%.

189. Educational Products and Services Agreement Between California Virtual Academy @ Fresno and K12 California LLC, Section 12.5, p. 14. A similar statement appears in: Educational Products and Services Agreement Between California Virtual Academy @ Sutter and K12 California LLC, Section 14.2.5. In the Sutter agreement, however, the percentage is 50%, not 15%.

190. Educational Products and Services Agreement Between California Virtual Academy @ Fresno and K12 California LLC, Section 12.1, p. 13. A nearly identical statement appears in: Educational Products and Services Agreement Between California Virtual Academy @ Sutter and K12 California LLC, Section 14.2.1, p. 16.

191. CAVA Financial Reports for each location, 2011-12, 2012-13 and 2013-14, received from the California Department of Education.

192. CAVA Financial Reports for each location contain, in the Notes to Financial Statements section, detailed descriptions of payments issued to K12 Inc. Public revenue was also determined from the Financial Reports. For system-wide numbers, we added the totals for each CAVA location together.

193. CAVA Financial Reports for each location, 2011-12, 2012-13 and 2013-14, received from the California Department of Education. Nowhere in the Financial Reports is this debt described as long-standing, with interest charged and a clear payment plan. While some passages appear to refer to the debt as ongoing, other passages appear to stipulate that the debt is to be forgiven at the end of the year.

194. Educational Products and Services Agreement Between California Virtual Academy @ Fresno and K12 California LLC, Section 4.2, p. 5. The Sutter agreement includes no mention of Balanced Budget Credits. Rather, it uses the

terms Incentive Fees and Deficit Credits to describe a comparable arrangement: Educational Products and Services Agreement Between California Virtual Academy @ Sutter and K12 California LLC, Section 4.5, 4.9, p. 7, 8.

195. Educational Products and Services Agreement Between California Virtual Academy @ Fresno and K12 California LLC, Section 11.1, p. 12. This statement does not appear in the Sutter agreement. (The provision which precedes it is comparable in the Sutter agreement, however: Educational Products and Services Agreement Between California Virtual Academy @ Sutter and K12 California LLC, Section 14.1.1, p. 15.)

196. Educational Products and Services Agreement Between California Virtual Academy @ Fresno and K12 California LLC, Section 12.3, p. 13. (Appears on p. 14 of the Maricopa High School agreement.) This statement does not appear in the Sutter agreement. A discussion of Incentive Fees and Deficit Credits following termination can be found in: Educational Products and Services Agreement Between California Virtual Academy @ Sutter and K12 California LLC, Section 14.2.2-14.2.3, p. 16.

197. Educational Products and Services Agreement Between California Virtual Academy @ Fresno and K12 California LLC, Section 4.3.2, p. 6. This statement does not appear in the Sutter agreement.

198. California Department of Education, “Local Control Funding Formula Overview,” <http://www.cde.ca.gov/fg/aa/lc/lcfftoverview.asp>.

199. California Education Code, Section 47604.

200. Educational Products and Services Agreement Between California Virtual Academy @ Fresno and K12 California LLC, Section 3.3, pp. 4-5. A comparable statement appears in: Educational Products and Services Agreement Between California Virtual Academy @ Sutter and K12 California LLC, Section 2.3, p. 4.

201. We analyzed the agendas and minutes for four consecutive CAVA board meetings—in September 2013, December 2013, March 2014, and June 2014—at all CAVA locations. All minutes and agendas were obtained from CAVA directly.

202. Educational Products and Services Agreement between California Virtual Academy @ Fresno and K12 California LLC, Section 7.1, p. 9. Educational Products and Services Agreement Between California Virtual Academy @ Sutter and K12 California LLC, Section 8.1, p. 9.

203. Minutes for four consecutive CAVA board meetings—September 2013, December 2013, March 2014 and June 2014—at all CAVA locations. All minutes were obtained from CAVA’s central administrative office.

204. Greg Toppo “Virtual, for-profit K-12 schools have spent millions in taxpayer dollars on advertising, an analysis shows,” USA Today, November 28, 2012. The article cites two sources: Kantar Media, which estimated expenditures for the first eight months of 2012; and Kevin Welner, director of the National Education Policy Center, who estimated total expenditures for all of 2012. We considered both of these and rounded to an estimated 5% per year.

205. K12 Inc. 2013 Annual Report (from “Highlights” sheet at the front of the report, no page number). We divided “income from operations” by total revenue.

206. Greg Toppo “Virtual, for-profit K-12 schools have spent millions in taxpayer dollars on advertising, an analysis shows,” USA Today, November 28, 2012. This analysis was based on ad buys and rates compiled by Kantar Media, a marketing research firm.

207. Ibid.

208. K12 Inc. 2014 Proxy Statement, p. 23.

209. K12 Inc. 2009-14 Proxy Statements.

210. We added the compensation for the following executives: Ronald J. Packard, Nathaniel A. Davis, Timothy L. Murray, James J. Rhyu, Howard D. Polsky, Allison B. Cleveland, Harry T. Hawkes, Celia M. Stokes, Bruce Davis, George B. Hughes and John F. Baule. No more than eight of these executives were employed at any one time.

211. We conducted this analysis for 2011-12 because it offered us the most recent teacher salary data possible.

212. Gary Miron and Jessica L. Urschel, "Understanding and Improving Full-Time Virtual Schools: A Study of Student Characteristics, School Finance, and School Performance in Schools Operated by K12 Inc.," National Education Policy Center, 2012, p. v-vi. <http://nepc.colorado.edu/files/nepcrbk12miron.pdf>

213. Ibid., p. 32.

214. Ibid., p. 37.

215. K12 Inc. Schedule 14A Year End Proxy Statement, available here: <http://www.sec.gov/Archives/edgar/data/1157408/000104746912009860/a2211513zdef14a.htm..>

216. Gary Miron and Jessica L. Urschel, "Understanding and Improving Full-Time Virtual Schools: A Study of Student Characteristics, School Finance, and School Performance in Schools Operated by K12 Inc.," National Education Policy Center, 2012, p. 37. <http://nepc.colorado.edu/files/nepcrbk12miron.pdf>

217. South Carolina State Department of Education (DOE) provided the total percentage of students who obtained proficient or advanced scores, and also provided the percentage of students who received proficient scores and the percentage of students who received advanced scores. However, for the 2010-11 and 2011-12 schools years, when summing the percentage of students who received proficient scores and the percentage of students who received advanced scores, the total was slightly different than the number providing for total percentage of students who obtained proficient or advanced scores. The South Carolina DOE acknowledges this discrepancy and states that their total percentage proficient or advanced number is "adjusted to account for natural variation in performance." For this analysis, we used the sum of the percentage of students who obtained proficient scores and the percentage of students who obtained advanced scores. Additionally, South Carolina did not report reading scores specifically, so we used English/Language Arts scores for this analysis.

218. For all years examined, we used testing data for grades three through eight, since Washington Virtual Academy and Washington State public schools did not report test data for the same academic subjects for the 10th grade test.

219. For all categories except 2012-13 reading, high school test scores are suppressed to protect student privacy.

220. For some states, the state education department provided a calculation for the percentage of students attaining a proficient score on the state's standardized test across all grade levels tested that year. That number is reflected in the chart. For other states, the state education department provided the percentage of students attaining a proficient score on the state's standardized test for each grade level that tested that year. We averaged those percentages for each

grade level to derive a statewide and K12 Inc. school-wide average of the percentage of students across all grade levels attaining proficient test scores. If a state's data broke up students receiving proficient test scores into smaller categories reflecting proficient scores and highly proficient scores, we simply added these percentages together to calculate the total percentage of students at least meeting the proficient threshold. Data contained in the table was drawn from the following sources between December 1, 2014, and February 6, 2015: Arizona Report Card Database, Arizona Department of Education ([azed.gov](http://www.azed.gov)); State of Arizona Department of Education State Report Card for the years 2010-11, 2011-12, 2012-13 (<http://www.azed.gov/research-evaluation/report-cards/>); Colorado Department of Education CSAP TCAP - Data and Results for 2010-11 (<http://www.cde.state.co.us/assessment/coassess-dataandresults>), Schoolview Data Center, Colorado Department of Education, for years 2011-12 and 2012-13 ([https://edx.cde.state.co.us/SchoolView/DataCenter/reports.jsp?\\_afWindowMode=0&\\_afLoop=3927169200189025&\\_adf.ctrl-state=yx983i875\\_49](https://edx.cde.state.co.us/SchoolView/DataCenter/reports.jsp?_afWindowMode=0&_afLoop=3927169200189025&_adf.ctrl-state=yx983i875_49)); Colorado's Unified Improvement Plan for Schools, Colorado Virtual Academy, for the years 2010-11 (<https://cedar2.cde.state.co.us/documents/UIP2011/0020-1752.pdf>), 2011-12 (<https://cedar2.cde.state.co.us/documents/UIP2012/0020-1752.pdf>) and 2012-13 (<https://cedar2.cde.state.co.us/documents/UIP2014/0020-1752.pdf>); K-12 Public Schools Report Card, Georgia Governor's Office of Student Achievement (<https://gaawards.gosa.ga.gov/analytics/K12ReportCard>); Data Interaction for Nevada Report Card (<http://www.nevadareportcard.com/di/main/assessment>); Ohio School Report Cards, Ohio Department of Education (<http://reportcard.education.ohio.gov/Pages/default.aspx>); Ohio Department of Education Interactive Reports (<http://bireports.education.ohio.gov/PublicDW/asp/Main.aspx?server=edumstrisp02&project=ReportCard&evt=3002&uid=guestILRC&pwd=&persist-mode=%228%22>); The 2011 Pennsylvania System of School Assessment Mathematics and Reading School Level Proficiency Results ([http://www.portal.state.pa.us/portal/http://www.portal.state.pa.us;80/portal/server.pt/gateway/PTARGS\\_0\\_123063\\_1241052\\_0\\_0\\_18/A\\_01\\_PSSA\\_Results\\_Math\\_and\\_Reading\\_School\\_2011\\_All\\_Students\\_rev.pdf](http://www.portal.state.pa.us/portal/http://www.portal.state.pa.us;80/portal/server.pt/gateway/PTARGS_0_123063_1241052_0_0_18/A_01_PSSA_Results_Math_and_Reading_School_2011_All_Students_rev.pdf)); School Report Card, Agora Cyber CS, Commonwealth of Pennsylvania, for the years 2011-12 (<http://paayp.emetric.net/Content/reportcards/RC12S126510020000007858.PDF>) and 2012-13 ([http://www.eseafedreport.com/Content/reportcards\\_1213/RC13S126510020000007858.PDF](http://www.eseafedreport.com/Content/reportcards_1213/RC13S126510020000007858.PDF)); State Report Card/Federal Required Reporting Measures, Commonwealth of Pennsylvania, for the years 2010-11 ([http://www.portal.state.pa.us/portal/http://www.portal.state.pa.us;80/portal/server.pt/gateway/PTARGS\\_0\\_123063\\_1244333\\_0\\_0\\_18/RC11M.pdf](http://www.portal.state.pa.us/portal/http://www.portal.state.pa.us;80/portal/server.pt/gateway/PTARGS_0_123063_1244333_0_0_18/RC11M.pdf)), 2011-12 (<http://paayp.emetric.net/Content/reportcards/RC12M.PDF>) and 2012-13 ([http://www.eseafedreport.com/Content/reportcards\\_1213/RC13M.PDF](http://www.eseafedreport.com/Content/reportcards_1213/RC13M.PDF)); The State of South Carolina Annual School Report Card, SC Virtual Charter School, for the years 2011 (<http://ed.sc.gov/data/report-cards/2011/high/c/h4701004.pdf>), 2012 (<http://ed.sc.gov/data/report-cards/2012/high/c/h4701004.pdf>) and 2013 (<http://ed.sc.gov/data/report-cards/2013/high/c/h4701004.pdf>); High School Assessment Program Test Scores, South Carolina State Department of Education, for the years 2011 (<https://ed.sc.gov/data/hsap/hsap.cfm?year=2011>), 2012 (<https://ed.sc.gov/data/hsap/hsap.cfm?year=2012>) and 2013 (<https://ed.sc.gov/data/hsap/hsap.cfm?year=2013>); School Report Card, Texas Virtual Academy, for the years 2010-11, 2011-12 and 2013 (<http://ritter.tea.state.tx.us/perfreport/src/>); Washington State Report Card, Office of Superintendent of Public Instruction, for the years 2010-11, 2011-12, 2012-13 (<http://reportcard.ospi.k12.wa.us/>).

221. Data contained in this table was drawn from the following sources between December 1, 2014, and February 6, 2015: Graduation Rates, Arizona Department of Education (<http://www.azed.gov/research-evaluation/graduation-rates/>); Graduation Data, Colorado Department of Education (<http://www.cde.state.co.us/cdereval/gradcurrent>); Data Interaction for Nevada Report Card (<http://www.nevadareportcard.com/di/main/cohort>); Ohio Department of Education Interactive Data Reports (<http://bireports.education.ohio.gov/PublicDW/asp/Main.aspx?server=edumstrisp02&project=ReportCard&evt=3002&uid=guestILRC&pwd=&persist-mode=%228%22>); Pennsylvania Department of Education Academic Achievement Report 2011-12, Agora Cyber CS (<http://paayp.emetric.net/School/DataTable/c15/126510020/7858>); Pennsylvania School Performance Profile, Agora Cyber CS, 2013-14 (<http://paschoolperformance.org/Profile/7191>); State Report Card/Federal Required Reporting Measures, Commonwealth of Pennsylvania, for the years 2010-11 ([http://www.portal.state.pa.us/portal/http://www.portal.state.pa.us;80/portal/server.pt/gateway/PTARGS\\_0\\_123063\\_1244333\\_0\\_0\\_18/RC11M.pdf](http://www.portal.state.pa.us/portal/http://www.portal.state.pa.us;80/portal/server.pt/gateway/PTARGS_0_123063_1244333_0_0_18/RC11M.pdf)), 2011-12 (<http://paayp.emetric.net/Content/reportcards/RC12M.PDF>) and 2012-13 ([http://www.eseafedreport.com/Content/reportcards\\_1213/RC13M](http://www.eseafedreport.com/Content/reportcards_1213/RC13M)).

PDF); The State of South Carolina Annual School Report Card, SC Virtual Charter School, for the years 2011 (<http://ed.sc.gov/data/report-cards/2011/high/c/h4701004.pdf>), 2012 (<http://ed.sc.gov/data/report-cards/2012/high/c/h4701004.pdf>) and 2013 (<http://ed.sc.gov/data/report-cards/2013/high/c/h4701004.pdf>); “Gains Made in Graduation Rates, State Report Card Ratings” (press release), November 13, 2012, <http://ed.sc.gov/agency/news/?nid=1838>; “High School Four-Year Cohort Graduation Rate, 2012-13 School Year,” South Carolina Department of Education, <http://ed.sc.gov/agency/slice/documents/STUDENTPERFORMANCE-GraduationRate.pdf>.

222. Gary Miron and Jessica L. Urschel, “Understanding and Improving Full-Time Virtual Schools: A Study of Student Characteristics, School Finance, and School Performance in Schools Operated by K12 Inc.,” National Education Policy Center, 2012, p. 36. <http://nepc.colorado.edu/files/nepcrbk12miron.pdf>

223. “K12: A Corporate Destiny Manifested,” The Financial Investigator, February 27, 2012. <http://www.thefinancialinvestigator.com/?p=649>

224. “Read K12’s Confidential Student-Teacher Ratio Document,” Florida Center for Investigative Reporting, September 16, 2012. <http://fcir.org/2012/09/16/read-k12s-confidential-student-teacher-ratio-document/>

225. Stephanie Saul, “Profits and Questions at Online Charter Schools,” New York Times, December 11, 2011.

226. Grace Hood, “Overworked and Underpaid? Teacher Staffing at Colorado Virtual Academy,” kunc.org, March 19, 2012.

227. Stephanie Saul, “Profits and Questions at Online Charter Schools,” New York Times, December 11, 2011.

228. Phil Williams, “Email Directs Teachers To Delete Bad Grades,” newschannel5.com, February 11, 2013.

229. Ibid.

230. Stephanie Saul, “Profits and Questions at Online Charter Schools,” New York Times, December 11, 2011.

231. Trevor Aaronson and John O’Connor, “State Investigating Virtual Schools Provider K12,” Florida Center for Investigative Reporting, September 11, 2012. <http://fcir.org/2012/09/11/state-investigating-virtual-schools-provider-k12/>

232. Ibid. Also: Joshua Bolkan, “Florida Department of Ed Investigating K12 Teacher Certifications,” THE-Journal.com, September 11, 2012. The emails are available here: <https://www.documentcloud.org/documents/425602-scpc-k12-document-1.html>.

233. Trevor Aaronson, “K12 Did Not Disclose State Investigation to Investors,” Florida Center for Investigative Reporting, September 13, 2012. <http://fcir.org/2012/09/13/k12-did-not-disclose-state-investigation-to-investors/>

234. John O’Connor, “What K12 Told Investors About Florida’s Investigation,” Florida Center for Investigative Reporting, September 13, 2012. <http://fcir.org/2012/09/13/what-k12-told-investors-about-floridas-investigation/>

235. Joshua Kellogg, “Attorney General Gary King says New Mexico Virtual Academy in Farmington is violating state law,” Daily Times/Four Corners News, April 9, 2014.

236. Ibid.

276. Jason Tomassini, “Judge Bars K12 Inc. Virtual Charter From Opening in N.C.,” Education Week, July 2, 2012.
238. Sean, Cavanagh, “Judge Blocks North Carolina Virtual School,” Education Week, July 2, 2012.
239. Ibid.
240. Michelle Molnar, “K12 Inc. Loses Ground in Contract With Major Cyber Charter School,” Education Week, September 12, 2014. The board meeting webcast is available here: <https://sas.illuminate.com/site/external/jwsdetect/playback.jnlp?psid=2014-08-04.1632.M.701F07B97850429C0D5915C91801E2.vcr&sid=559>.
241. Joey Garrison, “Huffman Orders Closure of Tennessee Virtual Academy Next Year,” The Tennessean, July 31, 2014.
242. Grace Hood, “COVA K12 Inc. to Part Ways as New Online School is Proposed,” kunc.org, June 11, 2013.
243. Melissa Jenco, “State bans new online charter schools for 1 year,” Chicago Tribune, May 27, 2013.
244. Melissa Jenco, “Group drops plan for online charter school,” Chicago Tribune, June 12, 2013.
245. Sean Cavanagh, “K12 Inc. Building a New Identity for Part of the Company,” Education Week, April 2, 2014. Steven Perlberg, “Whitney Tilson’s Presentation Eviscerates a Stock That ‘Reminds Him of Subprime Mortgage Lenders,’” Business Insider, September 18, 2013. Tilson’s presentation is available here: <http://www.businessinsider.com/whitney-tilsons-k12-presentation-2013-9?op=1>.
246. Ibid.
247. David Hoppaugh v. K12 Inc. et al., 1:12-cv-00103-CMH-IDD, Amended Class Action Complaint, filed on June 22, 2012.
248. “K12 Inc. Settles Suit Filed by Investors,” Education Week, March 12, 2013.
249. CAVA Financial Reports for each location, 2013-14, Section A: Charter School Organization Structure, p. 12 or 13 in individual reports, received from the California Department of Education.
250. We analyzed the agendas and minutes for four consecutive CAVA board meetings—in September 2013, December 2013, March 2014, and June 2014—at all CAVA locations. All minutes and agendas were obtained from CAVA directly.
251. CAVA Los Angeles board meeting minutes, 2013-14.
252. CAVA board meeting minutes for all locations, 2013-14.
253. CAVA board meeting minutes for all locations, 2013-14.
254. California Education Code, Sections 47600-47604.5.
255. The 11 districts that have authorized CAVA’s charters are: Orange Center Elementary in Fresno County; James-

town Elementary in Tuolumne County; Armona Union Elementary in Kings County; West Covina Unified in Los Angeles County; Maricopa Unified in Kern County; Spencer Valley Elementary in San Diego County; New Jerusalem Elementary in Tracy (San Joaquin County); Jefferson Elementary in Daly City (San Mateo County); Liberty Elementary in Petaluma (Sonoma County); and Meridian Elementary in Sutter County.

256. California Department of Education Dataquest.

257. “Core district enrollment” is the enrollment of all non-charters students. Some districts’ enrollments appear quite large due to having authorized a large number of charters. We wanted a number that would clearly communicate the size of the district headquarters.

258. California Department of Education Dataquest. Total Spencer Valley Elementary district enrollment, including CAVA, is 3,030.

259. The district enrollment used for this comparison is total enrollment minus all charter enrollment, arriving at core district enrollment.

260. California Department of Education DataQuest was used to determine how much each authorizing district collected in revenue for its core population. CAVA Financial Reports were used to determine payments by CAVA to its respective authorizing districts.

261. California Department of Education, California School Directory, <http://www.cde.ca.gov/re/sd/>.

262. California Education Code, Section 11963 et seq.

263. California Education Code, Section 47612.5 (d)(2). Also: Personal interview with a California Department of Education administrator, November 2014.

264. California Education Code, Section 11963.4.

265. California Education Code Section 11963.4 allows for a “reasonable basis” determination that funding levels for a given school be more or less than the threshold spending requirements. The Nonclassroom-Based Funding Determination application includes a “mitigating factors” section to address the issue. The three available mitigating factors are: “The charter school is in its first year of operation,” “The charter school has less than 100 units of prior year, second-period average daily attendance” and “The charter school requests exclusion of one-time special purpose funds.” CAVA received approval at several locations to pay a lower percentage to certificated staff than required and still receive 100%.

266. The mitigating factor exception is noted in Section IV of the Nonclassroom-Based Funding Determination application for each CAVA location and each year mentioned in the table.

267. CAVA Financial Reports for each location, 2011-12 and 2012-13, received from the California Department of Education.

268. California Code of Regulations, Title 5, Section 11963.3 (b) (3).

269. Information drawn from the expense line items attributable to K12 Inc. in the Notes to Financial Statements sec-

tion in CAVA Financial Reports for each location, as well as from the Educational Product and Services Agreements between CAVA and K12 Inc. for each location. The categories of expenses paid to K12 Inc. include “instructional materials and technology,” “management fees” and “leased equipment.” We calculated the total paid to K12 Inc. in the Financial Reports by adding all specified payments to K12 Inc. from the notes to financial statements. these categories and subtracting any “balanced budget credits” or “deferred debt” that K12 Inc. grants to individual CAVA schools.

270. We divided the total spent on certificated staff as listed in the Nonclassroom-Based Funding Determination applications for the all CAVA locations listed by total public revenue for each location as noted in the same document to derive a percentage spent on certificated staff.

271. We divided line item expenditures for personnel in the Financial Reports for all CAVA locations listed by total public revenue for each location in the same reports to calculate the percentage spent on personnel as reported in the Financial Reports. From an analysis of staff lists provided by CAVA teachers, it is clear that the vast majority, if not all, of the employees included in “personnel” expenses are certificated staff. To the degree that these other non-certificated employees exist, they only make the discrepancy larger. However, we note the difference between the two and the possibility that it may or may not explain these discrepancies.

272. California Education Code 47604.4 states, “A county superintendent of schools may, based upon written complaints by parents or other information that justifies the investigation, monitor the operations of a charter school located within that county and conduct an investigation into the operation of that charter school.”

273. Personal interview with 18 CAVA teachers, January 31, 2015. Twelve teachers described these attendance policies. These teachers work at six CAVA locations that together make up 51% of CAVA enrollment.



ANY ERRORS OR OMISSIONS IN THE REPORT ARE  
THE SOLE RESPONSIBILITY OF  
IN THE PUBLIC INTEREST.

In the Public Interest  
2040 S Street NW, 2nd Floor  
Washington, DC 20009  
202-429-5091

Design by Leighton Woodhouse  
[leightonwoodhouse.com](http://leightonwoodhouse.com)