

October 27, 2005

Members of the Board,  
Idaho Virtual Academy  
1488 S. Eagle Flight Way  
Boise, ID 83709

Dear IDVA Board Members:

On behalf of K12 Inc., I want to inform you that the company has decided to retire the K12 funded deficit for the fiscal year 2002-2003. The amount to be retired is \$2,027,028.

As you know, charter schools frequently accumulate debt during their early years of operation. Given the Idaho funding program in place during 2002-2003 it was not possible to operate IDVA at the desired quality level without running a deficit. In order to continue operating with these deficits, K12 accepted IDVA's promise to repay K12 for a portion of our services during the 2002-03 school year, as financial conditions permitted. As we look at the current and future requirements of the school and the funding and regulatory environment of IDVA, it does not appear that the school will have the resources to repay the 2002-2003 debt. Therefore, in reflection of our continued commitment to the success of IDVA, K12 Inc. has decided to forgive the debt incurred by the school during the 2002-2003 fiscal year.

As to deficits funded for other past years, it is our expectation that the IDVA Board will make every effort to repay them in the future as financial conditions permit. Therefore, the IDVA Board is expected to take the debt into account in its normal budget process each year and to devote to its repayment any surplus above the funds necessary to run the school, as outlined in Section 5.04 of the recently executed Educational, Administrative and Technology Services Agreement.

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As to future years, it has become possible for the school to operate with a balanced budget. The elements of this approach were established during your consideration of the 2005-2006 budget.

We are very pleased with the progress of IDVA both in terms of its quality and its enrollment growth. Approximately 2000 students have benefited from this quality education option each year for the last three years. Based on high and rising academic achievement test scores, 90% plus parent approval ratings, and the high quality of the teaching staff, IDVA is an outstanding school. Congratulations on your leadership. It is our pleasure and privilege to be of service to you and to the school.

Sincerely,  
  
Thomas C. Boysen  
Sr. Vice President & Chief School Officer

