



Chairman – Alan Reed
Director – Jenn Thompson

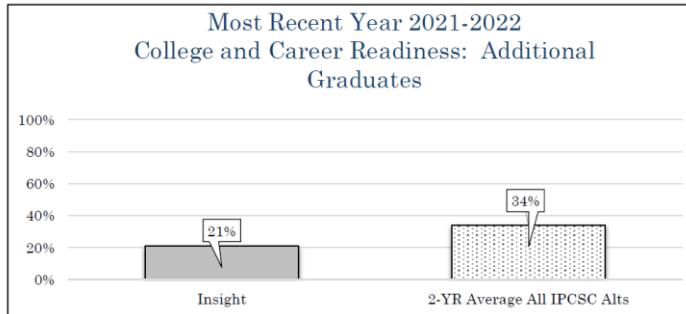
IDVA Renewal Hearing

1

As Ms. Kolts noted, my testimony today is for the purpose of explaining the reasoning behind my recommendation, which is documented in Exhibit A “Request for Hearing and Notice of Recommendation”.

Condition 1: Academic Accountability

Comparison Group: All IPCSC Alternative Programs



IDVA FY22 Annual Performance Report: Exhibit H, Page 17

2

I'm going to start by looking at the academic condition.

While IDVA's outcomes on most of our academic measures did meet the minimum standard, the measure to which the renewal condition refers is an area in which the school can and should improve its outcomes.

The measure for which this renewal condition is recommended, considers the % of 12th grade students who were not enrolled for the whole school year, but who were enrolled for at least one grading term, who achieved graduation. Earning a diploma is a primary goal of 12th grade and a primary reason the school is funded.

This is not the only measure that considers graduation rates. Other measures consider the school's 4 and 5 year Adjusted Cohort Graduation Rates (ACGR) in a more traditional way. This specific measure is intended to tell us more about the graduation trends of a specific sub-group of at-risk students who are close to the finish line. Whether because these students have completed almost all the credit they need to graduate or (more often) because they are about to age-out of the system at 21, there is a limited amount of time remaining during which any public school can help this group of students. This really is a last chance for most of these

kids, and this measure helps us see how well a school is responding quickly to the unique needs of this group.

In FY22, 21% of the students in this sub-group graduated from IDVA. For comparison, across the two years during which this data has been evaluated at Commission authorized alternative programs, the average rate of performance is 34%.

The existing “meets standard” mark for this measure, adopted by the Commission, is a 10% higher outcome in the current year than in the previous year for each school. IDVA’s outcome in FY22 did not outperform its previous years’ score by 10%. The school’s outcomes did not meet the established standard and its performance is significantly below average.

IDVA receives state funding for the students it serves. Students who are enrolled in a school, even for a short period of time, contribute to the overall funding of the school. Students enrolled in an alternative program generate funding on the assumption of a higher ratio of staffing to students. This effectively generates additional funding which is intended to assist the school in meeting the unique needs of at-risk students. Students between the ages of 18 and 21 continue to generate funding in an alternative program precisely because alternative programs are funded and expected to be better able to get these kids across the finish line.

I don’t disagree that serving at-risk students is hard. It is hard, and the unfortunate truth is that we can’t save all of them. In Exhibit 10, you’ll see notes from IDVA about students who are homeless or chronically absent. These are factors of at-risk students, but our funding formula accounts for the additional staff and services necessary to be successful in meeting these additional needs. And remember, the goal here isn’t to get 100% of this subgroup graduated. It’s not to get 75% of them graduated. The goal is 22%.

Taxpayers have made an investment in this school. They should, and the Commission should, expect a return on that investment.

My recommendation of raising performance on this measure by 1% over the next 2 years is a pretty low bar. Literally anything less would be to expect no improvement at all. I can’t make that recommendation.

Condition 3: Exemption from Financial Accountability

D. School Performance. The School shall achieve an accountability designation of *Good Standing or Honor* on each of the three sections of the Performance Framework. **In the event the School is a party to a third party management contract which includes a deficit protection clause, the School shall be exempt from some or all measures within the financial portion of the Performance Framework.** In accordance with Charter School Law, the Authorizer shall renew any charter in which the public charter school met all of the terms of its performance certificate at the time of renewal.

IDVA Performance Certificate, Section 4.D: Exhibit B, Page 3

3

I am now going to move on to the financial condition.

In 2014, and again in 2018, this school negotiated the inclusion of the statement of exemption you see on this slide. This is excerpted from Page 3 of Exhibit B, which is the school's performance certificate. The exemption clause reads: **"In the event the School is a party to a third party management contract which includes a deficit protection clause, the School shall be exempt from some or all measures within the financial portion of the Performance Framework."**

As the commission is required to make charter renewal decisions based on independent fiscal audits and on each school's outcomes on the Performance Framework incorporated into that school's performance certificate, I am concerned that the expectations we have for this school's performance are different from the expectations we have for every other school in our portfolio.

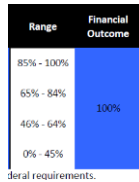
The Commission has a statutory obligation to hold the school accountable, to continually monitor the school's performance, to provide oversight, and to publish a report for the benefit of the public each year. I believe that the inclusion of this clause in a contract that cannot be modified without the mutual agreement of both

parties was a mistake. We need to own that mistake. But we also cannot make the same mistake again.

Which measures is the school exempted from, exactly? Most of them.

Impact of the Exemption

Measure	Points Possible	Points Earned
1a	0	0
1b	0	0
1c	0	0
1d	50	50
2a	0	0
2b	0	0
2c	0	0
2d	0	0
	50	50
		100%



IDVA FY19 Annual Performance Report: Exhibit E, Page 4

Measure	Points Possible	Points Earned
1a	0	0
1b	0	0
1c	0	0
1d	50	50
2a	0	0
2b	0	0
2c	0	0
2d	0	0
	50	50
		100%



IDVA FY20 Annual Performance Report: Exhibit F, Page 4

This exemption has a profound impact on public transparency.

Because of this exemption, the school’s annual performance reports, which are published for the benefit of both the public and the commission, do not provide an adequate level of financial transparency. For example, this slide shows excerpts from two annual performance reports (FY19, exhibit E and FY20, Exhibit F).

On page 4 of both of these exhibits the school’s financial performance is reported as “honorable” or “exceeds standard”. The reports show that the school earned 100% of the points possible in this category. But if you look at the gray boxes, located on the same page, you’ll see that the school is only being evaluated on one measure.

An “honorable” financial rating for IDVA means only that we believe the school has paid its bills on time.

The same “honorable” rating for any other school in our portfolio has a much more nuanced meaning because it reflects the school’s performance across all of the measures. Any other school that earns this same rating has: at least 60 days cash on hand, has more assets than liabilities, does not rely on future years’ revenue to

operate in the current year, and so on. These outcomes and factors are no less important for IDVA than they are for any other public school.

Sample of Financial Calculations

1. Current Ratio

Calculation: Current **Assets** divided by Current Liabilities

IDVA Financial
Framework: Exhibit M,
Pages 3 and 5

2. Unrestricted Days Cash

Calculation: Unrestricted **Cash** and investments divided by
(Total Expenses minus Depreciation Expense) / 365)

5. Total Margin and 3Yr Aggregated Total Margin

Calculation:

Most Recent Year Total Margin: 2019 **Net Income** divided by 2019 Total Revenue.
3-Year Aggregated Total Margin: (2019 Net Income +2018 Net Income

6

If IDVA was not currently exempt from accountability on the financial measures, you would not see a honorable rating at all. This is because several of the data points used in the calculations for our financial measures are data points that IDVA chooses not to maintain in a financially healthy way.

This slide shows a sample of the calculations used for just 3 of the financial measures. (The calculations for all of our measures can be found in Exhibit M, which is the Commission's adopted financial framework). As you know, variables such as a school's current assets, cash and investments, and net income, are extracted from the school's annual audit report (which is conducted by a third-party auditor) and used to populate the calculations for each of our financial measures.

The outcomes of the calculations correlate to ratings, such as honorable, meets standard, or does not meet standard. The commission has established a "meets standard" mark for each of these measures. For example, 60 days cash on hand meets standard on that measure.

Evaluation of IDVA's fiscal audit, which statute requires the commission consider as part of its renewal decisions, shows that the school doesn't have 60 days cash on

hand. In fact, if we look at Exhibit P, you can see the school hasn't achieved a meet standard rating on very many measures across the years of this term. While the school's performance certificate exempts the school from accountability to these measures, we cannot ignore that the school's financial audit does not reflect financially healthy practices. IDVA needs to improve its financial outcomes and the first step in that process is to establish that the school is to be held accountable to the same standards as every other school.

I want to pause for a moment to address the GASB 87 document included as exhibit 34. The Governmental Accounting Standards Board (GASB) is the entity that establishes accounting standards for governmental entities. While charter school governing boards are non-profit entities, **the schools they run with public dollars are established in statute as political subdivisions and** therefore the GASB rules apply. IDVA has drawn your attention specifically to GASB Statement number 87, which was issued in 2017. This statement changed the way we are to consider long-term leases held by governmental entities. Essentially, the total amount due over the length of the lease is considered a liability. A "right of use" asset helps to balance this out, but the two are not equal. The liability is always greater than the asset, because the asset is not owned by the leasee. In order to create a balance in the ratio of assets to liabilities, a charter school must take additional steps to reduce the risk to taxpayer dollars. There are many ways to do this. Increasing the school's reserve fund is one option.

But rather than take any additional steps, IDVA wants you to adjust the existing calculations to factor out the change implemented by GASB statement 87, so that the risk appears to be less than it is. GASB issued this statement because the Governmental Accounting Standards Board believed there was need to view long-term leases as a greater risk than had been acknowledged in the past. We are seeing this play out in Idaho with a school that is being sued for the full amount of a 20 year lease, because the risk GASB perceived is a real risk. This commission is in no position to dismiss financial risk or to exclude statement of that risk in public reports. I also want to note that Page 2 of Exhibit 34 includes projected calculations for debt to asset ratio and total margin which were calculated by the school's auditor. Even with the exclusion of GASB 87 calculated by the school's auditor the outcomes still do not meet standard.

The cause of the school's inability to meet standard on the commission's financial measures is not because GASB 87 creates standards that are too high. The cause is that the school's board has chosen to engage in a contract the school can't afford and through that contract to engage the school in poor financial practices.

The services agreement between IDVA and Stride results in the school always having

a zero or near-zero year end fund balance, never holding any significant assets, and not maintaining sufficient cash on hand. These are risky financial practices for a charter school governing board to engage in, and they are exactly the risk factors that our measures are designed to alert the commission and the public to.

Services Agreement – Service Fees

- 4.2. Administrative Services Fee. In consideration of the value of the Administrative Services provided by K12, Academy will pay K12 and its Affiliates fifteen percent (15%) of the Program Revenues for the Administrative Services (the "Administrative Services Fee") for each Fiscal Year of the Agreement. Payment for the Administrative Services Fee shall be made in accordance with Section 11 below.
- 4.3. Technology Services Fee. In consideration of the value of the Technology Services provided by K12, Academy will pay K12 and its Affiliates seven percent (7%) of the Program Revenues for the Technology Services (the "Technology Services Fee") for the each Fiscal Year of the Agreement. K12 will cooperate with the Academy, to the extent reasonable and practical, to ascertain what portion of the Technology Service Fee (or any other fee owing under this Agreement) is compensable as "Transportation" costs or other costs under the reimbursement terms and provisions of the Idaho Education Code. Payment for the Technology Service Fee shall be made in accordance with Section 11 below.

IDVA Services Agreement: Exhibit N, Page 6

7

So let's look at what this agreement requires.

The fee structure begins on page 6 of **Exhibit N**. IDVA is contractually obligated to pay Stride an administrative services fee of 15% of its total revenue and a technology services fee of 7% of its total revenue.

Services Agreement – Performance Fee

- 4.4.2. Performance Fee. Should there be a positive Net Asset balance remaining at the end of a fiscal year after payment of the Net Asset Fee, per Section 4.4.1, or if no such fee is due to K12 and the Program has a positive Net Asset balance; the Academy will pay to K12 a Performance Fee based on the following conditions. In no event will the Performance Fee exceed 50% of the then existing Net Asset balance.
 - 4.4.2.1. Should the Academy end a Fiscal Year with a positive Change in Net Assets and a positive Net Asset balance as evidenced by the audited financial statements prior to the payment of the Performance Fee and immediately after payment of the Net Asset Fee, if any, for a given Fiscal Year during the Term, as evidenced by Academy's audited financial statements then:
 - 4.4.2.1.1. One percent (1.0%) of the current year Program Revenue will be paid to K12 as a performance fee.
 - 4.4.2.2. Based on the results of a survey of all Program parents . . .
 - 4.4.2.2.1. One percent (1.0%) of the current year Program Revenue will be paid to K12
 - 4.4.2.3. If both conditions are met in Sections 4.4.2.1 and 4.4.2.2 the fee to be paid will be **two**
 - **and one-half percent (2 Y:z%) of the current year Program Revenue.**

IDVA Services Agreement: Exhibit N, Pages 7-8

8

The school is also required to pay a performance fee of up to 2.5% of its total revenue.

Cost of Services

School District / Charter School	Taxes	Other Local Sources	State Sources	Federal Sources	Other Sources	Total Revenues
452 Idaho Virtual Academy	-	59,916	17,465,032	8,461,131	-	25,986,079

SDE Revenue and Expenditure Reports: Exhibit O, Page 3

H. RELATED PARTY TRANSACTIONS

The School has a management agreement with Stride, Inc. (Stride) to provide educational materials to the School, as well as management services and technical support. The agreement had an initial term beginning July 1, 2009 and ending June 30, 2014, and it automatically renews every five years thereafter.

At year end, the School reported a receivable from Stride in the amount of \$3,228,255 and accounts payable to Stride in the amount of \$9,226,443, and these items are therefore classified as related party transactions. See notes C and E.

FY21 Fiscal Audit: Exhibit K, Page 22

9

Based on state and federal revenue reported by the State Department of Education for fiscal year 2021 (the most recently available public data) which you'll see on page 3 of Exhibit O and at the top this slide, IDVA received approximately \$26 million dollars.

It follows then, that 20%, or a little more than \$5 million dollars, was due to Stride as a direct fee.

When we cross reference this with Section H of the school's financial audit for that year (which you'll see below the blue line on this slide), we see that the school was actually invoiced for more than \$9million dollars, not \$5. Where does the difference come from?

Services Agreement – Ed Products

4.1. Educational Product Prices. In consideration of the value of the Educational Products provided by K12 (including teaching support), Academy will pay K12 and its Affiliates for the Educational Products based on the then current national K12 Managed Virtual School Pricing for similarly situated schools ("Product Price List").

IDVA Services Agreement: Exhibit N, Page 6

IDVA - INV-003-7781 M&T - Sep 2022	ACH 3081709313	11/18/2022	250,076.00	Mount Lau NJ
IDVA - INV-003-7964 - Oct 2022 - COM	ACH 3081709313	11/18/2022	74,812.50	Mount Lau NJ
ISID - INV-003-7840 - Oct 2022 - MAT	ACH 3081709313	11/18/2022	4,554.00	Mount Lau NJ
ISID - INV-003-8017 - Oct 2022 - Block Fee	ACH 3081709313	11/18/2022	1,553.06	Mount Lau NJ

IDVA Expenditure Report: Exhibit S, Page 1

10

It comes from more fees.

Another set of fees, called Educational Products Fees, appear to make up the difference. These products include access to proprietary items such as curriculum and the learning management platform, as well as services such as recruitment, counseling, and policy development. However, the Product Price List, which is referenced in section 4.1 of the Services Agreement is not included in the contract. Nor is it defined in the school's expenditure reports.

An excerpt from the school's expenditure reports (Exhibit S) is shown on the bottom of this slide. You can see in the description column there is an invoice number and a few columns over there is a correlating dollar amount. It is not clear which fees are being paid by which invoices. This lack of financial transparency makes it nearly impossible to determine how much the school is spending on various services.

So while the school is correct that all of the documentation it is required to make public, is public, it is very complicated to connect all the disparate pieces of the story together to truly understand the financial situation. This is one of the reasons our annual performance report is so important.

Services Agreement – Ed. Products Cont'd.

1. **Educational Products, Pupil Recruitment and Related Services:** During the Term, K12 and its Affiliates will provide or cause to be provided to Academy, its Students and its personnel the following educational products and services (the "Educational Products") in accordance with the fees published on the Product Price List provided to the Academy:

1. **Online School:** For each school year during the Term, (i) K12® Curriculum and associated learning management system for grades K through 8, in each case in Language Arts, Math, Science, History, Art and Music, however, foreign language may be substituted for Music as agreed and allowable; (ii) K12® Curriculum and associated learning management system for grades 9 through 12, in each case in Language Arts, Math, Science and History in addition to electives per the K12 course catalog; and (iii) any third party curriculum K12 generally offers its customers, in each case for such courses required by Applicable Law.
2. **Instructional Tools:** Such instructional tools and supplies, including without limitation textbooks and multi-media teaching tools, as K12 determines in its discretion to be necessary to deliver the Educational Program.
3. **Related Services:** Pupil Recruitment and related services are included in the cost of the curriculum and materials in the Product Price List:
 - a. **Additional Instructional Support:** K12 will make available the necessary instructional support and teachers as mutually agreed upon in accordance with the Product Price List as the Program may require for the Educational Products and related offerings.
 - b. **Pupil Recruitment:** Recruitment of students in K12's discretion, including creation, design and preparation of recruitment materials and advertisements, assist with demand creation for the Program and its information sessions and other events via mail, e-mail, newspapers, magazines, journals, radio, television, community forums, town hall meetings, and other forms of communication and outreach on Academy's behalf, develop community outreach strategy and connect with local organizations. Design school recruitment materials, letterhead, business cards, and logos to create school identity. Develop, design, publish, and maintain the Program's interactive website.
 - c. **Admissions:** Implementation of the Program's admissions policy, including management of the application and enrollment process; creation, design and publication of Program's applications and enrollment packages; and communicating with potential students and their families and assisting families through the enrollment process; conduct random lottery if required.
 - d. **Family Services:** Plan and arrange school orientation sessions; represent the Program at conferences and other events. Field and respond to incoming calls, letters, faxes, and e-mails about the Program, its curriculum, the application/enrollment process, instructional materials, etc. Conduct focus groups, surveys, interviews, observation sessions, and/or user testing on the learning management system to obtain feedback on how to improve the Program and curriculum, as appropriate. Create "feedback buttons" on lessons so that Students, their parents, and teachers may submit comments and suggestions; respond to suggestions and implement improvements where K12 deems them to be valuable. Conduct exit interviews with those Students and their parents who withdraw in order to learn more about how to improve the program for Students. Create and distribute a parent manual and/or student

handbook which includes a starting kit for logging onto the learning management system. Assist with the design and implementation of parent orientation sessions.

- e. **Positive Net Asset Provision** – In consideration for the opportunity to provide the Academy with the services and products set forth in this Agreement, the parties agree that the Program will not end a Fiscal Year in a negative Net Asset position in accordance with Section 4.8 of the Agreement.
- f. **Computers for Full Time Students** (see Section 2.7.1.3). For Full Time Students who qualify for Free Lunch under NCLB, computers, monitors, software and other hardware as K12 determines in its discretion to be necessary to deliver the Educational Program. Computers will be provided, as requested, on a one per family basis.
- g. **High School Services:** As requested and as available, K12 offers the following for High School Students:
 - (e) **Social Networking** – Access to a monitored, private, virtual social community for students, parents and teachers to communicate and connect. Students benefit from exchanging ideas and information with students around the world using the K12 program and gaining a sense of connectedness within the boundaries of a contained but global community. Each K12 sponsored school will also have its own sub-community to generate school pride as well as provide its own content and clubs, a school calendar, announcements, and information on upcoming activities and outings.
 - (f) **Counseling Tools** – Web-based counseling tool(s) to support college, career planning and exploration. Specifically the tool(s) may include:
 1. **Counselor's Office** - Web-based system allows college and career counselors to collect and organize detailed information about students' post-secondary plans;
 2. **Course Manager** - Fully automated system to help students choose the courses they'll need to achieve their post-secondary goals;
 3. **Family Connection** - Provides students and families access to age/grade-appropriate resources for course, college, and career planning. Counselors can build multi-year course plans, conduct targeted college searches, research scholarships, etc.;
 4. **Career Planner** - Integrated so students and parents can see how career decisions relate to course and college planning activities, and counselors can guide and track student progress.

IDVA Services Agreement: Exhibit N, Pages 28-29

11

Pages 28 and 29 of the services agreement describe the educational products in more depth, but still no fees are provided. It is only by subtracting the fees due that we can calculate from the services agreement from total amount invoiced that we can identify in the financial audit report, and cross-referencing that with the total revenue distribution report from the SDE - that we can estimate that educational products appear to have been invoiced in FY21 at approximately \$4 million dollars.

This may be data that is available, but it its not particularly accessible and I would argue that that fact clouds transparency.

Services Agreement – Net Asset Fee

4.4. Incentive Fees. As an incentive for K12 to manage the Program in a positive Net Asset (defined in Section 10.11 below) position while meeting certain educational goals, Academy will pay to K12 the following incentive fees:

4.4.1. Net Asset Fee. Should the Academy end a Fiscal Year with a positive Change in Net Assets and a positive Net Asset balance position as evidenced by its audited financial statements for such Fiscal Year and K12 has issued Deficit Credits in prior years (per Section 4.8) the Board will pay to K12 such fee as follows:

- 4.4.1.1. for the first \$100,000 of a given year's Net Asset balance, twenty-five percent (25%) will be paid to K12 and seventy-five percent (75%) will be retained by the Academy;
- 4.4.1.2. for the second \$100,000 of a given year's Net Asset balance, fifty percent (50%) will be paid to K12 and fifty percent (50%) will be retained by the Academy;
- 4.4.1.3. for any amount over \$200,000 of a given year's Net Asset balance, seventy-five percent (75%) will be paid to K12 and twenty-five percent (25%) will be retained by the Academy.

In no event will the Net Asset Fee paid in a given fiscal year cause the Program to have a negative Net Asset balance. In addition, the cumulative total of Net Asset fees paid over the term of this Agreement will not exceed the cumulative amount of previously issued Deficit Credits per Section 4.8.

IDVA Services Agreement: Exhibit N, Page 7

12

The products and services fees this board has agreed to pay are incredibly high (by our estimate 36% of total revenue). Let me repeat that, 36% of total revenue. These fees alone are enough to keep the school's fund balance low and prevent the school from acquiring any assets to speak of or building a meaningful cash reserve.

But these are not the only fees. The services agreement also includes a Net Asset Fee, found on page 7 of exhibit N, by which the school's board has agreed to pay a variable percentage (up to 75%) of its year-end fund balance to Stride. This is not a fee for services or products, but a fee due to an out-of-state services provider for no other reason than that the school has money.

Services Agreement – Positive Net Asset Provision

4.8. Positive Net Asset Provision. The Parties hereby agree that the Academy cannot conclude a Fiscal year in a negative Net Asset position. The Parties also recognize that there is a cooperative relationship of the parties with regard to the development of the Academy's Budget in Section 2.4. Therefore, the Parties further stipulate that each Party shall take all reasonable steps and approaches necessary to avoid a negative Net Asset position balance at the end of a Fiscal Year. Thus, subject to K12's rights herein (and effects) of termination provided under Section 14, should Academy notify K12 or K12 notify Academy in writing of a potential deficit in a particular Fiscal Year (as reasonably known) and as identified by an independent audit of the Program financial statements, the Parties agree that K12 will provide sufficient credits ("Deficit Credits") to be applied to K12 invoices to ensure the Academy does not have a negative Net Asset balance at the end of said Fiscal Year. Notwithstanding the foregoing, the Parties agree that if there are sufficient surpluses in subsequent years (including Renewal Terms) the provisions set forth in Section 4.4 will apply.

Notwithstanding Section 14.2.3 or any other provision to the contrary, if at the conclusion of the Parties contractual relationship the cumulative amount of paid Net Asset Incentive Fees over the life of the Agreement does not exceed the cumulative amount of Deficit Credits issued over the life of the Agreement the Academy shall have no debt or ongoing obligation to K12 for any such balance.

IDVA Services Agreement: Exhibit N, Page 8

13

In the likely case that all of these fees (on top of a separately negotiated lease and payroll) put the schools' budget in the red, a positive net asset provision (Exhibit N, Page 8) states that Stride will apply "deficit credits" to invoices to such a degree that the fund balance doesn't drop below zero.

The governing board of this school has engaged in a contract for services it cannot afford with an expectation that the school will incur costs in excess of its revenue year over year. This is not a financially healthy practice. This board's choice to engage in such a contract is, by their own reasoning, the primary reason the school couldn't meet standard on the Commission's financial measures and why they requested this exemption from financial accountability in the first place.

This "positive net asset provision", also referred to as a "deficit protection clause", was presented to the commission out of context from the rest of the services agreement. It was presented as a "waiver" as a "protection", as "forgiveness"; and as evidence of "financial sufficiency".

It is none of those things.

Services Agreement – Repayment in Future Years

“As to deficits funded for other past years, it is our [K12, Inc.] 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. . .”

Debt Retirement Letter – Exhibit U, Page 1

if the Academy generates Net Assets (based on audited financial statements using generally accepted accounting principles) that exceed 3% of prior year expenditures within three years subsequent to the Forgiven Debt, K12 L.L.C. shall be entitled to the excess funds up to the total amount of the cumulative Forgiven Debt.

Services Agreement Amendment– Exhibit T, Page 1

14

In an amendment to the school’s services agreement and in a letter to IDVA’s board from the Education Services Provider (excerpts from both of which appears on this slide), it is stated in no uncertain terms that deficit credits are not forgiven at all, but rather, reflect deferred debt.

If I can draw your attention to page 8 of exhibit 30 for a moment. Here you will see a chart titled “K12 open billed invoices”. In researching what this means, we found that the school’s meeting minutes from September, 15, 2022 define this as deficit credits being called due. This chart shows that IDVA has actually accumulated over \$12 million dollars in long term debt, owed to Stride, through the practice of “deficit credits” “debt protection”.

This debt does not show up in the school’s audits as long-term debt because no debt agreement exists. It is simply an outstanding invoice for payments that are to be made whenever the school has additional funds with which to make them. This is not a forgiveness.

Again, this governing board signed a contract agreeing to pay fees it cannot afford, and the school has not been bankrupted by this fact only because the company

chooses to apply just enough deficit credit to keep the school operating and eligible to be funded again in the next year. Had this school not been exempted from financial accountability, our current financial measures would have shined a light on this predatory practice years ago, and the board would have been instructed to improve its financial practices.

Fees and Credits

	Credit	Payable	
FY22	2,776,976	6,621,859	Exhibit L, Page
FY21	3,228,255	9,226,443	Exhibit K, Page
FY20	2,214,626	4,665,821	Exhibit J, Page
FY19	2,919,135	1,261,385	Exhibit I, Page

IDVA Fiscal Audits

15

This slide shows the total amount of fees invoiced to IDVA and the total amount of deficit credits granted by Stride in each year of the current performance certificate term. These numbers are drawn from the school's audits which are included as exhibits I, J, K, and L.

Clearly, an evaluation of the school's audit shows that the school isn't maintaining a healthy reserve fund, doesn't have sufficient cash on hand, and is accruing millions of dollars in debt each year as part of its regular operational practices. By putting clear expectations of financial accountability in place today, the school's governing board would be instructed to revisit and revise its practices. This could include re-negotiating its agreement with Stride or seeking other vendor solutions, or any number of other possible solutions that would better protect the tax dollars with which this school is funded.

Request for Exemption

From: Edginton, Kelly [<mailto:kedginton@k12.com>]
Sent: Friday, April 18, 2014 8:44 AM
To: Alison Henken
Cc: Wenger, Allen; Dave Malnes
Subject: RE: Performance Certificate

Hi Alison,

Allen Wenger, our Business Manager, is unable to join us for this morning's meeting. He sent me the following reasoning.

It all comes down to the debt forgiveness part of the agreement. During the year we show a huge deficit and financial unsustainability, but it all goes away at the end of the year when we receive credit invoices which erase the deficit and reverse the accounts payable amounts in our financial statements.

I have cc'd Allen here in case you would like more information. His agenda is busy today, but he should be able to answer further questions you may have via email. Allen will be on vacation next week and will be back in his office on Monday, April 28th if you need to speak with him.

Thank you,
Kelly

From: Alison Henken [<mailto:Alison.Henken@osbe.idaho.gov>]
Sent: Thursday, April 17, 2014 3:33 PM
To: Edginton, Kelly
Subject: RE: Performance Certificate

Kelly,

It would be helpful for us to know the reasoning behind the request for each measure – please explain why you feel IDVA should be exempt from each of those individual measures (1a, 1b, 2a, 2b, and 2c).

Email Edginton to PCSC Staff,
April 2014: Exhibit Q, Page 3

Why did the Commission allow this exemption in the first place? I believe the Commission was not presented with the whole picture, but was only presented with a piece of the story.

The school's leadership team requested this exemption because, as you can see in this email from the school's administration in 2014, the "huge deficit" the school builds up each year, through services fees it can't afford, but has aggregated to pay – that deficit "goes away" and is "erased" through this practice of deficit credits. And at the time, perhaps this was what the administrator believed to be true.

Site Visit Report

“Strengths

- Teachers report that they feel supported by the school’s administration; they believe the administration values and is responsive to feedback.
- Board training and evaluation processes have improved.
- The deficit protection clause in its contract with K12 continues to lead to balanced budgets and financial stability.”

2014 IPCSC Site Visit Report - Exhibit W, Page 4

17

In turn, previous Commission staff, who believed that what they were being told was the whole truth, passed the misconception that this “deficit protection” clause was a “good thing” along to the Commission through various reports, including this site visit report in which deficit credits are noted as a strength.

Adoption of Certificate

E) CONSIDERATION OF PROPOSED CHARTER SCHOOL PERFORMANCE CERTIFICATES

M/S (DeMordaunt/O'Donahue): To execute the performance certificates for the following: Idaho Science and Technology Charter School, North Idaho STEM Charter Academy, Palouse Prairie School of Expeditionary Learning, Taylor's Crossing Public Charter School, Idaho Virtual Education Partners doing business as Idaho Connects Online as presented.

Commissioner Quinn asked whether the schools were comfortable with the certificates. Ms. Baysinger confirmed that school feedback indicated that all schools agreed to the performance certificates as presented.

Commissioner DeMordaunt stated that during the subcommittee meeting, the schools provided positive feedback about the process and felt it was a benefit to their schools.

M/S (DeMordaunt/O'Donahue): To amend the motion to include the approval of the performance certificates of Idaho Virtual Academy, Kootenai Bridge Academy, and Idaho Virtual High School doing business as RichardMcKenna Charter High School as presented. The motion passed unanimously as amended.

IPCSC Meeting Minutes, 6/17/14 – Exhibit W, Page 15

18

In the end, the performance certificate that included the exemption from financial accountability was adopted in a single motion as part of a batch of performance certificates with no record of any discussion on the matter. Unfortunately, the decision made by this commission in 2014, does not appear to have been a well-informed decision.

In isolation, deficit protection, debt that goes away or gets erased sounds like a good thing. But in practice, based on the third party audits of the school's actual outcomes, this school is not financially healthy.

Had the Commission been presented with the whole picture of the school's intent to engage in this contract, what deficit protection actually means and why the school knew it wouldn't be able to meet financial standards, it may not have chosen to allow the exemption in the first place.

In Closing

Renew with the Recommended Conditions:

- Condition 1 – Academic Accountability
- Condition 2 – Enrollment Cap (not contested)
- Condition 3 – Financial Accountability

19

We can't go backwards, but what this commission can do today is authentically consider the school's actual performance over the past five years. Statute requires that you must use the school's financial audit reports to inform your renewal decisions. Today, this commission can make a fully informed decision about the terms and conditions of this school's next performance certificate term.

Without a doubt, there are serious issues at IDVA with regard to public transparency and financial sustainability. The school's financial outcomes are low. I believe that the first step in achieving the necessary improvements is to establish that the school is expected to meet standard on the existing financial measures. I recommend that this school's charter be renewed with an enrollment capacity, expectations for improvement on the alternative graduates measure, and with full accountability to the established financial measures.

Thank you for your time.

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