

Attorney General Kamala D. Harris Announces \$168.5 Million Settlement with K12 Inc., a For-Profit Online Charter School Operator

Friday, July 8, 2016

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Agreement reached over alleged violations of California's false claims, false advertising and unfair business practices laws

LOS ANGELES - Attorney General Kamala D. Harris today announced that the Bureau of Children's Justice and False Claims Unit of the California Department of Justice has reached a settlement agreement with K12 Inc., a for-profit online charter school operator, and the 14 affiliated non-profit schools known as the California Virtual Academies ("CAVA Schools") that it manages, over alleged violations of California's false claims, false advertising and unfair competition laws.

As part of the settlement, which is subject to court approval, K12 will provide approximately \$160 million in debt relief to the non-profit schools it manages—"balanced budget credits" that were accrued by the schools as a result of the fee structure K12 used in its contracts—and will pay \$8.5 million in settlement of all claims. In addition, K12 has agreed to implement significant reforms of its contracts with the CAVA Schools, undergo independent reviews of its services for students with disabilities, ensure accuracy of all advertisements, provide teachers with sufficient information and training to prevent improper claiming of attendance dollars, and change policies and practices to prevent the kinds of conduct that led to this investigation and agreement.

This is the first settlement by the new Bureau of Children's Justice, a first-of-its-kind unit created by Attorney General Harris in February 2015 to enforce civil and criminal laws that protect children and to pursue solutions that help ensure all children are on track to realize their full potential. The Bureau partnered with the False Claims Unit to investigate this matter, in which K12 and the CAVA Schools were cooperative. The Attorney General's office recently disclosed five additional active investigations by the Bureau of Children's Justice addressing education, juvenile justice, and the child welfare system: www.oag.ca.gov/bcj/investigations.

"All children deserve, and are entitled under the law, to an equal education," said Attorney General Harris. "K12 and its schools misled parents and the State of California by claiming taxpayer dollars for questionable student attendance, misstating student success and parent satisfaction, and loading nonprofit charities with debt. As my office continues an industry-wide examination of for-profit academic institutions, this settlement ensures K12 and its schools are held accountable and make much-needed improvements."

The Attorney General's Office alleged that K12 and the CAVA Schools it operates in California misled parents to induce them to enroll their children in K12 schools by publishing misleading advertisements about students' academic progress, parent satisfaction, their graduates' eligibility for University of California and California State University admission, class sizes, the individualized and flexible nature of their instruction, hidden costs, and the quality of the materials provided to students.

In addition, the Attorney General's office alleged that K12 and its affiliated schools submitted inflated student attendance numbers and collected more dollars in state funding from the California Department of Education than they were entitled to. According to a whistle blower, K12 allegedly counted logging on for as little as one minute as a

full day of attendance, wasting taxpayer dollars and harming students by depriving them of a full day of high-quality academic instruction.

Finally, the Attorney General's office alleged that K12 and its employees influenced nonprofit online charter schools to enter into unfavorable contracts that put them deep in a financial hole. The agreement ensures that K12 and the CAVA Schools refocus on the need to deliver quality educational services and that they do so with appropriate controls between the for-profit vendor and nonprofit schools.

A recent study showed that students in virtual schools that exist solely online are far behind their peers in math and reading. In addition, reports show that the CAVA Schools collectively had a graduation rate of 36%, compared to the state average of 78%.

K12 Inc. is based in Virginia and is a for-profit, publicly traded company. The 15 non-profit virtual charter schools it manages throughout California enroll approximately 13,000 K-12 students.

Ensuring that all students receive full days of academic instruction is part of Attorney General Harris's innovative "smart on crime" approach to criminal justice, in which the Attorney General's office has commissioned research into elementary school truancy and chronic absenteeism and the connections between school attendance and interactions with the criminal justice system later in life. Reports from the past three years and additional materials are available online at <https://oag.ca.gov/truancy>.

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Attachment	Size
K12 - BCJ complaint 7.8.16.pdf	563.8 KB

