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Kaizen Education Foundation dba South Pointe Elementary School

Unrestricted Days Liquidity: Kaizen Education Foundation dba South Pointe Elementary School has access to a non-revolving line of credit to cover operating expenses. This line of credit is referenced in Note 2 of their annual audited financial statements, which is attached.

Net Income, Fixed Charge Coverage Ratio and Cash Flow (3-Year Cumulative): The school performed about break-even in 2011 and 2012 and had a net loss in 2013 which lead to a fixed charge coverage ratio of less than 1.1. The negative 3-Year Cumulative cash flow was the result of the management company collecting amounts that it had covered during the prior years. The school is projected to end the 2014 year with positive net income and positive net assets overall. This was accomplished through intensive monitoring of expenses as well as tight budgetary controls. We feel that the school is now on a strong financial track.

Note 1: The Organization and Its Significant Accounting Policies (Continued)

Significant Accounting Policies (Continued)

Classification of Net Assets

Net assets of the School are classified as permanently restricted, temporarily restricted, or unrestricted depending on the presence and characteristics of donor-imposed restrictions limiting the School's ability to use or dispose of contributed assets or the economic benefits embodied in those assets. Donor-imposed restrictions that expire with the passage of time or can be removed by meeting certain requirements, result in temporarily restricted net assets. Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity. Earnings, gains, and losses on restricted net assets are classified as unrestricted unless specifically restricted by the donor. As of June 30, 2013 and 2012, all net assets of the School are unrestricted.

Advertising Costs

The School uses various forms of advertising to recruit students and promote its programs among the public. Advertising costs are expensed as incurred. The School's advertising costs were $2,789 and $2,411 for the years ended June 30, 2013 and 2012, respectively.

Note 2: Line of Credit

During the years ended June 30, 2013 and 2012, respectively, the School entered into non-revolving line of credit agreements with a financial institution to provide working capital. These line of credit agreements required monthly payments of interest at the prime rate with all outstanding principal and interest due in full on June 30, 2013 and 2012. As of June 30, 2013 and 2012, all amounts due were paid in full and, accordingly, there are no amounts outstanding under these line of credit agreements. Interest expense of $7,880 and $5,685 was incurred under these line of credit agreements during the years ended June 30, 2013 and 2012, respectively. These agreements were secured by substantially all of the assets and revenues of the School and were guaranteed by an affiliate of the management company discussed in Note 3.

On August 13, 2013, the School entered into a similar non-revolving line of credit agreement in the amount of $210,000 which matures on June 30, 2014.