File No. 120529

Committee Item No. 2
Board Item No. 23

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Government Audit and Oversight **Date** May 31, 2012

Board of Supervisors Meeting **Date** June 12, 2012

Cmte	Board	
☐	☐	**Motion**
☒	☒	**Resolution**
☐	☐	**Ordinance**
☐	☐	**Legislative Digest**
☐	☐	**Budget and Legislative Analyst Report**
☐	☐	**Legislative Analyst Report**
☐	☐	**Youth Commission Report**
☐	☐	**Introduction Form (for hearings)**
☒	☒	**Department/Agency Cover Letter and/or Report**
☐	☐	**MOU**
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☐	☐	**Form 126 – Ethics Commission**
☐	☐	**Award Letter**
☐	☐	**Application**
☐	☐	**Public Correspondence**

OTHER **(Use back side if additional space is needed)**

☒	☒	Pre-Application for Bond Financing
☒	☒	Financial Statements & Independent Auditor's Report 2010 & 2009
☒	☒	Financial Statements & Independent Auditor's Report 2011 & 2010
☐	☐	
☐	☐	
☐	☐	
☐	☐	
☐	☐	

Completed by: Alisa Miller **Date** May 24, 2012
Completed by: Alisa Miller **Date** June 5, 2012

An asterisked item represents the cover sheet to a document that exceeds 25 pages.
The complete document can be found in the file.

[Issuance of Tax Exempt Revenue Obligations - Live Oak School - Not to Exceed $6,750,000]

Resolution approving in accordance with Section 147(f) of the Internal Revenue Code the issuance of tax-exempt revenue obligations by the California Enterprise Development Authority in an aggregate principal amount not to exceed $6,750,000 to refinance various capital facilities owned by Live Oak School.

WHEREAS, Live Oak, a Learning Center for Children, doing business as Live Oak School, a nonprofit corporation, duly organized and existing under the laws of the State of California (the "Borrower") has requested that the California Enterprise Development Authority, a joint exercise of powers agency established pursuant to the laws of the State of California (the "Authority") issue its revenue obligations (the "Obligations") in an aggregate principal amount not to exceed $6,750,000, for the purpose of making a loan (the "Loan") to the Borrower which will refinance various capital facilities as more fully described below; and,

WHEREAS, The proceeds of the Obligations are to be loaned to the Borrower pursuant to a loan agreement (the "Loan Agreement"); and

WHEREAS, The Borrower expects to use the proceeds of the Loan for the following purposes: (i) to refinance the $7,000,000 California Statewide Communities Development Authority Series 2000 Revenue Bonds (Live Oak School) (the "Bonds"), currently outstanding in the aggregate principal amount of $6,170,000, which Bonds financed or refinanced the acquisition of various capital improvements on the Borrower's educational facilities and (ii) to pay certain costs of issuance in connection with the financing (collectively, the "Project"); and,

WHEREAS, The City and County of San Francisco (the "City") is an associate member of the Authority; and

WHEREAS, The issuance of the Obligations shall be subject to the approval of and execution by the Authority of all financing documents relating thereto to which the Authority is a party; and

WHEREAS, The Project is located wholly within the boundaries of the City; and

WHEREAS, Interest on the Obligations may qualify for tax exemption under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") only if the Obligations are approved by the applicable elected representatives of the City in accordance with Section 147(f) of the Code; and

WHEREAS, The Board of Supervisors of the City (the "Board") is the elected legislative body of the City and is one of the applicable elected representatives required to approve the issuance of the Obligations within the meaning of Section 147(f) of the Code and the Joint Powers Act, comprising Articles 1, 2, 3 and 4 of Chapter 5 of Division 7 of Title 1 (commencing with Section 6500) of the Government Code of the State of California (the "Act"); and

WHEREAS, The Authority has requested the Board to approve the issuance of the Obligations in order to satisfy the public approval requirements of Section 147(f) of the Code and the Act; and

WHEREAS, On April 12, 2012, the City caused a notice to appear in the San Francisco Chronicle, which is a newspaper of general circulation in the City, stating that a public hearing with respect to the issuance of the Obligations would be held by the City's Office of Public Finance on April 27, 2012; and,

WHEREAS, The Office of Public Finance held the public hearing described above on April 27, 2012, and an opportunity was provided for persons to comment on the issuance of the Obligations and the plan of finance for the Project; and

WHEREAS, The Director of the Office of Public Finance recommends approval of the issuance of the Obligations pursuant to Chapter 43, Article 9, Section 5 of the Administrative Code; now, therefore be it

RESOLVED, That this Board hereby finds and declares the above recitals are true and correct; and, be it

FURTHER RESOLVED, That this Board hereby approves the issuance, from time to time, pursuant to a plan of finance, of the Obligations by the Authority; and, be it

FURTHER RESOLVED, That it is the purpose and intent of this Board that this Resolution constitute approval by the applicable elected representative of the governmental unit having jurisdiction over the area in which the Project is located for the purposes of and in accordance with Section 147(f) of the Code and the Act; and, be it

FURTHER RESOLVED, That the approval by the City of the issuance of the Obligations by the Authority is neither an approval of the underlying credit issues of the proposed Project nor an approval of the financial structure of the Obligations; and none of the City or any department thereof, shall have any responsibility or liability whatsoever with respect to the Obligations or the Project; and, be it

FURTHER RESOLVED, That the Obligations shall not constitute a debt or obligation in any respect of the City and the payment of the principal, prepayment premium, if any, and purchase price of and interest on the Obligations shall be solely the responsibility of the Borrower; and, be it

FURTHER RESOLVED, The adoption of this Resolution shall not obligate (i) the City to provide financing to the Borrower for the Project or to issue the Obligations for purposes of such financing; (ii) make any contribution or advance any funds to the Authority; (iii) the City or any department of the City to approve any application or request for, or take any other

action in connection with, any environmental, General Plan, zoning or any other permit or other regulatory action sought in connection with the Project; and, be it

FURTHER RESOLVED, That the Controller and the Director of the Office of Public Finance and any other proper officers of the City are hereby authorized and directed to execute such other agreements, documents and certificates, and to perform such other acts as may be necessary or advisable to effect the purposes of this Resolution, and, be it

FURTHER RESOLVED, That this Resolution shall take effect immediately upon its adoption.

APPROVED AS TO FORM:

DENNIS J.HERRERA, City Attorney

By: _____
Mark D. Blake
Deputy City Attorney

CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

Monique Zmuda
Deputy Controller

Nadia Sesay
Director
Office of Public Finance

May 15, 2012

Supervisor Malia Cohen
City Hall, Room 244
City and County of San Francisco Board of Supervisors
1 Dr. Carlton B. Goodlett Place
San Francisco CA 94102

Dear Supervisor Cohen:

Thank you for agreeing to introduce the Board of Supervisors resolution approving, for the purposes of the Internal Revenue Code, the issuance of revenue obligations (the "Obligations") by the California Enterprise Development Authority (the "Authority") on behalf of Live Oak, A Learning Center for Children (the "Borrower"), and California nonprofit public benefit corporation (the "Corporation"), to refinance facilities owned by the Borrower as summarized below. I respectfully request introduction of the resolution at the meeting of the Board of Supervisors on Tuesday, May 15, 2012.

Pursuant to the Tax Equity and Fiscal Responsibility Act (TEFRA), to facilitate the tax exemption of interest on the Obligations of the Authority, the City is required to conduct a public hearing and to approve the financing by the Authority. The Office of Public Finance held such hearing on Thursday April 27, 2012, notice of which was published in the *San Francisco Chronicle* on April 12, 2012. No comments were heard or received from the TEFRA public hearing. The action by the Board acknowledges that the hearing was duly held and that the financing is proceeding.

The Obligations will be issued in an aggregate principal amount not to exceed $6.75 million. I have performed a limited due diligence review of information pertaining to the project and proposed financing that I have summarized below.

The Borrower

Live Oak was founded in 1971 at Ocean Avenue and San Fernando Way as a Kindergarten through 5th grade independent school in San Francisco. In 1981, the school moved to Diamond Street, between 18th and 19th Streets. The addition of a middle school program did not occur until 1992 with a new building that allowed for a greater student capacity and additional facilities. The school moved in 2002 to its current location at 1555 Mariposa Street, San Francisco, California 94107. The school has a current enrollment of approximately 275 students in grades K-8.

The Project

The proceeds from the sale of the Obligations will be loaned to the Borrower for the following purposes: (i) refinance the outstanding California Statewide Communities Development Authority, Series 2000 Revenue Bonds (Live Oak School) (the "Prior Bonds"), the proceeds of which were used to finance and refinance the acquisition, construction, improvement and equipping of certain of the Borrower's educational facilities, located at 1555 Mariposa Street, San Francisco, California 94107, all owned and operated, and to be owned and operated by the Borrower and used for the educational purposes thereof, and (ii) pay certain costs of issuance in connection with the financing (the "Project").

Financing Information

Assuming all required approvals are obtained, the Authority expects to issue the Obligations in an amount not to exceed $6.75 million. Sidley Austin LLP is acting as counsel to First Republic Bank, as lender, and will render validity and tax-exemption opinions with respect to the Obligations.

Public Approval Process

The City and County of San Francisco is a participating member of the Authority, a joint powers authority. The Authority is authorized to issue bonds, notes, certificates of participation, or other forms of indebtedness, including refunding previously issued debt. As noted above, federal tax law requires that the governing body of the jurisdiction in which the project is located approve the financing and the project after providing the opportunity for a duly-noticed public hearing before the Obligations may be issued on a tax-exempt basis.

Your assistance with this matter is greatly appreciated. Please contact me at (415) 554-6902, if you any questions or require additional information. Thank you.

Sincerely,

Anthony Ababon
Bond Associate

Cc: Andrea Bruss, Legislative Aide to Supervisor Cohen
Mark Blake, Deputy City Attorney

Attachments

Pre-Application Number: [ ]

California Enterprise Development Authority

Project Pre-Application for Bond Financing

I. APPLICANT PROFILE

Applicant/Borrower [Could be a Trust, Partnership, LLC or LLP, or individual(s)]			
Name:	LIVE OAK, A LEARNING CENTER FOR CHILDREN		
Street Address:	1555 MARIPOSA ST		
City:	SAN FRANCISCO	State: CA	
Zip:	94107	NAICS Code	
Contact Name:	SCOTT MACBEAN	Title:	DIR OF OPERATIONS
Phone:	415 568 4723	Fax:	415 861 7153
E-mail:	SCOTT_MACBEAN@LIVEOAKSF.ORG		

Business Specifics - Applicant/Borrower					
Current # of Full-time Employees:	40	California 40		Companywide N/A	
☐ Sole Proprietorship	☐ S Corporation	☐ LLC, LLP, Partnership	☐ C Corporation	☒ 501(c)(3)	☐ Other

Occupant/User (If different from Applicant/Borrower)			
Name:			
Street Address:			
City:		State:	
Zip:		NAICS Code	
Contact Name:		Title:	
Phone:		Fax:	
E-mail:			

Business Specifics - Occupant/User					
Current # of Full-time Employees:		California		Companywide	
☐ Sole Proprietorship	☐ S Corporation	☐ LLC, LLP, Partnership	☐ C Corporation	☐ 501(c)(3)	☐ Other

Pre-Application Number: [ ]

Financial Advisor/Underwriter Contact (if known)			
Name:	N/A		
Street Address:			
City:		State:	Zip
Contact Name:		Title:	
Phone:		Fax :	
E-mail:			

Bond Counsel (if known)			
Firm Name:	SIDLEY AUSTIN LLP		
Street Address:	555 CALIFORNIA ST		
City:	SAN FRANCISCO	State: CA	Zip 94104
Contact Name:	PRESTON SWAPP	Title:	
Phone:	415 772 7427	Fax :	
E-mail:	PSWAPP@SIDLEY.COM		

Please describe the business activities that will occur at the location(s) to be funded with the planned bond transaction:

ELEMENTARY SCHOOL, TEACHING CHILDREN IN K-8 GRADES.

Pre-Application Number: [ ]

II. PROJECT SITE LOCATION(S)

Project Site 1:					
Street Address:	1555 MARIPOSA ST				
City:	SAN FRANCISCO	State:	CA	Zip:	94107
County:	SAN FRANCISCO				
Current # Full-time Employees at this Site:	40				
Full-time Jobs to be Created or Retained at this Site: 40 FULL TIME ANOTHER 20 P/T	Jobs Retained at new site New Jobs Created approx.				

Project Site 2:					
Street Address:					
City:		State:		Zip:	
County:					
Current # Full-time Employees at this Site:					
Full-time Jobs to be Created or Retained at this Site:					

III. TYPE OF ACTIVITY *(Check appropriate box or boxes)*

☐ Manufacturing		☒ Non Profit or Public Benefit	SCHOOL	☐ Other (Specify)
Please fill in when "Other" is specified:				

IV. PROJECT & FINANCING SUMMARY

Summary of Project Budget and Requested Bond Financing:

	Total Project Budget ($):	Project Budget Paid from Bond Proceeds ($):
Land Acquisition		
Building(s)		
Facility Improvements		
New Construction		
New Machinery & Equipment		
Architectural & Engineering		
Legal & Professional		
Financing Costs (Costs of Issuance)		
Other Closing Costs $ Moving Costs $		
Total:	$	$

Pre-Application Number: [ ]

V. ADDITIONAL INFORMATION

Please provide **one complete set** of the following information as attachments to this Application.

Attachments:

A. Brief Project Description in Narrative Form.

B. Description of the Applicant.

C. Public Benefits Associated with the Project.

D. Annual Financial Statements for the most recent three years.

E. $1,500.00 Application Fee – Check made payable to the "California Enterprise Development Authority."

VII. CERTIFICATION

By signing below the borrower is agreeing to all of the California Enterprise Development Authority's Policies & Procedures found on its website.

I hereby represent that all information contained in this documentation and attachments are true and correct to the best of my knowledge.

Date: 3/6/12

Signature: N Scott MacBean

Print Name: N SCOTT MACBEAN

Title: DIRECTOR OF OPERATIONS

SUBMIT THIS APPLICATION AND ATTACHMENTS TO:

California Enterprise Development Authority

Attn:	CEDA
Address:	550 Bercut Drive, Suite G, Sacramento, California 95811
Telephone:	(916) 448-8252
Fax:	(916) 448-3811
E-mail:	michelle@caled.org
Website:	www.ceda.caled.org

V Additional Information Attachments

A. Refinance existing debt for Live Oak School
B. Live Oak School is an independent school serving approximately 275 children in a kindergarten to eighth grade program. Live Oak serves families from a wide variety of San Francisco's neighborhoods. As a progressive school, the curriculum at Live Oak focuses on experiential learning with a strong emphasis on academic achievement and social development. The city and outlying non-urban areas are used as learning settings, making field trips an instrument of basic learning as well as enrichment. Classrooms are self-contained in kindergarten through fifth grade, and a specialist platform is used in the middle school grades, with one class at each grade level in kindergarten through fifth grades, and an expanded middle school program, which allows for two sections at each grade level. There is an average of 23 students per class in lower school and an average of 16 students per class in middle school. A strong parent participation program encourages a home and school partnership in educating children, supports parent's understanding of the school's approach, and enriches the school community through resource development.
C. Live Oak is part of the Potrero Hill community. The school:
    a. Provides an excellent, progressive education for many local families. 30% of the children who attend Live oak receive tuition assistance.
    b. Sponsors, pays for, and participates in a community learning garden at Jackson Park.
    c. Uses local vendors for many of its purchases
    d. Co-ordinates each year in a "peace march" for equity and social justice with other local schools
D. Attached separately

DECLARATION OF PUBLICATION OF
SAN FRANCISCO CHRONICLE

PUBLIC NOTICES (NON-GOVERNMENT)

CITY AND COUNTY OF SAN FRANCISCO BOARD OF SUPERVISORS NOTICE OF PUBLIC HEARING

NOTICE IS HEREBY GIVEN that on April 27, 2012, a public hearing as required by Section 147(f) of the Internal Revenue Code of 1986, as amended, will be held with respect to a proposed loan to be made by First Republic Bank (the "Bank"), in an amount not to exceed $6,750,000 (Six Million Seven Hundred and Fifty Thousand Dollars) (the "Loan"), the interest on which is intended to be federally tax-exempt and exempt from State of California personal income taxes, to the California Enterprise Development Authority (the "Authority"), which will simultaneously reloan the proceeds of the Loan to Live Oak, A Learning Center for Children, doing business as Live Oak School, a California non-profit public benefit corporation (the "Borrower"), pursuant to a Master Loan Agreement (the "Master Loan Agreement"), among the Authority, the Bank and the Borrower.

Proceeds of the Loan will be applied by the Borrower to refinance various capital improvements made with respect to certain educational facilities located at 1555 Mariposa Street, San Francisco, California 94107, including the acquisition, construction, improvement and equipping of such facilities, equipment acquisition and related costs, all located at the above location. The owner and operator of all capital improvements, including equipment and other costs to be refinanced with proceeds of the Loan at the above-described facilities at the above-described location, has been and will be the Borrower.

The hearing will commence at 2:00 p.m., or as soon thereafter as the matter can be heard, and will be held at City and County of San Francisco, Comptroller's Office of Public Finance, Room 336, 1 Dr. Carlton B. Goodlett Place, San Francisco, California 94102, at which time any person may be heard. Those wishing to comment on the proposed refinancing may either appear in person at the public hearing or submit written comments, which must be received by the Clerk of the Board of Supervisors at the City and County of San Francisco, 1 Dr. Carlton B. Goodlett Place, San Francisco, California 94102 on or before the close of business on April 26, 2012. The members of the Board of Supervisors will consider the information obtained at the public hearing and take appropriate action that it may deem warranted.

Additional information concerning the above matter may be obtained from and written comments should be addressed to Michael Carlin, Bond Assistant, Comptroller's Office of Public Finance, City and County of San Francisco, 1 Dr. Carlton B. Goodlett Place, Room 336, San Francisco, California 94102.

DATED this 12th day of April, 2012

CITY AND COUNTY OF SAN FRANCISCO

Lori Gomez

Declares that:

The annexed advertisement has been regularly published In the

SAN FRANCISCO CHRONICLE

Which is an was at all times herein mentioned established as newspaper of general circulation in the City and County of San Francisco, State of California, as the term is defined by Section 6000 of the Government Code

SAN FRANCISCO CHRONICLE

(Name of Newspaper)

901 Mission Street

San Francisco, CA 94103

From 4/12/12

To 4/12/12

Namely on 4/12/12

(Dates of Publication)

I declare under penalty of perjury that the foregoing is true and correct.

Executed on 4/12/12

At San Francisco, California

[TEFRA SCRIPT—To be read publically, or entered into the record, at the direction of the Director of Public Finance]

CALIFORNIA ENTERPRISE DEVELOPMENT AUTHORITY PRIVATE PLACEMENT FOR LIVE OAK, A LEARNING CENTER FOR CHILDREN (LIVE OAK SCHOOL) FINANCING AND REFINANCING OF THE CONSTRUCTION, EXPANSION, REMODELING, RENOVATION, FURNISHING, EQUIPPING, OR ACQUISITION OF FACILITIES IN SAN FRANCISCO, CALIFORNIA

[To be read or entered into the record by the Office of Public Finance]:

"This is a public hearing to consider the execution and delivery of revenue bonds (the "Bonds") for the purpose of making a loan to Live Oak, A Learning Center for Children (Live Oak School) for the purpose of (i) refinancing the $7,000,000 California Statewide Communities Development Authority Series 2000 Revenue Bonds (Live Oak School), currently outstanding in the aggregate principal amount of $6,170,000, which financed or refinanced various capital improvements for the Corporation's campus located at 1555 Mariposa Street, San Francisco, California, (ii) paying costs of issuance in connection with the issuance of the Bonds. Today's hearing is part of a larger process and no decision or approval will be made here today. The public hearing regarding the financing is required by federal tax law. Your comments will be heard and provided to the Board of Supervisors. The Board of Supervisors will then have the discretion to consider legislation approving the issuance of the bonds to refinance the project.

"The public hearing is now open. We will now hear from any person who wishes to speak about the proposed financing. Does anyone wish to speak or submit comments about the project or the issuance of the Bonds?"

[WAIT TO SEE IF ANY MEMBER OF THE AUDIENCE WISHES TO SPEAK AND, IF SO, GIVE EACH OF THEM THE OPPORTUNITY TO DO SO, WITHIN THE USUAL TIME LIMITS ALLOWED.]

"Were any written comments on the proposed tax-exempt obligations or the project received by the Clerk or the Board of Supervisors or the Office of Public Finance prior to this hearing?

[IDENTIFY ANY SUCH WRITTEN COMMENTS OR STATE THAT NONE WERE RECEIVED.]

"The public hearing is now closed"

Date: Friday, April 27, 2012

2:04 pm

SCHOOL REPRESENTATIVE

BOND COUNSEL REPRESENTATIVE

Live Oak School

Celebrating **40 years**

April 3, 2012

Michael Carlin
Bond Assistant
Controller's Office of Public Finance
City and County of San Francisco
San Francisco, California

Re: $[6,750,000] California Enterprise Development Authority 2012 Tax-Exempt Loan (Live Oak School)

Dear Mr. Carlin:

I am Head of School at Live Oak, A Learning Center for Children, doing business as Live Oak School ("Live Oak"). Live Oak seeks approval of the City and County of San Francisco (the "City") in connection with Live Oak's proposed $[6,750,000] California Enterprise Development Authority 2012 Tax-Exempt Loan (Live Oak School) (the "Loan"). This letter is in response to your *Process for TEFRA Hearing, City & County of San Francisco.*

Briefing to Supervisor Malia Cohen

Live Oak is located in the City's 10th District. We contacted 10th District Supervisor Malia Cohen by phone about the proposed Loan, but we have not yet heard back.

Description of the Borrower, and its Stated Purpose and Management

Live Oak is an independent K-8 day school located in the City, and is a nonprofit public benefit corporation duly incorporated and existing under the laws of the State of California, and as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended.

Live Oak is governed by a Board of Trustees. The Board's primary responsibilities are to ensure the school's financial health, to work with me, as the Head of School, in developing a long-term strategic plan for the school and to support and evaluate my development and performance. The Board approves the annual operating budget, takes a leadership role in fundraising and participates in planning and maintaining the school's physical plant.

Parent trustees are elected to no more than two consecutive, three-year terms. Faculty and staff trustees are elected to two-year terms. Community trustees, including alumni, are appointed to three-year terms based on their expertise, perspective and the needs of the school. As Head of School, I serve as an ex officio, non-voting member of the Board. Most Board work is

1555 Mariposa Street San Francisco CA 94107 T 415.861.8840 F 415.861.7153 E info@liveoaksf.org www.liveoaksf.org

accomplished through committees, which are staffed by trustees and other members of the Live Oak community. Current Board committees include: Building and Grounds, Development, Diversity, Executive, Finance, Marketing and Trustee.

Project Description, Current Use of the Site, and Use of the Site Following Completion of the Project

Live Oak occupies 31,000 square feet of buildings on Mariposa Street in Potrero Hill, directly across from the City's Jackson Park. The school includes spacious classrooms with state-of-the-art buildouts and networking, a dedicated library, tech lab, art studio, two science labs and music room. The Grand Hall on the first floor, with a theatrical stage, sound system and lighting, accommodates assemblies, meetings and performances. An Extended Care room complete with play yard and kitchen is adjacent to the Grand Hall. A smaller building on the west end of campus houses a half-court gymnasium with climbing wall. Nearby athletic fields, tennis and basketball courts, and play structures provide additional space for outdoor programs.

In December 2000, California Statewide Communities Development Authority issued its $7,000,000 Series 2000 Revenue Bonds (Live Oak School) (the "Bonds") to finance or refinance various capital improvements on Live Oak's educational facilities.

Description of the Plan of Finance

The proceeds of the Loan would be used to refinance the Bonds, which are currently outstanding in the principal amount of $6,170,000. The principal amount of the Loan would not exceed $6,750,000. The interest rate would be fixed for 15 years at 3.85%, and then set at the 1-Month LIBOR + 1.25% for the remaining 10 years. The Loan would be secured by (i) a first Deed of Trust on Live Oak's real property, located at 1555 Mariposa Street, San Francisco, California 94107, and (ii) a first priority lien in all Live Oak's assets.

Public Approvals, Hearings, or Community Feedback

The proposed Loan is in its initial stages and there have been no public approvals, hearings, or community feedback as of the date of this letter.

Conflicts with the City or any Department, Board, Agency of Commission of the City

Live Oak has no conflicts with the City or any department, board, agency, or commission of the City.

Enclosures

Enclosed please find (i) Live Oak's application to the California Enterprise Development Authority, and (ii) an interested parties list for the proposed Loan.

1555 Mariposa Street San Francisco CA 94107 T 415.861.8840 F 415.861.7153 E info@liveoaksf.org www.liveoaksf.org

Please do not hesitate to let me know if I can provide further clarification or facilitate the process in any way. On behalf of Live Oak, we thank you in advance for your assistance, and look forward to hearing from you.

Kind regards,

Virginia Paik
Head of School

SF1 1792319v.2

1555 Mariposa Street San Francisco CA 94107 T 415.861.8840 F 415.861.7153 E info@liveoaksf.org www.liveoaksf.org

LIVE OAK, A LEARNING CENTER FOR CHILDREN D.B.A. LIVE OAK SCHOOL

(A California Nonprofit Organization)

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

YEARS ENDED JUNE 30, 2010 AND 2009

LIVE OAK, A LEARNING CENTER FOR CHILDREN D.B.A. LIVE OAK SCHOOL

(A California Nonprofit Organization)

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

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* * * *

LINDQUIST
VON HUSEN
& JOYCE LLP

James M. Kraft
S. Scott Seamands
Mark O. Brittain
Alexis H. Wong
Charlotte Siew-Kun Tay

Cathy L. Hwang
Rita B. Dela Cruz
Stanley Woo

Board of Trustees
Live Oak School
San Francisco, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial position of Live Oak, A Learning Center For Children, D.B.A. Live Oak School, a California nonprofit organization, as of June 30, 2010 and 2009, and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of Live Oak School's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of Live Oak School's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Live Oak School as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Lindquist, von Husen and Joyce LLP

November 10, 2010

BKR INTERNATIONAL
Certified Public Accountants, 90 New Montgomery, 11th Floor, San Francisco, California 94105
Telephone 415 957 9999 Facsimile 415 957 1629 Email mail@lvhj.com http://www.lvhj.com

An Independent Member Firm of BKR International with Associates in Principal Cities Worldwide

LIVE OAK, A LEARNING CENTER FOR CHILDREN D.B.A. LIVE OAK SCHOOL

(A California Nonprofit Organization)

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2010 AND 2009

	2010	2009
ASSETS		
Cash and cash equivalents	$ 1,072,082	$ 712,463
Tuition receivable	19,885	31,555
Contributions receivable	16,200	60,894
Prepaid expenses	46,948	66,452
Investments (Note 3)	2,958,226	2,765,287
Assets limited to use (Note 4)	587,697	588,293
Construction in progress (Note 5)	5,468	1,253
Property and equipment – net (Note 6)	12,119,179	12,446,222
Deferred costs – net (Note 7)	129,034	135,329
Total assets	$ 16,954,719	$ 16,807,748
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	$ 251,270	$ 282,309
Interest payable (Note 8)	116,875	116,875
Capital lease obligations	-	7,293
Unearned tuition	1,486,175	1,404,369
Deposits payable (Note 9)	498,896	511,819
Bonds payable (Note 8)	6,480,000	6,620,000
Total liabilities	8,833,216	8,942,665
Net assets:		
Unrestricted	7,398,780	7,146,411
Temporarily restricted (Note 10)	620,600	718,672
Permanently restricted (Note 11)	102,123	-
Total net assets	8,121,503	7,865,083
Total liabilities and net assets	$ 16,954,719	$ 16,807,748

The accompanying notes are an integral part of these financial statements.

LIVE OAK, A LEARNING CENTER FOR CHILDREN D.B.A. LIVE OAK SCHOOL

(A California Nonprofit Organization)

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
Unrestricted net assets:		
Unrestricted support and revenues:		
Tuition	$ 5,721,454	$ 5,593,975
Less: tuition aid and discounts	(832,224)	(727,090)
Net tuition	4,889,230	4,866,885
Fees	152,787	125,938
Other program revenue	120,931	113,323
Contributions	679,619	909,346
Interest	58,190	78,386
Net assets released from restrictions (Note 10)	98,072	126,541
Total unrestricted support and revenues	5,998,829	6,220,419
Expenses:		
Salaries	2,981,013	2,880,384
Employee benefits and taxes	527,547	580,942
Facilities	216,581	232,549
Office and supplies	372,831	351,648
Interest (Note 8)	439,375	447,969
Depreciation and amortization	397,230	391,838
Contribution expense (Note 14)	120,120	115,612
Other	691,763	617,791
Total expenses	5,746,460	5,618,733
Increase in unrestricted net assets	252,369	601,686
Net assets – unrestricted, beginning of the year	7,146,411	6,544,725
Net assets – unrestricted, end of the year	7,398,780	7,146,411
Temporarily restricted net assets (Note 10):		
Contributions	-	14,100
Net assets released from restrictions	(98,072)	(126,541)
Decrease in temporarily restricted net assets	(98,072)	(112,441)
Net assets – temporarily restricted, beginning of the year	718,672	831,113
Net assets – temporarily restricted, end of the year	620,600	718,672
Permanently restricted net assets (Note 11):		
Contributions	102,123	-
Net assets released from restrictions	-	-
Increase in permanently restricted net assets	102,123	-
Net assets – permanently restricted, beginning of the year	-	-
Net assets – permanently restricted, end of the year	102,123	-
Net assets, end of year	$ 8,121,503	$ 7,865,083

The accompanying notes are an integral part of these financial statements.

LIVE OAK, A LEARNING CENTER FOR CHILDREN D.B.A. LIVE OAK SCHOOL

(A California Nonprofit Organization)

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
Cash flows from operating activities:		
Change in net assets	$ 256,420	$ 489,245
Adjustments to reconcile change in net assets to net cash flows provided by operating activities:		
Depreciation and amortization	397,230	391,838
Cash donation in building fund	-	(14,100)
Cash donations for endowment fund (Note 11)	(102,123)	-
(Increase) decrease in assets:		
Tuition receivable	11,670	(4,916)
Contributions receivable	44,694	(30,659)
Prepaid expenses	19,504	(2,060)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(31,039)	(46,578)
Capital lease obligations	(7,293)	(51,713)
Unearned tuition	81,806	130,526
Deposits payable	(12,923)	88,999
Net cash provided by operating activities	657,946	950,582
Cash flows from investing activities:		
Decrease in restricted cash in trust	596	1,753
Increase in investments	(192,939)	(1,274,033)
Decrease (increase) in construction in progress	(4,215)	51,354
Purchase of property and equipment	(63,892)	(320,757)
Net cash used in investing activities	(260,450)	(1,541,683)
Cash flows from financing activities:		
Donations received for building fund	-	14,100
Donations received for endowment fund (Note 11)	102,123	-
Payment of bond payable	(140,000)	(135,000)
Net cash used in financing activities	(37,877)	(120,900)
Increase (decrease) in cash and cash equivalents	359,619	(712,001)
Cash and cash equivalents, beginning of year	712,463	1,424,464
Cash and cash equivalents, end of year	$ 1,072,082	$ 712,463
Supplementary information:		
Cash paid for interest	$ 439,375	$ 447,969

The accompanying notes are an integral part of these financial statements.

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

Live Oak, A Learning Center For Children, D.B.A. Live Oak School (Live Oak), was incorporated January 19, 1973. The purpose of Live Oak is to provide a learning center for the education of children in kindergarten through eighth grade.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Method

Live Oak uses the accrual method of accounting, which recognizes income in the period earned and expenses when incurred, regardless of the timing of the payments.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Presentation

Live Oak reports information regarding its financial position and activities according to three classes of net assets, as applicable: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Revenue Recognition

Contributions are recognized as revenue when they are unconditionally communicated. Grants represent contributions if resource providers receive no value in exchange for the assets transferred. Contributions are recorded at their fair value as unrestricted support, temporarily restricted support, or permanently restricted support, depending on the absence or existence of donor-imposed restrictions as applicable. When a restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Contributions restricted for the purchase of long-lived assets are reported as unrestricted when expended for that purpose.

Live Oak reports tuition revenue at the gross amount, with tuition financial aid and discounts shown as a reduction of gross revenue.

Contributions

Unconditional promises to give are recognized as contribution revenue in the period received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Cash and Cash Equivalents

Cash is defined as cash in demand deposit accounts as well as cash on hand. Cash equivalents are highly liquid investments that are readily convertible to known amounts of cash. Generally, only investments with original maturities of three months or less are considered cash equivalents. Funds restricted as to their use, regardless of liquidity, such as bond reserves are not included as cash. Live Oak occasionally maintains cash on deposit at a bank in excess of the Federal Deposit Insurance Corporation and Securities Investor Protection Corporation limit. The uninsured cash balance, including restricted cash, was approximately $850,000 as of June 30, 2010. Live Oak has not experienced any losses in such accounts. Management believes that it is not exposed to any significant cash credit risk.

Certificates of deposit totaling $490,000 for the year ended June 30, 2009 are included in cash and cash equivalents in the accompanying financial statements. The certificates bear interest ranging from 0.20% to 0.45% and have maturities ranging from one to three months, with penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements.

Accounts Receivable

Management elects to record bad debts using the direct write-off method. Accounting principles generally accepted in the United States of America require that the allowance method be used to reflect bad debts. However, the effect of the use of the direct write-off method is not materially different from the result that would be obtained had the allowance method been followed.

Investments

Under generally accepted accounting principles, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., an exit price) in an orderly transaction between willing market participants at the measurement date.

Generally accepted accounting principles establish a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of Live Oak. Unobservable inputs, if any, reflects Live Oak's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 – Valuations based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuations for which all significant assumptions are observable or can be corroborated by observable market-data.

Level 3 – Valuations based on at least one significant, unobservable input that is supported by little or no market activity and is significant to the overall fair value measurement.

All of Live Oak's investments were valued using Level 1 criteria.

Property and Equipment and Deferred Costs

Property and equipment are stated at cost of acquisition or construction, or fair value if donated, less accumulated depreciation. The cost of maintenance and repairs is charged to expense as incurred. Depreciation is computed based on the straight-line method over the estimated useful life of each asset.

Deferred costs were incurred for bond issuance in order to finance the property. Amortization incurred prior to completion of the construction has been capitalized to the building cost with costs stated at cost and amortized on a straight-line basis.

The useful lives of the assets are estimated as follows:

Building and improvements	10 to 40 years
Furniture and equipment	5 to 10 years
Library books	5 years
Vehicles	5 years
Bond issuance costs	30 years

Construction in Progress

Live Oak incurred costs to renovate the school building during 2009 and 2010. Live Oak records these costs as assets (construction in progress) until they are placed in service. Construction in progress is not depreciated until the improvements are placed in service.

Income Taxes

Live Oak is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and the related California code sections. Contributions to Live Oak qualify for the charitable contribution deduction and Live Oak is not classified as a private foundation.

Functional Expenses Allocation

The costs of providing program services and supporting services have been summarized on a functional basis in Note 15. Accordingly, certain costs have been allocated among program services and supporting services based on estimates of employees' time incurred and on usage of resources.

Reclassification

Certain amounts previously reported in the 2009 financial statements were reclassified to conform to the 2010 presentation for comparative purposes.

Subsequent Events

Management has evaluated subsequent events through November 10, 2010, the date on which the financial statements were available to be issued.

NOTE 3 – INVESTMENTS

Investments at June 30, 2010 and 2009 are summarized as follows:

	June 30, 2010		*June 30, 2009*	
	Cost	*Fair Value*	*Cost*	*Fair Value*
Certificates of Deposit	$ 2,945,000	$ 2,958,226[1]	$ 2,769,739	$ 2,765,287

[1] Interest rates range from 0.25% to 2.30% and maturities range from October 2010 to October 2014.

NOTE 4 – ASSETS LIMITED TO USE

Live Oak issued bonds in the original principal amount of $7,000,000 as part of the funding sources for construction of the school. According to the Bond Agreement, Live Oak is required to maintain certain cash reserve funds in trust. Details follow:

	June 30,	
	2010	*2009*
Bond reserve fund	$ 587,697	$ 588,293

NOTE 5 – CONSTRUCTION IN PROGRESS

Construction in progress consists of the following:

	June 30,	
	2010	*2009*
Cabinetry project	$ 1,200	$ 1,253
Classroom project	4,268	-
Total construction in progress	$ 5,468	$ 1,253

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows:

	June 30,	
	2010	*2009*
Land	$ 3,017,877	$ 3,017,877
Buildings and improvements	11,013,815	10,967,033
Furniture and equipment	803,999	787,168
Library	47,856	47,577
Vehicles	52,083	52,083
Total property and equipment	14,935,630	14,871,738
Less: accumulated depreciation	(2,816,451)	(2,425,516)
Total property and equipment – net	$ 12,119,179	$ 12,446,222

NOTE 7 – DEFERRED COSTS

Deferred costs are summarized as follows:

	June 30,	
	2010	*2009*
Bond issuance cost	$ 188,835	$ 188,835
Less: accumulated amortization	(59,801)	(53,506)
Total deferred costs – net	$ 129,034	$ 135,329

NOTE 8 – BONDS PAYABLE

The bonds payable were issued and authorized by the California Statewide Communities Development Authority (CSCDA) on December 1, 2000. Interest is payable every six months. Accrued interest was approximately $116,875 as of June 30, 2010 and 2009. Interest incurred prior to completion of the construction was capitalized to the building cost. The bonds shall mature on the following dates in the following amounts and bear interest at the following rates per annum. Interest expense incurred was $439,375 and $447,969 for 2010 and 2009, respectively. Live Oak is making sinking fund payments annually to cover the cost of the maturity payments.

	Principal Amount June 30, 2010	*Maturity Date*	*Interest Rate*
CSCDA	$ 480,000	October 1, 2012	6.25%
CSCDA	6,000,000	October 1, 2030	6.75%
Total bonds payable	$ 6,480,000		

Future principal payments due are as follows:

Year Ended June 30,	
2011	$ 150,000
2012	160,000
2013	170,000
2014	180,000
2015	195,000
Thereafter	5,625,000
Total	$ 6,480,000

NOTE 9 – DEPOSITS PAYABLE

All students enrolled are required to pay a $1,000 capital deposit for each of their first three school years. Recipients of financial aid generally are not required to pay. The capital deposits are non-interest bearing and are refunded after the student ceases to be enrolled at Live Oak School. The amounts payable are from $-0- to $3,000 per child.

The capital deposit program is not a loan, is not secured and is subordinate to all other obligations of Live Oak. Live Oak is not required to segregate or hold the capital deposits, and may spend them in any manner as the school shall determine.

NOTE 10 – TEMPORARILY RESTRICTED NET ASSETS

The temporarily restricted net assets are for the following purposes or periods:

	2010			
	June 30, 2009	*Contributions*	*Releases from Restrictions*	*June 30, 2010*
Scholarship program (Note 14)	$ 693,672	$ -	$ (93,072)	$ 600,600
Annual fund campaign	25,000	-	(5,000)	20,000
Total	$ 718,672	$ -	$ (98,072)	$ 620,600

	2009			
	June 30, 2008	*Contributions*	*Releases from Restrictions*	*June 30, 2009*
Building fund for the school	$ 26,850	$ 14,100	$ (40,950)	$ -
Scholarship program (Note 14)	774,263	-	(80,591)	693,672
Annual fund campaign	30,000	-	(5,000)	25,000
Total	$ 831,113	$ 14,100	$ (126,541)	$ 718,672

NOTE 11 – PERMANENTLY RESTRICTED NET ASSETS

Donor-designated Endowment

In December 2009, Live Oak established the Holly Horton Scholarship Endowment Fund (Endowment) for the purpose of providing a permanent and reliable funding source for tuition and scholarship assistance. The Endowment includes only donor-restricted funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of Live Oak has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Live Oak classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Live Oak in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Live Oak considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of Live Oak, and (7) Live Oak's investment policies.

Investment Return Objectives, Risk Parameters and Strategies: Live Oak has adopted investment and spending policies, approved by the Board of Trustees, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 4%, while growing the funds if possible. Therefore, Live Oak expects its endowment assets, over time, to produce an average rate of return of approximately 4%, plus the inflation rate, annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy: Live Oak has a policy of appropriating for distribution each year a maximum of 4% of its Endowment fund's average fair value of the prior 12 quarters through the fiscal year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, Live Oak considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, all of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. Live Oak expects the current spending policy to allow its Endowment funds to grow at a nominal average rate of 4% annually. This is consistent with Live Oak's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

The permanently restricted net assets are for the following purposes or periods:

	2010			
	June 30, 2009	*Contributions*	*Releases from Restrictions*	*June 30, 2010*
Holly Horton Scholarship Endowment Fund [1]	$ -	$ 102,123 [2]	$ -	$ 102,123

(1) Solicitations for the Endowment are included in the Capital Campaign. For additional information see Note 10. The corpus of the Endowment will be held as long as the school is open; whereas, any interest earned on investment funds shall be reinvested or spent according to intended purposes.

(2) As of June 30, 2010, contributions received in the amount of $102,123 have not been transferred into an endowment fund since an investment manager to oversee the Endowment has not been selected by management. As of June 30, 2010 there are no reported earnings or expenses associated with the Endowment.

Capital Campaign

A Capital Campaign was launched in September 2009 to help support the financial needs and overall learning experience of the students at Live Oak. The primary goal of this campaign is to generate $3.5 to $4.0 million in contributions from donors during a three year period. Management has determined that aggregate contributions of $2.3 million from the campaign, absent any donor-imposed purpose or use restriction, will be designated to provide support for ongoing needs and projects, tuition assistance, and faculty development.

NOTE 12 – PENSION PLAN

Live Oak established the 403(b) Tax Deferred Annuity (TDA) and Defined Contribution (DC) pension plans in 2004, later amended in 2009, covering eligible employees. The plans allow employees to elect salary deferrals, subject to annual limits determined by the Internal Revenue Service. If an eligible employee contributes to the DC plan, Live Oak will match up to 3% of the employee's salary (or up to 4% for employees who have been with the school for over ten years). The employer contribution to the plan was $132,427 and $142,360 for the years ended June 30, 2010 and 2009, respectively.

NOTE 13 – DONATED PROPERTY

In August 2000, Live Oak obtained the property that was acquired for the new building at a cost significantly below appraised value. The property has been recorded at the appraised value, resulting in a $4,347,000 donation.

NOTE 14 – SCHOLARSHIP PROGRAM

In connection with the acquisition of real estate for use as the new school, Live Oak agreed to participate in the Richard Calton Scholarship Program. From August 2000 through August 2014, Live Oak is to contribute $50,000 for each calendar year, as adjusted (currently $115,612 for the 2009-2010 school year), to the scholarship fund which is maintained by the San Francisco Foundation. The annual contribution is adjusted by the annual change in tuition charged for a full-time student. Scholarships are awarded to qualified students of Live Oak, or to other students if necessary to exhaust the year's scholarship money.

It is expected that all amounts contributed to the program will be received back in the form of scholarships to eligible students of Live Oak.

Temporarily restricted net assets arose from the contribution of real estate under the terms described above and are to be released over a five year period at the current year annual scholarship of $120,120. The 2008-2009 contribution of $115,612 was received from the San Francisco Foundation during the fiscal year ended June 30, 2009 and was included as contribution income. Live Oak did not receive a pledge commitment from the Foundation to fund the 2009-2010 school scholarship, but anticipates that $120,120 in addition to the 2010-2011 school scholarship (to be adjusted based on the tuition increase from the prior year) will be received in the fiscal year ended June 30, 2011.

NOTE 15 – FUNCTIONAL EXPENSE

Functional expenses allocated by management are summarized as follows:

	2010			
	Program Services	*Management and General*	*Fundraising*	*Total*
Personnel expense	$ 2,034,965	$ 1,255,210	$ 218,385	$ 3,508,560
Interest (Note 8)	412,895	22,557	3,923	439,375
Depreciation and amortization	372,532	19,553	5,145	397,230
Contribution expense (Note 14)	120,120	-	-	120,120
Other expenses	496,560	589,412	195,203	1,281,175
Total	$ 3,437,072	$ 1,886,732	$ 422,656	$ 5,746,460

	2009			
	Program Services	*Management and General*	*Fundraising*	*Total*
Personnel expense	$ 1,972,956	$ 1,315,304	$ 173,066	$ 3,461,326
Interest (Note 8)	421,444	22,595	3,930	447,969
Depreciation and amortization	368,328	19,592	3,918	391,838
Contribution expense (Note 14)	115,612	-	-	115,612
Other expenses	471,141	584,269	146,578	1,201,988
Total	$ 3,349,481	$ 1,941,760	$ 327,492	$ 5,618,733

LIVE OAK, A LEARNING CENTER FOR CHILDREN D.B.A. LIVE OAK SCHOOL

(A California Nonprofit Organization)

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

YEARS ENDED JUNE 30, 2011 AND 2010

LIVE OAK, A LEARNING CENTER FOR CHILDREN D.B.A. LIVE OAK SCHOOL

(A California Nonprofit Organization)

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

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LINDQUIST
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STANLEY WOO

Board of Trustees
Live Oak School
San Francisco, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial position of Live Oak, A Learning Center For Children, D.B.A. Live Oak School, a California nonprofit organization, as of June 30, 2011 and 2010, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of Live Oak School's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of Live Oak School's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Live Oak School as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Lindquist, von Husen and Joyce LLP

December 6, 2011

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LIVE OAK, A LEARNING CENTER FOR CHILDREN D.B.A. LIVE OAK SCHOOL

(A California Nonprofit Organization)

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2011 AND 2010

	2011	2010
ASSETS		
Cash and cash equivalents	$ 2,198,387	$ 1,072,082
Tuition receivable	38,204	19,885
Contributions receivable	8,857	16,200
Prepaid expenses	60,805	46,948
Investments - unrestricted (Note 3)	2,796,241	2,958,226
Assets limited to use (Note 4)	588,836	587,697
Endowment fund (Notes 3 and 11)	449,574	-
Construction in progress (Note 5)	-	5,468
Property and equipment – net (Note 6)	11,765,984	12,119,179
Deferred costs – net (Note 7)	122,739	129,034
Total assets	$ 18,029,627	$ 16,954,719
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	$ 272,652	$ 251,270
Interest payable (Note 8)	116,875	116,875
Unearned tuition	1,615,099	1,486,175
Deposits payable (Note 9)	478,882	498,896
Bonds payable (Note 8)	6,330,000	6,480,000
Total liabilities	8,813,508	8,833,216
Net assets:		
Unrestricted	8,254,768	7,398,780
Temporarily restricted (Note 10)	518,953	620,600
Permanently restricted (Note 11)	442,398	102,123
Total net assets	9,216,119	8,121,503
Total liabilities and net assets	$ 18,029,627	$ 16,954,719

The accompanying notes are an integral part of these financial statements.

LIVE OAK, A LEARNING CENTER FOR CHILDREN D.B.A. LIVE OAK SCHOOL

(A California Nonprofit Organization)

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Unrestricted net assets:		
Unrestricted support and revenues:		
Tuition	$ 6,183,212	$ 5,721,454
Less: tuition aid and discounts	(906,552)	(832,224)
Net tuition	5,276,660	4,889,230
Fees	138,095	152,787
Other program revenue	130,049	120,931
Contributions	1,269,534	679,619
Interest	41,659	58,190
Net assets released from restrictions (Note 10)	113,108	98,072
Total unrestricted support and revenues	6,969,105	5,998,829
Expenses:		
Salaries	3,213,855	2,981,013
Employee benefits and taxes	579,516	527,547
Facilities	241,716	216,581
Office and supplies	407,640	372,831
Interest (Note 8)	430,313	439,375
Depreciation and amortization	392,455	397,230
Contribution expense (Note 14)	128,173	120,120
Other	719,449	691,763
Total expenses	6,113,117	5,746,460
Increase in unrestricted net assets	855,988	252,369
Net assets – unrestricted, beginning of the year	7,398,780	7,146,411
Net assets – unrestricted, end of the year	8,254,768	7,398,780
Temporarily restricted net assets (Note 10):		
Contributions	4,285	-
Endowment fund investment income	7,176	
Net assets released from restrictions	(113,108)	(98,072)
Decrease in temporarily restricted net assets	(101,647)	(98,072)
Net assets – temporarily restricted, beginning of the year	620,600	718,672
Net assets – temporarily restricted, end of the year	518,953	620,600
Permanently restricted net assets (Note 11):		
Contributions	340,275	102,123
Increase in permanently restricted net assets	340,275	102,123
Net assets – permanently restricted, beginning of the year	102,123	-
Net assets – permanently restricted, end of the year	442,398	102,123
Net assets, end of year	$ 9,216,119	$ 8,121,503

The accompanying notes are an integral part of these financial statements.

LIVE OAK, A LEARNING CENTER FOR CHILDREN D.B.A. LIVE OAK SCHOOL

(A California Nonprofit Organization)

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Cash flows from operating activities:		
Change in net assets	$ 1,094,616	$ 256,420
Adjustments to reconcile change in net assets to net cash flows provided by operating activities:		
Depreciation and amortization	392,452	397,230
Cash donations for endowment fund (Note 11)	(340,275)	(102,123)
(Increase) decrease in assets:		
Tuition receivable	(18,319)	11,670
Contributions receivable	7,343	44,694
Prepaid expenses	(13,857)	19,504
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	21,382	(31,039)
Capital lease obligations	-	(7,293)
Unearned tuition	128,924	81,806
Deposits payable	(20,014)	(12,923)
Net cash provided by operating activities	1,252,252	657,946
Cash flows from investing activities:		
(Increase) decrease in restricted trust and endowment fund	(450,713)	596
(Increase) decrease in unrestricted investments	161,985	(192,939)
Decrease (increase) in construction in progress	5,468	(4,215)
Purchase of property and equipment	(32,962)	(63,892)
Net cash used in investing activities	(316,222)	(260,450)
Cash flows from financing activities:		
Donations received for endowment fund (Note 11)	340,275	102,123
Payment of bond payable	(150,000)	(140,000)
Net cash used in financing activities	190,275	(37,877)
Increase in cash and cash equivalents	1,126,305	359,619
Cash and cash equivalents, beginning of year	1,072,082	712,463
Cash and cash equivalents, end of year	$ 2,198,387	$ 1,072,082
Supplementary information:		
Cash paid for interest	$ 430,313	$ 439,375

The accompanying notes are an integral part of these financial statements.

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

Live Oak, A Learning Center For Children, D.B.A. Live Oak School (Live Oak), was incorporated January 19, 1973. The purpose of Live Oak is to provide a learning center for the education of children in kindergarten through eighth grade.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Method

Live Oak uses the accrual method of accounting, which recognizes income in the period earned and expenses when incurred, regardless of the timing of the payments.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

Basis of Presentation

Live Oak reports information regarding its financial position and activities according to up to three classes of net assets, as applicable: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Revenue Recognition

Contributions are recognized as revenue when they are unconditionally communicated. Grants represent contributions if resource providers receive no value in exchange for the assets transferred. Contributions are recorded at their fair value as unrestricted support, temporarily restricted support, or permanently restricted support, depending on the absence or existence of donor-imposed restrictions as applicable. When a restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Contributions restricted for the purchase of long-lived assets are reported as unrestricted when expended for that purpose.

Live Oak reports tuition revenue at the gross amount, with tuition financial aid and discounts shown as a reduction of gross revenue.

Contributions

Unconditional promises to give are recognized as contribution revenue in the period received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Cash and Cash Equivalents

Cash is defined as cash in demand deposit accounts as well as cash on hand. Not included as cash are funds restricted as to their use, regardless of liquidity, such as bond reserve. Live Oak occasionally maintains cash on deposit at a bank in excess of the Federal Deposit Insurance Corporation and Securities Investor Protection Corporation limit. The uninsured cash balance, including restricted cash, was approximately $89,000 as of June 30, 2011. Live Oak has not experienced any losses in such accounts.

Cash equivalents are highly liquid investments that are readily convertible to known amounts of cash. Generally, only investments with original maturities of three months or less are considered cash equivalents.

Certificates of deposit totaling $835,319 as of June 30, 2011 are included in cash and cash equivalents in the accompanying financial statements. The certificates bear interest ranging from 0.15% to 2.3% and have maturities ranging from one to three months, with penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements.

Accounts Receivable

Management elects to record bad debts using the direct write-off method. Accounting principles generally accepted in the United States of America require that the allowance method be used to reflect bad debts. However, the effect of the use of the direct write-off method is not materially different from the result that would be obtained had the allowance method been followed.

Investments

Under generally accepted accounting principles, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., an exit price) in an orderly transaction between willing market participants at the measurement date.

Generally accepted accounting principles establish a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of Live Oak. Unobservable inputs, if any, reflects Live Oak's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities. Valuation adjustments and block discounts are not applied to Level I securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 – Valuations based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuations for which all significant assumptions are observable or can be corroborated by observable market-data.

Level 3 – Valuations based on at least one significant, unobservable input that is supported by little or no market activity and is significant to the overall fair value measurement.

All of Live Oak's investments were valued using Level 1 criteria.

Property and Equipment and Deferred Costs

Property and equipment is stated at cost of acquisition or construction, or fair value if donated. The cost of maintenance and repairs is charged to expense as incurred. Depreciation is computed based on the straight-line method over the estimated useful lives of the assets.

Deferred costs were incurred for bond issuance in order to finance the property. Amortization incurred prior to completion of the construction has been capitalized to the building cost with costs stated at cost and amortized on a straight-line basis.

The useful lives of the assets are estimated as follows:

Building and improvements	10 to 40 years
Furniture and equipment	5 to 10 years
Library books	5 years
Vehicles	5 years
Bond issuance costs	30 years

Construction in Progress

Live Oak incurred costs to renovate the school building during 2010. Live Oak records these costs as assets (construction in progress) until they are placed in service. Construction in progress was not depreciated until the improvements were placed in service in 2011.

Income Taxes

Live Oak is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and the related California code sections. Contributions to Live Oak qualify for the charitable contribution deduction and Live Oak is not classified as a private foundation.

Live Oak believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. Live Oak's federal and state information returns for the years 2007 through 2010 are subject to examination by regulatory agencies, generally for three years and four years after they were filed for federal and state, respectively.

Functional Expenses Allocation

The costs of providing program services and supporting services are summarized on a functional basis in Note 15. Accordingly, certain costs are allocated among program services and supporting services based on estimates of employees' time incurred and on usage of resources.

Subsequent Events

Management has evaluated subsequent events through December 6, 2011, the date on which the financial statements were available to be issued.

NOTE 3 – INVESTMENTS AND ENDOWMENT FUND

Investments and endowment fund at June 30, 2011 and 2010 are summarized as follows:

	June 30, 2011		*June 30, 2010*	
	Cost	*Fair Value*	*Cost*	*Fair Value*
Certificates of Deposit	$ 2,790,000	$ 2,796,241[1]	$ 2,945,000	$ 2,958,226
Endowment Fund:				
Mutual Funds and Exchange Traded Funds	$ 351,293	$ 363,826	$ -	$ -
Cash	85,748	85,748	-	-
Total endowment fund	$ 437,041	$ 449,574	$ -	$ -

[1] Interest rates range from 0.15% to 2.30% and maturities range from October 2011 to October 2014.

NOTE 4 – ASSETS LIMITED TO USE

Live Oak issued bonds in the original principal amount of $7,000,000 as part of the funding sources for construction of the school. According to the Bond Agreement, Live Oak is required to maintain certain cash reserve funds in trust. Details follow:

	June 30,	
	2011	*2010*
Bond reserve fund	$ 588,836	$ 587,697

NOTE 5 – CONSTRUCTION IN PROGRESS

Construction in progress consists of the following:

	June 30,	
	2011	*2010*
Cabinetry project	$ -	$ 1,200
Classroom project	-	4,268
Total construction in progress	$ -	$ 5,468

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows:

	June 30,	
	2011	*2010*
Land	$ 3,017,877	$ 3,017,877
Buildings and improvements	11,042,509	11,013,815
Furniture and equipment	808,267	803,999
Library	47,856	47,856
Vehicles	52,083	52,083
Total property and equipment	14,968,592	14,935,630
Less: accumulated depreciation	(3,202,608)	(2,816,451)
Total property and equipment – net	$ 11,765,984	$ 12,119,179

NOTE 7 – DEFERRED COSTS

Deferred costs are summarized as follows:

	June 30,	
	2011	*2010*
Bond issuance cost	$ 188,835	$ 188,835
Less: accumulated amortization	(66,096)	(59,801)
Total deferred costs – net	$ 122,739	$ 129,034

NOTE 8 – BONDS PAYABLE

The bonds payable were issued and authorized by the California Statewide Communities Development Authority (CSCDA) on December 1, 2000. Interest is payable every six months. Accrued interest was approximately $116,875 as of June 30, 2011 and 2010. Interest incurred prior to completion of the construction was capitalized to the building cost. The bonds shall mature on the following dates in the following amounts and bear interest at the following rates per annum. Interest expense incurred was $430,313 and $439,375 for 2011 and 2010, respectively. Live Oak is making sinking fund payments annually to cover the cost of the maturity payments.

	Principal Amount June 30, 2011	*Maturity Date*	*Interest Rate*
CSCDA	$ 330,000	October 1, 2012	6.25%
CSCDA	6,000,000	October 1, 2030	6.75%
Total bonds payable	$ 6,330,000		

Future principal payments due are as follows:

Year Ended June 30,	
2012	$ 160,000
2013	170,000
2014	180,000
2015	195,000
2016	205,000
Thereafter	5,420,000
Total	$ 6,330,000

NOTE 9 – DEPOSITS PAYABLE

All students enrolled are required to pay a $1,000 capital deposit for each of their first three school years. Recipients of financial aid generally are not required to pay. The capital deposits are non-interest bearing and are refunded after the student ceases to be enrolled at Live Oak School.

The capital deposit program is not a loan, is not secured and is subordinate to all other obligations of Live Oak. Live Oak is not required to segregate or hold the capital deposits, and may spend them in any manner as the school shall determine.

NOTE 10 – TEMPORARILY RESTRICTED NET ASSETS

The temporarily restricted net assets are for the following purposes or periods:

	2011			
	June 30, 2010	*Contributions*	*Releases from Restrictions*	*June 30, 2011*
Scholarship program (Note 14)	$ 600,600	$ -	$ (108,108)	$ 492,492
Annual fund campaign	20,000	-	(5,000)	15,000
Solar panel fund for the school	-	4,285	-	4,285
Unexpended Endowment Fund income	-	7,176	-	7,176
Total	$ 620,600	$ 11,461	$ (113,108)	$ 518,953

	2010			
	June 30, 2009	*Contributions*	*Releases from Restrictions*	*June 30, 2010*
Scholarship program (Note 14)	$ 693,672	$ -	$ (93,072)	$ 600,600
Annual fund campaign	25,000	-	(5,000)	20,000
Total	$ 718,672	$ -	$ (98,072)	$ 620,600

NOTE 11 – PERMANENTLY RESTRICTED NET ASSETS

Donor-designated Endowment

In December 2009, Live Oak established the Holly Horton Scholarship Endowment Fund (Endowment) for the purpose of providing a permanent and reliable funding source for tuition and scholarship assistance. Other endowment funds are restricted for ongoing needs and projects. The Endowment includes only donor-restricted funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of Live Oak has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Live Oak classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Live Oak in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Live Oak considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of Live Oak, and (7) Live Oak's investment policies.

Investment Return Objectives, Risk Parameters and Strategies: Live Oak has adopted investment and spending policies, approved by the Board of Trustees, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 4%, while growing the funds if possible. Therefore, Live Oak expects its endowment assets, over time, to produce an average rate of return of approximately 4%, plus the inflation rate, annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy: Live Oak has a policy of appropriating for distribution each year a maximum of 4% of its Endowment fund's average fair value of the prior 12 quarters through the fiscal year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, Live Oak considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, all of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. Live Oak expects the current spending policy to allow its Endowment funds to grow at a nominal average rate of 4% annually. This is consistent with Live Oak's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

The permanently restricted net assets are for the following purposes or periods:

	2011			
	June 30, 2010	*Contributions*	*Releases from Restrictions*	*June 30, 2011*
Holly Horton Scholarship Endowment Fund [1]	$ 102,123	$ 200,100	$ -	$ 302,223
Other Endowment Funds	-	140,175	-	140,175
Total	$ 102,123	$ 340,275	$ -	$ 442,398[2]

	2010			
	June 30, 2009	*Contributions*	*Releases from Restrictions*	*June 30, 2010*
Holly Horton Scholarship Endowment Fund [1]	$ -	$ 102,123	$ -	$ 102,123

(1) Solicitations for the Endowment are included in the Capital Campaign. For additional information see Note 10. The corpus of the Endowment will be held as long as the school is open; whereas, any investment income earned on the Endowment funds shall retained until such earnings reach 10% of the contributions received.

(2) The total Endowment Fund balance is $449,574 of which $442,398 is permanently restricted. The additional $7,176 of unexpended investment income is temporarily restricted (see Note 10).

Capital Campaign

A Capital Campaign was launched in September 2009 to help support the financial needs and overall learning experience of the students at Live Oak. The primary goal of this campaign was to generate $3.5 to $4.0 million in contributions from donors during a three year period. Management has determined that aggregate contributions of up to $2.3 million from the campaign, absent any donor-imposed purpose or use restriction, will be designated to provide support for ongoing needs and projects, tuition assistance, and faculty development.

NOTE 12 – PENSION PLAN

Live Oak established the 403(b) Tax Deferred Annuity (TDA) and Defined Contribution (DC) pension plans in 2004, later amended in 2009, covering eligible employees. The plans allow employees to elect salary deferrals, subject to annual limits determined by the Internal Revenue Service. If an eligible employee contributes to the DC plan, Live Oak will match up to 3% of the employee's salary (or up to 4% for full-time employees who have been with the school for over ten years). The employer contribution to the plan was $143,165 and $132,427 for the years ended June 30, 2011 and 2010, respectively.

NOTE 13 – DONATED PROPERTY

In August 2000, Live Oak obtained the property that was acquired for the new building at a cost significantly below appraised value. The property has been recorded at the appraised value, resulting in a $4,347,000 donation.

NOTE 14 – SCHOLARSHIP PROGRAM

In connection with the acquisition of real estate for use as the new school, Live Oak agreed to participate in the Richard Calton Scholarship Program. From August 2000 through August 2014, Live Oak is to contribute $50,000 for each calendar year, as adjusted (currently $123,123 for the 2011-2012 school year), to the scholarship fund which is maintained by the San Francisco Foundation. The annual contribution is adjusted by the annual change in tuition charged for a full-time student. Scholarships are awarded to qualified students of Live Oak, or to other students if necessary to exhaust the year's scholarship money.

It is expected that all amounts contributed to the program will be received back in the form of scholarships to eligible students of Live Oak.

Temporarily restricted net assets arose from the contribution of real estate under the terms described above and are to be released over a four year period at the current year annual scholarship of $123,123. The 2009-2010 contribution of $120,120 and the 2010-2011 contribution of $123,123 were received from the San Francisco Foundation during the fiscal year ended June 30, 2011.

NOTE 15 – FUNCTIONAL EXPENSE

Functional expenses allocated by management are summarized as follows:

	2011			
	Program Services	*Management and General*	*Fundraising*	*Total*
Personnel expense	$ 2,422,135	$ 1,085,046	$ 286,190	$ 3,793,371
Interest (Note 8)	404,379	22,092	3,842	430,313
Depreciation and amortization	368,054	19,318	5,083	392,455
Contribution expense (Note 14)	128,173	-	-	128,173
Other expenses	496,528	597,727	274,550	1,368,805
Total	$ 3,819,269	$ 1,724,183	$ 569,665	$ 6,113,117

	2010			
	Program Services	*Management and General*	*Fundraising*	*Total*
Personnel expense	$ 2,034,965	$ 1,255,210	$ 218,385	$ 3,508,560
Interest (Note 8)	412,895	22,557	3,923	439,375
Depreciation and amortization	372,532	19,553	5,145	397,230
Contribution expense (Note 14)	120,120	-	-	120,120
Other expenses	496,560	589,412	195,203	1,281,175
Total	$ 3,437,072	$ 1,886,732	$ 422,656	$ 5,746,460