

MISSION-WEST VALLEY LAND CORPORATION

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2023 AND 2022

AND

INDEPENDENT AUDITORS' REPORT





INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Mission-West Valley Land Corporation
Santa Clara, California

Opinion

We have audited the accompanying financial statements of Mission-West Valley Land Corporation (a non-profit California corporation), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mission-West Valley Land Corporation as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Mission-West Valley Land Corporation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Mission-West Valley Land Corporation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.



Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Mission-West Valley Land Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Mission-West Valley Land Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Johanson & Yau Accountancy Corporation

Campbell, California
October 13, 2023

MISSION-WEST VALLEY LAND CORPORATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2023 AND 2022

ASSETS

	2023	2022
Cash and cash equivalents - Note 2	\$ 15,293,568	\$ 12,073,346
Investments - Note 2	10,810,011	10,681,324
Interest receivable	168,219	60,568
Rent receivable	-	20,816
Deferred rent receivable	3,588,261	-
Land	16,702	16,702
Operating lease right-of-use assets - Note 7	47,731,291	-
Lease commissions, net - Note 4	457,986	472,963
	\$ 78,066,038	\$ 23,325,719

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable and accrued expenses - Note 5	\$ 1,111,162	\$ 581,364
Deferred rental income	581,854	354,108
Refundable rent overpayment	-	18,000
Refundable security deposits - Note 6	550,000	550,000
Operating lease liabilities - Note 7	48,627,511	-
	50,870,527	1,503,472
Net assets		
Without donor restrictions - Note 10	27,195,511	21,822,247
	\$ 78,066,038	\$ 23,325,719

See accompanying notes to financial statements

MISSION-WEST VALLEY LAND CORPORATION
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
Revenues		
Rental income - Note 8	\$ 11,116,208	\$ 8,665,543
Investment income (loss), net - Note 2	663,442	(128,054)
Total revenue	11,779,650	8,537,489
Expenses		
Program		
Grants for special projects - Note 11	3,570,740	2,565,256
Lease costs - Note 7	2,778,207	2,166,386
General and administrative		
Legal	16,603	145,306
Contracted services	2,266	71,077
Amortization of lease commissions - Note 4	14,977	14,977
Audit fees	18,500	17,250
Financial services	4,375	4,025
Taxes & licenses	589	581
Miscellaneous	129	445
	6,406,386	4,985,303
Change in net assets without donor restrictions	5,373,264	3,552,186
Net assets without donor restrictions, beginning of year	21,822,247	18,270,061
Net assets without donor restrictions, end of year	\$ 27,195,511	\$ 21,822,247

See accompanying notes to financial statements

MISSION-WEST VALLEY LAND CORPORATION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities		
Change in net assets	\$ 5,373,264	\$ 3,552,186
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Net realized and unrealized loss on investments	32,719	499,404
Reinvested dividends	(95,017)	(109,422)
Amortization of right-of-use assets - operating lease	630,513	-
Amortization of lease commissions	14,977	14,977
(Increase) decrease in		
Interest receivable	(107,651)	(15,032)
Rent receivable	20,816	(20,816)
Deferred rent receivable	(3,588,261)	-
(Decrease) increase in		
Accounts payable and accrued expenses	529,798	116,824
Deferred rental income	227,746	121,464
Refundable rent overpayment	(18,000)	18,000
Repayment of right-of-use operating lease liabilities	265,707	-
Net cash provided by operating activities	<u>3,286,611</u>	<u>4,177,585</u>
Cash flows from investing activities		
Proceeds from sales of investments	3,079,391	4,616,205
Purchase of investments	<u>(3,145,780)</u>	<u>(4,966,453)</u>
Net cash used for investing activities	<u>(66,389)</u>	<u>(350,248)</u>
Net increase in cash and cash equivalents	3,220,222	3,827,337
Cash and cash equivalents, beginning of year	<u>12,073,346</u>	<u>8,246,009</u>
Cash and cash equivalents, end of year	<u>\$ 15,293,568</u>	<u>\$ 12,073,346</u>
Supplemental disclosures		
Non-cash transactions		
Recognition of right-of-use assets obtained from operating lease liabilities	<u>\$ 48,361,804</u>	<u>\$ -</u>

See accompanying notes to financial statements

MISSION-WEST VALLEY LAND CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Organization - Mission-West Valley Land Corporation (the Organization) was incorporated in 1985 in the state of California. Prior to 1996, the Organization was known as Mission-West Valley Educational Foundation. The specific and primary purpose of the Organization is to promote the general welfare of the public of the West Valley-Mission Community College District (the District) by mobilizing both financial and human resources in order to ensure the success of the District in serving the public through utilization of proper facilities and creation of programs that enhance community life, including programs that enrich education, cultural and community service opportunities. The principal office of the Organization is located in the County of Santa Clara, California.

The Organization has lease agreements with the District. The Organization leases 54.4 acres of land from the District for purposes of sub-ground lease and development. The Organization manages the property and has entered into several sub-ground lease agreements.

The Organization is recognized as a non-profit organization under IRS Code 501(c)(3) and California Revenue and Tax Section 23701(d). The members of the Board of the Organization also serve on the Board of the District.

Financial Statement Presentation - Under generally accepted accounting principles, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. In addition, the Organization is required to present a statement of cash flows. The Organization does not use fund accounting. Revenues and expenses are recorded when incurred in accordance with the accrual basis of accounting. The Organization currently has no net assets with donor restrictions.

Cash and Cash Equivalents - Cash and cash equivalents include highly liquid investments and investments with original maturity dates of three months or less.

Investments - The Organization carries investments with readily determinable fair values in the Statement of Financial Position as reported by the investment broker. Realized gains and losses resulting from market fluctuations are included in the statement of activities in the period such fluctuations occur.

Revenue Recognition - Rental income is recognized on a straight-line basis. Variable rent income is recognized over the term of the sub-ground leases in the period incurred.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes - The Organization's tax filings are subject to audit by various taxing authorities.

Fair Value of Financial Instruments - The carrying value of financial instruments, including cash and cash equivalents, receivables, accounts payable and accrued expenses, approximate fair value due to the short maturity of these instruments. None of the financial instruments are held for trading purposes.

MISSION-WEST VALLEY LAND CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses - The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among program and supporting services benefited. The allocation for all expenses is direct usage.

Right-of-Use Assets and Lease Liabilities - The Organization categorizes leases with contractual terms longer than twelve months as either operating or finance leases. As of June 30, 2023, the Organization has three operating leases.

Right-of-use assets represent the Organization's right to use an underlying asset for the lease term and lease liabilities represent the Organization's obligation to make lease payments arising from the lease. Operating lease right-of-use assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term using a risk-free rate based on the information available at commencement date. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Rent expense is paid equal to 25% of rents collected from sub-ground leases. Certain sublease agreements include rental payments based on a percentage of net operating income, changes in the consumer price index or fair market value adjustments. Lease liabilities are not remeasured as a result of these items, instead, they are treated as variable lease payments and are excluded from the measurement of the right-of-use assets and lease liabilities. These payments are recognized in the period in which the related obligation was incurred.

In determining the discount rate used to measure the right-of-use assets and lease liabilities, the Organization used an estimated risk-free rate comprised of an adjusted High-Quality Market corporate bond rate. Determining the risk-free rate requires significant judgments.

New Accounting Pronouncements - In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, Leases (Topic 842). The new guidance requires lessees to recognize right-of-use lease assets and lease liabilities for all leases with terms more than 12 months on the statement of financial position and disclose key information about leasing agreements. This new guidance is effective for annual reporting periods beginning after December 15, 2021.

The Organization adopted this new accounting guidance on July 1, 2022 and recognized and measured its lease existing at July 1, 2022, the beginning of the period of adoption, though a cumulative effect adjustment with certain practical expedients available.

The Organization elected the available practical expedients to account for existing operating leases as operating leases under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

MISSION-WEST VALLEY LAND CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements (Continued) - As a result of the adoption of the new lease accounting guidance, the Organization recognized on July 1, 2022 a lease liability of \$48,361,804, which represents the present value of the remaining operating lease payments of \$129,955,978, discounted using the risk-free borrowing rates ranging from 4.39% to 4.51%, and a right-of-use asset of \$48,361,804, which represents the operating lease liability without any adjustments.

The adoption of the standard had a material impact on the Organization’s statement of financial position, but did not have an impact on the statement of activities nor the statements of cash flows. The most significant impact was the recognition of right-of-use assets and lease liabilities for operating leases.

Subsequent Events - Subsequent events were evaluated through October 13, 2023, the date the financial statements were available to be issued.

NOTE 2 - CASH AND INVESTMENTS

Cash and cash equivalents as of June 30, 2023 and 2022 consist of the following:

	2023	2022
Cash in banks	\$ 1,421,170	\$ 366,813
Local Agency Investment Fund (LAIF)	13,872,398	11,706,533
	\$ 15,293,568	\$ 12,073,346

The Organization is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the Organization's investment pool is reported in the accompanying financial statements at amounts based upon the Organization's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on the amortized cost basis. At June 30, 2023, the interest rate for LAIF account was 3.15%, and there was no significant difference between the fair market value and the carrying amount.

Generally accepted accounting principles establish a hierarchy to prioritize the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). Observable inputs are those that market participants would use in pricing the assets based on market data obtained from sources independent of the Organization. Unobservable inputs reflect the Organization’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.

MISSION-WEST VALLEY LAND CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 2 - CASH AND INVESTMENTS (Continued)

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Values are unadjusted quoted prices for identical assets or liabilities in active markets accessible at the measurement date.

Level 2 - Inputs included in quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Level 3 - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Organization's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

The following tables present the balances of the assets measured at fair value on a recurring basis as of June 30, 2023 and 2022. The Organization did not have any liabilities measured at fair value on a recurring basis as of June 30, 2023 and 2022.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
June 30, 2023				
Mutual funds	\$ 3,374,404	\$ -	\$ -	\$ 3,374,404
Stocks	375,343	-	-	375,343
Corporate bonds	-	4,913,779	-	4,913,779
Municipal bonds	-	2,146,485	-	2,146,485
Local Agency Investment Fund	-	-	13,872,398	13,872,398
	<u>\$ 3,749,747</u>	<u>\$ 7,060,264</u>	<u>\$ 13,872,398</u>	<u>\$ 24,682,409</u>
June 30, 2022				
Mutual funds	\$ 3,353,506	\$ -	\$ -	\$ 3,353,506
Stocks	331,939	-	-	331,939
Corporate bonds	-	4,707,620	-	4,707,620
Municipal bonds	-	2,288,259	-	2,288,259
Local Agency Investment Fund	-	-	11,706,533	11,706,533
	<u>\$ 3,685,445</u>	<u>\$ 6,995,879</u>	<u>\$ 11,706,533</u>	<u>\$ 22,387,857</u>

MISSION-WEST VALLEY LAND CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 2 - CASH AND INVESTMENTS (Continued)

For the years ended June 30, 2023 and 2022, the Organization's level 3 investments increased by purchases totaling \$1,950,000 and \$4,200,000, respectively. During the years ended June 30, 2023 and 2022, there were no changes to investment classifications and therefore no investments were transferred into or out of the level 3 hierarchy.

Earnings (losses) on investments and cash equivalents were as follows for the years ended June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Interest and dividends	\$ 741,400	\$ 417,162
Realized gain (loss)	(14,235)	119,213
Unrealized loss	(18,484)	(618,617)
Investment fees	<u>(45,239)</u>	<u>(45,812)</u>
	<u>\$ 663,442</u>	<u>\$ (128,054)</u>

NOTE 3 - AVAILABILITY AND LIQUIDITY

The following represents the Organization's financial assets available to meet general expenditures over the next twelve months at June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Financial assets at yearend:		
Cash and cash equivalents	\$ 15,293,568	\$ 12,073,346
Investments	10,810,011	10,681,324
Receivables	<u>168,219</u>	<u>81,384</u>
Total financial assets	26,271,798	22,836,054
Less amounts not available to be used within one year:		
Board designated contingency reserve	<u>4,000,000</u>	<u>4,000,000</u>
	<u>\$ 22,271,798</u>	<u>\$ 18,836,054</u>

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. In addition, excess cash is invested in short-term investments, including money market accounts, mutual funds, stocks and bonds.

MISSION-WEST VALLEY LAND CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 4 - LEASE COMMISSIONS

Commissions paid to brokers to secure sub-ground leases are capitalized and amortized over the terms of the leases. Amortization expense was \$14,977 for both years ended June 30, 2023 and 2022. Capitalized lease commissions and accumulated amortization at June 30 are:

	2023	2022
Capitalized commissions	\$ 823,722	\$ 823,722
Less: accumulated amortization	365,736	350,759
Lease commissions, net	\$ 457,986	\$ 472,963

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses at June 30, 2023 and 2022 include payables to a related party, the West Valley-Mission Community College District, and consist of the following:

	2023	2022
Grants for special projects - related party	\$ 1,107,314	\$ 570,363
Rent payable - related party	-	704
Payables - unrelated	3,848	10,297
	\$ 1,111,162	\$ 581,364

NOTE 6 - SECURITY DEPOSITS

The Organization has received security deposits which are to be returned at the end of each sub-ground lease as follows:

	2023	2022
SI 27, LLC	\$ 50,000	\$ 50,000
SI 29, LLC	50,000	50,000
Quality Investment Properties Santa Clara, LLC	450,000	450,000
	\$ 550,000	\$ 550,000

MISSION-WEST VALLEY LAND CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 7 - GROUND LEASES

The Organization leases 54.4 acres of land from the District pursuant to three separate ground lease agreements, one for the Mercado Shopping Center executed in September 1990, one for the Quality Investment Properties Santa Clara, LLC property executed in October 1997 and one for the Sobrato property executed in March 1996. The term of the Mercado Shopping Center ground lease expires on April 30, 2072, with two options to extend for 30 and 19 years, respectively. The term of the Quality Investment Properties Santa Clara, LLC ground lease expires October 1, 2052, with two options to extend for 10 years each. The term of the Sobrato ground lease expires June 10, 2051, with two options to extend for 20 years each.

Under these ground lease agreements, the Organization recognized right-of-use assets and operating lease liabilities. The balance of the right-of-use assets and operating lease liabilities as of June 30, 2023 was \$47,731,291 and \$48,627,511, respectively.

Rent is paid equal to 25% of rents collected from sub-ground leases. Rent expense of \$1,881,987 and \$2,166,386 for the fiscal years ended June 30, 2023 and 2022, respectively, was paid to the District per the ground lease agreements. Additional rent expense was recognized for straight-line adjustments and variable lease costs for the year ended June 30, 2023 totaling \$896,220. The Organization has a payable due to the District of \$0 and \$704 as of June 30, 2023 and 2022, respectively. The Organization is responsible for taxes levied of any kind and all other expenses. The Organization has indemnified the District against all liability. The District retains the right to mortgage the land but also grants the right of the sub-tenants to mortgage their own improvements under circumstances described in the lease.

Future minimum ground lease payments, based upon current sub-ground leases in effect, are as follows:

Years ending June 30	Lakha Properties	SI 27, LLC	SI 29, LLC	Quality Investment Properties Santa Clara, LLC	Total
2024	\$ 159,375	\$ 559,393	\$ 502,931	\$ 694,219	\$ 1,915,918
2025	159,375	559,393	502,931	728,930	1,950,629
2026	159,375	559,393	502,931	765,377	1,987,076
2027	174,479	559,393	502,931	803,646	2,040,449
2028	250,000	559,393	502,931	843,828	2,156,152
Thereafter	<u>10,958,333</u>	<u>35,241,788</u>	<u>31,684,665</u>	<u>40,138,105</u>	<u>118,022,891</u>
	11,860,937	38,038,753	34,199,320	43,974,105	128,073,115
Less: imputed interest	<u>(7,138,267)</u>	<u>(26,171,875)</u>	<u>(23,530,221)</u>	<u>(22,605,241)</u>	<u>(79,445,604)</u>
	<u>\$ 4,722,670</u>	<u>\$ 11,866,878</u>	<u>\$ 10,669,099</u>	<u>\$ 21,368,864</u>	<u>\$ 48,627,511</u>

The weighted average remaining lease term is 49.11 years and the weighted average discount rate 4.45%.

MISSION-WEST VALLEY LAND CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 8 - SUB-GROUND LEASES

The 54.4 acres of land leased from the District (see Note 7) have been subdivided into several parcels, all of which have been subleased as follows:

Lakha Properties

In September 1990, the Organization entered into a long-term sub-ground lease with the Jim Joseph Trust to sublease one of the parcels. In June 2005, the Jim Joseph Administrative Trust (successor to Revocable Trust) assigned its interest in the sub-ground lease to Lakha Properties - Santa Clara, LLC (Lakha Properties), a Washington limited liability company.

In May 2022, in connection with Lakha Properties obtaining an extension of credit from Preferred Bank and Preferred Bank accepting the Deed of Trust as a leasehold mortgage, the Organization and Lakha Properties agreed to amend and restate the sub-ground lease. Under the amended sub-ground lease, Preferred Bank became the institutional lender of the lease and a new term of the sub-ground lease was agreed upon by the Organization and Lakha Properties. The amended lease became effective May 1, 2022. The initial term of the sub-ground lease is 50 years, expiring on April 30, 2072, with two options for renewal for 30 years and 19 years, respectively.

SI 27, LLC

In March 1996, the Organization entered into a long-term sub-ground lease with Mission Real Estate, L.P. to sublease a parcel of land.

In September 1999, Mission Real Estate, L.P. assigned its interest in the sub-ground lease to Sobrato Interest III. In April 2003, Sobrato Interest III assigned its interest in the sub-ground lease to Ellis-Middlefield Business Park, a California limited partnership. The sub-ground lease arrangement is commonly referred to as the Phase I sub-ground lease. The rent from the Phase I lease commenced in December 1996.

In January 2011, Ellis-Middlefield Business Park assigned its interest to SI 27, LLC. In addition, there was a lease amendment which codified certain terms in the rent agreement.

In November 2021, the sub-ground lease agreement was amended. The term of the sub-ground lease was amended to 95 years, expiring on June 10, 2091, with no option to extend. In addition, adjustment based on the fair market value of the land set to take effect after 2023 was eliminated.

SI 29, LLC

In March 1996, the Organization entered into a long-term sub-ground lease with Mission Real Estate, L.P. to sublease a parcel of land.

MISSION-WEST VALLEY LAND CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 8 - SUB-GROUND LEASES (Continued)

In October 1998, Mission Real Estate, L.P. assigned its interest to Sobrato Interest III. In April 2003, Sobrato Interest III assigned its interest in the sub-ground lease to Sobrato Development Co. #792, a California limited partnership. The sub-ground lease arrangement is commonly referred to as the Phase II sub-ground lease. The rent stream from the Phase II lease commenced in June 1998.

In October 2010, Sobrato Development Co. #792 assigned its interest to SI 29, LLC. A lease amendment was agreed to in January 2011 that codified the accounting for early termination payments from subtenants.

In November 2021, the sub-ground lease agreement was amended. The term of the sub-ground lease was amended to 95 years, expiring on June 10, 2091, with no option to extend. In addition, adjustment based on the fair market value of the land set to take effect after 2023 was eliminated.

Quality Investment Properties Santa Clara, LLC

In October 1997, the Organization entered into a long-term sub-ground lease agreement with Nexus Properties, Inc., et al, to sublease one parcel of land.

The initial term of the sub-ground lease is 55 years with options for renewal. In no case shall the aggregate sub-ground lease term exceed 99 years.

In October 2007, Nexus Properties, Inc. assigned its interest to Quality Technology. In September 2009, Quality Technology assigned its interest to Quality Investment Properties Santa Clara, LLC (Quality Investment Properties).

In March 2011, the sub-ground lease agreement was amended to provide for landlord approval of certain tenant improvements in exchange for due consideration. The monthly base rent shall be adjusted annually as defined by the sub-ground lease agreement. There will be an adjustment to the base monthly rent based on fair market value of the land after October 2038.

In August 2021, Quality Investment Properties entered into an agreement with Citi Real Estate Funding Inc, Barclays Capital Real Estate Inc, Deutsche Bank AG, and Goldman Sachs Bank USA, to extend a loan. As part of this agreement, the Organization agrees that these four lenders will collectively become new leasehold mortgagees of the sub-ground lease.

Rent Income

Rent income was \$11,116,208 and \$8,665,543 during the fiscal years ended June 30, 2023 and 2022, respectively. For the year ended June 30, 2023, rent income includes deferred rent of \$3,588,261 and variable rent income of \$3,497. The sub-ground lessee is responsible for all administrative costs, including property taxes, maintenance and insurance.

MISSION-WEST VALLEY LAND CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 8 - SUB-GROUND LEASES (Continued)

Future minimum sub-ground lease income are as follows:

Years ending June 30	Lakha Properties	SI 27, LLC	SI 29, LLC	Quality Investment Properties Santa Clara, LLC	Total
2024	\$ 637,500	\$ 2,237,574	\$ 2,011,725	\$ 2,776,877	\$ 7,663,676
2025	637,500	2,237,574	2,011,725	2,915,721	7,802,520
2026	637,500	2,237,574	2,011,725	3,061,507	7,948,306
2027	697,917	2,237,574	2,011,725	3,214,583	8,161,799
2028	1,000,000	2,237,574	2,011,725	3,375,312	8,624,611
Thereafter	43,833,332	140,967,147	126,738,660	160,552,419	472,091,558
	<u>\$ 47,443,749</u>	<u>\$ 152,155,017</u>	<u>\$ 136,797,285</u>	<u>\$ 175,896,419</u>	<u>\$ 512,292,470</u>

NOTE 9 - CONCENTRATIONS OF CREDIT RISK

The Organization operates in Santa Clara County and is subject to the general economic risk inherent in the San Francisco Bay Area real estate market.

The Organization often maintains cash deposits in commercial banks and state run agencies that are in excess of the federally insured limits.

NOTE 10 - NET ASSETS WITHOUT DONOR RESTRICTIONS

The Board of Directors of the Organization has designated that certain amounts of unrestricted funds be set aside for specific purposes. Components of net assets without donor restrictions as of June 30, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Contingency reserve - Board designated	\$ 4,000,000	\$ 4,000,000
Undesignated	23,195,511	17,822,247
Total net assets without donor restrictions	<u>\$ 27,195,511</u>	<u>\$ 21,822,247</u>

The contingency reserve is established to minimize the effect of any unanticipated legal and other expenses including lost revenue related to the operating of the sub-ground leases. The Board may remove the restrictions on these funds at any time.

MISSION-WEST VALLEY LAND CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 11 - GRANTS FOR SPECIAL PROJECTS

For the years ended June 30, 2023 and 2022, the Organization contributed \$3,570,740 and \$2,565,256, respectively, to the District for the following projects:

	<u>2023</u>	<u>2022</u>
Scheduled Maintenance	\$ 135,000	\$ 170,310
Capital Improvements	909,635	557,894
Entrepreneurial Fund	74,060	70,700
Special Projects	1,542,046	840,320
Student Success Innovation Fund	50,000	39,225
Teaching & Learning Innovation Fund	100,000	94,204
Technology Refresh & Instructional Equipment	259,999	292,603
College Scholarship Program	500,000	500,000
	<u>\$ 3,570,740</u>	<u>\$ 2,565,256</u>

NOTE 12 - UNCERTAINTIES

The COVID-19 outbreak in the United States is causing business disruption across a range of industries. The extent of the impact of COVID-19 on the Organization's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and the impact on its customers and vendors, all of which are uncertain and cannot be predicted. As of the date of this report, the extent to which COVID-19 may impact the Organization's financial condition or results of operations is uncertain. No adjustments relating to the effects of the pandemic have been recorded in the accompanying financial statements.