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MISSION-WEST VALLEY LAND CORPORATION

AUDIT REPORT
June 30, 2026

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MISSION-WEST VALLEY LAND CORPORATION
TABLE OF CONTENTS
JUNE 30, 2026 AND 2025

	PAGE
Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	6
Statements of Cash Flows	7
Notes to Financial Statements	8

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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 (the "Organization"), a non-profit California corporation, which comprise the statements of financial position as of June 30, 2026 and 2025, and the related statements of activities, statements of functional expenses and statements of cash flows for the years then ended, and the related notes to 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, 2026 and 2025, and the respective 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.

CWDL, Certified Public Accountants

San Diego, California
November 3, 2026

MISSION-WEST VALLEY LAND CORPORATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2026 AND 2025

	2026	2025
ASSETS		
Cash and cash equivalents	$ 17,345,134	$ 16,081,249
Investments	13,129,481	12,692,556
Interest receivable	233,069	245,153
Rent receivable	19,695,663	12,497,920
Land	16,702	16,702
Operating lease right-of-use assets	41,697,968	42,577,297
Lease commissions, net	413,055	428,032
TOTAL ASSETS	$ 92,531,072	$ 84,538,909
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 677,886	$ 639,636
Deferred rent receivable	247,855	444,907
Refundable security deposits	565,850	550,000
Operating lease liabilities	46,609,297	45,675,628
TOTAL LIABILITIES	48,100,888	47,310,171
NET ASSETS		
Net assets without donor restrictions	44,430,184	37,228,738
TOTAL NET ASSETS	44,430,184	37,228,738
TOTAL LIABILITIES AND NET ASSETS	$ 92,531,072	$ 84,538,909

See accompanying notes to financial statements.

MISSION-WEST VALLEY LAND CORPORATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2026

	Net Assets Without Donor Restrictions
SUPPORT AND REVENUE	
Rental income	$ 11,825,707
Investment income, net	1,154,593
TOTAL SUPPORT AND REVENUE	12,980,300
EXPENSES	
Program services	5,739,465
Management and general	39,389
TOTAL EXPENSES	5,778,854
CHANGE IN NET ASSETS	7,201,446
NET ASSETS - BEGINNING OF YEAR	37,228,738
NET ASSETS - END OF YEAR	$ 44,430,184

See accompanying notes to financial statements.

MISSION-WEST VALLEY LAND CORPORATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2025

	Net Assets Without Donor Restrictions
SUPPORT AND REVENUE	
Rental income	$ 10,852,242
Investment income, net	1,433,682
TOTAL SUPPORT AND REVENUE	12,285,924
EXPENSES	
Program services	6,132,701
Management and general	158,226
TOTAL EXPENSES	6,290,927
CHANGE IN NET ASSETS	5,994,997
NET ASSETS - BEGINNING OF YEAR	31,233,741
NET ASSETS - END OF YEAR	$ 37,228,738

See accompanying notes to financial statements.

MISSION-WEST VALLEY LAND CORPORATION
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2026 AND 2025

Year Ended June 30, 2026	Program Services	Management and General	Total
Grants for special projects	$ 2,769,476	$ -	$ 2,769,476
Lease costs	2,969,989	-	2,969,989
Legal	-	3,487	3,487
Contracted services	-	15	15
Amortization of lease commissions	-	14,977	14,977
Audit fees	-	14,500	14,500
Financial services	-	5,313	5,313
Taxes & licenses	-	685	685
Miscellaneous	-	412	412
Total	$ 5,739,465	$ 39,389	$ 5,778,854

Year Ended June 30, 2025	Program Services	Management and General	Total
Grants for special projects	$ 3,438,318	$ -	$ 3,438,318
Lease costs	2,694,383	-	2,694,383
Legal	-	92,492	92,492
Contracted services	-	22,957	22,957
Amortization of lease commissions	-	14,977	14,977
Audit fees	-	22,500	22,500
Financial services	-	4,475	4,475
Taxes & licenses	-	677	677
Miscellaneous	-	148	148
Total	$ 6,132,701	$ 158,226	$ 6,290,927

See accompanying notes to financial statements.

MISSION-WEST VALLEY LAND CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2026 AND 2025

	2026	2025
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 7,201,446	$ 5,994,997
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Change in fair value of investments	17,912	(178,861)
Amortization of operating lease right-of-use assets	735,641	735,641
Amortization of lease commissions	14,977	14,977
Change in:		
Interest receivable	12,084	(9,296)
Deferred rent receivable	(7,394,795)	(5,221,997)
Accounts payable and accrued expenses	38,250	(191,979)
Refundable security deposits	15,850	-
Repayment of operating lease liabilities	1,077,357	603,308
Net Cash Provided by/(Used in) by Operating Activities	1,718,722	1,746,790
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	9,778,820	4,896,224
Purchase of investments	(10,233,657)	(5,848,960)
Net Cash Provided by/(Used in) by Investing Activities	(454,837)	(952,736)
Net Increase (Decrease) in Cash	1,263,885	794,054
Cash and Cash Equivalents - Beginning of Year	16,081,249	15,287,195
Cash and Cash Equivalents - End of Year	$ 17,345,134	$ 16,081,249

See accompanying notes to financial statements.

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 (see Note 8) 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.

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, 2026, the Organization has four 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.

Subsequent Events - Subsequent events were evaluated through November 3, 2026, the date the financial statements were available to be issued.

NOTE 2 – CASH AND INVESTMENTS

Cash and cash equivalents as of June 30, 2026 and 2025 consist of the following:

	2026	2025
Cash in banks	$ 879,997	$ 380,418
Local Agency Investment Fund (LAIF)	16,465,137	15,700,831
Total cash and equivalents	$ 17,345,134	$ 16,081,249

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, 2026, the interest rate for LAIF account was 3.92%, 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.

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.

NOTE 2 – CASH AND INVESTMENTS, continued

The following tables present the balances of the assets measured at fair value on a recurring basis as of June 30, 2026 and 2025. The Organization did not have any liabilities measured at fair value on a recurring basis as of June 30, 2026 and 2025.

June 30, 2026	Level 1	Level 2	Level 3	Total
Mutual funds	$ 4,949,498	$ -	$ -	$ 4,949,498
Corporate bonds	-	3,130,211	-	3,130,211
Municipal bonds	-	4,904,421	-	4,904,421
Stocks	145,351	-	-	145,351
Local Agency Investment Fund	-	-	16,465,137	16,465,137
Total	$ 5,094,849	$ 8,034,632	$ 16,465,137	$ 29,594,618

June 30, 2025	Level 1	Level 2	Level 3	Total
Mutual funds	$ 4,951,183	$ -	$ -	$ 4,951,183
Corporate bonds	-	5,587,849	-	5,587,849
Municipal bonds	-	2,153,524	-	2,153,524
Local Agency Investment Fund	-	-	15,700,831	15,700,831
Total	$ 4,951,183	$ 7,741,373	$ 15,700,831	$ 28,393,387

For the years ended June 30, 2026 and 2025, the Organization's level 3 investments increased by purchases totaling $764,306 and $1,061,482, respectively. During the years ended June 30, 2026 and 2025, there were no changes to investment classifications and therefore no investments were transferred in or out of the level 3 hierarchy.

Earnings/(losses) on investments and cash equivalents were as follows for the years ended June 30, 2026 and 2025:

	2026	2025
Interest and dividends	$ 707,332	$ 697,628
Realized gains/(losses)	163,259	101,182
Unrealized gains/(losses)	338,025	686,076
Investment fees	(54,023)	(51,204)
Total	$ 1,154,593	$ 1,433,682

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, 2026 and 2025:

	2026	2025
Financial assets at year-end:		
Cash and equivalents	$ 17,345,134	$ 16,081,249
Investments	13,129,481	12,692,556
Interest receivable	233,069	245,153
Total financial assets	30,707,684	29,018,958
Less: amounts not available to be used within one year:		
Board designated contingency reserve	4,000,000	4,000,000
Total	$ 26,707,684	$ 25,018,958

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.

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, 2026 and 2025. Capitalized lease commissions and accumulated amortization at June 30 are:

	2026	2025
Capitalized commissions	$ 823,722	$ 823,722
Less: accumulated amortization	410,667	395,690
Lease commissions, net	$ 413,055	$ 428,032

NOTE 5 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses at June 30, 2026 and 2025 include payables to a related party, the West Valley-Mission Community College District, and consist of the following:

	2026	2025
Grants for special projects - related party	$ 677,511	$ 635,955
Payables - unrelated	375	3,681
Total	$ 677,886	$ 639,636

NOTE 6 – REFUNDABLE SECURITY DEPOSITS

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

	2026	2025
Sutter Bay Medical Foundation	$ 50,000	$ 50,000
Sutter Bay Hospitals	50,000	50,000
Quality Investment Properties Santa Clara, LLC	465,850	450,000
Total	$ 565,850	$ 550,000

NOTE 7 – GROUND LEASE

The Organization leases 54.4 acres of land from the District (see Note 8) 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, 2026 and 2025 was $46,609,297 and $45,675,628, respectively.

Rent is paid equal to 25% of rents collected from sub-ground leases. Rent expense of $1,156,991 and $1,355,434 for the fiscal years ended June 30, 2026 and 2025, 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 years ended June 30, 2026 and 2025 totaling $1,812,998 and $1,338,948, 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.

NOTE 7 – GROUND LEASE, continued

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

Year Ending June 30,	Lakha Properties	Sutter Bay Medical Foundation	Sutter Bay Hospitals	Quality Investment Properties Santa Clara, LLC	Total
2027	$ 174,479	$ 125,000	$ 125,000	$ 803,646	$ 1,228,125
2028	250,000	187,500	187,500	843,828	1,468,828
2029	250,000	250,000	250,000	886,019	1,636,019
2030	250,000	343,750	343,750	930,320	1,867,820
2031	250,000	437,500	437,500	976,836	2,101,836
Thereafter	10,208,333	46,131,042	46,131,042	37,344,929	139,815,346
Subtotal	11,382,812	47,474,792	47,474,792	41,785,578	148,117,974
Less: Imputed Interest	(6,508,554)	(37,623,041)	(37,623,041)	(19,754,041)	(101,508,677)
Total	$ 4,874,258	$ 9,851,751	$ 9,851,751	$ 22,031,537	$ 46,609,297

The weighted average remaining lease term is 50 years and the weighted average discount rate is 4.58%.

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 located at 3101 Mission College Boulevard. 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 April 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.

NOTE 8 – SUB-GROUND LEASES, continued

Sutter Bay Hospitals

In April 1996, the Organization entered into a long-term sub-ground lease with Mission Real Estate, L.P. (the "Phase I Ground Sublease") to sublease a parcel of land located at 2831 and 2841 Mission College Boulevard (the "Phase I Premises").

In September 1999, Mission Real Estate, L.P. assigned its interest in the Phase I Ground Sublease to Sobrato Interests III. In April 2003, Sobrato Interests III assigned its interest in Phase I Ground Sublease to Ellis-Middlefield Business Park, a California limited partnership.

In October 2010, Ellis-Middlefield Business Park assigned its interest in the Phase I Ground Sublease to SI 27, LLC.

In December 2024, Sutter Bay Hospitals (SBH") acquired SI 27, LLC's rights, title and interest in the tenant under the existing Phase I Ground Sublease, assuming all of SI 27, LLC's obligations. Concurrently with the assignment to SBH, the Phase I Ground Sublease was further amended (the "Seventh Phase I amendment"). Pursuant to which, among other things, (1) the Term of the Phase I Ground Sublease was extended for 75 years to expire on December 9, 2099, (2) SBH was granted two (2) options to further extend the Term, each of which shall be for a period of ten (10) years, (3) the parties agreed on the amount of Monthly Rent payable by SBH during the Term, and (4) SBH was granted the right to seek governmental approvals required to allow use and redevelopment of the Phase I Premises for "Medical Uses" (as therein defined). The Seventh Phase I Amendment further provides that, if SBH is not able to obtain the "Medical Use Entitlements" (as therein defined) on or before December 9, 2031, SBH shall have the right to terminate the Phase I Ground Sublease by notice and payment of a termination fee of $3.5 million.

Phase I Ground Sublease was further amended in July 2025, which corrected the monthly rent amount for the first three years.

Sutter Bay Medical Foundation

In April 1996, the Organization entered into a long-term sub-ground lease with Mission Real Estate, L.P. (the "Phase II Ground Sublease") to sublease a parcel of land located at 2811, 2817, and 2821 Mission College Boulevard (the "Phase II Premises").

In October 1998, Mission Real Estate, L.P. assigned its interest in the Phase II Ground Sublease to Sobrato Interests III. In September 2003, Sobrato Interests III assigned its interest in the Phase II Ground Sublease to Sobrato Development. Co. #792, a California limited partnership. The rent from the Phase II Ground Sublease commenced in April 1997.

In October 2010, Sobrato Development Co. #792 assigned its interest in the Phase II Ground Sublease to SI 29, LLC.

NOTE 8 – SUB-GROUND LEASES, continued

Sutter Bay Medical Foundation, continued

In December 2024, Sutter Bay Medical Foundation ("SBMF") acquired SI 29, LLC's rights, title and interest in the tenant under the Phase II Ground Sublease, assuming all of SI 29, LLC's obligations.

Concurrently with the assignment to SBMF, the Phase II Ground Sublease was further amended (the "Seventh Phase II amendment"). Pursuant to which, among other things, (1) the Term of the Phase II Ground Sublease was extended for 75 years to expire on December 9, 2099, (2) SBMF was granted two (2) options to further extend the Term, each of which shall be for a period of ten (10) years, and (3) the parties agreed on the amount of Monthly Rent payable by SBMF during the Term.

Phase II Ground Sublease was further amended in July 2025, which corrected the monthly rent amount for the first three years, added language to expand the educational use under the definition of medical use, and added language to allow SBH to sublease a portion of the premises to a medical school user.

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 located at 2805 and 2807 Mission College Boulevard.

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.

NOTE 8 – SUB-GROUND LEASES, continued

Rent Income

Rent income was $11,825,707 and $10,852,242 for the fiscal years ended June 30, 2026 and 2025, respectively. For the year ended June 30, 2026, rent income includes deferred rent of $7,197,743. The sub-ground lessee is responsible for all administrative costs, including property taxes, maintenance and insurance.

Future minimum sub-ground lease income are as follows:

Year Ending June 30	Lakha Properties	Sutter Bay Medical Foundation	Sutter Bay Hospitals	Quality Investment Properties Santa Clara, LLC	Total
2027	$ 1,000,000	$ 500,000	$ 500,000	$ 3,214,583	$ 5,214,583
2028	1,000,000	750,000	750,000	3,375,312	5,875,312
2029	1,000,000	1,000,000	1,000,000	3,544,078	6,544,078
2030	1,000,000	1,375,000	1,375,000	3,721,281	7,471,281
2031	1,000,000	1,750,000	1,750,000	3,907,345	8,407,345
Thereafter	40,833,332	184,524,168	184,524,168	149,379,715	559,261,383
Total	$ 45,833,332	$ 189,899,168	$ 189,899,168	$ 167,142,314	$ 592,773,982

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, 2026 and 2025 are as follows:

	2026	2025
Contingency reserve - Board designated	$ 4,000,000	$ 4,000,000
Undesignated	40,430,184	33,228,738
Total net assets without donor restrictions	$ 44,430,184	$ 37,228,738

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.

NOTE 11 – GRANTS FOR SPECIAL PROJECTS

For the years ended June 30, 2026 and 2025, the Organization contributed $2,769,476 and $3,438,318, respectively, to the District for the following projects:

	2026	2025
Scheduled Maintenance	$ -	$ 479,843
Capital Improvements	-	486,969
Entrepreneurial Fund	200,000	75,000
Special Projects	2,055,978	1,872,426
Student Success Innovation Fund	75,000	50,000
Teaching & Learning Innovation Fund	99,998	94,080
Technology Refresh & Instructional Equipment	38,500	80,000
College Scholarship Program	300,000	300,000
Total	$ 2,769,476	$ 3,438,318