

MISSION-WEST VALLEY LAND CORPORATION
FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2011
AND INDEPENDENT AUDITORS' REPORT

MISSION-WEST VALLEY LAND CORPORATION

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VAVRINEK, TRINE, DAY
& COMPANY, LLP
Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of Mission-West Valley Land Corporation (a non-profit California corporation) as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the fiscal years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures made by management. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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 Mission-West Valley Land Corporation as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

Vavrinek, Trine, Day & Co LLP

Pleasanton, California
October 6, 2011

MISSION-WEST VALLEY LAND CORPORATION

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2011 AND 2010

ASSETS

	2011	2010
Current Assets		
Cash and cash equivalents	\$ 9,121,440	\$ 8,135,826
Accounts receivable	-	3,119
Interest receivable	10,817	10,458
Total current assets	<u>9,132,257</u>	<u>8,149,403</u>
Other Assets		
Land	16,702	16,702
Lease commissions - net	637,710	652,687
Total other assets	<u>654,412</u>	<u>669,389</u>
Total Assets	<u>\$ 9,786,669</u>	<u>\$ 8,818,792</u>

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable	\$ 377,713	\$ 675,793
Accrued expenses	90,487	88,908
Total current liabilities	<u>468,200</u>	<u>764,701</u>
Long term liabilities		
Refundable security deposits	550,000	200,000
Total liabilities	<u>1,018,200</u>	<u>964,701</u>
Net assets		
Unrestricted	8,768,469	7,854,091
Total Liabilities and Net Assets	<u>\$ 9,786,669</u>	<u>\$ 8,818,792</u>

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

MISSION-WEST VALLEY LAND CORPORATION

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
OPERATING REVENUE		
Rental income	\$ 4,232,005	\$ 4,582,138
Interest	42,045	52,847
Fee income	-	175,000
Total operating revenue	<u>4,274,050</u>	<u>4,809,985</u>
OPERATING EXPENSES		
<i>Program</i>		
Grants for special projects	1,634,569	3,859,913
Grants for endowment fund	460,985	535,806
Rent	1,058,001	1,145,535
<i>Administrative</i>		
Legal	65,756	8,133
Contracted services	78,000	78,000
Amortization of commissions	14,977	14,977
Audit fees	11,300	11,750
Financial services	5,513	5,198
Taxes, penalties & licenses	30,077	384
Office supplies & expense	494	195
Total operating expenses	<u>3,359,672</u>	<u>5,659,891</u>
CHANGE IN NET ASSETS	914,378	(849,906)
NET ASSETS, BEGINNING OF YEAR	7,854,091	8,703,997
NET ASSETS, END OF YEAR	<u>\$ 8,768,469</u>	<u>\$ 7,854,091</u>

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

MISSION-WEST VALLEY LAND CORPORATION

STATEMENTS OF CASH FLOWS FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets - operations	\$ 914,378	\$ (849,906)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Lease commissions - amortization	14,977	14,977
(Increase) decrease in		
Accounts receivable	3,119	(3,119)
Interest receivable	(359)	46,291
Increase (decrease) in		
Accounts payable	(298,080)	(3,270,690)
Accrued expenses	1,579	1,570
Net cash provided (used) by operating activities	<u>635,614</u>	<u>(4,060,877)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in refundable security deposits	<u>350,000</u>	<u>-</u>
Net cash provided by investing activities	<u>350,000</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	985,614	(4,060,877)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	8,135,826	12,196,703
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 9,121,440</u>	<u>\$ 8,135,826</u>

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

MISSION-WEST VALLEY LAND CORPORATION

NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Organization

The Mission-West Valley Land Corporation (the Organization) was incorporated on May 7, 1985, in the State of California. The specific and primary purpose of the corporation is to promote the general welfare of the public of the West Valley Joint Community College District (the District) by mobilizing both financial and human resources in order to ensure the success of the West Valley Joint Community College District in serving the public through utilization of proper facilities and creation of programs that that enhance community life, including programs that enrich education, cultural, and community service opportunities. The principal office of the Corporation is located in the County of Santa Clara, California.

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

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

Financial Statement Presentation

The Organization complies with Statement of Financial Accounting Standards (SFAS) No. 117, “Financial Statements of Not-for-Profit Organizations.” Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classifications of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, a statement of cash flows must be presented. The Organization currently has no temporarily or permanently restricted net assets.

Contributions

The Organization complies with SFAS No. 116, “Accounting for Contributions Received and Made.” In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Donated assets

Donated assets, including land, are recorded at fair market value at the date of gift.

Statement of Cash Flows

For purposes of the Statement of Cash Flows, the Organization considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

MISSION-WEST VALLEY LAND CORPORATION

NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Use of 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – CASH AND INVESTMENTS

Cash and cash equivalents at June 30, 2011 and 2010, consisted of the following:

	2011	2010
Cash in banks	\$ 113,226	\$ 97,298
Local Agency Investment Fund (LAIF)	9,008,214	8,038,528
Total cash and cash equivalents	<u>\$ 9,121,440</u>	<u>\$ 8,135,826</u>

LAIF

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, 2011, the interest rate for LAIF account was 0.45 percent, and there was no significant difference between the fair market value and the carrying amount.

The Organization determines the fair market values of certain financial instruments based on the fair value hierarchy established in Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

MISSION-WEST VALLEY LAND CORPORATION

NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 2 – CASH AND INVESTMENTS – CONTINUED

The following provides a summary of the hierarchical levels, as defined by SFAS No. 157, used to measure fair value:

Level 1 – The level 1 category includes those items with quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 – The level 2 category includes those items with observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – The level 3 category (items not traded on an active market), includes those items with unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The following table presents the balances of the assets measured at fair value on a recurring basis as of June 30, 2011. The Organization did not have any liabilities measured at fair value on a recurring basis as of June 30, 2011.

ASSETS	Level 1	Level 2	Level 3	Total
Local Agency Investment Fund (LAIF)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,008,214</u>	<u>\$ 9,008,214</u>

The following table presents changes in the Organization's Level 3 investment assets measured at fair value on a recurring basis for the fiscal year ending June 30, 2011.

Level 3 investments	LAIF
Balance, beginning of year	\$ 8,038,528
Realized gains	41,686
New investments	2,665,000
Investment sales	(1,737,000)
Balance, end of year	<u>\$ 9,008,214</u>

MISSION-WEST VALLEY LAND CORPORATION

NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 3 – LEASE COMMISSIONS

Commissions paid to brokers to secure the sub-leases are capitalized and amortized over the terms of the leases. Annual amortization is \$14,977.

Capitalized lease commissions and accumulated amortization at June 30, 2011 and 2010, were:

	2011	2010
Capitalized Commissions	\$ 823,722	\$ 823,722
Accumulated Amortization	(186,012)	(171,035)
Capitalized Commissions net of Accumulated Amortization	<u>\$ 637,710</u>	<u>\$ 652,687</u>

NOTE 4 – ACCOUNTS PAYABLE

Accounts payable at June 30, 2011 and 2010, include payables to a related party, the West Valley Mission Community College District for special projects, and consist of the following:

	2011	2010
Special projects	\$ 375,842	\$ 675,298
Other	1,871	495
Total	<u>\$ 377,713</u>	<u>\$ 675,793</u>

NOTE 5 – SECURITY DEPOSITS

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

	2011	2010
SI 27 LLC	\$ 50,000	\$ 50,000
SI 29 LLC	50,000	50,000
Quality Tech GP	450,000	100,000
Total	<u>\$ 550,000</u>	<u>\$ 200,000</u>

MISSION-WEST VALLEY LAND CORPORATION

NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 6 – GROUND LEASE

The organization has an operating lease for approximately 54.4 acres of land from the District pursuant to a lease agreement executed in September 1990. The term of the lease is 55 years, with two options to extend for 25 and 15 years, respectively. Under no circumstances can the lease run more than 99 years.

Currently rent is paid equal to 25% of rents collected from subleases. 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 sub-tenants to mortgage their own improvements under circumstances described in the lease.

Future minimum lease payments to the District, based upon current subleases in effect, are as follows:

Year ending June 30,	Lakha Properties	SI 27 LLC	SI 29 LLC	QualityTech GP	Total
2012	\$ 237,500	\$ 170,755	\$ 175,452	\$ 260,673	\$ 844,379
2013	200,000	170,755	175,452	260,673	806,879
2014	200,000	170,755	175,452	260,673	806,879
2015	200,000	170,755	175,452	260,673	806,879
2016	200,000	170,755	175,452	260,673	806,879
Thereafter	5,850,000	5,976,434	5,933,745	9,449,378	27,209,557
	<u>\$ 6,887,500</u>	<u>\$ 6,830,210</u>	<u>\$ 6,811,002</u>	<u>\$ 10,752,741</u>	<u>\$ 31,281,453</u>

NOTE 7 – SUBLEASES

The 54 acres of land leased from the District has 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 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 lease to Lakha Properties – Santa Clara, LLC, a Washington limited liability company. The initial term of the ground lease is fifty-five years, with two options for renewal for twenty-five years and fifteen years, respectively. In no case shall the aggregate lease term exceed ninety-nine years.

In April 2007, the Organization entered in an Agreement to the Annual Minimum Rent Lease Amendment & Related Matters. This Amendment specified the Annual Minimum Rents for September 19, 2006 through September 11, 2011. Either the Organization or the Lakha Properties can terminate the lease subject to certain conditions and penalties.

MISSION-WEST VALLEY LAND CORPORATION

NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 7 – SUBLEASES - CONTINUED

SI 27, LLC

In March 1996, the Organization entered into a long term 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 to Sobrato Interest III.

In April 2003, Sobrato Interest III assigned its interest in the lease to Ellis Middlefield Business Park, a California limited partnership. The lease arrangement is commonly referred to as the Phase I 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.

The initial term of the ground lease is fifty-five years, with two options for renewal for twenty years each. In no case shall the aggregate lease term exceed ninety-nine years. There will also be an adjustment based on the fair market value of the land after 2023.

SI 29, LLC

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

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 lease to the Sobrato Development Co #792, a California limited partnership. The lease arrangement is commonly referred to as the Phase II ground lease. The rent from the Phase I 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.

The initial term of the ground lease is fifty-five years, with two options for renewal for twenty years each. In no case shall the aggregate lease term exceed ninety-nine years. There will also be an adjustment based on the fair market value of the land after 2023.

Quality Technology

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

In October 2007, Nexus Properties assigned its interest to Quality Technology.

In September 2009, Quality Technology assigned its interest to QualityTech GP, LLC. In March 2011, the lease was amended to provide for landlord approval of certain tenant improvements in exchange for due consideration.

MISSION-WEST VALLEY LAND CORPORATION

NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 7 – SUBLEASES - CONTINUED

Monthly base rent shall be adjusted annually by the lesser of the increase in the Consumer Price Index published by the Department of Labor or six percent. There will also be an adjustment based on the fair market value of the land after 21 years and 41 years of the lease.

The initial term of the ground lease is fifty-five years with options for renewal. In no case shall the aggregate lease term exceed ninety-nine years.

Rent Income

Rent income of \$4,232,005 and \$4,582,138, was received by the Organization for the fiscal years ended June 30, 2011 and 2010, respectively. Rent expense of \$1,058,001 and \$1,145,535, for the fiscal years ended June 30, 2011 and 2010, respectively, was paid to West Valley – Mission Community College District per the agreement to pay 25% of rent income. The lessee is responsible for all administrative costs, including property taxes maintenance, and insurance. The future minimum lease revenues as of June 30, 2011 are as follows:

Year ending June 30,	Lakha Properties	SI 27 LLC	SI 29 LLC	QualityTech GP	Total
2012	\$ 950,000	\$ 683,021	\$ 701,806	\$ 1,042,690	\$ 3,377,517
2013	800,000	683,021	701,806	1,042,690	3,227,517
2014	800,000	683,021	701,806	1,042,690	3,227,517
2015	800,000	683,021	701,806	1,042,690	3,227,517
2016	800,000	683,021	701,806	1,042,690	3,227,517
Thereafter	23,400,000	23,905,735	23,734,980	37,797,513	108,838,227
	<u>\$ 27,550,000</u>	<u>\$ 27,320,840</u>	<u>\$ 27,244,010</u>	<u>\$ 43,010,963</u>	<u>\$ 125,125,812</u>

NOTE 8– CONTRACTED SERVICES

The Organization has contracted for professional services from the Executive Director on a year to year basis.

Total amounts paid to the Executive Director was \$78,000, for the fiscal years ended June 30, 2011 and 2010.

MISSION-WEST VALLEY LAND CORPORATION

NOTES TO FINANCIAL STATEMENTS FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 9 – GRANTS FOR SPECIAL PROJECTS

The Organization contributed \$1,634,569 to the District for the following projects:

Scheduled maintenance match	\$	163,162
Marketing and advertising augmentation		9,329
Adapted furniture for students with disabilities		25,504
Adapted software/hardware		15,987
Agenda Manager Software		30,154
AutoDESK software		39,900
Certificate, degree & transfer programs		38,010
Computer upgrades in Applied Arts & Sciences classrooms		23,876
Critical instructional equipment for laboratory classes in Biological Sciences		174,967
Datatel portal expansion		39,733
Digital music lab		70,200
Employee assistance program and employee transition program		51,740
Educational transition enhancement project		12,968
Grounds and custodian truck replacement		60,363
Integrated recycle and disposal collection - MC		13,016
Integrated recycle and disposal collection - WVC		10,000
Library lounge 3.0		49,787
Library materials - MC		74,484
Library materials - WVC		29,000
Library self check unit		37,687
Library space modernization		12,545
Marketing		86,293
Mobile patrol computers		45,499
Multi-Media classrooms		1,177
Payroll documentation management system		14,161
Puente Project and SUCCESS program		13,720
Server room airconditioning - MC		25,000
SLO module		21,992
Standard classroom conversion to 7 multi-media roomes and equipment replacement for 10 rooms		140,000
Strategic planning		50,000
Upgrade computer in Tech Lab, IC-B		62,560
Virtual DLR		5,373
Web content management system - MC		59,000
Web content management system - WVC		6,266
Welcome center - MC		25,449
Welcome center - WVC		49,167
WVC website reorganization, revised design		46,500
Total grants	\$	<u>1,634,569</u>

MISSION-WEST VALLEY LAND CORPORATION

**NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2010**

NOTE 10 – CONCENTRATION OF LEASES

All property leased is located in Santa Clara County. Any potential change in lease income could affect the funds available for use by the College.

NOTE 11 – DESIGNATIONS

	2011	2010
Contingency Reserve	\$ 1,500,000	\$ 1,500,000
Endowment Reserve	423,201	460,982
Total Board Designated	1,923,201	1,960,982
Undesignated	6,845,269	5,893,109
Total Unrestricted Net Assets	<u>\$ 8,768,469</u>	<u>\$ 7,854,091</u>

The Contingency Reserve is established to minimize the effect of any unanticipated expenses and/or reductions in revenues on the Organization’s ability to continue annual contributions to the District. The Endowment Reserve was established to accumulate funds that will provide a continuing interest or investment earnings stream independent of revenues from property leases. The prior year Endowment Reserve balance in the amount of \$460,982 was transferred to the West Valley Mission Community College Advancement Foundation during the fiscal year ended June 30, 2011. The Board may remove the reservations on these funds at any time.

NOTE #12 – SUBSEQUENT EVENTS

The Organization’s management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through October 6, 2011, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.