

**MISSION-WEST VALLEY LAND CORPORATION**

**FINANCIAL STATEMENTS**

**YEARS ENDED JUNE 30, 2007 AND 2006**

**AND**

**INDEPENDENT AUDITORS' REPORT**



**JOHANSON & YAU**  
ACCOUNTANCY CORPORATION

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## 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, 2007 and 2006, and the related statements of activities and cash flows for the 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 auditing standards generally accepted in 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 misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 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 Mission-West Valley Land Corporation as of June 30, 2007 and 2006, and the results of its operations and changes in its fund balance and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Johanson & Yau*  
*Accountancy Corporation*

September 13, 2007

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**MISSION-WEST VALLEY LAND CORPORATION**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2007 AND 2006**

**ASSETS**

	<b>2007</b>	<b>2006</b>
Current assets		
Cash and cash equivalents - Note 2	\$ 10,992,308	\$ 7,785,006
Interest receivable	138,432	94,335
Total current assets	11,130,740	7,879,341
Other assets		
Land	16,702	16,702
Lease commissions - net - Note 3	697,618	712,595
	714,320	729,297
	<b>\$ 11,845,060</b>	<b>\$ 8,608,638</b>

**LIABILITIES AND NET ASSETS**

Current liabilities		
Accounts payable and accrued expenses - Note 11	\$ 1,039,618	\$ 1,019,332
Total current liabilities	1,039,618	1,019,332
Long term liabilities		
Refundable security deposits - Note 7	200,000	200,000
	1,239,618	1,219,332
Net assets		
Unrestricted - Note 11	10,605,442	7,388,293
	<b>\$ 11,845,060</b>	<b>\$ 8,607,625</b>

See accompanying notes to financial statements

**MISSION-WEST VALLEY LAND CORPORATION**  
**STATEMENTS OF ACTIVITIES**  
**YEARS ENDED JUNE 30, 2007 AND 2006**

	<b>Unrestricted</b>	
	<u>2007</u>	<u>2006</u>
Revenues		
Rental income - Note 5	\$ 4,268,089	\$ 3,819,769
Interest income	478,488	302,952
	<u>4,746,577</u>	<u>4,122,721</u>
Expenses		
Grants for special projects - Note 8	139,923	3,044,443
Amortization of commissions - Note 3	14,977	14,977
Legal	221,417	16,426
Rent - Note 5	1,067,022	381,977
Contracted services - Note 6	72,000	72,000
Audit fees	7,950	7,495
Financial services	5,250	5,644
Bank service charges	160	-
Office supplies & expense	369	303
Taxes & licenses	360	355
	<u>1,529,428</u>	<u>3,543,620</u>
Change in net assets	3,217,149	579,101
Net assets-unrestricted, beginning of year	<u>7,388,293</u>	<u>6,809,192</u>
Net assets-unrestricted, end of year	<u><u>\$ 10,605,442</u></u>	<u><u>\$ 7,388,293</u></u>

See accompanying notes to financial statements

**MISSION-WEST VALLEY LAND CORPORATION**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Change in net assets	\$ 3,217,149	\$ 579,101
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Amortization of commissions	14,977	14,977
(Increase) decrease in		
Receivable from District	-	200,000
Interest receivable	(44,097)	(37,322)
Increase (decrease) in		
Accounts payable and accrued expenses	<u>19,273</u>	<u>(665,602)</u>
Net cash provided by operating activities	3,207,302	91,154
Cash and cash equivalents, beginning of year	<u>7,785,006</u>	<u>7,693,852</u>
Cash and cash equivalents, end of year	<u>\$ 10,992,308</u>	<u>\$ 7,785,006</u>

See accompanying notes to financial statements

**MISSION-WEST VALLEY LAND CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007 AND 2006**

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

Organization - Mission West Valley Land Corporation (the Organization) was incorporated in 1985, and is a non-profit corporation exempt under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Section 23701(d). 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 in the West Valley Mission Community College District (the District). It provides money for programs that enhance and enrich the community life of the District educationally and culturally.

The Organization leases approximately 54.4 acres of land from the District for the purpose of sub-lease and development. The Organization manages the property and has entered into several sub-leases. These lease arrangements are more fully described in Notes 4 and 5.

Fund accounting - To ensure the observance of limitations and restrictions placed upon the use of resources, the accounts of the Organization are maintained in accordance with the principles of fund accounting. This procedure classifies resources into funds according to their nature and purpose.

The assets, liabilities, and fund balances of the Organization are reported as unrestricted funds, which represent the portion of resources that are available for general support of the Organization's operations.

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 are recorded at fair market value at the date of gift.

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.

**MISSION-WEST VALLEY LAND CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007 AND 2006**

**NOTE 2 - CASH AND CASH EQUIVALENTS**

Cash and cash equivalents as of June 30, 2007 and 2006 consist of the following:

	2007	2006
Cash in banks	\$ 281,227	\$ 200,316
Local Agency Investment Fund (LAIF)	10,711,081	7,584,689
	\$ 10,992,308	\$ 7,785,006

The Federal Deposit Insurance Corporation insures cash held in banks up to \$100,000.

Statutes authorize the Organization to invest in certificates of deposit in California financial institutions, the state investment pool (LAIF), as well as other authorized investment instruments.

The carrying amounts of the investments approximate fair market value.

**NOTE 3 - LEASE COMMISSIONS**

Commissions paid to brokers to secure subleases are capitalized and amortized over the terms of the leases. Amortization was \$14,977 for the year ended June 30, 2007.

Capitalized lease commissions and accumulated amortization at June 30, 2007 are:

Capitalized commissions	\$ 823,722
Accumulated amortization	126,104
Capitalized commissions, net of accumulated amortization	\$ 697,618

**NOTE 4 - GROUND LEASE**

The Organization leases 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 longer than 99 years.

Rent is paid equal to 25% of rents collected from sub-leases. 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.

**MISSION-WEST VALLEY LAND CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007 AND 2006**

**NOTE 4 - GROUND LEASE (Continued)**

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

Year ending June 30	Lakha Properties	Ellis- Middlefield Business Park	Sobrato Development CO #792	Nexus	Total
2008	\$ 350,000	\$ 217,070	\$ 267,325	\$ 260,672	\$ 1,095,068
2009	350,000	217,070	267,325	260,672	1,095,068
2010	350,000	217,070	267,325	260,672	1,095,068
2011	350,000	217,070	267,325	260,672	1,095,068
2012	350,000	217,070	267,325	260,672	1,095,068
Thereafter	11,258,334	8,393,369	10,336,578	10,492,068	40,480,348
	<u>\$ 13,008,334</u>	<u>\$ 9,478,719</u>	<u>\$ 11,673,204</u>	<u>\$ 11,795,430</u>	<u>\$ 45,955,687</u>

**NOTE 5 - SUBLEASES**

The fifty-four acres of land leased from the District (see Note 1) have been subdivided into several parcels, all of which have been subleased as follows:

Lakha Properties – Santa Clara, LLC

In September 1990, the Organization entered into a long-term ground lease with the Jim Joseph Revocable Trust to sublease one of the parcels.

In June 2005, 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.

Either the Organization or Lakha Properties – Santa Clara, LLC can terminate the lease subject to certain conditions and penalties.

Ellis-Middlefield Business Park

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, LP assigned its interest in the lease to Sobrato Interest III.



**MISSION-WEST VALLEY LAND CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007 AND 2006**

**NOTE 5 – SUBLEASES (Continued)**

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 one ground lease. The rent from the phase one lease commenced in December of 1996.

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

Sobrato Development CO. #792

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, LP assigned its interest in the lease to Sobrato Interest III.

In April 2003, Sobrato Interest III assigned its interest in the lease to Sobrato Development CO. #792, a California limited partnership. The lease arrangement is commonly referred to as the phase two ground lease. The rent stream from the phase two lease commenced in June of 1998.

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

Nexus Properties

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

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 fair market value of the land after the first 21 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 \$4,268,089 and \$3,819,769 was received by the Organization during the years ended June 30, 2007 and 2006, respectively. Rent expense of \$1,067,022 and \$381,977, for the years ended June 30, 2007 and 2006, respectively, was paid to West Valley Mission Community College District per agreement (see Note 1). The agreement was amended in the current year to increase the rent expense from 10% to 25%. The lessee is responsible for all administrative costs, including property taxes, maintenance and insurance.

**MISSION-WEST VALLEY LAND CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007 AND 2006**

**NOTE 5 – SUBLEASES (Continued)**

Future minimum lease revenues as of June 30, 2007, are as follows:

Year ending June 30	Lakha Properties	Ellis- Middlefield Business Park	Sobrato Development CO #792	Nexus	Total
2008	\$ 1,400,000	\$ 868,280	\$ 1,069,301	\$ 1,042,690	\$ 4,380,271
2009	1,400,000	868,280	1,069,301	1,042,690	4,380,271
2010	1,400,000	868,280	1,069,301	1,042,690	4,380,271
2011	1,400,000	868,280	1,069,301	1,042,690	4,380,271
2012	1,400,000	868,280	1,069,301	1,042,690	4,380,271
Thereafter	<u>45,033,335</u>	<u>33,573,476</u>	<u>41,346,312</u>	<u>41,968,271</u>	<u>161,921,393</u>
	<u>\$ 52,033,335</u>	<u>\$ 37,914,874</u>	<u>\$ 46,692,817</u>	<u>\$ 47,181,721</u>	<u>\$ 183,822,747</u>

**NOTE 6 – CONTRACTED SERVICES**

The Mission-West Valley Land Corporation has contracted for professional services from the Executive Director on a year-to-year basis.

Total amounts paid to the executive director were \$72,000 and \$72,000 for the years ended June 30, 2007 and 2006, respectively.

**NOTE 7 – SECURITY DEPOSIT**

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

Sobrato Phase I	\$ 100,000
Nexus	<u>100,000</u>
Total	<u>\$ 200,000</u>

**MISSION-WEST VALLEY LAND CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007 AND 2006**

**NOTE 8 – GRANTS FOR SPECIAL PROJECTS**

The Organization contributed \$1,092,236 to the District, and will receive reimbursements of \$952,213 from the District for the following projects:

Funding for Enrollment Expansion Plan	\$	266,580
Debt service for computer information system and gym upgrades		96,379
Funding for Middle College Program		30,000
Funding for District required facility maintenance		68,294
Funding for Leadership program		151,066
Funding for Student Learning Outcomes Project		3,690
Funding for MC S & T Completion		128,309
Funding for MC Math and Science		69,580
Funding for Emergency Food Vouchers		20,000
Funding for Reconstruction CDC Playground		73,072
Funding for Campbell Center Project		50,000
Funding for Parking Meter Upgrade Project		73,252
Funding for ALTA Survey MC Campus		31,500
Funding for Course Mgmt. Sys Impl MC/WVC		30,514
		1,092,236
Less: Reimbursement by District for Student Center debt service		952,313
Net grants for year ended June 30, 2007	\$	139,923

**NOTE 9 – 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 District.

**MISSION-WEST VALLEY LAND CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007 AND 2006**

**NOTE 10 – BOARD DESIGNATED ASSETS**

The Board of Directors of the Organization has designated that certain amounts of unrestricted funds be set aside for specific purposes. Components of unrestricted net assets as of June 30, 2007 and 2006, are as follows:

	<u>2007</u>	<u>2006</u>
Contingency Reserve	\$ 1,500,000	\$ 1,876,755
Endowment Reserve	<u>3,291,911</u>	<u>2,728,451</u>
Total Board Designated	4,791,911	4,605,206
Undesignated	<u>5,813,531</u>	<u>2,783,087</u>
 Total Unrestricted Net Assets	 <u>\$ 10,605,442</u>	 <u>\$ 7,388,293</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 is established to accumulate funds that will provide a continuing earnings stream independent of revenues from property leases. The Board may remove the restrictions on these funds at any time.

**NOTE 11 - ACCOUNTS PAYABLE**

Accounts payable at June 30, 2007 and 2006 consisted of the following:

	<u>2007</u>	<u>2006</u>
Special projects	\$ 1,036,311	\$ 1,016,228
Legal fees	2,647	3,104
Accounting fees	544	1,013
Office expenses	<u>116</u>	<u>-</u>
 Total	 <u>\$ 1,039,618</u>	 <u>\$ 1,020,345</u>