



**CALIFORNIA STATE UNIVERSITY,  
CHANNEL ISLANDS SITE AUTHORITY**  
(A Component Unit of the California State University)

Financial Statements and  
Supplementary Information

June 30, 2008

(With Independent Auditors' Report Thereon)

**CALIFORNIA STATE UNIVERSITY,  
CHANNEL ISLANDS SITE AUTHORITY**  
(A Component Unit of the California State University)

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## **Independent Auditors' Report**

The Board of Directors  
California State University, Channel Islands Site Authority:

We have audited the accompanying financial statements of the California State University, Channel Islands Site Authority (the Site Authority), a component unit of the California State University, as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Site Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Site Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 the Site Authority as of June 30, 2008, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2008, on our consideration of the Site Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Site Authority has not presented the management's discussion and analysis that U.S. generally accepted accounting principles require to supplement, although not to be part of, the financial statements.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary schedule of net assets (deficit) by program and supplementary schedule of revenues, expenses, and changes in net assets (deficit) by program on pages 21 and 22, respectively, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary schedules have not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we express no opinion on them.

KPMG LLP

November 13, 2008

**CALIFORNIA STATE UNIVERSITY,  
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Statement of Net Assets (Deficit)

June 30, 2008

**Assets**

Current assets:	
Cash and cash equivalents	\$ 1,992,100
Investments	7,833,937
Accounts receivable	238,033
Interest receivable	107,163
Real estate inventory	5,469,870
Prepaid expense	275,248
Due from CSUCI Financing Authority – restricted	<u>277,303</u>
Total current assets	16,193,654
Noncurrent assets:	
Capital assets, net	<u>139,907,789</u>
Total assets	<u>\$ 156,101,443</u>

**Liabilities and Net Assets**

Current liabilities:	
Accounts payable	\$ 5,949,481
Payroll liabilities	23,489
Interest payable to CSU Systemwide Revenue Bond Program	1,137,836
Interest payable to CSU Risk Management Authority	573,364
Due to CSU, Channel Islands	296,846
Line of credit to CSU Risk Management Authority	785,436
Capitalized lease obligations, current portion	200,000
Loans payable – current portion	<u>4,310,000</u>
Total current liabilities	13,276,452
Noncurrent liabilities:	
Security deposit	257,340
Payroll liabilities, net of current portion	54,808
Capitalized lease obligations, net of current portion	139,624,461
Loans payable, net of current portion	<u>64,545,000</u>
Total liabilities	<u>217,758,061</u>
Net assets (deficit):	
Invested in capital assets, net of related debt	(1,780,644)
Restricted for:	
Debt service	850,249
Maintenance reserves	849,381
Unrestricted	<u>(61,575,604)</u>
Total net assets (deficit)	<u>(61,656,618)</u>
Total liabilities and net assets	<u>\$ 156,101,443</u>

See accompanying notes to financial statements.

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Statement of Revenues, Expenses, and Changes in Net Assets (Deficit)

Year ended June 30, 2008

Operating revenues:	
Home sales	\$ 5,368,581
Rental income	8,323,339
Miscellaneous revenues	91,495
Maintenance rent	494,365
	<hr/>
Total operating revenues	14,277,780
Operating expenses:	
Cost of home sales	5,001,764
Rental housing operations	4,072,813
Traffic impact mitigation fees	1,571,735
Depreciation and amortization	4,708,550
General, administrative, and other operating costs	1,038,365
Capital facilities fees	776,931
Fines	83,334
	<hr/>
Total operating expenses	17,253,492
Operating loss	<hr/> (2,975,712) <hr/>
Nonoperating revenue (expense):	
Investment income	2,164,757
Interest expense	(5,495,404)
Property taxes	1,732,071
Sales taxes	32,147
Local agency pass-through taxes	(346,304)
Gift expense	(707,406)
Other expense	(43,057)
Contribution for debt service	4,404,000
	<hr/>
Total nonoperating expense, net	1,740,804
Loss before transfers (to) from other CSU funds	<hr/> (1,234,908) <hr/>
Transfer from CSUCI Financing Authority – interest income from cash held with fiscal agent	140,363
Transfer from CSUCI Financing Authority – special tax	432,344
	<hr/>
Total transfers	572,707
Changes in net deficit	(662,201)
Net deficit, beginning of year	<hr/> (60,994,417) <hr/>
Net deficit, end of year	\$ <hr/> <hr/> (61,656,618)

See accompanying notes to financial statements.

**CALIFORNIA STATE UNIVERSITY,  
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Statement of Cash Flows

Year ended June 30, 2008

Cash flows from operating activities:	
Home sales	\$ 5,575,234
Rental income	9,224,477
Payments to vendors	(9,466,694)
Traffic impact mitigation fees	(1,571,735)
Capital facilities fees	(776,931)
Maintenance rent	494,365
Fines	(83,334)
	<hr/>
Net cash provided by operating activities	3,395,382
Cash flows from noncapital financing activities:	
Proceeds from CSUCI Financing Authority	572,707
Interest paid	(5,401,167)
Property and sales taxes	1,764,218
Payments to pass-through entities	(347,206)
Proceeds from line of credit	785,436
Payments on line of credit	(903,639)
Gift expense	(353,475)
Contributions for debt service	4,404,000
Other income	714,383
	<hr/>
Net cash used in noncapital financing activities	1,235,257
Cash flows from capital and related financing activities:	
Interest paid	(3,935,547)
Receipts of amounts due from CSUCI Financing Authority	52,627,848
Proceeds from capitalized lease obligation refinancing	1,024,825
Payments on loans	(92,000,000)
Proceeds from loans	44,500,000
Proceeds from vendor	(136,000)
Capital expenditures	(7,378,166)
	<hr/>
Net cash used in capital and related financing activities	(5,297,040)
Cash flows provided by investing activities:	
Investment income	2,096,714
Purchases of investments	(54,028,092)
Sales of investments	54,455,686
	<hr/>
Net cash provided by investing activities	2,524,308
	<hr/>
Net increase in cash and cash equivalents	1,857,907
Cash and cash equivalents at beginning of year	134,193
Cash and cash equivalents at end of year	<hr/> <hr/> \$ 1,992,100
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (2,975,712)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization expense	4,708,550
Changes in assets and liabilities:	
Accounts receivable	901,139
Prepaid expenses	(224,399)
Real estate inventory	115,157
Accounts payable	535,010
Security deposit	257,340
Payroll liabilities	78,297
	<hr/>
Net cash provided by operating activities	\$ 3,395,382

See accompanying notes to financial statements.

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**(1) Description of Reporting Entity**

The California State University, Channel Islands Site Authority (the Site Authority) was formed on September 28, 1998 for the purpose of providing a specific reuse plan that will finance and support the transition of the property previously known as the Camarillo State Hospital (the Property) from its former use to the California State University campus and other compatible uses. The Site Authority is governed by a board of seven members comprising four representatives of the trustees of the California State University and three representatives from the County of Ventura.

The Property comprises two major sectors: the West Campus and East Campus. The West Campus consists of developed space on 42 acres of what was formerly the Camarillo State Hospital. This portion of the Campus is to be centered on academic uses and houses the California State University, Channel Islands (the Campus). The East Campus comprises 162 acres of developable land, which is expected to contain 900 residential units and approximately 31,000 square feet of retail commercial uses. The development of the East Campus began in October 2000 and is expected to be completed by early December 2010.

The accompanying financial statements also include the University Glen Corporation (UGC), which is included as blended component unit, due to the fact that the Site Authority is considered the primary government financially accountable. UGC provides management activities of University Glen Residential Development, including both rental and for-sale units. In addition, UGC provides management of common area maintenance and management and collection of reserves for the home owners and retail tenants.

The Site Authority is an integral part of the California State University, and the financial transactions of the Site Authority are also included in the financial statements of the California State University as a blended component unit.

**(2) Summary of Significant Accounting Policies**

**(a) Basis of Presentation**

The accompanying financial statements for the Site Authority have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The financial statements required by GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, include a statement of net assets (deficit), a statement of revenues, expenses, and changes in net assets (deficit), and a statement of cash flows. The Site Authority is considered a special-purpose government under the provisions of GASB Statement No. 34. The Site Authority records revenue primarily from housing sales, apartment rentals, and tax increment revenues and, accordingly, has chosen to present its financial statements using the reporting model for special-purpose governments engaged only in business-type activities. This model allows all financial information for the Site Authority to be reported in a single column in each of the financial statements. In accordance with the business-type

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activities reporting model, the Site Authority prepares its statement of cash flows using the direct method.

**(b) Election of Applicable FASB Statements**

The Site Authority has elected to follow private-sector standards of accounting and financial reporting issued by the Financial Accounting Standards Board (FASB) prior to November 30, 1989, unless those standards conflict with or contradict guidance of the GASB. The Site Authority also has the option of following subsequent private-sector guidance subject to the same limitation. The Site Authority has elected not to follow subsequent private-sector guidance.

**(c) Classification of Current and Noncurrent Assets (Other Than Investments) and Liabilities**

The Site Authority considers assets to be current that can reasonably be expected, as part of its normal business operations, to be converted to cash and be available for liquidation of current liabilities within 12 months of the statement of net assets date. Liabilities that reasonably can be expected, as part of normal University business operations, to be liquidated within 12 months of the statement of net assets date are considered to be current. All other assets and liabilities are considered to be noncurrent. For classification of current and noncurrent investments, refer to paragraph (f).

**(d) Net Assets (Deficit)**

The Site Authority's net assets are classified into the following categories:

**Invested in capital assets, net of related debt** – Capital assets, net of accumulated depreciation, amortization, and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

**Restricted** – Net assets subject to externally imposed conditions that can be fulfilled by the actions of the Site Authority or the passage of time.

**Unrestricted** – All other categories of net assets (deficit). In addition, unrestricted net assets may be designated for use by the Site Authority.

The Site Authority has adopted a policy of utilizing restricted funds, when available, prior to unrestricted funds.

**(e) Cash and Cash Equivalents and Statement of Cash Flows**

The Site Authority considers highly liquid investments with an original maturity of three months or less to be cash equivalents. The Site Authority considers amounts included in the California State University investment pool to be investments.

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**(f) Investments**

Investments are reflected at fair value using quoted market prices. Realized and unrealized gains and losses are included in the accompanying statement of revenues, expenses, and changes in net assets as interest revenue.

**(g) Real Estate Inventory**

Real estate inventory is stated at cost, which is not in excess of estimated net realizable value. The Site Authority follows the accepted industry practice of capitalizing interest related to a project until development is substantially complete; such costs are charged to cost of home sales at the time residential units are sold.

**(h) Due From CSUCI Financing Authority**

At June 30, 2008, amounts due from the CSUCI Financing Authority consist of special tax receipts yet to transfer, which will be used for upcoming capitalized lease payment.

**(i) Revenue Recognition**

Revenues from home sales are recognized as homes are sold, title passes, and escrow closes. Rental revenues are recognized as amounts are earned and coincide with the lease agreement. Maintenance rent is recognized monthly upon receipt from home owners and retail tenants. Tax increment revenues are recognized when the taxes are levied and sales tax revenues are recognized upon receipt.

**(j) Cost of Homes Sold**

The cost of residential units sold is computed by allocating construction costs to the homes based on square footage. When the Site Authority repurchases a residential unit from a homeowner, the unit is reported as a real estate inventory. When a residential unit is sold from real estate inventory, the unit sold represents cost of homes sold.

**(k) Classification of Revenues and Expenses**

The Site Authority considers operating revenues and expenses in the statement of revenues, expenses, and changes in net assets (deficit) to be those revenues and expenses that result from exchange and nonexchange transactions or other activities that are connected directly to the Site Authority's primary functions. Exchange transactions include charges for services rendered and the acquisition of goods and services. Nonexchange transactions include the collection of tax increment and sales tax revenues. Certain other transactions are reported as nonoperating revenues and expenses in accordance with GASB Statement No. 34. These nonoperating activities primarily include the Site Authority's investment income, interest expense, tax increment and sales tax revenues, pass through agency taxes, contribution for debt service, other expense, gift expense, and transfers between the Site Authority and the Financing Authority and other California State University (CSU) funds.

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**(l) Capital Assets, Net**

Capital assets are stated at cost, and depreciation is calculated using the straight-line method over the following estimated useful lives of the respective assets:

Buildings and building improvements	30 years
Improvement other than buildings	10 years
Infrastructure	40 years
Equipment	5 years

**(m) Property Taxes**

All jurisdictions within California derive their taxing authority from the State Constitution and various legislative provisions contained in the State Government Code and Revenue and Taxation Codes. Property is originally assessed at 100% of full cash or market value at the date of transfer or completion of construction pursuant to Article XIII(A) of the California State Constitution and statutory provisions by the County Assessor and State Board of Equalization.

Pursuant to the Community Development Area Specific Reuse Plan adopted June 5, 2000, the Site Authority is permitted to collect a maximum of \$250,000,000 of tax increment revenues. Tax increment revenues are derived from property taxes that result from increases in assessed property values. The Site Authority is required to deposit 20% of the tax increment revenues into a Low and Moderate Income Housing Fund to provide affordable housing for households with moderate and low incomes. The tax increment revenues required to be deposited in the Low and Moderate Income Housing Fund may be pledged to repay that portion of the capitalized lease obligation to Systemwide Revenue Bonds (SRB) related to infrastructure construction financing, and accordingly, all of the tax increment revenues are pledged to repay this portion of the capitalized lease.

Additionally, Section 33607.5 of the Redevelopment Law (the Tax Sharing Statute) requires a certain portion of the property taxes collected on the Campus to be paid to other taxing agencies. These taxing agencies include school districts, community college district, etc. This is put into place in order to alleviate the financial burden and detriment that affected taxing entities may incur as a result of the adoption of a redevelopment plan. The Site Authority is required to remit 25% of the remaining tax increment revenues after transfer of the Low and Moderate Income Housing Funds.

Property taxes are levied on both real and personal property. The County Assessor levies taxes on all property developed by the Site Authority, including rental units. Secured property taxes become a lien on the property on January 1 or the date on which title to the property transfers or improvements to the property are completed. Secured property taxes are levied July 1 and payable in two equal installments; the first payment is generally due on November 1 and delinquent with penalties after December 10; the second payment is generally due on February 1 and delinquent with penalties after April 10. Tax increment revenues are recognized in the period in which they are levied, net of amounts determined to be uncollectible.

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Supplemental property tax assessments/refunds associated with changes in assessed valuations due to transfers of title and completed property improvements are levied in two equal installments and have variable due dates based on the date of title transfer and/or completion of the property improvements.

**(n) Income Taxes**

The Site Authority was formed pursuant to Articles 1-4, Chapter 5, division 7, title 1 of the Government Code of the State of California and, as a governmental entity, is not subject to federal or state income taxes.

**(o) Use of Estimates**

The preparation of the financial statements in conformity with U.S. 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.

**(3) Cash and Cash Equivalents and Investments**

The Site Authority's cash and cash equivalents and investments at June 30, 2008 are classified in the accompanying financial statements as follows:

Cash and cash equivalents	\$	1,992,100
Investments		<u>7,833,937</u>
Total cash and cash equivalents and investments	\$	<u><u>9,826,037</u></u>

**(a) Cash and Cash Equivalents**

At June 30, 2008, cash and cash equivalents consisted of demand deposits held at financial institutions. The bank balance and carrying value of this cash was \$1,992,100 at June 30, 2008.

**Custodial Credit Risk for Deposits**

Custodial credit risk for deposits is the risk that the Site Authority will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The California Government Code and Education Code do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the provision that a financial institution must secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. This risk is mitigated in that the Site Authority's deposits are maintained at financial institutions that are fully insured or collateralized as required by state law.

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**(b) Investments**

At June 30, 2008, the Site Authority's investment portfolio consists primarily of investments held in the California State University Investment Pool, as well as interest-bearing accounts held in the State Treasury. For the California State University Investment Pool, separate accounting is maintained as to the amounts allocable to the various funds and programs.

**Investment Policy**

State law and regulations require that surplus moneys of the Site Authority must be invested. The primary objective of the Site Authority's investment policy is to safeguard the principal. The secondary objective is to meet the liquidity needs of the Site Authority. The third objective is to return an acceptable yield. The Site Authority's investment policy authorizes funds held in local trust accounts under Education Code Section 89721 and 89724 to be invested in any of the securities authorized by Government Code Section 16430 and Education Code Section 89724, subject to certain limitations. In general, the Site Authority's investment policy permits investments in obligations of the federal and California state governments, certificates of deposit, and certain other investment instruments.

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Site Authority manages its exposure to interest rate risk is by purchasing a combination of short-term and mid-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or nearing maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The Site Authority monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The weighted average maturity of the Site Authority's investment portfolio for each investment type as of June 30, 2008 is presented in the below tables.

**Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

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The following table presents the weighted average maturity and actual rating by investment type of the Site Authority's investment portfolio as of June 30, 2008:

Investment type	Fair value	Weighted average maturity (in years)	Rating as of year-end				
			AAA	Aa	A	BBB	Not rated
Money market	\$ 2,926	—	\$ 2,926	—	—	—	—
Certificates of deposit	1,690,522	0.13	—	—	1,690,522	—	—
Commercial paper	1,989,858	0.05	—	—	1,989,858	—	—
U.S. agency securities	972,982	1.17	824,240	—	148,742	—	—
Repurchase agreements	186,345	0.50	—	—	186,345	—	—
Mortgage-backed securities	261,130	11.97	261,130	—	—	—	—
Corporate and fixed income securities	<u>2,711,555</u>	1.68	<u>836,176</u>	<u>893,995</u>	<u>917,054</u>	<u>22,623</u>	<u>41,707</u>
Total	7,815,318		<u>\$ 1,924,472</u>	<u>893,995</u>	<u>4,932,521</u>	<u>22,623</u>	<u>41,707</u>
Not subject to ratings:							
U.S. Treasury securities	<u>18,619</u>						
Total investments	<u>\$ 7,833,937</u>						

### Concentration of Credit Risk

The Site Authority's investment policy contains no limitations on the amount that can be invested in any one type of issuer beyond that stipulated by the California Government Code. As of June 30, 2008, the following investments (other than U.S. Treasury securities, mutual funds, and external investment pools) represented 5.0% or more of the Site Authority's investment portfolio: Federal Home Loan Bank totaling \$549,000, or 7.0%; and Freddie Mac totaling \$460,386, or 5.9%.

### Custodial Credit Risk for Deposits

Custodial credit risk for deposits is the risk that the Site Authority will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The California Government Code and Education Code do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the provision that a financial institution must secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. This risk is mitigated in that the Site Authority's deposits are maintained at financial institutions that are fully insured or collateralized as required by state law.

### Risks and Uncertainties

The Site Authority may invest in various types of investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of net assets.

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The Site Authority invests in securities with contractual cash flows, such as asset-backed securities and mortgage-backed securities. The value, liquidity, and related income of these securities are sensitive to changes in economic conditions, including real estate value, delinquencies or defaults, or both, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates.

**(4) Real Estate Inventory**

Real estate inventory at June 30, 2008 consists of the following:

Finished units	\$ 516,457
Construction in progress	<u>4,953,413</u>
	<u>\$ 5,469,870</u>

**(5) Due From CSUCI Financing Authority**

The due from CSUCI Financing Authority balance at June 30, 2008 consists of special tax receipts yet to transfer to the Site Authority to be used for upcoming capitalized lease payment.

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**(6) Capital Assets**

Capital asset activity consisted of the following:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Transfers</u>	<u>Ending balance</u>
Nondepreciable capital assets:					
Construction work in progress	\$ 3,059,115	10,033,094	—	(13,051,566)	40,643
Total nondepreciable capital assets	<u>3,059,115</u>	<u>10,033,094</u>	<u>—</u>	<u>(13,051,566)</u>	<u>40,643</u>
Depreciable capital assets:					
Buildings and building improvements	97,186,505	—	(1,134,164)	498,638	96,550,979
Improvements other than building	35,145	—	—	8,496	43,641
Infrastructure	46,419,353	—	—	12,544,432	58,963,785
Personal property equipment	<u>575,572</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>575,572</u>
Total depreciable capital assets	<u>144,216,575</u>	<u>—</u>	<u>(1,134,164)</u>	<u>13,051,566</u>	<u>156,133,977</u>
Total cost	<u>147,275,690</u>	<u>10,033,094</u>	<u>(1,134,164)</u>	<u>—</u>	<u>156,174,620</u>
Less accumulated depreciation:					
Buildings and building improvements	(6,853,758)	(3,228,958)	—	—	(10,082,716)
Improvements other than building	(5,271)	(3,940)	—	—	(9,211)
Infrastructure	(4,343,626)	(1,317,289)	—	—	(5,660,915)
Personal property equipment	<u>(443,023)</u>	<u>(70,966)</u>	<u>—</u>	<u>—</u>	<u>(513,989)</u>
Total accumulated depreciation	<u>(11,645,678)</u>	<u>(4,621,153)</u>	<u>—</u>	<u>—</u>	<u>(16,266,831)</u>
Net capital assets	<u>\$ 135,630,012</u>	<u>5,411,941</u>	<u>(1,134,164)</u>	<u>—</u>	<u>139,907,789</u>

Construction work-in-progress additions consist of:

Capital expenditures	\$ 7,432,185
Capitalized interest	<u>2,600,909</u>
	<u>\$ 10,033,094</u>

**CALIFORNIA STATE UNIVERSITY,  
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Notes to Financial Statements

June 30, 2008

**(7) Capitalized Interest**

The Site Authority capitalizes interest cost as a component of the cost of construction work in progress. The following is a summary of interest cost incurred during 2008.

Interest cost capitalized	\$ 2,600,909
Interest cost charged to income	<u>5,495,404</u>
Total interest cost incurred	<u><u>\$ 8,096,313</u></u>

**(8) Capitalized Lease Obligations**

On March 14, 2007, the CSU Trustees, Site Authority, and Financing Authority authorized the use of the SRB Program to provide funds to refinance certain of the outstanding Financing Authority Bonds. The SRB bond proceeds and other funds were used to defease the following: (i) Revenue Bonds, 2001 Series A (infrastructure bonds); (ii) Rental Housing Bonds Series 2001; and (iii) Rental Housing and Town Center Revenue Bonds Series 2004A (Nontaxable) and 2004B (Taxable).

Concurrent with the defeasance of the bonds, the Site Authority entered into a capitalized lease arrangement with the Trustees of the CSU on March 14, 2007. The lease will be repaid from revenues received by the Site Authority. Interest ranging from 4.00% to 5.45% is paid semiannually on May 1 and November 1. The principal payments are paid on November 1 of each year beginning November 1, 2008 with the final payment due November 1, 2044.

In connection with the issuance of the lease, the Site Authority recorded a lease premium of \$6,424,084, which is being amortized on a straight-line basis over the life of the leases. At June 30, 2008, \$321,713 has been amortized.

The Site Authority incurred a loss on refunding of the loans of \$6,268,778, which is being amortized on a straight-line basis over the life of the leases. At June 30, 2008, \$320,868 has been amortized.

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Future minimum lease payments under capital leases having remaining terms as of June 30, 2008 are as follows:

Year ending June 30:	
2009	\$ 7,023,006
2010	7,015,006
2011	7,129,506
2012	7,317,406
2013	7,531,406
2014 – 2018	41,396,528
2019 – 2023	47,493,028
2024 – 2028	55,148,654
2029 – 2033	52,588,742
2034 – 2038	22,487,449
2039 – 2043	22,467,000
2044 – 2045	<u>8,986,163</u>
Total minimum lease payments	286,583,894
Less amount representing interest	<u>(146,913,894)</u>
Present value of future minimum lease payments	<u>\$ 139,670,000</u>

**(9) Loans Payable**

Loans payable are as follows:

Description	Interest rate	Fiscal year maturity date	Original issue amount	Amount outstanding June 30, 2008
Financing Authority:				
CSUCI Financing Authority Revenue Bonds – Series 2004A (For-Sale Housing Construction)	2.50%	2010 – 2011	\$ 44,500,000	—
Other:				
California State University Risk Management Authority	0.21%	2008 – 2009	4,200,000	4,200,000
California State University Risk Management Authority	0.21%	2008 – 2009	3,000,000	—
California State University, Channel Islands	3.00% – 5.00%	2037 – 2038	<u>64,655,000</u>	<u>64,655,000</u>
Total debt			<u>\$ 116,355,000</u>	<u>68,855,000</u>

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June 30, 2008

The Site Authority obtained various financing through the Financing Authority through the issuance of revenue bonds issued by the Financing Authority (the Bonds) to fund construction and development of the Property in accordance with its reuse plan. As of June 30, 2008, these loans aggregated \$0. The CSU Trustees, Site Authority, and Financing Authority have authorized the use of the California State University SRB Program to provide funds to refinance certain of the outstanding Financing Authority Bonds. The SRB bond proceeds and other funds were used to defease certain of the outstanding Financing Authority Bonds on March 14, 2007 (note 8). Additionally, the remaining loan from the Financing Authority is subject to special mandatory redemption prior to its respective maturity date, in whole or in part, at a redemption price equal to the principal amount and accrued interest to date, without a premium as specified in the Reimbursement Agreement. The loan contains certain restrictive covenants, and as of June 30, 2008, management believes the Site Authority is in compliance with all such covenants.

In June 2005, the Site Authority received a loan from the California State University Risk Management Authority of \$4,200,000. The loan was used to pay off loans from the Stockton Center Site Authority and Lottery Fund. The loan will be repaid through future bond proceeds or surplus funds of the Site Authority. The interest rate to be paid on this loan is the stated CalTrust rate of return earned by the California State University Risk Management Authority (0.21% at June 30, 2008). The loan is to be repaid on December 31, 2008. The loan is secured by equity proceeds and rental revenues from rental housing phases 1C and 2A/B.

In October 2006, the Site Authority received a loan from the California State University Risk Management Authority of \$3,000,000. The loan was used to fund the for-sale housing phases 2A/B. The loan will be repaid once the CSU Trustees release the 2A/B bond proceeds, which is scheduled for late 2009. The interest rate to be paid on this loan is the stated CalTrust rate of return earned by the California State University Risk Management Authority (0.21% at June 30, 2008). The loan was paid on February 8, 2008.

On April 1, 2005, the Site Authority entered into an agreement with the Campus to pay the Campus's debt service on revenue bonds issued to build and renovate certain Campus buildings. The loan will be repaid through excess revenues received from the Site Authority's revenues. Interest ranging from 3.0% to 5.0% is paid semiannually on May 1 and November 1. The principal payments are paid on November 1 of each year beginning November 1, 2008 with the final payment due November 1, 2037.

**CALIFORNIA STATE UNIVERSITY,  
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June 30, 2008

Long-term debt activity for the year ended June 30, 2008 is as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Line of credit	\$ 903,639	785,436	(903,639)	785,436	785,436
Capitalized lease obligations:					
Gross balance	139,670,000	—	—	139,670,000	200,000
Unamortized lease premium	6,351,437		(249,066)	6,102,371	—
Unamortized loss on refunding	(6,196,328)		248,418	(5,947,910)	—
Total capitalized lease obligations	<u>139,825,109</u>	<u>—</u>	<u>(648)</u>	<u>139,824,461</u>	<u>200,000</u>
Loans:					
CSUCI Financing Authority California State University Risk Management Authority	44,500,000	—	(44,500,000)	—	—
California State University, Channel Islands	7,200,000	—	(3,000,000)	4,200,000	4,200,000
Total loans	<u>64,655,000</u>	<u>—</u>	<u>—</u>	<u>64,655,000</u>	<u>110,000</u>
Total loans	<u>116,355,000</u>	<u>—</u>	<u>(47,500,000)</u>	<u>68,855,000</u>	<u>4,310,000</u>
Unamortized discount on bonds	(14,357)	—	14,357	—	—
Total loans, net	<u>116,340,643</u>	<u>—</u>	<u>(47,485,643)</u>	<u>68,855,000</u>	<u>4,310,000</u>
Total long-term debt obligations, net	<u>\$ 257,069,391</u>	<u>785,436</u>	<u>(48,389,930)</u>	<u>209,464,897</u>	<u>5,295,436</u>

The loans mature as follows:

	<u>Principal</u>	<u>Interest</u>
Fiscal years:		
2009	\$ 4,310,000	3,236,508
2010	255,000	3,178,113
2011	395,000	3,164,413
2012	440,000	3,147,388
2013	560,000	3,126,238
2014 – 2018	5,240,000	15,004,688
2019 – 2023	9,430,000	13,132,188
2024 – 2028	12,270,000	10,421,188
2029 – 2033	15,755,000	6,935,563
2034 – 2038	20,200,000	2,492,334
Total	<u>\$ 68,855,000</u>	<u>63,838,621</u>

**CALIFORNIA STATE UNIVERSITY,  
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June 30, 2008

**(10) Short-term Debt**

The CSU Board of Trustees has authorized the issuance of Revenue Bond Anticipation Notes (BANs) to provide short-term financing to the System for certain projects. The BANs are issued to the California State University Institute (the Institute), an auxiliary organization of the System, to secure the issuance of commercial paper by the Institute. The BANs are generally issued for periods of up to three years in anticipation of issuing permanent revenue bonds at a future date.

During 2008, the Institute issued BANs to the Site Authority through proceeds generated from its commercial paper program and the Site Authority recorded a corresponding loan payable to the Institute in the amount of \$44,500,000. Interest is variable and changes are based upon the cost of the Institute's commercial paper program. Due to economic reasons, the Site Authority made the decision to repay the loan payable to the Institute on May 5, 2008.

**(11) Letters of Credit**

As a condition of making the loans discussed in note 9, the Financing Authority required the Site Authority to obtain irrevocable Letters of Credit (the Letters) as security for payment of the Financing Authority's bonds. The Site Authority must reimburse any amounts paid by the credit provider under the Letters. Unless they are extended or expire earlier in accordance with their terms, the Letters will expire beginning August 6, 2007 and ending August 6, 2009. The Site Authority has executed a second deed of trust on certain portions of the Campus to secure its reimbursement obligation. Additionally, the Financing Authority passes through to the Site Authority all costs associated with maintaining the Letters. The Site Authority capitalizes those costs as a component of construction work in progress during construction periods. When construction is substantially completed, the costs are amortized to expense. Costs incurred to maintain the Letters for the year ended June 30, 2008 were \$28,825. Concurrent with the defeasance of the Financing Authority's outstanding bonds, the Letters are no longer required on the bonds outstanding as of June 30, 2008. The SRB program secured the bonds by entering into a lease agreement with the Site Authority for the term of the bonds.

**(12) Related Party**

The Site Authority receives its financing and contributions from the CSU Trustees and the Financing Authority and has also entered into certain transactions with the Campus relating to infrastructure, residential, and commercial developments. The accompanying financial statements includes the transaction with the CSU Trustees, the Financing Authority, and the Campus.

**(13) Maintenance Rent**

UGC manages the common area for homeowners, renters and the Town Center tenants. Common area charges shall mean all costs and expenses incurred by UGC in the operation, maintenance, replacement, and repair of the common areas during the term of the sublease. Common area expenses are allocated among all units based on type, such as single-family residence, townhome, rental property, or retail space.

**CALIFORNIA STATE UNIVERSITY,  
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June 30, 2008

**(14) Maintenance Reserves**

Maintenance reserve activities are based on the various ground subleases and retail leases reserve payments come from three sources: 1) homeowners, 2) leased units, and 3) retail tenants. Reserve contribution amounts are determined after review of the reserve study conducted by an outside firm every two to three years. Reserve expenditures consist of nonoperating and major repairs, which extend the life of an asset. Some examples include street repairs, roof replacement, major repairs to the exteriors of townhomes, rental properties, etc.

**(15) Lease Income**

The Site Authority leases a portion of its property under operating lease agreements for residential and commercial purposes. Total rental income for the year ended June 30, 2008 amounted to \$8,323,339.

Minimum future rental payments to be received under the noncancelable leases for each of the next five years are as follows:

Year ending June 30 2008:	
2009	\$ 81,202
2010	98,745
2011	140,485
2012	158,888
2013	<u>120,591</u>
Total lease payments due	\$ <u><u>599,911</u></u>

**(16) Subsequent Events**

Recent market conditions have resulted in an unusually high degree of volatility and increased the risks associated with certain investments held by the Site Authority, which could impact the value of investments after the date of these financial statements.

**CALIFORNIA STATE UNIVERSITY,  
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Supplementary Schedule of Net Assets (Deficit) by Program (Unaudited)

June 30, 2008

	<u>Operating</u>	<u>Infrastructure</u>	<u>Rental Housing</u>	<u>For Sale Housing</u>	<u>Campus Building</u>	<u>Low and Moderate Income Housing Funds</u>	<u>Common Area Maintenance</u>	<u>Maintenance Reserves</u>	<u>Total</u>
<b>Assets:</b>									
Cash and cash equivalents	\$ 206,501	6,536	895,873	29,925	—	—	22,027	831,238	1,992,100
Investments	—	873,385	5,696,844	1,157,332	—	106,376	—	—	7,833,937
Accounts receivable	702	53,182	178,029	—	—	—	6,120	—	238,033
Interest receivable	—	9,590	33,135	63,433	—	1,005	—	—	107,163
Real estate inventory	—	—	—	5,469,870	—	—	—	—	5,469,870
Prepaid expense	—	—	5,826	268,790	—	—	632	—	275,248
Due from CSUCI Financing Authority – restricted	—	277,303	—	—	—	—	—	—	277,303
Due from (to) other programs	—	(11,196)	—	—	—	11,196	(18,143)	18,143	—
Capital assets, net	—	47,077,100	86,099,290	6,731,399	—	—	—	—	139,907,789
Total assets	<u>207,203</u>	<u>48,285,900</u>	<u>92,908,997</u>	<u>13,720,749</u>	<u>—</u>	<u>118,577</u>	<u>10,636</u>	<u>849,381</u>	<u>156,101,443</u>
<b>Liabilities:</b>									
Accounts payable	33,677	135,326	2,507,192	2,849,805	412,845	—	10,636	—	5,949,481
Payroll liabilities	32,516	—	28,205	17,576	—	—	—	—	78,297
Security deposit	—	—	257,340	—	—	—	—	—	257,340
Interest payable to CSU Systemwide Revenue Bonds	—	363,675	774,161	—	—	—	—	—	1,137,836
Interest payable to CSU Risk Management Authority	32,060	—	322,891	218,413	—	—	—	—	573,364
Due to CSU, Channel Islands	—	—	148,423	148,423	—	—	—	—	296,846
Line of credit to CSU Risk Management Authority	—	—	—	785,436	—	—	—	—	785,436
Loans payable:									
Loan from CSU, Channel Islands	—	—	—	—	64,655,000	—	—	—	64,655,000
Loan from CSU Risk Management Authority	239,284	—	2,410,000	1,550,716	—	—	—	—	4,200,000
Capitalized lease obligations, net	—	42,174,306	97,650,155	—	—	—	—	—	139,824,461
Total liabilities	<u>337,537</u>	<u>42,673,307</u>	<u>104,098,367</u>	<u>5,570,369</u>	<u>65,067,845</u>	<u>—</u>	<u>10,636</u>	<u>—</u>	<u>217,758,061</u>
Net assets (deficit)	<u>(130,334)</u>	<u>5,612,593</u>	<u>(11,189,370)</u>	<u>8,150,380</u>	<u>(65,067,845)</u>	<u>118,577</u>	<u>—</u>	<u>849,381</u>	<u>(61,656,618)</u>
Total liabilities and net assets	<u>\$ 207,203</u>	<u>48,285,900</u>	<u>92,908,997</u>	<u>13,720,749</u>	<u>—</u>	<u>118,577</u>	<u>10,636</u>	<u>849,381</u>	<u>156,101,443</u>

See accompanying independent auditors' report.

**CALIFORNIA STATE UNIVERSITY,  
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Supplementary Schedule of Revenues, Expenses, and Changes in Net Assets (Deficit) by Program (Unaudited)

Year ended June 30, 2008

	Operating	Infrastructure	Rental Housing	For Sale Housing	Campus Building	Low and Moderate Income Housing Funds	Common Area Maintenance	Maintenance Reserves	Total
Operating revenues:									
Home sales	\$ —	—	—	5,368,581	—	—	—	—	5,368,581
Rental income	—	—	8,323,339	—	—	—	—	—	8,323,339
Miscellaneous revenues	11,992	4,359	—	75,144	—	—	—	—	91,495
Maintenance rent	—	—	—	—	—	—	494,365	—	494,365
Total operating revenues	<u>11,992</u>	<u>4,359</u>	<u>8,323,339</u>	<u>5,443,725</u>	<u>—</u>	<u>—</u>	<u>494,365</u>	<u>—</u>	<u>14,277,780</u>
Operating expenses:									
Cost of home sales	—	—	—	5,001,764	—	—	—	—	5,001,764
Rental housing operations	—	—	4,072,813	—	—	—	—	—	4,072,813
Traffic impact mitigation fees	—	—	—	1,571,735	—	—	—	—	1,571,735
Depreciation of capital assets	—	1,238,482	3,276,745	105,926	—	—	—	—	4,621,153
Amortization of debt expense	—	164,891	(77,494)	—	—	—	—	—	87,397
Capital facilities fees	—	—	—	776,931	—	—	—	—	776,931
General, administrative, and other expenses	—	52,828	29,573	499,430	—	—	428,009	28,525	1,038,365
Fines	—	—	83,334	—	—	—	—	—	83,334
Total operating expenses	<u>—</u>	<u>1,456,201</u>	<u>7,384,971</u>	<u>7,955,786</u>	<u>—</u>	<u>—</u>	<u>428,009</u>	<u>28,525</u>	<u>17,253,492</u>
Operating income (loss)	<u>11,992</u>	<u>(1,451,842)</u>	<u>938,368</u>	<u>(2,512,061)</u>	<u>—</u>	<u>—</u>	<u>66,356</u>	<u>(28,525)</u>	<u>(2,975,712)</u>
Nonoperating revenue (expense):									
Investment income	—	84,155	281,485	1,792,038	—	7,079	—	—	2,164,757
Interest income (expense)	(3,292)	(545,516)	(4,751,220)	(226,205)	—	—	—	30,829	(5,495,404)
Property taxes	—	1,732,071	—	—	—	—	—	—	1,732,071
Sales taxes	—	32,147	—	—	—	—	—	—	32,147
Local agency pass-through taxes	—	(346,304)	—	—	—	—	—	—	(346,304)
Gift expense	—	—	—	—	(707,406)	—	—	—	(707,406)
Other income (expense)	—	—	—	(60,000)	—	—	—	16,943	(43,057)
Contribution for debt service	—	—	—	4,404,000	—	—	—	—	4,404,000
Total nonoperating revenue (expense), net	<u>(3,292)</u>	<u>956,553</u>	<u>(4,469,735)</u>	<u>5,909,833</u>	<u>(707,406)</u>	<u>7,079</u>	<u>—</u>	<u>47,772</u>	<u>1,740,804</u>
Income (loss) before transfers (to) from other CSU funds	<u>8,700</u>	<u>(495,289)</u>	<u>(3,531,367)</u>	<u>3,397,772</u>	<u>(707,406)</u>	<u>7,079</u>	<u>66,356</u>	<u>19,247</u>	<u>(1,234,908)</u>
Transfer from CSUCI Financing Authority – interest income on cash held with fiscal agent	—	1,967	8,586	129,810	—	—	—	—	140,363
Transfer from CSUCI Financing Authority – special tax	—	(354,098)	786,442	—	—	—	—	—	432,344
Transfer (to) from other programs	20,000	1,911,902	(2,323,471)	(196,095)	698,357	(110,693)	—	—	—
Transfer (to) from reserves	—	—	(127,561)	—	—	—	(66,356)	193,917	—
Total transfers	<u>20,000</u>	<u>1,559,771</u>	<u>(1,656,004)</u>	<u>(66,285)</u>	<u>698,357</u>	<u>(110,693)</u>	<u>(66,356)</u>	<u>193,917</u>	<u>572,707</u>
Changes in net assets	<u>28,700</u>	<u>1,064,482</u>	<u>(5,187,371)</u>	<u>3,331,487</u>	<u>(9,049)</u>	<u>(103,614)</u>	<u>—</u>	<u>213,164</u>	<u>(662,201)</u>
Net assets (deficit), beginning of year	<u>(159,034)</u>	<u>4,548,111</u>	<u>(6,001,999)</u>	<u>4,818,893</u>	<u>(65,058,796)</u>	<u>222,191</u>	<u>—</u>	<u>636,217</u>	<u>(60,994,417)</u>
Net assets (deficit), end of year	<u>\$ (130,334)</u>	<u>5,612,593</u>	<u>(11,189,370)</u>	<u>8,150,380</u>	<u>(65,067,845)</u>	<u>118,577</u>	<u>—</u>	<u>849,381</u>	<u>(61,656,618)</u>

See accompanying independent auditors' report.



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**Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of the Financial Statements  
Performed in Accordance With *Government Auditing Standards***

The Board of Directors  
California State University, Channel Islands Site Authority:

We have audited the financial statements of California State University, Channel Islands Site Authority (the Site Authority), a component unit of the California State University, as of and for the year ended June 30, 2008, and have issued our report thereon dated November 13, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Site Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Site Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Site Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Site Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions included those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of directors and management of the Site Authority and the State Controller, and is not intended to be and should not be used by anyone other than these specified parties.

November 13, 2008