



**CALIFORNIA STATE UNIVERSITY
CHANNEL ISLANDS SITE AUTHORITY**
(A Discretely Presented Component Unit of
California State University Channel Islands)

Financial Statements and Supplementary Information

June 30, 2012

(With Independent Auditors' Report Thereon)

CALIFORNIA STATE UNIVERSITY
CHANNEL ISLANDS SITE AUTHORITY
(A Discretely Presented Component Unit of
California State University Channel Islands)

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KPMG LLP
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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 California State University Channel Islands, as of and for the year ended June 30, 2012, 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 California State University Channel Islands Site Authority as of June 30, 2012, 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 September 28, 2012, 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 audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary schedules 1 and 2 on pages 17 through 18, 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 do not express an opinion or provide any assurances on them.

KPMG LLP

September 28, 2012

**CALIFORNIA STATE UNIVERSITY
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Statement of Net Deficit

June 30, 2012

Assets

Current assets:	
Cash and cash equivalents (note 3)	\$ 4,596,635
Accounts receivable	2,363,431
Due from CSUCI Financing Authority – restricted (note 5)	<u>231,859</u>
Total current assets	7,191,925
Noncurrent assets:	
Restricted cash (note 3)	2,875,552
Real estate inventory (note 4)	5,220,958
Capital assets, net (note 6)	<u>119,860,845</u>
Total assets	<u>\$ 135,149,280</u>

Liabilities Net Deficit

Current liabilities:	
Accounts payable and accrued expenses	\$ 2,171,945
Interest payable to CSU Systemwide Revenue Bond Program	2,067,388
Deferred revenue	10,672
Due to CSU Channel Islands (note 9)	2,942,736
Due to University Glen Corporation (note 9)	132,660
Capitalized lease obligations, current portion (note 7)	770,000
Loans payable – current portion (note 8)	<u>560,000</u>
Total current liabilities	8,655,401
Noncurrent liabilities:	
Security deposit	303,911
Capitalized lease obligations, net of current portion (note 7)	137,796,870
Loans payable, net of current portion (note 8)	<u>67,720,000</u>
Total liabilities	<u>214,476,182</u>
Net assets (deficit):	
Invested in capital assets, net of related debt	(18,706,025)
Restricted for:	
Debt service	310,471
Maintenance reserves	2,565,081
Unrestricted	<u>(63,496,429)</u>
Total net deficit	<u>(79,326,902)</u>
Total liabilities and net deficit	<u>\$ 135,149,280</u>

See accompanying notes to financial statements.

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Statement of Revenues, Expenses, and Changes in Net Deficit

Year ended June 30, 2012

Operating revenues:	
Home sales	\$ 22,160
Energy sales (note 13)	14,529,182
Rental income (note 11)	8,008,338
Miscellaneous revenues	584,020
Maintenance rent (note 12)	542,840
Total operating revenues	23,686,540
Operating expenses:	
Cost of energy sales	11,391,153
Rental housing operations	3,177,377
Depreciation and amortization	4,735,253
General, administrative, and other operating costs	839,740
Total operating expenses	20,143,523
Operating surplus income	3,543,017
Nonoperating revenue (expense):	
Interest, net	(6,757,243)
Property taxes	1,377,969
Sales taxes	42,644
Contributions for debt service from CSU Chancellor's Office	2,147,160
Interest on loan payable to CSU Channel Islands	(3,145,004)
Special taxes	464,230
Total nonoperating expense, net	(5,870,244)
Changes in net deficit	(2,327,227)
Net deficit, beginning of year	(76,999,675)
Net deficit, end of year	\$ (79,326,902)

See accompanying notes to financial statements.

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Statement of Cash Flows

Year ended June 30, 2012

Cash flows from operating activities:	
Home sales	\$ 22,160
Rental income	7,987,170
Energy sales	15,439,634
Miscellaneous revenue	584,020
Payments to vendors	(17,534,105)
Maintenance rent	542,840
Net cash provided by operating activities	<u>7,041,719</u>
Cash flows from noncapital financing activities:	
Interest paid	(8,505,721)
Property and sales taxes	1,492,531
Interest on loan payable to CSU Channel Islands	(862,407)
Contributions to debt service from CSU Chancellor's Office	2,147,160
Other income	75,559
Net cash used in noncapital financing activities	<u>(5,652,878)</u>
Cash flows from capital and related financing activities:	
Receipts of amounts due from CSUCI Financing Authority	453,227
Payments on long-term debt obligations	(970,000)
Capital expenditures	(267,545)
Net cash used in capital and related financing activities	<u>(784,318)</u>
Net increase in cash and cash equivalents	604,523
Cash and cash equivalents at beginning of year	<u>6,867,664</u>
Cash and cash equivalents at end of year	<u>\$ 7,472,187</u>
Reconciliation of net operating profit to net cash provided by operating activities:	
Operating income	\$ 3,543,017
Adjustments to reconcile operating profit to net cash provided by operating activities	
Depreciation and amortization expense	4,735,253
Change in assets and liabilities:	
Accounts receivable	884,117
Accounts payable	(1,537,197)
Due to University Glen corporation	27,793
Due to CSU Channel Islands	(616,431)
Security deposit	5,919
Deferred revenue	(752)
Net cash provided by operating activities	<u>\$ 7,041,719</u>

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 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. To date, 658 residential units and all retail space has been built.

The Site Authority is an integral part of the California State University Channel Islands (CSUCI), and the financial transactions of the Site Authority are also included in the financial statements of the CSUCI as a discretely presented 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 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. 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 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

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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 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.

(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.

(f) ***Real Estate Inventory***

Real estate inventory is stated at cost. These costs include capitalized 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. Additionally, the real estate inventory balance includes costs related to the purchase of real estate, which is carried at the lower of cost or fair market value.

(g) ***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 homeowners and retail tenants. Tax increment

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revenues are recognized when the taxes are levied and sales tax revenues are recognized upon receipt. Energy sales are recognized as energy is provided to customers.

(h) 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 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, which are reported as nonoperating revenues and expenses. Certain other transactions are reported as nonoperating activities and primarily include the Site Authority's investment income, interest expense, pass-through agency taxes, contribution for debt service, and transfers between the Site Authority and the CSUCI Financing Authority and other California State University (CSU) funds.

(i) 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

(j) 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.

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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.

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.

(k) 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, and major repairs to the exteriors of townhomes and rental properties.

(l) 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.

(m) 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

The Site Authority's total cash at June 30, 2012 was \$7,472,187 and consisted of demand deposits held at financial institutions. The bank balance was \$7,801,913 at June 30, 2012. The Site Authority's cash balance includes \$4,596,635 in unrestricted cash and \$2,875,552 in restricted cash for debt service and maintenance reserves.

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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 as the Site Authority's deposits are maintained at financial institutions that are fully insured or collateralized as required by state law.

The Site Authority had no investments at June 30, 2012.

(4) Real Estate Inventory

Real estate inventory at June 30, 2012 consists of the following:

Construction in progress	\$ 4,953,413
Finished units	<u>267,545</u>
	<u>\$ 5,220,958</u>

The construction in progress relates to site development and infrastructure improvements for the as-yet-unbuilt 242 residential units. The finished units balance related to the purchase of a single-family home during the current year, and is currently carried at cost.

(5) Due from CSUCI Financing Authority

The due from CSUCI Financing Authority balance at June 30, 2012, \$231,859 consists of special tax receipts yet to be transferred to the Site Authority to ultimately be used for capitalized lease payments.

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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>
Depreciable capital assets:					
Buildings and building improvements	\$ 95,146,529	—	—	—	95,146,529
Improvements other than building	43,641	—	—	—	43,641
Infrastructure	58,975,759	—	—	—	58,975,759
Personal property and equipment	611,908	—	—	—	611,908
Total depreciable capital assets	<u>154,777,837</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>154,777,837</u>
Total cost	<u>154,777,837</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>154,777,837</u>
Less accumulated depreciation:					
Buildings and building improvements	(19,524,186)	(3,241,542)	—	—	(22,765,728)
Improvements other than building	(22,303)	(4,365)	—	—	(26,668)
Infrastructure	(10,059,946)	(1,474,395)	—	—	(11,534,341)
Personal property and equipment	(575,304)	(14,951)	—	—	(590,255)
Total accumulated depreciation	<u>(30,181,739)</u>	<u>(4,735,253)</u>	<u>—</u>	<u>—</u>	<u>(34,916,992)</u>
Net capital assets	<u>\$ 124,596,098</u>	<u>(4,735,253)</u>	<u>—</u>	<u>—</u>	<u>119,860,845</u>

(7) Capitalized Lease Obligations

On March 14, 2007, the California State University (CSU) Trustees (the Trustees), Site Authority, and Financing Authority authorized the use of the Systemwide Revenue Bonds (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 of \$139,670,000 will be repaid from revenues received by the Site Authority. Interest ranging from original 4.00% to 5.45% is paid

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semiannually on May 1 and November 1. The principal payments are paid on November 1 of each year beginning November 1, 2009 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, 2012, \$1,317,981 has been amortized.

The Site Authority incurred a loss on refunding of the bonds of \$6,268,778, which is being amortized on a straight-line basis over the life of the leases. At June 30, 2012, \$1,314,545 has been amortized.

Future minimum lease payments under capital leases having remaining terms as of June 30, 2012 are as follows:

Year ending June 30:		
2013	\$	7,531,406
2014		7,784,806
2015		8,056,006
2016		8,320,531
2017		8,459,031
2018 – 2022		46,181,904
2021 – 2027		53,673,529
2026 – 2032		59,727,279
2031 – 2037		20,925,799
2036 – 2042		23,961,407
2041 – 2045		<u>13,478,275</u>
Total minimum lease payments		258,099,970
Less amount representing interest		<u>(119,684,970)</u>
Present value of future minimum lease payments	\$	<u><u>138,415,000</u></u>

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(8) Loans Payable

Loans payable are as follows:

<u>Description</u>	<u>Interest rate</u>	<u>Fiscal year maturity date</u>	<u>Original issue amount</u>	<u>Amount outstanding, June 30, 2012</u>
Other:				
Office of the Chancellor California State University Channel Islands	0.11%	2014	\$ 4,825,000	4,825,000
	3.00% – 5.00%	2038	<u>64,655,000</u>	<u>63,455,000</u>
Total debt			<u>\$ 69,480,000</u>	<u>68,280,000</u>

In December 2008, the Site Authority received a loan from California State University, Office of the Chancellor of \$4,825,000. The loan proceeds were used to pay off a loan from California State University Risk Management Authority. 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 Systemwide Investment Fund-Trust (SWIFT) rate of return earned by California State University, Office of the Chancellor (0.11% at June 30, 2012). The loan is to be repaid on December 31, 2013. The loan is secured by equity proceeds and rental revenues from rental housing phases 1A, 1B, 1C, and 2A/B.

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 original loan amount was \$64,655,000. 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, 2009 with the final payment due November 1, 2037.

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Long-term debt activity for the year ended June 30, 2012 was as follows:

	<u>Beginning balance as of July 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance as of June 30, 2012</u>	<u>Current portion</u>
Capitalized lease obligations:					
Gross balance	\$ 138,945,000	—	(530,000)	138,415,000	770,000
Unamortized lease premium	5,355,169	—	(249,066)	5,106,103	—
Unamortized loss on refunding	(5,202,652)	—	248,419	(4,954,233)	—
Total capitalized lease obligations	<u>139,097,517</u>	<u>—</u>	<u>(530,647)</u>	<u>138,566,870</u>	<u>770,000</u>
Loans:					
California State University CPDC	4,825,000	—	—	4,825,000	—
California State University Channel Islands	<u>63,895,000</u>	<u>—</u>	<u>(440,000)</u>	<u>63,455,000</u>	<u>560,000</u>
Total loans, net	<u>68,720,000</u>	<u>—</u>	<u>(440,000)</u>	<u>68,280,000</u>	<u>560,000</u>
Total long-term debt obligations, net	<u>\$ 207,817,517</u>	<u>—</u>	<u>(970,647)</u>	<u>206,846,870</u>	<u>1,330,000</u>

The loans mature as follows:

	<u>Principal</u>	<u>Interest</u>
Fiscal years:		
2013	\$ 560,000	3,126,238
2014	5,515,000	3,094,988
2015	830,000	3,056,988
2016	960,000	3,012,238
2017	1,340,000	2,954,738
2018 – 2022	8,745,000	13,586,563
2023 – 2027	11,670,000	11,019,688
2028 – 2032	14,985,000	7,704,063
2033 – 2037	19,240,000	3,454,132
2038 – 2040	<u>4,435,000</u>	<u>102,564</u>
Total	<u>\$ 68,280,000</u>	<u>51,112,200</u>

(9) Net Assets

The Site Authority has a total net deficit of \$79,326,902 as of June 30, 2012. The net deficit is due to a net deficit in net assets – invested in capital assets, net of related debt of \$18,706,025 and an unrestricted net deficit of \$63,496,429. The net deficit in net assets invested in capital assets, net of related debt, is driven

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by the differences in timing of the depreciation of the assets as compared to the timing of the payments to liquidate the capital lease liability related to those assets. The Site Authority generates sufficient cash flows to support debt service payments on its capital lease liabilities. In 2005, the Site Authority agreed to pay the Campus's debt-service on certain revenue bonds to renovate certain campus buildings, but the ownership of the said assets was not transferred to the Site Authority. The amount outstanding on the loan payable to the Campus as of June 30, 2012 is \$67,720,000 resulting in the net deficit. Although the Site Authority has not generated sufficient cash flows to satisfy the debt-service obligations for this loan, the CSU Chancellor's Office and has funded the shortfall in payment. Further, in the prior year, the Site Authority leased the Campus's cogeneration plant and signed an energy service agreement with the Campus, entitling the Site Authority to the net revenues of the cogeneration plan primarily to assist with those debt-services payments. As a result, there is not a significant risk of the Site Authority's ability to continue as a going concern.

(10) 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 and recognized auxiliary organizations of the Campus relating to infrastructure, residential, commercial developments, and personnel cost reimbursement. The accompanying financial statements include the transaction with the CSU Trustees, the Financing Authority, the Campus and a recognized auxiliary organization of the Campus as of and for the year ended June 30, 2012:

	Amount
Year ended June 30, 2012:	
Amounts (payable to):	
Associated Students Incorporated	\$ (1,000)
California State University Channel Islands	(2,942,736)
University Glen Corporation	(132,660)
Total	(3,076,396)
Amounts receivable from:	
Associated Students Incorporated	746
California State University Channel Islands	58,370
CSUCI Financing Authority	231,859
University Glen Corporation	3,690
Total	294,665
Net amounts payable at June 30, 2012	\$ (2,781,731)

CALIFORNIA STATE UNIVERSITY
CHANNEL ISLANDS SITE AUTHORITY
(A Discretely Presented Component Unit of
California State University Channel Islands)

Notes to Financial Statements

June 30, 2012

(11) Rental Income

The Site Authority leases its building and building improvements under operating lease agreements for residential and commercial purposes. Total rental income for the year ended June 30, 2012 amounted to \$8,008,338. The cost and carrying amount of building and building improvements at June 30, 2012 are \$95,146,529 and \$72,380,801, respectively. The carrying amount is net of accumulated depreciation of \$22,765,728. Minimum future rental payments to be received under the noncancelable leases for each of the next five years and thereafter are as follows:

		<u>Amount</u>
Year ending June 30 2012:		
2013	\$	96,941
2014		29,812
2015		27,513
2016		27,513
2017		27,513
2018 – thereafter		<u>68,783</u>
Total lease payments due	\$	<u><u>278,076</u></u>

(12) Maintenance Rent

The CSUCI Site Authority manages the common area for homeowners, renters, and the Town Center tenants. Common area charges include all costs and expenses incurred by the CSUCI Site Authority 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. Maintenance rent for the year ended June 30, 2012 was \$542,840.

(13) Energy Sales

In August 2010, the Site Authority subleased the Campus’s cogeneration plant and entered into an energy services agreement with the Campus. The Site Authority makes quarterly payments of \$440,650 to the Campus to sublease the cogeneration plant. Under the terms of the agreement, the Site Authority is the operator of the plant, which includes being responsible for the costs of the plant’s operations as well as entitling the Site Authority to the plant’s net earnings. Revenue is recognized as energy is provided to the plant’s customers, who primarily consist of Southern California Edison and the Campus. Total energy sales for the year ended June 30, 2012 are \$14,529,182.

**CALIFORNIA STATE UNIVERSITY
CHANNEL ISLANDS SITE AUTHORITY**
(A Discretely Presented Unit of
California State University Channel Islands)

Supplementary Schedule of Net Assets (Deficit) by Program (Unaudited)

June 30, 2012

	<u>All other funds</u>	<u>Low and Moderate Income Housing</u>	<u>Total</u>
Assets:			
Cash and cash equivalents	\$ 7,404,695	67,492	7,472,187
Accounts receivable	2,362,983	448	2,363,431
Real estate inventory	5,220,958	—	5,220,958
Due from CSUCI Financing Authority – restricted	231,859	—	231,859
Capital assets, net	119,860,845	—	119,860,845
Total assets	<u>135,081,340</u>	<u>67,940</u>	<u>135,149,280</u>
Liabilities:			
Accounts payable	2,171,945	—	2,171,945
Security deposits	303,911	—	303,911
Interest payable to CSU Systemwide Revenue Bonds	2,067,388	—	2,067,388
Deferred revenue	10,672	—	10,672
Due to CSU Channel Islands	2,942,736	—	2,942,736
Due to University Glen Corporation	132,660	—	132,660
Loan from CSU Office of the Chancellor	68,280,000	—	68,280,000
Capitalized lease obligations, net	138,566,870	—	138,566,870
Total liabilities	<u>214,476,182</u>	<u>—</u>	<u>214,476,182</u>
Net assets (deficit)	<u>(79,394,842)</u>	<u>67,940</u>	<u>(79,326,902)</u>
Total liabilities and net assets	<u>\$ 135,081,340</u>	<u>67,940</u>	<u>135,149,280</u>

See accompanying accountants' report.

CALIFORNIA STATE UNIVERSITY
CHANNEL ISLANDS SITE AUTHORITY
(A Discretely Presented Component Unit of
California State University Channel Islands)

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

Year ended June 30, 2012

	Common area maintenance	CI power	For sale housing	General operations	Maintenance reserves	Rental housing	Low and Moderate Income Housing	Total
Operating revenues:								
Home sales	\$ —	—	17,470	4,690	—	—	—	22,160
Energy sales	—	14,529,182	—	—	—	—	—	14,529,182
Rental income	—	—	—	—	—	8,008,338	—	8,008,338
Miscellaneous revenues	21,702	—	—	—	—	562,318	—	584,020
Maintenance rent	542,840	—	—	—	—	—	—	542,840
Total operating revenues	<u>564,542</u>	<u>14,529,182</u>	<u>17,470</u>	<u>4,690</u>	<u>—</u>	<u>8,570,656</u>	<u>—</u>	<u>23,686,540</u>
Operating expenses:								
Rental housing operations	—	—	—	—	—	3,177,377	—	3,177,377
Cost of energy sales	—	11,391,153	—	—	—	—	—	11,391,153
Depreciation of capital assets	—	—	179,034	1,316,780	—	3,239,439	—	4,735,253
General, administrative, and other expenses	503,789	—	227,990	107,961	—	—	—	839,740
Total operating expenses	<u>503,789</u>	<u>11,391,153</u>	<u>407,024</u>	<u>1,424,741</u>	<u>—</u>	<u>6,416,816</u>	<u>—</u>	<u>20,143,523</u>
Operating income (loss)	<u>60,753</u>	<u>3,138,029</u>	<u>(389,554)</u>	<u>(1,420,051)</u>	<u>—</u>	<u>2,153,840</u>	<u>—</u>	<u>3,543,017</u>
Nonoperating revenue (expense):								
Investment income (expense)	—	(18,214)	—	(1,897,509)	—	(4,841,520)	—	(6,757,243)
Property taxes	—	—	—	1,103,283	—	—	274,686	1,377,969
Sales tax revenue	—	—	—	42,644	—	—	—	42,644
Contribution for debt service	—	—	—	2,147,160	—	—	—	2,147,160
Interest on loan payable to CSU Channel Islands	—	—	—	(3,145,004)	—	—	—	(3,145,004)
Special taxes	—	—	—	464,230	—	—	—	464,230
Total nonoperating revenue (expense)	<u>—</u>	<u>(18,214)</u>	<u>—</u>	<u>(1,285,196)</u>	<u>—</u>	<u>(4,841,520)</u>	<u>274,686</u>	<u>(5,870,244)</u>
Income (loss) before transfers (to) from other CSU funds	<u>60,753</u>	<u>3,119,815</u>	<u>(389,554)</u>	<u>(2,705,247)</u>	<u>—</u>	<u>(2,687,680)</u>	<u>274,686</u>	<u>(2,327,227)</u>
Transfer from (to) other programs	—	—	—	284,077	—	—	(284,077)	—
Transfer from (to) reserves	(153,453)	—	—	—	683,435	(529,982)	—	—
Total transfers	<u>(153,453)</u>	<u>—</u>	<u>—</u>	<u>284,077</u>	<u>683,435</u>	<u>(529,982)</u>	<u>(284,077)</u>	<u>—</u>
Changes in net assets	<u>(92,700)</u>	<u>3,119,815</u>	<u>(389,554)</u>	<u>(2,421,170)</u>	<u>683,435</u>	<u>(3,217,662)</u>	<u>(9,391)</u>	<u>(2,327,227)</u>
Net assets (deficit), beginning of year	—	1,018,751	8,338,548	(60,603,363)	2,005,463	(27,836,405)	77,331	(76,999,675)
Net assets (deficit), end of year	<u>\$ (92,700)</u>	<u>4,138,566</u>	<u>7,948,994</u>	<u>(63,024,533)</u>	<u>2,688,898</u>	<u>(31,054,067)</u>	<u>67,940</u>	<u>(79,326,902)</u>

See accompanying accountants' report.



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Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of 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) as of and for the year ended June 30, 2012, and have issued our report thereon dated September 28, 2012. 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 our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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.

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 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 internal control over financial reporting 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.

KPMG LLP

September 28, 2012