



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

Financial Statements and
Supplementary Information

June 30, 2004 and 2003

(With Independent Auditors' Report Thereon)

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

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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 the California State University, as of and for the years ended June 30, 2004 and 2003, 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Site Authority as of June 30, 2004 and 2003, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Site Authority has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America 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 18 and 19, 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

January 25, 2005

**CALIFORNIA STATE UNIVERSITY,
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(A Component Unit of the California State University)

Statements of Net Assets

June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$ 5,213,951	2,065,382
Investments	3,828,074	—
Accounts receivable	523,714	286,029
Interest receivable	40,547	60,113
Due from California State University, Channel Islands	—	50,938
Real estate inventory	207,893	264,038
Due from CSUCI Financing Authority – restricted	18,850,239	35,362,889
Total current assets	28,664,418	38,089,389
Noncurrent assets:		
Capital assets, net	82,766,384	63,692,964
Deferred debt issuance costs, net	2,771,786	2,874,489
Total assets	<u>114,202,588</u>	<u>104,656,842</u>
Liabilities and net assets:		
Current liabilities:		
Accounts payable	2,101,238	1,731,895
Interest payable to CSUCI Financing Authority	1,484,359	1,484,359
Interest payable to California State University	247,290	119,585
Due to CSUCI Financing Authority	129,743	—
Construction loan	—	222,878
Loans payable – current portion	8,518,755	2,445,301
Total current liabilities	12,481,385	6,004,018
Noncurrent liabilities:		
Loans payable, net of current portion	94,814,316	94,758,102
Total liabilities	<u>107,295,701</u>	<u>100,762,120</u>
Net assets (deficit):		
Invested in capital assets, net of related debt	(19,279,260)	(32,343,187)
Restricted for:		
Capital projects	18,890,786	35,423,002
Unrestricted	7,295,361	814,907
Total net assets	<u>\$ 6,906,887</u>	<u>3,894,722</u>

See accompanying notes to financial statements.

**CALIFORNIA STATE UNIVERSITY,
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Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Operating revenues:		
Home sales	\$ 8,548,985	13,602,392
Rental income	2,985,410	880,371
Parking	517,275	481,663
Property taxes	283,330	—
Miscellaneous revenues	95,088	—
Total operating revenues	<u>12,430,088</u>	<u>14,964,426</u>
Operating expenses:		
Cost of home sales	7,571,254	12,076,808
Rental housing operations	514,596	201,716
Parking operations	568,214	471,878
Depreciation	2,140,575	873,910
General, administrative, and other operating costs	753,056	811,567
Total operating expenses	<u>11,547,695</u>	<u>14,435,879</u>
Operating income	<u>882,393</u>	<u>528,547</u>
Nonoperating revenue (expense):		
Investment income	66,308	65,299
Interest expense	(19,464)	(10,623)
Total nonoperating revenue	<u>46,844</u>	<u>54,676</u>
Income before transfers (to) from other CSU funds	<u>929,237</u>	<u>583,223</u>
Transfer from CSUCI Financing Authority – interest income from cash held with fiscal agents	1,021,749	1,786,371
Transfer from CSUCI Financing Authority – special tax – Community Facilities District	222,423	—
Transfer (to) from other CSU funds	838,756	(17,018)
Total transfers	<u>2,082,928</u>	<u>1,769,353</u>
Change in net assets	3,012,165	2,352,576
Net assets, beginning of year	3,894,722	1,542,146
Net assets, end of year	<u>\$ 6,906,887</u>	<u>3,894,722</u>

See accompanying notes to financial statements.

**CALIFORNIA STATE UNIVERSITY,
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Statements of Cash Flows

Years ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Home sales	\$ 8,548,985	13,602,392
Rental income	2,842,813	594,342
Parking operations	568,213	668,704
Property taxes	283,330	—
Payments to vendors	<u>(9,393,120)</u>	<u>(13,517,969)</u>
Net cash provided by operating activities	<u>2,850,221</u>	<u>1,347,469</u>
Cash flows from noncapital financing activities:		
Payment from CSUCI Financing Authority – interest received on cash held with fiscal agents	1,244,172	1,735,590
Interest paid to CSU Trust Fund	<u>(1,861)</u>	<u>(12,978)</u>
Net cash provided by noncapital financing activities	<u>1,242,311</u>	<u>1,722,612</u>
Cash flows from capital and related financing activities:		
Interest paid	(4,114,416)	(4,220,371)
Receipt of amounts due from CSUCI Financing Authority	16,642,393	23,843,027
Proceeds from construction debt	22,967,366	7,510,200
Payments on loans	(17,116,785)	(12,740,227)
Transfers in from other CSU funds	838,758	—
Capital expenditures	<u>(16,419,078)</u>	<u>(16,486,404)</u>
Net cash provided by (used in) capital and related financing activities	<u>2,798,238</u>	<u>(2,093,775)</u>
Cash flows provided by investing activities:		
Investment income	85,873	5,186
Purchases of investments	<u>(3,828,074)</u>	<u>—</u>
Net cash provided by (used in) investing activities	<u>(3,742,201)</u>	<u>5,186</u>
Net change in cash and cash equivalents	3,148,569	981,492
Cash and cash equivalents at beginning of year	<u>2,065,382</u>	<u>1,083,890</u>
Cash and cash equivalents at end of year	<u>\$ 5,213,951</u>	<u>2,065,382</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 882,393	528,547
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	2,140,575	873,910
Changes in assets and liabilities:		
Accounts receivable	(237,685)	(286,029)
California State University, Channel Islands	50,938	187,041
Accounts payable	<u>14,000</u>	<u>44,000</u>
Net cash provided by operating activities	<u>\$ 2,850,221</u>	<u>1,347,469</u>

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2004 and 2003

(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 comprised of four representatives of the trustees of the California State University and three representatives from the County of Ventura.

The Property is comprised of 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 will house the California State University, Channel Islands (the Campus). The East Campus is comprised of 162 acres of developable land which is expected to contain 900 residential units and approximately 50,000 square feet of retail commercial uses. The development of the East Campus began in October 2000 and is projected to be completed by August 2007. The infrastructure will be constructed in phases and is expected to be completed by August 2007.

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 accounting principles generally accepted in the United States of America, 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 include a statement of net assets, a statement of revenues, expenses, and changes in net assets, 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 parking fees collected from students and faculty, housing sales and 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 activities reporting model, the Site Authority prepares its statements of cash flows using the direct method.

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(b) Election of Applicable FASB Statements

The Site Authority has elected not to adopt the pronouncements issued by the Financial Accounting Standards Board (FASB) after November 30, 1989.

(c) Net Assets

The Site Authority's net assets are classified into the following net asset 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. 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.

(d) Statements of Cash Flows

For purposes of the statements of cash flows, the Site Authority considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

(e) Real Estate Inventory

Real estate inventory is stated at cost which is not in excess of estimated net realizable value. The 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.

(f) Due from CSUCI Financing Authority

This amount represents money due from the CSUCI Financing Authority (the Financing Authority) for the development of the property. Pursuant to a Trust Agreement between the Financing Authority and U.S. Trust Company, and a Reimbursement Agreement by and between the Financing Authority, the Site Authority, and Citibank, cash is released to the Site Authority as costs are incurred for the development of the Property.

(g) Revenue Recognition

The parking agreement between the Site Authority and the Campus, pursuant to which the Site Authority received all revenues for Campus parking operations, was terminated April 1, 2004. The Campus is responsible for parking operations upon termination of the agreement.

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Revenues from home sales are recognized as homes are sold, title passes, and escrow closes. Rental housing revenues are recognized as amounts are earned and coincide with the rental agreement.

Tax increment revenues are recognized when the taxes are levied (see note 12).

(h) Cost of Homes Sold

The cost of residential units sold is computed using the relative-sales-value method.

(i) Classification of Revenues and Expenses

The Site Authority considers operating revenues and expenses in the statements of revenues, expenses, and changes in net assets 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 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, and transfers between the Site Authority and the Financing Authority and other CSU funds.

(j) Cash and Cash Equivalents

Cash in excess of immediate needs for debt service is invested in the California State Treasurer's Surplus Money Investment Fund. These funds are invested in instruments allowed under California state law. Such investment vehicles include U.S. Government Securities, commercial paper, time certificates of deposit, and bankers' acceptances and are not represented by specific identifiable investment securities and, accordingly, are not subject to custodial risk categorization as prescribed by GASB Statement No. 3.

(k) 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
Infrastructure	40 years
Equipment	5 years

(l) Deferred Debt Issuance Costs

Deferred debt issuance costs are stated at cost, and amortization is calculated using the straight-line method over the life of the loan and is capitalized into the cost of the related capital assets.

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(m) *Income Taxes*

The Site Authority is a component unit of the California State University System (the System). The System was established under the State of California Education Code as an agency of the State of California. As a component unit of the System, the Site Authority is generally not subject to federal or state income taxes. However, the Site Authority remains subject to income taxes on any net income that is derived from a trade or business, regularly carried on and not in furtherance of the purpose for which it was granted an exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the financial statements taken as a whole.

The Site Authority has not undergone any recent Internal Revenue Service or other state income tax audits and no taxes have been provided for any assessments that may result from such audits. In the opinion of management, any such possible assessments would not be material to the financial statements taken as a whole.

(n) *Use of Estimates*

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(3) *Cash, Cash Equivalents and Investments*

The deposits of the Site Authority that are maintained at financial institutions are fully insured or collateralized as required by state law. At June 30, 2004 and 2003, the bank balance and the carrying value of deposits held by the State Treasurer in a financial institution was \$4,414,787 and \$1,065,424, respectively. Cash equivalents include money market accounts maintained at a financial institution and are fully insured, or collateralized as required by state law.

State law and regulations require that surplus monies for the Site Authority must be invested. The Site Authority's investment policy authorizes excess funds to be invested in obligations of the federal and California state governments, certificates of deposits, and certain other investment instruments.

At June 30, 2004 and 2003, the investment portfolio consists primarily of investments held in the California State University investment pool, where separate accounting is maintained as to the amounts allocable to the various funds and programs, as well as interest-bearing accounts held in the state treasury.

Amounts in investments are recorded at fair value and represent the Authority's portion of ownership in stocks, bonds, and U.S. government securities, which are pooled with other California State University monies managed by Met West Investments. None of the Site Authority's investments are represented by specific identifiable investment securities and, accordingly, are not subject to custodial risk categorization as prescribed by GASB Statement No. 3.

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Cash, cash equivalents, and investments at fair value consisted of the following at June 30:

	<u>2004</u>	<u>2003</u>
Cash in state treasury	\$ 4,414,787	1,065,424
Money market account	799,164	999,958
Total cash and cash equivalents	<u>5,213,951</u>	<u>2,065,382</u>
Metropolitan West Short-Term Fund	2,717,932	—
Metropolitan West Medium-Term Fund	1,110,142	—
Total investments	<u>3,828,074</u>	<u>—</u>
Total cash, cash equivalents, and investments	<u>\$ 14,255,976</u>	<u>4,130,764</u>

(4) Loans Payable

In June 2001, the Site Authority obtained financing of \$49,460,000 through the Financing Authority (the Loans) to fund certain infrastructure projects (also referred to as the Tax Allocation Loan). The Loan bears interest at rates ranging from 3.85% to 5.25%. The principal payments are paid on September 1 of each year, beginning in 2008, with the final payment due September 1, 2031.

In December 2001, the Site Authority obtained financing of \$46,815,000 through the Financing Authority (the Loans) to fund the construction of 260 rental housing units. The Loan bears interest at rates ranging from 3.375% to 4.08%. The principal payments are paid on August 1 of each year, beginning in 2006, with the final payment due August 1, 2031.

Additionally, the Loans are subject to special mandatory redemption prior to their respective maturity dates, in whole or in part, at a redemption price equal to the principal amount, accrued interest to date, plus a premium as specified in the Agreements. The Loans contain certain restrictive covenants, and as of June 30, 2004 and 2003, management believes the Site Authority is in compliance with all such covenants.

In connection with the issuance of these Loans, the Site Authority incurred debt issue costs of \$3,081,093, which are being amortized on a straight-line basis over the life of the Loans. At June 30, 2004 and 2003, \$309,307 and \$206,604, respectively, have been amortized.

In July 2003, the Site Authority obtained financing of \$10,240,000 through the Financing Authority's issuance of Revenue Bond Anticipation Notes (BANs) to develop certain Channel Islands West Campus facilities. In April 2004, the California State University transferred funds to the Site Authority, reimbursing the Site Authority for its West Campus construction expenses and enabling it to repay the BANs to the Financing Authority on its scheduled maturity date. The BANs bore interest at a rate of 1.5%, and were repaid on June 30, 2004. In connection with the issuance of the BANs, the Site Authority incurred debt issuance costs of \$128,756, which were passed through with the constructed asset to the Campus (see note 10).

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In 2003, the Site Authority received various loans from the California State University Trust Fund to fund cash overdraft positions. The loan balance at June 30, 2004 and 2003 was \$165,476 and \$501,505, respectively. Repayments on the loans are made as cash becomes available for repayment upon receipt of certain receivables. The interest rate to be paid is the stated Surplus Money Investment Fund rate (1.441% and 1.859% at June 30, 2004 and 2003, respectively). The loans are expected to be repaid during 2005 and, therefore, is included in the current portion of loans payable on the accompanying statement of net assets at June 30, 2004. The loans are unsecured.

During fiscal year 2004, the Site Authority received an additional loan from the California State University Lottery Fund of \$1.0 million and a loan totaling \$2 million from the California State University Trust Fund. Additionally, the Site Authority received loans totaling \$3.41 million from the Stockton Center Site Authority. These loans are to be used for construction of for-sale, rental housing, and town center. The loans will be repaid through future bond proceeds or surplus funds of the Site Authority. The interest rate to be paid on these loans is the stated Surplus Money Investment Fund rate (1.441% at June 30, 2004). These loans are expected to be repaid during 2005 and, therefore, are included in the current portion of loans payable on the statement of net assets at June 30, 2004. The loans are unsecured.

Long-term debt activity for the years ended June 30, 2004 and 2003 was as follows:

	2004				
	Beginning balance	Additions	Reductions	Ending balance	Current portion
Loans from CSUCI Financing Authority	\$ 96,275,000	—	—	96,275,000	—
Revenue Bond Anticipation Notes	—	10,240,000	(10,240,000)	—	—
Loans from California State University	2,501,505	3,000,000	(336,541)	5,164,964	5,164,964
Loans from Stockton Center Site Authority	—	3,410,000	—	3,410,000	3,410,000
Total long-term debt obligations	98,776,505	16,650,000	(10,576,541)	104,849,964	8,574,964
Unamortized discount on bonds	(1,573,102)	—	56,209	(1,516,893)	(56,209)
Long-term debt obligations, net	\$ 97,203,403	16,650,000	(10,520,332)	103,333,071	8,518,755

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	2003				
	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Loans from CSUCI Financing Authority	\$ 96,275,000	—	—	96,275,000	—
Loans from California State University	<u>2,437,280</u>	<u>170,452</u>	<u>(106,227)</u>	<u>2,501,505</u>	<u>2,501,505</u>
Total long-term debt obligations	98,712,280	170,452	(106,227)	98,776,505	2,501,505
Unamortized discount on bonds	<u>(1,629,306)</u>	<u>—</u>	<u>56,204</u>	<u>(1,573,102)</u>	<u>(56,204)</u>
Long-term debt obligations, net	\$ <u>97,082,974</u>	<u>170,452</u>	<u>(50,023)</u>	<u>97,203,403</u>	<u>2,445,301</u>

The loans mature as follows:

	<u>Principal</u>	<u>Interest</u>
Fiscal years:		
2005	\$ 8,574,964	4,470,386
2006	—	4,388,120
2007	220,000	4,383,631
2008	290,000	4,373,228
2009	750,000	4,352,449
2010-2014	6,460,000	21,099,095
2015-2019	12,250,000	19,085,772
2020-2024	20,195,000	15,425,234
2025-2029	30,965,000	9,523,739
2030-2032	<u>25,145,000</u>	<u>1,776,419</u>
Total	\$ <u><u>104,849,964</u></u>	<u><u>88,878,073</u></u>

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(5) Construction Loans

On December 31, 2001, the Site Authority entered into an agreement with Citibank, FSB for a construction loan of up to \$12.3 million relating to the construction of the Phase 1 for-sale housing on the Channel Islands Campus. The Construction Loan matured on June 1, 2003 and bore interest at a rate of LIBOR plus 2% (LIBOR was 1.1232% at June 30, 2003). The Site Authority exercised its option to extend the Construction Loan for an additional six months. This loan was repaid on June 30, 2003. On February 1, 2003, the Site Authority entered into a second agreement with Citibank, FSB for an additional construction loan of up to \$7.5 million to construct the second phase of for-sale housing. This loan was repaid on March 31, 2004.

The Construction Loan activity for the years ended June 30, 2004 and 2003 was as follows:

2004					
	Beginning balance	Additions	Reductions	Ending balance	Current portion
Construction loan	\$ 222,878	6,317,366	(6,540,244)	—	—
2003					
	Beginning balance	Additions	Reductions	Ending balance	Current portion
Construction loan	\$ 5,517,130	7,339,748	(12,634,000)	222,878	222,878

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(6) Capital Assets

Capital asset activity consisted of the following:

	2004				Ending balance
	Beginning balance	Additions	Reductions	Transfers	
Capital assets, not being depreciated:					
Construction work in progress	\$ 6,455,825	21,421,888	—	(24,922,308)	2,955,405
Total nondepreciable capital assets	6,455,825	21,421,888	—	(24,922,308)	2,955,405
Depreciable capital assets:					
Buildings and building improvements	26,134,220	—	—	19,642,697	45,776,917
Infrastructure	31,535,353	—	—	5,034,574	36,569,927
Personal property:					
Equipment	441,476	—	—	37,144	478,620
Total depreciable capital assets	58,111,049	—	—	24,714,415	82,825,464
Total cost	64,566,874	21,421,888	—	(207,893)	85,780,869
Less accumulated depreciation:					
Buildings and building improvements	435,570	1,198,519	—	—	1,634,089
Infrastructure	394,192	850,047	—	—	1,244,239
Personal property:					
Equipment	44,148	92,009	—	—	136,157
Total accumulated depreciation	873,910	2,140,575	—	—	3,014,485
Net capital assets	\$ 63,692,964	19,281,313	—	(207,893)	82,766,384

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		2003				
		<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Transfers</u>	<u>Ending balance</u>
Capital assets, not being depreciated:						
Construction work in progress	\$	<u>46,531,385</u>	<u>18,299,527</u>	<u>—</u>	<u>(58,375,087)</u>	<u>6,455,825</u>
Total nondepreciable capital assets		<u>46,531,385</u>	<u>18,299,527</u>	<u>—</u>	<u>(58,375,087)</u>	<u>6,455,825</u>
Depreciable capital assets:						
Buildings and building improvements		<u>—</u>	<u>—</u>	<u>—</u>	<u>26,134,220</u>	<u>26,134,220</u>
Infrastructure		<u>—</u>	<u>—</u>	<u>—</u>	<u>31,535,353</u>	<u>31,535,353</u>
Personal property:						
Equipment		<u>—</u>	<u>—</u>	<u>—</u>	<u>441,476</u>	<u>441,476</u>
Total depreciable capital assets		<u>—</u>	<u>—</u>	<u>—</u>	<u>58,111,049</u>	<u>58,111,049</u>
Total cost		<u>46,531,385</u>	<u>18,299,527</u>	<u>—</u>	<u>(264,038)</u>	<u>64,566,874</u>
Less accumulated depreciation:						
Buildings and building improvements		<u>—</u>	<u>435,570</u>	<u>—</u>	<u>—</u>	<u>435,570</u>
Infrastructure		<u>—</u>	<u>394,192</u>	<u>—</u>	<u>—</u>	<u>394,192</u>
Personal property:						
Equipment		<u>—</u>	<u>44,148</u>	<u>—</u>	<u>—</u>	<u>44,148</u>
Total accumulated depreciation		<u>—</u>	<u>873,910</u>	<u>—</u>	<u>—</u>	<u>873,910</u>
Net capital assets	\$	<u>46,531,385</u>	<u>17,425,617</u>	<u>—</u>	<u>(264,038)</u>	<u>63,692,964</u>

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Notes to Financial Statements

June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Capital asset additions consist of:		
Capital expenditures	\$ 17,117,059	14,025,613
Capitalized interest	4,145,919	4,115,006
Capitalized bond issuance costs	158,910	158,908
	<u>\$ 21,421,888</u>	<u>18,299,527</u>

(7) Capitalized Interest

The 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 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Interest cost capitalized	\$ 4,145,919	4,115,006
Interest cost charged to income	19,464	10,623
Interest cost charged to cost of homes sales	78,599	221,200
Total interest cost incurred	<u>\$ 4,243,982</u>	<u>4,346,829</u>

(8) Due from CSUCI Financing Authority

The due from CSUCI Financing Authority balance at June 30, 2004 and 2003 consists of monies yet to be received from the Loans (see note 4). The balance of the due from CSUCI Financing Authority is held with the trustee, and amounts are disbursed from the Financing Authority to the Site Authority as costs are incurred.

(9) Letter of Credit

The Site Authority, jointly with the Financing Authority, obtained a letter of credit from Citibank to provide security on the Loans. The letter of credit is equal to the principal amount of the Loans plus 183 days of interest. The letter of credit will expire on the earlier of the date which is seven years following the date of issuance of the Loans, or when released according to the terms of the Loan agreements. The Site Authority incurred \$1,229,223 in each of the years ended June 30, 2004 and 2003 of expenses related to the origination and maintenance of the letter of credit, which is capitalized and included in capital assets, net.

(10) Property Management

Effective February 4, 2002, the Site Authority entered into an Agreement (the Agreement) with a third party to provide property management functions of its rental and for-sale housing and common areas (the Projects). The property management functions include the operation, direction, management, and supervision of the Projects. The term of the Agreement is for three years from the effective date, with an option by the Site Authority to extend for an additional three years. The Site Authority pays a management fee to the Property Manager of 3% of gross receipts or a minimum of \$4,583 per month for Phase I and IB.

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Project management fees increase as additional phases are completed. As of June 30, 2004, Phase I and IB have been completed. Management fees paid to the property manager for 2004 and 2003 were \$85,642 and \$35,228, respectively, and are included in rental housing operations. The future minimum management fees are \$55,000 in 2005 and 2006.

In connection with the Agreement, the Site Authority receives the excess of revenues over expenses from the property manager. As of June 30, 2004 and 2003, \$523,714 and \$286,029, respectively, is included in accounts receivable from the property manager.

(11) Related Party

The Site Authority receives its financing from the Financing Authority and has entered into certain transactions with the Campus relating to parking operations and infrastructure development.

Effective April 22, 2002, the Site Authority entered into an Agreement (the Agreement) with University Glen Corporation (University Glen), an auxiliary of the California State University, Channel Islands. University Glen has been engaged to provide administrative and marketing services to the Site Authority over its rental and for-sale housing properties. The term of the Agreement is through June 30, 2007 and is subject to early termination as specified in the Agreement. Amounts paid to University Glen during 2004 and 2003 for these services were \$299,585 and \$497,888, respectively, and are included in general, administrative, and other operating costs. Amounts payable to University Glen were \$124,575 and \$110,108 and are included in accounts payable as of June 30, 2004 and 2003, respectively.

In April 2004, the California State University transferred cash in the amount of \$6,889,916 to the Site Authority, reimbursing the Site Authority for its West Campus construction expenses of \$6,102,666, debt issuance costs related to the BANs in the amount of \$128,756, and interest costs of \$147,200. The constructed asset was transferred to the California State University. The net difference between the total cost of the constructed asset and the subsequent reimbursement was \$511,291 and is recorded as a transfer from other CSU funds.

(12) Property Taxes

All jurisdictions within California derive their taxing authority from the State Constitution and various legislative provisions contained in the State Government Codes and Revenue and Taxation Codes. Property is originally assessed at 100 percent 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

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increment revenues required to be deposited in the Low and Moderate Income Housing Account may be pledged to repay the Tax Allocation Loan, and accordingly, all of the tax increment revenues are pledged to repay the Tax Allocation Loan.

Property taxes are levied on both real and personal property. 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 is generally due on November 1 and delinquent with penalties after December 10; the second 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.

(12) Subsequent Event

On August 12, 2004, the Financing Authority issued For Sale Housing Construction Bonds, Rental Housing and Town Center Bonds, and Rental Housing and Town Center Bonds (Taxable) in the amount of \$44,500,000, \$50,735,000, and \$4,015,000, respectively. The For Sale Housing Construction Bonds were issued at a discount of \$516,864, bear interest at a rate of 2.5%, and mature on August 1, 2034. The Rental Housing and Town Center Bonds were issued at a discount of \$575,245, bear interest at a rate of 2.5%, and mature on August 1, 2044. The Rental Housing and Town Center Bonds (Taxable) were issued at a discount of \$48,211, bear interest at a rate of 3.79%, and mature on August 1, 2044. The bond proceeds will be used by the California State University, Channel Islands Site Authority to develop For Sale Housing Phase 1C-1E and Rental Housing Phase 1C-1E and Town Center on the Channel Islands Campus.

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

June 30, 2004

	Operating Program	Infrastructure Program	Rental Housing Program	For Sale Housing Program	Campus Building Program	Town Center Program	Low and Moderate Income Program	Totals
Assets:								
Cash and cash equivalents	\$ —	269,973	546,741	1,250,454	—	3,146,783	—	5,213,951
Investments	—	366,713	218,921	1,745,271	681,566	815,603	—	3,828,074
Accounts receivable, University Glen	—	—	523,714	—	—	—	—	523,714
Interest receivable	—	—	—	—	2,815	37,732	—	40,547
Real estate inventory	—	—	—	207,893	—	—	—	207,893
Due from CSUCI Financing Authority – restricted	—	14,639,704	3,887,854	—	322,681	—	—	18,850,239
Due from (to) other programs	(20,000)	(145,785)	600,224	(656,605)	15,500	150,000	56,666	—
Capital assets, net	—	35,325,688	44,804,471	272,565	—	2,363,660	—	82,766,384
Deferred debt issuance costs, net	—	2,397,694	374,092	—	—	—	—	2,771,786
Total assets	(20,000)	52,853,987	50,956,017	2,819,578	1,022,562	6,513,778	56,666	114,202,588
Liabilities:								
Accounts payable	58,000	73,252	712,817	363,258	474,890	396,628	—	2,078,845
Accounts payable, University Glen	—	—	22,393	—	—	—	—	22,393
Interest payable to CSUCI Financing Authority	—	826,023	658,336	—	—	—	—	1,484,359
Interest payable to California State University	6,000	630	77,199	74,198	15,353	73,910	—	247,290
Due to CSUCI Financing Authority	—	129,743	—	—	—	—	—	129,743
Loan from Stockton Center Site Authority	—	—	410,000	—	—	3,000,000	—	3,410,000
Loan from CSU Trust Fund	165,476	—	—	—	—	2,000,000	—	2,165,476
Loan from CSU Lottery Fund	—	—	1,000,000	1,000,000	—	999,488	—	2,999,488
Loan from CSUCI Financing Authority, net	—	48,450,116	46,307,991	—	—	—	—	94,758,107
Total liabilities	229,476	49,479,764	49,188,736	1,437,456	490,243	6,470,026	—	107,295,701
Net assets (deficit)	\$ (249,476)	3,374,223	1,767,281	1,382,122	532,319	43,752	56,666	6,906,887

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, 2004

	Operating Program	Infrastructure Program	Rental Housing Program	For Sale Housing Program	Campus Building Program	Town Center Program	Low and Moderate Program	Totals
Operating revenues:								
Home sales	—	—	—	8,548,985	—	—	—	8,548,985
Rental income	—	—	2,985,410	—	—	—	—	2,985,410
Parking	517,275	—	—	—	—	—	—	517,275
Property taxes	—	283,330	—	—	—	—	—	283,330
Miscellaneous revenues	66	—	95,022	—	—	—	—	95,088
Total operating revenues	517,341	283,330	3,080,432	8,548,985	—	—	—	12,430,088
Operating expenses:								
Cost of home sales	—	—	—	7,571,254	—	—	—	7,571,254
Rental housing operations	—	—	514,596	—	—	—	—	514,596
Parking operations	568,214	—	—	—	—	—	—	568,214
Depreciation of fixed asset expense	—	850,047	1,288,642	1,886	—	—	—	2,140,575
Miscellaneous	57,999	109,818	286,237	299,002	—	—	—	753,056
Total operating expenses	626,213	959,865	2,089,475	7,872,142	—	—	—	11,547,695
Operating income (loss)	(108,872)	(676,535)	990,957	676,843	—	—	—	882,393
Nonoperating expense:								
Investment income	—	3,883	999	16,747	927	43,752	—	66,308
Interest expense	(6,000)	—	—	—	(13,464)	—	—	(19,464)
Total nonoperating revenue (expense)	(6,000)	3,883	999	16,747	(12,537)	43,752	—	46,844
Income (loss) before transfers (to) from other CSU funds	(114,872)	(672,652)	991,956	693,590	(12,537)	43,752	—	929,237
Transfer from CSUCI Financing Authority – interest income on cash held with fiscal agent special tax	—	766,950	221,237	—	33,562	—	—	1,021,749
Transfer from CSUCI Financing Authority – special tax	—	222,423	—	—	—	—	—	222,423
Transfer (to) from other programs	—	875,956	(97,208)	(835,419)	—	—	56,666	(5)
Transfer from other CSU funds	327,467	—	—	—	511,294	—	—	838,761
Total transfers	327,467	1,865,329	124,029	(835,419)	544,856	—	56,666	2,082,928
Change in net assets	212,595	1,192,677	1,115,985	(141,829)	532,319	43,752	56,666	3,012,165
Net assets (deficit), beginning of year	(462,071)	2,181,546	651,296	1,523,951	—	—	—	3,894,722
Net assets (deficit), end of year	(249,476)	3,374,223	1,767,281	1,382,122	532,319	43,752	56,666	6,906,887

See accompanying independent auditors' report.