



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

Financial Statements and
Supplementary Information

June 30, 2005 and 2004

(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 years ended June 30, 2005 and 2004, 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 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Site Authority as of June 30, 2005 and 2004, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

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

September 23, 2005

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

June 30, 2005 and 2004

	2005	2004
Assets:		
Current assets:		
Cash and cash equivalents	\$ 519,378	799,164
Investments	6,240,614	8,242,861
Accounts receivable	640,199	523,714
Sales tax receivable	17,411	—
Interest receivable	68,760	40,547
Real estate inventory	276,171	207,893
Due from CSUCI Financing Authority – restricted	87,921,821	18,850,239
Total current assets	95,684,354	28,664,418
Noncurrent assets:		
Capital assets, net	114,901,800	82,766,384
Deferred debt issuance costs, net	3,348,573	2,771,786
Total assets	213,934,727	114,202,588
Liabilities and net assets:		
Current liabilities:		
Accounts payable	2,188,534	2,101,238
Interest payable to CSUCI Financing Authority	2,193,558	1,484,359
Interest payable to California State University	228,622	247,290
Due to CSUCI Financing Authority	10,003	129,743
Due to California State University, Channel Islands	296,846	—
Loans payable – current portion	2,755,907	8,518,755
Total current liabilities	7,673,470	12,481,385
Noncurrent liabilities:		
Loans payable, net of current portion	262,195,301	94,814,316
Total liabilities	269,868,771	107,295,701
Net assets (deficit):		
Invested in capital assets, net of related debt	(84,239,393)	(19,279,260)
Restricted for:		
Capital projects	87,990,581	18,890,786
Unrestricted	(59,685,232)	7,295,361
Total net assets (deficit)	\$ (55,934,044)	6,906,887

See accompanying notes to financial statements.

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Statements of Revenues, Expenses, and Changes in Net Assets (Deficit)
Years ended June 30, 2005 and 2004

	2005	2004
Operating revenues:		
Home sales	\$ 3,186,058	8,548,985
Rental income	4,685,112	2,985,410
Parking	—	517,275
Miscellaneous revenues	2,156	95,088
Total operating revenues	7,873,326	12,146,758
Operating expenses:		
Cost of home sales	2,934,154	7,571,254
Rental housing operations	1,052,884	514,596
Parking operations	—	568,214
Depreciation and amortization	2,587,760	2,140,575
General, administrative, and other operating costs	1,627,926	753,056
Total operating expenses	8,202,724	11,547,695
Operating income (loss)	(329,398)	599,063
Nonoperating revenue (expense):		
Investment income	195,886	66,308
Interest expense	(875,765)	(19,464)
Property taxes	566,513	283,330
Sales taxes	26,693	—
Local agency pass-through taxes	(100,436)	—
Capital gift to campus	(64,655,000)	—
Total nonoperating revenue (expense)	(64,842,109)	330,174
Income (loss) before transfers (to) from other CSU funds	(65,171,507)	929,237
Transfer from CSUCI Financing Authority – interest income from cash held with fiscal agents	2,392,259	1,021,749
Transfer from CSUCI Financing Authority – special tax – Community Facilities District	205,163	222,423
Transfer (to) from other CSU funds	(266,846)	838,756
Total transfers	2,330,576	2,082,928
Change in net assets	(62,840,931)	3,012,165
Net assets, beginning of year	6,906,887	3,894,722
Net assets (deficit), end of year	\$ (55,934,044)	6,906,887

See accompanying notes to financial statements.

**CALIFORNIA STATE UNIVERSITY,
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Statements of Cash Flows

Years ended June 30, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
Home sales	\$ 3,186,058	8,548,985
Rental income	4,570,783	2,842,813
Parking operations	—	568,213
Payments to vendors	(7,144,652)	(9,393,120)
Net cash provided by operating activities	612,189	2,566,891
Cash flows from noncapital financing activities:		
Payment from CSUCI Financing Authority – interest received on cash held with fiscal agents	2,597,422	1,244,172
Interest paid to CSU Trust Fund	(864,191)	(1,861)
Property and sales taxes	575,795	283,330
Payments to pass-through entities	(67,184)	—
Net cash provided by noncapital financing activities	2,241,842	1,525,641
Cash flows from capital and related financing activities:		
Interest paid	(4,157,195)	(4,114,416)
Receipt of amounts due from CSUCI Financing Authority	(71,164,437)	16,642,393
Proceeds from debt	103,450,000	22,967,366
Payments on loans	(5,574,964)	(17,116,785)
Transfers (to) from other CSU funds	(266,846)	838,756
Capital expenditures	(27,590,294)	(16,419,078)
Net cash provided by (used in) capital and related financing activities	(5,303,736)	2,798,236
Cash flows from investing activities:		
Investment income	167,672	85,873
Purchases of investments	(11,051,275)	(14,996,020)
Sales of investments	13,053,522	6,753,161
Net cash provided by (used in) investing activities	2,169,919	(8,156,986)
Net decrease in cash and cash equivalents	(279,786)	(1,266,218)
Cash and cash equivalents at beginning of year	799,164	2,065,382
Cash and cash equivalents at end of year	\$ 519,378	799,164

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended June 30, 2005 and 2004

	2005	2004
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ (329,398)	599,063
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization expense	2,587,760	2,140,575
Changes in assets and liabilities:		
Accounts receivable	(116,485)	(237,685)
Due from California State University, Channel Islands	—	50,938
Accounts payable	(1,826,534)	14,000
Due to California State University, Channel Islands	296,846	—
Net cash provided by operating activities	\$ 612,189	2,566,891
Supplemental disclosure of noncash capital and related financing activities:		
Loan payable for capital gift to campus	\$ 64,655,000	—

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2005 and 2004

(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 houses 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 31,000 square feet of retail commercial uses. The development of the East Campus began in October 2000 and is projected to be completed by December 2007. The infrastructure will be constructed in phases and is expected to be completed by December 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 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 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 activities reporting model, the Site Authority prepares its statements of cash flows using the direct method.

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(b) *New Accounting Pronouncements*

For the fiscal year ended June 30, 2005, the Site Authority implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an Amendment of GASB Statement No. 3*. This statement addresses common deposits and investment risks related to credit risks, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this statement also are required to be disclosed. Implementation of GASB Statement No. 40 did not have an impact on the Site Authority's financial statements as of and for the year ended June 30, 2005, but required additional disclosures related to deposits and investment risks (note 3).

(c) *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.

(d) *Net Assets (Deficit)*

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 (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) *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.

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(f) 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.

(g) 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.

(h) 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 assumed responsibility for parking operations upon termination of the agreement.

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 and sales tax revenues are recognized upon receipt (see note 12).

(i) Cost of Homes Sold

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

(j) Classification of Revenues and Expenses

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

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(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.

(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. The Site Authority is an organization exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code and is generally not subject to federal or state income taxes. However, the Site Authority is 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 is granted 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 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.

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June 30, 2005 and 2004

(o) **Reclassifications**

Certain amounts in the 2004 financial statements have been reclassified to conform to the 2005 presentation.

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

The Site Authority's cash and cash equivalents and investments as of June 30, 2005 and 2004 are classified in the accompanying financial statements as follows:

	2005	2004
Cash and cash equivalents	\$ 519,378	799,164
Short-term investments	6,240,614	8,242,861
Total cash, cash equivalents, and investments	\$ 6,759,992	9,042,025

(a) **Cash and Cash Equivalents**

At June 30, 2005 and 2004, cash and cash equivalents consisted of demand deposits held at financial institutions. The bank balance and carrying value of this cash was \$519,378 and \$799,164 at June 30, 2005 and 2004, respectively.

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.

(b) **Investments**

At June 30, 2005 and 2004, 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 monies 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

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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, 2005 is presented in the table below.

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.

Investment type	Fair value	Weighted average maturity (in years)	Rating as of year-end			
			AAA	Aa	A	Not rated
Money market mutual funds	\$ 300,450	—	\$ 89,061	—	—	211,389
Certificates of deposit	157,400	0.80	—	41,959	115,441	—
U.S. agency securities	2,372,085	1.66	2,372,085	—	—	—
Mortgage-backed securities	312,479	12.13	312,479	—	—	—
Corporate and fixed income securities	<u>1,691,496</u>	2.09	<u>1,463,044</u>	<u>210,679</u>	<u>17,773</u>	<u>—</u>
Total	4,833,910		<u>\$ 4,236,669</u>	<u>252,638</u>	<u>133,214</u>	<u>211,389</u>
Not subject to ratings:						
U.S. Treasury Securities	358,208					
State of California Surplus Money Investment Fund	<u>1,048,496</u>					
Total investments	<u>\$ 6,240,614</u>					

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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.

Custodial Credit Risk for Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another 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 investments. All securities owned by the Financing Authority are deposited in trust for safekeeping with a custodial bank. Securities are not held in broker-dealer accounts.

As of June 30, 2004, the Site Authority's current investments at fair values are as follows:

	<u>2004</u>
State of California Surplus Money Investment Fund	\$ 4,414,787
Metropolitan West Short Term Fund	2,717,932
Metropolitan West Medium Term Fund	<u>1,110,142</u>
	\$ <u>8,242,861</u>

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(4) Loans Payable

Loans payable are as follows:

Description	Interest rate	Fiscal year maturity date	Original issue amount	Amount outstanding June 30, 2005	Amount outstanding June 30, 2004
Finance Authority:					
Channel Islands Revenue Bonds – Series 2001A	3.85 – 5.25%	2031-2032	\$ 49,460,000	49,460,000	49,460,000
Channel Islands Rental Housing Bonds	3.375 – 4.08%	2031-2032	46,815,000	46,815,000	46,815,000
CSUCI Financing Authority Revenue Bonds – Series 2004A (For-Sale Housing Construction)	2.5%	2034-2035	44,500,000	44,500,000	—
CSUCI Financing Authority Revenue Bonds – Series 2004 A (Rental Housing and Town Center)	2.50 – 4.08%	2044-2045	50,735,000	50,735,000	—
CSUCI Financing Authority Revenue Bonds – Series 2004B (Taxable) (Rental Housing and Town Center)	3.79 – 5.59%	2044-2045	4,015,000	4,015,000	—
Revenue Bond Anticipation Notes	1.5%	2003-2004	10,240,000	—	—
Other:					
California State University Stockton Center Site Authority	2.851%	—	5,164,964	3,000,000	5,164,964
California State University Risk Management Authority	1.441%	—	3,410,000	—	3,410,000
California State University, Channel Islands	0.23%	2008-2009	4,200,000	4,200,000	—
California State University, Channel Islands	3.0 – 5.0%	2037-2038	64,655,000	64,655,000	—
California State University	1.441%	2004-2005	501,505	—	—
Total long-term debt			<u>\$ 283,696,469</u>	<u>267,380,000</u>	<u>104,849,964</u>
Less bond discount on bonds				<u>(2,428,792)</u>	<u>(1,516,893)</u>
Total long-term debt, net				<u>\$ 264,951,208</u>	<u>103,333,071</u>

The Site Authority obtained various financing through the Financing Authority to fund construction and development of the Property in accordance with its reuse plan. As of June 30, 2005 and 2004, these loans aggregated \$195,525,000 and \$96,275,000, respectively. Additionally, the loans from the Financing Authority 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, 2005 and 2004, management believes the Site Authority is in compliance with all such covenants.

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In connection with the issuance of these loans, the Site Authority incurred debt issue costs of \$3,913,888 and \$3,081,093 as of June 30, 2005 and 2004, respectively, which are being amortized on a straight-line basis over the life of the loans. At June 30, 2005 and 2004, \$565,315 and \$309,307, 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).

In 2003, the Site Authority received various loans from the California State University Trust Fund to fund cash overdraft positions. The related loan balance at June 30, 2005 and 2004 was \$0 and \$165,476, respectively. The interest rate paid was the stated Surplus Money Investment Fund rate (1.441% at June 30, 2004). The loans were repaid during 2005.

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 were used for construction of for-sale, rental housing, and town center. The loans were repaid through bond proceeds of the Site Authority. The interest rate paid on these loans was the stated Surplus Money Investment Fund rate (2.851% and 1.441% at June 30, 2004). The Stockton Center Site Authority loans were repaid during 2005. The Lottery Fund loans are expected to be repaid during 2006 and, therefore, are included in the current portion of loans payable on the statement of net assets (deficit) at June 30, 2005. The loans are unsecured.

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 Met West rate of return earned by the California State University Risk Management Authority (0.23% at June 30, 2005). 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.

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.

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Long-term debt activity for the years ended June 30, 2005 and 2004 was as follows:

	2005				
	Beginning balance	Additions	Reductions	Ending balance	Current portion
Loans from CSUCI Financing Authority	\$ 96,275,000	99,250,000	—	195,525,000	—
Loans from California State University	5,164,964	—	(2,164,964)	3,000,000	3,000,000
Loans from Stockton Center Site Authority	3,410,000	—	(3,410,000)	—	—
Loan from California State University Risk Management Authority	—	4,200,000	—	4,200,000	—
California State University, Channel Islands	—	64,655,000	—	64,655,000	—
Total long-term debt obligations	104,849,964	168,105,000	(5,574,964)	267,380,000	3,000,000
Unamortized discount on bonds	(1,516,893)	(1,140,320)	228,421	(2,428,792)	(244,093)
Long-term debt obligations, net	\$ 103,333,071	166,964,680	(5,346,543)	264,951,208	2,755,907
	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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The loans mature as follows:

	<u>Principal</u>	<u>Interest</u>
Fiscal years:		
2006	\$ 3,000,000	6,685,200
2007	220,000	7,377,478
2008	44,790,000	7,230,261
2009	5,060,000	9,382,169
2010	1,175,000	9,769,461
2011-2015	12,040,000	47,741,002
2016-2020	25,125,000	43,623,858
2021-2025	33,765,000	36,743,680
2026-2030	50,925,000	26,849,107
2031-2035	42,785,000	14,559,567
2036-2040	26,555,000	7,121,951
2041-2045	21,940,000	2,481,035
Total	<u>\$ 267,380,000</u>	<u>219,564,769</u>

(5) Construction Loans

On February 1, 2003, the Site Authority entered into an agreement with Citibank, FSB for a 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.

There was no construction loan activity during the year ended June 30, 2005 on the Channel Islands Campus. The construction loan activity for the year ended June 30, 2004 was as follows:

	2004				
	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Construction Loan	\$ 222,878	6,317,366	(6,540,244)	—	—

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(6) Capital Assets

Capital asset activity consisted of the following:

	2005				Ending balance
	Beginning balance	Additions	Reductions	Transfers*	
Capital assets, not being depreciated:					
Construction work in progress	\$ 2,955,405	34,690,541	—	(990,732)	36,655,214
Total nondepreciable capital assets	<u>2,955,405</u>	<u>34,690,541</u>	<u>—</u>	<u>(990,732)</u>	<u>36,655,214</u>
Depreciable capital assets:					
Buildings and building improvements	45,776,917	—	—	1,142,249	46,919,166
Infrastructure	36,569,927	—	—	(161,149)	36,408,778
Personal property:					
Equipment	478,620	—	—	9,632	488,252
Total depreciable capital assets	<u>82,825,464</u>	<u>—</u>	<u>—</u>	<u>990,732</u>	<u>83,816,196</u>
Total cost	<u>85,780,869</u>	<u>34,690,541</u>	<u>—</u>	<u>—</u>	<u>120,471,410</u>
Less accumulated depreciation:					
Buildings and building improvements	1,634,089	1,544,935	—	—	3,179,024
Infrastructure	1,244,239	913,503	—	—	2,157,742
Personal property:					
Equipment	136,157	96,687	—	—	232,844
Total accumulated depreciation	<u>3,014,485</u>	<u>2,555,125</u>	<u>—</u>	<u>—</u>	<u>5,569,610</u>
Net capital assets	<u>\$ 82,766,384</u>	<u>32,135,416</u>	<u>—</u>	<u>—</u>	<u>114,901,800</u>

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	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	<u>6,455,825</u>	<u>21,421,888</u>	<u>—</u>	<u>(24,922,308)</u>	<u>2,955,405</u>
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	<u>58,111,049</u>	<u>—</u>	<u>—</u>	<u>24,714,415</u>	<u>82,825,464</u>
Total cost	<u>64,566,874</u>	<u>21,421,888</u>	<u>—</u>	<u>(207,893)</u>	<u>85,780,869</u>
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	<u>873,910</u>	<u>2,140,575</u>	<u>—</u>	<u>—</u>	<u>3,014,485</u>
Net capital assets	<u>\$ 63,692,964</u>	<u>19,281,313</u>	<u>—</u>	<u>(207,893)</u>	<u>82,766,384</u>

* New homes constructed that remain unsold at year-end are transferred from construction work in progress to real estate inventory. Homes repurchased during the year for future resale are recorded directly to real estate inventory.

	2005	2004
Construction work in progress additions consist of:		
Capital expenditures	\$ 29,402,594	17,117,059
Capitalized interest	4,836,152	4,145,919
Capitalized bond issuance costs	451,795	158,910
	<u>\$ 34,690,541</u>	<u>21,421,888</u>

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(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 2005 and 2004:

	2005	2004
Interest cost capitalized	\$ 4,836,152	4,145,919
Interest cost charged to income	875,765	19,464
Interest cost charged to cost of homes sales	—	78,599
Total interest cost incurred	\$ 5,711,917	4,243,982

(8) Due from CSUCI Financing Authority

The due from CSUCI Financing Authority balance at June 30, 2005 and 2004 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) Letters of Credit

As a condition of making the loans discussed in note 4, 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. 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 years ended June 30, 2005 and 2004 were \$1,875,988 and \$1,229,223, respectively.

(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 Agreement was amended July 1, 2004. The term of the amended Agreement is for three years from July 1, 2004, 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. Project management fees increase as additional phases are completed. As of June 30, 2005, Phase I and IB have been completed. Management fees paid to the property manager for 2005 and 2004 were \$130,360 and \$85,642, respectively, and are included in rental housing operations. The future minimum management fees are \$55,000 in 2006 and 2007.

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In connection with the Agreement, the Site Authority receives the excess of revenues over expenses from the property manager. As of June 30, 2005 and 2004, \$640,199 and \$523,714, 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 2005 and 2004 for these services were \$539,863 and \$299,585, respectively, and are included in general, administrative, and other operating costs. Amounts payable to University Glen were \$283,991 and \$124,575 and are included in accounts payable as of June 30, 2005 and 2004, 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 was 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% 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 the Tax Allocation Loan, and accordingly, all of the tax increment revenues are pledged to repay the Tax Allocation Loan.

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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 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.

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

June 30, 2005

	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	\$ —	303,830	—	215,548	—	—	—	519,378
Investments	—	(4,742)	3,115,598	2,889,336	240,422	—	—	6,240,614
Accounts receivable, University Glen	—	—	640,199	—	—	—	—	640,199
Sales tax receivable	—	17,411	—	—	—	—	—	17,411
Interest receivable	—	681	42,358	20,051	5,670	—	—	68,760
Real estate inventory	—	—	—	276,171	—	—	—	276,171
Due from CSUCI Financing Authority – restricted	—	11,315,234	38,599,394	38,006,788	405	—	—	87,921,821
Due from (to) other programs	(20,000)	98,493	741,163	(835,158)	15,502	—	—	—
Capital assets, net	—	40,163,235	65,025,300	9,713,265	—	—	—	114,901,800
Deferred debt issuance costs, net	—	2,308,842	706,035	333,696	—	—	—	3,348,573
Total assets	<u>(20,000)</u>	<u>54,202,984</u>	<u>108,870,047</u>	<u>50,619,697</u>	<u>261,999</u>	<u>—</u>	<u>—</u>	<u>213,934,727</u>
Liabilities:								
Accounts payable	—	100,934	945,190	858,419	—	—	—	1,904,543
Accounts payable, University Glen	—	—	283,991	—	—	—	—	283,991
Interest payable to CSUCI Financing Authority	—	826,023	903,993	463,542	—	—	—	2,193,558
Interest payable to California State University	—	—	136,204	92,418	—	—	—	228,622
Due to CSUCI Financing Authority	—	10,003	—	—	—	—	—	10,003
Due to California State University, Channel Islands	—	—	148,423	148,423	—	—	—	296,846
Loan payable to California State University, Channel Islands	—	—	—	—	64,655,000	—	—	64,655,000
Loan payable to CSU Lottery Fund	—	—	2,000,000	1,000,000	—	—	—	3,000,000
Loan payable to CSU Risk Management Authority	239,285	—	2,410,000	1,550,715	—	—	—	4,200,000
Loan payable to CSUCI Financing Authority, net	—	48,487,540	100,467,600	44,141,068	—	—	—	193,096,208
Total liabilities	<u>239,285</u>	<u>49,424,500</u>	<u>107,295,401</u>	<u>48,254,585</u>	<u>64,655,000</u>	<u>—</u>	<u>—</u>	<u>269,868,771</u>
Net assets (deficit)	<u>\$ (259,285)</u>	<u>4,778,484</u>	<u>1,574,646</u>	<u>2,365,112</u>	<u>(64,393,001)</u>	<u>—</u>	<u>—</u>	<u>(55,934,044)</u>

See accompanying independent auditors' report.

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

Year ended June 30, 2005

	Operating Program	Infrastructure Program	Rental Housing Program	For-Sale Housing Program	Campus Building Program	Town Center Program	Low and Moderate Income Program	Totals
Operating revenues:								
Home sales	\$ —	—	—	3,186,058	—	—	—	3,186,058
Rental income	—	—	4,685,112	—	—	—	—	4,685,112
Miscellaneous revenues	—	—	2,156	—	—	—	—	2,156
Total operating revenues	—	—	4,687,268	3,186,058	—	—	—	7,873,326
Operating expenses:								
Cost of home sales	—	—	—	2,934,154	—	—	—	2,934,154
Rental housing operations	—	—	1,052,884	—	—	—	—	1,052,884
Depreciation and amortization	—	913,503	1,660,568	13,689	—	—	—	2,587,760
General, administrative, and other operating costs	—	89,946	1,845,270	(328,320)	21,030	—	—	1,627,926
Total operating expenses	—	1,003,449	4,558,722	2,619,523	21,030	—	—	8,202,724
Operating income (loss)	—	(1,003,449)	128,546	566,535	(21,030)	—	—	(329,398)
Nonoperating revenue (expense):								
Investment income	—	11,260	120,214	46,485	17,927	—	—	195,886
Interest expense	(9,809)	—	(844,390)	(21,566)	—	—	—	(875,765)
Property taxes	—	566,513	—	—	—	—	—	566,513
Sales taxes	—	26,693	—	—	—	—	—	26,693
Local agency pass-through taxes	—	(100,436)	—	—	—	—	—	(100,436)
Capital gift to campus	—	—	—	—	(64,655,000)	—	—	(64,655,000)
Total nonoperating revenue (expense)	(9,809)	504,030	(724,176)	24,919	(64,637,073)	—	—	(64,842,109)
Income (loss) before transfers (to) from other CSU funds	(9,809)	(499,419)	(595,630)	591,454	(64,658,103)	—	—	(65,171,507)
Transfer from (to) CSUCI Financing Authority – interest income on cash held with fiscal agent	—	580,885	943,031	868,714	(371)	—	—	2,392,259
Transfer from CSUCI Financing Authority – special tax	—	205,163	—	—	—	—	—	205,163
Transfer from (to) other programs	—	1,117,632	(540,036)	(477,178)	—	(43,752)	(56,666)	—
Transfer from (to) other CSU funds	—	—	—	—	(266,846)	—	—	(266,846)
Total transfers	—	1,903,680	402,995	391,536	(267,217)	(43,752)	(56,666)	2,330,576
Change in net assets	(9,809)	1,404,261	(192,635)	982,990	(64,925,320)	(43,752)	(56,666)	(62,840,931)
Net assets (deficit), beginning of year	(249,476)	3,374,223	1,767,281	1,382,122	532,319	43,752	56,666	6,906,887
Net assets (deficit), end of year	\$ (259,285)	4,778,484	1,574,646	2,365,112	(64,393,001)	—	—	(55,934,044)

See accompanying independent auditors' report.