



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

Financial Statements and
Supplementary Information

June 30, 2006 and 2005

(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
Suite 700
600 Anton Boulevard
Costa Mesa, CA 92626-7651

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, 2006 and 2005, 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, 2006 and 2005, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2006, on our consideration of the Site Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

KPMG LLP

December 8, 2006

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

June 30, 2006 and 2005

	2006	2005
Assets:		
Current assets:		
Cash and cash equivalents	\$ 246,260	519,378
Investments	1,965,214	6,240,614
Accounts receivable	1,084,173	640,199
Sales tax receivable	—	17,411
Interest receivable	25,296	68,760
Real estate inventory	2,579,933	276,171
Prepaid expense	50,849	—
Due from CSUCI Financing Authority – restricted	74,173,410	87,921,821
Total current assets	80,125,135	95,684,354
Noncurrent assets:		
Capital assets, net	128,643,688	114,901,800
Deferred debt issuance costs, net	3,077,376	3,348,573
Total assets	211,846,199	213,934,727
Liabilities and net assets:		
Current liabilities:		
Accounts payable	2,879,512	2,188,534
Interest payable to CSUCI Financing Authority	2,495,905	2,193,558
Interest payable to CSU Risk Management Authority	137,842	228,622
Interest payable to California State University	56,048	—
Due to CSUCI Financing Authority	10,003	10,003
Due to California State University	296,846	296,846
Loans payable – current portion	220,000	3,000,000
Total current liabilities	6,096,156	7,917,563
Noncurrent liabilities:		
Loans payable, net of current portion	261,975,285	261,951,208
Total liabilities	268,071,441	269,868,771
Net assets (deficit):		
Invested in capital assets, net of related debt	(68,315,126)	(84,239,393)
Restricted for:		
Capital projects	74,249,555	87,990,581
Unrestricted	(62,159,671)	(59,685,232)
Total net assets (deficit)	\$ (56,225,242)	(55,934,044)

See accompanying notes to financial statements.

**CALIFORNIA STATE UNIVERSITY,
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Statements of Revenues, Expenses, and Changes in Net Assets (Deficit)
Years ended June 30, 2006 and 2005

	2006	2005
Operating revenues:		
Home sales	\$ 28,896,681	3,186,058
Rental income	5,007,906	4,685,112
Miscellaneous revenues	3,530	2,156
Total operating revenues	33,908,117	7,873,326
Operating expenses:		
Cost of home sales	23,269,022	2,934,154
Rental housing operations	2,398,212	1,052,884
Depreciation and amortization	2,600,222	2,587,760
General, administrative, and other operating costs	1,819,713	1,627,926
Total operating expenses	30,087,169	8,202,724
Operating income (loss)	3,820,948	(329,398)
Nonoperating revenue (expense):		
Investment income	121,240	195,886
Interest expense	(2,432,118)	(875,765)
Property taxes	942,321	566,513
Sales taxes	29,041	26,693
Local agency pass-through taxes	(183,093)	(100,436)
Traffic impact mitigation fees	(4,541,489)	—
Fines	(210,000)	—
Capital gift to campus	—	(64,655,000)
Total nonoperating expense, net	(6,274,098)	(64,842,109)
Income before transfers (to) from other CSU funds	(2,453,150)	(65,171,507)
Transfer from CSUCI Financing Authority – interest income from cash held at fiscal agent	1,950,346	2,392,259
Transfer from CSUCI Financing Authority – special tax	211,606	205,163
Transfer to other CSU funds	—	(266,846)
Total transfers	2,161,952	2,330,576
Changes in net assets	(291,198)	(62,840,931)
Net assets (deficit), beginning of year	(55,934,044)	6,906,887
Net assets (deficit), end of year	\$ (56,225,242)	(55,934,044)

See accompanying notes to financial statements.

**CALIFORNIA STATE UNIVERSITY,
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Statements of Cash Flows

Years ended June 30, 2006 and 2005

	2006	2005
Cash flows from operating activities:		
Home sales	\$ 28,588,057	3,186,058
Rental income	4,884,086	4,570,783
Payments to vendors	(27,813,104)	(7,144,652)
Net cash provided by operating activities	5,659,039	612,189
Cash flows from noncapital financing activities:		
Payment from CSUCI Financing Authority – interest received on cash held with fiscal agent	2,161,952	2,597,422
Interest paid	(2,455,372)	(864,191)
Property and sales taxes	988,773	575,795
Payments to pass-through entities	(89,553)	(67,184)
Traffic impact mitigation fees	(1,379,964)	—
Net cash provided by (used in) noncapital financing activities	(774,164)	2,241,842
Cash flows from capital and related financing activities:		
Interest paid	(3,855,605)	(4,157,195)
Receipts of amounts due from CSUCI Financing Authority	13,748,411	(71,164,437)
Proceeds from construction debt	—	103,450,000
Payments on loans	(3,000,000)	(5,574,964)
Transfers to other CSU funds	—	(266,846)
Capital expenditures	(16,490,903)	(27,590,294)
Net cash used in capital and related financing activities	(9,598,097)	(5,303,736)
Cash flows provided by investing activities:		
Investment income	164,704	167,672
Purchases of investments	(6,914,908)	(11,051,275)
Sales of investments	11,190,308	13,053,522
Net cash provided by investing activities	4,440,104	2,169,919
Net decrease in cash and cash equivalents	(273,118)	(279,786)
Cash and cash equivalents at beginning of year	519,378	799,164
Cash and cash equivalents at end of year	\$ 246,260	519,378
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 3,820,948	(329,398)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization expense	2,600,222	2,587,760
Changes in assets and liabilities:		
Accounts receivable	(443,974)	(116,485)
Real estate inventory	(106,549)	—
Accounts payable	(211,608)	(1,826,534)
Due to California State University, Channel Islands	—	296,846
Net cash provided by operating activities	\$ 5,659,039	612,189
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, 2006 and 2005

(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 expected 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.

(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.

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(c) ***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.

(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 Site Authority follows the accepted industry practice of capitalizing interest related to a project until development is substantially complete; such costs are charged to cost of home sales at the time residential units are sold.

(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***

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 11).

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(h) Cost of Homes Sold

The cost of residential units sold is computed by allocating construction costs to the homes based on square footage.

(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 (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, traffic mitigation fees, and transfers between the Site Authority and the Financing Authority and other CSU funds.

(j) 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

(k) 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.

(l) 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.

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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.

(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.

(n) Reclassifications

Certain reclassifications have been made to the 2005 financial statements to conform to the 2006 financial statement presentation.

(3) Cash and Cash Equivalents and Investments

The Site Authority's cash and cash equivalents and investments as of June 30, 2006 and 2005 are classified in the accompanying financial statements as follows:

	2006	2005
Cash and cash equivalents	\$ 246,260	519,378
Short-term investments	1,965,214	6,240,614
Total cash, cash equivalents and investments	\$ 2,211,474	6,759,992

(a) Cash and Cash Equivalents

At June 30, 2006 and 2005, cash and cash equivalents consisted of demand deposits held at financial institutions. The bank balance and carrying value of this cash was \$246,260 and \$519,378 at June 30, 2006 and 2005, 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.

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June 30, 2006 and 2005

(b) Investments

At June 30, 2006 and 2005, 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 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, 2006 and 2005 are presented in the tables on the following page.

Credit Risk

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

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The following table presents the weighted average maturity and actual rating by investment type of the Site Authority's investment portfolio as of June 30, 2006:

Investment type	Fair value	Weighted average maturity (in years)	Rating as of year-end			
			AAA	Aa	A	Not rated
Money market mutual funds	\$ 36,459	0.01	\$ —	—	—	36,459
Certificates of deposit	268,450	1.41	—	100,660	167,790	—
Commercial paper	109,509	0.01	—	—	—	109,509
U.S. agency securities	461,004	1.46	461,004	—	—	—
Mortgage-backed securities	139,580	10.57	139,580	—	—	—
Corporate and fixed income securities	645,368	1.74	41,316	182,164	421,888	—
State of California Surplus Money Investment Fund	154,059	0.42	—	—	—	154,059
Total	1,814,429		\$ 641,900	282,824	589,678	300,027
Not subject to ratings:						
U.S. Treasury securities	150,785	1.85				
Total investments	\$ 1,965,214					

The following table presents the weighted average maturity and actual rating by investment type of the Site Authority's investment portfolio as of June 30, 2005:

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	1,691,496	2.09	1,463,044	210,679	17,773	—
State of California Surplus Money Investment Fund	1,048,496	0.45	—	—	—	1,048,496
Total	5,882,406		\$ 4,236,669	252,638	133,214	1,259,885
Not subject to ratings:						
U.S. Treasury securities	358,208	2.46				
Total investments	\$ 6,240,614					

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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. As of June 30, 2006, the following investments (other than U.S. Treasury securities, mutual funds, and external investment pools) represented 5.0% or more of the Site Authority's investment portfolio: Federal Farm Credit Bank totaling \$104,223, or 5.3%; Federal Home Loan Bank totaling \$288,170, or 14.7%; and FNMA totaling \$118,506, or 6.0%. As of June 30, 2005, the following investments (other than U.S. Treasury securities, mutual funds, and external investment pools) represented 5% or more of the Site Authority's investment portfolio: FNMA totaling \$738,910, or 11.8%; FHLMC totaling \$416,559, or 6.7%; Federal Home Loan Bank totaling \$959,874, or 15.4%; and Federal Farm Credit Bank totaling \$462,824, or 7.4%.

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.

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Notes to Financial Statements

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(4) 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, 2006</u>	<u>Amount outstanding June 30, 2005</u>
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	3.15 – 4.08%	2031 – 2032	46,815,000	46,815,000	46,815,000
CSUCI Financing Authority Revenue Bonds – Series 2004A (For-Sale Housing Construction)	2.50%	2034 – 2035	44,500,000	44,500,000	44,500,000
CSUCI Financing Authority Revenue Bonds – Series 2004A (Rental Housing and Town Center)	2.50 – 4.08%	2044 – 2045	50,735,000	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	4,015,000
Other:					
California State University	4.53%	—	5,164,964	—	3,000,000
California State University Risk Management Authority	0.30%	2008 – 2009	4,200,000	4,200,000	4,200,000
California State University, Channel Islands	3.00 – 5.00%	2037 – 2038	<u>64,655,000</u>	<u>64,655,000</u>	<u>64,655,000</u>
Total debt			<u>\$ 269,544,964</u>	264,380,000	267,380,000
Less bond discount on bonds				<u>(2,184,715)</u>	<u>(2,428,792)</u>
Total debt, net				<u>\$ 262,195,285</u>	<u>264,951,208</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, 2006 and 2005, these loans aggregated \$195,525,000. 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, 2006 and 2005, 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 \$3,913,888 as of June 30, 2006 and 2005, which are being amortized on a straight-line basis over the life of the loans. At June 30, 2006 and 2005, \$836,512 and \$565,315, respectively, have been amortized.

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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 \$2.0 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. The Stockton Center Site Authority loans were repaid during 2005. The Lottery Fund loans were repaid during 2006.

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 (0.3% at June 30, 2006). 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.

Long-term debt activity for the years ended June 30, 2006 and 2005 was as follows:

	Beginning balance	2006		Ending balance	Current portion
		Additions	Reductions		
Loans from CSUCI Financing Authority	\$ 195,525,000	—	—	195,525,000	220,000
Loans from California State University	3,000,000	—	(3,000,000)	—	—
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	267,380,000	—	(3,000,000)	264,380,000	220,000
Unamortized discount on bonds	(2,428,792)	—	244,077	(2,184,715)	—
Long-term debt obligations, net	\$ 264,951,208	—	(2,755,923)	262,195,285	220,000

**CALIFORNIA STATE UNIVERSITY,
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Notes to Financial Statements

June 30, 2006 and 2005

	2005				
	<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	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	<u>104,849,964</u>	<u>168,105,000</u>	<u>(5,574,964)</u>	<u>267,380,000</u>	<u>3,000,000</u>
Unamortized discount on bonds	<u>(1,516,893)</u>	<u>(1,140,320)</u>	<u>228,421</u>	<u>(2,428,792)</u>	<u>—</u>
Long-term debt obligations, net	<u>\$ 103,333,071</u>	<u>166,964,680</u>	<u>(5,346,543)</u>	<u>264,951,208</u>	<u>3,000,000</u>

The loans mature as follows:

	<u>Principal</u>	<u>Interest</u>
Fiscal years:		
2007	\$ 220,000	9,814,885
2008	44,790,000	9,661,446
2009	5,060,000	9,433,053
2010	1,175,000	9,344,381
2011	1,495,000	9,310,220
2012 – 2016	14,390,000	45,166,055
2017 – 2021	26,900,000	40,692,024
2022 – 2026	36,780,000	33,774,786
2027 – 2031	55,020,000	23,753,125
2032 – 2036	36,330,000	12,689,002
2037 – 2041	23,940,000	6,006,789
2042 – 2045	<u>18,280,000</u>	<u>1,630,234</u>
Total	<u>\$ 264,380,000</u>	<u>211,276,000</u>

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(5) Capital Assets

Capital asset activity consisted of the following:

	2006				Ending balance
	Beginning balance	Additions	Reductions	Transfers*	
Capital assets, not being depreciated:					
Construction work in progress	\$ 36,655,214	41,717,268	—	(32,368,409)	46,004,073
Total nondepreciable capital assets	<u>36,655,214</u>	<u>41,717,268</u>	<u>—</u>	<u>(32,368,409)</u>	<u>46,004,073</u>
Depreciable capital assets:					
Buildings and building improvements	46,919,166	—	(2,832,329)	—	44,086,837
Infrastructure	36,408,778	—	—	9,612,515	46,021,293
Personal property:					
Equipment	488,252	—	—	30,732	518,984
Improvements other than building	—	—	—	35,145	35,145
Total depreciable capital assets	<u>83,816,196</u>	<u>—</u>	<u>(2,832,329)</u>	<u>9,678,392</u>	<u>90,662,259</u>
Total cost	<u>120,471,410</u>	<u>41,717,268</u>	<u>(2,832,329)</u>	<u>(22,690,017)</u>	<u>136,666,332</u>
Less accumulated depreciation:					
Buildings and building improvements	3,179,024	1,320,178	—	—	4,499,202
Infrastructure	2,157,742	1,030,376	—	—	3,188,118
Personal property:					
Equipment	232,844	100,723	—	—	333,567
Improvements other than building	—	1,757	—	—	1,757
Total accumulated depreciation	<u>5,569,610</u>	<u>2,453,034</u>	<u>—</u>	<u>—</u>	<u>8,022,644</u>
Net capital assets	<u>\$ 114,901,800</u>	<u>39,264,234</u>	<u>(2,832,329)</u>	<u>(22,690,017)</u>	<u>128,643,688</u>

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June 30, 2006 and 2005

		2005				
		<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	\$	2,955,405	34,690,541	—	(990,732)	36,655,214
Total nondepreciable capital assets		2,955,405	34,690,541	—	(990,732)	36,655,214
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		82,825,464	—	—	990,732	83,816,196
Total cost		85,780,869	34,690,541	—	—	120,471,410
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		3,014,485	2,555,125	—	—	5,569,610
Net capital assets	\$	82,766,384	32,135,416	—	—	114,901,800

* 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.

	<u>2006</u>	<u>2005</u>
Construction work in progress additions consist of:		
Capital expenditures	\$ 37,202,708	29,402,594
Capitalized interest	4,146,474	4,836,152
Capitalized bond issuance costs	368,086	451,795
	<u>\$ 41,717,268</u>	<u>34,690,541</u>

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June 30, 2006 and 2005

(6) 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 2006 and 2005:

	2006	2005
Interest cost capitalized	\$ 4,146,474	4,836,152
Interest cost charged to income	2,432,118	875,765
Total interest cost incurred	\$ 6,578,592	5,711,917

(7) Due From CSUCI Financing Authority

The due from CSUCI Financing Authority balance at June 30, 2006 and 2005 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.

(8) 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, 2006 and 2005 were \$2,092,732 and \$1,875,988, respectively.

(9) 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 2006 and 2005 were \$227,041 and \$130,360, 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, 2006 and 2005, \$995,627 and \$640,199, respectively, is included in accounts receivable from the property manager.

(10) 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 2006 and 2005 for these services were \$413,404 and \$539,863, respectively, and are included in general, administrative, and other operating costs. Amounts payable to University Glen were \$266,650 and \$283,991 and are included in accounts payable as of June 30, 2006 and 2005, respectively.

(11) 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 the Tax Allocation Loan, and accordingly, all of the tax increment revenues are pledged to repay the Tax Allocation Loan.

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.

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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 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.

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

June 30, 2006

	Operating Program	Infrastructure Program	Rental Housing Program	For Sale Housing Program	Campus Building	Totals
Assets:						
Cash and cash equivalents	\$ —	92,183	—	154,077	—	246,260
Investments	—	224,895	473,429	1,084,007	182,883	1,965,214
Accounts receivable	—	—	767,549	316,624	—	1,084,173
Interest receivable	—	1,921	8,586	11,885	2,904	25,296
Real estate inventory	—	—	—	2,579,933	—	2,579,933
Prepaid expense	—	—	50,849	—	—	50,849
Due from CSUCI Financing Authority – restricted	—	10,353,723	15,252,844	48,566,438	405	74,173,410
Due from (to) other programs	(20,000)	(763,019)	1,326,587	(559,998)	16,430	—
Capital assets, net	—	42,833,176	84,370,064	1,440,448	—	128,643,688
Deferred debt issuance costs, net	—	2,219,995	683,333	174,048	—	3,077,376
Total assets	<u>(20,000)</u>	<u>54,962,874</u>	<u>102,933,241</u>	<u>53,767,462</u>	<u>202,622</u>	<u>211,846,199</u>
Liabilities:						
Accounts payable	—	101,620	1,991,711	747,609	—	2,840,940
Accounts payable, University Glen Auxiliary	—	—	38,572	—	—	38,572
Interest payable to CSUCI Financing Authority	—	826,023	1,206,340	463,542	—	2,495,905
Interest payable to CSU Risk Management Authority	7,853	—	79,095	50,894	—	137,842
Interest payable to California State University	—	—	—	—	56,048	56,048
Due to CSUCI Financing Authority	—	10,003	—	—	—	10,003
Due to CSU, Channel Islands	—	—	148,423	148,423	—	296,846
Loan from California State University, Channel Islands	—	—	—	—	64,655,000	64,655,000
Loan from CSU Risk Management Authority	239,285	—	2,410,000	1,550,715	—	4,200,000
Loan from CSUCI Financing Authority, net	—	48,524,966	100,501,964	44,313,355	—	193,340,285
Total liabilities	<u>247,138</u>	<u>49,462,612</u>	<u>106,376,105</u>	<u>47,274,538</u>	<u>64,711,048</u>	<u>268,071,441</u>
Net assets (deficit)	<u>\$ (267,138)</u>	<u>5,500,262</u>	<u>(3,442,864)</u>	<u>6,492,924</u>	<u>(64,508,426)</u>	<u>(56,225,242)</u>

See accompanying independent auditors' report.

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

Year ended June 30, 2006

	Operating Program	Infrastructure Program	Rental Housing Program	For Sale Housing Program	Campus Building	Totals
Operating revenues:						
Home sales	\$ —	—	—	28,896,681	—	28,896,681
Rental income	—	—	5,007,906	—	—	5,007,906
Miscellaneous revenues	—	3,520	10	—	—	3,530
Total operating revenues	<u>—</u>	<u>3,520</u>	<u>5,007,916</u>	<u>28,896,681</u>	<u>—</u>	<u>33,908,117</u>
Operating expenses:						
Cost of home sales	—	—	—	23,269,022	—	23,269,022
Rental housing operations	—	—	2,398,212	—	—	2,398,212
Depreciation of fixed asset expense	—	1,030,376	1,397,297	25,362	—	2,453,035
Amortization of debt expense	—	31,569	32,634	82,984	—	147,187
General, administrative, and other expenses	—	210,974	1,001,262	594,877	12,600	1,819,713
Total operating expenses	<u>—</u>	<u>1,272,919</u>	<u>4,829,405</u>	<u>23,972,245</u>	<u>12,600</u>	<u>30,087,169</u>
Operating income (loss)	<u>—</u>	<u>(1,269,399)</u>	<u>178,511</u>	<u>4,924,436</u>	<u>(12,600)</u>	<u>3,820,948</u>
Nonoperating expense:						
Investment income	—	6,640	42,614	61,818	10,168	121,240
Interest expense	(7,853)	(629,613)	(1,460,479)	(278,125)	(56,048)	(2,432,118)
Property taxes	—	942,321	—	—	—	942,321
Sales tax revenue	—	29,041	—	—	—	29,041
Local agency pass-through taxes	—	(183,093)	—	—	—	(183,093)
Traffic impact mitigation fees	—	—	(3,161,525)	(1,379,964)	—	(4,541,489)
Fines	—	—	(210,000)	—	—	(210,000)
Total nonoperating revenue (expense)	<u>(7,853)</u>	<u>165,296</u>	<u>(4,789,390)</u>	<u>(1,596,271)</u>	<u>(45,880)</u>	<u>(6,274,098)</u>
Income (loss) before transfers (to) from other CSU funds	<u>(7,853)</u>	<u>(1,104,103)</u>	<u>(4,610,879)</u>	<u>3,328,165</u>	<u>(58,480)</u>	<u>(2,453,150)</u>
Transfer from CSUCI Financing Authority – interest income on cash held with fiscal agent	—	505,660	645,022	799,664	—	1,950,346
Transfer from CSUCI Financing Authority – special tax	—	211,606	—	—	—	211,606
Transfer (to) from other programs	—	1,108,615	(1,051,653)	(17)	(56,945)	—
Total transfers	<u>—</u>	<u>1,825,881</u>	<u>(406,631)</u>	<u>799,647</u>	<u>(56,945)</u>	<u>2,161,952</u>
Increase (decrease) in net assets	<u>(7,853)</u>	<u>721,778</u>	<u>(5,017,510)</u>	<u>4,127,812</u>	<u>(115,425)</u>	<u>(291,198)</u>
Net assets (deficit), beginning of year	<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>(55,934,044)</u>
Net assets (deficit), end of year	<u>\$ (267,138)</u>	<u>5,500,262</u>	<u>(3,442,864)</u>	<u>6,492,924</u>	<u>(64,508,426)</u>	<u>(56,225,242)</u>

See accompanying independent auditors' report.



KPMG LLP
Suite 700
600 Anton Boulevard
Costa Mesa, CA 92626-7651

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

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

We have audited the financial statements of the California State University, Channel Islands Site Authority (Site Authority), a component unit of the California State University (CSU), as of and for the year ended June 30, 2006, and have issued our report thereon dated December 8, 2006. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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 include 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 the following instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Financial Disclosure and Reporting

The Site Authority did not prepare a budget for the year under audit, as required under Section 33606 of the Health and Safety Code of the State of California. Additionally the Site Authority did not submit required annual reports on a timely basis to its legislative body and the State Controller for the previous fiscal year, as required under Section 33080.1 of the Health and Safety Code of the State of California.

Affordable Housing

The Site Authority did not deposit into the Housing Fund 20% of the gross tax increment allocated to the Site Authority, as required under 76 Ops. California Attorney General. Additionally, when less than 20% was deposited into the Housing Fund, the Site Authority did not obtain an exemption or deferral of funding and the Site Authority did not deposit any of the tax increment allocated to the Site Authority into the Housing Fund as required under Section 33334.2 of the Health and Safety Code of the State of California.

The Site Authority did not monitor the levels of available housing to low- and moderate-income households, as required under Section 33418 of the Health and Safety Code of the State of California, and the Site Authority did not impose affordability covenants on the housing units sold during the fiscal year as required under Section 33413 of the Health and Safety Code of the State of California.

Five-Year Implementation Plans

The Site Authority's Five-Year Implementation Plan did not include the estimated expenditures for the subsequent five years and the Plan does not make reference to blight or how the project will eliminate blight within the project area. Additionally, the Site Authority did not update their Five-Year Implementation Plan in fiscal year 2005. These requirements are in accordance with Health and Safety Code Sections 33490 and 33413.

Redevelopment Plans

The Site Authority's Plan, including Plan amendments, does not contain the following as under Health and Safety Code Section 33333.2:

- A time limit (not to exceed 20 years from the adoption of the plan) on establishing loans, advances, and indebtedness.
- A time limit (not to exceed 30 years from the adoption of the plan) on the effectiveness of the plan.
- A time limit (not to exceed 45 years from the adoption of the plan) to repay indebtedness.
- A time limit (not to exceed 12 years from the adoption of the plan) for commencement of eminent domain proceedings.

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

December 8, 2006