



CSUCI FINANCING AUTHORITY
(A Component Unit of the California State University)

Financial Statements and
Supplementary Information

June 30, 2007 and 2006

(With Independent Auditors' Report Thereon)

CSUCI FINANCING AUTHORITY
(A Component Unit of the California State University)

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Independent Auditors' Report

The Board of Directors
CSUCI Financing Authority:

We have audited the accompanying financial statements of the CSUCI Financing Authority (the Financing Authority), a component unit of the California State University, as of and for the years ended June 30, 2007 and 2006, as listed in the accompanying table of contents. These financial statements are the responsibility of the Financing 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 Financing 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 Financing Authority as of June 30, 2007 and 2006, 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 Financing Authority has not presented the management's discussion and analysis that U.S. generally accepted accounting principles require to supplement, although not 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 by program (unaudited) and supplementary schedule of revenues, expenses, and changes in net assets by program (unaudited) on pages 16 and 17, 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 21, 2007

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Statements of Net Assets

June 30, 2007 and 2006

Assets	2007	2006
Current assets:		
Cash held with fiscal agents	\$ 4,278,528	19,921,965
Investments	48,466,801	54,035,434
Total cash, cash equivalents, and investments	52,745,329	73,957,399
Accounts receivable – property taxes	17,039	8,006
Prepaid expense	—	248
Due from California State University, Channel Islands Site Authority	—	10,003
Interest receivable on cash held with fiscal agents	142,820	200,502
Interest receivable from California State University, Channel Islands Site Authority	463,542	2,495,905
Total current assets	53,368,730	76,672,063
Noncurrent assets:		
Loans receivable	44,500,000	195,525,000
Total assets	97,868,730	272,197,063
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	37	2,500
Interest payable	463,542	2,495,905
Operating revenue advance	—	248
Due to California State University, Channel Islands Site Authority	52,905,151	74,173,410
Revenue bonds payable	—	220,000
Total current liabilities	53,368,730	76,892,063
Noncurrent liabilities:		
Revenue bonds payable	44,500,000	195,305,000
Total liabilities	97,868,730	272,197,063
Total net assets	\$ —	—

See accompanying notes to financial statements.

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Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating revenues:		
Interest revenue	\$ 7,397,369	8,377,144
Operating expenses:		
Interest expense	4,918,577	6,425,315
General, administrative, and other costs	8,238	11,021
Total operating expenses	<u>4,926,815</u>	<u>6,436,336</u>
Operating income	2,470,554	1,940,808
Nonoperating revenues:		
Property taxes	455,273	221,144
Income before transfers	2,925,827	2,161,952
Transfer to California State University, Channel Islands Site Authority – special tax – Community Facilities District	(450,713)	(211,606)
Transfer to California State University, Channel Islands Site Authority – interest income on cash held with fiscal agents	<u>(2,475,114)</u>	<u>(1,950,346)</u>
Change in net assets	—	—
Net assets, beginning of year	<u>—</u>	<u>—</u>
Net assets, end of year	<u><u>\$ —</u></u>	<u><u>—</u></u>

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended June 30, 2007 and 2006

	2007	2006
Cash flows from operating activities:		
Interest income	\$ 9,429,732	8,074,797
Interest expense	(6,950,940)	(6,122,968)
Cash paid to suppliers	(8,238)	(11,021)
Net cash provided by operating activities	2,470,554	1,940,808
Cash flows from noncapital financing activities:		
Tax receipts	446,239	224,737
Cash paid to suppliers	248	(248)
Other receipts	(248)	248
Transfer of special tax to California State University, Channel Islands Site Authority	(450,713)	(211,606)
Transfer of interest income to California State University, Channel Islands Site Authority	(2,475,114)	(1,950,346)
Net cash used in noncapital financing activities	(2,479,588)	(1,937,215)
Cash flows from capital and related financing activities:		
Proceeds from refinancing of bonds	151,025,000	—
Principal payments of bonds	(151,025,000)	—
Funding provided to California State University, Channel Islands Site Authority	(21,203,037)	(13,664,394)
Net cash used in capital financing activities	(21,203,037)	(13,664,394)
Cash flows from investing activities:		
Sales of investments	11,203,786	52,109,139
Purchases of investments	(5,635,152)	(25,588,531)
Net cash provided by investing activities	5,568,634	26,520,608
Net increase (decrease) in cash and cash equivalents	(15,643,437)	12,859,807
Cash and cash equivalents at beginning of year	19,921,965	7,062,158
Cash and cash equivalents at end of year	\$ 4,278,528	19,921,965
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 2,470,554	1,940,808
Net cash provided by operating activities	\$ 2,470,554	1,940,808

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2007 and 2006

(1) Description of Reporting Entity and Summary of Significant Accounting Policies

(a) Reporting Entity

The CSUCI Financing Authority (the Financing Authority) was formed on May 10, 2000 under and pursuant to a Joint Powers Authority formed by and between the Trustees of the California State University (the CSU Trustees) and the California State University, Channel Islands Site Authority (the Site Authority). The Financing Authority's purpose is to provide financing for public capital improvements serving the California State University, Channel Islands (the Campus).

The proceeds of the revenue bonds will be used to finance and refinance the cost of constructing various public improvements on property transferred to the CSU Trustees and will be managed by the Site Authority. 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 centered on academic uses and houses 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 early 2010.

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

(b) Basis of Presentation

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

The financial statements required by GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, include a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. The Financing Authority is considered a special-purpose government under the provisions of GASB Statement No. 34. The Financing Authority records revenue primarily from special taxes and interest collected from the Site Authority, as well as interest earned on cash held with fiscal agents, 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 Financing Authority to be reported in a single column in each of the financial statements. In accordance with the business-type activities reporting model, the Financing Authority prepares its statements of cash flows using the direct method.

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June 30, 2007 and 2006

(c) Election of Applicable FASB Statements

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

(d) Classification of Revenues and Expenses

The Financing Authority considers operating revenues and expenses in the statements of revenues, expenses, and changes in net assets to be those revenues and expenses that result from exchange and nonexchange transactions or other activities that are connected directly to the Financing Authority's primary functions. Exchange transactions primarily include interest income and interest expense. Certain other transactions are reported as nonoperating revenues and expenses in accordance with GASB Statement No. 34. These nonoperating activities are primarily transfers to the Site Authority and collection of special tax revenues (see note 1(i)).

(e) Cash and Cash Equivalents and Statements of Cash Flows

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

(f) Investments

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

(g) Loans Receivable

Loans receivable represent moneys provided to the Site Authority for the development of the property, will be repaid from revenues collected by the Site Authority, and are reported at their outstanding principal balance.

(h) Income Taxes

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

(i) 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

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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 Mello-Roos Community Facilities Act of 1982, the CSUCI Financing Authority formed Community Facilities District No. 2000-1 (the District) on November 6, 2000 to assist in financing the development of the Campus. The District is authorized to incur a maximum of \$50,000,000 of indebtedness to provide for the cost of certain public facilities and services. The District may levy and collect a special tax within the district to repay such indebtedness. The special taxes are payable and are collected in the same manner and time as are general and *ad valorem* taxes on real property.

Property taxes are levied on both real and personal property. Secured property taxes become a lien on the property on January 1 or the date on which title to the property transfers or improvements to the property are completed. Secured property taxes are levied July 1 and payable in two equal installments; the first is generally due on November 1 and delinquent with penalties after December 10; the second is generally due on February 1 and delinquent with penalties after April 10. Special tax 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.

(2) Cash, Cash Equivalents, and Investments

The Financing Authority's cash and cash equivalents and investments as of June 30, 2007 and 2006 are classified in the accompanying financial statements as follows:

	2007	2006
Cash and cash equivalents	\$ 4,278,528	19,921,965
Investments	48,466,801	54,035,434
Total cash and cash equivalents and investments	\$ 52,745,329	73,957,399

(a) Cash and Cash Equivalents

At June 30, 2007 and 2006, cash and cash equivalents consisted of deposits held with fiscal agents. The bank balance and the carrying value of this cash was \$4,278,528 and \$19,921,965 at June 30, 2007 and 2006, respectively.

Custodial Credit Risk for Deposits

Custodial credit risk for deposits is the risk that the Financing 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

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

(b) Investments

At June 30, 2007 and 2006, the Financing Authority's investment portfolio consists primarily of contracts and certificates of deposits held with financial institutions and investments held in the California State University investment pool. For the California State University Investment Pool, separate accounting is maintained as to the amounts allocable to the various funds and programs.

Investment Policy

State law and regulations require that surplus moneys of the Financing Authority must be invested. The primary objective of the Financing Authority's investment policy is to safeguard the principal. The secondary objective is to meet the liquidity needs of the Financing Authority. The third objective is to return an acceptable yield. The Financing 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 Financing 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 Financing 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 Financing 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 Financing Authority's investment portfolio for each investment type as of June 30, 2007 and 2006 is presented in the table 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 fair value, weighted average maturity, and actual rating by investment type of the Financing Authority's investment portfolio, including its participation in the California State University's Investment Pool as of June 30, 2007:

Investment type	Fair value	Weighted average maturity (in years)	Rating as of year-end			
			AAA	Aa	A	Not rated
Certificates of deposit	\$ 118,545	0.38	\$ —	86,951	31,594	—
Money market mutual funds	433	0.01	—	—	—	433
Commercial paper	122,615	0.01	—	—	121,225	1,390
U.S. agency securities	15,107	1.07	15,107	—	—	—
Mortgage-backed securities	7,876	8.94	7,876	—	—	—
Corporate and fixed income securities	180,758	1.42	19,325	75,941	85,492	—
Guaranteed investment contracts	48,020,442	0.09	—	—	—	48,020,442
Total investments	48,465,776		\$ 42,308	162,892	238,311	48,022,265
Not subject to ratings						
U.S. Treasury securities	1,025					
Total investments	\$ 48,466,801					

The following table presents the weighted average maturity and actual rating by investment type of the Financing 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
Certificates of deposit	\$ 1,334,734	0.12	\$ —	637	1,334,097	—
Money market mutual funds	178	0.01	—	—	—	178
Commercial paper	693	0.01	—	—	—	693
U.S. agency securities	503	1.46	503	—	—	—
Mortgage-backed securities	31	10.57	31	—	—	—
Corporate and fixed income securities	3,411	1.74	156	950	2,305	—
State of California Surplus Money Investment Fund	664	0.42	—	—	—	664
Guaranteed investment contracts	52,695,220	3.09	—	—	—	52,695,220
Total investments	\$ 54,035,434		\$ 690	1,587	1,336,402	52,696,755

Concentration of Credit Risk

The Financing Authority's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. As of June 30, 2007, the following investments (other than U.S. Treasury securities, mutual funds, and external investment pools) represented 5.0% or more of the Financing Authority's investment portfolio: Rabobank International totaling \$48,020,442, or 99.1%. As of June 30, 2006, the following

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investments (other than U.S. Treasury securities, mutual funds, and external investment pools) represented 5.0% or more of the Financing Authority's investment portfolio: Bayerische Landesbank GS totaling \$4,422,616, or 8.2%; and Rabobank International totaling \$47,156,827, or 87.3%.

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.

(3) Due to California State University, Channel Islands Site Authority

Pursuant to the terms of Trust Agreements with U.S. Bank and The Bank of New York (each a Trustee), the Financing Authority holds the cash from the sale of the Revenue Bonds with the Trustee for those Revenue Bonds, and the Trustee disburses cash to the Site Authority as expenses are incurred. Amounts due to the California State University, Channel Islands Site Authority will include interest earned on cash held with fiscal agent and receivables on property taxes.

(4) Loans Receivable

Loans receivable at June 30, 2007 and 2006 are as follows:

	2007	2006
\$49,460,000 Revenue Bonds, 2001 Series A loan to Site Authority due in annual installments beginning September 1, 2008	\$ —	49,460,000
\$46,815,000 Rental Housing Revenue Bonds Series 2001 loan to Site Authority due in annual installments beginning August 1, 2006	—	46,815,000
\$44,500,000 For-Sale Housing Revenue Bonds Series 2004 loan to Site Authority due in annual installments beginning August 1, 2007	44,500,000	44,500,000
\$50,735,000 Rental Housing and Town Center Bonds Series A 2004 to Site Authority due in annual installments beginning August 1, 2011	—	50,735,000
\$4,015,000 Rental Housing and Town Center Bonds Series B 2004 to Site Authority due in annual installments beginning August 1, 2026	—	4,015,000
	\$ 44,500,000	195,525,000

The payments to be received from the Site Authority in future years are equal to the future annual debt service requirements of the revenue bonds payable and are paid directly to the Trustee (see note 5).

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(5) Revenue Bonds Payable

The end of the fiscal year of the Financing Authority is specified in the bond resolution as June 30. The CSU Trustees, the Site Authority, and the Financing Authority have authorized the use of the California State University Systemwide Revenue Bond Program (SRB) to provide funds to refinance the outstanding Financing Authority bonds.

As of June 30, 2007 and 2006, these loans aggregated \$44,500,000 and \$195,525,000, respectively. The CSU Trustees, the Site Authority, and the Financing Authority have authorized the use of the California State University Systemwide Revenue Bonds (SRB) program to provide funds to refinance certain of the outstanding Financing Authority bonds. The SRB bond proceeds were used to defease certain of the bonds on March 14, 2007.

To fund the Revenue Bonds, 2001 Series A loan receivable described in note 4 above, the Financing Authority issued revenue bonds on June 27, 2001 in the aggregate of \$49,460,000 under a Trust Agreement with the Trustee. The bonds were limited obligations of the Financing Authority and secured by special taxes, tax increment revenues, and pledged rental housing revenues of the Site Authority. Interest on these bonds ranged from 3.85% to 5.25% and was paid semiannually on March 1 and September 1. The principal payments were due on September 1, beginning in 2008, with the final payment due September 1, 2031. On March 14, 2007, the Financing Authority defeased the revenue bond and is no longer obligated for the loan receivable to the Site Authority.

To fund the Rental Housing Revenue Bonds Series 2001 loan receivable described in note 4 above, the Financing Authority issued revenue bonds on December 31, 2001 in the aggregate of \$46,815,000 under an Indenture dated December 1, 2001 by and between the Financing Authority and the Trustee. The bonds were limited obligation bonds of the Financing Authority and secured by special taxes, tax increment revenues, and pledged rental housing revenues of the Site Authority. Interest on these bonds ranged from 3.15% to 4.08% and was paid semiannually on February 1 and August 1. The principal payments were due beginning on August 1, 2006, with the final payment due August 1, 2031. The SRB bond proceeds and other funds were used to defease the Rental Housing Revenue Bonds Series 2001 on April 18, 2007.

To fund the For-Sale Housing Revenue Bonds Series 2004 loan receivable described in note 4 above, the Financing Authority issued revenue bonds on August 12, 2004 in the aggregate of \$44,500,000 under an Indenture dated August 1, 2004 by and between the Financing Authority and the Trustee. The bonds are limited obligation bonds of the Financing Authority and secured by special taxes, tax increment revenues, and pledged rental housing revenues of the Site Authority. On August 1, 2007, the For-Sale Housing Revenue Bonds Series 2004 were defeased through the issuance of commercial paper, a transaction with the California State University Institute, a discretely presented component unit of the CSU Trustees. Interest on these bonds was 2.50% and was paid semiannually on February 1 and August 1. The principal payments were due beginning on August 1, 2007, with a maturity date of August 31, 2034, and a mandatory tender date of August 1, 2007. Proceeds from the sale of homes constructed with these bonds must be used to repay the bond or to construct additional homes. The bonds were to be repaid upon the completion of construction and sale of the home on the expected completion date of July 18, 2010.

To fund the Rental Housing and Town Center Revenue Bonds 2004 Series A and B loan receivables described in note 4 above, the Financing Authority issued revenue bonds on August 12, 2004 in the

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aggregate of \$50,735,000 and \$4,015,000, respectively, under an Indenture dated August 1, 2004 by and between the Financing Authority and the Trustee. The bonds were limited obligation bonds of the Financing Authority and secured by special taxes, tax increment revenues, and pledged rental housing revenues of the Site Authority. Interest on the Rental Housing and Town Center Bonds 2004 Series A ranged from 2.50% to 4.08% and was paid semiannually on February 1 and August 1. The principal payments were due beginning on August 1, 2011, with the final payment due August 1, 2044. Interest on the Rental Housing and Town Center Bonds (Taxable) 2004 Series B ranged from 3.79% to 5.59% and was paid semiannually on February 1 and August 1. The principal payments were due beginning on August 1, 2026, with the final payment due August 1, 2044. The SRB bond proceeds and other funds were used to fund an escrow on March 14, 2007. Such escrow fully redeemed the Rental Housing and Town Center Bonds (Taxable) on its August 1, 2007 mandatory tender date.

The Revenue Bonds were issued in denominations of \$5,000 principal amount each or any integral multiple thereof.

Long-term debt activity for the years ended June 30, 2007 and 2006 was as follows:

	2007				
	Beginning balance	Additions	Reductions	Ending balance	Current portion
Revenue Bonds, 2001 Series A	\$ 49,460,000	—	(49,460,000)	—	—
Rental Housing Revenue Bonds Series 2001	46,815,000	—	(46,815,000)	—	—
For-Sale Housing Revenue Bonds Series 2004	44,500,000	—	—	44,500,000	—
Rental Housing and Town Center Bonds Series A 2004	50,735,000	—	(50,735,000)	—	—
Rental Housing and Town Center Bonds Series B 2004	4,015,000	—	(4,015,000)	—	—
	<u>\$ 195,525,000</u>	<u>—</u>	<u>(151,025,000)</u>	<u>44,500,000</u>	<u>—</u>
	2006				
	Beginning balance	Additions	Reductions	Ending balance	Current portion
Revenue Bonds, 2001 Series A	\$ 49,460,000	—	—	49,460,000	—
Rental Housing Revenue Bonds Series 2001	46,815,000	—	—	46,815,000	220,000
For-Sale Housing Revenue Bonds Series 2004	44,500,000	—	—	44,500,000	—
Rental Housing and Town Center Bonds Series A 2004	50,735,000	—	—	50,735,000	—
Rental Housing and Town Center Bonds Series B 2004	4,015,000	—	—	4,015,000	—
	<u>\$ 195,525,000</u>	<u>—</u>	<u>—</u>	<u>195,525,000</u>	<u>220,000</u>

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As specified in the bond resolution, the bonds payable at June 30, 2007 and 2006 are secured by the future revenue streams derived from both the for-sale and rental housing to be built on campus, rather than by the constructed assets. Additionally, the bonds 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 bond resolution. With the defeasance of certain of the revenue bonds on March 14, 2007, the Financing Authority is only responsible for repayment of the For-Sale Housing Revenue Bonds (see note 9).

(6) Current Year Revenue Bond Refundings

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

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

In March 2007, the Financing Authority defeased the Revenue Bonds, Series 2001 A, the Rental Housing Revenue Bonds Series 2001, the Rental Housing and Town Center Bonds Series A 2004, and the Rental Housing and Town Center Bonds Series 2004 B (Taxable) (refunded bonds) by placing a portion of the proceeds from the issuance of the Systemwide Revenue Bonds Series 2007A refunding bonds in an irrevocable trust with the State Treasurer to provide for all future debt service payments on the refunded bonds. The proceeds from the Series 2007A refunding bonds were used to purchase U.S. government securities that were placed in an escrow account. The investments and fixed earnings from the investments are considered sufficient to fully service the defeased debt until the debt is called or matured. This transaction will reduce (increase) the University's total debt service payments by \$14,543,706 over the life of the bonds. The economic gain (loss) (difference between net present values of the debt service payments on the old debt and new debt) from this transaction was \$10,935,053. Accordingly, the refunded bonds have been considered defeased and therefore removed as a liability from the accompanying financial statements. The amount of the University's current year defeased bonds outstanding as of June 30, 2007 totaled \$104,210,000.

(7) Letters of Credit

The Bonds are secured by amounts payable under four irrevocable letters of credit (the Letters of Credit) provided by Citibank, N.A. The Letters of Credit are in stated amounts equal to the principal amount of the outstanding Bonds plus 183 days of interest, or \$45,065,521, on the Bonds at the initial Term Interest Rate. The Trustees are entitled to draw on the Letters of Credit to pay the principal and interest on the Bonds when due. Unless they are extended or expire earlier in accordance with their terms, the Letters of Credit will expire beginning August 6, 2007 through August 6, 2009. The Financing Authority passes through to the Site Authority all costs associated with maintaining the Letters of Credit. Costs for the years ended

CSUCI FINANCING AUTHORITY
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Notes to Financial Statements

June 30, 2007 and 2006

June 30, 2007 and 2006 were \$1,834,460 and \$2,092,732, respectively. Concurrent with the defeasance of certain of the Financing Authority's outstanding bonds, a Letter of Credit is only required on the bonds outstanding as of June 30, 2007. The SRB program secured the bonds by entering into a lease agreement with the Site Authority for the term of the bonds.

(8) Related Party

Substantially all of the transactions entered into by the Financing Authority are with the Site Authority.

(9) Subsequent Event

On August 1, 2007, the California State University Institute issued \$44,500,000 of commercial paper to refinance the For-Sale Housing Revenue Bonds Series 2004. This will allow the Financing Authority to readily retire the commercial paper upon the completion and sale of the final phases of for-sale housing. Phase 2A began design and plan review in April 2007 and is expected to be completed with 100 units by February 2009. Moreover, Phase 2B will start up in September 2008 and is expected to be completed with 142 units by January 2010.

CSUCI FINANCING AUTHORITY
(A Component Unit of the California State University)
Supplementary Schedule of Net Assets by Program (Unaudited)
June 30, 2007

	Infrastructure Program	Rental Housing Program	For-Sale Housing Program	Special Tax – Community Facilities District Program	Total
Assets:					
Cash held with fiscal agent:					
Capitalized interest	\$ —	18,034	16,224	—	34,258
Bond debt reserve	2,494	—	—	—	2,494
Project fund	18,608	2,361,108	—	—	2,379,716
Revenue fund	—	92,287	209,379	—	301,666
Rental housing trust account	—	442,815	886	—	443,701
HR trust account	73,783	—	—	—	73,783
Net rental housing account	13	—	—	—	13
Bond proceeds account	—	—	576,021	—	576,021
Contingency account	—	—	420,000	—	420,000
Cost of issuance	—	8,433	37,740	—	46,173
Redemption account	—	500	—	—	500
Interest account	203	—	—	—	203
Total cash held with fiscal agent	<u>95,101</u>	<u>2,923,177</u>	<u>1,260,250</u>	<u>—</u>	<u>4,278,528</u>
Investments	—	—	48,020,442	446,359	48,466,801
Accounts receivable – property taxes	—	—	—	17,039	17,039
Interest receivable on cash held with fiscal agent	450	11,670	130,700	—	142,820
Interest receivable from California State University, Channel Islands Site Authority	—	—	463,542	—	463,542
Special tax receivable due from (to) Community Facilities District	463,398	—	—	(463,398)	—
Loan to California State University, Channel Islands Site Authority	—	—	44,500,000	—	44,500,000
Total assets	<u>558,949</u>	<u>2,934,847</u>	<u>94,374,934</u>	<u>—</u>	<u>97,868,730</u>
Liabilities:					
Accounts payable	37	—	—	—	37
Interest payable	—	—	463,542	—	463,542
Due to California State University, Channel Islands Site Authority	558,912	2,934,847	49,411,392	—	52,905,151
Bonds payable	—	—	44,500,000	—	44,500,000
Total liabilities	<u>558,949</u>	<u>2,934,847</u>	<u>94,374,934</u>	<u>—</u>	<u>97,868,730</u>
Total net assets	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

See accompanying independent auditors' report.

CSUCI FINANCING AUTHORITY
(A Component Unit of the California State University)

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

Year ended June 30, 2007

	Infrastructure Program	Rental Housing Program	For-Sale Housing Program	Special Tax – Community Facilities District Program	Total
Operating revenues:					
Interest revenue	\$ 2,155,041	2,459,523	2,779,127	3,678	7,397,369
Operating expenses:					
Bond interest expense	1,755,298	2,050,779	1,112,500	—	4,918,577
General, administrative, and other costs	—	—	—	8,238	8,238
Total operating expenses	<u>1,755,298</u>	<u>2,050,779</u>	<u>1,112,500</u>	<u>8,238</u>	<u>4,926,815</u>
Operating income (loss)	399,743	408,744	1,666,627	(4,560)	2,470,554
Nonoperating revenues:					
Property taxes	—	—	—	455,273	455,273
Income before transfers	<u>399,743</u>	<u>408,744</u>	<u>1,666,627</u>	<u>450,713</u>	<u>2,925,827</u>
Transfer (to) from other programs	450,713	—	—	(450,713)	—
Transfer to California State University, Channel Islands Site Authority – special tax	(450,713)	—	—	—	(450,713)
Transfer to California State University, Channel Islands, Site Authority for interest income on cash held with fiscal agent	<u>(399,743)</u>	<u>(408,744)</u>	<u>(1,666,627)</u>	<u>—</u>	<u>(2,475,114)</u>
Total transfers	<u>(399,743)</u>	<u>(408,744)</u>	<u>(1,666,627)</u>	<u>(450,713)</u>	<u>(2,925,827)</u>
Change in net assets	—	—	—	—	—
Net assets, beginning of year	—	—	—	—	—
Net assets, end of year	\$ <u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

See accompanying independent auditors' report.