



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

Financial Statements and
Supplementary Information

June 30, 2007 and 2006

(With Independent Auditors' Report Thereon)

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

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KPMG LLP
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Independent Auditors' Report

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

We have audited the accompanying financial statements of the California State University, Channel Islands Site Authority (the Site Authority), a component unit of the California State University, as of and for the years ended June 30, 2007 and 2006, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Site Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2007, 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 24 and 25, 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

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

June 30, 2007 and 2006

	2007	2006
Assets:		
Current assets:		
Cash and cash equivalents	\$ 134,193	246,260
Investments	8,260,882	1,965,214
Accounts receivable	1,003,171	1,084,173
Interest receivable	39,769	25,296
Real estate inventory	4,564,169	3,460,514
Prepaid expense	50,849	50,849
Due from CSU Systemwide Revenue Bond Program	1,024,825	—
Due from CSUCI Financing Authority – restricted	52,905,151	74,173,410
Total current assets	67,983,009	81,005,716
Noncurrent assets:		
Capital assets, net	135,630,012	127,763,107
Deferred debt issuance costs, net	14,401	3,077,376
Total assets	203,627,422	211,846,199
Liabilities:		
Current liabilities:		
Accounts payable	5,002,528	2,879,512
Interest payable to CSUCI Financing Authority	463,542	2,495,905
Interest payable to CSU Systemwide Revenue Bond Program	2,008,932	—
Interest payable to CSU Risk Management Authority	479,125	137,842
Interest payable to California State University	58,915	56,048
Due to CSUCI Financing Authority	—	10,003
Due to California State University	296,846	296,846
Line of credit to CSU Risk Management Authority	903,639	—
Loans payable – current portion	—	220,000
Total current liabilities	9,213,527	6,096,156
Noncurrent liabilities:		
Capitalized lease obligations, net	139,825,109	—
Loans payable, net of current portion	116,340,643	261,975,285
Total liabilities	265,379,279	268,071,441
Net assets (deficit):		
Invested in capital assets, net of related debt	(7,823,419)	2,755,429
Restricted for debt service	1,587,934	95,241
Unrestricted	(55,516,372)	(59,075,912)
Total net assets (deficit)	\$ (61,751,857)	(56,225,242)

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, 2007 and 2006

	2007	2006
Operating revenues:		
Home sales	\$ 6,147,107	28,896,681
Rental income	7,328,714	5,007,906
Miscellaneous revenues	20	3,530
Total operating revenues	13,475,841	33,908,117
Operating expenses:		
Cost of home sales	6,999,374	23,269,022
Rental housing operations	2,745,396	2,398,212
Depreciation and amortization	4,021,646	2,600,222
General, administrative, and other operating costs	2,763,518	1,819,713
Total operating expenses	16,529,934	30,087,169
Operating income (loss)	(3,054,093)	3,820,948
Nonoperating revenue (expense):		
Investment income	259,460	121,240
Interest expense	(5,669,186)	(2,432,118)
Property taxes	1,108,430	942,321
Sales taxes	23,998	29,041
Local agency pass-through taxes	(221,686)	(183,093)
Lewis Road improvements fees	(120,000)	—
Traffic impact mitigation fees	(259,894)	(4,541,489)
Fines	—	(210,000)
Gift expense	(347,746)	—
Total nonoperating expense, net	(5,226,624)	(6,274,098)
Income before transfers (to) from other CSU funds	(8,280,717)	(2,453,150)
Transfer from CSUCI Financing Authority – interest income from cash held with fiscal agent	2,475,114	1,950,346
Transfer from CSUCI Financing Authority – special tax	450,713	211,606
Transfer to other CSU funds	(171,725)	—
Total transfers	2,754,102	2,161,952
Changes in net deficit	(5,526,615)	(291,198)
Net deficit, beginning of year	(56,225,242)	(55,934,044)
Net deficit, end of year	\$ (61,751,857)	(56,225,242)

See accompanying notes to financial statements.

**CALIFORNIA STATE UNIVERSITY,
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Statements of Cash Flows

Years ended June 30, 2007 and 2006

	2007	2006
Cash flows from operating activities:		
Home sales	\$ 6,147,107	28,588,057
Rental income	7,409,736	4,884,086
Payments to vendors	(11,186,072)	(27,813,104)
Net cash provided by operating activities	2,370,771	5,659,039
Cash flows from noncapital financing activities:		
Proceeds from CSUCI Financing Authority	2,925,834	2,161,952
Interest paid	(5,414,213)	(2,455,372)
Property and sales taxes	1,132,428	988,773
Payments to pass-through entities	(200,129)	(89,553)
Proceeds from line of credit	903,639	—
Lewis Road improvements fees	(120,000)	—
Traffic impact mitigation fees	(259,894)	(1,379,964)
Gift expense	(347,746)	—
Fines	(210,000)	—
Net cash used in noncapital financing activities	(1,590,081)	(774,164)
Cash flows from capital and related financing activities:		
Interest paid	(1,063,647)	(3,855,605)
Receipts of amounts due from CSUCI Financing Authority	21,258,256	13,748,411
Proceeds from capitalized lease obligation refinancing	143,572,016	—
Payments on loans	(151,025,000)	(3,000,000)
Proceeds from loans	3,000,000	—
Transfers to other CSU funds	(171,725)	—
Capital expenditures	(10,411,975)	(16,490,903)
Net cash provided by (used in) capital and related financing activities	5,157,925	(9,598,097)
Cash flows provided by investing activities:		
Investment income	244,987	164,704
Purchases of investments	(14,259,625)	(6,914,908)
Sales of investments	7,963,956	11,190,308
Net cash provided by (used in) investing activities	(6,050,682)	4,440,104
Net decrease in cash and cash equivalents	(112,067)	(273,118)
Cash and cash equivalents at beginning of year	246,260	519,378
Cash and cash equivalents at end of year	\$ 134,193	246,260
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ (3,054,093)	3,820,948
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization expense	4,021,646	2,600,222
Changes in assets and liabilities:		
Accounts receivable	81,002	(443,974)
Real estate inventory	124,603	(106,549)
Accounts payable	1,197,613	(211,608)
Net cash provided by operating activities	\$ 2,370,771	5,659,039
Supplemental disclosure of noncash capital and related financing activities:		
Write off of bond issuance costs and bond premium	1,497,243	—

See accompanying notes to financial statements.

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June 30, 2007 and 2006

(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 early December 2010.

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, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, 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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June 30, 2007 and 2006

(b) Election of Applicable FASB Statements

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

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

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

(e) 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.

(f) 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.

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(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

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.

(i) Cost of Homes Sold

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

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

(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
Improvement other than buildings	10 years
Infrastructure	40 years
Equipment	5 years

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(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) *Property Taxes*

All jurisdictions within California derive their taxing authority from the State Constitution and various legislative provisions contained in the State Government Code and Revenue and Taxation Codes. Property is originally assessed at 100% of full cash or market value at the date of transfer or completion of construction pursuant to Article XIII(A) of the California State Constitution and statutory provisions by the County Assessor and State Board of Equalization.

Pursuant to the Community Development Area Specific Reuse Plan adopted June 5, 2000, the Site Authority is permitted to collect a maximum of \$250,000,000 of tax increment revenues. Tax increment revenues are derived from property taxes that result from increases in assessed property values. The Site Authority is required to deposit 20% of the tax increment revenues into a Low and Moderate Income Housing Fund to provide affordable housing for households with moderate and low incomes. The tax increment revenues required to be deposited in the Low and Moderate Income Housing Fund may be pledged to repay that portion of the capitalized lease obligation to Systemwide Revenue Bonds (SRB) related to infrastructure construction financing, and accordingly, all of the tax increment revenues are pledged to repay this portion of the capitalized lease.

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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(n) ***Income Taxes***

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

(o) ***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.

(p) ***Reclassifications***

Certain reclassifications have been made to the 2006 financial statements to conform to the 2007 financial statement presentation.

(3) Cash and Cash Equivalents and Investments

The Site 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	\$ 134,193	246,260
Investments	8,260,882	1,965,214
Total cash, cash equivalents, and investments	\$ 8,395,075	2,211,474

(a) ***Cash and Cash Equivalents***

At June 30, 2007 and 2006, cash and cash equivalents consisted of demand deposits held at financial institutions. The bank balance and carrying value of this cash was \$134,193 and \$246,260 at June 30, 2007 and 2006, 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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(b) Investments

At June 30, 2007 and 2006, 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 moneys 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, 2007 and 2006 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, 2007:

Investment type	Fair value	Weighted average maturity (in years)	Rating as of year-end			
			AAA	Aa	A	Not rated
Money market mutual funds	\$ 8,006	0.01	\$ —	—	—	8,006
Certificates of deposit	2,193,952	0.38	—	1,609,222	584,730	—
Commercial paper	2,269,242	0.01	—	—	2,243,534	25,708
U.S. agency securities	279,597	1.07	279,597	—	—	—
Mortgage-backed securities	145,764	8.94	145,764	—	—	—
Corporate and fixed income securities	3,345,344	1.42	357,659	1,405,466	1,582,219	—
Total	8,241,905		\$ 783,020	3,014,688	4,410,483	33,714
Not subject to ratings:						
U.S. Treasury securities	18,977	2.43				
Total investments	\$ 8,260,882					

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					

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, 2007, 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: Centrestar Cap totaling \$423,437, or 5.1%. As of June 30, 2006, the following investments (other than U.S.

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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%.

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.

(4) Real Estate Inventory

Real estate inventory at June 30, 2007 and 2006 consists of the following:

	2007	2006
Finished units	\$ 631,614	2,579,933
Construction in progress	3,932,555	880,581
	\$ 4,564,169	3,460,514

(5) Due From CSUCI Financing Authority

The due from CSUCI Financing Authority balance at June 30, 2007 and 2006 consists of moneys yet to be received from the loans (see note 9). 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.

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(6) Capital Assets

Capital asset activity consisted of the following:

	2007				
	Beginning balance	Additions	Reductions	Transfers	Ending balance
Nondepreciable capital assets:					
Construction work in progress	\$ 45,123,492	11,489,939	—	(53,554,316)	3,059,115
Total nondepreciable capital assets	45,123,492	11,489,939	—	(53,554,316)	3,059,115
Depreciable capital assets:					
Buildings and building improvements	44,086,837	—	—	53,099,668	97,186,505
Infrastructure	46,021,293	—	—	398,060	46,419,353
Personal property:					
Equipment	518,984	—	—	56,588	575,572
Improvements other than building	35,145	—	—	—	35,145
Total depreciable capital assets	90,662,259	—	—	53,554,316	144,216,575
Total cost	135,785,751	11,489,939	—	—	147,275,690
Less accumulated depreciation:					
Buildings and building improvements	(4,499,202)	(2,354,556)	—	—	(6,853,758)
Infrastructure	(3,188,118)	(1,155,508)	—	—	(4,343,626)
Personal property:					
Equipment	(333,567)	(109,456)	—	—	(443,023)
Improvements other than building	(1,757)	(3,514)	—	—	(5,271)
Total accumulated depreciation	(8,022,644)	(3,623,034)	—	—	(11,645,678)
Net capital assets	\$ 127,763,107	7,866,905	—	—	135,630,012

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	2006				
	Beginning balance	Additions	Reductions	Transfers	Ending balance
Nondepreciable capital assets:					
Construction work in progress	\$ 27,492,032	27,639,049	(329,197)	(9,678,392)	45,123,492
Total nondepreciable capital assets	<u>27,492,032</u>	<u>27,639,049</u>	<u>(329,197)</u>	<u>(9,678,392)</u>	<u>45,123,492</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>111,308,228</u>	<u>27,639,049</u>	<u>(3,161,526)</u>	<u>—</u>	<u>135,785,751</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>\$ 105,738,618</u>	<u>25,186,015</u>	<u>(3,161,526)</u>	<u>—</u>	<u>127,763,107</u>

	2007	2006
Construction work in progress additions consist of:		
Capital expenditures	\$ 10,380,547	24,207,813
Capitalized interest	1,129,392	3,312,099
Capitalized bond issuance costs (bond premium)	(20,000)	119,137
	<u>\$ 11,489,939</u>	<u>27,639,049</u>

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(7) Capitalized Interest

The Site 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 2007 and 2006:

	2007	2006
Interest cost capitalized	\$ 1,129,392	3,312,099
Interest cost charged to income	5,669,186	2,432,118
Total interest cost incurred	\$ 6,798,578	5,744,217

(8) Capitalized Lease Obligations

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 connection with the issuance of the lease, the Site Authority incurred debt issuance costs of \$6,424,084, which is being amortized on a straight-line basis over the life of the leases. At June 30, 2007, \$72,647 has been amortized.

The Site Authority incurred a loss on refunding of the loans of \$6,268,778, which is being amortized on a straight-line basis over the life of the leases. At June 30, 2007, \$72,450 has been amortized.

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Future minimum lease payments are as follows:

Year ending June 30:	
2008	\$ 7,718,353
2009	7,023,006
2010	7,015,006
2011	7,129,506
2012	7,317,406
2013–2017	40,151,779
2018–2022	46,181,904
2023–2027	53,673,529
2028–2032	59,726,279
2033–2037	22,415,799
2038–2042	22,471,407
2043–2045	<u>13,478,275</u>
Total minimum lease payments	294,302,249
Less amount representing interest	<u>(154,632,249)</u>
Present value of future minimum lease payments	\$ <u><u>139,670,000</u></u>

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June 30, 2007 and 2006

(9) 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, 2007</u>	<u>Amount outstanding June 30, 2006</u>
Financing Authority:					
Channel Islands Revenue Bonds – Series 2001A	3.85% – 5.25%	2031 – 2032	\$ 49,460,000	—	49,460,000
Channel Islands Rental Housing Bonds	3.15% – 4.08%	2031 – 2032	46,815,000	—	46,815,000
CSUCI Financing Authority Revenue Bonds – Series 2004A (For-Sale Housing Construction)	2.50%	2010 – 2011	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
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
Other:					
California State University Risk Management Authority	0.38%	2008 – 2009	4,200,000	4,200,000	4,200,000
California State University Risk Management Authority	0.38%	2008 – 2009	3,000,000	3,000,000	—
California State University, Channel Islands	3.00% – 5.00%	2037 – 2038	64,655,000	64,655,000	64,655,000
Total debt			\$ 267,380,000	116,355,000	264,380,000
Less bond discount on bonds				(14,357)	(2,184,715)
Total debt, net				\$ 116,340,643	262,195,285

The Site Authority obtained various financing through the Financing Authority through the issuance of revenue bonds issued by the Financing Authority (the Bonds) to fund construction and development of the Property in accordance with its reuse plan. As of June 30, 2007 and 2006, these loans aggregated \$44,500,000 and \$195,525,000, respectively. The CSU Trustees, Site Authority, and Financing Authority have authorized the use of the California State University 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 certain of the outstanding Financing Authority Bonds on March 14, 2007 (see note 8). Additionally, the remaining loan from the Financing Authority is subject to special mandatory redemption prior to its respective maturity date, in whole or in part, at a redemption price equal to the principal amount and accrued interest to date, without a premium as specified in the Reimbursement Agreement. The loan

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contains certain restrictive covenants, and as of June 30, 2007 and 2006, management believes the Site Authority is in compliance with all such covenants.

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 Wachovia rate of return earned by the California State University Risk Management Authority (0.38% at June 30, 2007). 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.

In October 2006, the Site Authority received a loan from the California State University Risk Management Authority of \$3,000,000. The loan was used to fund the for-sale housing phases 2A/B. The loan will be repaid once the Trustees of the California State University (the CSU Trustees) release the 2 A/B bond proceeds, which is scheduled for late 2009. The interest rate to be paid on this loan is the stated Wachovia rate of return earned by the California State University Risk Management Authority (0.38% at June 30, 2007). The loan is to be repaid in 2009.

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, 2007 and 2006 was as follows:

	2007				Current portion
	Beginning balance	Additions	Reductions	Ending balance	
Line of credit	\$ —	903,639	—	903,639	903,639
Capitalized lease obligations:					
Gross balance	—	139,670,000	—	139,670,000	—
Unamortized lease premium	—	6,424,084	(72,647)	6,351,437	—
Unamortized loss on refunding	—	(6,268,778)	72,450	(6,196,328)	—
Total capitalized lease obligations	—	139,825,306	(197)	139,825,109	—
Loans:					
CSUCI Financing Authority	195,525,000	—	(151,025,000)	44,500,000	—
California State University					
Risk Management Authority	4,200,000	3,000,000	—	7,200,000	—
California State University, Channel Islands	64,655,000	—	—	64,655,000	—
Total loans	264,380,000	3,000,000	(151,025,000)	116,355,000	—
Unamortized discount on bonds	(2,184,715)	—	2,170,358	(14,357)	—
Total loans, net	262,195,285	3,000,000	(148,854,642)	116,340,643	—
Total long-term debt obligations, net	\$ 262,195,285	143,728,945	(148,854,839)	257,069,391	903,639

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	2006				
	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Loans:					
CSUCI Financing Authority	\$ 195,525,000	—	—	195,525,000	220,000
California State University	3,000,000	—	(3,000,000)	—	—
California State University Risk Management Authority	4,200,000	—	—	4,200,000	—
California State University, Channel Islands	<u>64,655,000</u>	<u>—</u>	<u>—</u>	<u>64,655,000</u>	<u>—</u>
Total long-term debt obligations	267,380,000	—	(3,000,000)	264,380,000	220,000
Unamortized discount on loans	<u>(2,428,792)</u>	<u>—</u>	<u>244,077</u>	<u>(2,184,715)</u>	<u>—</u>
Long-term debt obligations, net	<u>\$ 264,951,208</u>	<u>—</u>	<u>(2,755,923)</u>	<u>262,195,285</u>	<u>220,000</u>

The loans mature as follows:

	<u>Principal</u>	<u>Interest</u>
Fiscal years:		
2008	\$ —	4,097,113
2009	7,310,000	3,435,489
2010	255,000	3,178,113
2011	44,895,000	3,164,413
2012	440,000	3,147,388
2013 – 2017	4,380,000	15,245,188
2018 – 2022	8,745,000	13,586,563
2023 – 2027	11,670,000	11,019,688
2028 – 2032	14,985,000	7,704,063
2033 – 2037	19,240,000	3,454,133
2038 – 2042	<u>4,435,000</u>	<u>102,563</u>
Total	<u>\$ 116,355,000</u>	<u>68,134,714</u>

(10) Letters of Credit

As a condition of making the loans discussed in note 9, 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

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certain portions of the Campus to secure its reimbursement obligation. Additionally, 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, 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.

(11) 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 \$4,666 per month for Phase 1A, 1B, and 1C. Project management fees increase as additional phases are completed. As of June 30, 2007, Phase 1C has been completed. Management fees paid to the property manager for 2007 and 2006 were \$317,816 and \$227,041, respectively, and are included in rental housing operations. The term of the Agreement ended June 30, 2007 and was not renewed. Beginning July 1, 2008, University Glen, a discretely presented component unit of the Campus, will be assuming property management responsibilities.

In connection with the Agreement, the Site Authority receives the excess of revenues over expenses from the property manager. As of June 30, 2007 and 2006, gross accounts receivable from the property manager was \$1,242,672 and \$995,627, respectively, and is shown net of accounts payable of \$297,751 and \$228,078, respectively. Total net accounts receivable as of June 30, 2007 and 2006, are \$944,941 and \$767,549, respectively.

(12) Related Party

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

Effective April 22, 2002, the Site Authority entered into an Agreement (the University Glen Corporation Agreement) with University Glen Corporation (University Glen), an auxiliary of the Campus 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, 2012. Amounts paid to University Glen during 2007 and 2006 for these services were \$519,259 and \$413,404, respectively, and are included in general, administrative, and other operating costs. As of June 30, 2007 and 2006, \$944,921 and \$767,549, respectively, is reported net in accounts receivable from the property manager. Gross accounts receivable were \$1,242,672 and \$995,627, as of June 30, 2007 and 2006, respectively. Amounts payable to University Glen were \$270,407 and \$212,385 and are included in accounts payable as of June 30, 2007 and 2006, respectively.

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(13) 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.

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

June 30, 2007

	Operating Program	Infrastructure Program	Rental Housing Program	For Sale Housing Program	Campus Building	Low and Moderate Income Program	Total
Assets:							
Cash and cash equivalents	\$ —	132,558	600	1,035	—	—	134,193
Investments	—	3,729,191	2,949,379	1,372,889	—	209,423	8,260,882
Accounts receivable	—	58,250	944,921	—	—	—	1,003,171
Interest receivable	—	11,007	11,633	16,624	—	505	39,769
Real estate inventory	—	—	—	4,564,169	—	—	4,564,169
Prepaid expense	—	—	50,849	—	—	—	50,849
Due from CSU Systemwide Revenue Bonds	—	—	1,024,825	—	—	—	1,024,825
Due from CSUCI Financing Authority – restricted	—	558,912	2,934,847	49,411,392	—	—	52,905,151
Due from (to) other programs	(20,000)	(1,577,816)	2,008,152	(77,718)	(344,881)	12,263	—
Capital assets, net	—	45,134,842	89,962,423	532,747	—	—	135,630,012
Deferred debt issuance costs, net	—	—	—	14,401	—	—	14,401
Total assets	<u>(20,000)</u>	<u>48,046,944</u>	<u>99,887,629</u>	<u>55,835,539</u>	<u>(344,881)</u>	<u>222,191</u>	<u>203,627,422</u>
Liabilities:							
Accounts payable	—	759,279	3,219,134	753,708	—	—	4,732,121
Accounts payable, University Glen Auxiliary	—	—	194,523	75,884	—	—	270,407
Interest payable to CSUCI Financing Authority	—	—	—	463,542	—	—	463,542
Interest payable to CSU Systemwide Revenue Bond:	—	642,093	1,366,839	—	—	—	2,008,932
Interest payable to CSU Risk Management Authority	20,972	—	233,061	225,092	—	—	479,125
Interest payable to California State University	—	—	—	—	58,915	—	58,915
Due to CSU, Channel Islands	—	—	148,423	148,423	—	—	296,846
Line of credit to CSU Risk Management Authority	—	—	—	903,639	—	—	903,639
Loan from California State University, Channel Islands	—	—	—	—	64,655,000	—	64,655,000
Loan from CSU Risk Management Authority	239,285	—	3,000,000	3,960,715	—	—	7,200,000
Loan from CSUCI Financing Authority, net	—	—	—	44,485,643	—	—	44,485,643
Capitalized lease obligations, net	—	42,097,461	97,727,648	—	—	—	139,825,109
Total liabilities	<u>260,257</u>	<u>43,498,833</u>	<u>105,889,628</u>	<u>51,016,646</u>	<u>64,713,915</u>	<u>—</u>	<u>265,379,279</u>
Net assets (deficit)	<u>\$ (280,257)</u>	<u>4,548,111</u>	<u>(6,001,999)</u>	<u>4,818,893</u>	<u>(65,058,796)</u>	<u>222,191</u>	<u>(61,751,857)</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, 2007

	Operating Program	Infrastructure Program	Rental Housing Program	For Sale Housing Program	Campus Building	Low and Moderate Income Program	Total
Operating revenues:							
Home sales	\$ —	—	—	6,147,107	—	—	6,147,107
Rental income	—	—	7,328,714	—	—	—	7,328,714
Miscellaneous revenues	—	—	20	—	—	—	20
Total operating revenues	—	—	7,328,734	6,147,107	—	—	13,475,841
Operating expenses:							
Cost of home sales	—	—	—	6,999,374	—	—	6,999,374
Rental housing operations	—	—	2,745,396	—	—	—	2,745,396
Depreciation of capital assets	—	1,155,508	2,440,407	27,119	—	—	3,623,034
Amortization of debt expense	—	141,200	8,461	248,951	—	—	398,612
General, administrative, and other expenses	—	540,827	1,179,616	1,043,075	—	—	2,763,518
Total operating expenses	—	1,837,535	6,373,880	8,318,519	—	—	16,529,934
Operating income (loss)	—	(1,837,535)	954,854	(2,171,412)	—	—	(3,054,093)
Nonoperating expense:							
Investment income	—	37,887	89,415	131,438	215	505	259,460
Interest expense	(13,119)	(1,861,946)	(2,994,553)	(799,568)	—	—	(5,669,186)
Property taxes	—	1,108,430	—	—	—	—	1,108,430
Sales tax revenue	—	23,998	—	—	—	—	23,998
Local agency pass-through taxes	—	(221,686)	—	—	—	—	(221,686)
Lewis Road improvements fees	—	—	—	(120,000)	—	—	(120,000)
Traffic impact mitigation fees	—	—	—	(259,894)	—	—	(259,894)
Gift expense	—	—	—	—	(347,746)	—	(347,746)
Total nonoperating revenue (expense)	(13,119)	(913,317)	(2,905,138)	(1,048,024)	(347,531)	505	(5,226,624)
Income (loss) before transfers (to) from other CSU funds	(13,119)	(2,750,852)	(1,950,284)	(3,219,436)	(347,531)	505	(8,280,717)
Transfer from CSUCI Financing Authority – interest income on cash held with fiscal agent	—	399,743	408,744	1,666,627	—	—	2,475,114
Transfer from CSUCI Financing Authority – special tax	—	450,713	—	—	—	—	450,713
Transfer (to) from other programs	—	948,245	(1,018,753)	(121,222)	(29,956)	221,686	—
Transfer (to) from other CSU funds	—	—	1,158	—	(172,883)	—	(171,725)
Total transfers	—	1,798,701	(608,851)	1,545,405	(202,839)	221,686	2,754,102
Increase (decrease) in net assets	(13,119)	(952,151)	(2,559,135)	(1,674,031)	(550,370)	222,191	(5,526,615)
Net assets (deficit), beginning of year	(267,138)	5,500,262	(3,442,864)	6,492,924	(64,508,426)	—	(56,225,242)
Net assets (deficit), end of year	\$ (280,257)	4,548,111	(6,001,999)	4,818,893	(65,058,796)	222,191	(61,751,857)

See accompanying independent auditors' report.



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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 California State University, Channel Islands Site Authority (the Site Authority), a component unit of the California State University, as of and for the year ended June 30, 2007, and have issued our report thereon dated December 20, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Site Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Site Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Site Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U. S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying schedule of findings and responses as item 2007-01 to be a significant deficiency in internal controls.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not

necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider the significant deficiency described above as item 2007-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Site Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions included those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2007-02.

The Site Authority's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Site Authority's response, and accordingly, we express no opinion on it.

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 21, 2007

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

Summary Schedule of Findings and Responses

June 30, 2007

Item 2007-01: Financial Statement Presentation and Disclosure

Observation

During our audit and review of the financial statements of the Site Authority, we noted the following:

- Certain adjustments were required to the Site Authority's financial statements, which included the following:
 - Adjustments to increase capital assets and accounts payable totaling \$3.5 million,
 - An adjustment to capitalize insurance premiums totaling \$1.2 million, and
 - An adjustment to reverse approximately \$285,000 of accounts payable and \$290,000 of accounts receivable, to properly state payables and receivables related to rental housing operations.
- Certain reclassifications were required to the Site Authority's financial statements between current and noncurrent assets. These reclassifications included the following:
 - A reclassification of \$2 million to properly classify interest payable on the capital lease obligations,
 - A reclassification of \$416,000 between due to and due from amounts between the infrastructure, rental housing, and for sale housing programs,
 - A reclassification of \$44.5 million of loans payable from current to noncurrent, and
 - Reclassifications of net asset categories resulting in a net decrease in invested in capital assets, net of related debt of approximately \$88.6 million, a net decrease in restricted net assets of \$193.2 million, and an increase in unrestricted net assets of \$281.8 million.

Recommendation

We recommend that management implement processes and controls to determine that account balances and transactions are recorded and disclosed in accordance with U.S. generally accepted accounting principles.

Views of Responsible Officials

The Site Authority management concurs with the recommendations and will develop an action plan to address the issues identified. The Site Authority will develop a plan that will assure adequate controls in the financial statement preparation process. The plan will include significant increase in staff training in the accounting area including GAAP expertise.

Item 2007-02: Five-Year Implementation Plans

Observation

The Site Authority not update their Five-Year Implementation Plan during fiscal year 2007 (required to be updated in fiscal year 2005), but rather updated this Plan in August 2007, effective July 1, 2007. This requirement is in accordance with Health and Safety Code Sections 33490 and 33413.

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

Summary Schedule of Findings and Responses

June 30, 2007

Recommendation

We recommend that management monitor future reporting requirements to ensure compliance with the Health and Safety Code Sections 33490 and 33413.

Views of Responsible Officials

The Site Authority approved the Five-Year implementation Plan in August 2007, which was effective July 1, 2007.