



Channel Islands

CALIFORNIA STATE UNIVERSITY

OFFICE OF THE PRESIDENT

23 December 2015

Dear University Glen Residents:

As promised, staff has researched the answers to your questions and I have thoroughly reviewed the material pertaining to the Site Authority Lease Accounting. Enclosed please find the answers to the questions posed.

Sincerely yours,

A handwritten signature in black ink, reading "Richard R. Rush".

Richard R. Rush
President

QUESTIONS ABOUT SITE AUTHORITY LEASE ACCOUNTING TO BE ANSWERED
BY THE SITE AUTHORITY
(Responses in blue)

1. What are the policies and procedures regarding allocation of the Common Area Maintenance (CAM) expenses between the apartment rentals, the commercial leases, the townhome rentals, the townhome owners and the residences?
 - a. The policy calls for expenditures to be reviewed and assigned to the area the work was done (e.g., if the expense was related to apartments, then it was assigned to apartments). However, there are some bills that come in and are allocated based on unit type. In other words, those bills are allocated as 474 rentals or 184 for-sale properties.

2. Why does the CAM report fail to break down the income and expenses between the townhome owners and the residential owners because they are not, and can never be, the same?
 - a. Total income includes both the townhome owners and the for-sale owners; it is reporting what income was received. Most expenses are allocated by unit type so the expense between the townhomes and for-sale properties would be the same. The differences are outlined in the Common Area Maintenance Annual Report in the Pro-Rata Share section that includes insurance and the reserve contribution. The link to that report is provided below.
<http://universityglencorp.csuci.edu/homeownersadvisory/Documents/annual-report-to-homeowners-2015-version-2.pdf>

3. What is the basis for the increase in the CAM fees for 2015-16? Who requested the increase and when?
 - a. The basis for the increase relates to an increase in reserve contribution, trash and utility costs. With the CAM fee for 2015-16 being held to 2014-15 levels, we will be analyzing the CAM budget over the next several months to determine what is appropriate.

4. What is the pro rata share, or percentage, of the allocation of the CAM expenses between the apartment rentals, the commercial leases, the townhome rentals, the townhome owners and the residences? Who determined this pro rata share and what is the basis for that determination?
 - a. The pro rata share applies to water, sewer and landscaping. All other expenses are charged based on actual costs. The pro rata share was determined when the program was established in 2002 and is based on type of dwelling unit. As noted above, details of these expenses can be found in the Common Area Maintenance Annual Report.

5. Who is in charge of allocating the pro rata share of each expense to the apartment rentals, the commercial leases, the townhome rentals, the townhome owners and the residences? Who ensures this allocation is administered properly?
 - a. Historically, the pro rata share of expenses has been allocated as determined by the University Glen Board of Directors. Going forward, the new property manager will be responsible for administering the pro rata share with the Board's approval.

6. Who is the professional property manager that is in charge of managing the UGlen properties that are owned and rented?
 - a. Dr. Erik Blaine, Associate Vice President for Administrative Services is the Broker of Record for the University Glen Corporation (UGC). UGC maintains a corporate real estate license. There are licensed real estate agents and other staff who conduct the day-to-day operations.
7. Why do the reserve amounts fluctuate so wildly? Who decides how much money will go into the reserves and when is this decision made?
 - a. Reserves are based on a tri-annual review of all maintenance items to determine the replacement value. This drives the recommended amount to keep in reserves to cover those expenses over time and is provided annually to the University Glen Board of Directors for their review and approval. The last reserve study was completed in 2014. Recently, an audit was conducted of the reserves covering the time between July 1, 2011 and July 1, 2014. It was recommended that any changes in reserve allocations be documented and that expenses be specifically allocated to the reserve applicable to each related expenditure. The Site Authority management concurs and will begin this practice by January 31, 2016.
8. Who decides when expenditures are made out of the reserves and when is this decision made?
 - a. Budget summary documents outline when some expenditures will come from reserves. There are times during the year when repairs are made and charged to reserves. Dr. Erik Blaine and Dave Nirenberg make those decisions.
9. Who is in charge of managing Valley Crest and ensuring that they do their job correctly, such as repairing water line breaks, applying herbicides properly and trimming the plants properly?
 - a. Day-to-day supervision of Valley Crest is overseen by Mike McConnell. He takes direction from Dave Nirenberg.
10. What motivation, if any, do the people at UGlen have to keep the expenses relating to the common area down?
 - a. Strategic priorities of the Division of Business & Financial Affairs, under which the Site Authority is managed, include the responsible management of resources. Goals and objectives are reviewed annually and progress towards goals can be found in the Division of Business & Financial Affairs Annual Report and Work Plan. <http://www.csuci.edu/vpbfa/vp-business-and-financial-affairs/dbfa-annual-report-work-plan-for-2015-16.pdf>
11. Where is the accounting for the insurance proceeds?
 - a. The Site Authority payment for fire related losses has been made by the carrier in the amount of \$174,468. The payment represents the repairs at actual cash value, less depreciation, less the auxiliary property program deductible.
12. Where is the credit for the interest income from the reserve account?
 - a. Interest earned is deposited to Site Authority general operations.

- 13.** What percentage of the rent of an apartment is for CAM fees? Translate into actual dollars for the last three years.
- a. The percentage of CAM for the average rent of an apartment and the dollar amount for the last three years are:
 - i. 20.80%, or \$338.25 per unit, for 2011-12
 - ii. 21.01%, or \$340.25 per unit, for 2012-13
 - iii. 22.16%, or \$358.84 per unit, for 2013-14
- 14.** What percentage of the rent of a townhome is for CAM fees? Translate into actual dollars for the last three years.
- a. The percentage of CAM for the average rent of a townhome and the dollar amount for the last three years are:
 - i. 12.10%, or \$279.92 per unit, for 2011-12
 - ii. 11.75%, or \$270.34 per unit, for 2012-13
 - iii. 12.20%, or \$281.04 per unit, for 2013-14
- 15.** How are the sewer fees allocated between the apartment rentals, the commercial leases, the townhome rentals, the townhome owners and the residences?
- a. Sewer fees, which are billed by University Facilities Services to University Glen, are allocated by unit type. For example, there are 670 units in University Glen (including commercial spaces). The total bill is divided by 670 to get per unit cost. That per unit cost is then multiplied by unit type. There will be a restated CAM report for the past three years provided to residents in February 2016 following the recent forensic accounting analysis of sewer fees. As a result of that review, the allocation to the various unit types will be modified.
- 16.** On what basis are the trash fees allocated between the rentals, the commercial and the owners?
- a. Trash bills are allocated based on cost per address as shown on the master bill received by University Glen Corporation. The apartments are billed per lift of the 4-yard bin in the parking lots. The residents are charged a flat rate per residence, which is \$16.80. If we went to individual bills mailed directly to each resident, the rate would be \$32.20.
- 17.** On what basis is the insurance allocated between the rentals, the commercial and the owners?
- a. Insurance is allocated based on the type of insurance. The below table outlines how the insurance is allocated to each unit type.

	Site Authority General	Homeowners	Renters	Town Center
Property Insurance		18%	77%	5%
Directors & Officers Liability	100%			
General Liability up to 1M		8%	86%	6%
Excess General Liability 1M to 10M		8%	86%	6%

- 18.** The insurance for the townhomes that are owned should be more expensive than the insurance for the residences, but there is no separate allocation where the owners of the residences contribute less than the owners of the townhomes.
- a. The CAM report shows the insurance premium only to the townhomes, see table below.

Pro Rata Share	Per Unit Cost		
	Single Family	Townhome	Rentals
Administrative	11.91	11.91	75.55
Maintenance	14.00	14.00	31.94
5Utilities	82.73	82.73	59.56
Landscaping	55.55	55.55	44.93
Reserves	24.69	14.27	14.27
Insurance Premiums		30.96	33.09
Reserves- Exterior Main		70.50	78.91
Total Per Unit Cost	188.88	279.92	338.25

19. Why do the percentages of the electric, water, gas and sewer bills fluctuate each year?
- To respond to this question, we reviewed and analyzed the current process and methodology for all unit type allocations. As part of this review, we also requested that the CAM budget be reviewed by our independent auditor and can be reviewed at http://universityglencorp.csuci.edu/board_of_directors/Audits/cam-audit-2015.pdf. After an extensive review by campus financial and accounting staff of the CAM fees and the recommendations of the audit of the CAM, it has been determined that a recalculation of utilities charges to University Glen will be an outcome of these reviews and analyses. Additionally, a restated CAM report from 2011-12, 2012-13 and 2013-14 will be completed and sent to the homeowners in February 2016.
20. What is the explanation for the fact that the 184 owned residences are charged 70%, 62% and 55% of the total sewer fees rather than 184/470?
- See response to Question 19. As with Question 19, the same review and analysis of the current process and methodology of utilities was required. The current methodology is in need of updating and a recalculation will be an outcome of the update underway.
21. Why is it that the rental CAM fees are always equal exactly the rental CAM charges?
- Rental CAM fees equal rental CAM charges as a reflection of accounting practices. This is done because rental Cam fees and rental CAM charges are direct monthly expenses and no rental CAM budget is developed to compare against.
22. Why does the water bill fluctuate so wildly? \$40,000 per year?
- See response to Question 19. As with Question 19, the same review and analysis of the current process and methodology of utilities was required. The current methodology is in need of updating and a recalculation will be an outcome of the update underway.
23. Since the reclaimed water is for the common area and the potable water is for the homes why is there no breakout of the potable and the reclaimed? Which water bill is fluctuating so wildly?
- Both potable and recycled water do fluctuate. However, past reports combine these expenses. The next annual report will have these two items separated.

24. If Valley Crest fails to properly maintain the lines and wastes water, who pays for the additional cost of the water waste?
- Water bills are expensed out to the unit type in University Glen, which may include additional costs due to broken water lines.
25. What is the approximate amount of reclaimed water that should be used in the common areas each month?
- The University continues to strive towards sustainable water conservation. The amount of reclaimed water provided to University Glen is determined by Camrosa Water District, which operates a state-of-the-art treatment and reclamation facility. Because of the drought, however, that water allocation has been depleting. Therefore, some areas in University Glen are being allowed to “go gold.” Details of reclaimed water use for irrigations can be found Facilities Services Water Conservation webpage.
<http://www.csuci.edu/fs/sustainability/water-conservation>
26. Who at UGlen checks the water bill to ensure that the amount billed and used is close to the anticipated use? If there is a difference, what is done?
- Since there are only a couple of master water meters which also measure campus use, this analysis is done by staff on the campus. University Glen is provided its share of the water bill based on a formula.
27. Has anyone ever investigated the reason that the water bill fluctuates so wildly?
- Water usage is tracked at the campus level and evaluated against prior usage by time of year and other demand conditions. Limited analysis beyond that has occurred for water consumption. Therefore, as with the response to Question 19, the review and analysis of the current process and methodology of utilities was required. The current methodology is in need of updating and a recalculation will be completed by January 2016.
28. From 2012-13 to 2013-14, the water bill went down \$44,166 (\$259,229 less \$215,063), yet the homeowners’ portion of the bill decreased only \$194.
- As with prior questions related to CAM utilities, it required the same review and analysis of the current process and methodology. After an extensive review by campus financial and accounting staff of the CAM fees and the recommendations of the audit of the CAM, it has been determined that a recalculation of utilities charges to University Glen will be an outcome of these reviews and analyses. Additionally, a restated CAM report from 2011-12, 2012-13 and 2013-14 will be completed and sent to the homeowners in February 2016.
29. How is the maintenance expense allocated between the commercial tenants, the townhome owners, the residential owners, the townhome tenants and the apartment tenants?
- Expenditures are reviewed and assigned to the area the work was done (e.g., if the expense was related to apartments, then it was assigned to apartments).
30. What is the cost per kW of the electricity UGlen pays to the Site Authority?
- Electricity to University Glen comes directly from and is billed by Southern California Edison. The Site Authority has no role in this.
31. Why does the May 27, 2015 Common Area Maintenance Report still fail to comply with the contractual duties of the Site Authority and UGlen as stated in the ground lease in the following manner:

- a. It fails to state the total number of paying units responsible for the additional Maintenance Rent as described in paragraph 4.3;
- b. It fails to allocate the common area expenses among all the units based on type, such as single-family residence, townhome, rental property or retail space ("income contributing units"). This is important because each type of unit will have expenses specific to that unit type;
 - i. Specifically, there is no breakout between the commercial tenants, the townhome tenants and the apartment tenants
 - ii. Specifically, there is no breakout between the townhome owners and the residence owners
- c. It fails to allocate the common area income among the income contributing units. This is important because each type of unit will have expenses specific to that unit type;
 - i. Specifically, there is no breakout between the commercial tenants, the townhome tenants and the apartment tenants
 - ii. Specifically, there is no breakout between the townhome owners and the residence owners
- d. It fails to provide the total number of each type of income-contributing unit;
- e. It fails to state the amount collected, per unit, for each type of income contributing unit;
- f. It fails to isolate the total amount of additional rent collected by type of income-contributing unit;
- g. It fails to apportion the insurance expense for the townhome owners and the residential owners. UGlen must ensure the structure of the townhome, but it will not be able to insure a residence;
- h. It still contains an entry for "management fees" which are not authorized by the ground sub-lease. The ground sub-lease says only "professional" management fees are permitted. UGlen has no professional property managers in its employ. If this statement is incorrect, then please have the professional property manager begin attending the HAC meetings and have him or her answer these questions;
 - i. It fails to provide the budgeted amounts and any deviation;
 - j. It fails to break out utility cost by income producing unit, retail, pools, etc.;
 - k. It fails to provide the total amounts of expenditure in any given category; and,
 - l. It fails to balance with the other financial statements generated by the Site Authority.

- a. The Common Area Maintenance (CAM) Budget has been reviewed by our independent auditor. http://universityglencorp.csuci.edu/board_of_directors/Audits/cam-audit-2015.pdf The CAM has also been extensively reviewed by campus financial and accounting staff. It has been determined that recalculating utilities charges to University Glen by Facility Services will be an outcome of these reviews and analyses. Additionally, a restated CAM report from 2011-12, 2012-13 and 2013-14 will be completed and sent to the homeowners in February 2016.

32. What does the \$9,003, \$10,005 and \$10,005 reserves for single family residences "reserve" for? I mean, when can a single family homeowner go to UGlen and request repairs to a single family home out of the reserves? For what repairs?

- a. This is the amount, per the reserve study, that single family residences should be contributing to reserves. Per the reserve study, items related to the single family reserves include exterior lighting, street and concrete repairs. An owner can put in a request for repairs either through Yardi or at the UGC Office. The reserve study is a recommendation provided to the UGlen Board of Directors for their review and approval.

33. From 2012-13 to 2013-14, the insurance expense decreased by \$89,208 (\$333,164 less \$243,956), yet the insurance expense charged to the homeowners increased by \$9,877 (\$45,840 less \$55,717).
- a. As with prior questions related to CAM fees, it required a review and analysis of the current process and methodology. After an extensive review by campus financial and accounting staff of the CAM fees and the recommendations of the audit of the CAM, it has been determined that a recalculation of these charges will be an outcome of these reviews and analyses. Additionally, a restated CAM report from 2011-12, 2012-13 and 2013-14 will be completed and sent to the homeowners in February 2016. The Common Area Maintenance (CAM) Budget has been reviewed by our independent auditor.
http://universityglencorp.csuci.edu/board_of_directors/Audits/cam-audit-2015.pdf
34. What expenses go into the Rental Housing Operating Expenses number that is provided on the CSUCI Site Authority Statements of Revenues, Expenses and Changes in Net Assets?
- a. Rental Housing Operating Expenses include administration, marketing, utilities, making apartments ready when vacated, insurance and landscaping, audit and legal expenses.
35. Why does each and every CSUCI Site Authority "Notes to Financial Statements" reference only the "maintenance rent" amount collected from the homeowners? And why doesn't this number match the "maintenance rent" number on the CAM report dated May 27, 2015?
- a. The rental CAM has been reported as part of the rental operation. However, we will begin accounting for and reporting CAM differently this year by creating a CAM fund that will separate departments; one each for renters, homeowners, commercial, etc. This will allow for a more complete reporting and analysis of CAM.

The Site Authority Notes at paragraph 12, MAINTENANCE RENT, states "The CSUCI Site Authority manages the common area for homeowners, renters and the Town Center tenants. Common area charges include all costs and expenses incurred by the CSUCI Site Authority in the operation, maintenance, replacement and repair of the common areas during the term of the sublease. Common area expenses are allocated among all units based on type, such as single-family residence, townhome, rental property, or retail space."

The Site Authority Report and the CAM fee report provided by University Glen is inconsistent as follows:

2011-12

Site Authority report says maintenance rent collected for the year ended June 30, 2012 was \$542,840.

UGlen CAM report says the total maintenance rent collected for the same period was \$2,449,822, which is a difference of \$1,923,974.

UGlen CAM report says maintenance rent collected from the homeowners for the same period was \$525,848, which is a difference of \$16,992.

2012-13

Site Authority report says maintenance rent collected for the year ended June 30, 2013 was \$609,480.

UGlen CAM report says the total maintenance rent collected for the same period was \$2,464,588 which is a difference of \$1,855,108.

UGlen CAM report says maintenance rent collected from the homeowners for the same period was \$529,263, which is a difference of \$80,217.

2013-14-

Site Authority report says maintenance rent collected for the year ended June 30, 2013 was \$588,697.

UGlen CAM report says the total maintenance rent collected for the same period was \$2,586,866, which is a difference of \$1,998,169.

UGlen CAM report says maintenance rent collected from the homeowners for the same period was \$545,763, which is a difference of \$42,934.

Additional questions to be answered:

- 36.** The UGlen Corporation income statement for the month ending February 28, 2015 does not list any lease payments for the UGlen Corporate Office and the Town Center Market as expenses. Correctly budgeted lease payments would result in annual losses of well over \$200,000 and will question the viability of both entities.
- a. The University Glen Corporation office does not pay lease to the Site Authority for its offices, because its mission is to support the University and therefore any net profits are allocated directly to the University.
- 37.** The UGlen Corporation income statement for the month ending February 28, 2015 shows "Corporate Sales in the form of Management Fees make up 13% of Total Revenues" (of the Food Service Operations), in the amount of \$780,432. Is this amount in addition to the management fees charged to the UGlen residents as part of their CAM Fees?
- a. No, the \$780,432 includes revenue from all sources. The management fee charged to CAM is included in this total amount.
- 38.** Did the financial analysis performed by JLL include the study of existing operations to evaluate their economic benefit or negative impact to CSUCI financial situation? Please provide a copy of this study, if available.
- a. JLL financial analyses are available in the following documents: Implementation Strategies and Implementation Strategies Appendices. <http://www.csuci.edu/ci-2025/vision-plan.htm> Going forward, we are beginning the process of separating University Glen Corporation into a distinct auxiliary from University-related enterprises (i.e., Islands Café, Town Market, etc.) and this will enable more clearly stated financials.
- 39.** UGlen Corporation and the Site Authority have been unable and/or unwilling to provide the residents of the University Glen Community with important documents as requested as rationale for the introduced increases in CAM fees. These documents have been promised over the last few months, verbally and in writing, by the Senior Director of UGlen Corporation. They still have not been received.

The delivery of the following Standard Financial Reports and/or Documents is promised and still pending:

- Current Chart of Accounts
- P&L for the last 2 years
- General Ledger for the last 2 years

- UGlen Corporation Income statement for the last 2 years
- Final answer sent to the Chancellor's Office in response to Recommendations 19 and 20 of the audit report 14-03 dated 8-20-2014

The Chart of Accounts and General Ledger were provided on September 25, 2015. The other financial information is included in audited financial statements, which are available on the UGC website.

Recommendation 19 relates to the establishment of a UGC Board of Directors audit committee. The audit charter was written and voted upon at a UGC Board of Directors meeting.

Recommendation 20 relates to the Commercial Services operations and how those reserves (which are separate from University Glen Corporation) are budgeted and recorded. The budget did identify reserves and the accounting entries to transfer the reserves have been completed.

Please answer these questions, in writing, and provide a contractually compliant CAM fee accounting report before the next Home Owner's Advisory Committee meeting which is scheduled for October 21, 2015.