



CSUCI FINANCING AUTHORITY

Basic Financial Statements and
Supplementary Information

June 30, 2003 and 2002

(With Independent Auditors' Report Thereon)



CSUCI FINANCING AUTHORITY

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Independent Auditors' Report

The Board of Directors
CSUCI Financing Authority:

We have audited the accompanying basic financial statements of the CSUCI Financing Authority (Financing Authority), a component unit of the California State University, as of and for the years ended June 30, 2003 and 2002, as listed in the 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, 2003 and 2002, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Financing Authority has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic 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 statements of net assets (deficit) by program and statements of revenues, expenses, and changes in net assets (deficit) by program on pages 11 and 12, 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 audit of the basic financial statements and, accordingly, we express no opinion on it.

KPMG LLP

November 26, 2003



KPMG LLP, a U.S. limited liability partnership, is the U.S. member of KPMG International, a Swiss cooperative.

CSUCI FINANCING AUTHORITY

Statements of Net Assets

June 30, 2003 and 2002

Assets	2003	2002
Current assets:		
Cash held with fiscal agent:		
Interest during construction	\$ 5,518,140	9,256,781
Bond debt reserve	5,379,377	5,498,607
Project funds	24,324,031	44,309,187
Total cash held with fiscal agent	35,221,548	59,064,575
Interest receivable on cash held with fiscal agent	141,341	90,560
Interest receivable from CSU Channel Islands Site Authority	1,484,359	1,484,359
Total current assets	36,847,248	60,639,494
Noncurrent assets:		
Loans receivable, net	96,275,000	96,275,000
Total assets	133,122,248	156,914,494
Liabilities and Net Assets		
Current liabilities:		
Interest payable	1,484,359	1,484,359
Due to CSU Channel Islands Site Authority	35,362,889	59,155,135
Noncurrent liabilities:		
Revenue bonds payable	96,275,000	96,275,000
Total liabilities	133,122,248	156,914,494
Total net assets	\$ —	—

See accompanying notes to basic financial statements.

CSUCI FINANCING AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Revenues:		
Interest revenue	\$ 5,844,445	5,032,862
Expenses:		
Bond interest expense	<u>4,058,074</u>	<u>3,292,652</u>
Operating income	1,786,371	1,740,210
Payment to Site Authority – interest income on cash held with fiscal agent	<u>1,786,371</u>	<u>1,740,210</u>
Change in net assets	—	—
Net assets, beginning of year	<u>—</u>	<u>—</u>
Net assets, end of year	<u>\$ —</u>	<u>—</u>

See accompanying notes to basic financial statements.

CSUCI FINANCING AUTHORITY

Statements of Cash Flows

Years ended June 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:		
Interest income	\$ 5,844,445	5,032,862
Interest expense	(4,058,074)	(3,292,652)
Net cash provided by operating activities	<u>1,786,371</u>	<u>1,740,210</u>
Cash flows from noncapital financing activities:		
Payment of interest income to Site Authority	<u>(1,786,371)</u>	<u>(1,740,210)</u>
Cash flows from capital and related financing activities:		
Funding provided to Site Authority	(23,843,027)	(22,909,175)
Proceeds from bond sale	<u>—</u>	<u>45,835,997</u>
Net cash provided by (used in) capital and related financing activities	<u>(23,843,027)</u>	<u>22,926,822</u>
Net change in cash and cash equivalents	(23,843,027)	22,926,822
Cash and cash equivalents, beginning of year	<u>59,064,575</u>	<u>36,137,753</u>
Cash and cash equivalents, end of year	<u><u>\$ 35,221,548</u></u>	<u><u>59,064,575</u></u>

See accompanying notes to basic financial statements.

CSUCI FINANCING AUTHORITY

Notes to Basic Financial Statements

June 30, 2003 and 2002

(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 Trustees of the California State University from the State of California 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 to be centered on academic uses, and will house the California State University, Channel Islands campus. The East Campus is comprised of 162 acres of developable land which is expected to contain 900 residential units and approximately 50,000 square feet of retail commercial uses. The development of the East Campus began in October 2000 and is projected to be completed by August 2006. The infrastructure of the East Campus will be constructed in phases and is expected to be completed by September 2005.

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 basic financial statements of the California State University as a blended component unit.

(b) *Basis of Presentation*

The accompanying basic financial statements for the Financing Authority have been prepared under the standards promulgated by the Governmental Accounting Standards Board (GASB) using accrual basis of accounting and economic resources measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

(c) *Election of Applicable FASB Statements*

The Financing Authority has elected not to adopt the pronouncements issued by the Financial Accounting Standards Board (FASB) after November 30, 1989.

(d) *Classification of Revenues and Expenses*

The Financing Authority considers operating revenues and expenses in the statement of revenues, expenses, and changes in net assets to be those revenues and expenses that result from exchange transactions or other activities that are connected directly to the Financing Authority's primary functions. Exchange transactions include interest income and interest expense. Certain other transactions are reported as nonoperating revenues and expenses in accordance with GASB Statement 34. These nonoperating activities primarily include the payment to the California State University, Channel Islands Site Authority.

CSUCI FINANCING AUTHORITY

Notes to Basic Financial Statements

June 30, 2003 and 2002

(e) Accounting Changes

The Financing Authority adopted GASB Statement Nos. 34, 35, 37, and 38 as of July 1, 2001. These Statements introduced significant changes in the way that public colleges and universities and related activities report financial position and changes in financial position in their external financial statements. GASB Statements 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, and 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*, became effective for the Financing Authority as of July 1, 2001. GASB Statements 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*, and 38, *Certain Financial Statement Note Disclosures*, were required to be implemented at the same time.

The Financing Authority is considered a special-purpose government under the provisions of GASB Statement 34. The Financing Authority records revenue primarily from interest collected from California State University, Channel Islands Site Authority, and accordingly has chosen to present its basic 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 basic financial statements.

(f) Statements of Cash Flows

For the purposes of the statements of cash flows, the Financing Authority considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents. The statements of cash flows is prepared using the direct method. All operations of the Financing Authority are related to capital and financing activities, and therefore, there is no reconciliation of operating activities included in the statements of cash flows.

(g) Loans Receivable

Loans receivable represent monies 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) Fiscal Year, Principal, and Interest Payment Dates

The end of the fiscal year of the Financing Authority is specified in the bond resolution as June 30. Interest on the Revenue Bonds, 2001 Series A ranges from 3.85% to 5.25% and is paid semi-annually on March 1 and September 1. The principal payments are paid on September 1, beginning in 2008, with the final payment due September 1, 2031.

Interest on the Rental Housing Revenue Bonds Series 2001 ranges from 3.375% to 4.08% and is paid semi-annually on February 1 and August 1. The principal payments are paid on August 1, beginning in 2006, with the final payment due August 1, 2031.

(2) Cash Equivalents

All cash and cash equivalents are held with a fiscal agent for use to pay the revenue bonds upon their maturities and to fund development activities (see note 3). Demand deposits are insured by the FDIC or collateralized.

CSUCI FINANCING AUTHORITY

Notes to Basic Financial Statements

June 30, 2003 and 2002

(3) Due to Site Authority

Pursuant to the terms of a Trust Agreement with U.S. Bank or BNY Western Trust (the Trustee), the Financing Authority holds the cash from the sale of the Revenue Bonds with the Trustee and the Trustee disburses cash to the Site Authority as expenses are incurred.

(4) Loans Receivable

Loans receivable at June 30, 2003 and 2002 are as follows:

	<u>2003</u>	<u>2002</u>
\$49,460,000 Revenue Bonds, 2001 Series A loan to Site Authority due in annual installments beginning September 1, 2008	\$ 49,460,000	49,460,000
\$46,815,000 Rental Housing Revenue Bonds Series 2001 loan to Site Authority due in annual installments beginning August 1, 2006	<u>46,815,000</u>	<u>46,815,000</u>
	<u>\$ 96,275,000</u>	<u>96,275,000</u>

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).

(5) Revenue Bonds Payable

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 are limited obligations of the Financing Authority and secured by special taxes, tax increment revenues, and pledged rental housing revenues of the Site Authority. Debt issuance costs of \$2,154,232 were passed through 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 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. Debt issuance costs of \$415,658 were passed through to the Site Authority.

The Financing Authority is required to maintain reserves equal to 125% of the average annual debt service in the bonds, held by the Trustee for the benefit of the owners of the bonds. Certain of the bonds are subject to mandatory sinking fund requirements beginning in fiscal year 2023.

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Notes to Basic Financial Statements

June 30, 2003 and 2002

The Revenue Bonds were issued in denominations of \$5,000 principal amount each or any integral multiple thereof. There was no change in outstanding debt during fiscal year 2003.

The change in Revenue Bonds Payable for the year ended June 30, 2002 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Revenue Bond 2001 Series A	\$ 49,460,000	—	—	49,460,000	—
Rental Housing Revenue Bonds, Series, 2001	—	46,815,000	—	46,815,000	—
	<u>\$ 49,460,000</u>	<u>46,815,000</u>	<u>—</u>	<u>96,275,000</u>	<u>—</u>

Bonds payable at June 30, 2003 mature as follows:

<u>Fiscal years</u>	<u>Revenue Bonds, 2001 Series A</u>		<u>Rental Housing Revenue Bonds Series 2001</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ —	2,478,068	—	1,580,006	—	4,058,074
2005	—	2,478,067	—	1,745,029	—	4,223,096
2006	—	2,478,068	—	1,910,052	—	4,388,120
2007	—	2,478,067	220,000	1,905,564	220,000	4,383,631
2008	—	2,478,068	290,000	1,895,160	290,000	4,373,228
2009-2013	2,805,000	12,144,296	2,735,000	9,204,378	5,540,000	21,348,674
2014-2018	5,545,000	11,211,734	5,370,000	8,392,356	10,915,000	19,604,090
2019-2023	9,405,000	9,374,017	8,995,000	6,943,038	18,400,000	16,317,055
2024-2028	14,790,000	6,262,618	13,765,000	4,642,530	28,555,000	10,905,148
2029-2033	16,915,000	1,771,125	15,440,000	1,316,616	32,355,000	3,087,741
	<u>\$ 49,460,000</u>	<u>53,154,128</u>	<u>46,815,000</u>	<u>39,534,729</u>	<u>96,275,000</u>	<u>92,688,857</u>

As specified in the bond resolution, the bonds payable at June 30, 2003 and 2002 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.

(6) Letter of Credit

The Financing Authority, jointly with the Site Authority, obtained a letter of credit from Citibank to provide security on the Revenue Bonds. The letter of credit will expire on the earlier of the date which is seven years following the date of issuance of the Revenue Bonds, or when released according to the terms of the Revenue Bonds. Costs incurred to obtain and maintain the letter of credit for 2003 and 2002 of \$1,229,223 and \$1,037,492, respectively, were passed through to the Site Authority.

(7) Related Party

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

CSUCI FINANCING AUTHORITY

Notes to Basic Financial Statements

June 30, 2003 and 2002

(8) Subsequent Events

On July 15, 2003, the Financing Authority obtained Bond Anticipation Notes (BANs) in the amount of \$10,240,000. The BANs were issued at a premium of \$23,040, bear interest at a rate of 1.5%, and mature on June 30, 2004. The BANs will be used by the California State University, Channel Islands Site Authority to develop certain Channel Islands West Campus facilities.

CSUCI FINANCING AUTHORITY

Supplementary Schedule of Net Assets by Program (Unaudited)

June 30, 2003

	<u>Infrastructure Program</u>	<u>Rental Housing Program</u>	<u>Totals</u>
Assets:			
Cash held with fiscal agent:			
Interest during construction	\$ 3,217,291	2,300,849	5,518,140
Bond debt reserve	4,422,622	956,755	5,379,377
Project fund	9,689,367	14,634,576	24,323,943
Revenue fund	81	6	87
Cost of issuance fund	1	—	1
Interest receivable on cash held with fiscal agent	141,341	—	141,341
Interest receivable from CSU Channel Islands Site Authority	826,023	658,336	1,484,359
Loan to CSU, Channel Islands Site Authority	49,460,000	46,815,000	96,275,000
Total assets	<u>67,756,726</u>	<u>65,365,522</u>	<u>133,122,248</u>
Liabilities:			
Interest payable	826,023	658,336	1,484,359
Due to CSU, Channel Islands Site Authority	17,470,703	17,892,186	35,362,889
Bonds payable	49,460,000	46,815,000	96,275,000
Total liabilities	<u>67,756,726</u>	<u>65,365,522</u>	<u>133,122,248</u>
Total net assets	<u>\$ —</u>	<u>—</u>	<u>—</u>

See accompanying independent auditors' report.

CSUCI FINANCING AUTHORITY

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

Year Ended June 30, 2003

	<u>Infrastructure Program</u>	<u>Rental Housing Program</u>	<u>Totals</u>
Revenues:			
Interest revenue	\$ 3,465,964	2,378,481	5,844,445
Expenses:			
Bond interest expense	<u>2,478,068</u>	<u>1,580,006</u>	<u>4,058,074</u>
Operating income	987,896	798,475	1,786,371
Payment to Site Authority – interest income on cash held with fiscal agent	<u>(987,896)</u>	<u>(798,475)</u>	<u>(1,786,371)</u>
Change in net assets	—	—	—
Net assets, beginning of year	<u>—</u>	<u>—</u>	<u>—</u>
Net assets, end of year	<u>\$ —</u>	<u>—</u>	<u>—</u>

See accompanying independent auditors' report.

