



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

Financial Statements and
Supplementary Information

June 30, 2004 and 2003

(With Independent Auditors' Report Thereon)

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

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Independent Auditors' Report

The Board of Directors
CSUCI Financing Authority:

We have audited the accompanying financial statements of the CSUCI Financing Authority (the Financing Authority), a component unit of the California State University, as of and for the years ended June 30, 2004 and 2003, 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 net assets of the Financing Authority as of June 30, 2004 and 2003, and the changes in its net assets 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 require to supplement, although not be part of, the financial statements.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary schedule of net assets by program and supplementary schedule of revenues, expenses, and changes in net assets by program on pages 12 and 13, 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

January 25, 2005

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

Statements of Net Assets

June 30, 2004 and 2003

Assets	<u>2004</u>	<u>2003</u>
Current assets:		
Cash held with fiscal agents	\$ 18,372,203	35,221,548
Investments	101,113	—
Total cash, cash equivalents, and investments	<u>18,473,316</u>	<u>35,221,548</u>
Accounts receivable	251,053	—
Interest receivable on cash held with fiscal agents	126,276	141,341
Interest receivable from California State University, Channel Islands Site Authority	1,484,359	1,484,359
Total current assets	<u>20,335,004</u>	<u>36,847,248</u>
Noncurrent assets:		
Loans receivable	<u>96,275,000</u>	<u>96,275,000</u>
Total assets	<u>116,610,004</u>	<u>133,122,248</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	406	—
Interest payable	1,484,359	1,484,359
Due to California State University, Channel Islands Site Authority	18,850,239	35,362,889
Total current liabilities	<u>20,335,004</u>	<u>36,847,248</u>
Noncurrent liabilities:		
Revenue bonds payable	<u>96,275,000</u>	<u>96,275,000</u>
Total liabilities	<u>116,610,004</u>	<u>133,122,248</u>
Total net assets	<u>\$ —</u>	<u>—</u>

See accompanying notes to financial statements.

CSUCI FINANCING AUTHORITY
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Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2004 and 2003

	2004	2003
Operating revenues:		
Property taxes	\$ 222,423	—
Interest revenue	5,227,023	5,844,445
Total operating revenues	5,449,446	5,844,445
Operating expenses:		
Bond interest expense	4,205,274	4,058,074
Operating income	1,244,172	1,786,371
Transfer to California State University, Channel Islands Site Authority – special tax – Community Facilities District	222,423	—
Transfer to California State University, Channel Islands Site Authority – interest income on cash held with fiscal agents	1,021,749	1,786,371
Change in net assets	—	—
Net assets, beginning of year	—	—
Net assets, end of year	\$ —	—

See accompanying notes to financial statements.

CSUCI FINANCING AUTHORITY
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Statements of Cash Flows

Years ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Cash received from customers	\$ 101,113	—
Interest income	5,227,023	5,844,445
Interest expense	(4,205,274)	(4,058,074)
Net cash provided by operating activities	<u>1,122,862</u>	<u>1,786,371</u>
Cash flows from noncapital financing activities:		
Transfer of special tax to California State University, Channel Islands Site Authority	(222,423)	—
Transfer of interest income to California State University, Channel Islands Site Authority	(1,021,749)	(1,786,371)
Net cash used in noncapital financing activities	<u>(1,244,172)</u>	<u>(1,786,371)</u>
Cash flows from capital and related financing activities:		
Funding provided to California State University, Channel Islands Site Authority	(26,709,565)	(23,843,027)
Repayment of funding to California State University, Channel Islands Site Authority	10,082,643	—
Proceeds from Revenue Bond Anticipation Notes	10,240,000	—
Repayment of Revenue Bond Anticipation Notes	(10,240,000)	—
Net cash used in capital and related financing activities	<u>(16,626,922)</u>	<u>(23,843,027)</u>
Cash flows from investing activities:		
Purchases of investments	(101,113)	—
Net change in cash and cash equivalents	(16,849,345)	(23,843,027)
Cash and cash equivalents at beginning of year	<u>35,221,548</u>	<u>59,064,575</u>
Cash and cash equivalents at end of year	<u>\$ 18,372,203</u>	<u>\$ 35,221,548</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 1,244,172	1,786,371
Adjustments to reconcile operating income to net cash provided by operating activities:		
Increase in accounts receivable	(121,310)	—
Net cash provided by operating activities	<u>\$ 1,122,862</u>	<u>1,786,371</u>

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2004 and 2003

(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 2007. The infrastructure of the East Campus will be constructed in phases and is expected to be completed by August 2007.

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

(b) Basis of Presentation

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

The financial statements required by GASB Statement No. 34 include a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. The Financing Authority is considered a special-purpose government under the provisions of GASB Statement No. 34. The Financing Authority records revenue primarily from special taxes and interest collected from California State University, Channel Islands Site Authority, as well as interest earned on cash held with fiscal agents, and accordingly has chosen to present its financial statements using the reporting model for special-purpose governments engaged only in business-type activities. This model allows all financial information for the Financing Authority to be reported in a single column in each of the financial statements. In accordance with the business-type activities reporting model, the Financing Authority prepares its statements of cash flows using the direct method.

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Notes to Financial Statements

June 30, 2004 and 2003

(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 statements of revenues, expenses, and changes in net assets to be those revenues and expenses that result from exchange and nonexchange transactions or other activities that are connected directly to the Financing Authority's primary functions. Exchange transactions include interest income and interest expense. Nonexchange transactions include the collection of special tax revenues (see note 9). Certain other transactions are reported as nonoperating revenues and expenses in accordance with GASB Statement No. 34. These nonoperating activities are primarily transfers to the California State University, Channel Islands Site Authority.

(e) *Statements of Cash Flows*

For 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.

(f) *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.

(g) *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 semiannually 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 semiannually 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, Cash Equivalents, and Investments*

All cash and cash equivalents are for use to pay the revenue bonds upon their maturities and to fund development activities. The deposits of the Authority that are maintained at financial institutions are fully insured or collateralized as required by state law.

State law and regulations require that surplus monies of the Authority be invested. The Authority's investment policy authorizes excess funds to be invested in obligations of the federal and California state governments, certificates of deposit, and certain other investment instruments.

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Notes to Financial Statements

June 30, 2004 and 2003

In accordance with GASB Statement No. 3, *Deposits with Financial Institutions, Investments, and Reverse Repurchase Agreements*, cash deposits, and investments are categorized separately to give an indication of the level of custodial credit risk assumed by the Authority. The Authority's cash deposits and investments are categorized in the following manner:

- Category 1 Includes cash deposits that are insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized with securities held by the Authority or by its agent in the Authority's name, and investments that are insured or registered or for which the securities are held by the Authority or its agent in the Authority's name.

- Category 2 Includes cash deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name, and uninsured and unregistered investments for which the securities are held by the counterparty's trust department in the Authority's name.

- Category 3 Includes cash deposits that are uncollateralized and uninsured (including bank balances collateralized with securities held by the financial institution not in the Authority's name), and unregistered investments for which the securities are held by the counterparty or the counterparty's trust department or agent but not in the Authority's name.

Investments not Subject to Categorization

Investments not represented by physical investment securities, including investments in pooled funds, are not subject to categorization.

At June 30, 2004 and 2003, the Authority's investments are pooled; however, separate accounting is maintained as to the amounts allocable to the various funds and programs. Investments at fair value consisted of the following at June 30:

Cash, cash equivalents, and investments are categorized as follows as of June 30, 2004:

	<u>Balance per bank</u>	<u>Category</u>			<u>Balance per financial statements</u>
		<u>1</u>	<u>2</u>	<u>3</u>	
Cash held with fiscal agents:					
Bonds	\$		13,253,879		\$ 13,253,879
Not subject to categorization:					
Money market funds					4,340,295
Investment contracts					778,029
					<u>\$ 18,372,203</u>
Investments:					
Not subject to categorization					
MetWest pooled account					\$ <u>101,113</u>

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Notes to Financial Statements

June 30, 2004 and 2003

Cash, cash equivalents, and investments are categorized as follows as of June 30, 2003:

	Balance per bank	Category			Balance per financial statements
		1	2	3	
Cash held with fiscal agents:	\$				
Bonds			17,329,254		\$ 17,329,254
Not subject to categorization:					
Money market funds					957,683
Contracts					16,934,611
					<u>\$ 35,221,548</u>

(3) Accounts Receivable

Accounts receivable consist of the following at June 30:

	<u>2004</u>
Accounts receivable – property taxes	\$ 121,310
Property tax – tax increment receivable	129,743
	<u>\$ 251,053</u>

There were no accounts receivable balances outstanding at June 30, 2003.

(4) Due to California State University, Channel Islands 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. Amounts due to the California State University, Channel Islands Site Authority will include interest earned on cash held with fiscal agent and receivables on property taxes.

(5) Loans Receivable

Loans receivable at June 30, 2004 and 2003 are as follows:

	<u>2004</u>	<u>2003</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	46,815,000	46,815,000
	<u>\$ 96,275,000</u>	<u>96,275,000</u>

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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 6).

In July 2003, the Financing Authority provided an additional \$10,240,000 to the Site Authority for the development of certain West Campus facilities. The Site Authority repaid this loan, plus interest, on June 30, 2004 (see note 6).

(6) Revenue Bonds Payable

To fund the Revenue Bonds, 2001 Series A loan receivable described in note 5 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 \$2,665,435 were passed through to the Site Authority.

To fund the Rental Housing Revenue Bonds Series 2001 loan receivable described in note 5 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.

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

To fund the financing provided to the Site Authority (see note 5), the Financing Authority issued Revenue Bond Anticipation Notes (BANs) of \$10,240,000 on July 15, 2003. The BANs bore interest at a rate of 1.5%, and were repaid on June 30, 2004. Debt issuance costs of \$128,756 were passed through to the Site Authority.

The change in outstanding debt during fiscal year 2004 is as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Revenue Bond Anticipation Notes	\$ —	10,240,000	(10,240,000)	—	—

There was no change in outstanding debt during fiscal year 2003.

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Notes to Financial Statements

June 30, 2004 and 2003

Bonds payable at June 30, 2004 mature as follows:

Fiscal years	Revenue Bonds, 2001 Series A		Rental Housing Revenue Bonds Series 2001		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
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	380,000	2,470,753	370,000	1,881,696	750,000	4,352,449
2010-2014	3,285,000	12,015,281	3,175,000	9,083,814	6,460,000	21,099,095
2015-2019	6,215,000	10,926,078	6,035,000	8,159,694	12,250,000	19,085,772
2020-2024	10,345,000	8,866,634	9,850,000	6,558,600	20,195,000	15,425,234
2025-2029	16,080,000	5,465,669	14,885,000	4,058,070	30,965,000	9,523,739
2030-2032	13,155,000	1,019,375	11,990,000	757,044	25,145,000	1,776,419
	<u>\$ 49,460,000</u>	<u>50,676,060</u>	<u>46,815,000</u>	<u>37,954,723</u>	<u>96,275,000</u>	<u>88,630,783</u>

As specified in the bond resolution, the bonds payable at June 30, 2004 and 2003 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.

(7) 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 2004 and 2003 of \$1,229,223 were passed through to the Site Authority.

(8) Related Party

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

(9) Property Taxes

All jurisdictions within California derive their taxing authority from the State Constitution and various legislative provisions contained in the State Government Codes and Revenue and Taxation Codes. Property is originally assessed at 100 percent 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 Mello-Roos Community Facilities Act of 1982, the CSUCI Financing Authority formed Community Facilities District No. 2000-1 (the District) on November 6, 2000 to assist in financing the development of the Campus. The District is authorized to incur a maximum of \$50,000,000 of

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Notes to Financial Statements

June 30, 2004 and 2003

indebtedness to provide for the cost of certain public facilities and services. The District may levy and collect a Special Tax within the district to repay such indebtedness. The Special Taxes are payable and are collected in the same manner and time as are general and *ad valorem* taxes on real property.

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

Supplemental property tax assessments/refunds associated with changes in assessed valuations due to transfers of title and completed property improvements are levied in two equal installments and have variable due dates based on the date of title transfer and/or completion of the property improvements.

(10) Subsequent Events

On August 12, 2004, the Financing Authority issued For Sale Housing Construction Bonds, Rental Housing and Town Center Bonds, and Rental Housing and Town Center Bonds (Taxable) in the amount of \$44,500,000, \$50,735,000, and \$4,015,000, respectively. The For Sale Housing Construction Bonds were issued at a discount of \$516,864, bear interest at a rate of 2.5%, and mature on August 1, 2034. The Rental Housing and Town Center Bonds were issued at a discount of \$575,245, bear interest at a rate of 2.5%, and mature on August 1, 2044. The Rental Housing and Town Center Bonds (Taxable) were issued at a discount of \$48,211, bear interest at a rate of 3.79%, and mature on August 1, 2044. The bond proceeds will be used by the California State University, Channel Islands Site Authority to develop For Sale Housing Phase 1C-1E and Rental Housing Phase 1C-1E and Town Center on the Channel Islands Campus.

CSUCI FINANCING AUTHORITY
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Supplementary Schedule of Net Assets by Program (Unaudited)
June 30, 2004

	<u>Infrastructure Program</u>	<u>Rental Housing Program</u>	<u>Special Tax – Community Facilities District Program</u>	<u>Campus Building Program</u>	<u>Total</u>
Assets:					
Cash held with fiscal agent:					
Capitalized interest	\$ 806,001	778,878	—	4,668	1,589,547
Bond debt reserve	4,689,786	967,255	—	—	5,657,041
Project fund	8,026,138	652,981	—	313,093	8,992,212
Revenue fund	60,496	495,744	—	—	556,240
Principal account	—	—	—	201	201
Letter of credit	1	—	—	—	1
Rental housing trust account	488,187	—	—	—	488,187
Master tax	96,978	—	—	—	96,978
Net rental housing account	—	991,796	—	—	991,796
Investments	—	—	101,113	—	101,113
Accounts receivable – property taxes	—	—	121,310	—	121,310
Tax increment receivable from California State University, Channel Islands Site Authority	129,743	—	—	—	129,743
Interest receivable on cash held with fiscal agent	120,357	1,200	—	4,719	126,276
Interest receivable from California State University, Channel Islands Site Authority	826,023	658,336	—	—	1,484,359
Special tax receivable due from (to) Community Facilities District	222,423	—	(222,423)	—	—
Loan to California State University, Channel Islands Site Authority	49,460,000	46,815,000	—	—	96,275,000
Total assets	<u>64,926,133</u>	<u>51,361,190</u>	<u>—</u>	<u>322,681</u>	<u>116,610,004</u>
Liabilities:					
Accounts payable	406	—	—	—	406
Interest payable	826,023	658,336	—	—	1,484,359
Due to California State University, Channel Islands Site Authority	14,639,704	3,887,854	—	322,681	18,850,239
Bonds payable	49,460,000	46,815,000	—	—	96,275,000
Total liabilities	<u>64,926,133</u>	<u>51,361,190</u>	<u>—</u>	<u>322,681</u>	<u>116,610,004</u>
Total net assets	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

See accompanying independent auditors' report.

CSUCI FINANCING AUTHORITY
(A Component Unit of the California State University)
Supplementary Schedule of Revenues, Expenses, and
Changes in Net Assets by Program (Unaudited)
Year ended June 30, 2004

	<u>Infrastructure Program</u>	<u>Rental Housing Program</u>	<u>Special Tax – Community Facilities District Program</u>	<u>Campus Building Program</u>	<u>Total</u>
Operating revenues:					
Property taxes	\$ —	—	222,423	—	222,423
Interest revenue	<u>3,245,018</u>	<u>1,801,243</u>	<u>—</u>	<u>180,762</u>	<u>5,227,023</u>
Total operating revenues	3,245,018	1,801,243	222,423	180,762	5,449,446
Operating expenses:					
Bond interest expense	<u>2,478,068</u>	<u>1,580,006</u>	<u>—</u>	<u>147,200</u>	<u>4,205,274</u>
Operating income	<u>766,950</u>	<u>221,237</u>	<u>222,423</u>	<u>33,562</u>	<u>1,244,172</u>
Transfer (to)/from other programs	222,423	—	(222,423)	—	—
Transfer to California State University, Channel Islands Site Authority – special tax	(222,423)	—	—	—	(222,423)
Transfer to California State University, Channel Islands, Site Authority for interest income on cash held with fiscal agent	<u>(766,950)</u>	<u>(221,237)</u>	<u>—</u>	<u>(33,562)</u>	<u>(1,021,749)</u>
Total transfers	<u>(766,950)</u>	<u>(221,237)</u>	<u>(222,423)</u>	<u>(33,562)</u>	<u>(1,244,172)</u>
Change in net assets	—	—	—	—	—
Net assets, beginning of year	—	—	—	—	—
Net assets, end of year	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

See accompanying independent auditors' report.