

Sonoma State Enterprises, Inc.

Financial Statements and Supplemental Information

Years Ended June 30, 2023 and 2022



SONOMA STATE ENTERPRISES, INC.
Financial Statements and Supplemental Information
Years Ended June 30, 2023 and 2022

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INDEPENDENT AUDITOR'S REPORT

To the Audit Committee
Sonoma State Enterprises, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Sonoma State Enterprises, Inc. (the Organization), which comprise the statements of net position as of June 30, 2023 and 2022, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Sonoma State Enterprises, Inc. as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Sonoma State Enterprises, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Sonoma State Enterprises Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

INDEPENDENT AUDITOR'S REPORT, CONTINUED

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Sonoma State Enterprises, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Sonoma State Enterprises, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information presented on pages 28-32 is presented for the purposes of additional analysis as required by the California State University Chancellor's Office and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

INDEPENDENT AUDITOR'S REPORT, CONTINUED

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2023 on our consideration of Sonoma State Enterprises, Inc.'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 solely 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 effectiveness of Sonoma State Enterprises, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sonoma State Enterprises, Inc.'s internal control over financial reporting and compliance.

Aldrich CPAs + Advisors LLP

San Diego, California
September 25, 2023

SONOMA STATE ENTERPRISES, INC.

Management's Discussion and Analysis

June 30, 2023

This section of the Sonoma State Enterprises, Inc. (the Organization) annual financial report presents management's overview and analysis of the financial activities of the Organization for the fiscal year ended June 30, 2023. We encourage the reader to consider the information presented here in conjunction with the financial statements as a whole, presented after this section.

Introduction to the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the Organization's audited financial statements, which comprise the basic financial statements and the notes, as outlined in the table of contents. This annual report is prepared in accordance with the Governmental Accounting Standards Board Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*.

The Business-Type Activity (BTA) reporting model has been adopted by the California State University (CSU) system for use by all of its member campuses. The CSU determined the BTA model best represents the combined activities of the CSU and its auxiliary corporations.

The three auxiliary not-for-profit corporations serving Sonoma State University (the University), of which the Organization is one, have also adopted the BTA reporting model primarily for efficiencies gained in combining the three auxiliaries' annual financial statements with the University and ultimately the combined CSU financial statements.

The required financial statements include the Statements of Net Position; the Statements of Revenues, Expenses, and Changes in Net Position; and the Statements of Cash Flows. Notes to the financial statements and this summary support these statements. All sections must be considered together to obtain a complete understanding of the financial picture of the Organization.

The Organization's financial statements include:

Statements of Net Position: These statements include all assets and liabilities using the accrual basis of accounting as of the statement date. The difference between the two classifications is represented as "Net Position". The net position section of the statement identifies major categories of restrictions and reflects the overall financial position of the Organization as a whole. Over time, increases and decreases in total net position can be an indicator of whether the financial health of the Organization is improving or declining.

Statements of Revenues, Expenses, and Changes in Net Position: These statements present the revenues earned and the expenses incurred during the year using the accrual basis of accounting. Under the accrual basis, all increases or decreases in net position are reported as soon as the underlying event occurs, regardless of the timing of the cash flow. Consequently, revenues and/or expenses reported during this fiscal year may result in changes to cash flow in a future period.

Statements of Cash Flows: These statements reflect inflows and outflows of cash, summarized by operating, financing and investing activities. The direct method was used to prepare this information, which means that gross rather than net amounts were presented for the year's activities.

Notes to the Financial Statements: This additional information is essential to a full understanding of the data reported in the basic financial statements.

SONOMA STATE ENTERPRISES, INC.**Management's Discussion and Analysis**

June 30, 2023

Analytical Overview

Net position decreased in total by \$455,869 during the year ended June 30, 2023. There was a fair market valuation adjustment on the land during the current year, aside from that the Organization had \$39,373 in income from operations. Net position increased in total by \$512,980 during the previous year ended June 30, 2022. There was a slight recovery during the previous year as the Organization was able to reduce expenses to meet operational needs.

Condensed Statements of
Net Position as of June 30, 2023 and 2022

	2023	2022	Change	
			\$	%
Assets:				
Current assets	\$ 2,541,030	\$ 2,680,688	\$ (139,658)	-5%
Capital assets, net	685,697	368,915	316,782	86%
Other long-term investments	2,500,000	3,000,000	(500,000)	-17%
Total assets	5,726,727	6,049,603	(322,876)	-5%
Liabilities:				
Current liabilities	713,468	784,848	(71,380)	-9%
Non current liabilities	204,373	-	204,373	0%
Total liabilities	917,841	784,848	132,993	17%
Net Position:				
Net investment in capital assets	420,094	368,915	51,179	14%
Unrestricted	4,388,792	4,895,840	(507,048)	-10%
Total net position	\$ 4,808,886	\$ 5,264,755	\$ (455,869)	-9%

Condensed Statements of
Net Position as of June 30, 2022 and 2021

	2022	2021	Change	
			\$	%
Assets:				
Current assets	\$ 2,680,688	\$ 3,291,739	\$ (611,051)	-19%
Capital assets, net	368,915	424,610	(55,695)	
Other long term investments	3,000,000	3,000,000	-	0%
Total assets	6,049,603	6,716,349	(666,746)	
Liabilities:				
Current liabilities	784,848	1,964,574	(1,179,726)	-60%
Total liabilities	784,848	1,964,574	(1,179,726)	-60%
Net position:				
Net investment in capital assets	368,915	424,610	(55,695)	-13%
Unrestricted	4,895,840	4,327,165	568,675	13%
Total net position	\$ 5,264,755	\$ 4,751,775	\$ 512,980	11%

SONOMA STATE ENTERPRISES, INC.

Management's Discussion and Analysis

June 30, 2023

Statements of Net Position Variance Analysis Between 2023 and 2022

Current assets decreased by \$139,658. Current assets include: cash and cash equivalents, short-term investments, accounts receivable, prepaid expenses, and other current assets. There was an approximate \$612 thousand decrease in cash and short-term investments; these resources were spent on operating needs during the year. This decrease is offset by an increase of \$445 thousand in the amount due from the University for various catering and services, primarily due to summer conference events that occurred near the end of June.

Capital assets, net increased by \$316,782. There was an addition to equipment of about \$10 thousand while about \$127 thousand of equipment and software was disposed during the year. These disposals were fully depreciated. During the year GASB 96 was implemented, this GASB is for Subscription-Based Information Technology Arrangements (SBITA's). In the current year the Organization implemented a new One Card Software system under at five-year contract, which brought a new asset of about \$370 thousand (net) on the Organizations books along with related current and long-term liabilities totaling about \$264 thousand. There was also depreciation expense of about \$69 thousand during the year.

Other long-term investments decreased by \$500,000. Other long-term investments include real estate. The real estate was appraised in the current year and valued at \$2.5 million, the last appraisal was done in the 2021 year.

Current liabilities decreased by \$71,380. Current liabilities include: accounts payable, unearned revenue, SBITA liabilities – current portion, and other current liabilities. There was a \$50 thousand decline in accounts payable along with a \$69 thousand decline in the balance of wolfbucks and bonus dollars along with some other small declines in unearned revenue and other liabilities but these were offset by the SBITA current liability of about \$60 thousand which is new this year due to the implementation of GASB 96, mentioned above.

Noncurrent liabilities increased by \$204,373. Noncurrent liabilities include: SBITA liabilities – noncurrent portion. This is a new category on the Statement of Net Position this year due to the implementation of GASB 96 and relates to multi year SBITA contracts, mentioned above.

Net position decreased by \$455,869 reflecting the cumulative net change in assets and liabilities for the year.

Statements of Net Position Variance Analysis Between 2022 and 2021

Current assets decreased by \$611,051. Current assets include: cash and cash equivalents, short-term investments, accounts receivable, prepaid expenses, inventory and other current assets. There was an approximate \$793 thousand decrease in cash and short-term investments; these resources were spent on operating needs during the year. This decrease was offset by an increase in inventory at the Organization's venues and an increase in the amount due from the University for various catering and services.

Capital assets, net decrease by \$55,695. There were \$14,492 in software additions offset by depreciation expensed during the year of \$70,187.

Other long-term investments remained unchanged. Other long-term investments include real estate. The real estate was appraised in the 2021 year and valued at \$3 million.

Current liabilities decreased by \$1,179,726. Current liabilities include: accounts payable, unearned revenue, and other current liabilities. The Organization did obtain a Paycheck Protection Program (PPP) round 2 loan for \$1,155,000 during the 2021 year and that loan was forgiven by the Small Business Administration (SBA) in the 2022 year. These loans were reported in other current liabilities until they were forgiven by the SBA.

Net position increased by \$512,980 reflecting the cumulative net change in assets and liabilities for the year.

SONOMA STATE ENTERPRISES, INC.**Management's Discussion and Analysis**

June 30, 2023

Condensed Statements of Revenues, Expenses and Changes in Net Position
for the Fiscal Years Ended June 30, 2023 and 2022

	2023	2022	Change	
			\$	%
Revenues and expenses:				
Operating revenues	\$ 6,722,795	\$ 5,280,775	\$ 1,442,020	27%
Operating expenses	(6,683,422)	(5,936,779)	(746,643)	13%
Net operating income (loss)	39,373	(656,004)	695,377	-106%
Nonoperating revenues (expenses):				
Investment return, net	(494,144)	21,767	(515,911)	-2370%
Other nonoperating (expenses) revenues	(1,098)	1,147,217	(1,148,315)	-100%
Net nonoperating revenues (expenses)	(495,242)	1,168,984	(1,664,226)	-142%
Change in net position	(455,869)	512,980	(968,849)	-189%
Net position, beginning of year	5,264,755	4,751,775	512,980	11%
Net position, end of year	\$ 4,808,886	\$ 5,264,755	\$ (455,869)	-9%

Condensed Statements of Revenues, Expenses and Changes in Net Position
for the Fiscal Years Ended June 30, 2022 and 2021

	2022	2021	Change	
			\$	
Revenues and expenses:				
Operating revenues	\$ 5,280,775	\$ 1,100,352	\$ 4,180,423	
Operating expenses	(5,936,779)	(4,657,073)	(1,279,706)	27%
Net operating loss	(656,004)	(3,556,721)	2,900,717	-82%
Nonoperating revenues (expenses):				
Investment return, net	21,767	(1,580,448)	1,602,215	-101%
Other nonoperating revenues	1,147,217	947,500	199,717	21%
Net nonoperating revenues (expenses)	1,168,984	(632,948)	1,801,932	-285%
Change in net position	512,980	(4,189,669)	4,702,649	-112%
Net position, beginning of year	4,751,775	8,941,444	(4,189,669)	-47%
Net position, end of year	\$ 5,264,755	\$ 4,751,775	\$ 512,980	11%

SONOMA STATE ENTERPRISES, INC.

Management's Discussion and Analysis

June 30, 2023

Revenue and Expense Variance Analysis between 2023 and 2022

Operating revenues are sales net of cost of goods sold, and are typically comprised of dining services (The Kitchens, Cash operation venues, Catering, Vending and Concessions), and outsourced bookstore operations. Operating revenues increased by \$1,442,020 this year. The Kitchens, SIP, Lobo and W&B (via mobile order only) were open the entire year and Toast was open all of the spring 2023 semester. There was also a strong summer conference season this past year.

Operating expenses increased by \$746,643 over the prior year. Operating expenses include salaries and benefits paid the University for employees and various supplies and services. There was an increase of 27% in revenue and only a 13% increase in operating expenses. The Organization continues to slowly adjust expense to meet operational needs.

Investment earnings, net decrease by \$515,911. In the current year the Organization received investment earnings from its short-term investments and an updated appraisal for the land was obtained. With that new appraised value, the Organization realized a loss of \$500 thousand and the land is recorded at market value. Putting the realized loss aside the Organization had investment income of approximately \$6 thousand.

Other nonoperating revenue/expense decreased by \$1,148,315. In the prior year the Organization received notification from the SBA that the second PPP loan, for about \$1.1 million, was forgiven and the Organization did not need to repay it. Once the SBA forgave this loan in the prior year it became other nonoperating revenue for the Organization.

Revenue and Expense Variance Analysis between 2022 and 2021

Operating revenues are sales net of cost of goods sold, and are typically comprised of dining services (The Kitchens, Cash operation venues, Catering, Vending and Concessions), and outsourced bookstore operations. Operating revenues increased by \$4,180,423 in the prior year. The University was on a hybrid instruction schedule for the entire fiscal year due to the COVID-19 pandemic. The Kitchens and SIP were open the entire year and Lobo was open most of the spring 2022 semester. Some catering services came online during the year as well but very limited.

Operating expenses increased by \$1,279,706 over the prior year. As mentioned above, the Organization was essentially closed in the 2021 year and coming back online during the 2022 year, expenses were scaled to operational needs.

Investment earnings, net increased by \$1,602,215. In the current year the Organization just received investment earnings from its short-term investments. In the prior year the land was appraised and the Organization realized a loss of about \$1.7 million when the value of the land was written down to that appraised market value.

Other nonoperating revenue increased by \$199,717. In the 2021 year the Organization obtained a PPP round 2 loan, which was approximately \$200 thousand more than the PPP round 1 loan received in 2020. In the 2022 year the Organization received notification from the SBA that the loan was forgiven and did not need to be repaid. Once the SBA forgave this loan it became other nonoperating revenue for the Organization.

SONOMA STATE ENTERPRISES, INC.

Management's Discussion and Analysis

June 30, 2023

Factors Impacting Future Periods

Student enrollment at the University has declined, most dramatically at the first-year student level. While the University is trying to reverse this trend, the on-going enrollment environment will continue to negatively impact the Organization and will result in continued revenue and operational challenges.

The University's continuing plans for a smaller hybrid class schedule in 2023 will result in a continued suppression in the Organization's revenue due to a smaller population base on campus. The University continues to support telecommuting for employees resulting in the decline of traditional staff levels on campus. The Organization, in conjunction with the University, continues to plan and adjust to the ongoing revenue challenges expected during the coming period.

The labor market, locally and nationally, continues to be challenged which may result in changes to compensation to attract and retain employees. In addition, labor challenges may impact operations resulting in fewer retail venues and/or reduced hours of operations. These challenges will pressure both the expense and revenue side of the organization.

To address lower enrollment, the continuation of hybrid courses, and telecommuting; the Organization may implement permanent structural changes to operations during the next fiscal year. The intent of these changes is to determine how the Organization's operations should evolve to address our challenges and financial recovery. This may include the permanent renegotiation of existing lease agreements with the University.

The Organization's reserves have been stable and historically above minimum levels. Cash reserves, however, remain just above required working capital needs. To redistribute reserve assets and improve liquidity, the Organization had placed dormant property assets for sale. The University has communicated a desire to use the property assets for future campus needs. In the upcoming period, the Organization will work with the University to balance the needs of reserve distribution and property assets.

The Organization has successfully completed the implementation of a One Card Software system. The ongoing benefits are expected to be lower annual costs and the creation of an open API infrastructure allowing for more flexibility with future technology needs.

The Organization has exercised its contractual right and extended its contract with retail partner Barnes and Noble Education for five additional years. This extension includes the launch of the First Day Complete product (known as Seawolf Bundle on our campus) providing learning materials to the University's students with the implementation of a fee per credit hour. Students may choose to opt out of the fee. The intent of the First Day Complete product is to provide less expensive, more equitable access to learning material while adapting to the new realities of the learning material market. This extension recalculates and reduces the minimum commissions paid to the Organization; however overall commissions are not expected to be materially impacted.

With the University's appointment of Dr. Mike Lee as the permanent President, he will also continue in his role, permanently, as President of this Organization. Leadership transitions may impact the directions and operations of the Organization.

Regional emergencies such as fires and public safety power shut-offs could result in University closures impacting the Organization's revenue.

SONOMA STATE ENTERPRISES, INC.**Statements of Net Position**

June 30, 2023 and 2022

	2023	2022
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 206,445	\$ 24,043
Short-term investments	1,498,576	2,292,944
Accounts receivable, net	700,486	255,520
Prepaid expenses and other current assets	135,523	108,181
Total Current Assets	2,541,030	2,680,688
Noncurrent Assets:		
Other long-term investments	2,500,000	3,000,000
Capital assets, net	685,697	368,915
Total Noncurrent Assets	3,185,697	3,368,915
Total Assets	5,726,727	6,049,603
LIABILITIES		
Current Liabilities:		
Accounts payable	467,005	516,882
Unearned revenue	12,833	51,369
SBITA liabilities - current portion	60,133	-
Other liabilities	173,497	216,597
Total Current Liabilities	713,468	784,848
Noncurrent Liabilities:		
SBITA liabilities - noncurrent portion	204,373	-
Total Noncurrent Liabilities	204,373	-
Total Liabilities	917,841	784,848
NET POSITION		
Net investment in capital assets	420,094	368,915
Unrestricted	4,388,792	4,895,840
Total Net Position	\$ 4,808,886	\$ 5,264,755

SONOMA STATE ENTERPRISES, INC.**Statements of Revenues, Expenses, and Changes in Net Position**

Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Revenues:		
Operating Revenues:		
Other operating revenues - Meal Plans & Catering	\$ 6,420,254	\$ 5,012,701
Other operating revenues	<u>302,541</u>	<u>268,074</u>
Total Operating Revenues	6,722,795	5,280,775
Expenses:		
Operating Expenses:		
Auxiliary enterprise expenses	6,614,048	5,866,592
Depreciation and amortization	<u>69,374</u>	<u>70,187</u>
Total Operating Expenses	<u>6,683,422</u>	<u>5,936,779</u>
Operating Income (Loss)	39,373	(656,004)
Nonoperating Revenues (Expenses):		
Investment return, net	(494,144)	21,767
Other nonoperating revenues (expenses)	<u>(1,098)</u>	<u>1,147,217</u>
Net Nonoperating Revenues (Expenses)	<u>(495,242)</u>	<u>1,168,984</u>
Change in Net Position	(455,869)	512,980
Net Position, beginning	<u>5,264,755</u>	<u>4,751,775</u>
Net Position, ending	<u>\$ 4,808,886</u>	<u>\$ 5,264,755</u>

SONOMA STATE ENTERPRISES, INC.**Statements of Cash Flows**

Years Ended June 30, 2023 and 2022

	2023	2022
Cash Flows from Operating Activities:		
Other receipts - Meal Plans & Catering	\$ 5,892,554	\$ 4,743,720
Other receipts	302,541	268,074
Payments to University for employee wages	(2,678,419)	(1,812,105)
Payments to suppliers	(4,012,848)	(4,002,040)
Net Cash Used in Operating Activities	(496,172)	(802,351)
Cash Flows from Noncapital Financing Activities:		
Other nonoperating expenses	-	1,674
Net Cash Provided by Noncapital Financing Activities	-	1,674
Cash Flows from Capital And Related Financing Activities:		
Purchase of capital assets includes SBITA activity	(121,650)	(14,492)
Net Cash Used in Capital and Related Financing Activities	(121,650)	(14,492)
Cash Flows from Investing Activities:		
Investment income	224	81
Proceeds from sale of investments	800,000	450,000
Net Cash Provided by Investing Activities	800,224	450,081
Net Increase (Decrease) in Cash and Cash Equivalents	182,402	(365,088)
Cash and Cash Equivalents, beginning	24,043	389,131
Cash and Cash Equivalents, ending	\$ 206,445	\$ 24,043

SONOMA STATE ENTERPRISES, INC.**Statements of Cash Flows, continued**

Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating Income (Loss)	\$ 39,373	\$ (656,004)
Adjustments to reconcile operating income to net cash used in by operating activities:		
Depreciation and amortization	69,374	70,187
Change in assets and liabilities:		
Accounts receivable, net	(444,966)	(127,339)
Prepaid expenses and other current assets	(27,342)	(64,469)
Accounts payable	(49,877)	116,916
Unearned revenue	(38,536)	(93,130)
Other liabilities	(44,198)	(48,512)
Net Cash Used in Operating Activities:	\$ <u>(496,172)</u>	\$ <u>(802,351)</u>
Noncash Investing, Capital, and Financing Activities:		
Investment earnings reinvested	\$ <u>5,632</u>	\$ <u>21,686</u>
Unrealized loss on investment property	\$ <u>500,000</u>	\$ <u>-</u>
Forgiveness of Paycheck Protection Program Loan	\$ <u>-</u>	\$ <u>1,155,000</u>

SONOMA STATE ENTERPRISES, INC.

Notes to Financial Statements

Years Ended June 30, 2023 and 2022

Note 1 - Organization

Sonoma State Enterprises, Inc. (the Organization) was formed as an auxiliary organization of the California State University (CSU) as defined in Education Code Section 24054.5 and provides services to the campus of Sonoma State University (the University). As such, the Organization is a component unit of the CSU, which is a component unit of the State of California.

The Organization is involved in the following activities:

- The retail activity oversees the outsourced operations of the Sonoma State University Bookstore.
- The food service activity operates the residence hall food services, various food venues and vending services.

Note 2 - Summary of Significant Accounting Policies

Financial Reporting Entity

The Organization is a legally separate tax-exempt component unit of the University. The University is part of the CSU system.

Costs are allocated to specific activities where possible. Costs not identified with specific activities that relate to the full scope of the Organization's activities are allocated to the operational activities.

The Organization's board appointments require approval from the University President, and as a result, the Organization follows the reporting principles promulgated by the Governmental Accounting Standards Board (GASB).

The basic financial statements present only the Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, and Statements of Cash Flows of the Organization. These statements do not purport to present financial information of the CSU system as a whole.

Basis of Presentation

The accompanying basic financial statements 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 GASB. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The basic financial statements include a Statements of Net Position, a Statements of Revenues, Expenses, and Changes in Net Position, and a Statements of Cash Flows. As a component unit of a public institution, the Organization 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 Organization to be reported in a single column in each of the basic financial statements. In accordance with the business-type activities reporting model, the Organization prepares its Statements of Cash Flows using the direct method.

Classification of Current and Noncurrent Assets and Liabilities

The Organization considers assets to be current that can reasonably be expected, as part of its normal business operations, to be converted to cash and be available for liquidation of current liabilities within twelve months of the Statements of Net Position date. Liabilities that reasonably can be expected, as part of normal business operations, to be liquidated within twelve months of the Statements of Net Position date are considered to be current. All other assets and liabilities are considered to be noncurrent.

SONOMA STATE ENTERPRISES, INC.

Notes to Financial Statements

Years Ended June 30, 2023 and 2022

Note 2 - Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents

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

Accounts Receivable

Accounts receivables arise in the normal course of operations. It is the policy of management to review the outstanding accounts receivable at year end, as well as the bad debt write-offs experienced in the past, and establish an allowance for doubtful accounts for uncollectible amounts. A provision for doubtful accounts has not been established as management considers all accounts to be collectible based upon a favorable history over a substantial period of time. If amounts become uncollectible, they will be charged to operations when that determination is made.

Investments

Investments are reflected at fair value using quoted market prices when available. For investments that do not have quoted market prices readily available, the fair value is determined by the Organization to be the most recent reported asset value adjusted for factors which might necessitate an adjustment, such as ongoing due diligence monitoring and significant market changes.

The long-range investment goal of the Organization is to ensure the continued health and growth of the Organization by achieving a maximum rate of return on assets based on a desired level of risk and consistent with prudent investment management. The general policy of the Organization shall be to diversify investments so as to provide a balance that will enhance total return while avoiding undue risk concentration in any single asset class or investment category.

Changes in the fair value of investments are reported as part of investment income in the Statements of Revenues, Expenses, and Changes in Net Position. For the years ended June 30, 2023 and 2022, cost is equal to fair market value.

Investments in real property include approximately 89 acres of land that was purchased by the Organization in July 2005. This property was appraised this fiscal year as the Organization wanted to ensure it was accounted for at fair market value.

Inventory

Inventory is valued using the average cost method. Inventory totaled \$125,093 and \$108,181 at June 30, 2023 and 2022, respectively, and is included in prepaid expenses and other current assets in the Statements of Net Position.

Implementation of New Accounting Standard

During the fiscal year ended June 30, 2023, the Organization implemented GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. This statement provides guidance on the accounting and financial reporting for subscription-based information technology (SBITAs) for governmental end users. See Note 7 for additional information regarding the arrangement.

SONOMA STATE ENTERPRISES, INC.

Notes to Financial Statements

Years Ended June 30, 2023 and 2022

Note 2 - Summary of Significant Accounting Policies, continued

Capital Assets

Capital assets, which include property, equipment, and intangible assets, are stated at cost. Capital assets with a value of \$5,000 or more and with a useful life of one year or more are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of assets, which range from five to thirty-nine years. Amortization of intangible assets, which consist of software, is computed using the straight-line method over the useful lives of five years. Depreciation and amortization expense are shown separately in the Statements of Revenues, Expenses, and Changes in Net Position rather than being allocated among other categories of operating expenses. The Organization did implement GASB 96 *Subscription-Based Information Technology Arrangements*, this year, commonly referred to as SBITA.

Unearned Revenue

Unearned revenue consists of payments received in advance from the University in accordance with an operating agreement.

Net Position

The Organization's net position is classified into the following categories:

Net investment in capital assets: Capital assets, net of accumulated depreciation, amortization, and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Unrestricted: All other categories of net position whose use is not restricted. Unrestricted net position may be designated for use by management or the Board of Directors to support future operations.

Classification of Revenues and Expenses

The Organization considers operating revenues and expenses in the Statements of Revenues, Expenses, and Changes in Net Position to be those revenues and expenses that result from exchange transactions or from other activities that are connected directly to the Organization's primary operations. Exchange transactions include charges for services rendered and the acquisition of goods and services. Certain other transactions are reported as nonoperating revenues and expenses. These nonoperating activities include net investment income and interest expense.

Income Taxes

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and from California franchise and income tax under section 23701(d) of the Revenue and Taxation code.

The Organization follows accounting standards generally accepted in the United States of America related to the recognition of uncertain tax positions. The Organization recognizes accrued interest and penalties associated with uncertain tax positions as part of the Statements of Revenues, Expenses, and Changes in Net Position, when applicable. Management has determined that the Organization has no uncertain tax positions at June 30, 2023 and 2022 and therefore no amounts have been accrued.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions based on management's knowledge and experience. Those estimates affect the reported amounts of assets and liabilities, and the reported amount of revenue, support and expenses. The use of management's estimates primarily relates to the depreciable lives of capital assets. Actual results could differ from those estimates.

Subsequent Events

The Organization has evaluated subsequent events through September 25, 2023, which is the date the financial statements were available to be issued.

SONOMA STATE ENTERPRISES, INC.

Notes to Financial Statements

Years Ended June 30, 2023 and 2022

Note 3 - Cash and Cash Equivalents

Cash and cash equivalents at June 30 are as follows:

	2023	2022
Book balance	\$ 206,445	\$ 24,043
Bank balance	464,610	19,101
Difference between book and bank balance	<u>\$ (258,165)</u>	<u>\$ 4,942</u>
Significant reconciling items consist of:		
Deposits in transit	\$ 2,334	\$ 1,621
Outstanding checks	(277,299)	(12,679)
Cash and change fund	16,800	16,000
	<u>\$ (258,165)</u>	<u>\$ 4,942</u>

Note 4 - Investments

Composition of Investments

The market approach is the valuation technique that the Organization utilizes. Quoted market prices for identical assets in an active market are used to value some of the Organization's investments (Level 1). Quoted market prices for similar assets or quoted prices for identical assets but not in active markets are used to value some of the Organization's investments (Level 2). Investments with unobservable inputs significant to the fair value measurement include real estate (Level 3). As a practical expedient, certain financial instruments may be valued using net asset value (NAV) per share. NAV is the amount of net assets attributable to each share of outstanding capital stock at the end of the period. These prices and values are estimates from financial institutions as of June 30, 2023 and 2022. There have been no changes in the Organization's valuation techniques for the years presented.

The Organization participates in an internal investment pool managed by US Bank, an asset management and investment advisory firm that serves the California State University. Securities within the investment pool are not held in the Organization's name and are not insured. The investments are held in the name of California State University. Fair market value was \$1,498,576 as of June 30, 2023, and \$2,292,944 as of June 30, 2022. Fair market value is based on the Organization's proportionate interest in the University's US Bank account.

Other investments are reported as other long-term investments on the Statements of Net Position and totaled \$2,500,000 as of June 30, 2023 and \$3,000,000 as of June 30, 2022.

SONOMA STATE ENTERPRISES, INC.**Notes to Financial Statements**Years Ended June 30, 2023 and 2022

Note 4 - Investments, continued

Composition of investments at June 30, 2023:

	Short-term	Long-term	Total
CSU Consolidated Investment pool	\$ 1,498,576	\$ -	\$ 1,498,576
Real estate	-	2,500,000	2,500,000
	<u>\$ 1,498,576</u>	<u>\$ 2,500,000</u>	<u>\$ 3,998,576</u>

Composition of investments at June 30, 2022:

	Short-term	Long-term	Total
CSU Consolidated Investment pool	\$ 2,292,944	\$ -	\$ 2,292,944
Real estate	-	3,000,000	3,000,000
	<u>\$ 2,292,944</u>	<u>\$ 3,000,000</u>	<u>\$ 5,292,944</u>

Investment Costs and Fair Market Values

The Organization does not hold investments on behalf of others.

Aggregated costs and fair values of investments at June 30, 2023 are as follows:

	Cost	Fair Value
CSU Consolidated Investment pool	\$ 1,498,576	\$ 1,498,576
Real estate	2,500,000	2,500,000
Total investments	<u>\$ 3,998,576</u>	<u>\$ 3,998,576</u>

Aggregated costs and fair values of investments at June 30, 2022 are as follows:

	Cost	Fair Value
CSU Consolidated Investment pool	\$ 2,292,944	\$ 2,292,944
Real estate	3,000,000	3,000,000
Total investments	<u>\$ 5,292,944</u>	<u>\$ 5,292,944</u>

SONOMA STATE ENTERPRISES, INC.**Notes to Financial Statements**

Years Ended June 30, 2023 and 2022

Note 4 - Investments, continuedComposition of Investments Using Hierarchy

The fair market value of investments is categorized as follows for the year ended June 30, 2023:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value (NAV)
CSU Consolidated Investment pool	\$ 1,498,576	\$ -	\$ -	\$ -	\$ 1,498,576
Real estate	2,500,000	-	-	2,500,000	-
Total investments	<u>\$ 3,998,576</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,500,000</u>	<u>\$ 1,498,576</u>

As of June 30, 2023, the only long-term investment the Organization owned was the real estate valued at \$2,500,000. This investment falls within Level 3 of the hierarchy. There are no unfunded commitments relating to this asset and there is no redemption period or frequency.

The fair market value of investments is categorized as follows for the year ended June 30, 2022:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value (NAV)
CSU Consolidated Investment pool	\$ 2,292,944	\$ -	\$ -	\$ -	\$ 2,292,944
Real estate	3,000,000	-	-	3,000,000	-
Total investments	<u>\$ 5,292,944</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,000,000</u>	<u>\$ 2,292,944</u>

As of June 30, 2022, the only long-term investment the Organization owned was the real estate valued at \$3,000,000. This investment falls within Level 3 of the hierarchy.

Changes in the fair value of NAV investments are as follows for the years ended June 30:

	2023	2022
Fair value, beginning of year	\$ 2,292,944	\$ 2,721,258
Withdrawals	(800,000)	(450,000)
Unrealized gains	5,632	21,686
	<u>\$ 1,498,576</u>	<u>\$ 2,292,944</u>

SONOMA STATE ENTERPRISES, INC.

Notes to Financial Statements

Years Ended June 30, 2023 and 2022

Note 5 - Deposit and Investment Risk

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of the counterparty (custodial broker), the Organization would not be able to recover the value of its investments or collateral securities that are in the possession of the outside party.

Financial instruments that potentially subject the Organization to custodial credit risk consist primarily of bank demand deposits and investments in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC) or the Securities Investors Protector Corporation (SIPC). The Organization had cash on deposit with one financial institution, which exceeded the federally insured limit by \$214,610 as of June 30, 2023. The Organization's bank balance didn't exceed the federally insurance limit as of June 30, 2022.

The Organization does not have a policy for addressing custodial credit risk related to deposits and investments.

Concentration of Credit Risk

The Organization does not limit the amount that may be invested in any one issuer. Management believes that investments are adequately diversified and don't give rise to significant concentration of credit risk. Investment in one entity (real estate) represents 63% and 57% of the total investment fair value at June 30, 2023 and 2022, respectively.

Credit Risk

Generally, 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. The Organization participates in an internal investment pool managed by US Bank, an asset management and investment advisory firm that serves the CSU.

Interest Rate Risk

Interest rate risk is the risk of exposure to fair value losses resulting from rising interest rates. At June 30, 2023 and 2022, the Organization had none to minimal interest rate risk.

The Organization's short-term investments are held as agency trust funds by the University. The CSU manages its exposure to interest rate risk by purchasing a combination of short-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 flows and liquidity needed for operations. The California State University monitors the interest rate risk inherent in its portfolio.

SONOMA STATE ENTERPRISES, INC.**Notes to Financial Statements**

Years Ended June 30, 2023 and 2022

Note 6 - Capital Assets

Capital assets activity for the year ended June 30, 2023 consisted of the following:

	Balance June 30, 2022	Additions	Reductions	Balance June 30, 2023
Nondepreciable capital assets:				
Works of art and historical treasures	\$ 13,369	\$ -	\$ -	\$ 13,369
Total nondepreciable capital assets	13,369	-	-	13,369
Depreciable capital assets:				
Buildings and building improvements	442,249	-	-	442,249
Personal property:				
Equipment	512,701	24,532	(38,821)	498,412
Software - SBITA	-	376,116	-	376,116
Software and websites	125,087	(14,492)	(87,796)	22,799
Total depreciable capital assets	1,080,037	386,156	(126,617)	1,339,576
Total capital assets	1,093,406	386,156	(126,617)	1,352,945
Less accumulated depreciation:				
Buildings and building improvements	(232,286)	(18,139)	-	(250,425)
Personal property:				
Equipment	(384,934)	(37,769)	38,821	(383,882)
Software - SBITA	-	(6,269)	-	(6,269)
Software and websites	(107,271)	(7,197)	87,796	(26,672)
Total accumulated depreciation	(724,491)	(69,374)	126,617	(667,248)
Total capital assets, net	\$ 368,915	\$ 316,782	\$ -	\$ 685,697

SONOMA STATE ENTERPRISES, INC.**Notes to Financial Statements**

Years Ended June 30, 2023 and 2022

Note 6 - Capital Assets, continued

Capital assets activity for the year ended June 30, 2022 consisted of the following:

	Balance June 30, 2021	Additions	Reductions	Balance June 30, 2022
Nondepreciable capital assets:				
Works of art and historical treasures	\$ 13,369	\$ -	\$ -	\$ 13,369
Total nondepreciable capital assets	13,369	-	-	13,369
Depreciable capital assets:				
Buildings and building improvements	442,249	-	-	442,249
Personal property:				
Equipment	512,701	-	-	512,701
Software and websites	305,551	14,492	(194,956)	125,087
Total depreciable capital assets	1,260,501	14,492	(194,956)	1,080,037
Total capital assets	1,273,870	14,492	(194,956)	1,093,406
Less accumulated depreciation:				
Buildings and building improvements	(214,148)	(18,138)	-	(232,286)
Personal property:				
Equipment	(338,894)	(46,040)	-	(384,934)
Software and websites	(296,218)	(6,009)	194,956	(107,271)
Total accumulated depreciation	(849,260)	(70,187)	194,956	(724,491)
Total capital assets, net	\$ 424,610	\$ (55,695)	\$ -	\$ 368,915

Depreciation expense was \$69,374 and \$70,187 for the years ended June 30, 2023 and 2022, respectively, and is included in operating expenses in the Statements of Revenues, Expenses, and Changes in Net Position.

Note 7 - Subscription Based Information Technology Arrangements

In the current year, the Organization implemented a new One Card Software system under a five-year contract. The Organization utilizes a One Card system to provide the campus community with the ability to use a campus issued card as a form of identification and tender in select locations on campus.

Assets acquired under leases at June 30, 2023 are summarized below:

Software - SBITA	\$ 376,116
Accumulated amortization	(6,269)
Total assets, net	\$ 369,847

SONOMA STATE ENTERPRISES, INC.**Notes to Financial Statements**Years Ended June 30, 2023 and 2022

Note 7 - Subscription Based Information Technology Arrangements, continued

The annual future minimum lease payments as of June 30, 2023, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>
2024	\$ 73,610
2025	73,610
2026	76,028
2027	<u>76,028</u>
Total lease payments	299,276
Less interest	<u>(34,770)</u>
Present value of lease liabilities	<u><u>\$ 264,506</u></u>
Other information:	
ROU assets obtained in exchange for lease liabilities	\$ 376,116
Weighted-average remaining lease term in years	5
Weighted-average discount rate	4.98%

Note 8 - Other Current Liabilities

	<u>2023</u>	<u>2022</u>
Wolfbucks and bonus dollars	\$ 137,457	\$ 206,721
Other current liabilities	<u>36,040</u>	<u>9,876</u>
Total other current liabilities	<u><u>\$ 173,497</u></u>	<u><u>\$ 216,597</u></u>

Note 9 - Risk Management

The Organization is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Organization has joined other CSU auxiliaries in the CSU Risk Management Authority (CSURMA), a public entity risk pool. The Organization pays an annual premium to CSURMA for its general insurance coverage. The intent is for CSURMA to remain self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$15,000,000 limit per each insured event. For the years ended June 30, 2023 and 2022, \$55,886 and \$38,507 was paid for annual premiums, respectively.

SONOMA STATE ENTERPRISES, INC.

Notes to Financial Statements

Years Ended June 30, 2023 and 2022

Note 10 - Commitments and Contingencies

The Organization outsources its bookstore operations to Barnes and Noble College Booksellers, Inc. (B & N). The agreement with B & N continues through June 30, 2023, and then may be renewed for two additional five-year periods upon mutual agreement. Prior to June 30, 2023, the Organization exercised the first five-year renewal period so the contract now goes through June 30, 2028 and there is still one more five-year option period upon mutual agreement. This extension includes the launch of the First Day Complete product (known as Seawolf Bundle on our campus) providing learning materials to the University's students with the implementation of a fee per credit hour. Students may choose to opt out of the fee. The intent of the First Day Complete product is to provide less expensive, more equitable access to learning material while adapting to the new realities of the learning material market.

Under the terms of the agreement, the Organization has commitments to provide B & N with infrastructure and services. More specifically, the Organization provides utilities, building maintenance, existing equipment, local telephone/data service, telecommunications and network systems access, trash and extermination services, and participation in debit, credit or Wolfbucks card programs. Annually, B & N will pay the Organization a guaranteed payment or applicable percentage of gross sales, whichever is greater, plus 1% of annual sales to help offset utility expenses. Additionally, B & N provides an annual unrestricted contribution.

Note 11 - Classification of Operating Expenses

The Organization has elected to report operating expenses by functional classification in the Statements of Revenues, Expenses, and Changes in Net Position, and to provide the natural classification of those expenses as an additional disclosure. For the year ended June 30, 2023, operating expenses by natural classification consisted of the following:

	Supplies and other services	Depreciation and amortization	Total
Auxiliary enterprise expenses	\$ 6,614,048	\$ -	\$ 6,614,048
Depreciation	-	69,374	69,374
Total	<u>\$ 6,614,048</u>	<u>\$ 69,374</u>	<u>\$ 6,683,422</u>

For the year ended June 30, 2022 operating expenses by natural classification consisted of the following:

	Supplies and other services	Depreciation and amortization	Total
Auxiliary enterprise expenses	\$ 5,866,592	\$ -	\$ 5,866,592
Depreciation	-	70,187	70,187
Total	<u>\$ 5,866,592</u>	<u>\$ 70,187</u>	<u>\$ 5,936,779</u>

SONOMA STATE ENTERPRISES, INC.

Notes to Financial Statements

Years Ended June 30, 2023 and 2022

Note 12 - Transactions with Related Entities

The Organization has an operating agreement with the University for the provision of certain auxiliary activities including managing and operating the campus cafeteria, dining and vending services, and overseeing the outsourced bookstore operations. The agreement permits the Organization to use buildings and facilities within the campus in the provision of these services. The agreement provides for reimbursement of allowable direct costs plus an allocable portion of indirect costs associated with facilities, goods and services provided by the University on behalf of the Trustees in accordance with CSU Executive Order 1000-Allocation of Costs to Auxiliary Enterprises and the University's annual cost allocation plan. Fees paid or accrued during the years ended June 30, 2023 and 2022, are reflected in the following table.

The Organization does not have full-time benefited employees. It contracts with the University to provide all employee services. The Organization is responsible for reimbursing the University for all direct employee related expenses it incurs as reflected below. These amounts are included in auxiliary enterprise expenses in the Statements of Revenues, Expenses, and Changes in Net Position.

The accompanying financial statements include the following transactions with related parties as of and for the years ended June 30:

	2023	2022
	<u>2023</u>	<u>2022</u>
Payments to the University in accordance with CSU Executive Order 1000	\$ 484,304	\$ 914,290
Facility rental payments to the University	1,393,942	1,162,292
Reimbursements to the University for employee – related expenses, included in supplies and services	3,969,415	3,206,445
Payments to the University for other supplies and services	<u>177,757</u>	<u>108,840</u>
	<u>\$ 6,025,418</u>	<u>\$ 5,391,867</u>
Amounts received from the University as pass through relating to meal plans, summer conferences, catering and wolfbucks (operating revenue)	<u>\$ 7,082,484</u>	<u>\$ 5,547,285</u>
Accounts payable to University at the end of the year	<u>\$ 392,367</u>	<u>\$ 369,116</u>
Accounts receivable from the University at the end of the year	<u>\$ 582,506</u>	<u>\$ 185,791</u>
Accounts receivable from the Foundation at the end of the year	<u>\$ 477</u>	<u>\$ -</u>
Accounts receivable from the Associated Students at the end of the year	<u>\$ -</u>	<u>\$ 1,346</u>
Accounts payable to the Associated Students at the end of the year	<u>\$ 1,083</u>	<u>\$ -</u>
Payments to other auxiliaries for program activities (included in operating expenses)	<u>\$ 58,129</u>	<u>\$ 28,921</u>
Receipts from other auxiliaries for program activities (included in sales and services)	<u>\$ 3,809</u>	<u>\$ 1,781</u>

SONOMA STATE ENTERPRISES, INC.

Notes to Financial Statements

Years Ended June 30, 2023 and 2022

Note 13 - Concentrations

The Organization is dependent on third party food distributors for all of its supply of food. In the year ended June 30, 2023, products purchased from the Organization's largest supplier accounted for 45% of operating expenses after losses, and related party expenses. In the year ended June 30, 2022, there was also one supplier that accounted for 40% of operating expenses after losses, and related party expenses. Management believes that the Organization can obtain food at comparable prices from other suppliers.

Note 14 - Calculation of Net Investment in Capital Assets

The Net Investment in Capital Assets at June 30 is as follows:

	<u>2023</u>	<u>2022</u>
Capital assets, net of accumulated depreciation	\$ 685,697	\$ 368,915
Debt related to SBITA	<u>(265,603)</u>	<u>-</u>
	<u><u>\$ 420,094</u></u>	<u><u>\$ 368,915</u></u>

SUPPLEMENTAL INFORMATION

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Audit Committee
Sonoma State Enterprises, Inc.

We have audited, in accordance with the 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, the financial statements of Sonoma State Enterprises, Inc. (the Organization) which comprise the statement of net position as of June 30, 2023, the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 25, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from 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. 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Aldrich CPAs + Advisors LLP

San Diego, California
September 25, 2023

**INFORMATION FOR THE CALIFORNIA
STATE UNIVERSITY CHANCELLOR'S OFFICE**

SONOMA STATE ENTERPRISES, INC.

Schedule of Net Position

June 30, 2023

(for inclusion in the California State University)

Assets:		
Current assets:		
Cash and cash equivalents	\$	206,445
Short-term investments		1,498,576
Accounts receivable, net		700,486
Lease receivable, current portion		-
P3 receivable, current portion		-
Notes receivable, current portion		-
Pledges receivable, net		-
Prepaid expenses and other current assets		135,523
Total current assets		2,541,030
Noncurrent assets:		
Restricted cash and cash equivalents		-
Accounts receivable, net		-
Lease receivable, net of current portion		-
P3 receivable, net of current portion		-
Notes receivable, net of current portion		-
Student loans receivable, net		-
Pledges receivable, net		-
Endowment investments		-
Other long-term investments		2,500,000
Capital assets, net		315,850
Other assets		-
Total noncurrent assets		2,815,850
Total assets		5,356,880
Deferred outflows of resources:		
Unamortized loss on debt refunding		-
Net pension liability		-
Net OPEB liability		-
Leases		369,847
P3		-
Others		-
Total deferred outflows of resources		369,847
Liabilities:		
Current liabilities:		
Accounts payable		467,005
Accrued salaries and benefits		-
Accrued compensated absences, current portion		-
Unearned revenues		12,833
Lease liabilities, current portion		-
SBITA liabilities - current portion		-
P3 liabilities - current portion		60,133
Long-term debt obligations, current portion		-
Claims liability for losses and loss adjustment expenses, current portion		-
Depository accounts		-
Other liabilities		173,497
Total current liabilities		713,468
Noncurrent liabilities:		
Accrued compensated absences, net of current portion		-
Unearned revenues		-
Grants refundable		-
Lease liabilities, net of current portion		-
SBITA liabilities, net of current portion		-
P3 liabilities, net of current portion		204,373
Long-term debt obligations, net of current portion		-
Claims liability for losses and loss adjustment expenses, net of current portion		-
Depository accounts		-
Net other postemployment benefits liability		-
Net pension liability		-
Other liabilities		-
Total noncurrent liabilities		204,373
Total liabilities		917,841
Deferred inflows of resources:		
P3 service concession arrangements		-
Net pension liability		-
Net OPEB liability		-
Unamortized gain on debt refunding		-
Nonexchange transactions		-
Lease		-
P3		-
Others		-
Total deferred inflows of resources		-
Net position:		
Net investment in capital assets		420,094
Restricted for:		
Nonexpendable – endowments		-
Expendable:		
Scholarships and fellowships		-
Research		-
Loans		-
Capital projects		-
Debt service		-
Others		-
Unrestricted		4,388,792
Total net position	\$	4,808,886

SONOMA STATE ENTERPRISES, INC.**Schedule of Revenues, Expenses, and Changes in Net Position**

Year Ended June 30, 2023

(for inclusion in the California State University)

Revenues:**Operating revenues:**

Student tuition and fees, gross	\$	-
Scholarship allowances (enter as negative)		-
Grants and contracts, noncapital:		
Federal		-
State		-
Local		-
Nongovernmental		-
Sales and services of educational activities		-
Sales and services of auxiliary enterprises, gross		-
Scholarship allowances (enter as negative)		-
Other operating revenues		6,722,795
Total operating revenues		6,722,795

Expenses:**Operating expenses:**

Instruction		-
Research		-
Public service		-
Academic support		-
Student services		-
Institutional support		-
Operation and maintenance of plant		-
Student grants and scholarships		-
Auxiliary enterprise expenses		6,614,048
Depreciation and amortization		69,374
Total operating expenses		6,683,422
Operating income (loss)		39,373

Nonoperating revenues (expenses):

State appropriations, noncapital		-
Federal financial aid grants, noncapital		-
State financial aid grants, noncapital		-
Local financial aid grants, noncapital		-
Nongovernmental and other financial aid grants, noncapital		-
Other federal nonoperating grants, noncapital		-
Gifts, noncapital		-
Investment income (loss), net		(494,144)
Endowment income (loss), net		-
Interest expense		(1,098)
Other nonoperating revenues (expenses)		-
Net nonoperating revenues (expenses)		(495,242)
Income (loss) before other revenues (expenses)		(455,869)

State appropriations, capital		-
Grants and gifts, capital		-
Additions (reductions) to permanent endowments		-
Increase (decrease) in net position		(455,869)

Net position:

Net position at beginning of year, as previously reported		5,264,755
Restatements		-
Net position at beginning of year, as restated		5,264,755
Net position at end of year	\$	4,808,886

SONOMA STATE ENTERPRISES, INC.

Other Information

June 30, 2023

(for inclusion in the California State University)

1 Cash and cash equivalents:

Current cash and cash equivalents	\$ 206,445
Total	\$ 206,445

2.1 Composition of investments:

Investment Type	Current	Noncurrent	Total
Alternative investments:			
Real estate investments (including REITs)	\$ -	\$ 2,500,000	\$ 2,500,000
CSU Consolidated Investment Pool (formerly SWIFT)	1,498,576	-	1,498,576
Total investments	1,498,576	2,500,000	3,998,576
Less endowment investments (enter as negative number)	-	-	-
Total investments, net of endowments	\$ 1,498,576	\$ 2,500,000	\$ 3,998,576

2.2 Fair value hierarchy in investments:

Investment Type	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value (NAV)
Alternative investments:					
Real estate investments (including REITs)	\$ 2,500,000	\$ -	\$ -	\$ 2,500,000	\$ -
CSU Consolidated Investment Pool (formerly SWIFT)	1,498,576	-	-	-	1,498,576
Total investments	\$ 3,998,576	\$ -	\$ -	\$ 2,500,000	\$ 1,498,576

2.3 Investments held by the University under contractual agreements:

	Current	Noncurrent	Total
Investments held by the University under contractual agreements			
e.g. - CSU Consolidated Investment Pool (formerly SWIFT):	\$ 1,498,576	\$ -	\$ 1,498,576

SONOMA STATE ENTERPRISES, INC.

Other Information, continued

June 30, 2023

(for inclusion in the California State University)

3.1 Capital Assets, excluding ROU assets:

<u>Composition of capital assets, excluding ROU assets:</u>	Balance June 30, 2022	Reclassifications	Prior Period Additions	Prior Period Retirements	Balance June 30, 2022 (Restated)	Additions	Retirements	Transfer of completed CWIP/PWIP	Balance June 30, 2023
Non-depreciable/Non-amortizable capital assets:									
Works of art and historical treasures	\$ 13,369	\$ -	\$ -	\$ -	\$ 13,369	\$ -	\$ -	\$ -	\$ 13,369
Total non-depreciable/non-amortizable capital assets	\$ 13,369	\$ -	\$ -	\$ -	\$ 13,369	\$ -	\$ -	\$ -	\$ 13,369
Depreciable/Amortizable capital assets:									
Buildings and building improvements	442,249	-	-	-	442,249	-	-	-	442,249
Personal property:									
Equipment	512,701	14,492	-	-	527,193	10,040	(38,821)	-	498,412
Intangible assets:									
Software and websites	125,087	(14,492)	-	-	110,595	-	(87,796)	-	22,799
Total intangible assets	125,087	(14,492)	-	-	110,595	-	(87,796)	-	22,799
Total depreciable/amortizable capital assets	1,080,037	-	-	-	1,080,037	10,040	(126,617)	-	963,460
Total capital assets	\$ 1,093,406	\$ -	\$ -	\$ -	\$ 1,093,406	\$ 10,040	\$ (126,617)	\$ -	\$ 976,829
Less accumulated depreciation/amortization:									
Buildings and building improvements	\$ (232,286)	\$ -	\$ -	\$ -	\$ (232,286)	\$ (18,139)	\$ -	\$ -	\$ (250,425)
Personal property:									
Equipment	(384,934)	-	-	-	(384,934)	(37,769)	38,821	-	(383,882)
Intangible assets:									
Software and websites	(107,271)	-	-	-	(107,271)	(7,197)	87,796	-	(26,672)
Total intangible assets	(107,271)	-	-	-	(107,271)	(7,197)	87,796	-	(26,672)
Total accumulated depreciation/amortization	(724,491)	-	-	-	(724,491)	(63,105)	126,617	-	(660,979)
Total capital assets, net excluding ROU assets	\$ 368,915	\$ -	\$ -	\$ -	\$ 368,915	\$ (53,065)	\$ -	\$ -	\$ 315,850

Capital Assets, ROU

<u>Composition of capital assets - SBITA ROU, net</u>	Balance June 30, 2022	Reclassifications	Prior Period Additions	Prior Period Reductions	Balance June 30, 2022 (Restated)	Additions	Remeasurements	Reductions	Balance June 30, 2023
Depreciable/Amortizable SBITA assets:									
Software	\$ -	\$ -	\$ -	\$ -	\$ -	376,116	\$ -	\$ -	\$ 376,116
Total depreciable/amortizable SBITA assets	-	-	-	-	-	376,116	-	-	\$ 376,116
Less accumulated depreciation/amortization:									
Software	-	-	-	-	-	(6,269)	-	-	(6,269)
Total accumulated depreciation/amortization	-	-	-	-	-	(6,269)	-	-	(6,269)
Total capital assets - SBITA ROU, net	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 369,847	\$ -	\$ -	\$ 369,847
Total capital assets, net including ROU assets									\$ 685,697

3.2 Detail of depreciation and amortization expense:

Depreciation and amortization expense - capital assets, excluding ROU assets	\$ 63,105
Amortization expense - SBITA ROU	6,269
Total depreciation and amortization	\$ 69,374

SONOMA STATE ENTERPRISES, INC.

Other Information, continued

June 30, 2023

(for inclusion in the California State University)

4 Long-term liabilities:

1. Accrued compensated absences Not applicable
2. Claims liability for losses and loss adjustment expenses Not applicable
3. Capital lease obligations (pre-ASC 842):

	Balance June 30, 2022	Prior Period Adjustments/ Reclassifications	Balance June 30, 2022 (Restated)	Additions	Reductions	Balance June 30, 2023	Current Portion	Noncurrent Portion
Gross balance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unamortized net premium/(discount)	-	-	-	-	-	-	-	-
Total capital lease obligations (pre ASC 842)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

4 Long-term debt obligations:

Not applicable

5 Lease, SBITA, P3 liabilities:

	Balance June 30, 2022	Prior Period Adjustments/ Reclassifications	Additions	Remeasurements	Reductions	Balance June 30, 2023	Current Portion	Noncurrent Portion
SBITA liabilities	\$ -	\$ -	264,506	\$ -	\$ -	264,506	60,133	204,373
Total Lease, SBITA, P3 liabilities	\$ -	\$ -	264,506	\$ -	\$ -	264,506	60,133	204,373
Total long-term liabilities						\$ 264,506	60,133	204,373

5 Future minimum payments schedule - leases, SBITA, P3:

	Lease Liabilities			SBITA liabilities			Public-Private or Public-Public Partnerships (P3)			Total Leases, SBITA, P3 liabilities		
	Principal	Interest	Principal and Interest	Principal	Interest	Principal and Interest	Principal	Interest	Principal and Interest	Principal Only	Interest Only	Principal and Interest
Year ending June 30:												
2024	\$ -	\$ -	\$ -	60,133	13,228	73,361	\$ -	\$ -	\$ -	60,133	13,228	73,361
2025	-	-	-	63,197	10,151	73,348	-	-	-	63,197	10,151	73,348
2026	-	-	-	68,835	6,908	75,743	-	-	-	68,835	6,908	75,743
2027	-	-	-	72,341	3,386	75,727	-	-	-	72,341	3,386	75,727
Thereafter	-	-	-	-	-	-	-	-	-	-	-	-
Total minimum payments	\$ -	\$ -	\$ -	264,506	33,673	298,179	\$ -	\$ -	\$ -	264,506	33,673	298,179
Less: amounts representing interest												(33,673)
Present value of future minimum payments												264,506
Total Leases, SBITA, P3 liabilities												264,506
Less: current portion												(60,133)
Leases, SBITA, P3 liabilities, net of current portion												\$ 204,373

6 Future minimum payments schedule - Long-term debt obligations:

Not applicable

7 Transactions with related entities:

Payments to University for salaries of University personnel working on contracts, grants, and other programs	\$ 3,969,415
Payments to University for other than salaries of University personnel	\$ 2,056,003
Payments received from University for services, space, and programs	\$ 7,082,484
Accounts payable to University	\$ (392,367)
Accounts receivable from University	\$ 582,506

8 Restatements

Not applicable

9 Natural classifications of operating expenses:

	Salaries	Benefits - Other	Benefits - Pension	Benefits - OPEB	Scholarships and fellowships	Supplies and other services	Depreciation and amortization	Total operating expenses
Auxiliary enterprise expenses	\$ -	\$ -	\$ -	\$ -	\$ -	6,614,048.00	\$ -	\$ 6,614,048.00
Depreciation and amortization	-	-	-	-	-	-	69,374	69,374
Total operating expenses	\$ -	\$ -	\$ -	\$ -	\$ -	6,614,048	\$ 69,374	\$ 6,683,422

No pension plan reported

Not applicable

10 Deferred outflows/inflows of resources:

Not applicable

11 Other nonoperating revenues (expenses)

Not applicable

See independent auditor's report.