

**Sonoma State Enterprises, Inc.**

**Basic Financial Statements  
For the Years Ended  
June 30, 2009 and 2008**

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## Independent Auditors' Report

To the Board of Directors  
Sonoma State Enterprises, Inc.  
Rohnert Park, California

We have audited the accompanying basic financial statements of Sonoma State Enterprises, Inc. (a California not-for-profit corporation) (the "Organization"), a component unit of Sonoma State University, California as of and for the years ended June 30, 2009 and 2008. These basic financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these basic 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 audits 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 basic financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2009 and 2008, the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, ("MD&A") on pages 2 to 5, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United State of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A. However, we did not audit the information and express no opinion on it.

*Pisenti & Brinker LLP*

Petaluma, California  
September 16, 2009

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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, 2009. We encourage the reader to consider the information presented here in conjunction with the financial statements as a whole.

### **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 are comprised of the basic financial statements (pages 6-9) and the footnotes (pages 10-26). This annual report is prepared in accordance with the Governmental Accounting Standards Board Statement 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. The Business-Type Activity (BTA) reporting model is used which best represents the activities of the Sonoma State University (University) and its auxiliaries. The Organization is one of four non-profit auxiliaries on the University campus.

The required basic financial statements include the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows. These statements are supported by notes to the basic financial statements and this summary. All sections must be considered together to obtain a complete understanding of the financial picture of the Organization.

Statement of Net Assets: This statement includes 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 Assets". The net assets section of the statement identifies major categories of restrictions on these assets and reflects the overall financial position of the Organization as a whole.

Statement of Revenues, Expenses and Changes in Net Assets: This statement presents the revenues earned and the expenses incurred during the year using the accrual basis of accounting. Under the accrual basis of accounting, all increases or decreases in net assets are reported as soon as the underlying event occurs, regardless of the timing of the cash flow. Consequently revenues and/or expenditures reported during this fiscal year may result in changes to cash flow in a future period.

Statement of Cash Flows: This statement reflects inflows and outflows of cash, summarized by operating, capital, 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 Basic Financial Statements: This additional information is essential to a full understanding of the data reported in the basic financial statements.

### **Reporting Entity**

The financial statements of Sonoma State University (University) will be separated between the University and its component units. The latter are separate I.R.C. 501(c)(3) non-profit auxiliary organizations whose financial information will be presented in a discrete column and in the footnotes of the University's financial statements. Consequently, these auxiliaries must comply with the same governmental rulings and must present their individual separate audited financial statements in the same format.

**Managements' Discussion and Analysis****Years Ended June 30, 2009 and 2008****Analytical Overview**

Net assets increased by \$653,054 during the period, primarily as a result of increased operating income compared to the prior year.

**Condensed Summary of Net Assets**

	<u>2009</u>	<u>2008</u>
Assets:		
Current assets	\$ 2,110,030	\$ 1,196,670
Capital assets, net	5,424,129	5,658,923
Long-term investments	<u>5,755,243</u>	<u>5,927,216</u>
Total assets	<u>13,289,402</u>	<u>12,782,809</u>
Liabilities:		
Current liabilities	933,652	900,532
Other noncurrent liabilities	<u>4,848,322</u>	<u>5,027,903</u>
Total liabilities	<u>5,781,974</u>	<u>5,928,435</u>
Net assets:		
Invested in capital assets	396,226	463,478
Unrestricted	<u>7,111,202</u>	<u>6,390,896</u>
Total net assets	<u>\$ 7,507,428</u>	<u>\$ 6,854,374</u>

**Statement of Net Assets Variance Analysis Between 2009 and 2008**

*Current assets* increased by \$913,360. Current assets include: cash, short-term investments, accounts receivable and prepaid expenses and other current assets. The increase is primarily related to the income the Organization earned throughout the year being invested in a short-term investment vehicle.

*Capital assets, net*, decreased by \$234,794 which is the result of depreciation expense in the amount of \$278,731, which was partially offset by \$43,937 for new purchases.

*Long-term investments* decreased by \$171,973. This decrease relates to approximately \$38,000 in ordinary income earned and reinvested during the year which was offset by an unrealized loss of approximately \$210,000.

*Current liabilities* increased by \$33,120. Various liabilities in this category increased \$43,168 primarily due to increased activity in unspent WolfBucks deposits during the year. This increase was offset by a decrease in deferred revenue and accounts payable.

*Long-term debt obligation*, noncurrent portion decreased by \$179,581, which is the current portion of the principal balance on the outstanding debt.

*Net assets* increased by \$653,054, reflecting the cumulative net change in assets and liabilities for the year.

**Managements' Discussion and Analysis****Years Ended June 30, 2009 and 2008****Statement of Net Assets Variance Analysis Between 2009 and 2008** (continued)**Condensed Summary of Revenues and Expenses**

	Year ended June 30,	
	2009	2008
Revenues and expenses:		
Operating revenues	\$ 7,198,081	\$ 6,541,602
Operating expenses	<u>5,140,605</u>	<u>4,965,746</u>
Net operating revenue	<u>2,057,476</u>	<u>1,575,856</u>
Nonoperating revenues (expenses)		
Gifts, noncapital	(1,144,062)	(1,517,000)
Investment income, net	158,987	141,789
Interest on capital related debt	(359,347)	(370,579)
Other nonoperating expenses	<u>(60,000)</u>	<u>(59,136)</u>
Net nonoperating expenses	<u>(1,404,422)</u>	<u>(1,804,926)</u>
Increase (decrease) in net assets	<u>\$ 653,054</u>	<u>\$ (229,070)</u>

**Revenue and Expense Variance Analysis Between 2009 and 2008**

*Operating revenues* are sales net of cost of goods sold, and are comprised of dining services (Residence Halls, Central Campus, Vending, and Ameci's Pizza), outsourced bookstore operations and rental operations (Salazar building leasehold improvements).

Current year *operating revenues* increased by \$656,479. The increase is primarily due to a slight increase in the meal plan rates compared to the prior year and increased activity at the campus dining venues along with increased activity in summer conferences.

*Operating expenses* increased by \$174,859, primarily due to the overall increase in dining activities along with an increase in the institutional support and network expenses paid to the University. The Organization also made a payment to the University Housing program for the upcoming University Center project.

*Investment income, net* was \$158,987 which is an increase of \$17,198 over the prior year. The current year net investment income includes ordinary income in the amount of \$369,617, which includes income from the land lease. This ordinary income was offset by an unrealized loss of \$210,631 due to the decline in the fair market value of investments held. The overall increase in net investment income over the prior year was due to the fact that there was more money invested throughout the year.

**Revenue and Expense Variance Analysis Between 2009 and 2008** (continued)

The remaining *nonoperating expenses* decreased \$383,306, primarily due to the decrease in the amount of the restricted transfer to the University for capital projects related to the Green Music Center (GMC), Hospitality Center, and the University Center pre-project expenses.

**Factors Impacting Future Periods**

The Organization holds land, classified as investments on the statements of net assets, which the University intends to purchase for faculty and staff housing. This land will be purchased after sewer and water arrangements are negotiated between the University and local agencies.

The Organization will commence dining and retail operations at the GMC upon opening. This project will have planning and opening expenses associated with it in the upcoming year.

The Organization is planning for a new building (University Center) to replace retail and dining facilities. This project will have a number of planning expenses associated with it in the upcoming years. The Board of Directors endorsed this project at their May 2008 meeting.

The California State University has reduced enrollment due to the severe budget situation in the State of California. As such, Sonoma State University will be reducing enrollment by 6% over fiscal years 2009/2010 and 2010/2011. This enrollment reduction will have a negative impact on the revenue of the Organization.

**Sonoma State Enterprises, Inc.**

**Statements of Net Assets**

<b>June 30,</b>	<b>2009</b>	<b>2008</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 713,370	\$ 972,693
Short-term investments	1,117,683	-
Accounts receivable	131,295	84,370
Prepaid expenses and other current assets	147,682	139,607
<b>Total current assets</b>	<b>2,110,030</b>	<b>1,196,670</b>
<b>Noncurrent assets</b>		
Capital assets, net	5,424,129	5,658,923
Long-term investments	5,755,243	5,927,216
<b>Total noncurrent assets</b>	<b>11,179,372</b>	<b>11,586,139</b>
<b>Total assets</b>	<b>13,289,402</b>	<b>12,782,809</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable	153,107	158,194
Deferred revenue	500,000	517,000
Long-term debt obligation, current portion	179,581	167,542
Other current liabilities	100,964	57,796
<b>Total current liabilities</b>	<b>933,652</b>	<b>900,532</b>
<b>Long-term debt obligation, net of current portion</b>	<b>4,848,322</b>	<b>5,027,903</b>
<b>Total liabilities</b>	<b>5,781,974</b>	<b>5,928,435</b>
<b>Net assets</b>		
Invested in capital assets, net of related debt	396,226	463,478
Unrestricted	7,111,202	6,390,896
<b>Total net assets</b>	<b>\$ 7,507,428</b>	<b>\$ 6,854,374</b>

See accompanying Notes to Basic Financial Statements

**Sonoma State Enterprises, Inc.**

**Statements of Revenues, Expenses and Changes in Net Assets**

<b>Year Ended June 30,</b>	<b>2009</b>	<b>2008</b>
<b>Operating revenues</b>		
Sales and services of auxiliary enterprises, net	\$ 6,163,255	\$ 5,482,011
Other operating revenues	1,034,826	1,059,591
<b>Total operating revenues</b>	<b>7,198,081</b>	<b>6,541,602</b>
<b>Operating expenses</b>		
Auxiliary enterprise expenses	4,861,874	4,688,947
Depreciation and amortization	278,731	276,799
<b>Total operating expenses</b>	<b>5,140,605</b>	<b>4,965,746</b>
<b>Operating income</b>	<b>2,057,476</b>	<b>1,575,856</b>
<b>Nonoperating revenues (expenses)</b>		
Gifts, noncapital	(1,144,062)	(1,517,000)
Investment income, net	158,987	141,789
Interest on capital-related debt	(359,347)	(370,579)
Other nonoperating expenses	(60,000)	(59,136)
<b>Net nonoperating expenses</b>	<b>(1,404,422)</b>	<b>(1,804,926)</b>
<b>Increase (decrease) in net assets</b>	<b>653,054</b>	<b>(229,070)</b>
<b>Net assets at beginning of year</b>	<b>6,854,374</b>	<b>7,083,444</b>
<b>Net assets at end of year</b>	<b>\$ 7,507,428</b>	<b>\$ 6,854,374</b>

See accompanying Notes to Basic Financial Statements

**Sonoma State Enterprises, Inc.**

**Statements of Cash Flows**

<b>Year Ended June 30,</b>	<b>2009</b>	<b>2008</b>
	<b>Increase (decrease) in cash and cash equivalents</b>	
<b>Cash flows from operating activities</b>		
Sales and services of auxiliary enterprises	\$ 6,142,915	\$ 6,006,183
Other receipts	1,034,409	1,059,591
Payments to suppliers	(4,875,036)	(4,682,284)
<b>Net cash provided by operating activities</b>	<b>2,302,288</b>	<b>2,383,490</b>
<b>Cash flows from noncapital financing activities</b>		
Gifts, noncapital	(1,144,062)	(2,319,965)
Other nonoperating expenses	(60,000)	(59,136)
<b>Net cash used for noncapital financing activities</b>	<b>(1,204,062)</b>	<b>(2,379,101)</b>
<b>Cash flows from capital and related financing activities</b>		
Repayment of capital debt	(167,542)	(156,309)
Interest paid on capital debt	(359,347)	(370,579)
Purchase of capital assets	(43,937)	(47,739)
<b>Net cash used for capital and related financing activities</b>	<b>(570,826)</b>	<b>(574,627)</b>
<b>Cash flows from investing activities</b>		
Investment income	369,618	515,725
Proceeds from sale of investments	900,000	1,776,560
Purchase of investments	(2,056,341)	(1,005,547)
<b>Net cash provided by (used for) investing activities</b>	<b>(786,723)</b>	<b>1,286,738</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(259,323)</b>	<b>716,500</b>
<b>Cash and cash equivalents, beginning of the year</b>	<b>972,693</b>	<b>256,193</b>
<b>Cash and cash equivalents, end of the year</b>	<b>\$ 713,370</b>	<b>\$ 972,693</b>

See accompanying Notes to Basic Financial Statements

**Sonoma State Enterprises, Inc.**

**Statements of Cash Flows (continued)**

Year Ended June 30,	2009	2008
	<b>Increase (decrease) in cash and cash equivalents</b>	
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Operating income	\$ 2,057,476	\$ 1,575,856
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	278,731	276,799
Change in assets and liabilities:		
Accounts receivable	(46,925)	41,172
Prepaid expenses and other current assets	(8,075)	(7,288)
Accounts payable	(5,087)	(2,178)
Deferred revenue	(17,000)	483,000
Other current liabilities	43,168	16,129
<b>Net cash provided by operating activities</b>	<b>\$ 2,302,288</b>	<b>\$ 2,383,490</b>
 <b>Noncash investing, capital, and financing activities</b>		
Realized and unrealized losses on long-term investments	\$ 210,631	\$ 373,936

**Note A. 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 Sea Wolf Bookstore. This retail activity was outsourced in July 2006.
- The food service activity operates the residence hall food services, various food venues and vending services.
- The leasing of property and facilities to the University.

**Note B. 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 assets, statements of revenues, expenses and changes in net assets, and statements of cash flows of Sonoma State Enterprises, Inc. These statements do not purport to, and do not, present fairly the financial position of the CSU System as of June 30, 2009 and 2008, or changes in its financial position and its cash flows for the years then ended in conformity with accounting principals generally accepted in the United States of America.

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.

**Note B. Summary of Significant Accounting Policies** (continued)Basis of Presentation (continued)

The basic financial statements required by GASB Statements No. 34 and 35 include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement 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. The effect of internal activity between funds has been eliminated from these financial statements. In accordance with the business-type activities reporting model, the Organization prepares its statements of cash flows using the direct method.

Election of Applicable FASB Statements

The Organization uses all applicable GASB pronouncements and all Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements. The Organization has elected not to adopt the pronouncements issued by the FASB after November 30, 1989.

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 statement of net assets date. Liabilities that reasonably can be expected, as part of normal business operations, to be liquidated within twelve months of the statement of net assets date are considered to be current. All other assets and liabilities are considered to be noncurrent.

Cash Equivalents

The Organization considers all highly liquid investments with an original maturity date of three months or less to be cash equivalents.

Inventory

Inventory is stated at the lower of cost or market value using the first-in, first-out method. Inventory totaled \$84,545 and \$88,905 at June 30, 2009 and 2008, respectively, and is included in prepaid expenses and other current assets in the Statements of Net Assets.

Investments

Investments are reflected at fair value using quoted market prices, except for investments in land and real estate, which are reflected at cost. Realized and unrealized gains and losses are included in the accompanying statement of revenues, expenses and changes in net assets as investment income.

**Note B. Summary of Significant Accounting Policies** (continued)

Investments (continued)

The Organization's investment policy authorizes excess funds to be invested in obligations of federal and state governments and other investment instruments that will enhance total return while avoiding undue risks.

Changes in the fair value of investments are reported as part of investment income in the statements of revenues, expenses and changes in net assets. For the years ended June 30, 2009 and 2008, unrealized losses included in investment income, or the change in fair value, totaled \$210,631 and \$260,300, respectively. The cumulative differences between cost and fair value were losses of \$363,620 and \$152,989 for the years ended June 30, 2009 and 2008, respectively.

Investments in real property include approximately 89 acres of land that was purchased by the Organization in July of 2005.

Capital Assets

Capital assets, which include property, equipment, and intangible assets, are stated at cost. Capital assets, including infrastructure, 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 the intangible assets, which consist of franchise fees, is computed using the straight-line method over their useful lives of ten years.

Depreciation expense is shown separately in the statements of revenues, expenses and changes in net assets rather than being allocated among other categories of operating expenses.

Deferred Revenues

Deferred revenue consists primarily of payments from the University, in accordance with an operating agreement, received in advance for services to be provided.

Net Assets

The Organization's net assets are classified into the following net asset categories:

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

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

**Note B. Summary of Significant Accounting Policies** (continued)Classification of Revenues and Expenses

The Organization considers operating revenues and expenses in the statement of revenues, expenses and changes in net assets to be those revenues and expenses that result from exchange transactions or 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 in accordance with GASB Statement 35. These nonoperating activities include net investment income, and interest expense.

Income Taxes

The Organization is a not-for-profit corporation and is exempt from federal income taxes under provisions of Section 501(c)(3) of the Internal Revenue Code. The Organization is also exempt from California franchise taxes and, therefore, has made no provision for federal or California income taxes. Continuance of such exemption is subject to compliance with laws and regulations of the taxing authorities. Certain activities considered unrelated to the tax exempt purpose of the Organization may generate income that is taxable. No provision has been recorded for income taxes, as the net income, from any unrelated business activities, in the opinion of management, is not material to the basic financial statements taken as a whole.

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 relate to the depreciable lives of property, equipment and improvements. Actual results could differ from those estimates.

New Accounting Pronouncements

In June 2007, the Governmental Accounting Standards Board (GASB) issued Statement 51. Accounting and Financial Reporting for Intangible Assets. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009.

## Notes to Basic Financial Statements

Years Ended June 30, 2009 and 2008

**Note B. Summary of Significant Accounting Policies** (continued)New Accounting Pronouncements (continued)

In March 2009, the Governmental Accounting Standards Board (GASB) issued Statement 54. Fund Balance Reporting and Governmental Fund Type Definitions. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010.

Management has not determined the effect on the financial statements due to these pronouncements which have been issued but not yet adopted.

Reclassifications

Certain reclassifications have been made to the 2008 financial statements to conform to the classifications adopted for the 2009 financial statements. There is no effect on the change in net assets as a result of these reclassifications for 2008.

**Note C. Cash and Cash Equivalents and Investments**Cash and Cash Equivalents

Cash and cash equivalents at June 30,	2009	2008
Book balance	\$ 713,370	\$ 972,693
Bank balance	656,255	2,389,852
Difference between book and bank balance	\$ 57,115	\$(1,417,159)
Significant reconciling items consist of the following at June 30,	2009	2008
Deposits in transit	\$ 111,549	\$ 163,400
Outstanding checks	(68,834)	(1,594,959)
Cash and change fund	14,400	14,400
	\$ 57,115	\$(1,417,159)

## Notes to Basic Financial Statements

Years Ended June 30, 2009 and 2008

## Note C. Cash and Cash Equivalents and Investments (continued)

Composition of Investments

During the year ended June 30, 2009, the Organization began participating in an internal investment pool managed by US Bank, an asset management and investment advisory firm that serves the CSU. Securities within the investment pool are not insured. In addition, the securities are not held in the Organization's name, but in the name of the CSU. Such short-term investments are held at fair market value, which was \$1,117,683 as of June 30, 2009. Fair market value is determined based on the Organization's proportionate interest in the University's US Bank investment pool account. As of June 30, 2009 cost approximates fair value.

Other investments are reported as long-term investments on the statement of net assets and totaled \$5,755,243 and \$5,927,216 at June 30, 2009 and 2008, respectively.

## Composition of investments at June 30, 2009

	Short-term	Long-term	Total
US Bank SWIFT pool	\$ 1,117,683	\$ -	\$ 1,117,683
Fixed income securities (Treasury notes, GNMA's)	-	132,501	132,501
Real estate	-	4,701,313	4,701,313
Mutual funds	-	921,429	921,429
	\$ 1,117,683	\$ 5,755,243	\$ 6,872,926

## Composition of investments at June 30, 2008

	Short-term	Long-term	Total
Fixed income securities (Treasury notes, GNMA's)	\$ -	\$ 122,161	\$ 122,161
Real estate	-	4,701,313	4,701,313
Mutual funds	-	1,103,742	1,103,742
	\$ -	\$ 5,927,216	\$ 5,927,216

## Notes to Basic Financial Statements

Years Ended June 30, 2009 and 2008

## Note C. Cash and Cash Equivalents and Investments (continued)

Investments held under contractual agreements

Aggregated costs and fair values of debt and equity securities, and real estate investments at June 30 are as follows:

2009	Cost	Reported Value
Mutual fund, reported at fair value	\$1,288,672	\$ 921,429
Fixed income securities, reported at fair value	128,878	132,501
Real estate, reported at cost	1,417,550	1,053,930
	4,701,313	4,701,313
<b>Total long-term investments</b>	<b>\$6,118,863</b>	<b>\$5,755,243</b>
2008	Cost	Reported Value
Mutual fund, reported at fair value	\$1,256,097	\$1,103,742
Fixed income securities, reported at fair value	122,795	122,161
Real estate, reported at cost	1,378,892	1,225,903
	4,701,313	4,701,313
<b>Total long-term investments</b>	<b>\$6,080,205</b>	<b>\$5,927,216</b>

Investment income

Investment income, as reflected in the statement of revenue, expenses and changes in net assets includes the following:

	2009	2008
Interest and dividends	\$ 73,868	\$ 219,975
Rent	295,750	295,750
Realized losses, net	-	(113,636)
Unrealized losses on long-term investments	(210,631)	(260,300)
<b>Total investment income, net</b>	<b>\$ 158,987</b>	<b>\$ 141,789</b>

Interest and dividends include all interest and dividends from investments, cash, and cash equivalents.

**Note C. Cash and Cash Equivalents and Investments** (continued)

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 \$22,975 and \$1,911,776 at June 30, 2009 and 2008, respectively. Other investments which qualify for SIPC coverage exceeded coverage limits by \$533,984 and \$603,980 at June 30, 2009 and 2008, respectively.

Investments in the CSU's Investment pool are not held in the name of the Organization. These investments are held in the name of the CSU. The Organization does not have a policy 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. At June 30, 2009 and 2008, the Organization's other long-term investments in mutual funds were concentrated in three mutual funds. One mutual fund is rated 3 and the other two are rated 5-star by Morningstar.

*Interest Rate Risk*

Interest rate risk is the risk of exposure to fair value losses resulting from rising interest rates. At June 30, 2009 and 2008 management of the Organization believes only a minimal interest rate risk exists because of its relatively small holdings in fixed income investments and no notes receivables. The Organization does have some mutual funds which, as a result of their balanced equity/bond approach, mitigate interest rate risk.

*Credit Risk*

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

## Notes to Basic Financial Statements

Years Ended June 30, 2009 and 2008

**Note C. Cash and Cash Equivalents and Investments** (continued)*Credit Risk* (continued)

The following table presents the fair value, weighted average maturity, and actual rating by investment type of the Organization's portion of the University's investment portfolio as of June 30, 2009.

Investment type	Fair Value	WAM (Years)	Rating as of year-end				
			AAA	AA	A	BBB	Not Rated
Certificates of Deposit	\$ 34,555	0.27	\$ 4,110	\$ -	\$ 30,445	\$ -	\$ -
US Treasury	27,014	0.64	2,446	-	24,568	-	-
Mortgage Backed Securities	33,128	10.85	33,128	-	-	-	-
US Agencies	479,548	0.56	148,908	-	330,640	-	-
Corporate and Fixed Income Securities	490,536	1.60	254,672	80,970	121,322	25,357	8,215
Money Market Mutual Funds	52,902	0.00	52,902	-	-	-	-
<b>Total</b>	<b>\$ 1,117,683</b>		<b>\$ 496,166</b>	<b>\$ 80,970</b>	<b>\$ 506,975</b>	<b>\$ 25,357</b>	<b>\$ 8,215</b>
<b>Total short-term investments</b>	<b>\$ 1,117,683</b>						

**Note D. Composition of Accounts Receivable**

Accounts receivable at June 30, 2009 consisted of the following:

	Current	Noncurrent	Total
Due from the University or other auxiliary	\$ 39,627	\$ -	\$ 39,627
Other accounts receivable	91,668	-	91,668
<b>Total accounts receivable</b>	<b>\$ 131,295</b>	<b>\$ -</b>	<b>\$ 131,295</b>

Accounts receivable at June 30, 2008 consisted of the following:

	Current	Noncurrent	Total
Due from the University or other auxiliary	\$ 43,203	\$ -	\$ 43,203
Other accounts receivable	41,167	-	41,167
<b>Total accounts receivable</b>	<b>\$ 84,370</b>	<b>\$ -</b>	<b>\$ 84,370</b>

## Notes to Basic Financial Statements

Years Ended June 30, 2009 and 2008

**Note. E      Composition of Capital Assets**

Capital assets at June 30, 2009, consisted of the following:

	Balance June 30, 2008	Prior Period Adjust- ments	Reclass- ifications	Balance June 30, 2008	Addi- tions	Reduc- tions	Transfers	Balance June 30, 2009
<b>Non-depreciable assets</b>								
Land and land improvements	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Construction work in progress	-	-	-	-	-	-	-	-
<b>Total nondepreciable capital assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Depreciable capital assets</b>								
Buildings and building improvements	6,860,244	-	-	6,860,244	-	-	-	6,860,244
Personal property:								
Equipment	414,343	-	-	414,343	43,937	(12,342)	-	445,938
Intangible assets	37,618	-	-	37,618	-	-	-	37,618
<b>Total depreciable capital assets</b>	<b>7,312,205</b>	<b>-</b>	<b>-</b>	<b>7,312,205</b>	<b>43,937</b>	<b>(12,342)</b>	<b>-</b>	<b>7,343,800</b>
<b>Total cost</b>	<b>7,312,205</b>	<b>-</b>	<b>-</b>	<b>7,312,205</b>	<b>43,937</b>	<b>(12,342)</b>	<b>-</b>	<b>7,343,800</b>
<b>Less accumulated depreciation:</b>								
Buildings and building improvements	(1,317,565)	-	-	(1,317,565)	(223,789)	-	-	(1,541,354)
Personal property:								
Equipment	(319,374)	-	-	(319,374)	(50,379)	12,342	-	(357,411)
Intangible assets	(16,343)	-	-	(16,343)	(4,563)	-	-	(20,906)
<b>Total accumulated depreciation</b>	<b>(1,653,282)</b>	<b>-</b>	<b>-</b>	<b>(1,653,282)</b>	<b>(278,731)</b>	<b>12,342</b>	<b>-</b>	<b>(1,919,671)</b>
<b>Net capital assets</b>	<b>\$ 5,658,923</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,658,923</b>	<b>\$(234,794)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,424,129</b>
<b>Depreciation and amortization expense related to capital assets</b>								<b>\$ 278,731</b>
<b>Total depreciation and amortization</b>								<b>\$ 278,731</b>

## Notes to Basic Financial Statements

Years Ended June 30, 2009 and 2008

**Note. E**      **Composition of Capital Assets (continued)**

Capital assets at June 30, 2008, consisted of the following:

	Balance June 30, 2007	Prior Period Adjust- ments	Reclass- ifications	Balance June 30, 2008	Addi- tions	Reduc- tions	Transfers	Balance June 30, 2008
<b>Non-depreciable assets</b>								
Land and land improvements	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Construction work in progress	-	-	-	-	-	-	-	-
<b>Total nondepreciable capital assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Depreciable capital assets</b>								
Buildings and building improvements	6,860,244	-	-	6,860,244	-	-	-	6,860,244
Personal property:								
Equipment	493,956	-	-	493,956	38,539	(118,152)	-	414,343
Intangible assets	28,418	-	-	28,418	9,200	-	-	37,618
<b>Total depreciable capital assets</b>	<b>7,382,618</b>	<b>-</b>	<b>-</b>	<b>7,382,618</b>	<b>47,739</b>	<b>(118,152)</b>	<b>-</b>	<b>7,312,205</b>
<b>Total cost</b>	<b>7,382,618</b>	<b>-</b>	<b>-</b>	<b>7,382,618</b>	<b>47,739</b>	<b>(118,152)</b>	<b>-</b>	<b>7,312,205</b>
<b>Less accumulated depreciation:</b>								
Buildings and building improvements	(1,093,776)	-	-	(1,093,776)	(223,789)	-	-	(1,317,565)
Personal property:								
Equipment	(387,699)	-	-	(387,699)	(49,827)	118,152	-	(319,374)
Intangible assets	(13,160)	-	-	(13,160)	(3,183)	-	-	(16,343)
<b>Total accumulated depreciation</b>	<b>(1,494,635)</b>	<b>-</b>	<b>-</b>	<b>(1,494,635)</b>	<b>(276,799)</b>	<b>118,152</b>	<b>-</b>	<b>(1,653,282)</b>
<b>Net capital assets</b>	<b>\$ 5,887,983</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$5,887,983</b>	<b>\$(229,060)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,658,923</b>
<b>Depreciation and amortization expense related to capital assets</b>								<b>\$ 276,799</b>
<b>Total depreciation and amortization</b>								<b>\$ 276,799</b>

## Notes to Basic Financial Statements

Years Ended June 30, 2009 and 2008

## Note F. Long-Term Debt Obligations

Notes Payable

The Organization entered into an agreement with Sonoma State University Academic Foundation (the Foundation) to borrow \$6,100,000, at 8% beginning September 28, 2002. The Organization renegotiated this loan and entered into an agreement with the Foundation during the fiscal year 2006-2007. The terms of the agreement require quarterly payments of \$131,722 including interest at 7% per annum. These payments are based on a 19-year amortization schedule. The loan balance may be paid prior to June 28, 2025 without penalty to the Organization.

The current portion of this debt was \$179,581 at June 30, 2009, and \$167,542 at June 30, 2008 and is included in current liabilities on the Statement of Net Assets.

Long-term debt principal and related interest payment obligations subsequent to June 30, 2009 are as follows:

	Revenue Bonds			All Other Long-Term Debt Obligations			Total		
	Principal	Interest	Principal and Interest	Principal	Interest	Principal and Interest	Principal	Interest	Principal and Interest
Year ending June 30,									
2010	\$ -	\$ -	\$ -	\$ 179,581	\$ 347,307	\$ 526,888	\$ 179,581	\$ 347,307	\$ 526,888
2011	-	-	-	192,485	334,403	526,888	192,485	334,403	526,888
2012	-	-	-	206,317	320,571	526,888	206,317	320,571	526,888
2013	-	-	-	221,143	305,745	526,888	221,143	305,745	526,888
2014	-	-	-	237,034	289,854	526,888	237,034	289,854	526,888
2015 – 2019	-	-	-	1,466,504	1,167,938	2,634,442	1,466,504	1,167,938	2,634,442
2020 – 2024	-	-	-	2,074,778	559,664	2,634,442	2,074,778	559,664	2,634,442
2025	-	-	-	450,061	18,348	468,409	450,061	18,348	468,409
	\$ -	\$ -	\$ -	\$ 5,027,903	\$ 3,343,830	\$ 8,371,733	\$ 5,027,903	\$ 3,343,830	\$ 8,371,733

## Notes to Basic Financial Statements

Years Ended June 30, 2009 and 2008

## Note F. Long-Term Debt Obligations (continued)

Long-Term Liabilities Activity

Long-term liabilities activity for the year ended June 30, 2009 was as follows:

	Balance June 30, 2008	Prior Period Adjust- ments	Reclass- ifications	Balance June 30, 2008	Addi- tions	Reduc- tions	Balance June 30, 2009	Long- Term Portion	Current Portion
Accrued compensated absences	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Capitalized lease obligations	-	-	-	-	-	-	-	-	-
Total capitalized lease obligations	-	-	-	-	-	-	-	-	-
Long-term debt obligations: Other:									
Note payable	5,195,445	-	-	5,195,445	-	(167,542)	5,027,903	4,848,322	179,581
Total long-term obligations	5,195,445	-	-	5,195,445	-	(167,542)	5,027,903	4,848,322	179,581
Unamortized bond premium	-	-	-	-	-	-	-	-	-
Unamortized loss on refunding	-	-	-	-	-	-	-	-	-
Total long-term debt	5,195,445	-	-	5,195,445	-	(167,542)	5,027,903	4,848,322	179,581
Total long-term liabilities	\$ 5,195,445	\$ -	\$ -	\$ 5,195,445	\$ -	\$ (167,542)	\$ 5,027,903	\$ 4,848,322	\$ 179,581

## Notes to Basic Financial Statements

Years Ended June 30, 2009 and 2008

**Note F. Long-Term Debt Obligations** (continued)Long-Term Liabilities Activity (continued)

Long-term liabilities activity for the year ended June 30, 2008 was as follows:

	Balance June 30, 2007	Prior Period Adjust- ments	Reclass- ifications	Balance June 30, 2007	Addi- tions	Reduc- tions	Balance June 30, 2008	Long- Term Portion	Current Portion
Accrued compensated absences	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Capitalized lease obligations	-	-	-	-	-	-	-	-	-
Total capitalized lease obligations	-	-	-	-	-	-	-	-	-
Long-term debt obligations: Other:									
Note payable	5,351,754	-	-	5,351,754	-	(156,309)	5,195,445	5,027,903	167,542
Total long-term obligations	5,351,754	-	-	5,351,754	-	(156,309)	5,195,445	5,027,903	167,542
Unamortized bond premium	-	-	-	-	-	-	-	-	-
Unamortized loss on refunding	-	-	-	-	-	-	-	-	-
Total long-term debt	5,351,754	-	-	5,351,754	-	(156,309)	5,195,445	5,027,903	167,542
Total long-term liabilities	\$ 5,351,754	\$ -	\$ -	\$ 5,351,754	\$ -	\$ (156,309)	\$ 5,195,445	\$ 5,027,903	\$ 167,542

Cash paid for interest during the years ended June 30, 2009 and 2008, totaled \$359,347 and \$370,579, respectively.

**Note G. 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 together with other CSU Auxiliaries in the CSU Risk Management Authority (CSURMA), a public entity risk pool. The Organization pays an annual premium 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, 2009 and 2008, \$46,799 and \$39,089 was paid for annual premiums, respectively.

**Notes to Basic Financial Statements****Years Ended June 30, 2009 and 2008****Note H. Commitments and Contingencies**

The Organization outsourced its bookstore operations in July 2006 to Barnes and Noble College Booksellers, Inc., (B & N). The agreement with B & N continues through June 30, 2011, and may be renewed for an additional five years and may be annually renewed for an additional five one-year periods.

Under the terms of this agreement, the Organization has commitments to provide B & N with infrastructure and services. More specifically, the Organization provides utilities, building maintenance, the existing equipment, local telephone/data service, telecommunications and network systems access, trash and extermination services, participation in debit, credit or Wolfbucks card programs.

Annually, B & N pays the Organization a guaranteed payment or applicable percentage of gross sales, whichever is greater. Additionally, B & N provides an annual unrestricted donation.

The Organization participates in other ongoing leases with the University as noted in Note J.

**Note I. Classification of Operating Expenses**

The Organization has elected to report operating expenses by functional classification in the statement of revenues, expenses and changes in net assets, and to provide the natural classification of those expenses as an additional disclosure. For the years ended June 30, 2009 and 2008, operating expenses by natural classification consisted of the following:

	2009	Salaries	Benefits	Scholarship and fellowships	Supplies and other services	Depreciation and amortization	Total
Functional classification:							
Auxiliary enterprise expenses	\$ 2,065,767	\$ 703,866	\$ -	\$ 2,092,241	\$ -	\$ 4,861,874	
Depreciation and amortization	-	-	-	-	278,731	278,731	
<b>Total</b>	<b>\$ 2,065,767</b>	<b>\$ 703,866</b>	<b>\$ -</b>	<b>\$ 2,092,241</b>	<b>\$ 278,731</b>	<b>\$5,140,605</b>	
	2008	Salaries	Benefits	Scholarship and fellowships	Supplies and other services	Depreciation and amortization	Total
Functional classification:							
Auxiliary enterprise expenses	\$ 2,097,422	\$ 698,648	\$ -	\$ 1,892,877	\$ -	\$ 4,688,947	
Depreciation and amortization	-	-	-	-	276,799	276,799	
<b>Total</b>	<b>\$ 2,097,422</b>	<b>\$ 698,648</b>	<b>\$ -</b>	<b>\$ 1,892,877</b>	<b>\$276,799</b>	<b>\$4,965,746</b>	

## Notes to Basic Financial Statements

Years Ended June 30, 2009 and 2008

**Note J. 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 during the years ended June 30, 2009 and 2008, are reflected below.

The Organization is the lessor for two operating leases with the University. The first lease is for the leasehold improvements in the Salazar building on the University campus. This lease amount is \$973,800 and renews July 1, annually. The second lease is for undeveloped land, which is held as an investment by the Organization. The annual lease amount was \$295,750 and the lease terminated June 30, 2009.

The Organization does not have 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 as reflected below. These amounts are included in auxiliary enterprise expenses in the statements of revenues, expenses and changes in net assets.

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

	2009	2008
Payments to the University in accordance with CSU Executive Order 1000	\$ 713,928	\$ 688,744
Facility rental payments to the University	762,689	603,960
Reimbursements to the University for employee – related expenses	2,784,794	2,750,791
Payments to the University for other supplies and services	81,381	76,832
	<u>\$4,342,792</u>	<u>\$4,120,357</u>
Other University support (included in other nonoperating expenses in the statements of revenues, expenses and changes in net assets)	\$ 60,000	\$ 59,136
Restricted transfers to the University (included in gifts, noncapital, in the statements of revenues, expenses and changes in net assets)	\$ 1,144,062	\$1,517,000

## Notes to Basic Financial Statements

Years Ended June 30, 2009 and 2008

**Note J. Transactions with Related Entities (continued)**

Accounts payable to University at the end of the year (included in accounts payable in the statements of net assets)	\$ 29,995	\$ 40,921
Accounts receivable from the University or other auxiliary organizations at the end of the year (included in accounts receivable, net, in the statements of net assets)	\$ 39,627	\$ 43,203
Facility rental payments to the Sonoma Student Union Corporation	\$ 33,201	\$ 32,416
Rent income from the University for leasehold improvements (included in other operating revenues in the statements of revenues, expenses and changes in net assets)	\$ 973,800	\$ 973,800
Rent income from the University for undeveloped land (included in investment income in the statements of revenues, expenses and changes in net assets)	\$ 295,750	\$ 295,750
Deferred revenue for advance on contract board for 2009 – 2010 from the University (included in deferred revenue in the statements of net assets)	\$ 500,000	\$ 500,000

**Note K. Calculation of Net Assets Invested in Capital Assets, Net of Related Debt**

	2009	2008
Capital assets, net of accumulated depreciation	\$ 5,424,129	\$ 5,658,923
Long-term debt obligations, current portion	(179,581)	(167,542)
Long-term debt obligations, net of current portion	(4,848,322)	(5,027,903)
	<u>\$ 396,226</u>	<u>\$ 463,478</u>

**Note L. Concentrations**

The Organization is dependent on third party food distributors for all of its supply of food. In the years ended June 30, 2009 and 2008, products purchased from the Organization's two largest suppliers accounted for approximately 17% and 16%, and 22% and 18%, respectively, of operating expenses after losses, related party expenses and interest. The Organization believes that its relationships with its suppliers are satisfactory.