

The Campanile Foundation

Financial Statements

June 30, 2007

McGladrey & Pullen

Certified Public Accountants

McGladrey & Pullen, LLP is a member firm of RSM International,
an affiliation of separate and independent legal entities.

Contents

Independent Auditor's Report on the Financial Statements	1
Financial Statements	
Statements of financial position	2
Statements of activities	3 and 4
Statements of cash flows	5
Notes to financial statements	6-10
Independent Auditor's Report on the Supplementary Information	11
Supplementary Information	
Schedule of net assets	12 and 13
Schedule of revenues, expenses and change in net assets	14
Other supplementary information	15

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report on the Financial Statements

The Board of Trustees
The Campanile Foundation
San Diego, California

We have audited the accompanying statements of financial position of The Campanile Foundation as of June 30, 2007 and 2006, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of The Campanile Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Campanile Foundation as of June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The financial statements of The Campanile Foundation are also included as a component unit of the basic financial statements of San Diego State University, the primary reporting entity.

McGladrey & Pullen, LLP

San Diego, California
September 24, 2007

The Campanile Foundation

Statements of Financial Position
June 30, 2007 and 2006

Assets	2007	2006
Short-term Investments	\$ 325,612	\$ 20,725
Loans and Other Receivables, net	510,396	533,156
Due from Affiliate (Note 2)	32,444,781	26,766,358
Pledges Receivable (Note 5)	10,260,973	17,135,576
Building	120,000	-
Long-term Investments (Note 4)	103,382,189	87,895,563
Beneficial Interest in Trusts	4,976,028	1,675,102
Total assets	\$ 152,019,979	\$ 134,026,480
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 377,639	\$ 158,733
Liabilities under unitrust agreements	5,837,417	5,099,537
Total liabilities	6,215,056	5,258,270
Commitments and Contingencies (Note 6)		
Net Assets		
Unrestricted	2,548,057	1,703,890
Temporarily restricted (Note 3)	77,477,299	65,300,750
Permanently restricted (Note 3)	65,779,567	61,763,570
Total net assets	145,804,923	128,768,210
Total liabilities and net assets	\$ 152,019,979	\$ 134,026,480

See Notes to Financial Statements.

The Campanile Foundation

Statements of Activities
Years Ended June 30, 2007 and 2006

	2007			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, gains and other support:				
Contributions—community and campus programs	\$ -	\$ 12,931,846	\$ 3,909,537	\$ 16,841,383
Membership fees and other	3,061,354	5,020,903	-	8,082,257
Net realized and unrealized gains on investments	-	10,048,077	(284,042)	9,764,035
Investment income	-	2,390,277	178,000	2,568,277
Net assets released from restrictions	18,002,052	(18,002,052)	-	-
Total revenues, gains and other support	21,063,406	12,389,051	3,803,495	37,255,952
Expenses:				
Campus programs	9,777,792	-	-	9,777,792
Campus programs administered by the University	4,357,510	-	-	4,357,510
Student scholarships	5,012,171	-	-	5,012,171
Fund-raising	806,910	-	-	806,910
General administration	264,856	-	-	264,856
Total expenses	20,219,239	-	-	20,219,239
Change in designation of donor restriction	-	(212,502)	212,502	-
Change in net assets	844,167	12,176,549	4,015,997	17,036,713
Net assets:				
Beginning of year	1,703,890	65,300,750	61,763,570	128,768,210
End of year	<u>\$ 2,548,057</u>	<u>\$ 77,477,299</u>	<u>\$ 65,779,567</u>	<u>\$ 145,804,923</u>

See Notes to Financial Statements.

2006

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ -	\$ 12,471,217	\$ 9,135,436	\$ 21,606,653
2,851,390	4,005,377	-	6,856,767
-	7,181,444	-	7,181,444
-	1,844,560	-	1,844,560
15,028,454	(15,028,454)	-	-
17,879,844	10,474,144	9,135,436	37,489,424
10,387,354	-	-	10,387,354
790,495	-	-	790,495
4,460,956	-	-	4,460,956
1,231,523	-	-	1,231,523
235,125	-	-	235,125
17,105,453	-	-	17,105,453
-	-	-	-
774,391	10,474,144	9,135,436	20,383,971
929,499	54,826,606	52,628,134	108,384,239
\$ 1,703,890	\$ 65,300,750	\$ 61,763,570	\$ 128,768,210

The Campanile Foundation

Statements of Cash Flows
Years Ended June 30, 2007 and 2006

	2007	2006
Cash Flows from Operating Activities		
Change in net assets	\$ 17,036,713	\$ 20,383,971
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Contributions restricted for long-term investments	(3,803,495)	(9,135,436)
Noncash contributions	(120,000)	-
Net realized and unrealized gains on investments	(9,764,035)	(7,181,444)
Net transfers for campus programs administered by the University	-	790,495
(Increase) decrease in assets:		
Notes and other receivables, net	22,760	145,011
Due from affiliate	(5,678,423)	(6,619,821)
Pledges receivable	6,874,603	(466,003)
Beneficial interest in trusts	(3,300,926)	-
Increase in liabilities:		
Accounts payable and accrued expenses	218,906	72,605
Liabilities under unitrust agreements	737,880	66,744
Net cash provided by (used in) operating activities	2,223,983	(1,943,878)
Cash Flows from Investing Activities		
Purchase of investments	(6,027,478)	(9,259,385)
Sale of investments	-	2,067,827
Net cash (used in) investing activities	(6,027,478)	(7,191,558)
Cash Flows from Financing Activities, proceeds from permanently restricted contributions	3,803,495	9,135,436
Net change in cash	-	-
Cash		
Beginning of year	-	-
End of year	<u>\$ -</u>	<u>\$ -</u>

See Notes to Financial Statements.

The Campanile Foundation

Notes to Financial Statements

Note 1. Nature of Business and Summary of Significant Accounting Policies

Nature of organization: The Campanile Foundation (TCF) is an auxiliary organization of San Diego State University (the University), organized and operated in accordance with the Education Code of the State of California and the California Code of Regulations. TCF is a nonprofit corporation chartered to provide and augment programs that are an integral part of the educational mission of the University. TCF was organized in August 1999 to assist the University in the acquisition of gifts, the management of philanthropic gifts and the investment of certain endowment gifts. TCF began its operations on January 1, 2000.

TCF's financial statements are included as a component unit of the University's annual basic financial statements. This is required by governmental accounting standards which apply to the University.

Affiliated organizations: TCF is related to other auxiliaries of the University, including Associated Students of San Diego State University (Associated Students), San Diego State University Research Foundation (SDSURF) and Aztec Shops, Ltd. The auxiliaries and the University periodically provide various services for one another.

Basis of accounting and reporting: TCF's financial statements present net assets and contributions classified as unrestricted, temporarily restricted and permanently restricted. These classifications are based on the existence or absence of donor-imposed restrictions related to contributions and are summarized as follows:

Unrestricted net assets consist of net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily restricted net assets consist of unspent contributions that are subject to specific donor restrictions that can be fulfilled by actions of TCF or by the passage of time. These include unspent purpose-restricted expendable gifts, certain pledges payable in future periods, unspent time-restricted gifts and term endowments.

Permanently restricted net assets consist of contributions made with donor-imposed stipulations that the funds be held in perpetuity. Generally, the income earned on such contributions is available for use by TCF for the benefit of the University.

As stated above, the classification of net assets is based upon the existence or absence of donor-imposed restrictions on contributions. Net assets also include funds other than contributions that have been designated for specific purposes, which are classified as unrestricted in the financial statements.

Contributions, including unconditional promises to give (pledges), are recognized in the year the promise is made as opposed to when assets are received. Contributions with donor-imposed restrictions are reported as temporarily or permanently restricted contributions. Temporarily restricted net assets are reclassified to unrestricted net assets at such time as TCF has fulfilled the donor-imposed restriction.

Pledges that are expected to be collected within one year from the date of gift are recorded at their net realizable value. Pledges that are expected to be collected in future years are discounted to their estimated net present value (Note 5).

Investments: Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with gains and losses included in the statements of activities.

Note 1. Nature of Business and Summary of Significant Accounting Policies, Continued

Alternative assets consist of funds of funds that utilize a variety of absolute return strategies. The real estate investment is in a real estate securities commingled fund. These investments are reported at the fair value of the shares owned in each fund. Hedge funds of funds are reported at the audited derived fair value of the underlying position. Included in alternative assets at June 30, 2007 and 2006 are approximately \$4,700,000 and \$4,070,000, respectively, invested in one derivative fund-of-funds investment. The Foundation is required to provide 30-day notice to the fund manager upon any liquidation of this investment.

Beneficial interest in trust investments are reported at the fair value of the underlying portfolio of investments within each trust.

During the year ended June 30, 2007, a building was donated to the Foundation and was held for sale. TCF recorded the building at the estimated fair value at the date the gift was received. Proceeds from the sale may vary from this value.

Loans and other receivables, net: Loans consist of student loans administered by the University. The University periodically assesses the loans for collectibility. TCF has not experienced significant losses on these loans and therefore has recorded a small allowance for these funds. Other receivables primarily consist of program funds in transit to TCF for investment.

Liabilities under unitrust agreements: TCF serves as trustee and administrator for various types of trust arrangements, including split-interest agreements whereby the beneficial interest is shared with one or more parties. The arrangements generally require payment of annual trust income to the income beneficiary or beneficiaries over the term of the trust with the remainderman portion of the assets reverting to TCF. The liability under unitrust agreements on the statements of financial position represents the present value of the estimated future payments to be distributed to these beneficiaries over the life expectancies of the beneficiaries as derived using actuarial tables. TCF uses the approved Internal Revenue Service rate specific to each trust to discount the estimated future payments to be distributed to the beneficiaries.

Changes in the liability under unitrust agreements are included in contributions on the accompanying statement of activities and totaled approximately \$737,880 and \$67,000 for the years ended 2007 and 2006, respectively.

Functional allocation of expenses: The costs of providing various programs, fundraising and other activities have been summarized in the statements of activities. Accordingly, certain costs have been allocated among the programs and fundraising activities benefited.

Income taxes: TCF is an organization exempt from federal and state income taxes. In order to maintain that status, the organization is precluded from making certain expenditures, principally in support of political parties. Management believes that no such expenditures have been made.

Use of estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates include the discount rates on pledges receivable and unitrust liabilities, the life expectancy of annuitants of unitrusts, the collectibility of pledges receivable and the fair values of alternative investments in hedge funds. Actual results could differ from those estimates.

Reclassifications: Certain items in the 2006 financial statements have been reclassified to reflect the classifications used in the financial statements as of and for the year ended June 30, 2007. These reclassifications had no impact on the changes in net assets or net assets.

Note 2. Operating Agreement

TCF has an operating agreement with SDSURF to receive certain administrative services, including cash management processes, gift account administration, and accounting and financial reporting assistance. SDSURF receives an administrative fee when TCF funds are expended and retains interest earnings on all funds that are not specifically invested in the endowment fund in exchange for the administrative and financial services. The due from affiliate asset represents the status of that relationship as of June 30, 2007 and 2006 in terms of balances held by SDSURF that are being managed on behalf of TCF. The original agreement expired in December 2001 and was renewed thereafter on an annual basis. In August 2006, TCF agreed to extend the contract through June 30, 2009.

During the years ended June 30, 2007 and 2006, TCF transferred from its net assets \$4,357,510 and \$790,495, respectively, to the University for scholarships and campus programs. The amounts are reflected in the statements of activities as expenditures for campus programs administered by the University.

At June 30, 2007 and 2006, scholarship funds held by TCF are committed to students for the following school year. However, qualifying events have not occurred to release the funds to the University for disbursement to the recipients.

Note 3. Restrictions on Net Assets

Temporarily restricted: Temporarily restricted net assets as of June 30 are available for the following purposes or periods:

	2007	2006
Campus programs:		
Use or time restricted	\$ 56,010,084	\$ 49,282,036
Student aid	21,467,215	16,018,714
	\$ 77,477,299	\$ 65,300,750

Permanently restricted: Permanently restricted net assets as of June 30 are restricted to:

	2007	2006
Endowments:		
Campus programs	\$ 30,791,495	\$ 30,315,485
Student aid	22,801,322	21,445,501
Annuity life income trusts	12,186,750	10,002,584
	\$ 65,779,567	\$ 61,763,570

Net assets released from temporary restrictions were released by incurrence of expenses satisfying the restricted purpose or by occurrence of events specified by the donors.

During the year ended June 30, 2007, there was a change in designation of certain restrictions which resulted in a reclassification of \$212,502 of temporarily restricted net assets to permanently restricted net assets.

The Campanile Foundation

Notes to Financial Statements

Note 4. Investments

TCF has significant investments in stocks, bonds and mutual funds, and is therefore subject to concentrations of credit risk. Investments are made by investment managers engaged by TCF and the investments are monitored for TCF by an investment advisor.

The investments of TCF are exposed to interest rate and market risk. Economic conditions can impact these risks and resulting market values can be either positively or adversely affected. If the level of risk increases in the near term, it is possible that the investment balances and the amounts reported in the financial statements could be materially affected by market fluctuations. Although the market value of investments is subject to fluctuations on a year-to-year basis, management believes the investment policy is prudent for the long-term welfare of TCF and its beneficiaries.

As of June 30, long-term investments consisted of the following:

	<u>2007</u>	<u>2006</u>
Large cap equity	\$ 28,681,817	\$ 22,920,276
Core fixed income	16,751,027	14,959,239
Trusts	16,351,846	15,876,650
International equity	15,599,826	12,251,590
Alternative assets	12,191,534	10,179,172
Small/mid cap	8,936,184	7,427,886
Real estate securities	4,674,847	4,062,148
Other investments	195,108	218,602
	<u>\$ 103,382,189</u>	<u>\$ 87,895,563</u>

Effective July 1, 2007, TCF agreed to be the endowment pool manager for the SDSU Research Foundation. At the beginning of July, the SDSU Research Foundation transferred \$14,281,458 to TCF to purchase units in TCF's endowment pool.

The Campanile Foundation

Notes to Financial Statements

Note 5. Pledges Receivable

Contributions are recorded as revenue and as a pledge receivable when a donor makes an unconditional promise to give. Unconditional contributions expected to be received at the time of gift in more than a year's time are recorded at their expected net present values using discount rates commensurate within the risks involved. The rates used to discount pledges outstanding at June 30, 2007 ranged from 4% to 6%. Pledges receivable are assessed periodically for collectibility. TCF has not experienced significant losses on pledges and therefore has not recorded any allowances at June 30, 2007 or 2006. Contributions pledged are expected to be collected as follows as of June 30:

	<u>2007</u>	<u>2006</u>
Amounts due in:		
Less than one year	\$ 6,262,511	\$ 9,886,010
One to five years	4,472,438	6,975,806
More than five years	20,000	2,320,000
Less discount to present value	(493,976)	(2,046,240)
	<u>\$ 10,260,973</u>	<u>\$ 17,135,576</u>

Included in pledges receivable at the years ended June 30, 2007 and 2006 were approximately \$2,314,790 and \$6,522,012, respectively, attributable to one donor.

Note 6. Alumni Center

San Diego State University will complete the fund-raising campaign for the construction of an Alumni Center on campus in 2007-08. The proposed construction project and financing plan will be taken to the CSU Trustees for approval during the Fall 2007 semester. The Campanile Foundation is currently holding approximately \$10.5 million in cash gifts and multiyear pledges that will be used to build the Alumni Center. The Campanile Foundation has agreed to provide bridge financing to cover any alumni center multiyear pledges not yet collected at the time cash is needed for the construction project. That financing will be provided at an interest rate equivalent to the return on other fixed income investments. In addition, the Campanile Foundation will be making a \$500,000 investment in the Alumni Center in exchange for future office space. If final CSU approvals are received during the Fall 2007 semester, construction would begin early in 2008.

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report on the Supplementary Information

The Board of Trustees
The Campanile Foundation
San Diego, California

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, which is presented in accordance with California State University reporting requirements, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based upon our audit is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

McGladrey & Pullen, LLP

San Diego, California
September 24, 2007

The Campanile Foundation

Schedule of Net Assets

June 30, 2007

Assets

Current Assets

Cash and cash equivalents	\$ -
Short-term investments	325,612
Account receivables, net	29,399,612
Pledges receivable, net	6,262,511
Total current assets	<u>35,987,735</u>

Noncurrent Assets

Accounts receivable, net	3,201,170
Student loans receivable, net	354,395
Pledges receivable, net	3,998,462
Endowment investments	103,382,189
Building (investment)	120,000
Beneficial interest in trusts	4,976,028
Total noncurrent assets	<u>116,032,244</u>
Total assets	<u>\$ 152,019,979</u>

Liabilities and Net Assets

Current Liabilities	
Accounts payable	\$ 377,639
Accrued salaries and benefits payable	-
Accrued compensated absences	-
Deferred revenue	-
Capitalized lease obligations—current portion	-
Long-term debt obligations—current portion	-
Self-insurance claims liability—current portion	-
Other liabilities	-
Total current liabilities	<u>377,639</u>
Noncurrent Liabilities	
Accrued compensated absences	-
Deferred revenue	-
Capitalized lease obligations—net of current portion	-
Long-term debt obligations—current portion	-
Self-insurance claims liability—current portion	-
Depository accounts	-
Other liabilities	5,837,417
Total noncurrent liabilities	<u>5,837,417</u>
Total liabilities	<u>6,215,056</u>
Net Assets	
Invested in capital assets, net of related debt restricted for:	-
Nonexpendable—endowments	65,779,567
Expendable:	
Scholarships and fellowships	21,467,215
Research	-
Loans	-
Capital projects	-
Debt service	-
Other	56,010,084
Unrestricted	2,548,057
Total net assets	<u>145,804,923</u>
Total liabilities and net assets	<u>\$ 152,019,979</u>

The Campanile Foundation

Schedule of Revenues, Expenses and Change in Net Assets
Year Ended June 30, 2007

Revenues:	
Operating revenues:	
Student tuition and fees	\$ -
Grants and contracts, noncapital	-
Sales and services of educational activities	-
Sales and services of auxiliary enterprises	3,061,354
Other operating revenues	5,020,903
Total operating revenues	<u>8,082,257</u>
Expenses:	
Operating expenses:	
Instruction	-
Research	-
Public service	-
Academic support	9,777,792
Student services	-
Institutional support	806,910
Operation and maintenance of plant	-
Student grants and scholarships	-
Auxiliary enterprise expenses	5,012,171
Depreciation and amortization	264,856
Total operating expenses	<u>15,861,729</u>
Operating loss	<u>(7,779,472)</u>
Nonoperating revenues (expenses):	
State appropriations, noncapital	-
Gifts, noncapital	14,291,383
Gifts, capital	2,550,000
Investment income, net	2,568,277
Endowment income	9,764,035
Interest on capital-related debt	-
Other nonoperating expenses	(4,357,510)
Total nonoperating revenues	<u>24,816,185</u>
Income before other revenues, expenses, gains or losses	<u>17,036,713</u>
State appropriations, capital:	
Grants and gifts, capital	-
Additions to permanent endowments	-
Total state appropriations, capital	<u>-</u>
Increase in net assets	<u>17,036,713</u>
Net assets:	
Beginning of year	<u>128,768,210</u>
End of year	<u>\$ 145,804,923</u>

The Campanile Foundation

Other Supplementary Information
June 30, 2007

Composition of Investments	Current	Noncurrent	Total
State of California Surplus Money Investment Fund	\$ -	\$ -	\$ -
Met West Short Term Fund	-	-	-
Met West Medium Term Fund	-	-	-
Met West Equity Fund	-	-	-
Debt and equity securities	-	-	-
Fixed income securities	-	-	-
Real estate	-	-	-
Certificates of deposit	-	-	-
Money market funds	325,612	-	325,612
Notes receivable	-	-	-
Other investments:	-	-	-
Mutual Fund Equity Investments	-	53,217,827	53,217,827
Mutual Fund—Core Fixed Income	-	16,751,027	16,751,027
Real Estate Securities Fund	-	4,674,847	4,674,847
Alternative Assets	-	12,191,534	12,191,534
Trusts	-	16,351,846	16,351,846
Other investments	-	195,108	195,108
	<u>\$ 325,612</u>	<u>\$ 103,382,189</u>	<u>\$ 103,707,801</u>