

The Campanile Foundation

Financial Statements

June 30, 2006

McGladrey & Pullen

Certified Public Accountants

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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, 2006 and 2005, 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, 2006 and 2005, 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 15, 2006

The Campanile Foundation

Statements of Financial Position
June 30, 2006 and 2005

Assets	2006	2005
Short-term Investments	\$ 20,725	\$ 9,786
Loans and Other Receivables, net	533,156	578,166
Due from Affiliate (Note 2)	26,766,358	20,146,537
Pledges Receivable (Note 5)	17,135,576	16,669,573
Long-term Investments (Note 4)	89,570,665	76,099,098
Total assets	\$ 134,026,480	\$ 113,503,160
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 158,733	\$ 86,128
Liabilities under unitrust agreements	5,099,537	5,032,793
Total liabilities	5,258,270	5,118,921
Net Assets		
Unrestricted	1,703,890	929,499
Temporarily restricted (Note 3)	65,300,750	54,826,606
Permanently restricted (Note 3)	61,763,570	52,628,134
Total net assets	128,768,210	108,384,239
Total liabilities and net assets	\$ 134,026,480	\$ 113,503,160

See Notes to Financial Statements.

The Campanile Foundation

Statements of Activities
Years Ended June 30, 2006 and 2005

	2006			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, gains and other support:				
Contributions—community and campus programs	\$ -	\$ 12,471,217	\$ 9,135,436	\$ 21,606,653
Membership fees and other	2,851,390	4,005,377	-	6,856,767
Net realized and unrealized gains on investments	-	7,181,444	-	7,181,444
Investment income	-	1,844,560	-	1,844,560
Net assets released from restrictions	15,028,454	(15,028,454)	-	-
Total revenues, gains and other support	17,879,844	10,474,144	9,135,436	37,489,424
Expenses:				
Campus programs	10,387,354	-	-	10,387,354
Campus programs administered by the University	790,495	-	-	790,495
Student scholarships	4,460,956	-	-	4,460,956
Fund raising	1,231,523	-	-	1,231,523
General administration	235,125	-	-	235,125
Total expenses	17,105,453	-	-	17,105,453
Change in net assets	774,391	10,474,144	9,135,436	20,383,971
Net assets:				
Beginning of year	929,499	54,826,606	52,628,134	108,384,239
End of year	<u>\$ 1,703,890</u>	<u>\$ 65,300,750</u>	<u>\$ 61,763,570</u>	<u>\$ 128,768,210</u>

See Notes to Financial Statements.

2005

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ -	\$ 10,838,532	\$ 5,372,070	\$ 16,210,602
2,782,513	1,716,453	-	4,498,966
-	4,817,246	-	4,817,246
-	1,180,867	-	1,180,867
14,723,805	(14,723,805)	-	-
17,506,318	3,829,293	5,372,070	26,707,681
10,203,279	-	-	10,203,279
1,349,406	-	-	1,349,406
4,422,520	-	-	4,422,520
1,285,667	-	-	1,285,667
234,287	-	-	234,287
17,495,159	-	-	17,495,159
11,159	3,829,293	5,372,070	9,212,522
918,340	50,997,313	47,256,064	99,171,717
\$ 929,499	\$ 54,826,606	\$ 52,628,134	\$ 108,384,239

The Campanile Foundation

Statements of Cash Flows
Years Ended June 30, 2006 and 2005

	2006	2005
Cash Flows from Operating Activities		
Change in net assets	\$ 20,383,971	\$ 9,212,522
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Contributions restricted for long-term investments	(9,135,436)	(5,372,070)
Net realized and unrealized gains on investments	(7,181,444)	(4,817,246)
Net transfers for campus programs administered by the University	790,495	1,349,406
(Increase) decrease in assets:		
Notes and other receivables, net	145,011	(247,295)
Due from affiliate	(6,619,821)	(2,113,728)
Pledges receivable	(466,003)	1,815,558
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	72,605	(126,978)
Liabilities under unitrust agreements	66,744	792,252
Net cash (used in) provided by operating activities	<u>(1,943,878)</u>	<u>492,421</u>
Cash Flows from Investing Activities		
Purchase of investments	(9,259,385)	(8,139,802)
Sale of investments	2,067,827	2,275,311
Net cash (used in) investing activities	<u>(7,191,558)</u>	<u>(5,864,491)</u>
Cash Flows from Financing Activities, proceeds from permanently restricted contributions	<u>9,135,436</u>	<u>5,372,070</u>
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 business: 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.

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.

Alternative assets consist of fund-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 fund-of-funds are reported at the audited derived fair value of the underlying position. Included in alternative assets at June 30, 2005 and 2004 are approximately \$4,070,000 and \$2,600,000, 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.

Trust investments are reported at the fair value of the underlying portfolio of investments within each trust.

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

Contributions: 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).

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 \$67,000 and \$792,000 for the years ended 2006 and 2005, 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.

The Campanile Foundation

Notes to Financial Statements

Note 2. Operating Agreement

In 2001 TCF entered into 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, 2006 and 2005 in terms of investment 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, 2006 and 2005, TCF transferred from its net assets \$790,495 and \$1,349,406, respectively, to the University for scholarships and campus programs. The amounts are reflected on the statements of activities as expenditures for campus programs administered by the University.

Note 3. Restrictions on Net Assets

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

	2006	2005
Campus programs:		
Use or time restricted	\$ 48,359,758	\$ 41,408,825
Student aid	16,018,714	13,149,846
Annuity life income trusts	922,278	267,935
	<u>\$ 65,300,750</u>	<u>\$ 54,826,606</u>

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

	2006	2005
Endowments:		
Campus programs	\$ 30,315,485	\$ 23,771,479
Student aid	21,445,501	19,570,828
Annuity life income trusts	10,002,584	9,285,827
	<u>\$ 61,763,570</u>	<u>\$ 52,628,134</u>

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.

The Campanile Foundation

Notes to Financial Statements

Note 4. Investments

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

	2006	2005
Large cap equity	\$ 22,920,276	\$ 19,808,726
Trusts	17,551,752	16,107,892
Core fixed income	14,959,239	12,589,810
International equity	12,251,590	9,544,741
Alternative assets	10,179,172	8,244,881
Small/mid cap	7,427,886	6,201,941
Real estate securities	4,062,148	3,368,241
Other investments	218,602	232,866
	<u>\$ 89,570,665</u>	<u>\$ 76,099,098</u>

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.

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, 2006 ranged from 4% to 6%. Pledges receivable are assessed on a periodic basis for collectibility. TCF has not experienced significant losses on pledges and therefore has not recorded any allowances at June 30, 2006 or 2005. Contributions pledged are expected to be collected as follows as of June 30:

	2006	2005
Amounts due in:		
Less than one year	\$ 9,886,010	\$ 6,681,171
One to five years	6,975,806	10,403,904
More than five years	2,320,000	383,188
Less discount to present value	(2,046,240)	(798,690)
	<u>\$ 17,135,576</u>	<u>\$ 16,669,573</u>

Included in pledges receivable at the years ended June 30, 2006 and 2005 were approximately \$6,522,000 and \$10,580,000, respectively, attributable to one donor.

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 15, 2006

The Campanile Foundation

Schedule of Net Assets

June 30, 2006

Assets

Current Assets

Cash and cash equivalents	\$	-
Short-term investments		20,725
Account receivables, net		26,766,358
Pledges receivable, net		9,886,010
Prepaid expenses and other assets		-
Total current assets		<u>36,673,093</u>

Noncurrent Assets

Restricted cash and cash equivalents		-
Account receivables, net		-
Student loans receivable, net		533,156
Pledges receivable, net		7,249,566
Endowment investments		89,570,665
Other long-term investments		-
Capital assets, net		-
Other assets		-
Total noncurrent assets		<u>97,353,387</u>
Total assets		<u>\$ 134,026,480</u>

Liabilities and Net Assets

Current Liabilities	
Accounts payable	\$ 158,733
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	158,733
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	5,099,537
Other liabilities	-
Total noncurrent liabilities	5,099,537
Total liabilities	5,258,270
Net Assets	
Invested in capital assets, net of related debt restricted for:	
Nonexpendable—endowments	61,763,570
Expendable:	
Scholarships and fellowships	16,018,714
Research	-
Loans	-
Capital projects	-
Debt service	-
Other	49,282,036
Unrestricted	1,703,890
Total net assets	128,768,210
Total liabilities and net assets	\$ 134,026,480

The Campanile Foundation

Schedule of Revenues, Expenses and Change in Net Assets
Year Ended June 30, 2006

Revenues:	
Operating revenues:	
Student tuition and fees	\$ -
Grants and contracts, noncapital	-
Sales and services of educational activities	-
Sales and services of auxiliary enterprises	2,851,390
Other operating revenues	-
Total operating revenues	<u>2,851,390</u>
Expenses:	
Operating expenses:	
Instruction	-
Research	-
Public service	-
Academic support	10,387,354
Student services	-
Institutional support	1,231,523
Operation and maintenance of plant	-
Student grants and scholarships	4,460,956
Auxiliary enterprise expenses	235,125
Depreciation and amortization	-
Total operating expenses	<u>16,314,958</u>
Operating loss	<u>(13,463,568)</u>
Nonoperating revenues (expenses):	
State appropriations, noncapital	-
Gifts, noncapital	25,612,030
Investment income, net	1,844,560
Endowment income	7,181,444
Interest on capital-related debt	-
Other nonoperating expenses	(790,495)
Total nonoperating revenues	<u>33,847,539</u>
Income before other revenues, expenses, gains or losses	<u>20,383,971</u>
State appropriations, capital:	
Grants and gifts, capital	-
Additions to permanent endowments	-
Total state appropriations, capital	<u>-</u>
Increase in net assets	<u>20,383,971</u>
Net assets:	
Beginning of year	<u>108,384,239</u>
End of year	<u>\$ 128,768,210</u>

The Campanile Foundation

Other Supplemental Information
June 30, 2006

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	20,725	-	20,725
Notes receivable	-	-	-
Other investments:			
Mutual Fund Equity Investments	-	42,599,752	42,599,752
Mutual Fund—Core Fixed Income	-	14,959,239	14,959,239
Real Estate Securities Fund	-	4,062,148	4,062,148
Alternative Assets	-	10,179,172	10,179,172
Trusts	-	17,551,752	17,551,752
Other investments	-	218,602	218,602
	\$ 20,725	\$ 89,570,665	\$ 89,591,390