

Financial Statements and
Reports of Independent Certified Public Accountants

Mills College

June 30, 2005 (with comparative financial information for June 30, 2004)

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Report of Independent Certified Public Accountants

Board of Trustees
Mills College

We have audited the accompanying statement of financial position of Mills College (“the College”) as of June 30, 2005, and the related statement of activities and cash flows for the year then ended. These financial statements are the responsibility of the College’s management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the College’s 2004 financial statements and, in our report dated December 20, 2004, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institute of Certified Public Accountants. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Mills College as of June 30, 2005, and the change in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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September 16, 2005

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Mills College

STATEMENTS OF FINANCIAL POSITION

June 30, 2005

(With summarized financial information for June 30, 2004)

	<u>2005</u>	<u>2004</u>
ASSETS		
Cash and cash equivalents	\$ 3,267,545	\$ 1,129,312
Student accounts and notes receivable, net (note 3)	2,663,989	2,690,941
Government grants and other receivables	1,397,440	1,799,042
Contributions and trusts receivable, net (note 4)	27,411,929	25,939,861
Inventories and other assets	2,285,451	1,684,284
Investments (note 5)	214,294,303	158,076,794
Property, plant, and equipment, net (note 6)	<u>58,096,242</u>	<u>58,969,058</u>
Total assets	<u>\$ 309,416,899</u>	<u>\$ 250,289,292</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	\$ 3,098,713	\$ 3,103,118
Other liabilities and capital lease obligations (note 7)	1,533,266	1,344,881
Annuity and life income payable	3,708,512	3,002,824
Government advances for student loans	1,518,714	1,515,065
Bonds payable (note 8)	<u>37,354,046</u>	<u>11,945,371</u>
Total liabilities	<u>47,213,251</u>	<u>20,911,259</u>
Net assets:		
Unrestricted	115,432,299	107,847,954
Temporarily restricted	46,232,927	34,359,187
Permanently restricted	<u>100,538,422</u>	<u>87,170,892</u>
Net assets	<u>262,203,648</u>	<u>229,378,033</u>
Total liabilities and net assets	<u>\$ 309,416,899</u>	<u>\$ 250,289,292</u>

The accompanying notes are an integral part of the financial statements.

Mills College

STATEMENTS OF ACTIVITIES

Year ended June 30, 2005

(With summarized financial information for the year ended June 30, 2004)

	2005			Totals	2004 Totals
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenue and gains:					
Tuition and fees	\$ 25,900,155	\$ -	\$ -	\$ 25,900,155	\$ 22,249,204
Less financial aid	(9,282,016)	-	-	(9,282,016)	(7,806,238)
Net tuition and fees (note 9)	16,618,139	-	-	16,618,139	14,442,966
Sales and services of auxiliary enterprises	7,107,737	-	-	7,107,737	6,500,931
Contributions available for operations	5,206,259	670,823	-	5,877,082	7,964,607
Contracts and grants	2,818,812	52,390	-	2,871,202	2,703,063
Investment returns allocated to operations	7,918,652	437,882	-	8,356,534	8,043,252
Other, net	2,228,391	29,217	-	2,257,608	1,865,486
Total revenues and gains	41,897,990	1,190,312	-	43,088,302	41,520,305
Net assets released from restrictions for operations	1,574,744	(1,574,744)	-	-	405,889
Total revenues, gains, and other support	43,472,734	(384,432)	-	43,088,302	41,926,194
Expenses:					
Instruction	14,907,367	-	-	14,907,367	14,419,106
Research	1,298,860	-	-	1,298,860	1,141,178
Academic support	5,878,274	-	-	5,878,274	5,323,289
Student services	6,245,464	-	-	6,245,464	5,841,963
Institutional support	6,370,923	-	-	6,370,923	5,907,340
Public service	1,311,704	-	-	1,311,704	1,463,649
Auxiliary enterprises	6,564,379	-	-	6,564,379	6,083,001
Total expenses	42,576,971	-	-	42,576,971	40,179,526
Excess (deficiency) of revenues over (under) expenses before other changes in net assets	895,763	(384,432)	-	511,331	1,746,668
Other changes in net assets:					
Depreciation	(2,827,541)	-	-	(2,827,541)	(2,922,241)
Nonoperating contributions	669,713	12,664,527	12,916,384	26,250,624	15,895,214
Provision for uncollectible pledges	-	(227,026)	(1,125)	(228,151)	(14,508)
Investment return, net of allocation to operations	8,041,251	460,972	376,580	8,878,803	16,418,911
Faculty early retirements	-	-	-	-	(1,090,678)
Actuarial adjustment	-	142,687	72,937	215,624	368,128
Other nonoperating revenue	5,568	-	19,357	24,925	45,043
Net assets released from restrictions for nonoperations	799,591	(782,988)	(16,603)	-	(405,889)
Change in net assets	7,584,345	11,873,740	13,367,530	32,825,615	30,040,648
Net assets at beginning of period	107,847,954	34,359,187	87,170,892	229,378,033	199,337,385
Net assets at end of period	\$ 115,432,299	\$ 46,232,927	\$ 100,538,422	\$ 262,203,648	\$ 229,378,033

The accompanying notes are an integral part of the financial statements.

Mills College

STATEMENTS OF CASH FLOWS

Year ended June 30, 2005

(With summarized financial information for the year ended June 30, 2004)

	2005	2004
Cash flows from operating activities:		
Change in total net assets	\$ 32,825,615	\$ 30,040,648
Adjustments to reconcile change in total net assets to net cash provided by (used in) operating activities:		
Depreciation	2,827,541	2,922,241
Net gains on investments	(14,938,688)	(21,985,019)
Donated equipment	(164,220)	(121,934)
Student accounts receivable	(70,728)	716
Government grants and other receivable	401,602	(495,665)
Contributions receivable	(1,472,068)	(12,459,837)
Inventories and other assets	(157,066)	163,772
Accounts payable and accrued liabilities	(4,405)	517,658
Other liabilities	188,385	83,136
Annuity and life income payable	705,688	(46,177)
Government advances for student loans	3,649	(19,537)
Amortization of bond premium, discount and stock issue costs	34,333	34,333
Contributions restricted for long-term investment	(16,479,925)	(5,828,351)
Net cash provided by (used in) operating activities	3,699,713	(7,194,016)
Cash flows from investing activities:		
Capital expenditures	(1,790,505)	(3,966,365)
Purchases of investments	(100,063,291)	(39,869,662)
Proceeds from sales of investments	58,784,473	46,157,308
Disbursements of loans to students	(391,836)	(417,382)
Repayment of notes receivable	489,515	458,604
Net cash (used in) provided by investing activities	(42,971,644)	2,362,503
Cash flows from financing activities:		
Contributions restricted for long-term investment	16,479,925	5,828,351
Proceeds from issuance of bonds payable	25,000,000	-
Premium received on issuance of bonds payable	842,797	-
Payments on notes payable	(450,000)	(430,000)
Cash payments for debt issue costs	(462,558)	-
Net cash provided by financing activities	41,410,164	5,398,351
Net increase in cash and cash equivalents	2,138,233	566,838
Beginning cash and cash equivalents	1,129,312	562,474
Ending cash and cash equivalents	\$ 3,267,545	\$ 1,129,312
Supplementary cash flow information:		
Cash paid during the year for interest, net of amount capitalized	\$ 645,237	\$ 653,615

The accompanying notes are an integral part of the financial statements.

Mills College

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

(with comparative information for 2004)

NOTE 1 - NATURE OF ORGANIZATION

Mills College (the College) is a private, primarily residential, nonprofit liberal arts college based in Oakland, California. The College provides education and training services for undergraduate women and graduate women and men, and performs training and other programs under grants, contracts, and similar agreements with its sponsors, primarily departments, and agencies of the United States government, and private donors.

NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

The College maintains its accounts in accordance with the principles and practices of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by donors.

These financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the College as a whole and to present balances and transactions according to the existence or absence of donor imposed restrictions.

Net assets and changes therein are classified as follows:

- Permanently restricted net assets – Net assets subject to donor imposed stipulations that they be maintained permanently by the College. The College's permanently restricted net assets are primarily endowment funds invested to support scholarships and various academic programs.
- Temporarily restricted net assets – Net assets subject to donor imposed stipulations that will be met by actions of the College and/or the passage of time. As of June 30, 2005 and 2004, \$3,206,892 and \$3,556,627 are restricted to operating activities, \$36,503,695 and \$25,738,974 are restricted by the passage of time, and \$6,522,340 and \$5,063,586 are restricted for the acquisition of long lived assets, respectively.
- Unrestricted net assets – Net assets not subject to donor imposed stipulations.

Revenues

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Mills College

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

(with comparative information for 2004)

**NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
AND PRACTICES (continued)**

Contributions and Trusts

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at rates ranging from 3% to 6%. Amortization of the discount is recorded as additional contribution revenue in accordance with donor imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is based upon management's judgment including such factors as prior collection history, type of contribution, and nature of fund raising activity. Pledges are written off if they are deemed noncollectible due to death of donor, or other reasons. Trusts held by third parties represent the present value (discounted at rates ranging from 5% to 9%) of the estimated future distributions expected to be received by the College over the expected terms of the agreements.

Temporarily Restricted Net Assets

Contributions received with donor imposed restrictions which are met in the same year as received are reported as revenues of the unrestricted net asset class.

Contributions of property, plant, and equipment without donor stipulations concerning the use of such long lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire property, plant, and equipment without such donor stipulations are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released at the time of acquisition of such long lived assets.

Cash Equivalents

Cash equivalents consist of amounts swept nightly into the College's money market account with an initial term of less than three months. For purposes of the statements of cash flows, the College considers all highly liquid equity instruments purchased with original maturities of three months or less to be cash equivalents.

Student Accounts Receivable

The College grants credit for tuition to certain of its students, with typical payment terms corresponding to the semesters or the school year. Resulting accounts receivable are stated at the principal amount outstanding, net of an allowance for doubtful accounts. An allowance for doubtful accounts is established when losses are estimated to have occurred, through a charge to expense.

Inventories and Other Assets

Inventories are expensed on a first in, first out (FIFO) basis. Inventories are recorded at the lower of cost or market and consist primarily of food supplies.

Other assets consist primarily of faculty salary advances and debt issuance costs. The issuance costs are being amortized on a basis that approximates the level yield method over the repayment period of the notes. The remainder of other assets consists primarily of prepaid expenses.

Mills College

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

(with comparative information for 2004)

**NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
AND PRACTICES (continued)**

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value. The valuation of certain of the investments in security trading limited partnerships are based upon the value determined by each partnership's general partner. Management believes this method provides a reasonable estimate of fair value.

Property, Plant, and Equipment

Property, plant, and equipment are recorded at cost as of the date of acquisition. Gifts of plant facilities are recorded at fair value as of the date of donation. Cost includes the related net interest expense incurred on funds borrowed for construction of plant facilities. Library books are not capitalized. Depreciation is provided on equipment over a five year period on a straight line basis. Depreciation is provided on buildings and improvements over a 40 year period on a straight line basis.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period. The costs of maintenance and repairs are charged to income as incurred. Significant renewals and betterments are capitalized.

Impairment of Long-Lived Assets

Long-lived assets recorded by the College are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying value amount of the assets to the future undiscounted net cash flows expected to be generated by the assets. If such assets are determined to be impaired, the impairment to be recognized is measured as the difference between the related carrying amounts and fair values. No impairment was recorded during fiscal 2005 or 2004.

Annuity and Life Income Payable

The College uses the actuarial method of recording annuity and life income gifts. Under this method, when a gift is received, the present value of the aggregate estimated payable is recorded as a liability, based upon life expectancy tables, and the remainder is recorded as temporarily or permanently restricted contributions. Investment income and gains are credited, and annuity payments and investment losses are charged to the liability accounts with annual adjustments made between the liability and net assets to record adjustment of the actuarial liability.

Federal Income Taxes

The College is recognized by the Internal Revenue Service as an organization exempt from federal income taxes on related income under Section 501(c)(3) of the Internal Revenue Code.

Mills College

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

(with comparative information for 2004)

**NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
AND PRACTICES (continued)**

Credit Risk and Fair Value of Financial Instruments

The College grants credit in the normal course of operations and the credit risk with respect to these receivables is generally considered minimal due to the wide dispersion of receivables. The allowance for doubtful accounts is provided based on management's judgment including such factors as prior collection history and type of receivables.

The carrying amounts of cash, notes receivables and other receivables, accounts payable, and accrued liabilities approximate fair value. Determination of the market value of student loans receivables and government advances for federally sponsored student loans which are subject to significant restrictions as to their transfer or disposition, could not be made without incurring excessive cost.

Use of Estimates

Management of the College has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America (US GAAP). Actual results could differ from those estimates.

Operating and Nonoperating

Revenues, expense, gains and losses are allocated between operating and nonoperating based on the underlying influence, control and discretion of management in using these resources toward general operations which support the core mission of the College. Accordingly, operating revenue includes net tuition, auxiliary enterprise revenue, contributions available to fund current operations, contracts and grants supporting operating activities, investment returns allocated to operations under the College's spending policy, other sales and services revenue and miscellaneous income. Excluded from operating revenue are contributions restricted for endowment or capital expenditure and annuity and life income agreements. Also excluded are investment returns not allocated to operations under the spending policy, actuarial adjustments relating to annuity and life income agreements, and miscellaneous income.

Operating expenses (for which operating revenues are used) include salaries and benefits, departmental expenses, facility maintenance costs, supplies, professional services, and interest on debt but does not include depreciation, actuarial adjustments relating to annuity and life income agreements, or provision for uncollectible pledges.

Comparative Totals

The statement of activities includes certain prior year summarized financial information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with US GAAP. Accordingly, such information should be read in conjunction with the College's financial statements for the fiscal year ended June 30, 2004 from which the summarized information was derived.

Reclassifications

Certain reclassifications have been made to the 2004 summarized financial information to conform to the 2005 presentation.

Mills College

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

(with comparative information for 2004)

NOTE 3 - STUDENT ACCOUNTS AND NOTES RECEIVABLE, NET

Student accounts and notes receivable as of June 30, 2005 and 2004, consist of the following:

	<u>2005</u>	<u>2004</u>
Student accounts	\$ 384,233	\$ 303,505
Less allowance for doubtful accounts	<u>(42,521)</u>	<u>(32,521)</u>
Student accounts, net	<u>341,712</u>	<u>270,984</u>
Perkins Loan Program	1,969,654	2,065,669
Mills College Loan Program	585,501	562,027
Other	<u>3,460</u>	<u>2,875</u>
	2,558,615	2,630,571
Less allowance for doubtful accounts	<u>(236,338)</u>	<u>(210,614)</u>
Notes receivable, net	<u>2,322,277</u>	<u>2,419,957</u>
Total student accounts and notes receivable, net	<u>\$ 2,663,989</u>	<u>\$ 2,690,941</u>

The Perkins Loan Program notes, which bear interest at 5%, are payable over approximately 10 years following college attendance.

The Mills College Loan Program notes, which bear interest at 8.5%, are payable in equal monthly installments over a five year period beginning nine months after the student ceases to be a full time student.

NOTE 4 - CONTRIBUTIONS AND TRUSTS RECEIVABLE, NET

Contributions and trusts receivable as of June 30, 2005 and 2004, consist of the following:

	<u>2005</u>	<u>2004</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 4,730,637	\$ 8,130,137
One year to five years	<u>13,974,073</u>	<u>11,008,912</u>
Total contributions receivable	18,704,710	19,139,049
Less discount	(1,043,278)	(768,383)
Less allowance	<u>(434,976)</u>	<u>(405,390)</u>
Contributions receivable, net	17,226,456	17,965,276
Trusts held by third parties	<u>10,185,473</u>	<u>7,974,585</u>
	<u>\$ 27,411,929</u>	<u>\$ 25,939,861</u>

Mills College

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

(with comparative information for 2004)

NOTE 5 - INVESTMENTS

The fair values of investments as of June 30, 2005 and 2004, are as follows:

	<u>2005</u>	<u>2004</u>
Operating	376,232	\$ 20,038
Endowment and quasi-endowment:		
Pooled:		
Pooled investments	168,991,882	140,682,477
Due from other funds	<u>1,369,101</u>	<u>7,403,596</u>
Total pooled and due from other funds	170,360,983	148,086,073
Separately invested (nonpooled):		
Nonpooled investments	11,898,268	11,393,051
Due to other funds	<u>(4,436,643)</u>	<u>(4,014,758)</u>
Total nonpooled and due to other funds	7,461,625	7,378,293
Total pooled and nonpooled	177,822,608	155,464,366
Annuity and life income investments	7,612,371	5,981,228
Investments designated for acquiring plant and equipment	25,415,550	-
Less net due from other funds	<u>3,067,542</u>	<u>(3,388,838)</u>
Total investments by category	<u>\$ 214,294,303</u>	<u>\$ 158,076,794</u>
By asset type:		
Cash and cash equivalents	\$ 8,308,589	\$ 3,060,550
Common stocks	113,738,312	99,437,201
Intermediate-term treasury bonds	63,028,598	31,243,105
Real property	856,493	585,209
Security trading limited partnerships	28,306,810	23,734,789
Other	<u>55,501</u>	<u>15,940</u>
Total investments by asset type	<u>\$ 214,294,303</u>	<u>\$ 158,076,794</u>

The College has commitments for additional capital contributions to security trading limited partnerships totaling \$7,500,000 as of June 30, 2005.

Certain assets of endowment and quasi endowment funds are pooled on a market value basis, with each individual fund subscribing to or disposing of units on the basis of the value per unit at market value at the end of the calendar quarter within which the transaction takes place. Ownership of units as of June 30, 2005 was as follows:

Fund	<u>Units</u>	<u>Market value</u>
Endowment	3,833,179	\$ 159,774,441
Quasi-endowment	<u>253,984</u>	<u>10,586,542</u>
	<u>4,087,163</u>	<u>\$ 170,360,983</u>

Mills College

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

(with comparative information for 2004)

NOTE 5 – INVESTMENTS (continued)

Until the fiscal year ended June 30, 2005, the College used the total return approach to manage spending from the pooled endowment fund. Beginning in fiscal year ended June 30, 2005, the College established a floor of \$8,000,000 as the total dollar draw down from the endowment pool fund. The \$8,000,000 base will be increased each year by 2.5%, or the rate of inflation (based on the Bay Area Consumer Price Index as of December), whichever is greater. The increase cannot be greater than 5% in any year and the total amount of spending is also to stay between 4% and 6% of the 12 quarter trailing average market value of the endowment pool fund.

As of June 30, 2005 and 2004, the aggregate amount of the deficiencies for all donor-restricted pooled endowment funds for which the fair value of the assets is less than the level required by donor stipulation is \$117,256 and \$372,589, respectively.

The following tabulation summarizes the change in the value of the pooled endowment investments for the year ended June 30, 2005:

	<u>Pooled assets</u>		<u>Market value per unit</u>
	<u>Market</u>	<u>Units</u>	
June 30, 2004	\$ 148,086,073	3,744,674	\$ 39.55
Additions to pooled endowments	13,899,047	342,489	
Net payout taken from pooled endowment	(8,402,630)		
Net investment return	<u>16,778,493</u>		
June 30, 2005	<u>\$ 170,360,983</u>	<u>4,087,163</u>	<u>\$ 41.68</u>

Total investment returns allocated to operations for years ended June 30, 2005 and June 30, 2004, were made up of the following:

	<u>2005</u>	<u>2004</u>
Pooled investment income, net of \$515,208 and \$418,538 investment expenses in 2005 and 2004, respectively	\$ 2,105,223	\$ 2,306,972
Other investment income	191,426	170,172
Net realized gains, including pooled assets	3,275,606	3,047,265
Change in unrealized gains, including pooled assets	<u>11,663,082</u>	<u>18,937,754</u>
Total investment returns	17,235,337	24,462,163
Less nonoperating investment returns, net of allocations to operations	<u>(8,878,803)</u>	<u>(16,418,912)</u>
Investment returns allocated to operations	<u>\$ 8,356,534</u>	<u>\$ 8,043,251</u>

Mills College

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

(with comparative information for 2004)

NOTE 6 - PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment as of June 30, 2005 and 2004, consist of the following:

	<u>2005</u>	<u>2004</u>
Improvements	\$ 40,086,192	\$ 39,799,533
Buildings	44,130,676	43,906,491
Equipment	22,375,420	21,636,483
Art collection	<u>1,963,411</u>	<u>1,811,038</u>
	108,555,699	107,153,545
Accumulated depreciation and amortization	<u>(51,797,102)</u>	<u>(48,990,889)</u>
	56,758,597	58,162,656
Construction in progress	1,045,959	514,716
Land	<u>291,686</u>	<u>291,686</u>
	<u>\$ 58,096,242</u>	<u>\$ 58,969,058</u>

NOTE 7 - CAPITAL LEASES

The College is obligated under various capital leases for equipment that expire at various dates during the next five years. As of June 30, 2005, the gross amount of equipment and related accumulated amortization recorded under capital leases were \$958,645 and \$696,060, respectively.

Amortization of assets held under capital leases is included within depreciation expense.

Future minimum capital lease payments as of June 30, 2005 are:

Year ending June 30:	
2006	\$ 98,178
2007	98,177
2008	56,962
2009	<u>53,216</u>
Total minimum lease payments	306,533
Less amount representing interest (at rates ranging from 4.4% to 7.1%)	<u>(27,592)</u>
Present value of net minimum capital lease payments	<u>\$ 278,941</u>

Mills College

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

(with comparative information for 2004)

NOTE 8 - BONDS PAYABLE

On June 16, 2005, the College issued \$25,000,000 in Series A Bonds through the California Educational Facilities Authority to finance the construction of certain educational facilities on the college campus. As of June 30, 2005 and 2004, total bonds payable issued through the California Educational Facilities Authority (CEFA) and associated interest rates and maturities are as follows:

	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>2005</u>	<u>2004</u>
Series 1995 Notes	5.25% to 5.60%	December 1, 2005 to December 1, 2020	\$ 2,830,000	\$ 2,965,000
Series 1997 Notes	4.45% to 5.125%	September 1, 2005 to September 1, 2022	8,950,000	9,265,000
Series 2005 Notes	3.00% to 4.50%	September 1, 2007 to September 1, 2035	<u>25,000,000</u>	<u> </u>
			<u>\$ 36,780,000</u>	<u>\$ 12,230,000</u>
Unamortized bond discount and bond premium			<u>574,046</u>	<u>(284,629)</u>
			<u>\$ 37,354,046</u>	<u>\$ 11,945,371</u>

Based on the current trading value, the fair value of the bonds was approximately \$38,098,174 and \$12,584,455 as of June 30, 2005 and 2004, respectively.

Covenants to these agreements place several requirements on the College, including the maintenance of a certain enrollment level and a certain asset coverage ratio.

Principal payments to be made for the next five years and thereafter as of June 30, 2005 are as follows:

2006	\$ 480,000
2007	535,000
2008	555,000
2009	580,000
2010	615,000
Thereafter	<u>34,015,000</u>
	<u>\$ 36,780,000</u>

Mills College

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

(with comparative information for 2004)

NOTE 9 - NET TUITION AND FEES

Net tuition and fees for the years ended June 30, 2005 and June 30, 2004 consists of the following:

	<u>2005</u>	<u>2004</u>
Tuition and fees	\$ 25,900,155	\$ 22,249,204
Less:		
Sponsored student aid	(4,339,889)	(4,054,539)
Unsponsored student aid	<u>(4,942,127)</u>	<u>(3,751,699)</u>
Net tuition and fees	<u>\$ 16,618,139</u>	<u>\$ 14,442,966</u>

NOTE 10 - EXPENSES BY FUNCTION

Expenses by functional classification per the accompanying statement of activities includes operations and maintenance of plant expenses of \$5,237,858 and \$4,873,190 and interest expense of \$645,237 and \$653,615 for the years ended June 30, 2005 and June 30, 2004, respectively. After allocation of depreciation expense of \$2,827,541 and \$2,922,241 and faculty early retirements of \$0 and \$1,090,678 for the years ended June 30, 2005 and June 30, 2004, expenses by functional classification are as follows:

	<u>2005</u>	<u>2004</u>
Instruction	\$ 15,946,064	\$ 16,628,981
Research	1,389,360	1,227,304
Academic support	6,287,853	5,725,043
Student services	6,680,628	6,282,863
Institutional support	6,814,828	6,353,173
Public service	1,403,100	1,574,112
Auxiliary enterprises	<u>6,882,679</u>	<u>6,400,969</u>
Total expenses	<u>\$ 45,404,512</u>	<u>\$ 44,192,445</u>

NOTE 11 - FUND RAISING EXPENSE

Included in institutional support expenses in the statements of activities for the years ended June 30, 2005 and June 30, 2004, are \$1,280,370 and \$1,439,211, respectively, of expenses related to fund raising.

Mills College

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

(with comparative information for 2004)

NOTE 12 - LIQUIDITY

Summarized information regarding the liquidity of assets and liabilities of the College as of June 30, 2005 and 2004, is as follows:

	<u>2005</u>	<u>2004</u>
Total current assets	\$ 78,966,166	\$ 57,025,999
Total noncurrent assets	<u>230,450,733</u>	<u>193,263,293</u>
Total assets	<u>\$ 309,416,899</u>	<u>\$ 250,289,292</u>
Total current liabilities	\$ 4,918,666	\$ 4,820,588
Total noncurrent liabilities	<u>42,294,585</u>	<u>16,090,671</u>
Total liabilities	47,213,251	20,911,259
Net assets	<u>262,203,648</u>	<u>229,378,033</u>
Total liabilities and net assets	<u>\$ 309,416,899</u>	<u>\$ 250,289,292</u>

NOTE 13 - PENSION PLANS

Academic and nonacademic employees with one year of service are eligible to participate in the Teachers Insurance and Annuity Association (TIAA), the College Retirement Equity Fund (CREF) and/or Calvert. TIAA is a legal reserve life insurance and annuity company and CREF is a corporate companion to TIAA. These plans are defined contribution plans and benefits are funded by contributions from both the College and the participating employees. All contributions are fully vested when paid and there are no prior service costs. The College's contributions for the years ended June 30, 2005 and June 30, 2004, were \$1,698,266 and \$1,708,734, respectively, and are included as expenditure in the current funds.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

The College is contingently liable in connection with claims and contracts, including those currently in litigation, arising in the normal course of its activities. In the opinion of management, the results of these matters will not have a significant impact on the financial statements.

The College also has funding from certain federal entities. Costs billed to the federal government are subject to audit by the respective cognizant agency. In the opinion of management, the results of these audits will not have a significant impact on the financial statements.

NOTE 15 - RELATED PARTY TRANSACTIONS

Included in revenues for the years ended June 30, 2005 and June 30, 2004, are contributions from board of trustee members totaling \$6,935,691 and \$2,916,848, respectively. There were approximately \$10,000,000 in contributions and trust receivable from board of trustee members at June 30, 2005.

Mills College

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

(with comparative information for 2004)

NOTE 16 – SUBSEQUENT EVENT

On September 7, 2005, the College issued \$2,835,000 in Series B Bonds through the California Educational Facilities Authority to refinance its Series 1995 Notes. The interest rate on these bonds is 5 percent and they mature in September 2020.