

Financial Statements and

Report of Independent Certified Public Accountants

Mills College

June 30, 2006 (with comparative financial information for June 30, 2005)

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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, 2006, 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 2005 financial statements and, in our report dated September 16, 2005, 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, 2006, 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.

As described in Note 2, the College adopted FIN 47 “Accounting for Conditional Asset Retirement Obligations” in 2006.

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Mills College

STATEMENTS OF FINANCIAL POSITION

June 30, 2006

(With summarized financial information for June 30, 2005)

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash and cash equivalents	\$ 970,419	\$ 3,267,545
Student accounts and notes receivable, net (note 3)	2,693,943	2,663,989
Government grants and other receivables	1,123,611	1,397,440
Contributions and trusts receivable, net (note 4)	12,494,673	27,411,929
Inventories and other assets	2,482,883	2,285,451
Investments (note 5)	239,528,693	214,294,303
Property, plant, and equipment, net (note 6)	<u>72,275,152</u>	<u>58,096,242</u>
Total assets	<u>\$ 331,569,374</u>	<u>\$ 309,416,899</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	\$ 5,727,735	\$ 3,098,713
Other liabilities and capital lease obligations	2,035,482	1,533,266
Refundable advance from donor	5,000,000	-
Annuity and life income payable	3,744,550	3,708,512
Government advances for student loans	1,517,122	1,518,714
Bonds payable (note 8)	<u>37,250,727</u>	<u>37,354,046</u>
Total liabilities	<u>55,275,616</u>	<u>47,213,251</u>
Net assets:		
Unrestricted	126,669,598	115,432,299
Temporarily restricted	41,943,586	46,232,927
Permanently restricted	<u>107,680,574</u>	<u>100,538,422</u>
Total net assets	<u>276,293,758</u>	<u>262,203,648</u>
Total liabilities and net assets	<u>\$ 331,569,374</u>	<u>\$ 309,416,899</u>

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

Mills College

STATEMENTS OF ACTIVITIES

Year ended June 30, 2006

(With summarized financial information for the year ended June 30, 2005)

	2006			Totals	2005 Totals
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenues and gains:					
Tuition and fees	\$ 31,516,111	\$ -	\$ -	\$ 31,516,111	\$ 25,900,155
Less financial aid	(12,291,805)	-	-	(12,291,805)	(9,282,016)
Net tuition and fees (note 9)	19,224,306	-	-	19,224,306	16,618,139
Sales and services of auxiliary enterprises	8,057,449	-	-	8,057,449	7,107,737
Contributions available for operations	2,152,812	2,177,794	-	4,330,606	5,877,082
Contracts and grants	2,602,955	138,093	-	2,741,048	2,871,202
Investment returns allocated to operations	8,235,932	403,081	-	8,639,013	8,356,534
Other, net	2,707,240	52,476	-	2,759,716	2,257,608
Total revenues and gains	42,980,694	2,771,444	-	45,752,138	43,088,302
Net assets released from restrictions for operations	2,903,389	(2,903,389)	-	-	-
Total revenues, gains, and other support	45,884,083	(131,945)	-	45,752,138	43,088,302
Expenses:					
Instruction	16,930,129	-	-	16,930,129	14,907,367
Research	1,113,280	-	-	1,113,280	1,298,860
Academic support	6,524,935	-	-	6,524,935	5,878,274
Student services	6,873,792	-	-	6,873,792	6,245,464
Institutional support	7,869,738	-	-	7,869,738	6,370,923
Public service	1,087,959	-	-	1,087,959	1,311,704
Auxiliary enterprises	7,282,837	-	-	7,282,837	6,564,379
Total expenses	47,682,670	-	-	47,682,670	42,576,971
(Deficiency) excess of revenues over (under) expenses before other changes in net assets	(1,798,587)	(131,945)	-	(1,930,532)	511,331
Other changes in net assets:					
Depreciation	(2,880,867)	-	-	(2,880,867)	(2,827,541)
Nonoperating contributions	361,802	932,593	6,827,554	8,121,949	26,250,624
Provision for uncollectible pledges	-	(70,437)	(15,000)	(85,437)	(228,151)
Investment return, net of allocation to operations	10,060,540	486,941	380,532	10,928,013	8,878,803
Actuarial adjustment	-	(91,655)	(44,506)	(136,161)	215,624
Other nonoperating revenue	445,094	2,565	11,266	458,925	24,925
Loss on bond refunding	(244,834)	-	-	(244,834)	-
Net assets released from restrictions for nonoperations	5,435,097	(5,417,403)	(17,694)	-	-
Change in net assets before cumulative effect of change in accounting principle	11,378,245	(4,289,341)	7,142,152	14,231,056	32,825,615
Cumulative effect of change in accounting principle	(140,946)	-	-	(140,946)	-
Change in net assets	11,237,299	(4,289,341)	7,142,152	14,090,110	32,825,615
Net assets at beginning of period	115,432,299	46,232,927	100,538,422	262,203,648	229,378,033
Net assets at end of period	\$ 126,669,598	\$ 41,943,586	\$ 107,680,574	\$ 276,293,758	\$ 262,203,648

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

Mills College

STATEMENTS OF CASH FLOWS

Year ended June 30, 2006

(With summarized financial information for the year ended June 30, 2005)

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Change in total net assets	\$ 14,090,110	\$ 32,825,615
Adjustments to reconcile change in total net assets to net cash provided by (used in) operating activities:		
Depreciation	2,880,867	2,827,541
Net gains on investments	(16,504,077)	(14,938,688)
Donated equipment	(123,390)	(164,220)
Student accounts receivable	(106,098)	(70,728)
Government grants and other receivable	273,829	401,602
Contributions receivable	14,917,256	(1,472,068)
Inventories and other assets	(197,432)	(157,066)
Accounts payable and accrued liabilities	2,629,022	(4,405)
Other liabilities	5,194,892	317,234
Cumulative change in accounting principle	140,946	-
Accretion of asset retirement obligation liability	7,172	-
Annuity and life income payable	36,038	705,688
Government advances for student loans	(1,592)	3,649
Amortization of bond premium, discount and stock issue costs	41,527	34,333
Loss on bond refunding	244,834	-
Contributions restricted for long-term investment	<u>(7,014,637)</u>	<u>(16,479,925)</u>
Net cash provided by operating activities	<u>16,509,267</u>	<u>3,828,562</u>
Cash flows from investing activities:		
Capital expenditures	(16,936,387)	(1,790,505)
Purchases of investments	(104,944,661)	(100,063,291)
Proceeds from sales of investments	96,296,161	58,784,473
Disbursements of loans to students	(476,650)	(391,836)
Repayment of notes receivable	<u>552,793</u>	<u>489,515</u>
Net cash used in investing activities	<u>(25,508,744)</u>	<u>(42,971,644)</u>
Cash flows from financing activities:		
Contributions restricted for long-term investment	7,014,637	16,479,925
Proceeds from issuance of bonds payable	2,835,000	25,000,000
Retirement of debt	(2,830,000)	-
Premium received on issuance of bonds payable	185,154	842,797
Cash payments for debt issue costs	(81,813)	(462,558)
Repayment of capital lease obligations	(85,627)	(128,849)
Payments on notes payable	<u>(335,000)</u>	<u>(450,000)</u>
Net cash provided by financing activities	<u>6,702,351</u>	<u>41,281,315</u>
Net increase (decrease) in cash and cash equivalents	(2,297,126)	2,138,233
Beginning cash and cash equivalents	<u>3,267,545</u>	<u>1,129,312</u>
Ending cash and cash equivalents	<u>\$ 970,419</u>	<u>\$ 3,267,545</u>
Supplementary cash flow information:		
Cash paid during the year for interest, net of amount capitalized	\$ 564,489	\$ 645,237

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

Mills College

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(with comparative information for 2005)

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, 2006 and 2005, \$2,167,476 and \$3,206,892 are restricted to operating activities, \$21,643,024 and \$22,119,945 are restricted by the passage of time, \$14,197,450 and \$14,383,750 are restricted for the MBA program, and \$3,935,636 and \$6,522,340 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, 2006

(with comparative information for 2005)

**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 recorded 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, 2006

(with comparative information for 2005)

**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 alternative investments, included in mutual and commingled funds and security trading limited partnerships, which are not readily marketable, are carried at estimated fair values as provided by the investment managers or general partners. The College reviews and evaluates the values provided by the third parties and agrees with the valuation methods and assumptions used in determining the fair values of the alternative investments. Alternative investments of the College include absolute return/hedged equity funds, venture capital/private equity funds and oil & gas/natural resource partnerships.

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 2006 or 2005.

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, 2006

(with comparative information for 2005)

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, expenses, gains and losses are allocated between operating and nonoperating based on the underlying influence, control and discretion of management in using these recourses 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, 2005 from which the summarized information was derived.

Reclassifications

Certain reclassifications have been made to the 2005 summarized financial information to conform to the 2006 presentation.

Mills College

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

(with comparative information for 2005)

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

Change in Accounting Principle

During fiscal year 2006, the College adopted Financial Accounting Standard No. 143, "Accounting for Asset Retirement Obligations" and its interpretation, FIN No. 47, "Accounting for Conditional Asset Retirement Obligations". In summary, conditional asset retirement obligation reporting is required when the fair value of the retirement obligations, such as the cost of eventual remediation and abatement of asbestos, can be reasonably estimated. The College has current plans to do major renovation in three campus buildings containing asbestos and has received estimates from contractors for the removal of the asbestos in those buildings. The College has recorded the liability for these retirement obligations in the financial statements. The impact of adopting the accounting standard was recognition of a liability and change in accounting principle of \$140,946 at July 1, 2005. Had the standard been adopted as of July 1, 2004 the liability would have been \$134,121 at that date and the change in net assets would have been \$32,684,669 for the year ended June 30, 2005.

Over the last 30 years the College has done extensive renovation in the majority of buildings across campus. During this renovation much of the asbestos that existed in the buildings was removed. In the buildings where the asbestos was not removed, it was sealed in such a manner that further remediation would only be necessary if the building were demolished or major renovation were undertaken. The College has no plans to do major renovation in, or demolition of, the remainder of campus buildings that would require removal of sealed asbestos, if any, in those buildings. The College expects to maintain these buildings by repairs and maintenance activities that would not involve the removal of the asbestos, if any. Because the settlement date, or range of potential settlement dates, cannot be reasonably estimated, the liability for the cost of the asset retirement obligation cannot be estimated in the remainder of the campus buildings that may contain sealed asbestos. The College will recognize any liability for the remainder of campus buildings containing sealed asbestos as decisions about future facilities needs and plans are made so that there is sufficient information to allow for reasonable estimates of the cost of asbestos remediation in the case of extensive renovation or removal in the case of demolition.

NOTE 3 - STUDENT ACCOUNTS AND NOTES RECEIVABLE, NET

Student accounts and notes receivable as of June 30, 2006 and 2005, consist of the following:

	<u>2006</u>	<u>2005</u>
Student accounts	\$ 490,330	\$ 384,233
Less allowance for doubtful accounts	<u>(42,520)</u>	<u>(42,521)</u>
Student accounts, net	<u>447,810</u>	<u>341,712</u>
Perkins Loan Program	1,854,293	1,969,654
Mills College Loan Program	621,830	585,501
Other	<u>3,419</u>	<u>3,460</u>
	2,479,542	2,558,615
Less allowance for doubtful accounts	<u>(233,409)</u>	<u>(236,338)</u>
Notes receivable, net	<u>2,246,133</u>	<u>2,322,277</u>
 Total student accounts and notes receivable, net	 <u>\$ 2,693,943</u>	 <u>\$ 2,663,989</u>

Mills College

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

(with comparative information for 2005)

NOTE 3 - STUDENT ACCOUNTS AND NOTES RECEIVABLE, NET (continued)

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, 2006 and 2005, consist of the following:

	<u>2006</u>	<u>2005</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 2,093,350	\$ 4,730,637
One year to five years	4,345,823	13,974,073
Total contributions receivable	6,439,173	18,704,710
Less discount	(247,645)	(1,043,278)
Less allowance	<u>(261,075)</u>	<u>(434,976)</u>
Contributions receivable, net	5,930,453	17,226,456
Trusts held by third parties	<u>6,564,220</u>	<u>10,185,473</u>
 Total contributions and trusts receivable, net	 <u>\$ 12,494,673</u>	 <u>\$ 27,411,929</u>

NOTE 5 - INVESTMENTS

The fair values of investments as of June 30, 2006 and 2005, are as follows:

	<u>2006</u>	<u>2005</u>
Operating	\$ 16,303,319	\$ 376,232
Endowment and quasi-endowment:		
Pooled:		
Pooled investments	189,239,816	168,991,882
Due from other funds	<u>1,920,219</u>	<u>1,369,101</u>
Total pooled and due from other funds	191,160,035	170,360,983
Separately invested (nonpooled):		
Nonpooled investments	7,574,053	11,898,268
Due to other funds	<u>(565,126)</u>	<u>(4,436,643)</u>
Total nonpooled and due to other funds	7,008,927	7,461,625
Total pooled and nonpooled	198,168,962	177,822,608
Annuity and life income investments	7,236,269	7,612,371
Investments designated for acquiring plant and equipment	19,175,236	25,415,550
Net due from (to) other funds	<u>(1,355,093)</u>	<u>3,067,542</u>
 Total investments by category	 <u>\$ 239,528,693</u>	 <u>\$ 214,294,303</u>

Mills College

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

(with comparative information for 2005)

NOTE 5 – INVESTMENTS (continued)

By asset type:

Cash and cash equivalents	\$ 9,004,123	\$ 8,343,023
Common stocks	27,618,386	29,680,759
Fixed income	30,622,552	44,874,876
Mutual and commingled funds	117,075,610	85,216,181
Security trading limited partnerships	<u>55,208,022</u>	<u>46,179,464</u>
Total investments by asset type	<u>\$ 239,528,693</u>	<u>\$ 214,294,303</u>

The College has commitments for additional capital contributions to security trading limited partnerships totaling \$11,154,613 as of June 30, 2006.

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, 2006 was as follows:

Fund	<u>Units</u>	<u>Market value</u>
Endowment	4,012,253	\$ 177,142,234
Quasi-endowment	<u>317,501</u>	<u>14,017,801</u>
Total	<u>4,329,754</u>	<u>\$ 191,160,035</u>

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, 2006 and 2005, 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 \$6,158 and \$117,256, respectively.

The following tabulation summarizes the change in the value of the pooled endowment investments for the year ended June 30, 2006:

	<u>Pooled assets</u>		<u>Market value per unit</u>
	<u>Market</u>	<u>Units</u>	
June 30, 2005	\$ 170,360,983	4,087,163	\$ 41.68
Additions to pooled endowments	10,438,291	242,591	
Net payout taken from pooled endowment	(8,973,470)		
Net investment return	<u>19,334,231</u>		
June 30, 2006	<u>\$ 191,160,035</u>	<u>4,329,754</u>	<u>\$ 44.15</u>

Mills College

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

(with comparative information for 2005)

NOTE 5 – INVESTMENTS (continued)

Total investment returns allocated to operations for years ended June 30, 2006 and June 30, 2005, were made up of the following:

	<u>2006</u>	<u>2005</u>
Pooled investment income, net of \$652,490 and \$515,208 investment expenses in 2006 and 2005, respectively	\$ 2,917,085	\$ 2,105,223
Other investment income	145,864	191,426
Net realized gains, including pooled assets	6,065,952	3,275,606
Change in unrealized gains, including pooled assets	<u>10,438,125</u>	<u>11,663,082</u>
Total investment returns	19,567,026	17,235,337
Less nonoperating investment returns, net of allocations to operations	<u>(10,928,013)</u>	<u>(8,878,803)</u>
Investment returns allocated to operations	<u>\$ 8,639,013</u>	<u>\$ 8,356,534</u>

NOTE 6 - PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment as of June 30, 2006 and 2005, consist of the following:

	<u>2006</u>	<u>2005</u>
Improvements	\$ 42,174,040	\$ 40,086,192
Buildings	44,130,676	44,130,676
Equipment	24,037,969	22,375,420
Art collection	<u>2,116,051</u>	<u>1,963,411</u>
	112,458,736	108,555,699
Accumulated depreciation and amortization	<u>(54,677,969)</u>	<u>(51,797,102)</u>
	57,780,767	56,758,597
Construction in progress	14,202,699	1,045,959
Land	<u>291,686</u>	<u>291,686</u>
Total property, plant, and equipment, net	<u>\$ 72,275,152</u>	<u>\$ 58,096,242</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, 2006, the gross amount of equipment and related accumulated amortization recorded under capital leases were \$958,645 and \$767,766, respectively.

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

Mills College

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

(with comparative information for 2005)

NOTE 7 - CAPITAL LEASES (continued)

Future minimum capital lease payments as of June 30, 2006 are:

Year ending June 30:		
2007	\$	98,177
2008		56,962
2009		<u>53,216</u>
Total minimum lease payments		208,355
Less amount representing interest (at rates ranging from 4.4% to 7.1%)		<u>(15,278)</u>
Present value of net minimum capital lease payments	<u>\$</u>	<u>193,077</u>

NOTE 8 - BONDS PAYABLE

As of June 30, 2006 and 2005, 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>2006</u>	<u>2005</u>
Series 1995 Notes	5.25% to 5.60%	December 1, 2005 to December 1, 2020	\$ -	\$ 2,830,000
Series 1997 Notes	4.45% to 5.125%	September 1, 2005 to September 1, 2022	8,615,000	8,950,000
Series 2005A Notes	3.00% to 5.00%	September 1, 2007 to September 1, 2035	25,000,000	25,000,000
Series 2005B Notes	5.00%	September 1, 2006 to March 1, 2021	<u>2,835,000</u>	<u>-</u>
			<u>\$ 36,450,000</u>	<u>\$ 36,780,000</u>
Unamortized bond discount and bond premium			<u>800,727</u>	<u>574,046</u>
Total bonds payable			<u>\$ 37,250,727</u>	<u>\$ 37,354,046</u>

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.

Based on the current trading value, the fair value of the bonds is approximately \$36,290,174 and \$38,098,174 as of June 30, 2006 and 2005, respectively.

Total amount of interest capitalized for the years ended June 30, 2006 and June 30, 2005, was \$386,894 and \$16,010, respectively,

These bonds are collateralized by a deed of trust. Covenants to the 1997 Notes agreement place several requirements on the College, including the maintenance of a certain enrollment level and a certain asset coverage ratio.

Mills College

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

(with comparative information for 2005)

NOTE 8 - BONDS PAYABLE (continued)

Principal payments to be made for the next five years and thereafter as of June 30, 2006 are as follows:

2007	\$	515,000
2008		565,000
2009		595,000
2010		625,000
2011		655,000
Thereafter		<u>33,495,000</u>
Total	\$	<u>36,450,000</u>

NOTE 9 - NET TUITION AND FEES

Net tuition and fees for the years ended June 30, 2006 and June 30, 2005 consists of the following:

	<u>2006</u>	<u>2005</u>
Tuition and fees	\$ 31,516,111	\$ 25,900,155
Less:		
Sponsored student aid	(5,479,494)	(4,339,889)
Unsponsored student aid	<u>(6,812,311)</u>	<u>(4,942,127)</u>
Net tuition and fees	<u>\$ 19,224,306</u>	<u>\$ 16,618,139</u>

NOTE 10 - EXPENSES BY FUNCTION

Expenses by functional classification per the accompanying statement of activities includes operations and maintenance of plant expenses of \$5,983,840 and \$5,237,858 and interest expense of \$564,489 and \$645,237 for the years ended June 30, 2006 and June 30, 2005, respectively. After allocation of depreciation expense of \$2,880,867 and \$2,827,541 for the years ended June 30, 2006 and June 30, 2005, expenses by functional classification are as follows:

	<u>2006</u>	<u>2005</u>
Instruction	\$ 18,004,638	\$ 15,946,064
Research	1,183,937	1,389,360
Academic support	6,939,054	6,287,853
Student services	7,310,052	6,680,628
Institutional support	8,369,208	6,814,828
Public service	1,157,009	1,403,100
Auxiliary enterprises	<u>7,599,639</u>	<u>6,882,679</u>
Total expenses	<u>\$ 50,563,537</u>	<u>\$ 45,404,512</u>

Mills College

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

(with comparative information for 2005)

NOTE 11 - FUND RAISING EXPENSE

Included in institutional support expenses in the statements of activities for the years ended June 30, 2006 and June 30, 2005, are \$2,014,382 and \$1,280,370, respectively, of expenses related to fund raising.

NOTE 12 - LIQUIDITY

Summarized information regarding the liquidity of assets and liabilities of the College as of June 30, 2006 and 2005, is as follows:

	<u>2006</u>	<u>2005</u>
Total current assets	\$ 93,186,372	\$ 78,966,166
Total noncurrent assets	<u>238,383,002</u>	<u>230,450,733</u>
Total assets	<u>\$ 331,569,374</u>	<u>\$ 309,416,899</u>
Total current liabilities	\$ 13,175,750	\$ 4,918,666
Total noncurrent liabilities	<u>42,099,866</u>	<u>42,294,585</u>
Total liabilities	55,275,616	47,213,251
Net assets	<u>276,293,758</u>	<u>262,203,648</u>
Total liabilities and net assets	<u>\$ 331,569,374</u>	<u>\$ 309,416,899</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, 2006 and June 30, 2005, were \$1,771,598 and \$1,698,266, respectively, and are included as expenditure in the current funds.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

In the ordinary course of business we enter into various arrangements with for construction services. Future minimum commitments under these arrangements as of June 30, 2006 were approximately \$14,000,000.

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.

Mills College

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

(with comparative information for 2005)

NOTE 14 - COMMITMENTS AND CONTINGENCIES (continued)

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, 2006 and June 30, 2005, are contributions from board of trustee members totaling \$5,494,872 and \$6,935,691, respectively. There were approximately \$310,914 in contributions and trust receivable from board of trustee members at June 30, 2006. Included in expenses for the year ended June 30, 2006 is \$600,000 in financial support paid to the Alumnae Association of Mills College and included in inventories and other assets is a \$280,500 prepaid expense also related to the Alumnae Association of Mills College for financial support for the year ended June 30, 2007.

NOTE 16 – SUBSEQUENT EVENT

Subsequent to year end, the terms of the \$5,000,000 refundable advance from donor recorded as a liability at June 30, 2006 were finalized. The amount will be recognized as non-operating temporarily restricted contribution revenue in the year ending June 30, 2007.