

Financial Statements and

Report of Independent Certified Public Accountants

Mills College

June 30, 2007 (with comparative financial information for June 30, 2006)

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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, 2007, 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 2006 financial statements and, in our report dated September 26, 2006; 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 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, 2007, 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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November 13, 2007

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Mills College

STATEMENTS OF FINANCIAL POSITION

June 30, 2007

(With summarized financial information for June 30, 2006)

	2007	2006
ASSETS		
Cash and cash equivalents	\$ 1,244,007	\$ 970,419
Student accounts and notes receivable, net (note 3)	2,966,951	2,693,943
Government grants and other receivables	1,533,425	1,123,611
Contributions and trusts receivable, net (note 4)	13,277,521	12,494,673
Inventories and other assets	2,340,131	2,482,883
Investments (note 5)	258,745,739	239,528,693
Property, plant, and equipment, net (note 6)	88,922,236	72,275,152
Total assets	\$ 369,030,010	\$ 331,569,374
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	\$ 5,249,977	\$ 5,727,735
Other liabilities and capital lease obligations	1,945,375	2,035,482
Refundable advance from donor	-	5,000,000
Annuity and life income payable	3,827,208	3,744,550
Government advances for student loans	1,503,838	1,517,122
Bonds and note payable (note 8)	44,760,484	37,250,727
Total liabilities	57,286,882	55,275,616
Net assets:		
Unrestricted	153,124,757	126,669,598
Temporarily restricted	46,410,835	41,943,586
Permanently restricted	112,207,536	107,680,574
Total net assets	311,743,128	276,293,758
Total liabilities and net assets	\$ 369,030,010	\$ 331,569,374

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

Mills College

STATEMENTS OF ACTIVITIES

Year ended June 30, 2007

(With summarized financial information for the year ended June 30, 2006)

	2007			Totals	2006 Totals
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenues and gains:					
Tuition and fees	\$ 35,559,336	\$ -	\$ -	\$ 35,559,336	\$ 31,516,111
Less financial aid	(13,930,515)	-	-	(13,930,515)	(12,291,805)
Net tuition and fees (note 9)	21,628,821	-	-	21,628,821	19,224,306
Sales and services of					
auxiliary enterprises	8,349,538	-	-	8,349,538	8,057,449
Contributions available for operations	3,714,664	2,954,252	-	6,668,916	4,330,606
Contracts and grants	2,585,604	105,481	-	2,691,085	2,741,048
Investment returns allocated to operations	8,720,543	470,177	-	9,190,720	8,639,013
Other, net	3,189,350	29,422	-	3,218,772	2,759,716
Total revenues and gains	48,188,520	3,559,332	-	51,747,852	45,752,138
Net assets released from restrictions for operations	2,437,379	(2,437,379)	-	-	-
Total revenues, gains, and other support	50,625,899	1,121,953	-	51,747,852	45,752,138
Expenses:					
Instruction	18,873,731	-	-	18,873,731	16,930,129
Research	1,228,706	-	-	1,228,706	1,113,280
Academic support	5,839,411	-	-	5,839,411	5,785,457
Student services	8,005,726	-	-	8,005,726	6,873,792
Institutional support	10,187,435	-	-	10,187,435	8,609,216
Public service	1,039,296	-	-	1,039,296	1,087,959
Auxiliary enterprises	7,830,013	-	-	7,830,013	7,282,837
Total expenses	53,004,318	-	-	53,004,318	47,682,670
(Deficiency) excess of revenues over (under) expenses before other changes in net assets	(2,378,419)	1,121,953	-	(1,256,466)	(1,930,532)
Other changes in net assets:					
Depreciation	(3,893,281)	-	-	(3,893,281)	(2,880,867)
Nonoperating contributions	6,159,822	3,377,319	3,279,138	12,816,279	8,121,949
Provision for uncollectible pledges	-	(7,525)	(26,208)	(33,733)	(85,437)
Investment return, net of allocation to operations	24,892,064	1,307,148	1,047,746	27,246,958	10,928,013
Actuarial adjustment	-	297,200	235,606	532,806	(136,161)
Other nonoperating revenue	5,838	15,347	15,622	36,807	458,925
Loss on bond refunding	-	-	-	-	(244,834)
Net assets released from restrictions for nonoperations	1,669,135	(1,644,193)	(24,942)	-	-
Change in net assets before cumulative effect of change in accounting principle	26,455,159	4,467,249	4,526,962	35,449,370	14,231,056
Cumulative effect of change in accounting principle	-	-	-	-	(140,946)
Change in net assets	26,455,159	4,467,249	4,526,962	35,449,370	14,090,110
Net assets at beginning of period	126,669,598	41,943,586	107,680,574	276,293,758	262,203,648
Net assets at end of period	\$ 153,124,757	\$ 46,410,835	\$ 112,207,536	\$ 311,743,128	\$ 276,293,758

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

Mills College

STATEMENTS OF CASH FLOWS

Year ended June 30, 2007

(With summarized financial information for the year ended June 30, 2006)

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Change in total net assets	\$ 35,449,370	\$ 14,090,110
Adjustments to reconcile change in total net assets to net cash (used in) provided by operating activities:		
Depreciation	3,893,281	2,880,867
Net gains on investments	(34,260,392)	(16,504,077)
Donated equipment	(31,560)	(123,390)
Allowance for uncollectible pledges	33,733	85,437
Amortization of bond premium, discount and bond issue costs	198,904	41,527
Discount on loan payable	(1,174,147)	-
Loss on bond refunding	-	244,834
Cumulative change in accounting principle	-	140,946
Accretion of asset retirement obligation liability	7,283	7,172
Contributions restricted for long-term investment	(12,221,900)	(7,014,637)
Change in operating assets and liabilities		
Student accounts receivable	(132,468)	(106,098)
Government grants and other receivable	(409,814)	273,829
Contributions receivable	(816,581)	14,831,819
Inventories and other assets	142,752	(197,432)
Accounts payable and accrued liabilities	(477,758)	2,629,022
Other liabilities	(5,002,471)	5,194,892
Annuity and life income payable	82,658	36,038
Net cash (used in) provided by operating activities	<u>(14,719,110)</u>	<u>16,510,859</u>
Cash flows from investing activities:		
Capital expenditures	(20,508,805)	(16,936,387)
Purchases of investments	(371,013,183)	(104,944,661)
Proceeds from sales of investments	386,056,528	96,296,161
Disbursements of loans to students	(593,203)	(476,650)
Repayment of notes receivable	452,664	552,793
Net cash used in investing activities	<u>(5,605,999)</u>	<u>(25,508,744)</u>
Cash flows from financing activities:		
Contributions restricted for long-term investment	12,221,900	7,014,637
Change in government advances for student loans	(13,284)	(1,592)
Proceeds from borrowing	9,000,000	2,835,000
Retirement of debt	-	(2,830,000)
Premium received on issuance of bonds payable	-	185,154
Cash payments for debt issue costs	-	(81,813)
Repayment of capital lease obligations	(94,919)	(85,627)
Payments on bonds payable	(515,000)	(335,000)
Net cash provided by financing activities	<u>20,598,697</u>	<u>6,700,759</u>
Net increase (decrease) in cash and cash equivalents	273,588	(2,297,126)
Beginning cash and cash equivalents	<u>970,419</u>	<u>3,267,545</u>
Ending cash and cash equivalents	<u>\$ 1,244,007</u>	<u>\$ 970,419</u>
Supplementary cash flow information:		
Cash paid during the year for interest, net of amount capitalized	\$ 791,304	\$ 564,489

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

Mills College

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

(with comparative information for 2006)

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, 2007 and 2006, \$3,602,115 and \$2,167,476 are restricted to operating activities, \$22,586,915 and \$21,643,024 are restricted by the passage of time, \$14,534,180 and \$14,197,450 are restricted for the MBA program, and \$5,687,625 and \$3,935,636 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, 2007

(with comparative information for 2006)

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 uncollectible 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.

A significant portion of the cash balances held at various banks at June, 30 2007 and 2006 are in excess of federally insured limits.

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 and postage.

Mills College

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007

(with comparative information for 2006)

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

Inventories and Other Assets (continued)

Other assets consist primarily of faculty salary advances, debt issuance costs, and capitalized prepublication costs for promotional materials. The issuance costs are being amortized on a basis that approximates the level yield method over the repayment period of the notes. Prepublication costs are amortized over the expected useful life of the publications. The remainder of other assets consists primarily of prepaid expenses.

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. Because the alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Such a difference could be material. 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. Collection items are capitalized. If purchased, collection items are capitalized at cost. Contributed collection items are recognized as assets and measured at fair value as of the day of donation. There is no depreciation recorded on collection items. 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 years ended June 30, 2007 and 2006.

Mills College

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007

(with comparative information for 2006)

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

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.

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). The most significant management estimates and assumptions relate to the determination of allowances for doubtful accounts, present value of multi-year pledges, charitable trusts, discount rate on loan receivable, conditional asset retirement obligations, and the reported fair values of certain of the College's assets and liabilities. 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 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.

Mills College

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007

(with comparative information for 2006)

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

Operating and Nonoperating (continued)

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, 2006 from which the summarized information was derived.

Reclassifications

Certain reclassifications have been made to the 2006 summarized financial information to conform to the 2007 presentation.

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. For the years ended June 30, 2007 and 2006, the accretion of interest associated with the conditional asset retirement obligation totaled \$7,283 and \$7,172, respectively. Abatement costs incurred for the year ended June 30, 2007 totaled \$11,268, which reduced the conditional asset retirement obligation at June 30, 2007. At June 30, 2007 and 2006, property, plant and equipment includes capitalized conditional asset retirement obligations at a cost of \$27,398 which have been fully depreciated.

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 buildings were demolished or major renovations 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.

Mills College

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007

(with comparative information for 2006)

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

New Accounting Pronouncement

In June 2006, the Financial Accounting Standards Board (FASB) issued Emerging Issues Task Force (EITF) 06-2, "Accounting for Sabbatical Leave and Other Similar Benefit to FASB Statement No. 43". EITF 06-2 provides guidance for recording compensated absences, requiring compensation associated with such benefits to be accrued over the required service period. The College is required to adopt this EITF for the fiscal year ending June 30, 2008. The College is currently evaluating the impact of EITF 06-2 on its financial statements.

NOTE 3 - STUDENT ACCOUNTS AND NOTES RECEIVABLE, NET

Student accounts and notes receivable as of June 30, 2007 and 2006 consist of the following:

	<u>2007</u>	<u>2006</u>
Student accounts	\$ 652,475	\$ 490,330
Less allowance for doubtful accounts	<u>(72,197)</u>	<u>(42,520)</u>
Student accounts, net	<u>580,278</u>	<u>447,810</u>
Perkins Loan Program	1,923,691	1,854,293
Mills College Loan Program	722,247	621,830
Other	<u>3,872</u>	<u>3,419</u>
	2,649,810	2,479,542
Less allowance for doubtful accounts	<u>(263,137)</u>	<u>(233,409)</u>
Notes receivable, net	<u>2,386,673</u>	<u>2,246,133</u>
Total student accounts and notes receivable, net	<u>\$ 2,966,951</u>	<u>\$ 2,693,943</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.

Mills College

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007

(with comparative information for 2006)

NOTE 4 - CONTRIBUTIONS AND TRUSTS RECEIVABLE, NET

Contributions and trusts receivable as of June 30, 2007 and 2006, consist of the following:

	<u>2007</u>	<u>2006</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 4,953,414	\$ 2,093,350
One year to five years	<u>2,403,826</u>	<u>4,345,823</u>
Total contributions receivable	7,357,240	6,439,173
Less unamortized discount to present value	(108,000)	(247,645)
Less allowance for uncollectible pledges	<u>(250,055)</u>	<u>(261,075)</u>
Contributions receivable, net	6,999,185	5,930,453
Trusts held by third parties	<u>6,278,336</u>	<u>6,564,220</u>
Total contributions and trusts receivable, net	<u>\$ 13,277,521</u>	<u>\$ 12,494,673</u>

NOTE 5 - INVESTMENTS

The fair values of investments as of June 30, 2007 and 2006, are as follows:

	<u>2007</u>	<u>2006</u>
Operating	\$ 22,492,508	\$ 16,303,319
Endowment and quasi-endowment:		
Pooled:		
Pooled investments	221,122,677	189,239,816
Due from other funds	<u>11,951,619</u>	<u>1,920,219</u>
Total pooled and due from other funds	233,074,296	191,160,035
Separately invested (nonpooled):		
Nonpooled investments	665,143	7,574,053
Due to other funds	<u>(242,569)</u>	<u>(565,126)</u>
Total nonpooled and due to other funds	422,574	7,008,927
Total pooled and nonpooled	233,496,870	198,168,962
Annuity and life income investments	7,722,706	7,236,269
Investments designated for acquiring plant and equipment	6,742,704	19,175,236
Net due to other funds	<u>(11,709,049)</u>	<u>(1,355,093)</u>
Total investments by category	<u>\$ 258,745,739</u>	<u>\$ 239,528,693</u>
By asset type:		
Cash and cash equivalents	\$ 22,135,498	\$ 9,004,123
Common stocks	51,379,917	27,618,386
Fixed income	27,118,388	30,622,552
Mutual and commingled funds	91,702,062	117,075,610
Security trading limited partnerships	<u>66,409,874</u>	<u>55,208,022</u>
Total investments by asset type	<u>\$ 258,745,739</u>	<u>\$ 239,528,693</u>

Mills College

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007

(with comparative information for 2006)

NOTE 5 – INVESTMENTS (continued)

The College has commitments for additional capital contributions to security trading limited partnerships totaling \$11,657,540 as of June 30, 2007.

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, 2007 was as follows:

Fund	<u>Units</u>	<u>Market Value</u>
Endowment	4,254,904	\$ 211,535,165
Quasi-endowment	<u>433,247</u>	<u>21,539,131</u>
Total	<u>4,688,151</u>	<u>\$ 233,074,296</u>

Until the fiscal year ended June 30, 2006, the College used the total return approach to manage spending from the pooled endowment fund. Beginning in fiscal year ended June 30, 2006, 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, 2007 and 2006, 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 was \$0 and \$6,158, respectively.

The following tabulation summarizes the change in the value of the pooled endowment investments for the year ended June 30, 2007:

	<u>Pooled Assets</u>		<u>Market Value</u>
	<u>Market</u>	<u>Units</u>	<u>Per Unit</u>
June 30, 2006	\$ 191,160,035	4,329,754	\$ 44.15
Additions to pooled endowments	16,605,528	358,397	
Net payout taken from pooled endowment	(9,961,252)		
Net investment return	<u>35,269,985</u>		
June 30, 2007	<u>\$ 233,074,296</u>	<u>4,688,151</u>	<u>\$ 49.72</u>

Mills College

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

(with comparative information for 2006)

NOTE 5 – INVESTMENTS (continued)

Total investment returns allocated to operations for years ended June 30, 2007 and 2006, were made up of the following:

	<u>2007</u>	<u>2006</u>
Pooled investment income, net of \$686,908 and \$652,490 investment expenses in 2007 and 2006, respectively	\$ 2,025,362	\$ 2,917,085
Other investment income	151,924	145,864
Net realized gains, including pooled assets	6,310,533	6,065,952
Change in unrealized gains, including pooled assets	<u>27,949,859</u>	<u>10,438,125</u>
Total investment returns	36,437,678	19,567,026
Less nonoperating investment returns, net of allocations to operations	<u>(27,246,958)</u>	<u>(10,928,013)</u>
Investment returns allocated to operations	<u>\$ 9,190,720</u>	<u>\$ 8,639,013</u>

NOTE 6 - PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment as of June 30, 2007 and 2006, consist of the following:

	<u>2007</u>	<u>2006</u>
Improvements	\$ 43,502,219	\$ 42,174,040
Buildings	72,543,147	44,130,676
Equipment	25,673,408	24,037,969
Art collection	<u>2,166,138</u>	<u>2,116,051</u>
	143,884,912	112,458,736
Accumulated depreciation and amortization	<u>(58,550,250)</u>	<u>(54,677,969)</u>
	85,334,662	57,780,767
Construction in progress	3,295,888	14,202,699
Land	<u>291,686</u>	<u>291,686</u>
Total property, plant, and equipment, net	<u>\$ 88,922,236</u>	<u>\$ 72,275,152</u>

Mills College

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

(with comparative information for 2006)

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, 2007 and 2006, the gross amount of equipment and related accumulated amortization recorded under capital leases were \$958,645 and \$839,472, respectively.

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

Future minimum capital lease payments as of June 30, 2007 are:

Year ending June 30:		
2008	\$	53,216
2009		53,216
2010		<u> -</u>
Total minimum lease payments		106,432
Less amount representing interest (4.4%)		<u> (8,273)</u>
Present value of net minimum capital lease payments	<u>\$</u>	<u>98,159</u>

NOTE 8 - BONDS AND NOTE PAYABLE

As of June 30, 2007 and 2006, total bonds payable issued through the California Educational Facilities Authority (CEFA) and associated interest rates and maturities are as follows:

	Interest Rates	Maturity Dates	2007	2006
Series 1997 Notes	4.60% to 5.125%	September 1, 2005 to September 1, 2022	\$ 8,265,000	\$ 8,615,000
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>2,670,000</u>	<u>2,835,000</u>
			35,935,000	36,450,000
Unamortized bond discount and bond premium			<u>771,611</u>	<u>800,727</u>
Total bonds payable			<u>36,706,611</u>	<u>37,250,727</u>

During the year ended June 30, 2007, Mills College received an interest free loan from a member of the Board of Trustees for \$9,000,000. Interest is imputed at 4.8% and recognized under the method that approximates effective interest method over the term of the note.

Mills College

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007

(with comparative information for 2006)

NOTE 8 - BONDS AND NOTE PAYABLE (continued)

	Interest Rates	Maturity Dates	2007	2006
Promissory note	0%	November 20, 2009	9,000,000	-
Unamortized note discount			(946,127)	-
Total promissory note			8,053,873	-
Total bonds and note payable			\$ 44,760,484	\$ 37,250,727

Based on the current trading value, the fair value of the bonds is approximately \$36,110,272 and \$36,290,174 as of June 30, 2007 and 2006, respectively.

Total amount of interest capitalized for the years ended June 30, 2007 and 2006, was \$697,663 and \$386,894, respectively,

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.

Principal payments to be made for the next five years and thereafter as of June 30, 2007 are as follows:

2008	\$ 565,000
2009	595,000
2010	9,625,000
2011	655,000
2012	690,000
Thereafter	32,805,000
Unamortized premium/discount	(174,516)
Total	\$ 44,760,484

NOTE 9 - NET TUITION AND FEES

Net tuition and fees for the years ended June 30, 2007 and 2006 consists of the following:

	2007	2006
Tuition and fees	\$ 35,559,336	\$ 31,516,111
Less:		
Sponsored student aid	(4,528,214)	(5,479,494)
Un-sponsored student aid	(9,402,301)	(6,812,311)
Net tuition and fees	\$ 21,628,821	\$ 19,224,306

Mills College

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007

(with comparative information for 2006)

NOTE 10 - EXPENSES BY FUNCTION

Expenses by functional classification per the accompanying statement of activities includes operations and maintenance of plant expenses of \$7,028,532 and \$5,983,840 and interest expense of \$791,301 and \$564,489 for the years ended June 30, 2007 and 2006, respectively. After allocation of depreciation expense of \$3,893,281 and \$2,880,867 for the years ended June 30, 2007 and 2006, expenses by functional classification are as follows:

	2007	2006
Instruction	\$ 20,328,091	\$ 18,004,638
Research	1,323,390	1,183,937
Academic support	6,289,382	6,152,644
Student services	8,622,627	7,310,052
Institutional support	10,972,453	9,155,618
Public service	1,119,380	1,157,009
Auxiliary enterprises	8,242,276	7,599,639
Total expenses	\$ 56,897,599	\$ 50,563,537

NOTE 11 - FUND RAISING EXPENSE

Included in institutional support expenses in the statements of activities for the years ended June 30, 2007 and 2006, are \$2,345,166 and \$2,014,382, 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, 2007 and 2006, is as follows:

	2007	2006
Total current assets	\$ 107,954,440	\$ 93,186,372
Total noncurrent assets	261,075,570	238,383,002
Total assets	\$ 369,030,010	\$ 331,569,374
Total current liabilities	\$ 7,711,919	\$ 13,175,750
Total noncurrent liabilities	49,574,963	42,099,866
Total liabilities	57,286,882	55,275,616
Net assets	311,743,128	276,293,758
Total liabilities and net assets	\$ 369,030,010	\$ 331,569,374

Mills College

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2007

(with comparative information for 2006)

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, 2007 and 2006, were \$2,011,474 and \$1,771,598, respectively, and are included as expenditure in the current funds.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

In the ordinary course of business, the College enters into various arrangements for construction services. Future minimum commitments under these arrangements as of June 30, 2007 were approximately \$20,000,000.

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.

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 receivables for the years ended June 30, 2007 and 2006, are contributions receivable from board of trustee members totaling \$1,580,649 and \$310,914, respectively. Included in liabilities for the year ended June 30, 2007 is a \$9,000,000, 0% interest short-term loan payable from a board of trustee member. Included in revenues for the years ended June 30, 2007 and 2006, are contributions from board of trustee members totaling \$7,955,992 and \$5,494,872, respectively. Included in expenses for the year ended June 30, 2007 is \$651,000 in financial support paid to the Alumnae Association of Mills College.

NOTE 16 – CONDITIONAL PROMISE TO GIVE

During the 2007 fiscal year, the College received a conditional promise to give from a board of trustee member in the amount of \$5,000,000 for the purpose of developing the business school. As of June 30, 2007, certain conditions were met such that the College could recognize revenue of approximately \$1,200,000. The amount has been recognized as nonoperating temporarily restricted contribution revenue during the year ended June 30, 2007. Subsequent to the end of the year, conditions were satisfied to recognize another \$2,000,000 of revenue.