

**UNIVERSITY OF VIRGINIA
INVESTMENT MANAGEMENT COMPANY**

Consolidated Financial Statements

June 30, 2005



KPMG LLP
Suite 2000
1021 East Cary Street
Richmond, VA 23219-4023

Independent Auditors' Report

The Board of Directors
University of Virginia Investment Management Company:

We have audited the accompanying consolidated statement of financial position of the University of Virginia Investment Management Company (the Company) as of June 30, 2005, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 Company's internal control over financial reporting. Accordingly we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University of Virginia Investment Management Company as of June 30, 2005, and the changes 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.

Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for that portion marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

KPMG LLP

August 23, 2005

UNIVERSITY OF VIRGINIA INVESTMENT MANAGEMENT COMPANY

Consolidated Statement of Financial Position

June 30, 2005

(Dollars in thousands)

Assets	
Cash and Cash Equivalents	\$ 1,667
Accounts Receivable	104
Prepaid Expenses	127
Investments in Securities, Held for Others at Fair Value (including \$122,692 pledged to others under securities loan agreements)	2,854,735
Investments in Securities at Fair Value, Collateral Received Under Securities Loan Agreements	124,635
Property and Equipment, Net	<u>67</u>
Total Assets	\$ <u>2,981,335</u>
Liabilities and Net Assets	
Amounts Held for Others:	
Deposits in Long Term Pool	\$ 2,593,961
Deposits in Aggregate Cash Pool	224,767
Deposits of Charitable Trust Assets	36,007
Payable Under Securities Loan Agreements	124,635
Accrued Compensation and Benefits	923
Accounts Payable and Accrued Expenses	<u>156</u>
Total Liabilities	2,980,449
Unrestricted Net Assets	<u>886</u>
Total Liabilities and Net Assets	\$ <u>2,981,335</u>

See accompanying notes to consolidated financial statements.

UNIVERSITY OF VIRGINIA INVESTMENT MANAGEMENT COMPANY

Consolidated Statement of Activities

Year Ended June 30, 2005

(Dollars in thousands)

Unrestricted Net Assets, Beginning of Year	\$	-
Revenues		
Investment Management Fees		
Long Term Assets		4,087
Aggregate Cash Pool		534
Charitable Trusts		84
Total Investment Management Fees		<u>4,705</u>
Contributions from the University		<u>454</u>
Total Revenues		5,159
Expenses		
Compensation and Benefits		
Salaries		1,680
Bonuses		805
Benefits		356
Total Compensation and Benefits		<u>2,841</u>
General Operating		
Legal Fees		273
Accounting Services		250
Professional Fees		156
Recruiting and Relocation		141
Rent		110
Insurance		99
Custodian Fees		98
Travel		98
Software and Systems		91
Other Operating Expenses		84
Depreciation and Amortization		32
Total General Operating		<u>1,432</u>
Total Expenses		<u>4,273</u>
Increase in Unrestricted Net Assets		<u>886</u>
Unrestricted Net Assets, End of Year	\$	<u>886</u>

See accompanying notes to consolidated financial statements.

UNIVERSITY OF VIRGINIA INVESTMENT MANAGEMENT COMPANY

Consolidated Statement of Cash Flows

Year Ended June 30, 2005

(Dollars in thousands)

Beginning of Period Cash and Cash Equivalents	\$ -
Cash Flows from Operating Activities:	
Management fees	4,603
Contributions	400
Cash Paid to Employees	(1,918)
Other Cash Operating Expenditures	<u>(1,371)</u>
Net Cash Flows from Operating Activities	<u>1,714</u>
Cash Flows from Investing Activities:	
Purchases of Fixed Assets	(49)
Proceeds from Sale of Fixed Assets	<u>2</u>
Net Cash Flows from Investing Activities	<u>(47)</u>
Net Increase in Cash and Cash Equivalents	<u>1,667</u>
End of Period Cash and Cash Equivalents	<u><u>\$ 1,667</u></u>
Supplemental Disclosure of Non-Cash Activities:	
Investments in securities deposited from the University	\$ 2,854,735
Investments payable under securities loan agreements	124,635
Contributed fixed assets from the University	<u>54</u>
Total Non-Cash Activities	<u><u>\$ 2,979,424</u></u>

See accompanying notes to consolidated financial statements.

UNIVERSITY OF VIRGINIA INVESTMENT MANAGEMENT COMPANY

Notes to Consolidated Financial Statements

June 30, 2005

(Dollars in thousands)

(1) Organization

The University of Virginia Investment Management Company (UVIMCO) is a not-for-profit corporation organized to invest funds on behalf of the Rector and Visitors of the University of Virginia (the University) and University-related Foundations (the Foundations). UVIMCO was incorporated as a non-stock corporation in the Commonwealth of Virginia on May 28, 2004, and commenced operations on July 1, 2004.

For the fiscal year ended June 30, 2005, the financial statements of UVIMCO reflect the results of investment management services provided to the University and Foundations throughout the fiscal year. Total pooled assets transferred to UVIMCO from the University and Foundations during 2005, was \$2,854,735. A General Assignment and Assumption Agreement assigned all assets in the pools as of June 30, 2005 from the University to UVIMCO. On June 30, 2005, \$2,774,185 of University and Foundations investment assets which were held in the custody and control of the University during the fiscal year were transferred to UVIMCO. Prior to June 30, 2005, \$80,550 was transferred to UVIMCO and immediately used to purchase investments in the long term pool.

The consolidated financial statements of UVIMCO have been prepared on the accrual basis of accounting. The significant accounting policies are described in Note 2.

(2) Significant Accounting Policies

(a) Investments

Investments within the portfolios managed by UVIMCO are valued at fair value. Transactions are recorded on a trade date basis.

Exchange traded securities are stated at the last reported sales price on the day of valuation. Securities traded in the over-the-counter market are valued using the mean of the last quoted bid and ask prices. Independent third party sources are used to value all publicly traded securities. Fixed income securities are valued based upon bid quotations obtained from major market makers or security exchanges.

Limited partnership hedge fund, private equity and venture capital investments or similar private investment vehicles that do not actively trade through established exchange mechanisms are valued at fair value as determined by the external manager of the investment vehicle (for example, the General Partner of a Limited Partnership), adjusted for contributions and withdrawals subsequent to the latest available manager data. Although UVIMCO uses its best judgment in evaluating information provided by external managers to determine the fair value of private investments, there are inherent limitations in any estimation technique. Therefore, the value presented herein is not necessarily indicative of the amount the UVIMCO could realize in a current transaction.

UNIVERSITY OF VIRGINIA INVESTMENT MANAGEMENT COMPANY

Notes to Consolidated Financial Statements

June 30, 2005

(Dollars in thousands)

(b) Foreign currency

Investment securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts at the average rate as determined by Reuters on June 30, 2005.

(c) Income taxes

UVIMCO has received a letter from the Internal Revenue Service dated March 4, 2005, exempting UVIMCO from income taxed on related income under section 501(c)(3) of the Internal Revenue Service Code, and therefore UVIMCO is not subject to income taxes on normal operations. In addition, UVIMCO is considered a public charity under section 509(a)(3) of the Internal Revenue Code. UVIMCO may, however, incur federal income taxes on unrelated business income.

(d) Cash and cash equivalents

For purposes of the consolidated statement of cash flows, UVIMCO considers highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents held for others within the investment pools managed by UVIMCO are reported as Investments in Securities, Held for Others at Fair Value.

(d) Prepaid Expenses

Prepaid expenses consist of expenses paid in advance for rent, insurance and various services. Prepaid expenses are ratably expensed over the period to which they relate.

(f) Revenue Recognition

Fees for investment advisory services and related administrative services provided by UVIMCO are recognized in the period that the services are provided.

(g) Distributions

Distributions to depositors are controlled by various spending policies approved by the University, Foundations or charitable trust donors and communicated to UVIMCO. Distributions requests are processed and recorded as they are received by UVIMCO.

UNIVERSITY OF VIRGINIA INVESTMENT MANAGEMENT COMPANY

Notes to Consolidated Financial Statements

June 30, 2005

(Dollars in thousands)

(h) Functional Expenses

UVIMCO is a single program company organized to provide investment management for the University and Foundations. Natural expenses for the year ended June 30, 2005 are composed of the following functional expenses:

	Program Services	Supporting Services	Total Expenses
Compensation and Benefits	\$2,168	673	2,841
General Operating	456	561	1,017
Rent	58	52	110
Startup Costs	—	273	273
Total Before Depreciation	\$2,682	1,559	4,241
Depreciation & Amortization	15	17	32
Total Expenses	\$2,697	1,576	4,273

(i) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

(3) Investments in Securities, Held for Others at Fair Value

Assets deposited with UVIMCO are held in the custody and control of UVIMCO on behalf of the University and Foundations within several unitized investment pools. The Long Term Pool commingles endowment and other long term funds of the University and Foundations in a unitized investment vehicle. The Long Term Pool holds shares of three subordinate unitized pools: the Core Fund, Alternative Fund, and Bond Fund. Additional shares of the Core Fund and Bond Fund are held by charitable trusts which benefit the University. The Aggregate Cash Pool commingles short term investments of the University and the Long Term Pool. A brief description of each of these pools is as follows:

Core Fund	Holds long term public equity, hedge fund, and overnight cash investments which do not generate unrelated business taxable income (UBTI). Investments which do not generate UBTI are segregated into the Core Fund in order to facilitate the investment of charitable trust assets. Shares of the Core Fund are held by the Long Term Pool and various charitable trusts.
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UNIVERSITY OF VIRGINIA INVESTMENT MANAGEMENT COMPANY

Notes to Consolidated Financial Statements

June 30, 2005

(Dollars in thousands)

Alternative Fund	Holds long term public equity, hedge fund, private equity, real assets, fixed income, and overnight cash investments. Investments held in the Alternative Fund may generate UBTI. Shares of the Alternative Fund are held by the Long Term Pool.
Bond Fund	Holds long term fixed income investments and overnight cash investments. Shares of the Bond Fund are held by the Long Term Pool and various charitable trusts.
Long Term Pool	Holds shares of the Core, Alternative, and Bond Funds. Shares of the Long Term Pool are held by the University and the Foundations.
Aggregate Cash Pool	Holds fixed income and overnight cash investments. The Aggregate Cash Pool commingles short term investments of the University and the Long Term Pool.

Assets of the Core Fund, Alternative Fund, Bond Fund, and Long Term Pool are pooled on a fair value basis and unitized monthly. Deposits and withdrawals are processed monthly. Each depositor subscribes to or disposes of units on the basis of the value per share at fair value as calculated on the last calendar day of the month in which a deposit or redemption request is received by UVIMCO.

Investments held within the Aggregate Cash Pool are held at fair value. Investments are valued on a daily basis by UVIMCO's custodian bank. All units within the Pool are valued at \$1.00. Deposits and withdrawals are processed daily. An income factor comprised of interest and dividends earned, realized gain/loss, change in unrealized gain/loss, and fees is calculated daily. Income factors are totaled for each depositor on a monthly basis, and income is reinvested on the first business day of the following month.

The fair value of investment assets for the assets managed by UVIMCO as of June 30, 2005:

	Investments in Securities, Held for Others			Investments Under Securities Loan Agreements
	Unpledged	Pledged	Total	
Public Equity	\$ 491,112	6,913	498,025	—
Hedge Funds	1,539,248	—	1,539,248	—
Private Equity	314,643	—	314,643	—
Real Assets	51,880	—	51,880	—
Fixed Income	21,923	115,779	137,702	18,078
Cash and Accruals	313,237	—	313,237	106,557
Total Investments	\$ 2,732,043	122,692	2,854,735	124,635

UNIVERSITY OF VIRGINIA INVESTMENT MANAGEMENT COMPANY

Notes to Consolidated Financial Statements

June 30, 2005

(Dollars in thousands)

UVIMCO had unfunded contractual commitments to limited partnerships of \$652,704 as of June 30, 2005. When commitments are due, required funds will be obtained by rebalancing in the Long Term Pool or additional deposits. Public Equity and hedge fund investments are long-lived in nature and typically do not have specified maturity dates. UVIMCO's private equity and real assets investments are made through long-lived partnership interests in funds which include maturity dates. See also Note 6 for Securities Lending program.

(4) Related Party Transactions

UVIMCO provides investment management and advisory services solely to the University and related Foundations for endowment and charitable trust assets under various Deposit and Management agreements.

UVIMCO contracts for computer support, internet and mainframe connection services with the University. The expense for these services for the year ended June 30, 2005, was \$23.

UVIMCO leases three full time employees from the University. The total compensation and benefits expense related to these leased employees for the year ended June 30, 2005, was \$677.

The University provides UVIMCO with investment asset and shareholder accounting services. The contractual services expense related to these accounting services for the year ended June 30, 2005, was \$250.

UVIMCO subleases office space from the University under a lease renewable for one-year terms. The future minimum lease payment as of June 30, 2005, for fiscal year ending June 30, 2006, is \$110.

All transactions with the University and Foundations are conducted at prevailing market rates.

(5) 401(k) Plan

Effective July 1, 2004, UVIMCO established a tax-sheltered annuity arrangement which provides retirement benefits for its employees by contributing to a custodial account invested in publicly traded mutual funds. UVIMCO contributes 10.4% of annual gross compensation to the plan on behalf of eligible employees, subject to applicable federal limits. Employer contributions for the year ended June 30, 2005, were \$96.

UNIVERSITY OF VIRGINIA INVESTMENT MANAGEMENT COMPANY

Notes to Consolidated Financial Statements

June 30, 2005

(Dollars in thousands)

(6) Securities Lending

UVIMCO participates in a securities lending program through its agent, Mellon Bank. All security loan agreements are collateralized by readily available marketable and liquid securities, loans, or other obligations secured by a lien or similar interest on an asset totaling at least 102% of the fair value of the loaned securities. The average term of the security loans as well as collateral held is less than one week. Securities loaned as of June 30, 2005, have a fair value of \$122,692. Collateral received as of June 30, 2005, is \$124,635. Included in the consolidated statement of activities under the caption "Custodian Fees" are expense offsets of \$60 arising from securities lending proceeds.

(7) Subsequent Events

On June 27, 2005, UVIMCO established a single member limited liability corporation, UVIMCO I LLC, to facilitate structured investments. UVIMCO funded UVIMCO I LLC with \$50,000 on July 5, 2005.

On July 27, 2005, UVIMCO entered into an agreement with Standish Mellon Asset Management Company LLC (Standish Mellon) through which Standish Mellon, acting as an agent of UVIMCO, shall effect repurchase agreements with various counterparties for securities which comprise approximately 90% of the Bond Fund. These repurchase agreements, which were effective August 2, 2005, are entered into for liquidity purposes.

University of Virginia Investment Management Company

Schedule of Investments Held for Others (at Fair Value), Shares Outstanding, and Net Asset Value Per Share by Fund
June 30, 2005

(Dollars in thousands)

	Core Fund	Alternative Fund	Bond Fund	Long Term Assets	Charitable Trusts	Long Term Pool	Aggregate Cash	Adjustments ⁽¹⁾	Total Assets Managed
Public Equity	\$ 335,758	162,267	—	498,025	(5,913)	492,112	—	5,913	498,025
Hedge Funds	1,274,279	264,969	—	1,539,248	(22,442)	1,516,806	—	22,442	1,539,248
Private Equity	—	314,643	—	314,643	—	314,643	—	—	314,643
Real Assets	—	51,880	—	51,880	—	51,880	—	—	51,880
Fixed Income	—	15,039	122,663	137,702	(7,652)	130,050	—	7,652	137,702
Cash and Accruals	41,141	51,096	675	92,912	—	88,470	302,371	(77,604)	313,237
Total Securities	1,651,178	859,894	123,338	2,634,410	(36,007)	2,593,961	302,371	(41,597)	2,854,735
Income Sweep ⁽²⁾	(750)	(1,140)	(2,552)	(4,442)	—	—	—	—	—
Total Assets	\$ 1,650,428	858,754	120,786	2,629,968	(36,007)	2,593,961	302,371	(41,597)	2,854,735
Shares Outstanding	576,705	194,503	99,065	772,784	—	—	—	—	—
Net Asset Value per Share ⁽³⁾	\$ 2,861.82	4,415.12	1,219.26	3,356.64	—	—	1.00	—	—

⁽¹⁾ Adjustments include elimination of the Long Term Pool's investment in the Aggregate Cash Fund and the addition of trust assets.

⁽²⁾ Represents elimination of income earned on securities which is excluded from the monthly Net Asset Value per Share calculation each month and subsequently reinvested.

⁽³⁾ Net Asset Value per Share amounts are presented in dollars.

University of Virginia Investment Management Company

Unaudited Supplementary Schedule of Changes in Investment Assets
Year Ended June 30, 2005

(Dollars in thousands)

	Long Term Assets	Charitable Trusts	Long Term Pool	Aggregate Cash
Investment Assets				
Beginning of Period	\$ 2,335,132	31,447	2,303,685	395,505
Deposits by Investors	56,354	769	55,584	1,017,108
Return on Investments ⁽¹⁾	336,211	3,894	332,318	9,509
Management Fees	(4,087)	(84)	(4,004)	(534)
Distributions to Investors	(93,642)	(19)	(93,622)	(1,119,217)
End of Period	\$ 2,629,968	36,007	2,593,961	302,371

⁽¹⁾ Return on Investment is presented net of investment management, custodian, and other administrative expenses of the following:

	Long Term Assets	Charitable Trusts	Long Term Pool	Aggregate Cash
Investment Expenses	\$ 687	9	678	264